

No. 12-1086

IN THE
Supreme Court of the United States

SONY COMPUTER ENTERTAINMENT AMERICA, LLC,
Petitioner,

v.

1ST MEDIA, LLC,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED
STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL BRIEF OF PETITIONER

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INTRODUCTION

The government candidly admits that the Federal Circuit erred. It admits that the record evidence in this case was sufficient to support the district court's finding that the applicant intentionally withheld material from the patent examiner that would have invalidated the patent claim and did so with the intent to deceive the examiner. And yet, the government would allow this blatant error to stand, casting it aside as a "case-specific" anomaly. U.S. Br. 17. The error, however, was no accident. It was the result of the Federal Circuit's adoption of an intent framework that is nearly impossible to meet, that improperly cabins district courts' equitable discretion, and that contravenes this Court's precedent.

Rather than acknowledging the import of the decision below, the government chooses to wish away its clear legal holdings. The *1st Media* ruling means exactly what it says, however. Once again the Federal Circuit has improperly invented and applied "[r]igid preventative rules that deny factfinders recourse to common sense [and] are neither necessary under [this Court's] case law nor consistent with it." *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421 (2007). As in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391–94 (2006), the Circuit's special rules limiting equitable discretion in patent cases are unfounded here and require this Court's review.

Under the Circuit's standard for finding intent to deceive, the district courts are robbed of their power

to find inequitable conduct in even the most egregious and obvious cases of deliberate nondisclosure, such as here, where multiple examiners informed the patent applicant of prior art that disqualified his patent claims. This Court treats such manipulative conduct as adequate evidence of intent to deceive in other contexts. There is no basis for a different approach in patent cases.

The government's "wait-and-see" approach wrongly assumes the impact of *1st Media* is speculative. It is not. The impact is both real and immediate. Recently, a district court examined the decision below at length and correctly concluded that the Federal Circuit has imposed "nearly insurmountable standards" that "severely limit[] the ability of district court judges to make inferences based on the evidence." *Gen. Elec. Co. v. Mitsubishi Heavy Indus.*, ___ F. Supp. 2d ___, 2013 WL 2338345, at *5 (N.D. Tex. 2013).

This case presents a uniquely suitable vehicle for examining the Circuit's flawed approach to the inequitable conduct doctrine. The doctrine derives from the equitable unclean hands doctrine. The hallmarks of that doctrine are flexibility and discretion. This Court has held that in applying the equitable doctrine in the patent context, formulaic rules and rigid standards are wholly inappropriate. Now, 70 years since this Court's instructions, the court of appeals has gone off the rails, adopting not only rigid rules, but ones that render it virtually impossible for a court to find inequitable conduct based on nondisclosure. The extensive record in this case, and the blatant violation of the patent rules

here, provide a highly suitable setting for examining the doctrine's current state of disarray. If review is denied, the reality is that defendants will perceive the futility of pressing inequitable conduct arguments based on nondisclosure and such cases will simply disappear. Thus, this Court's review is urgently needed.

ARGUMENT

I. THE 1ST MEDIA RULING ESTABLISHES LEGAL STANDARDS FOR INTENT THAT RENDER IT VIRTUALLY IMPOSSIBLE TO PROVE INEQUITABLE CONDUCT AND CREATES A ROADMAP FOR FRAUD

The patent applicant here filed virtually the same patent claim with four different patent examiners, each time without disclosing any prior art. The first three examiners on their own found prior art that caused them to reject the claim.¹ The applicant, however, still failed to disclose the disqualifying prior art identified by the other examiners to examiner number four. Based on this withholding of information (in violation of fundamental patent rules), the fourth examiner erroneously granted the patent. Pet. App. 23a, 35a–64a, 68a–70a. Thus, the applicant knew of the prior art (because the other examiners told him about it)

¹ Two U.S. patent examiners cited prior art and rejected the common claim before the patent issued here; the European examiner notified the applicant of prior art before the asserted patent here issued, and that examiner subsequently rejected the claim.

and plainly knew that it was material (because the other examiners told him that the information disqualified the patent claim).

Despite the applicant's knowledge of the prior art and its materiality, and notwithstanding the district court's finding that the applicant's excuses for his failure to disclose were false (Pet. App. 25a, 48a–50a), the Federal Circuit concluded that there could be no finding of inequitable conduct because Petitioner could not show that the failure to disclose the known material prior art was done with a specific intent to deceive the patent examiner. *See* Pet. App. 14a-19a. Remarkably, the Federal Circuit held that, *as a matter of law*, a district court cannot infer intent from the applicant's "[k]nowledge of the reference and knowledge of materiality alone," *id.* at 14a, even if the applicant is fully aware that the known withheld information would disqualify the patent claim. Further, the court held, *as matter of law*, that a district court cannot "rely[] on [the patentee's] inability to offer a good faith explanation as a basis to infer a deliberate decision to withhold" the references. *Id.* at 16a. Based on these erroneous legal standards, the Federal Circuit reversed outright.²

² Inexplicably, the government suggests (p. 12) that Sony failed to complain below about these new rigid legal standards. Sony's entire en banc petition, however, was devoted to highlighting these legal standards and arguing that they were erroneous. Thus, the statements in the government's brief that these arguments are raised for the first time in this Court are simply wrong.

The government chooses to close its eyes to these legal holdings. Its rationale appears to be that if the Federal Circuit's decision means what it says, that would be absurd, and thus it cannot be so. The government's brief feigns puzzlement as to why there was no remand, calling it a "case specific error." U.S. Br. 9. The reality is that the Federal Circuit adopted a new, more stringent legal approach to intent. Under those erroneous legal standards, there was no need for a remand.

The government's brief (pp. 12–13) points to the Federal Circuit's earlier statement that a court "may infer intent [to deceive] from indirect and circumstantial evidence." *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011). *1st Media*, however, now makes clear that even where, as here, the applicant knew of the prior art and knew that disclosing it would disqualify his patent claim, no inference can be made of an intent to deceive the patent examiner. Pet. App. 14a–16a That ruling mandates this Court's review. Such a circumstantial inference is compelling. In other analogous legal contexts, drawing an inference of intent to deceive from such facts is the well-accepted norm. As this Court explained in *Claflin v. Commonwealth Ins. Co.*, 110 U.S. 81 (1884), "the intention to deceive" can be implied from materiality and knowledge because "the law presumes every man to intend the natural consequences of his acts." *Id.* at 95. See also *Matrixx Initiatives, Inc. v. Siracusano*, 131 S. Ct. 1309, 1324–25 (2011). *1st Media* cannot be reconciled with that reasoning.

And the government's brief is wrong in suggesting (p. 9) that the decision below is of little consequence. With *1st Media*'s new legal standards in place, it is now nearly impossible to obtain relief for a patent applicant's inequitable conduct in a non-disclosure context. That is not just our view. It is the view of the district courts faced with such claims post-*1st Media*. As one district court applying *1st Media* explained, the enhanced evidentiary burdens for the intent element create "a hurdle [that] is unlikely to be jumped in all but the rarest cases." See *Gen. Elec.* 2013 WL 2338345, at *5. What is required now is either whistleblower testimony or a "smoking gun" document showing a conspiracy to deceive a patent examiner. *Id.* at *4. Although that district court believed the circumstantial evidence showed the patentee acted deliberately, the court lamented that its "hands are tied by the Federal Circuit's post-*Therasense* precedent" *Id.* at *5.

The government's brief (p. 21 n.7) suggests that the Federal Circuit's earlier ruling in *Aventis Pharma S.A. v. Hospira, Inc.*, 675 F.3d 1324 (Fed. Cir. 2012), shows that proof of intent to deceive is still feasible. What the government ignores is that *1st Media* creates binding Circuit precedent (which the court of appeals allowed to stand notwithstanding Sony's en banc petition) that expressly recasts *Aventis* as a case of "selective disclosure." The court of appeals in *1st Media* reasoned that intent to deceive was shown in *Aventis* by "careful and selective manipulation of where, when, and how much of the most material information to disclose." Pet. App. 15a. In other words, the Circuit has made it easier to prove intent to deceive where the applicant par-

tially complies with the duty of candor by submitting some prior art (as in *Aventis*), rather than disregarding the duty wholesale and submitting no prior art (as here).

The perverse lesson from *1st Media* is that an applicant is better off not disclosing *any* information to the patent examiner than to selectively disclose information. *1st Media*'s reading of *Aventis* thus encourages applicants, especially bad actors pushing weak patent claims, to disclose nothing.

Thus, the government is 100% right that the Federal Circuit erred. The error cannot, however, be brushed under the rug or wished away. *1st Media* creates a dangerous legal precedent, makes no sense, conflicts with this Court's rulings, and has broad ramifications. Review by this Court is required.

II. 1ST MEDIA CREATES A CIRCUIT CONFLICT BY REFUSING TO GIVE ANY WEIGHT TO THE APPLICANT'S FALSE EXPLANATIONS

Not only does the *1st Media* decision bar, as a matter of law, circumstantial inferences from a patent applicant's knowledge of the prior art and knowledge that the art is material, it also renders irrelevant that the applicant lied to the district court regarding why he failed to disclose the known material prior art. The government's brief (p. 15) remarkably shrugs this off, saying it is "better read" as mere burden shifting.

The Federal Circuit, however, has unambiguously concluded that the patentee has no burden of offering an explanation until the accused infringer proves intent to deceive by clear and convincing evidence. *Therasense*, 649 F.3d at 1291. Because the patentee does not have an initial burden of offering a good-faith explanation for withholding references, a court may not draw any adverse inferences from either the absence of any such explanation or, apparently, even the proffer of a false explanation. *See* Pet. App. 7a, 10a, 17a.

Here, because the district court proceeding was prior to *Therasense*, the applicant and his attorney attempted to offer good-faith explanations for the nondisclosure. The district court rejected the explanations as fabricated nonsense. Under any sensible standard, such false explanations would be considered strong circumstantial evidence of bad faith. Indeed, in virtually every other legal context—including military detention and criminal cases—courts are permitted to draw inferences from testimony they determine to be unbelievable. *See, e.g., Al-Adahi v. Obama*, 613 F.3d 1102, 1107 (D.C. Cir. 2010) (discussing the “well-settled principle that false exculpatory statements are evidence—often strong evidence—of guilt”); *United States v. Penn*, 974 F.2d 1026, 1029 (8th Cir. 1992); *United States v. Meyer*, 733 F.2d 362, 363 (5th Cir. 1984).

The Federal Circuit, however, has concluded that false explanations are irrelevant. There is no rational basis for adopting such a stringent rule. The Federal Circuit’s decision is wrong, creates a circuit conflict, and warrants this Court’s review.

III. THIS CASE PRESENTS AN EXCELLENT VEHICLE FOR EXAMINING WHETHER THE FEDERAL CIRCUIT'S RIGID STANDARDS CAN BE RECONCILED WITH THE INEQUITABLE CONDUCT DOCTRINE'S EQUITABLE ROOTS

The inequitable conduct doctrine originated from a series of decisions in which this Court declined to enforce the asserted patents on account of the patentees' deception.³ This Court's decisions rested on equitable principles, particularly as embodied in the unclean hands doctrine. The Court eschewed formalism for a flexible approach that reflected the doctrine's equitable nature. In *Keystone*, for instance, this Court explained that in applying the unclean hands doctrine, courts "are not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion." 290 U.S. at 245–46. And in *Precision Instrument*, the Court explained that the doctrine "necessarily gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant." 324 U.S. at 815. Those decisions reflect the fundamental principle that flexibility and discretion, rather than rigidity and formalism, are the defining characteristics of equitable remedies. See *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) ("Flexibility rather than rigidity has distinguished" equitable power).

³ See *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240 (1933); *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944); *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945).

The standards announced by the Federal Circuit in *Therasense* and *1st Media*, however, are far removed from the inequitable conduct doctrine's origins. Instead of leaving room for district courts to make appropriate findings and to remedy misconduct depending on the facts of the particular case, the Federal Circuit has imposed rigid, categorical rules that tightly restrict what inferences district courts may draw from the circumstantial evidence in patent cases. As in *KSR*, these "[r]igid preventative rules . . . deny factfinders recourse to common sense [and] are neither necessary under [this Court's] case law nor consistent with it." 550 U.S. at 421.

The government's brief incorrectly suggests, even in its reframed question presented, that this Court has embraced the Federal Circuit's inequitable conduct doctrine. U.S. Br. (*i*). The reality is that this Court has done no such thing. The present inequitable conduct doctrine is a creation of the lower courts, and it has become increasingly unmoored from its equitable roots. And now, with the formulaic, demanding standards adopted by the Federal Circuit, it is time for this Court to review the development of this rogue doctrine, which is today unrecognizable from its common law origins.

The government argues (pp. 18–20) that this case is not a suitable vehicle for undertaking a review of the doctrine because the court of appeals assumed that petitioner met the "but-for" materiality standard. Standing alone, the Federal Circuit's inflexible specific-intent rules warrant this

Court’s review. Granting review in this case will, however, also enable review of the Federal Circuit’s entire approach and the intertwined elements of intent and materiality. This Court will necessarily have to examine the current formulaic approach in its totality and decide, as it did in *eBay Inc. v. MercExchange*, whether the rigid and overly demanding standards comport with this Court’s equity decisions. 547 U.S. at 394–95 (overturning the Federal Circuit’s “categorical” approach to injunctive relief, and explaining that discretion “must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards”).

This Court will be able to examine both interrelated prongs (*i.e.*, both materiality, which was contested below, and intent) of the Federal Circuit’s standard. As the government recognized in its en banc brief in *Therasense*, evidence of materiality and knowledge of materiality can be strong, if not compelling, evidence of intent to deceive. U.S. *Therasense Amicus Br.* at 22.⁴ How difficult it is to prove inequitable conduct inherently depends on the standards for both the materiality and intent prongs and their interplay. Indeed, the Federal Circuit’s intent standard incorporates materiality. In proving specific intent to deceive, an accused infringer must

⁴ In the same brief, the government advised the Federal Circuit against adopting a but-for materiality standard because it would “in essence require the accused infringer to prove invalidity first, leaving little work for the inequitable conduct doctrine to do.” U.S. *Therasense Amicus Br.* at 13.

prove knowledge of materiality. The two standards are linked and must be examined together.

Thus, there is a clear need for this Court's review of the current state of the inequitable conduct doctrine, and this case provides an excellent vehicle for doing so. That the district court ruled before the issuance of *Therasense* is a significant factor in favor of granting review. The robust findings and record of this case provide an excellent vehicle for illustrating the restrictiveness and extreme nature of the Circuit's standards. Given the current rigid, overly demanding standards, it is unlikely that future claims will survive motions to dismiss or for summary judgment, much less yield the type of complete evidentiary record and detailed findings presented here.

And review is needed now. If this approach persists, cases involving nondisclosure inequitable conduct claims will disappear, as litigants are understandably unwilling to spend money on the remote possibility they will prevail against the "nearly insurmountable standards." *Gen. Elec.*, 2013 WL 2338345, at *5; see *MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1261 (Fed. Cir. 2012) (describing the standard as a "stopper" for preventing the assertion of inequitable conduct "in just about every infringement case"). Waiting for a more perfect case would be futile.

As in *eBay* and *KSR*, this Court's intervention is necessary to rein in the Federal Circuit's propensity to treat patent law as *sui generis* and immune from a district court's ordinary powers. The ruling below is

not only plainly wrong, as the government concedes, it also provides detailed findings after trial on materiality and intent that serve as an excellent vehicle for this Court to put a timely stop to the Circuit's misguided approach to inequitable conduct claims.

CONCLUSION

For the foregoing reasons, as well as those set out in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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