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Keeping Patent Applications Honest: A Proposal to Apply Disgorgement Remedies to Findings of Inequitable Conduct During Patent Prosecution

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# KEEPING PATENT APPLICANTS HONEST: A PROPOSAL TO APPLY DISGORGEMENT REMEDIES TO FINDINGS OF INEQUITABLE CONDUCT DURING PATENT PROSECUTION

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I. INTRODUCTION

In the past decade, technology and information-based industries transformed the global culture and economy, ushering in what some have described as a Golden Age for intellectual property.¹ "We've passed from an industrial economy to an information economy, and information is the domain of intellectual property."²

Corporations today view intellectual property as an asset, filing more patents as part of their business strategy than ever before. In fiscal year 2005, the Patent and Trademark Office (PTO) received 406,302 patent applications, and granted 165,485.³

Patent protection is by no means a new concept, however. The first known reference to a patent dates back to Aristotle's mention of rewards for those who discover things useful to the state.⁴ And the Venetians are widely credited with creating the first real patent system in the fifteenth century.⁵ The Venetian Senate's 1474 Act regulated the granting of patents by implementing many of the same criteria that are still in effect today.⁶

Another ancient tenet that remains ingrained in modern-day protection of intellectual property is the tension between the protection of the individual interest and the desire to serve the good of the community.⁷ While protecting an

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⁵ Id. at 3.
⁶ Id. at 4. The Venetian code stated:

Be it enacted that, by the authority of this Council, every person who shall build any new and ingenious device in this City, not previously made in this Commonwealth, shall give notice of it to the office of our General Welfare Board when it has been reduced to perfection so that it can be used and operated. It being forbidden to every other person in any of our territories and towns to make any further device conforming with and similar to said one, without the consent and license of the author, for the term of 10 years.

⁷ Id. at 2 (explaining that Aristotle believed "rewards to individuals can cause problems for the state; in honoring one who discovers something new, the state may actually weaken itself"); see also ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 13 (3d
inventor’s creation provides an incentive to engage in creative activity, it also excludes others from using those ideas. Ultimately, such protection prevents a larger number of people from benefiting, at least for the duration of the patent protection.

With this paradox of community benefits versus individual interests in mind, the English courts shifted the standard of what inventors were expected to contribute to society in exchange for patent protection. These courts required applicants to describe their invention clearly and completely and, thus, contribute the technical know-how behind the patents and not just the product described therein. Today, this notion is encompassed in the enablement requirement, which stipulates that a patent applicant must describe his invention “in such a way as to enable others to make and use the invention.”

To emphasize the importance of this contribution of inventors’ knowledge to society in exchange for the powerful monopolies granted to patent holders, U.S. Patent law expressly imposes a “duty of candor and good faith” on everyone associated with the filing and prosecution of a patent application. This duty lasts throughout the entire prosecution of an application and applies to all dealings with the PTO. When patent applicants breach the duty of candor and good faith, at any stage of the prosecution process, they have engaged in inequitable conduct—knowingly deceiving the PTO about an important aspect of the application.

This Note explores a proposed penalty against those who obtain patent protection by engaging in inequitable conduct. While the current remedy invalidates any future patent protection, it does nothing to separate the violator from the ill-gotten gains already received through sales or licensing royalties. In many cases, this profit can skyrocket into the millions or billions of dollars over years of patent protection.

Without a harsher penalty, the patent applicant has more incentive to behave deceitfully and make a hefty profit than to behave honestly and make no profit.

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8 MERGES ET AL., supra note 7, at 113.
9 Id.
10 MERGES, supra note 4, at 7.
11 Id.
12 MERGES ET AL., supra note 7, at 112.
13 37 C.F.R. 1.56[a] (2000); see also Semiconductor Energy Lab. Co. v. Samsung Elecs. Co., 4 F. Supp. 2d 477, 480 (E.D. Va. 1998) (“It is fundamental that all applicants for patents have a duty to prosecute patent applications in the PTO with candor, good faith, and honesty.”).
14 In proposed legislation before the House Judiciary Committee, the duty of candor would be codified and heightened to a more stringent level. For more information, see H.R.J. RES. 2795, 109th Cong. (2005).
15 See Molins PLC v. Textron, Inc., 48 F.3d 1172, 1178 (Fed. Cir. 1995).
at all. The patentee is allowed to keep his profit while the ultimate costs are passed on to the public. This drastically skews the delicate balancing of individual and community interests by depriving the public of the benefits of market competition when an individual does not legitimately prove the right to protection.

When such a lapse occurs in the patent prosecution process, and a patentee profits from protection that was obtained illegitimately through means of inequitable conduct, it is only logical to apply a disgorgement remedy—to take from the patentee any wrongfully received profits.

This Note further elaborates on the mechanics of inequitable conduct and disgorgement remedies, illustrating how the remedy is applied in other areas of federal law. Part II.G addresses the ability of courts to equitably apply disgorgement remedies in the absence of legislation expressly authorizing the remedy. Finally, Part III details the steadily increasing demand for patent protection in light of a rise in high-profile inequitable conduct cases, placing in context the need to adopt a disgorgement remedy where inequitable conduct is found to invalidate a patent.

II. BACKGROUND

A. OVERVIEW OF PATENT PROTECTION

In the United States, patent protection is granted for a term of twenty years from the date of application. During this period, the patent holder has the right to exclude others from making, using, selling, offering for sale, or importing the claimed invention. Each patent application is reviewed by the PTO across five categories: that it falls into a general area of patentable subject matter, that it is a novel invention, that it is a useful invention, that it is non-obvious—or a big enough improvement over previous inventions, and that it is fully described by the applicant so that others could make and use the invention. The duty of candor imposed during the patent process applies to representations made with respect to each of these categories.

16 Merges et al., supra note 7, at 112.
17 Id.
18 Id.
B. INEQUITABLE CONDUCT

1. Overview. Inequitable conduct occurs when, at any time during the patent application process, the duty of candor is breached by a patent applicant. Common types of inequitable conduct include, "affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false material information, coupled with intent to deceive." Inequitable conduct is raised as an affirmative defense, usually by a party that has been sued by the patent holder for infringement. The defense amounts to an admission of infringement, but counters with the argument that the patent was not valid because inequitable conduct occurred during the prosecution of the patent.

2. Establishing Inequitable Conduct. The party raising the defense of inequitable conduct must show "clear and convincing evidence that the conduct was both material and intended." This leads to a two-step analysis of inequitable conduct in which the court (1) determines if the withheld information or misrepresentations satisfy a threshold level of materiality and then (2) determines if the applicant's conduct shows an intent to deceive. If the court finds materiality and intent to deceive, then the court must weigh the findings.

20 See Molins PLC, 48 F.3d at 1178; see also Monsanto Co. v. Rohm & Haas, 456 F.2d 592, 599 (3d Cir. 1972) (stating that "concealment and nondisclosure may be 'evidence of and equivalent to a false misrepresentation, because the concealment or suppression is, in effect, a representation that what is disclosed is the whole truth'").
22 See Molins PLC, 48 F.3d at 1179; see also Colorado v. New Mexico, 467 U.S. 310, 316 (1984) (defining clear and convincing evidence as evidence "which proves in the mind of the trier of fact an abiding conviction that the truth of the factual contentsions [is] highly probable").
23 See Semiconductor Energy Lab. Co. v. Samsung Elecs. Co., 4 F. Supp. 2d 477, 482 (E.D. Va. 1998). The case states that under Rule 56, materiality is phrased in terms of whether a misrepresentation, if corrected, or an omitted reference, if disclosed would, itself or together with other information, give rise to the prima facie case of unpatentability. If so, the omitted reference or misrepresentation is material. The omitted reference or misrepresentation may also be material if it refutes or is inconsistent with the applicant's patentability arguments.
25 Paragon Podiatry Lab., Inc. v. KLM Labs., Inc., 984 F.2d 1182, 1189 (Fed. Cir. 1993) (quoting Kingsdown Med. Consultants Ltd. v. Hollister, Inc., 863 F.2d 867, 876 (Fed. Cir. 1988)) (stating that "to satisfy the intent to deceive element of inequitable conduct, 'the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent to deceive").
in light of the surrounding circumstances to decide whether a conclusion of inequitable conduct is warranted. "The more material the omission, the less evidence of intent will be required in order to find that inequitable conduct has occurred."

3. Pleading with Particularity. Many district courts have ruled that an inequitable conduct defense must be pleaded with particularity under Federal Rule of Procedure 9(b), which applies to fraud allegations in general. This means that a plaintiff must use some "means of injecting precision and some measure of substantiation into their allegations." The rule is intended to "give notice of the 'precise misconduct' alleged," but should be applied with some flexibility.

Federal circuit courts, citing public policy considerations, often instate the pleading requirement to prevent the inequitable conduct defense from being used as "[a] magic incantation to be asserted against every patentee." One court further stated that "vague allegations of inequitable conduct may also be the launching of a 'fishing expedition,' allowing the accuser to embark on wide-ranging discovery upon a thimble full of facts.

4. Common Areas of Patent Prosecution Where Inequitable Conduct Occurs. Areas in which inequitable conduct is of the greatest concern include: 1) the statutory oath of inventorship; 2) the citation of known relevant prior art; 3) the use of

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26 Haliburton, 925 F.2d at 1439.
27 Baxter Int’l Health Care, Inc. v. McGaw, Inc., 149 F.3d 1321, 1225 (Fed. Cir. 1998) (citing N.V. Akzo v. E.I. Du Pont de Nemours & Co., 810 F.2d 1148, 1153 (Fed. Cir. 1987)); but see Haliburton, 925 F.2d at 1440 (stating that “a patentee has no obligation to disclose an otherwise material reference if the reference is cumulative or less material than those already before the examiner”).
32 Id.
33 See DONALD S. CHISUM, CHISUM ON PATENTS § 19.03 (2005) (“The applicant must state that he believes himself to be the original and first inventor and that he does not know of any statutory bars to the application for a patent, including public uses of the invention more than one year prior to the application.”).
affidavits concerning the date of invention;\textsuperscript{34} and 4) the use of affidavits presenting factual evidence on patentability.\textsuperscript{35}

In \textit{National Diamond Syndicate, Inc. v. Flanders Diamonds USA, Inc.}, the court found that inequitable conduct occurred when the plaintiff failed to disclose material prior art references in connection with his patent application.\textsuperscript{36} The court found that, in submitting a patent application for a specific design of diamond cut, the defendant's failure to disclose the existence of the plaintiff's similar design, which had already earned patent protection, was material. Thus, the defendant's design was rendered unpatentable.\textsuperscript{37} The court further found the defendant possessed at least the threshold level of intent to deceive because the defendant chose not to disclose that he knew of the plaintiff's design, that he knew the design was similar to his own, and that he knew the plaintiff had obtained protection for his design.\textsuperscript{38}

Such instances of failure to disclose prior art comprise the most prevalent instances of inequitable conduct. Through the 1950s it was commonly believed that the Patent Office was obliged to look for prior art references for each patent application. That approach, however, changed in 1979 with the case of \textit{Beckman Instruments, Inc. v. Chemtronics}, in which the court established an affirmative duty to cite prior relevant art.\textsuperscript{39} In its reasoning, the court stated that:

\begin{quote}
The Patent Office does not have full research facilities of its own, and it has never been intended by Congress that it should. In examining patents, the Office relies heavily upon the prior art references that are cited to it by applicants. It is therefore evident that our patent system could not function successfully if applicants were allowed to approach the Patent Office as an arm's length adversary.\textsuperscript{40}
\end{quote}

\textsuperscript{34} \textit{Id.}

An applicant may seek to eliminate the item (a prior art reference) as relevant art by carrying back his date of invention prior to the effective date of the item. This may be done through an affidavit or declaration under Rule 131 of the Patent and Trademark Office. The office normally accepts an affidavit that is sufficient on its face. Because of this reliance, the area of Rule 121 affidavits is a ripe one for application of the duty of candor and full and fair disclosure.

\textsuperscript{35} \textit{Id.}


\textsuperscript{37} \textit{Id.}

\textsuperscript{38} \textit{Id.}

\textsuperscript{39} \textit{Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F.2d 555, 564-65 (5th Cir. 1970).

\textsuperscript{40} \textit{Id.}

https://digitalcommons.law.uga.edu/jipl/vol13/iss2/7
Patent applicants are not held accountable to the PTO for information of which they are unaware. "The applicant does not commit inequitable conduct by failing to cite art of which he has no knowledge or which he believes in good faith to be less relevant than expressly considered by the Patent and Trademark Office."

C. EFFECT OF INEQUITABLE CONDUCT

The most common effect of a finding of inequitable conduct is to render a patent unenforceable. The unenforceability extends to the entire patent and allows others to use the information contained in such a patent.

The other remedy available in some inequitable conduct cases is an award of attorney's fees, which are awarded at the discretion of the court. In Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., the court reasoned that:

The party who succeeds in invalidating the unlawful patent performs a valuable public service. It is appropriate under such circumstances to reward the prevailing party by giving him attorney's fees for his efforts, and it is equally appropriate to penalize in the same measure the patentee who obtained the patent by his wrongdoing.

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41 CHISUM, supra note 33, § 19.03.
42 See J.P. Stevens & Co. v. Lex Tex, Ltd., 747 F.2d 1553 (Fed. Cir. 1984); see also Bristol-Myers Squibb Co. v. Ben Venue Lab., 90 F. Supp. 2d 522, 526 (D.N.J. 2000) (where a patentee committed inequitable conduct by not disclosing a fictitious best mode in the prosecution of the invalid patent, which led to successful arguments against subsequent patents sought by the company).
43 See J.P. Stevens, 747 F.2d at 1561 (quoting Gemveto Jewelry Co. v. Lambert Bros., Inc., 542 F. Supp. 933, 943 (S.D.N.Y. 1982)). The court stated that

[the gravamen of the fraud defense is that the patentee has failed to discharge his duty of dealing with the examiner in a manner free from the taint of 'fraud or other inequitable conduct.' If such conduct is established in connection with the prosecution of a patent, the fact that the lack of candor did not directly affect all the claims in the patent has never been the governing principle. It is the inequitable conduct that generates the unenforceability of the patent and we cannot think of any cases where a patentee partially escaped the consequences of his wrongful acts by arguing that he only committed acts of omission or commission with respect to a limited number of claims. It is an all or nothing proposition.

Id.
44 See 35 U.S.C. § 285 (2000) (stating that a court may award "reasonable attorney fees to the prevailing party" in "exceptional cases").
D. DISGORGEMENT REMEDIES

Disgorgement of profits is an equitable remedy\(^{46}\) that requires a “party” to give up “fraudulently obtained profits.”\(^{47}\) The overall purpose of utilizing disgorgement as a remedy is to “make sure that wrongdoers will not profit from their wrongdoing.”\(^{48}\)

The court elaborated on this goal in *Admiral Corp.*, a trademark case in which disgorgement of profits was awarded.\(^{49}\) The court stated that:

> It seems scarcely equitable, however, for an infringer to reap the benefits of a trademark he has stolen, force the registrant to the expense and delay of litigation, and then escape payment of damages on the theory that the registrant suffered no loss. To impose on the infringer nothing more serious than an injunction when he is caught is a tacit invitation to other infringement.\(^{50}\)

Disgorgement remedies are routinely applied in several areas of federal law, including securities violations and infringement of copyright and trademark protection. Examination of how and why disgorgement remedies are applied in these areas of law can provide better understanding of the remedy’s purpose and methods of implementation.

E. DISGORGEMENT OF PROFITS APPLIED TO SECURITIES VIOLATIONS

Securities violations occur through a variety of dishonest behavior, ranging from insider trading to an act of fraudulently inducing customers to make purchases at excessive prices and pocketing the proceeds. In these cases, courts find it important to prevent such bad actors from retaining the profits they illegally obtained.

Disgorgement of profits is the remedy most often applied by courts deciding cases involving securities violations.\(^{51}\) Section 27 of the Securities Exchange Act

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\(^{46}\) See A.E. GADSBY, BUSINESS ORGANIZATIONS, § 9.03(2), at 9-57 (1987) (“Disgorgement is an equitable remedy designed to deprive defendants of all gains flowing from their wrong, rather than to compensate the victims of the fraud. The purpose of disgorgement is to deter violations by making them unprofitable, not to make investors whole.”).

\(^{47}\) SEC v. Patel, 61 F.3d 137, 139 (2d Cir. 1995).

\(^{48}\) SEC v. Fischbach Corp., 133 F.3d 170, 175 (2d Cir. 1997).


\(^{50}\) Id.

DISGORGEMENT REMEDIES

confers general equity powers upon the district courts and gives them the power to order all equitable relief necessary under the circumstances. The disgorgement remedy is interpreted to lie within this equitable discretion.

The goal of disgorgement remedies in securities law is to deter violations of the securities laws by depriving violators of their ill-gotten gains. The court in SEC v. First Jersey Securities emphasized the significance of the disgorgement remedy for this purpose, stating that "the deterrent effect of an SEC enforcement action would be greatly undermined if securities law violators were not required to disgorge illicit profits."

In First Jersey Securities, the court concluded that the defendant's withholding of material information from customers and excessive markups in its prices of unbundled securities amounted to securities fraud. The court ordered disgorgement of profits even though a class action suit had been settled by defendants and stated that "since disgorgement is a method of forcing a defendant to give up the amount by which he was unjustly enriched, it is unlike an award of damages and is neither foreclosed nor confined by an amount for which injured parties were willing to settle."

The court first applied the disgorgement remedy to a securities violation in the case of SEC v. Texas Gulf Sulphur Co., a classic example of insider trading. There, the court ordered disgorgement of profits where the defendants, all of whom were directors, officers, or other employees of the company, had purchased stock and encouraged friends and family to purchase stock in the company after the

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52 15 U.S.C. § 78aa (2000) ("The district courts of the United States . . . shall have exclusive jurisdiction of violations of this chapter or the rules and regulations thereunder, and of all suits in equity and actions at law brought to enforce any liability or duty created by this chapter or the rules and regulations thereunder."); see also Brown, supra note 51, at 684 n.37 (citing Mills v. Elec. Auto-Life Co., 396 U.S. 375, 391 (1970)) (noting that the Supreme Court could not "fairly infer from 1934 Exchange Act a purpose to grant appropriate remedies").

53 See SEC v. First Jersey Sec., Inc., 101 F.3d 1450, 1474 (2d Cir. 1996); see also SEC v. Commonwealth Chem. Sec., Inc., 574 F.2d 90, 102 (2d Cir. 1978) ("[T]he primary purpose of disgorgement is not to compensate investors. Unlike damages, it is a method of forcing a defendant to give up the amount by which he was unjustly enriched.").

54 See First Jersey Sec., 101 F.3d at 1474 (stating also that "the deterrent effect of an SEC enforcement action would be greatly undermined if securities law violators were not required to disgorge illicit profits"); see also Insider Trading Sanctions Act of 1984, Pub. L. No. 98-376, 98 Stat. 1264 (codified at 15 U.S.C. § 78 (2000)) (stating that the purpose of federal securities laws is "to insure investor confidence in the integrity of the national securities market and to provide an honest and fair securities market where all participants play by the same rules").

55 First Jersey Sec., 101 F.3d at 1462 (quoting SEC v. Manor Nursing Ctrs., Inc., 458 F.2d 1082, 1104 (2d Cir. 1972)).

56 Id. at 1450.

57 Id. at 1475 (citing Commonwealth Chem. Sec., 574 F.2d at 100, 102).

58 See SEC v. Texas Gulf Sulphur, Co., 401 F.2d 833 (2d Cir. 1968).
company located an unusually large deposit of ore. At the time of the defendants purchases, the company had not yet released news of the discovery to the public.

Generally, once profits have been disgorged from a violator, the court decides how to make an equitable distribution of the funds. When possible, courts usually award profits to victims of the violation, but "where distribution to identifiable injured parties is not feasible or appropriate, the money disgorged by the defendant is paid to the Treasury."

F. DISGORGEMENT OF PROFITS APPLIED IN COPYRIGHT AND TRADEMARK LAW

Both copyright and trademark law use disgorgement of profits as a remedy for infringement of the rights granted to the owners of intellectual property. Historically, patent law also utilized the remedy allowing patentees to obtain a patent infringer's profits. But in 1946, Congress—concerned with issues surrounding allocation of the infringer's profits—abolished disgorgement as a remedy in patent law. Though the remedial schemes for copyright and trademark apply disgorgement differently, they provide a good model for applying disgorgement to cases of inequitable conduct without falling victim to the same pitfalls confronted by early patent law.

59 Id. at 840.
63 See Dane S. Ciolino, Reconsidering Restitution in Copyright, 48 EMORY L.J. 1 (1999); see also Tilghman v. Proctor, 125 U.S. 136 (1888). In Tilghman, the court ordered a disgorgement of profits where the defendants infringed the plaintiff's process for separating fat acids from glycerine. Id. at 158. The court stated that

[i]n an action at law for the infringement of a patent, the plaintiff can recover a verdict for only the actual damages which he has sustained; and the amount of such royalties or license fees as he has been accustomed to receive from third persons for the use of the invention, with interest thereon from the time when they should have been paid by the defendants...[b]ut upon a bill in equity by the owner against infringers of a patent, the plaintiff is entitled to recover the amount of gains and profits that the defendants have made by the use of his invention.

Id. at 143-44.
64 Ciolino, supra note 63, at 55.
1. Disgorgement Applied to Copyright Cases. Disgorgement of profits is a remedy favored among copyright plaintiffs. Section 504(b) of the Copyright Act expressly stipulates that “the copyright owner is entitled to recover ... any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.”

The two goals of applying the disgorgement of profits remedy in copyright law are “to provide adequate compensation to the copyright holder, and to deter infringement.”

After copyright infringement is established, the copyright owner must show proof of the infringer’s gross revenue. The burden then shifts to the infringer to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

Further, in copyright cases, the court must often go through a process called apportionment of profits. Through this process, the court separates profits gained by the infringer as a result of the copyright owner’s original work from those gained as a result of work the infringer has put into the product. This system of apportionment is often described as too complicated and serves as the main criticism of the disgorgement remedy as applied to copyright law.

The Supreme Court awarded disgorgement of profits for copyright infringement and first addressed apportionment in Sheldon v. Metro-Goldwyn Pictures Corp. There, the defendants were charged with copyright infringement after they made a movie adaptation of the plaintiff’s play without obtaining the right to do so. While the court of appeals found that the defendants had “deliberately lifted the play,” they also felt that it would be unjust to give all net profits to the

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65 Id. at 3.
67 Sheri A. Byrne, Note, Nintendo of America, Inc. v. Dragon Pacific International: Double Trouble—When do Awards of Both Copyright and Trademark Damages Constitute Double Recovery?, 31 U.S.F. L. REV. 257, 261 (1996) (quoting Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 886 F.2d 1545, 1554 (9th Cir. 1989)); see also Nintendo of Am., Inc. v. Dragon Pac. Int’l, 40 F.3d 1007, 1016 (9th Cir. 1994) (stating that copyright damages were intended to “compensate the plaintiff and to prevent the defendant’s unjust enrichment”).
68 See Ciolino, supra note 63, at 14 (quoting 17 U.S.C. § 504(b) (1994)).
69 Id.
71 See, e.g., Ciolino, supra note 63, at 3 (stating that inconsistent approaches to calculating apportionment have created case law that is confusing and arbitrary).
72 Sheldon, 309 U.S. at 390.
plaintiffs.\textsuperscript{74} The district court, relying on expert testimony, allocated twenty percent of the profits to the plaintiffs, and the appellate court affirmed.\textsuperscript{75}

2. \textit{Disgorgement Applied to Trademark Cases}. Disgorgement is also a common remedy in trademark law. Section 1117(a) of the Lanham Act provides for disgorgement remedies\textsuperscript{76} and functions as an "equitable measure of compensation."\textsuperscript{77}

Use of disgorgement as a remedy in trademark law is based on the same goals as those found in securities and copyright law—deterrence and the prevention of unjust enrichment.

In the trademark context, the goal of preventing unjust enrichment is based on traditional property law notions that no one should profit from the use of someone else's property without their permission. Under the deterrence theory, courts attempt to "prevent the oppression of less sophisticated small trademark holders by larger, more sophisticated corporate infringers."\textsuperscript{78}

Similar to copyright, after trademark infringement is found, plaintiffs need to prove only the amount of the defendant's sales to establish that they are entitled

\textsuperscript{74} \textit{Id.} at 397. The court noted that if the plaintiffs were given all profits, they "would receive the profits that the 'motion picture stars' had made for the picture 'by their dramatic talent and the drawing power of their reputations.'" \textit{Id.} at 398.

\textsuperscript{75} \textit{Id.} at 408.

\textsuperscript{76} 15 U.S.C. § 1117(a) (2000). This provision states that:

\textsuperscript{77} Hamilton-Brown Shoe Co. v. Wolf Bros., 240 U.S. 251, 259 (1916).

to disgorgement remedies. Once this is proven, the burden then shifts to the defendant to show all elements of claimed costs or deductions.

One key difference between the application of disgorgement in trademark and copyright cases is that in instances of trademark violations courts do not bother with allocating profits as in copyright cases. In contrast, courts in trademark cases generally order that a full accounting (disgorgement) of the defendant's profits from infringement of the mark be made.

In Hamilton-Brown Shoe Co. v. Wolf Bros., the Supreme Court upheld a judgment disgorging profits from the defendant shoe manufacturer for infringing the rights of Wolf Brothers' trademarked label "American Girl." The court noted that

on every principle of reason and justice the owner of the trademark is entitled to so much of the profit as resulted from the use of the trademark. It is more consonant with reason and justice that the owner of the trademark should have all the profit than that he should be deprived of any part of it by the fraudulent act of the defendant.

A second key difference between trademark law and copyright law is that, in trademark law, courts are more cautious in granting disgorgement and thus, may apply a higher standard of culpability. Some courts require that "bad faith" or "willfulness" be found before granting a disgorgement remedy. In Basch v. Blue

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79 Id. (citing The Lanham Act, 15 U.S.C. § 1117(a) (stating that: under existing rules it is necessary for the complainant to prove sales and costs with reasonable and absolute accuracy. The only persons having knowledge of making the sales are the defendant or someone in his employ. It has seemed, therefore, only fair and just that if the complainant proves the sales, the defendants should be required to produce evidence of the expenses he was put to in making such sales as an offset against the sales)).

80 See Otake, supra note 78, at 231 (stating that a defendant may defeat an accounting only if he can establish that his profits are "demonstrably not attributable to the unlawful use of his mark").

81 Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582, 584 (5th Cir. 1980).

82 240 U.S. 251, 259 (1916).

83 Id. at 252; see also Dad's Root Beer Co. v. Doc's Beverages, Inc., 193 F.2d 77, 83 (2d Cir. 1951) (affirming the legality of a disgorgement remedy even when there was no direct competition in the consuming markets); Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F.2d 538, 545 (2d Cir. 1956) (finding that a disgorgement remedy is appropriate even in areas where the infringer does not directly compete with the trademark owner).

84 See Banff Ltd. v. Colberts, Inc., 996 F.2d 33, 35 (2d Cir. 1993) (holding that an injunction was proper instead of applying an accounting of profits remedy because of a lack of willful infringement); see also Merriam-Webster, Inc. v. Random House, Inc., 815 F. Supp. 691, 700 (S.D.N.Y. 1993) (stating that an accounting requires showing of willfulness).
the court discussed the need for such a heightened sense of accountability. The court noted that because disgorgement measures a defendant's gain instead of a plaintiff's loss, the remedy could sometimes overcompensate for a plaintiff's actual injury. The court then explained that to prevent the potential inequitable treatment of a good faith infringer, most courts require proof of intentional misconduct by the defendant.

The Second Circuit ruled that the defendant had engaged in such conduct in *W.E. Basset Co. v. Revlon, Inc.* There, Revlon was ordered to fully disgorge profits to Bassett for the sales of a cuticle trimmer ("Cuti-Trim") that infringed Bassett's mark on its own trimmer ("Trim"). The court reasoned that "[i]t is essential to deter companies from willfully infringing a competitor's mark, and the only way the courts can fashion a strong enough deterrent is to see to it that a company found guilty of willful infringement shall lose all its profits from its use of the infringing mark." The court further commented that "Revlon's course of conduct over a period of years has demonstrated a callous disregard for the rights of a competitor and for the mandates of the federal courts; consequently it is appropriate that we require it to make a full accounting."

The Second Circuit ruled in *Monsanto Chem. Co. v. Perfect Fit Prods. Mfg. Co.* that Perfect Fit owed Monsanto an "accounting"—or disgorgement—of profits. The court found that Perfect Fit had deliberately infringed Monsanto's "Acrilan" trademark by selling mattress pads falsely labeled as Acrilan-filled. Noting that the defendant had been unjustly enriched, the court relied on its equitable discretion to craft relief. The court concluded that it was irrelevant that the two companies were not selling in the same market.

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86 Id. at 1540.
87 Id.
88 435 F.2d 656 (2d Cir. 1970).
89 Id. at 659.
90 Id. at 664.
91 Id.
93 Id.
94 Id. at 392.
95 Id. at 397.
G. EQUITABLE POWER OF THE COURTS TO APPLY DISGORGEMENT REMEDIES

As an equitable remedy, disgorgement has been routinely imposed as a mechanism for relief at the equitable discretion of the court even when not specifically authorized by statute.

In Texas Gulf Sulphur, for example, the court first applied disgorgement of remedies in a federal securities case based on equity. The opinion noted that "the Supreme Court has upheld the power of the Government without specific statutory authority to seek restitution, and has upheld the lower courts in the exercise of the court's general equity powers to afford complete relief." Disgorgement was similarly established as a remedy for copyright violations through the equitable discretion of the court prior to being adopted by statute.

In Mitchell, the Supreme Court went a step further stating that "unless otherwise provided by statute, all the inherent equitable powers of the district court are available for the proper and complete exercise of [its equitable] jurisdiction." The court further noted that since the public interest was involved in the present case, those "equitable powers assume an even broader and more flexible character than when only a private controversy is at stake."

Finally, the Mitchell court emphasized the historically strong equitable powers of courts, noting that "as this Court long ago recognized, 'there is inherent in the Courts of Equity a jurisdiction . . . to give effect to the policy of the legislature.'"

The Supreme Court in Porter v. Warner Holding Co. similarly construed the equitable powers of the federal courts, stating, "[p]ower is thereby resident in the District Court, in exercising [its equitable] jurisdiction, 'to do equity and to mould each decree to the necessities of the particular case.'"
Corporations are finding new ways to create profits through exploitation of patent rights every day. As new avenues are created and submissions of patent applications continue to swell, new issues of misconduct will inevitably arise. Such misconduct will naturally center around the ways that patent applicants obtain their new assets. Consequently, a charge of inequitable conduct before the PTO will soon need a harsher penalty attached to curtail the impulse to withhold or misrepresent information when such behavior could gain a company or individual millions—and sometimes billions—in profits.

A. RISE IN DEMAND FOR PATENT PROTECTION

In today’s technology-driven, information-crazed culture, patent protection is being sought and granted in record volume and used in novel ways. Patent application filings have been on a steady increase of six to eight percent per year for the past twenty years with the number of applications quadrupling between 1980 and 2005.104

One explanation for the surge is that patent protection is now safeguarded by extensive legislation, treaties, and a judicial system more likely to uphold patent validity and to award damages when patents are infringed.105

1. Expansion of Use as a Business Tool. Another explanation for the surge in protection is that corporations have begun to utilize patents differently, seeking them out in record numbers and incorporating them as part of their business infrastructure.106

IBM has led the field in patents obtained for the past eleven years.107 The company represents the classic example of the new attitude toward patents—looking at a patent portfolio much more as a business asset that can be exploited rather than merely as a form of legal protection.108

In addition to patenting products it plans to manufacture and sell, IBM patents items it thinks would be useful to other companies with the intention of under the circumstances.

104 Kevin Maney, Patent Applications so Abundant that Examiners Can’t Catch Up, USA TODAY, Sept. 21, 2005, at 3B.
105 Jorda, supra note 1.
106 Steve Lohr, I.B.M. is First Company to Collect over 3,000 Patents in a Year, N.Y. TIMES, Jan. 10, 2002, at C1.
107 Id.
108 Id.
licensing the product to one or multiple companies. This approach has paid off for the technology giant, garnering IBM roughly $1.7 billion annually in income from licensing alone. Another new business approach, "patent-mining," is utilized by companies like Forgent Networks, a Texas-based corporation that has formed a business model around selling licensing agreements for existing patents. Forgent first enforced its portfolio of technology patents in 2001, when it made its first deals with Sanyo and Sony for $15 million and $16 million, respectively.

Forgent owns, among others, the patent for the coding behind JPEG compression technology, the most widely used technology for storing photos in digital cameras, scanners and personal computers on the Internet. In just four years, Forgent has collected more than $105 million by licensing the patent to more than fifty companies.

2. Expansion into New Industries. A relatively new player in the patent field is American Express, whose entrance signaled an expansion of the patent explosion into the financial services industry. Though American Express holds only fifty registered patents—a pebble in comparison to the tech companies racing to top three thousand new patents each year—the small amount is five times the number of patents the company held in 1998. More significantly, they too have realized that patents can be used as a powerful tool to generate licensing income over the long term, a move described as radical in the financial services industry, a decided newcomer to the idea of patenting for profit.

The business method patents most often obtained in the industry only became recognized in 1998, when the Supreme Court upheld a patent for the method of pooling mutual fund assets in *State Street Bank and Trust Co. v. Signature Financial Group, Inc.*

American Express first experimented with two licensing deals in 2001 that garnered approximately four million dollars for the company. By 2003, the

109 Id.
110 Id.
112 Id.
113 Id.
114 Id.
116 Id.
117 Id.
119 Loomis, supra note 115.
company's intellectual property group reportedly produced "tens of millions" of dollars in licensing revenue annually.120

In 2005, American Express held third place in number of patents owned in the financial services industry, behind Citigroup, which owns 132 patents, and Visa International, which owns 65 patents.121

B. FINDINGS OF INEQUITABLE CONDUCT HAVE RISEN WITH PATENT NUMBERS

Accompanying the surge of patents granted has been a rise in findings of inequitable conduct before the patent office. In 2000-2001, reported decisions showed that nine patents were held unenforceable due to inequitable conduct.122 By 2002, the number had risen to eleven, and by 2003-2004, the number tripled to thirty patents found unenforceable.123

This increase in inequitable conduct has occurred despite measures put in place by courts throughout the evolution of inequitable conduct to prevent frivolous allegations. The requirement in many jurisdictions, for instance, that inequitable conduct must be pleaded with particularity prevents many charges of inequitable conduct from prevailing. The courts also took the step in 1992 of raising the standard for finding materiality.124 The previous standard required applicants to supply information if "there was a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to issue a patent."125 The new standard narrows the range of information viewed as material lessening the burden on the patentee.126 It holds information to be material only if it establishes a clear case that a claim is unpatentable or refutes a position taken by the patentee.127

C. INEQUITABLE CONDUCT CASE LAW

1. Hoffman-La Roche v. Promega. In 2003, a California District Court invalidated a patent of drug maker Hoffman-La Roche for a purified enzyme

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120 Id. at 2.
121 Id.
123 Id.
126 See Hricik, supra note 19, at 291 for an in-depth look at the change of standard.
127 37 C.F.R. 1.56(a) (2003).
known as Taq. Taq is used to assist in a laboratory process called polymerase chain reaction (PCR) that is used "in genetic fingerprinting, in diagnosing diseases, and as a basic tool in laboratory research." Researchers use Taq to increase efficiency in the PCR process because the enzyme is thermostable, and the steps of the process can be repeated several times without destroying polymerase and requiring a cooling process between steps. Hoffman-La Roche sold Taq through a joint venture with another company and licensed the rights to make Taq to several other companies, generating approximately $80-$85 million per year.

The inequitable conduct claims against Hoffman-La Roche were raised as an affirmative defense in a suit that Hoffman filed charging Promega with selling Taq for "purposes not covered by the licensing agreement." Promega countered with the inequitable conduct defense, arguing that the Taq patent should be held unenforceable because of lack of disclosure before the PTO. The court agreed, finding six instances of misstatements material to the prosecution of the Taq application. The misleading statements included, among others, deceptive comparisons of Taq's effectiveness compared to prior art and claims asserted about outcomes of experiments as though they had been performed when in fact they had not. The District Court affirmed a lower court's ruling that "these misstatements together, and each of them individually, were material and made with the intent to deceive the PTO." By the time the Taq patent was declared invalid, it had garnered Hoffman-La Roche sales "in the hundreds of millions of dollars."

2. Purdue Pharma v. Endo Pharmaceuticals. In a fact pattern similar to the Hoffman-La Roche case, Purdue Pharma has been accused of committing equitable conduct regarding prosecution of the patent for Oxycontin, a powerful narcotic painkiller. Sales of Oxycontin began slowly in its first year, totaling only $200 million, but since its second year on the market, Oxycontin has averaged $1.6

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129 Id.
131 Riordan, supra note 128.
132 Id.
133 Hoffman-La Roche, 319 F. Supp. 2d at 1014.
134 Id. at 1015.
135 Id.
136 Id.
137 Kamage & Sterling, supra note 122.
billion in sales each year. The drug is responsible for approximately eighty-five percent of Purdue's revenue and represents about six million prescriptions.

In 2000, generic drug makers Endo Pharmaceuticals filed an application with the FDA and notified Purdue of its intentions to market a generic Oxycontin product. Purdue responded by filing suit against Endo for infringement of its patent rights. Endo raised the affirmative defense of inequitable conduct, claiming that Purdue's patents were unenforceable because the company had withheld material information and made misrepresentations during the prosecution of Oxycontin's patent. In 2004, the trial court found that Purdue had indeed engaged in inequitable conduct. The trial court based its findings on claims made about the effectiveness of Oxycontin that were represented as though they were based on quantitative research, when in fact they were based on the mere insights of a scientist working for the company.

In 2005, the U.S. Court of Appeals confirmed the ruling before withdrawing its opinion in 2006 and remanding it to the lower courts. Because Purdue's misrepresentations were more implied than express in nature, the appellate court ordered the lower court to determine if the high standard of materiality had been satisfied. The case is currently pending.

3. Bruno Independent Living Aids, Inc. v. Acorn Mobility Services, Ltd. Finally, in 2005, the court found inequitable conduct in Bruno Independent Living Aids, Inc. v. Acorn Mobility Services, Ltd. where the stairlift manufacturer failed to submit information to the patent office indicating that its stairlift design was substantially similar to other designs already on the market. The court found the lapse to be material and awarded attorney's fees to the opposing party.

140 Jeff Holtz, Ruling Forces Company to Cut Jobs in Stamford, N.Y. TIMES, Apr. 18, 2004, at 14CN.
141 Purdue, 410 F.3d at 692.
142 Id.
143 Id.
144 Id. at 692.
145 Id. at 693, 704.
146 Id. at 695. The court characterized Purdue Pharma's behavior as a "clear pattern of misdirection," including "carefully chosen language" throughout the prosecution process. Id.
147 Purdue Pharma v. Endo Pharmas., Inc., 438 F.3d 1123, 1135 (Fed. Cir. 2006).
148 Id. at 1133.
149 In another similar case rooted in the pharmaceutical industry, Eli Lilly reached a settlement with Barr Laboratories in 1999 regarding claims of inequitable conduct in its prosecution of the highly-lucrative Prozac patent. Courtenay Edelhart, Lilly, Rivals Settle on Prozac Patent, INDIANAPOLIS NEWS, Jan. 25, 1999; see also Paul J. Heald, Mowing the Playing Field: Addressing Information Distortion and Asymmetry in the TRIPS Game, 88 MINN. L. REV. 249, 284 (2003).
in addition to invalidating the stairlift patent, which had been in effect since 1993.\footnote{150}

D. PROPOSED REMEDY: DISGORGE PROFITS WHEN INEQUITABLE CONDUCT IS FOUND IN PROSECUTION OF PATENT APPLICATIONS

Disgorgement of profits is a remedy notable for its effectiveness at deterring violations of the law and preventing the unjust enrichment of those who behave deceitfully. Disgorgement is routinely used in securities cases to prevent dishonest investors from retaining the benefits of obtaining large sums of money through dishonest practices.\footnote{151}

In the intellectual property arena, disgorgement of profits is used to discourage violation of trademark and copyright protection. Though such instances are not exact parallels to the actions taken by those who engage in inequitable conduct during patent prosecution, they demonstrate that courts may effectively apply a disgorgement remedy in the intellectual property arena.

1. Amendment of Patent Statute. The most direct way for disgorgement of profits to become a remedy to acts of inequitable conduct would be for Congress to stipulate it by law. The timing for such a move is ripe, if unlikely. Not only has patent protection hit an all-time high, but the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property is currently considering House Bill 2795, also known as "The Patent Act of 2005," which proposes sweeping changes to the patent system.\footnote{152}

Unfortunately with regard to inequitable conduct, the bill proposes taking the evaluation of such misconduct out of the hands of the courts and, instead, relegating the task to the PTO.\footnote{153} In effect, this will make the defense of unenforceability for inequitable conduct obsolete unless such conduct rises to the level of fraud.\footnote{154}

2. Application of the Remedy by Courts of Equity. The more likely way for disgorgement to be applied to cases of inequitable conduct would be for courts to use their equitable discretion to implement the remedy.

\footnote{150} Kamage and Sterling, \textit{supra} note 122; \textit{see also} Bruno Indep. Living Aids, 394 F.3d 1348.

\footnote{151} \textit{See} Brown, \textit{supra} note 51, at 684.


\footnote{153} \textit{Id.}

\footnote{154} Such a move may leave no alternative but to attempt an action for antitrust liability, which is difficult to prove. When a party chooses to seek antitrust liability, they must prove a heightened threshold of intent and materiality in addition to proving all of the elements of a monopoly under the Sherman Antitrust Act. For further information on such actions, see \textit{Walker Process Equip., Inc. v. Food Mach. \\& Chem. Corp.}, 382 U.S. 172, 177 (1965).
Section 283 of the Patent Act permits a court to grant equitable relief as a remedy for infringement. The Act states “the several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”

Further, in all areas of federal law evaluated in this Note, courts of equity led the way in granting disgorgement remedies before any legislation codified such judicial authority. Accordingly, it would be natural for courts to again lead the charge by applying disgorgement remedies to findings of inequitable conduct.

3. Suggestions for a Smooth Transition. For a disgorgement remedy to be applied effectively to inequitable conduct cases with few complications, it should be patterned after the implementation of the remedy in trademark law.

First, measures should be taken to avoid the pitfalls of the apportionment scheme used in copyright cases. The simplest application would mandate that no portion of the ill-gotten profits be retained by the party that engaged in inequitable conduct.

Second, the act of inequitable conduct encompasses in it an element of willfulness through its threshold requirement of intent to deceive. This heightened level of culpability ensures that only bad actors will be forced to disgorge profits, lessening the potential for an overly harsh penalty to be applied to someone who made a mistake in good faith.

IV. CONCLUSION

The rapid growth in demand for patent protection shows no sign of slowing. In 2005, the PTO’s commissioner for patents hired 940 new examiners and stated that he plans to hire an additional 1,000 examiners each year for “several years.”

The intellectual property group at American Express has filed ninety-one new patent applications, hoping to garner more profits through patent assets and to take the lead in number of patents held by a financial services corporation. In July 2004, Bill Gates announced plans to step up Microsoft’s procurement of patents and set the goal of filing fifty percent more patent applications and obtaining three thousand patents in a twelve-month span.

As patents become more integral to the infrastructure of corporate profits, some corporations will inevitably engage in dubious business practices for the

156 Id.
157 Maney, supra note 104.
158 Loomis, supra note 115.
prospect of making a profit. Maneuvering similar to that seen in securities violations is likely to seep into the arena of patent prosecution if no penalty to dissuade such behavior is in place.

As it has in other areas of federal law, recognizing a disgorgement remedy in cases where inequitable conduct is found in the prosecution of a patent application will serve to deter patent applicants from engaging in such conduct. Additionally, such a remedy would prevent unjust enrichment of those who gain profits through dishonest conduct.

Finally, a disgorgement remedy applied to inequitable conduct would serve the age-old balancing act between the rights of individuals and the good of society. The remedy would penalize those who are unjustly enriched when they obtain an illegitimate license to inhibit the free flow of information.

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