

Keywords: inequitable conduct; reasonable examiner standard; intent to deceive

General: An applicant engages in inequitable conduct when he makes a false material statement with the intent to deceive. Under the reasonable examiner standard, information is material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. Intent to deceive may be construed from the affirmative act of submitting an affidavit containing false statements because there is an implied intent for the affidavit to be relied upon by the examiner.

ESpeed, Inc. v. BrokerTec USA, LLC
480 F.3d 1129 (Fed. Cir. 2007)
Decided March 20, 2007

I. Facts

Prior to the development of the system described in U.S. Patent No. 6,560,580, trading of financial instruments took one of two forms: “open outcry” or “trade capture.” In “open outcry,” “voice brokers” would propose customer bids until a buyer was found. This method was efficient because it ensured instruments were sold at market price. In “trade capture,” clerks would attempt to record the outcries of voice brokers during “open outcry” trading. The quality of the information input by the clerks was a function of their skill and the trade volume. The system described in the ’580 patent was designed to automate trading and eliminate both of the previous trading methods.

Large traders of fixed income securities do not want to reveal the size of their purchases or sales because that information would affect the market. Therefore, the traders are given “workup rights.” These rights permit the trader to initiate a trade and incrementally increase the volume based on the market response. During this period, no other trades may be executed. Under the “old rules,” after the first trader had completed the transaction, the next trader was immediately allowed to exercise “workup rights.” Under this system, a few traders could tie up the market for long periods of time. In response, Cantor created the “new rules” which permitted orders placed during one period of “workup rights” to be executed before the next period began. This system allowed for exclusive trading without tying up the market.

In 1993, Cantor began using its own software package, Super System, for automated as well as traditional “open outcry” and “trade capture” trading. The Super System was capable of handling “workup rights” trading under both the old and new rules. However, Cantor found the Super System to be incapable of handling automated trading, so the Super System was relegated to traditional trading. Later versions of the software overcame these problems and Cantor considered the Super System commercially viable for automated trading.

The ’580 patent was filed as U.S. Patent Application No. 09/294,526. The ’526 application claimed priority to U.S. Patent Application No. 08/766,733. The ’733 application was filed on December 13, 1996 and matured into U.S. Patent No. 5,905,974.

In a law suit regarding the ’974 patent, which took place during the prosecution of the ’526 application, Cantor realized that it had not disclosed the Super System to the PTO during either of

the applications. Therefore, Cantor submitted declarations from the inventors stating that they did not know they were required to disclose the Super System. One declaration stated that the Super System did not include the “new rules.” The declarations and accompanying exhibits totaled 1,139 pages. The patent examiner concluded that the submitted materials did not constitute prior art.

Cantor filed suit against BrokerTec asserting that BrokerTec infringed at least some claims of the '580 patent. The jury returned a verdict of infringement in favor of Cantor, but held that the patent was invalid due to lack of written description under 35 U.S.C. § 112 ¶ 2. Subsequently, the district court held that the '580 patent was unenforceable because of inequitable conduct. The district court found that the Super System should have been disclosed during the '733 application process because it was material prior art. The district court also found that Cantor failed to cure the inequitable conduct by filing declarations during the '526 application process. In addition, the district court found that the declaration which stated the Super System did not include the “new rules” was false. Because, the “new rules” were the primary object of the invention described in the '580 patent, the court found this misrepresentation to be material. The court also found that Cantor acted with intent to deceive. Intent was inferred “based in part on the fact that the declarations were worded in such a way to make the examiner believe that there were no ‘new rules’ in the Super System.”

II. Issues

- A. Were the declarations by the inventors during the prosecution of the '580 patent material?
- B. Did Cantor intend to deceive the PTO when it submitted the declarations of the inventors?

III. Discussion

An applicant has engaged in inequitable conduct when he submits 1) false material information with 2) an intent to deceive. The more material the information, the less evidence of intent to deceive is required. If an applicant has been found to have engaged in inequitable conduct during the application process, the resulting patent is unenforceable. The standard of review with regard to a question of inequitable conduct is clear error.

- A. Yes. A statement is material when “a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.” *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 1397 (Fed. Cir. 1986). In addition, a false statement in a declaration submitted to the PTO is inherently material.

In this case, one of the declarations Cantor submitted to the PTO stated that the Super System did not use the “new rules” regarding “workup rights.” Cantor argued that while the Super System may have contained the “new rules,” they were dormant in the Super System. Therefore, the fact that the Super System contained the “new rules” was immaterial. However, Cantor’s own brief is contrary to this argument: “At most, Super System’s unused code for trading states may represent pre-filing experimentation or development that could have been deemed material to the '733 Application under the broadest, ‘reasonable examiner’ standard.”

Cantor also argued that the examiner was on notice that the Super System contained the “new rules” because Cantor had submitted the source code, containing an implementation of the “new rules,” with the inventors’ declarations. The court found that the “blizzard of paper”

Cantor submitted in conjunction with the declaration that the Super System did not contain the “new rules” left the examiner with the impression that no further investigation was required. Because the examiner would not be expected to examine the entire source code when there was a clear declaration, the fact that the source code was included with the declaration was irrelevant. Therefore, the court found that the Cantor declaration stating that the Super System did not include the “new rules” was material.

- B. Yes. Intent to deceive is rarely proved by direct evidence. It is “inferred from the facts and circumstances surrounding the applicant’s overall conduct.” *Impax Labs. v. Aventis Pharms.*, 468 F.3d 1366, 1375 (Fed. Cir. 2006). The court listed three factors to determine whether an applicant intended to deceive the PTO: 1) the affirmative act of submitting a declaration with false statements, 2) the misleading character of the statements and 3) the inability of the examiner to investigate the facts.

The court only examined the first factor and determined that Cantor submitted the declaration with the intention that the examiner would rely upon it. The court found that this intention could be construed based on the fact that one inventor stated that the Super System did not contain the “new rules.” Because the inventor must have known this statement was not true, the court found that the statement was “the chosen instrument of an intentional scheme to deceive the PTO.” Therefore, the court concluded that Cantor had the requisite intent to deceive.

IV. Conclusion

The reasonable examiner standard is applied to determine whether a false statement made in a declaration is material. Under this standard, a statement is material if a reasonable examiner would consider it important in making the determination about whether to issue a patent. In addition, intent to deceive may be construed from the affirmative act of submitting an affidavit containing false statements because the court may infer an intent that the affidavit is to be relied upon by the examiner.