

No Rehearing on Inequitable Conduct

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Over a vigorous dissent, the US Court of Appeals for the Federal Circuit issued a *per curiam* order denying a petition for panel rehearing and *en banc* rehearing of its earlier inequitable conduct decision. *Regeneron Pharmaceuticals, Inc. v. Merus N.V.*, Case No. 16-1346 (Fed. Cir., Dec. 26, 2017) (*per curiam*) (Newman, J, dissenting, joined by Reyna, J).

The original panel majority decision affirmed the lower court's finding of inequitable conduct based not on prosecution counsel's proven deceptive intent, but on an adverse inference drawn as a sanction for litigation counsel's discovery misconduct ([IP Update, Vol. 20, No. 8](#)). The dissent argued that the court's initial opinion departed from controlling precedent and created a split in inequitable conduct jurisprudence.

Regeneron filed suit alleging that Merus infringed its patent directed to using large DNA vectors to target and modify endogenous genes and chromosomal loci in eukaryotic cells. Days before the US Patent and Trademark Office (PTO) issued a notice of allowance for the application that would mature into the asserted patent, a third party filed a submission in the parent application, disclosing three prior art references. Regeneron's in-house patent prosecution counsel, who was prosecuting the application, knew of the references submitted in the parent application but failed to cite them to the examiner. Merus contended before the district court that Regeneron's failure to cite those references constituted inequitable conduct. Regeneron countered that the in-house counsel did not have an obligation to disclose the references to the examiner because they were cumulative of other cited art and therefore not "but-for" material. Merus argued, however, that the withheld prior art taught the very thing that Regeneron's counsel claimed was missing from the prior art.

The district court scheduled a bench trial on Regeneron's inequitable conduct, bifurcating the trial to first address the materiality of the withheld references, and then later consider specific intent to deceive the PTO. Following the first part of the bench trial, the district court issued an opinion explaining why the withheld references were material. The district court never concluded the second part of the bench trial. Instead, the district court pointed to Regeneron's discovery misconduct, sanctioning Regeneron for that misconduct by drawing an adverse inference of specific intent to deceive the PTO during the earlier prosecution of the asserted patent. Ultimately, the district court held the patent unenforceable. Regeneron appealed.

In its initial decision on the merits (Judge Newman dissenting) the Federal Circuit panel majority concluded that under the broadest reasonable construction of the claims, the district court properly

found that the withheld references were material. As for specific intent to deceive the PTO, the majority accepted the district court's sanctions, underscoring the extent and seriousness of Regeneron's litigation misconduct, in particular its "sword/shield" discovery tactics regarding the attorney-client privilege.

Dissenting from the denial of rehearing *en banc*, Judge Newman argued that the district court imposed its adverse inference of the finding of intent to deceive not because of the actions of prosecution counsel before the PTO, but improperly as a sanction for later litigation misconduct in the infringement suit. Citing *Therasense* (*IP Update*, Vol. 14, No. 6), Judge Newman explained that the Court's precedent requires that materiality and deceptive intent must both be proved, not inferred. In particular, the dissent noted the *Therasense* Court's instructions that "a district court may not infer intent solely from materiality. Instead, a court must weigh the evidence of intent to deceive independent of its analysis of materiality."

Judge Newman further looked to *Aptix*'s holding, cutting against the majority's acceptance of the district court's *nunc pro tunc* sanction: "neither the Supreme Court nor this court has ever declared a patent unenforceable due to litigation misbehavior. . . . [T]he remedies for litigation misconduct bar the malfeasant who committed the misconduct. The property right itself remains independent of the conduct of a litigant. Litigation misconduct, while serving as a basis to dismiss the wrongful litigant, does not infect, or even affect, the original grant of the property right." Ultimately concluding that *en banc* review was required, Judge Newman warned that "[t]he court's contrary holding, has produced an irreconcilable split in our jurisprudence, to the detriment of stability of law and practice."

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