

Inequitable Conduct, Laches, and Other Nonstatutory Defenses

Sheldon R. Meyer
Sarah Barone Schwartz
William J. Harmon, III
Fliesler Dubb Meyer & Lovejoy, LLP
San Francisco, CA

With Appreciation to Jeff Steck

I. INTRODUCTION

In its purest form, patent litigation would be resolved simply by comparing the claims of the patent with the accused product or process. In practice, of course, the scope of a patent's right to exclude depends not on the claims alone, but on practically everything having to do with the claims, at any time before a final judgment. Defendants charged with infringement can look to events taking place *before* an application was filed to find invalidating prior art or statutory bars.

Defendants can look to events *during* prosecution of an application to find prosecution history estoppel or inequitable conduct. Defendants can look to events *after* issuance of a patent to find laches or equitable estoppel. If a patent has been reexamined, the defendant has yet another chance to discover inequitable conduct or prosecution history estoppel.

This paper focuses on defenses based on facts arising after the patent application is filed – that is, defenses that depend not so much on what the invention is, but rather what the patent-holder does with it. These defenses look at what the patent holder said to the examiner – what he said to show his invention was different from the prior art, and whether he intentionally misled the examiner – and how the patent holder treated the defendant – whether he led the defendant to think he would not sue, or whether he sat idly by while the defendant invested in the infringing technology. A variety of defenses fall under this heading, including prosecution

history estoppel, laches, equitable estoppel, inequitable conduct, license, patent misuse, and unclean hands. Four of these – prosecution history estoppel, laches, equitable estoppel, and inequitable conduct – are almost ubiquitous in patent litigation. This paper deals with the background principles and the most recent developments of each of these four nonstatutory defenses.

II. PROSECUTION HISTORY ESTOPPEL.

A. *WARNER-JENKINSON.*

1. The Doctrine of Equivalents and Its Limits.

In 1997, the United States Supreme Court addressed the doctrine of equivalents and file wrapper estoppel in *Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, 117

S.Ct. 1040, 41 USPQ2d 1865 (1997). Under the doctrine of equivalents, “a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is ‘equivalence’ between the elements of the accused product or process and the claimed elements of the patented invention.” *Id.* at 1045, 41 USPQ2d at 1868. The Court held that the doctrine of equivalents should be applied “to each of the individual elements of a claim, rather than to the accused product or process as a whole,” that the intent of the accused infringer plays no role in the doctrine, and that equivalency is measured at the time of infringement. *Id.* at 1044, 41 USPQ2d at 1867. The Court left the particular “linguistic framework” for determining equivalence up to the Federal Circuit. *Id.* at 1054, 41 USPQ2d at 1875.

The doctrine of equivalents, when broadly applied to extend claim coverage beyond that afforded by the literal text of the claims, “conflicts with the definitional and public-

notice functions of the statutory claiming requirement.” *Id.* at 1049, 41 USPQ2d at 1871. One way the range of equivalents is limited – and the public-notice function of the claims is preserved – is through prosecution history estoppel. Prosecution history estoppel effectively entitles a competitor to rely on the patentee’s course of action in obtaining a patent to determine what products or processes are not equivalent to the claimed invention. The standard for prosecution history estoppel, at least in some instances, is the objective test of “what a competitor was reasonably entitled to conclude, from the prosecution history, that the applicant gave up to procure issuance of the patent.” *Haynes Int’l, Inc. v. Jessop Steel Co.*, 28 USPQ2d 1652, 1656 (Fed. Cir. 1993), *modified*, 29 USPQ2d 1958 (Fed. Cir. 1994); *see also Litton Systems Inc. v. Honeywell Inc.*, 46 USPQ2d 1321, 1330 (Fed. Cir. 1998). Subject matter that was given up to secure a patent by, for example, adding a claim limitation, cannot then be

reclaimed in litigation. *See Haynes*, 28 USPQ2d at 1655. Broadly speaking, there are two ways in which a patent applicant can trigger an estoppel: amendment and argument. *See Litton Systems*, 46 USPQ2d at 1327.

2. Prosecution History Estoppel.

In *Warner-Jenkinson*, the Supreme Court only addressed a possible prosecution history estoppel arising from an amendment to the claims. Hilton Davis applied for a patent on a filtration process. A prior art patent disclosed a filtration process operating at a pH over 9.0. *See* 117 S.Ct. at 1046, 41 USPQ2d at 1868. To distinguish over the prior art, Hilton Davis added as a claim limitation that the filtration process takes place “at a pH from approximately 6.0 to 9.0.” *Id.* at 1045, 41 USPQ2d at 1868. The upper limit of pH 9.0 was clearly added to distinguish over the prior art; the purpose of the lower limit of pH 6.0 was unclear. *See*

id. at 1046, 41 USPQ2d at 1868. Unaware of the Hilton Davis patent, Warner-Jenkinson Co. began commercial exploitation of a filtration process taking place at a pH of 5.0. *See id.* Hilton Davis sued Warner-Jenkinson, asserting infringement under the doctrine of equivalents. *See id.*

Warner-Jenkinson argued non-infringement on the grounds that the doctrine of equivalents was eliminated with the 1952 revision of the Patent Act, 35 U.S.C. § 100 *et seq.*, *see* 117 S.Ct. at 1047, 41 USPQ2d at 1869, and alternatively that the doctrine of equivalents, if it exists, is restricted by prosecution history estoppel, *see id.* at 1049, 41 USPQ2d at 1871. The Court affirmed the vitality of both the doctrine of equivalents, and prosecution history estoppel, but it refused to go so far as to establish a rule under which prosecution history estoppel would apply whenever subject matter is surrendered during patent prosecution, regardless of the reason for the surrender. *See id.* at 1049, 41 USPQ2d at 1871.

Instead, the Court announced that it would take into consideration the reason for a claim amendment, noting that “[w]here the reason for the change was not related to avoiding the prior art, the change may introduce a new element, but it does not necessarily preclude infringement by equivalents of that element.” *Id.* at 1051, 41 USPQ2d at 1872. When the reason for a claim amendment is not clear from the prosecution history, it is presumed that the applicant had a substantial reason related to patentability for making the change, such that an estoppel arises with respect to the change. *See id.* at 1051, 41 USPQ2d at 1873. The presumption may be rebutted by the patentee. *See id.* Because the reason for Hilton Davis’s lower limit of 6.0 pH was not clear from the record, the Supreme Court remanded, *see id.* at 1054, 41 USPQ2d at 1876, and the Federal Circuit in turn remanded to the district court, *see Hilton Davis Chemical Co. v. Warner-Jenkinson Co.*, 43 USPQ2d 1152 (Fed. Cir. 1997), to determine whether Hilton Davis

could provide a reason for the pH 6.0 limitation sufficient to overcome the presumption of estoppel.

3. Unanswered Questions.

It is clear from *Warner-Jenkinson* that when claims were amended during prosecution to add a limitation, and when that limitation was added for “a substantial reason related to patentability,” 117 S.Ct. at 1040, 41 USPQ2d at 1873, the patentee is estopped from asserting the doctrine of equivalents in litigation to recapture the surrendered subject matter. *Warner-Jenkinson* did not, however, address prosecution history estoppel in the absence of amendment, nor did it fully address estoppel in the case of amendments not made to avoid the prior art, stating only that such amendments do not “necessarily” trigger an estoppel. *Id.* at 1051, 41 USPQ2d at 1872. Since *Warner-Jenkinson*, the Federal Circuit has made it clear that prosecution history

estoppel may still apply even when an amendment unnecessary to patentability – or even no amendment at all – was made to the claims.

B. ESTOPPEL AFTER *WARNER-JENKINSON*.

1. “Automatic” Estoppel by Amendment.

A panel of the Federal Circuit comprehensively reviewed the state of prosecution history estoppel after *Warner-Jenkinson* in deciding *Litton Systems Inc. v. Honeywell Inc.*, 46 USPQ2d 1321 (Fed. Cir. April 7, 1998). The court determined that “the Supreme Court articulated an additional rule to trigger, in applicable circumstances, prosecution history estoppel. But that is all the Supreme Court articulated.” *Id.* at 1326. In particular, the Court “did not change the scope or effect of the estoppel.” *Id.* The

“additional rule” articulated by the Court is the presumption that an estoppel applies when no purpose is given for a claim amendment. *See id.* at 1325. Aside from the addition of this presumption, the Federal Circuit found in *Warner-Jenkinson* an “intent to change as little as possible,” in the law of prosecution history estoppel. *Id.* at 1326.

The Federal Circuit thus adhered to the “ordinary skill in the art” test, finding that a patentee is estopped from reclaiming subject matter when “one of ordinary skill in the art would objectively conclude from the prosecution history that an applicant surrendered [the subject matter].”¹ *Id.* at 1330. In addition, an applicant automatically erects an estoppel when he amends a claim to avoid the prior art. *Id.* at 1327.

The survival of the “ordinary skill in the art” test means that there are few clear rules for determining when prosecution history estoppel applies. The Federal Circuit

affirmed that, in addition to estoppel arising under *Warner-Jenkinson*, “an amendment made for reasons *other than patentability* may still give rise to an estoppel,” *Litton Systems*, 46 USPQ2d at 1327 (emphasis added), and that arguments made during patent prosecution, even without amendments, can give rise to an estoppel, whether or not the arguments were necessary to secure patentability, *see id.*

2. Estoppel by Amendments in Response to § 112 Rejections.

The most common rejections faced in patent prosecution are rejections under 35 U.S.C. § 102 and § 103, which specify the extent to which the claimed invention must distinguish over the prior art, and under § 112, which specifies the style, content, and clarity required of a patent specification and claims. Claim amendments made in response to § 102 and § 103 rejections most obviously give rise to an estoppel. Even amendments made in response to § 112 rejections,

however, can trigger an estoppel.

Litton Systems dealt with an invention using an ion beam source in a method of fabricating thin layer optical films. *See* 46 USPQ2d at 1327. As originally filed, the claims did not specify any particular type of ion-beam source. *See id.* In response to rejections under § 103 for obviousness over the prior art, the applicants submitted arguments and declarations relating to unexpected results obtained through the use of a Kaufman-type ion-beam source. *See id.* at 1328. The examiner agreed to allow the application, but threatened to enter a rejection under 35 U.S.C. § 112 ¶ 2² on the grounds that the applicants had not claimed what they regarded as their invention – that is, that the applicants had not claimed the Kaufman-type source to which they had directed their arguments. *See id.* at 1329. The applicants amended the claims to add the “Kaufman-type” limitation, and the application was allowed. *See id.*

In an infringement action on the *Litton*

patent, the Federal Circuit held that Litton was estopped from claiming that non-Kaufman ion sources in the prior art were equivalent to the claimed Kaufman-type source. *See id.* at 1330. The court noted that the § 112 rejection was effectively a threat “to reject again for obviousness unless the applicant restated its claim to match the scope of its narrow arguments for patentability.” *Id.* Since the § 112 rejection was a mere proxy for an obviousness rejection, the amendment made in response thereto was held to be made for reasons related to patentability, and thus to give rise to an estoppel.

On the other hand, amendments which truly are made in response to an indefiniteness rejection under § 112 do not give rise to an estoppel. *See id.* at 1330. In *Kamyr Inc. v. Clement*, 42 USPQ2d 1235 (D.D.C. 1997), the District Court for the District of Columbia addressed a patent application which was originally filed with a claim calling for a step to take place at “low

temperature.” *Id.* at 1237. The examiner rejected the limitation as being “too relative to be capable of any fixed meaning.” *Id.* In response, the applicant restricted the temperature limitation to “room temperature.” *Id.* The court noted that the prosecution history “does not reflect a requirement by the Examiner or an intent by Clement to specify any particular temperature in order to overcome prior art” and held that there was no prosecution history estoppel as to the “room temperature” limitation. *Id.* at 1239.

3. Estoppel by Argument.

As the Federal Circuit has reaffirmed since *Warner-Jenkinson*, prosecution history estoppel can arise through arguments made by the applicant, even when no amendment has been made to the claims. Such an estoppel applies when arguments made by the applicant are “sufficient to evince a clear and unmistakable surrender of subject matter.” *Litton Systems*, 42 USPQ2d at

1327.

A patent applicant was found by the Federal Circuit to have surrendered subject matter through argument in *Gentry Gallery Inc. v. Berkline Corp.*, 45 USPQ2d 1498 (Fed. Cir. 1998). The applicant for a patent on a reclining sofa system filed a petition to make special (PTMS)³, citing a number of prior art recliners. In the PTMS, the applicant distinguished his claimed “console” feature from the prior art by arguing that a “complete center seat with a tray unit in its back,” as shown in one prior art reference, is not a console. *Id.* at 1501. Once the patent issued, the patent holder was estopped from claiming in litigation that a seat back that folds down to a table top, included in the accused device, was equivalent to the claimed console element. *See id.*

4. Sources of Estoppel.

As seen in *Gentry Gallery*, arguments can give rise to an estoppel even when they are not made in response to an examiner’s

rejections. In *Gentry Gallery*, arguments in a PTMS triggered the estoppel. Arguments made by the patentee in a request for reexamination set up an estoppel in *Cole v. Kimberly-Clark Corp.*, 41 USPQ2d 1001 (Fed. Cir. 1996) (finding patentee estopped from claiming that ultrasonic bonded seams were equivalent to her claimed “perforation means”). Even comments in an inventor’s notebook submitted in the prosecution history have been given weight in establishing an estoppel. See *Texas Instruments Inc. v. International Trade Comm’n*, 26 USPQ2d 1018, 1025 (Fed. Cir. 1993) (noting that emphasis on benefits of same-side gating in inventor’s notebook submitted in prosecution history supports a finding of estoppel where patentee asserts equivalence of opposite-side gating). Notwithstanding 37 C.F.R. § 1.97(h), which states, “The filing of an information disclosure statement shall not be construed to be an admission that the information cited in the statement is, or is considered to be, material to patentability as

defined in § 1.56(b),” the Federal Circuit recently held that “arguments in an IDS can create an estoppel, and thus preclude a finding of infringement under the doctrine of equivalents.” *Ekchian v. Home Depot*, 41 USPQ2d 1364, 1368 (Fed. Cir. 1997).

5. Unnecessary Arguments and Amendments.

One area in the law of prosecution history estoppel that is only recently being settled is the effect of amendments and arguments made during prosecution which, although perhaps made with the *intention* of securing patentability, were in fact *unnecessary* to secure patentability. This issue arises, for example, when an amendment or argument is made but fails to secure allowance, and the application is allowed only after later amendments or arguments. The issue may also arise when several amendments or arguments are advanced simultaneously, and the record does not show which – or which combination – of those arguments succeeded

in distinguishing over the prior art, and which arguments were unnecessary.

i. Unnecessary Arguments.

In 1994, the Federal Circuit in *Zenith Laboratories, Inc. v. Bristol-Myers Squibb Co.*, 30 USPQ2d 1285 (Fed. Cir. 1994), found that a patent holder was not estopped by arguments made in the prosecution history, when “[t]here is no indication the examiner ever relied on the statements . . . in allowing the patent to issue,” *id.* at 1290-91, suggesting that unnecessary arguments do not trigger an estoppel. This conclusion is at odds with the Federal Circuit’s 1993 statement that arguments made in support of patentability, “whether or not required to secure allowance of a claim,” *can* set up an estoppel. *Texas Instruments*, 26 USPQ2d at 1025. The Northern District of California recently sided with *Zenith*, holding that an argument made to distinguish over the prior art which “was not accepted by the Examiner” was “irrelevant to the

interpretation of his claim.” *Raleigh v. Tandy Corp.*, 45 USPQ2d 1715, 1720 (N.D. Cal. 1997) (interpreting equivalents under 37 C.F.R. § 112 ¶ 6).

The position that even unnecessary arguments can give rise to an estoppel, however, appears to be winning out. In *Litton Systems*, the Federal Circuit reaffirmed the position that “even when the arguments to the examiner were not necessary to distinguish prior art,” those arguments can trigger an estoppel. 46 USPQ2d at 1327. Likewise, in *Gentry Gallery*, the court dismissed the patent holder’s assertion that, because several arguments were made in the PTMS, the arguments did not individually give rise to an estoppel. The court reasoned that “even if [the prior art] was distinguished on multiple grounds, any of those grounds may indicate the proper construction of particular claim terms and provide independent bases for prosecution history estoppel.” *Gentry Gallery*, 45 USPQ2d at 1501 n.1. More

recently, in *Laitram Corp. v. Morehouse Industries Inc.*, 46 USPQ2d 1609, 1612 (Fed. Cir. May 5, 1998), plaintiff Laitram had, during prosecution of a patent for a conveyor belt, made arguments distinguishing its flat-surface sprocket recesses from round-surface recesses in the prior art. The Federal Circuit estopped Laitram from recapturing round-surface recesses under the doctrine of equivalents, holding that “the fact that an examiner placed no reliance on an applicant’s statement distinguishing prior art does not mean that the statement is inconsequential for purposes of claim construction.” *Id.* at 1614.

The issue of unnecessary arguments, however, is not entirely settled. In *Zenith*, where the Federal Circuit found no estoppel from an unnecessary argument, the examiner had *expressly* indicated that the argument played no role in determining patentability. *See* 30 USPQ2d at 1290. The *Zenith* court noted that, “[a]lthough actual reliance by the examiner need not be shown, if an estoppel is

to rest upon argument made during the examination process, the circumstances must be such as to permit the inference that such reliance in fact occurred.” *Id.* at 1291 n.8. An express indication by the examiner that an argument was not relied on certainly does not permit the inference that the argument was relied on. Despite the broad language of *Litton Systems*, *Gentry Gallery*, and *Laitram*, stating that examiner reliance simply does not matter, none of those holdings is inconsistent with *Zenith*: it may still be possible to avoid an estoppel when the examiner expressly discounts an argument.

ii. Unnecessary Amendments.

Some language from the Federal Circuit has suggested that unnecessary amendments would not give rise to an estoppel. In *Pall Corp. v. Micron Separations, Inc.*, 36 USPQ2d 1225 (Fed. Cir. 1995), for example, the court noted in *dicta* that a claim amendment “that did not *in fact* determine

patentability does not create an estoppel.” *Id.* at 1230 (emphasis added). The court in *Litton Systems*, however, extended its reasoning about argument-generated estoppel to the case of amendment-generated estoppel, concluding that “an amendment unrelated to patentability” may still give rise to an estoppel. 46 USPQ2d at 1327. Presumably the estoppel applies, as with arguments, even for amendments that “were not necessary to distinguish prior art.” *Id.* If the holdings on argument-generated estoppel are to be applied consistently to amendment-generated estoppel, it is likely, following *Gentry Gallery*, that when multiple amendments are made at once, each of those amendments may set up an estoppel.

6. Scope of an Estoppel.

In *Warner-Jenkinson*, the Supreme Court held that where no reason for the addition of a claim element is established, or where a claim element is added for a substantial reason related to patentability, “prosecution

history estoppel would bar the application of the doctrine of equivalents as to that element.” 117 S.Ct. at 1051, 41 USPQ2d at 1873. The Federal Circuit, in *Litton Systems*, see 46 USPQ2d 1325, and in *Hughes Aircraft Co. v. United States*, 46 USPQ2d 1285 (Fed. Cir. April 7, 1998), declined to take the Supreme Court to mean that no equivalents are available for a claim subject to an estoppel. The *Litton Systems* panel interpreted the Court as “adher[ing] to the longstanding doctrine that an estoppel only bars recapture of that subject matter actually surrendered during prosecution.” 46 USPQ2d at 1325. Amendments made to overcome the prior art “do serve to narrow the range of equivalents; however, they do not preclude all equivalents available to [the patentee].” *Hughes*, 46 USPQ2d at 1290.

The Federal Circuit, with three judges dissenting, recently declined to rehear *Litton Systems* in banc, *Litton Systems, Inc. v. Honeywell, Inc.*, 95-1242, 95-1311, 1998 U.S. App. LEXIS 13028 (Fed. Cir. June 18,

1998). Judge Clevinger, in dissent, argued that the “explicit language” of *Warner-Jenkinson* bars any application of the doctrine of equivalents to any claim limitation added (or presumed to be added) for reasons related to patentability. *Litton Systems*, 1998 U.S. App. LEXIS 13028, at *11. Judge Gajarsa agreed, noting that the Supreme Court’s “statement of law is clear and is not open to multiple interpretations.” *Id.* at *19. The scope of estoppel, then, will remain uncertain pending further developments in the Federal Circuit.

7. Estoppel for Qualitative Claim Limitations.

Warner-Jenkinson and *Litton Systems* dealt with the simplest case of prosecution history estoppel: the insertion of an additional limitation into the claims. The preclusive effect of replacing one claim limitation with another is more difficult to predict. Shortly after the *Warner-Jenkinson* decision, the Eastern District of Wisconsin in

James River Corp. of Virginia v. Hallmark Cards Inc., 43 USPQ2d 1422 (E.D. Wis. 1997) considered a case wherein one qualitative claim limitation was replaced with another during prosecution. In the prosecution of a patent application relating to a pressed-fiber paper plate, a claim limitation describing the rim portion of the plate changed from (1) “substantially integral . . . without voids or disruptions” to (2) “essentially uniform homogenous” to (3) “essentially uniform generally homogenous” to (4) “generally inseparable into . . . constituent layers.” *Id.* at 1431. It was the “inseparable” limitation that finally led the application to allowance, and the court considered the effect of the change from “homogenous” to “inseparable.” *See id.* The court found that the applicant was estopped from claiming infringement under the doctrine of equivalents by any equivalent of “inseparable” which is also “homogenous.” *See id.* That is, the applicant surrendered coverage of all things “homogenous,” except

for those which are *literally* “inseparable.” The *James River* approach to prosecution history estoppel for qualitative claim limitations appears consistent with the statement of the *Litton Systems* panel that “when an applicant . . . amends a claim by substituting one limitation for another, the applicant cannot later assert that the original limitation is an equivalent of the substituted limitation.” *Litton Systems*, 46 USPQ2d at 1330.

III. LACHES.

In 1992, the rules governing the doctrines of laches and equitable estoppel were reviewed by the Federal Circuit sitting in banc in *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 22 USPQ2d 1321 (Fed. Cir. 1992). Laches is “the neglect or delay in bringing suit . . . which . . . causes prejudice

to the adverse party.” *Id.* at 1325. As a defense to patent infringement, laches bars a patent holder’s claim for damages accrued prior to suit. *See id.* at 1335. To establish a defense of laches, the alleged infringer must prove that:

1. the plaintiff delayed filing suit for an unreasonable and inexcusable length of time from the time the plaintiff knew or reasonably should have known of its claim against the defendant, and
2. the delay operated to the prejudice or injury of the defendant.

Id. at 1328. A presumption of laches arises when more than six years pass from the time the plaintiff knew or should have known of the infringement and the time the plaintiff filed suit. *See id.* at 1325. The presumption is eliminated once the plaintiff produces a

“minimum quantum of evidence” showing either that the delay was reasonable, or that the defendant was not prejudiced. *Id.* at 1332-33.

The factors establishing laches are necessary – but not sufficient – to erect a bar against pre-filing damages. “Laches remains an equitable judgment of the trial court in light of all the circumstances.” *Id.* at 1331. The defendant can, for example, through “egregious conduct” such as conscious copying of the invention, tilt the equities in favor of the patent holder and thereby defeat its own attempt at a laches defense. *Id.* at 1329. Conversely, the *Aukerman* court claimed that the equities may weigh in favor of a defendant who has “a good faith belief in the merits of a defense.” *Id.* at 1329.

A. NURSERY SUPPLIES: THE PERILS OF GOOD FAITH.

An infringement defendant must be careful in arguing that he had a good faith belief in the merits of a defense, however, since the same factor which tilts the equities in the defendant's favor may also defeat his claim that he was prejudiced by the plaintiff's delay. In *Nursery Supplies, Inc. v. Lerio Corp.*, 45 USPQ2d 1332 (M.D. Pa. 1997), the infringement defendant asserted a laches defense, claiming it had been prejudiced by the plaintiff's unreasonable delay in filing suit, since it had expanded its sales of infringing plastic containers for shrubs. *See id.* at 1341. Denying the laches defense, the court found that any prejudice to the defendant was caused not by the patent holder's delay, but rather by a "business decision" of the defendant to continue manufacturing the containers because it believed it had a defense of non-infringement.⁴ *Id.*

B. THE DUTY TO INVESTIGATE INFRINGEMENT

One live issue in laches jurisprudence is the extent of a patent holder’s duty to seek out possible infringement. Unreasonable delay, for the purpose of laches, is measured from the time the patent holder “knew or reasonably should have known of its claim against the defendant.” *Aukerman*, 22 USPQ2d at 1328. One recent district court case illustrates the application of a particularly low duty of investigation, whereas more recent Federal Circuit cases suggest that patent holders will now be subject to a much higher duty of investigation.

1. *Joy Technologies*: Low Duty to Investigate Infringement.

In *Joy Technologies Inc. v. Flakt Inc.*, 42 USPQ2d 1042 (D. Del. 1996), plaintiff Joy Technologies owned a patent on a “scrubbing” system for removing sulfur from

coal exhaust gas. Joy and defendant Flakt had both submitted proposals for a scrubbing system for use with a coal-burning electric power plant. *See id.* at 1043. Flakt was awarded the contract. *See id.* at 1044-45. Joy reviewed a copy of Flak’s proposal, which described the process employed in the Flakt scrubbing system. Over seven years after reviewing the Flakt proposal – but just a year after Joy had gained “definitive knowledge” of infringement – Joy filed suit for patent infringement. *Id.* at 1046. The court denied Flakt a defense of laches on the grounds that the proposal “could reasonably be interpreted as involving a non-infringing system.” *Id.* at 1046. Coupled with a representation by Flakt that it was “fully aware of” Joy’s patent and that “it is not [Flakt’s] policy to infringe on valid patents,” *id.* at 1046, the proposal was found insufficient to trigger Joy’s duty to investigate possible infringement. While Flakt’s suggestion to Joy that it was not infringing the patent is likely to have played a role in

the defeat of its laches defense, the district court placed substantial weight on the evidence that Flakt’s proposal was “open to more than one interpretation.” *Id.* at 1045.

2. The *Wanlass* Cases: Higher Duty to Investigate Infringement.

i. General Electric.

Two companion cases recently decided by the Federal Circuit address the duty of a patent holder to investigate possible patent infringement. The two cases, *Wanlass v. General Electric Co.*, No. 97-1425, 1998 U.S. App LEXIS 11955 (Fed. Cir. June 8, 1998), and *Wanlass v. Fedders Corp.*, No. 97-1428, 1998 U.S. App. LEXIS 12906 (Fed. Cir. June 18, 1998), with very similar facts and opposite outcomes, illustrate the unpredictable level of that duty. Wanlass owned a patent on an electric motor using a “run capacitor.” Wanlass attempted to license his patent to General Electric (GE),

but GE refused to take a license, telling Wanlass that his invention was a “good idea” but that it was definitely not a “new idea.” *GE*, 1998 U.S. App LEXIS 11955, at *2. Once his offer for a license had been rejected, Wanlass tested GE motors between 1977 and 1982 and found that none of the tested products infringed his patent. Wanlass did not test another GE motor until 1992, when he discovered the alleged infringement by GE’s motors. *See id.* at *3. Wanlass sued GE for patent infringement in 1995 – three years after discovering the infringement – but the district court granted GE’s motion for summary judgment on the basis of laches.⁵ *See GE*, 1998 U.S. App LEXIS 11955, at *4.

On appeal from the summary judgment grant, Wanlass argued that continuous testing of GE products for infringement would have been too burdensome, since “eight or nine hundred GE products contain run capacitor motors and not all run capacitor motors infringe the patent,” *GE*, 1998 U.S. App LEXIS 11955, at *15, and since infringement

cannot be detected by inspection of a motor's circuit configuration, but only by testing the motor's electrical waveforms with an oscilloscope, *see id.* at *3. Affirming the grant of summary judgment, the Federal Circuit held that “constructive knowledge of the infringement may be imputed to the patentee even where he had no actual knowledge of . . . conspicuous activities of potential infringement,” so long as “these activities are sufficiently prevalent in the inventor's field of endeavor.” *Id.* at *10. Thus, the laches clock was started not just when the patent holder did not know, but should have known of *actual* infringement, but also when he did not know, but should have known of *potential* infringement. It is not sufficient for the patent holder to investigate instances of potential infringement that come to his attention, he must also remain vigilant to signs of potential infringement. The patentee's duty to investigate instances of potential infringement is a function of the cost and difficulty of the

investigations. *See GE*, 1998 U.S. App LEXIS 11955, at *15.

In dissent, Judge Rader wrote that the majority “allocat[es] too much of the burden of policing the patent to the patentee” and “undervalues the fundamental principle that the public has a duty to avoid infringement, *GE*, 1998 U.S. App LEXIS 11955, at *27. He noted that patentees looking to the facts of the case will find “disheartening” the “substantial new burden” of “test[ing] any product that might contain the claimed invention.” *Id.* at *25-26.

ii. Fedders.

Within days, the same panel of the court came to the opposite result in *Wanlass v. Fedders Corp.*, when one of the justices who had joined the summary judgment of laches in *General Electric* elected to vacate the district court’s holding of laches in *Fedders*. *Fedders* manufactured and sold compressors to the air-conditioner industry. *Fedders*, 1998 U.S. App. LEXIS 12906, at *3. The

accused compressor was powered by a motor that was tested and developed by GE. *Id.* In 1995, Wanlass tested a Fedders air conditioner for the first time and found that it infringed his run capacitor motor patent. The district court found that Fedders’ motor had remained largely unchanged since the 1970’s, that Fedders actively and publicly promoted its products, and that Wanlass would have learned of the infringement if he had properly policed his rights. *Id.* at *7. The district court imputed to Wanlass knowledge of Fedders’ infringement and applied the presumption of laches to bar Wanlass’ claim. *Id.*

The Federal Circuit reversed, holding that “[i]mposing a duty upon Wanlass to monitor the air-conditioning industry by periodically testing all others’ products . . . would be unreasonable.” *Fedders*, 1998 U.S. App. LEXIS 12906, at *10 Compare this holding, however, with the court’s statement in *General Electric* that Wanlass had a duty “to examine GE motors from time to time to

determine whether they had begun to use run capacitors in an infringing way.” *GE*, 1998 U.S. App LEXIS 11955, at *15. The court in *General Electric* cited *Hall v. Aqua Queen Mfg., Inc.*, 39 USPQ2d 1925, 1928 (Fed. Cir. 1996), to show that public sales, marketing, and use of a product “give rise to a duty to investigate whether there is infringement.” *GE*, 1998 U.S. App LEXIS 11955, at *9. In *Fedders*, on the other hand, the court distinguished *Hall*, observing that “[i]n the instant case, unlike *Hall*, there is evidence that Wanlass was not active in the air-conditioning industry, that Wanlass did not attend trade shows . . . , and that Wanlass did not receive trade journals or other periodicals published in the air-conditioning industry.” *Fedders*, 1998 U.S. App. LEXIS 12906, at *19. Of course, those distinguishing facts are no less true in *General Electric* than they are in *Fedders*.

It is difficult to discern any difference between the legal standards applied by the various judges on the *General Electric* and

Fedders panel. Writing for the court in *Fedders*, Circuit Judge Michel, who sided with the majority in *General Electric*, noted that “Wanlass did have a duty to investigate a particular product if and when publicly available information about it should have led Wanlass to suspect that product of infringing.” *Fedders*, 1998 U.S. App. LEXIS 12906, at *14-15. Both concurring Judge Rader, *id.* at *24-25, who had dissented in *General Electric*, and dissenting Chief Judge Mayer, *id.* at *30, who wrote the majority opinion in *General Electric*, agreed with the court that “publicly available information” that “should have led” the patentee to suspect infringement is the trigger for constructive knowledge of infringement. The variety of opinions in *General Electric* and *Fedders*, however, illustrates the uncertainty of the test. Chief Judge Mayer found that the products *themselves* constituted publicly available information, *id.* at *33, while Judge Michel had in mind “advertisements for high-efficiency air conditioners using single phase

motors and having a capacitor capable of operating with specific characteristics.” *Id.* at *15. As Judge Rader noted, “patentees, potential infringers, and courts will have difficulty applying the laches doctrine in light of this opinion and *General Electric*.” *Id.* at *23. Despite this uncertainty, after *General Electric* and *Fedders*, it is clear that district courts are less likely to accept from patentees the argument that succeeded in *Joy Technologies* – that the information the patent holder had about the accused process left open a reasonable possibility of non-infringement. *See Joy Technologies*, 42 USPQ2d at 1046.

IV. EQUITABLE ESTOPPEL.

A defense of equitable estoppel is often raised along with a defense of laches. The law of equitable estoppel, along with the law of laches, was comprehensively reviewed by

the Federal Circuit in banc in *Aukerman*. A successful defense of equitable estoppel may entirely bar a patentee's claim. *See Aukerman*, 22 USPQ2d at 1325. To establish equitable estoppel, a defendant must prove three elements:

a. The patentee, through misleading conduct, leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer. "Conduct" may include specific statements, action, inaction, or silence where there was an obligation to speak.

b. The alleged infringer relies on that conduct.

c. Due to its reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim.

Id. at 1325. Prior to *Aukerman*, the concepts of laches and equitable estoppel were often intertwined, since patent cases involving a delay in suit “have almost invariably raised the defense not only of laches but also of equitable estoppel.” *Id.* at 1336. Indeed, earlier precedent from the Federal Circuit included the elements of laches – delay and prejudice – in the test for equitable estoppel. *See id.* That test was expressly overruled by the court in *Aukerman*, holding that “[d]elay in filing suit . . . is not a requirement of equitable estoppel.” *Id.* Despite this clear pronouncement by the Federal Circuit, however, the Northern District of California recently held that an infringement plaintiff was barred from asserting an equitable estoppel defense because it “failed to meet the two required elements of laches.” *Mont-Bell Co. Ltd. v. Mountain Hardwear Inc.*, 44 USPQ2d 1568, 1576 (N.D. Ca. 1997).

**A. SCHOLLE V. BLACKHAWK:
HOW TO LOSE A CLAIM
IN THREE YEARS, AND
HOW NOT TO.**

In *Scholle Corp. v. Blackhawk Molding Co.*, 45 USPQ2d 1468 (Fed. Cir. Jan. 15, 1998), the Federal Circuit upheld a finding of equitable estoppel where the plaintiff had remained silent about the defendant’s allegedly infringing product for only three years. The defendant, Blackhawk, manufactured caps for water bottles used with water coolers. *See id.* at 1469. In 1991, the plaintiff, Scholle, accused Blackhawk’s cap of infringing one of its patents, and Blackhawk designed a new cap as a non-infringing alternative. *See id.* In 1993, Blackhawk’s President showed the new cap to Scholle’s CEO and informed him that “Blackhawk would consider the new product non-infringing unless Scholle advised Blackhawk otherwise.” *Id.* at 1470. Although Blackhawk and Scholle “had

numerous contacts among high-level corporate officials,” including merger discussions, Scholle made no suggestion that the new cap might infringe. *Id.* at 1470. In the mean time, Blackhawk invested \$700,000 in machinery for manufacture of the new cap. *See id.* In 1996, just under three years after Blackhawk first presented the new cap to Scholle, Scholle filed suit against Blackhawk, claiming infringement by the new cap. *See id.* The Federal Circuit found that “cooperative behavior, in light of Scholle’s previous threats to sue, created a reasonable inference that Scholle considered the [new] cap a non-infringing design-around product and did not intend to sue.” *Id.* at 1471. Equitable estoppel, then, arose in less than half the time that a presumption of laches would have required, and erected a bar not just to pre-filing damages, but to the plaintiff’s entire claim.

During the period of “cooperation” with Blackhawk, Scholle was involved in litigation with a different manufacturer on the same

patent. Scholle claimed that it did not earlier accuse Blackhawk of infringement since it did not want Blackhawk to initiate a declaratory judgment action, which would have led to two simultaneous court challenges to the patent. *See id.* at 1471 n.1. The Federal Circuit provided guidance as to how a patent holder can protect his claim while avoiding declaratory judgment.

[H]ad Scholle simply sent Blackhawk a letter stating that it was unable or unwilling to offer an infringement opinion at this time and was not waiving any of its rights in the '354 patent, then Blackhawk would have been on notice that Scholle might bring a future infringement suit but there would be insufficient grounds for a declaratory judgment action.

Id.

**B. NURSERY SUPPLIES:
DEFEATING ESTOPPEL BY
SHOWING NON-RELIANCE.**

The Federal Circuit's in *Scholle* imposes a stricter duty on patent holders than the earlier district court decision in *Nursery Supplies*. In addition to the failed defense of laches, discussed above, the defendant in *Nursery Supplies* asserted the defense of equitable estoppel, which was likewise rejected. See 45 USPQ2d at 1341-42. Plaintiff Nursery Supplies sent a letter to defendant Lerio, asserting that Lerio was infringing one of Nursery Supplies' patents. See *id.* at 1342. Lerio responded with a letter denying infringement and challenging the validity of the patent. See *id.* Although Lerio and Nursery Supplies had ongoing contact at trade shows, Nursery Supplies did not bring up the issue of infringement until it filed suit eighteen months later. See *id.*

The district court denied the defense of

equitable estoppel. The court held that the defendant had not established the required element of reliance, since the defendant, in continuing to manufacture infringing products, relied not on the conduct of the plaintiff, but rather on its own belief that the patent was invalid. *See id.* at 1342.

The same logic, however, could be applied to Blackhawk, which, having designed its new cap as a non-infringing alternative, appears to have relied at least in part on its belief that its product did not infringe. Nevertheless, the Federal Circuit upheld the grant of summary judgment in favor of Blackhawk without taking up the question of whether Blackhawk relied on its own opinion of non-infringement rather than the actions of Scholle. The *Aukerman* court pointed out that “reliance is not the same as prejudice or harm.” 22 USPQ2d at 1336. A plaintiff who shows that the defendant would not have ceased its infringement, even without the misleading conduct by the plaintiff, may succeed in defeating a defense of equitable

estoppel.

V. INEQUITABLE CONDUCT.

A patent can be rendered unenforceable when the applicant is found to have acted inequitably in prosecuting the patent before the Patent and Trademark Office. As defined by the Federal Circuit in *Kingsdown Medical v. Hollister Inc.*, 9 USPQ2d 1384, 1389 (Fed. Cir. 1988) “[i]nequitable conduct resides in failure to disclose material information, or submission of false material information, with intent to deceive.” Both materiality and intent must be proven by clear and convincing evidence. *See id.* A successful showing of inequitable conduct renders the entire patent unenforceable and is reviewable under an abuse of discretion standard. *See id.* at 1392. A defense of inequitable conduct must be pled with particularity under Fed. R. Civ. P. 9(b). *See*

Advanced Cardiovascular Systems, Inc. v. Medtronic Inc., 41 USPQ2d 1770, 1775, *Environ Products Inc. v. Total Containment Inc.*, 41 USPQ2d 1942, 1943.

A. MATERIALITY.

The test of materiality is in transition. Information material to patentability was, from 1977 to 1992, defined in 37 C.F.R. § 1.56 (“Rule 56”) as being information which a “reasonable examiner” would consider important in deciding whether to allow an application to issue. In 1992, Rule 56 was changed to its present language, which defines as material any information which either “establishes, by itself or in combination with other information, a prima facie case of unpatentability,” or which is inconsistent with a position the applicant takes in asserting patentability or opposing unpatentability. 37 C.F.R. § 1.56. Since the new standard of materiality applies only to

applications and re-examinations pending on or after March 16, 1992, the old standard is still likely to control in many cases. Until the meaning of new Rule 56 is clarified by the Federal Circuit, perhaps the most reliable tool for the interpretation of the materiality test is the Manual of Patent Examining Procedure (MPEP). As the Federal Circuit noted in construing the old Rule 56, the MPEP “is entitled to judicial notice as an official interpretation of statutes or regulations as long as it is not in conflict therewith.” *Id.* at 1828 n.10.

1. Declarations from Prior Litigation.

The Eastern District of Pennsylvania, in *Environ Products Inc. v. Total Containment Inc.*, 43 USPQ2d 1288 (E.D. Pa. 1997), relied on the MPEP in holding a declaration filed by a patent holder in earlier litigation to be material under Rule 56. The patent holder, Environ, sued Total Containment, Inc. (TCI) for infringing an Environ patent.

In a previous litigation involving the same parties, Environ's President stated in a declaration that he had abandoned an earlier Environ patent application because he felt the claimed invention was unpatentable in view of a prior art patent he discovered. *See id.* at 1290. One of the claims of the patent in suit claimed the same invention as a claim in the earlier abandoned application. Despite Environ's disclosure of the prior art patent during prosecution of the patent in suit, and despite the examiner's allowance of the application, the court held that the declaration expressing Environ's early belief in non-patentability was material information, which should have been disclosed to the examiner. *See id.* at 1292.

2. Bootstrapping of an Inequitable Conduct Claim.

The Patent and Trademark Office maintains that a defense of inequitable conduct raised in a patent infringement case

is material information that should be disclosed to the examiner during reissue proceedings on the patent in suit. *See* MPEP § 2001.06(c). This requirement can result in a “bootstrapping” of an inequitable conduct defense, as seen in *Critikon Inc. v. Becton Dickinson Vascular Access Inc.*, 43 USPQ2d 1666 (Fed. Cir. 1997). On March 1, 1993, Critikon initiated an action against Becton Dickinson, alleging infringement of, among others, U.S. Patent No. 4,952,207 (“original Lemieux patent”). In the district court, Becton Dickinson alleged that Critikon committed inequitable conduct by failing to disclose U.S. Patent No. 4,834,718 (“the McDonald patent”) during prosecution of the original Lemieux patent. *See Critikon Inc. v. Becton Dickinson Vascular Access Inc.*, 28 USPQ2d 1362, 1369 (D. Del. 1993). At the time Critikon filed suit, a reissue application based on the original Lemieux patent was pending before the PTO. Critikon did not disclose the existence of the litigation, the charge of inequitable conduct, or the

McDonald patent to the examiner during the reissue proceedings. *See Critikon*, 43 USPQ2d at 1668. While the litigation was still pending, the Lemieux reissue patent issued, and Critikon amended its complaint to assert a claim for infringement of the reissue patent. *See id.* at 1667.

The district court found that Critikon had not acted inequitably, but the Federal Circuit reversed, finding two instances of inequitable conduct. First, the court found inequitable conduct in Critikon’s failure to disclose the McDonald patent. Second, and “more importantly,” the court found inequitable conduct in Critikon’s failure to disclose Becton Dickinson’s claim of inequitable conduct to the PTO. *Id.* at 1668. Critikon thus acted inequitably by failing to disclose that it had been *accused* of acting inequitably. While, in this case, the original charge of inequitable conduct was found to be meritorious, the holding of the Federal Circuit does not appear to hinge on the merit of the original claim of inequitable conduct.

The court found that litigation concerning a patent is material to reissue proceedings, noting that, in the interests of consistent claim interpretation, knowledge of the pending litigation would allow the PTO “to suspend such [reissue] proceedings until such litigation is resolved.” *Id.* at 1671. The PTO’s interest in deferring reissue until after inequitable conduct is litigated is effectively served only if all claims of inequitable conduct are disclosed, regardless of their merit.

3. Inconsistent Statutory Interpretations.

A couple of novel cases dealing with the issue of materiality in inequitable conduct have been decided recently. While defenses of invalidity raised in patent litigation are material to reexamination, statutory interpretations urged by the applicant in litigation are not material. In another decision arising out of the extended litigation between Environ and TCI, *Environ Products*

Inc. v. Total Containment Inc., 41 USPQ2d 1942 (E.D. Pa. 1997), TCI argued that Environ had, in previous litigation with TCI, “expressly interpreted 35 U.S.C. § 305⁶ as excluding a claim cancelled in reexamination as the standard for determining which claims . . . may have enlarged the scope of the patent.” *Id.* at 1944. Environ did not reveal its earlier interpretation of § 305 when, in reexamination proceedings, it “consistently compared newly added claims with cancelled claims.” *Id.* Information is defined as material in reexamination proceedings (as in original prosecution) if it “refutes, or is inconsistent with, a position that the patent owner takes in . . . [a]sserting an argument of patentability.” 37 C.F.R. § 1.555(b). Although an inconsistent interpretation of a statute appears to fall under the literal definition of material information, the district court, finding no precedent and no policy reason for expanding “material information” to encompass legal arguments, struck TCI’s defense of inequitable conduct as legally

insufficient. *See id.* at 1945.

4. Mischaracterization of Foreign References.

In *Gambro Lundia AB v. Baxter Healthcare Corp.*, 42 USPQ2d 1378 (Fed. Cir. 1997), plaintiff Gambro’s patent application for a dialysis system had been rejected over a German patent. In response, Gambro limited a “transferring means” element of the claims to a means which “prevent[s] the flow of said second fluid through said second duct while transferring the flow of the first fluid to said second duct.” *Id.* at 1385. Gambro then argued that “at no time does the German patent transfer . . . the first fluid . . . while preventing the flow of . . . the second solution. . . .” *Id.* These statements were not literally true. The German patent did disclose a method which met the relevant claim limitation when the dialyzer was replaced with a hose. *See id.* at 1385. The district court, emphasizing Gambro’s patent counsel’s fluency in

German, *see id.* at 1386, found that Gambro had acted inequitably, *see id.* at 1385. The Federal Circuit reversed, noting that “some of Gambro’s responses are at least overstatements,” *id.* at 1385, but holding that Gambro’s characterization of the German reference was sufficiently accurate during actual dialysis that Gambro’s “exaggerations do not rise to the level of gross falsification,” *id.* at 1386.

B. INTENT.

In *Kingsdown*, the Federal Circuit, in an *in banc* portion of the decision,⁷ resolved conflicting precedent when it held that “a finding that particular conduct amounts to ‘gross negligence’ does not of itself justify an inference of intent to deceive. . . .” 9 USPQ2d at 1392. From the Federal Circuit’s decision in *Critikon*, however, it appears that, in practice, gross negligence *does*

suffice, at least where the patent holder offers no good faith explanation for its conduct. In deciding that gross negligence was insufficient to justify an inference of intent, the *Kingsdown* court cited *Driscoll v. Cebalo*, 221 USPQ 745 (Fed. Cir. 1984), as an example of an opinion which “suggested that a finding of gross negligence compels a finding of intent to deceive.” *Kingsdown*, 9 USPQ2d at 1392. In *Critikon*, however, the court cited *Driscoll* for the proposition that “intent may be inferred where a patent applicant knew, *or should have known*, that withheld information would be material. . . .” *Id.* at 1668 (emphasis added). The Federal Circuit in *Critikon* overturned the district court’s finding of no inequitable conduct, since Critikon “knew or should have known” of the relevance of the withheld McDonald patent and “made no effort to offer a good faith explanation” of why the McDonald patent was not cited, even though the Federal Circuit found that Critikon’s device was, overall, “substantially different from

McDonald,” and the district court (but not the Federal Circuit) credited Critikon’s testimony that the McDonald patent was merely cumulative. *Id.* at 1668-70. In practice, then, evidence of gross negligence gives rise to a presumption of intent to mislead, which, apparently, may be rebutted by a good faith explanation.

VI. CONCLUSION.

The approach of the federal courts to nonstatutory defenses in infringement cases is constantly in evolution. The Federal Circuit is split on whether prosecution history estoppel entirely, or only partially bars the application of the doctrine of equivalents to a claim limitation. An argument expressly disregarded by the examiner may or may not give rise to an estoppel. Patentees are largely in the dark as to the extent of their duty to seek out infringement. Laches is in theory –

but perhaps not in practice – unnecessary for equitable estoppel, and gross negligence is in theory – but perhaps not in practice – insufficient for inequitable conduct. Patent litigators and prosecutors have good reason to monitor the Federal Courts for further developments. The resolution of any of these issues will have an effect on the practice of acquiring and enforcing patent rights.

ENDNOTES

1. The legal standards for measuring prosecution history estoppel by one of “ordinary skill in the art” or by a “reasonable competitor” are equivalent. *See Haynes Int’l Inc. v. Jessop Steel Co.*, 28 USPQ2d 1652, 1656 n.4.
2. “The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.”
3. A PTMS is made to advance the prosecution of an application under 37 C.F.R. § 1.102.
4. The court, however, also found no unreasonable delay, so the issue of prejudice was not entirely dispositive. *See* 45 USPQ2d at 1341.
5. Laches bars only damages accrued prior to

suit. In both *General Electric* and *Fedders*, however, Wanlass filed suit only after his patent expired. A bar to Wanlass' pre-filing damages, then, bars his entire claim.

6. Entitled “Conduct of reexamination proceedings.”

7. Since precedent may not be changed by a panel, the portion of the *Kingsdown* decision dealing with gross negligence was delivered *in banc*. See *Kingsdown*, 9 USPQ2d at 1392 n.16.