

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF WISCONSIN

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E2INTERACTIVE, INC. and  
INTERACTIVE COMMUNICATIONS  
INTERNATIONAL, INC.,

OPINION AND ORDER

09-cv-629-slc

Plaintiffs,

v.

BLACKHAWK NETWORK, INC.,

Defendant.

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In this patent lawsuit, plaintiffs e2Interactice, Inc. and Interactive Communications International, Inc. (collectively InComm) allege that defendant Blackhawk Network, Inc. is infringing plaintiffs' U.S. Patent Nos. 7,578,439 (the '439 patent) and 7,630,926 (the '926 patent), related to prepaid gift cards. Dkt. 105. Blackhawk has asserted numerous affirmative defenses and counterclaims, including that the patents-in-suit are unenforceable because of inequitable conduct committed before the United States Patent and Trademark Office. Dkt. 117. Before the court is InComm's motion to dismiss the inequitable conduct affirmative defenses and counterclaims that Blackhawk set forth in paragraphs 67-95, 111-25, 185, 187-245 and 261-93 of their second amended answer filed on November 1, 2010. Dkt. 122.

InComm contends that Blackhawk has failed to plead its inequitable conduct allegations with particularity as required under Fed. R. Civ. P. 9(b) and *Exergen Corporation v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009). Specifically, it asserts that Blackhawk's allegations of material misrepresentations with respect to 3 prior art references during the '926 patent prosecution, a misrepresentation of the priority date of the '439 patent and the failure to disclose 6 references material to the '439 patent are insufficient to support its inequitable conduct claims as a matter of law.

I am granting InComm’s motion to dismiss in part. Because I find that the circumstances that Blackhawk alleges with respect to the lack of disclosure of 6 references, even if true, do not plausibly suggest a deliberate decision to withhold a known material reference, I am dismissing the inequitable conduct counterclaims and affirmative defenses related to those references. *See* *id.* at ¶¶ 67-95, 111-25 and 187-231. However, I conclude that there are sufficient factual allegations from which it is plausible to infer that InComm made material misrepresentations with respect to 3 prior art references during the ‘926 patent prosecution and with respect to the priority date of the ‘439 patent. *See id.* at ¶¶ 185, 232-45 and 261-93. Accordingly, I am denying plaintiff’s motion to dismiss those counterclaims and affirmative defenses.

In their second amended answer, Blackhawk fairly alleges the following facts:

## ALLEGATIONS OF FACT

### **I. Background**

On December 1, 2005, Gregory Murphy filed U.S. Patent Application Serial No. 11/290,606 (the ‘606 application), which listed Phillip C. Graves, Merrill B. Smith and Phillip M. Chakiris as its inventors and Murphy as the prosecuting attorney. On December 8, 2009, the ‘606 application issued as U.S. Patent No. 7,630,926 (the ‘926 patent), entitled “Inserting Value Into Customer Account at Point of Sale Using a Customer Account Identifier.”

On March 27, 2007, Murphy filed U.S. Patent Application Serial No. 11/691,766 (the ‘766 application), which listed Graves, Smith and Chakiris as its inventors and Murphy as the prosecuting attorney. On August 25, 2009, the ‘766 application issued as U.S. Patent No. 7,578,439 (the ‘439 patent), entitled “System and Method for Authorizing Stored Value Card Transactions.” Throughout the entirety of ‘439 patent prosecution, from March 27, 2007

through August 25, 2009, the '439 patent was co-pending with the '926 patent. The '439 patent did not claim priority to the '926 patent, nor did the '926 patent claim priority to the '439 patent.

## **II. The '926 Patent**

On December 19, 2008, during the '926 patent prosecution, Examiner Jagdish Patel issued an office action rejecting claims 1, 3, 4, 5, 7, 10, 11, 13,14, 16, 20 and 21 as anticipated by U.S. Patent No. 6,743,500 (Risafi); claims 2, 8 and 19 as being obvious in view of Risafi and U.S. Patent No. 5,903,633 (Lorsch); and claims 9, 12, 15 and 17 as obvious in view of Risafi and U.S. Patent No. 6,000,608 (Dorf '608). On April 17, 2009, Examiner Patel issued a final rejection in which he repeated his earlier rejections. On July 17, 2009, in response to the final rejection, Murphy made several representations concerning Risafi, Lorsch and Dorf '608.

The examiner explicitly relied on the misrepresentation made by Murphy to allow the claims. Specifically, the examiner identified in his October 10, 2009 Notice of Allowance that: "In particular, the applicant's remarks on pages 7-11 filed 07/17/09 which distinguishes the instant claimed invention from the closest prior art references listed below. The Examiner incorporates the applicant's remarks by reference as reasons for allowance of claims 1-8, 11, 13-16, 18-21, and 15. Risafi, US Pat No. 6,473, 500; . . . Lorsch, US Pat No. 5,903,633; . . . Dorf, US Pat No. 6,000,608." Notice of Allowance, 10/10/2009, at 4.

### **A. Risafi Reference**

Murphy represented to the examiner that "Risafi is directed to a pre-paid MasterCard product that can be used a [*sic*] point of sale to purchase goods and services in a traditional sense.

Risafi is not used to add value to ‘provider’ or the customer account.” Jul. 17, 2009 response to April 27, 2009 Office Action, at 8. Murphy’s statement is a misrepresentation because Risafi teaches that value is added to a provider or a customer account:

(1) “If the balance in the card account drops to zero or below some level at which card user 10 wants to add value, step 270 allows card user 10 to add value to the card at any terminal 106, including the terminal at which card user 10 bought the card.” Risafi at 10:58-62.

(2) “In step 418, PDC 404 adds the card number to the Card File, along with the PIN and the value placed in the card account, and adds the card value to the Account file.” *Id.* at 12:2-5.

(3) “As with terminal activation, in step 534, PDC 404 adds the card number to the Card File, along with the PIN and the value placed in the card account, and adds the card value to the Account file.” *Id.* at 12:61-64.

(4) “After using card 100 to make purchases or withdrawals, a card user may want to add value to the card account. Reloading may be done on either a single-card or a batch basis, and is similar to the activation of a card illustrated in FIGS. 4 and 5b. FIGS. 7a and 7b illustrate individual and batch reloading, respectively.” *Id.* at 14:31-36.

(5) “In step 714, card user 10 inputs his or her PIN to agent terminal 402, and, in step 716, agent terminal 402 transmits to PDC 404 the card number, PIN, value to be placed in the account for card 100, and the transaction code, in this case “reload.” In step 718, PDC 404 checks the Card File to verify that the PIN matches and that all other issuer- or PDC-specified criteria have been met and adds the reloaded value to the card account and to the Account file. In step 720, PDC 404 transmits to agent terminal 402 whether the transaction has been completed or denied and, if completed, that the card account has been reloaded. In step 722, agent 104 gives back card 100 to card user 10, and card 100 is again ready for use.” *Id.* at 14:42-55.

(6) “Batch reloading is similar to batch activation and includes the same elements as FIG. 5b. In step 732, program sponsor 522 transmits (either directly or through its issuer) to PDC 404 a batch

file that includes the card number, the amount to be added to the card account, and the transaction code (i.e., “reload”). In step 734, PDC 404 adds the reloaded value to the card account and to the Account file. A PIN is not used nor needed in batch loading mode. Step 734 is repeated for each card included in the batch file. When the processing is complete, in step 736, PDC 404 transmits to program sponsor 522 or its issuer that the card accounts have been reloaded. In step 738, program sponsor 522 or its issuer notifies each cardholder that card 100 has been reloaded. Either at the same time or at a regular interval, in step 740, program sponsor 522 transfers money to issuer 410, covering the aggregate amount added to the Card File. In step 742, PDC 404 accounts to issuer 410 the added value loaded in card & account file 406.” *Id.* at 14:63-67; 15:1-13.

## **B. The Lorsch Reference**

Murphy represented to the examiner that “[s]pecifically, Lorsch fails to disclose, teach or suggest the requirement of a request to add value to a customer account ‘resulting from a purchase of the value,’ wherein the request to add value comprises both ‘value identification data’ and ‘account identification data’ each received by the point of sale, and the receipt of this information and determination of ‘the specific provider based on the account identification data.’” Murphy’s statement is a misrepresentation because Lorsch teaches that value is added as a result of a purchase of the value which has both value identification data and account identification data and determination of the specific provider based on the account identification data:

(1) “The method and apparatus described above can further be used for a number of applications in addition to simple activation of a phone card. For example, the system 10 disclosed above can be used to add minutes to a phone card or to debit funds from a client's checking or other bank account to provide payment for retail sale of phone cards. For instance, a retailer could swipe the card through the phone card terminal 20 and use the keypad on the terminal 20 to add additional minutes to the phone card. Preferably, the point of sale terminal could be programmed with a

series of prompts to the client, inquiring as to whether the client desires to add minutes to the card, and if so to enter the desired number of minutes on the keypad. Appropriate safeguards could be followed in adding minutes in much the same fashion described above for the activation of new cards. In this scenario, an end user could pay the retailer for the added minutes, and the retailer could be billed in the manner described above for new cards. Further, because the information encoded on the back of the phone card has a control code that identifies the client, the system 10 can automatically debit the client's checking or other bank account for the wholesale price of a card, less any nominal fees that may have been prepaid. Once a card has been activated, as described above, the centralized computer 30 and the invoicing computer could initiate a further dialout from the centralized database into appropriate banking networks to instantly debit the client's bank account.” Lorsch, at 8:34-62.

(2) “The transmission from the point of sale terminal when an end user purchases a phone card also serves a second purpose. It is this transmission that alerts the phone card company, through its centralized computer, that the individual card is passing from the client to the end user. Because the client may have only paid a nominal fee upon shipment of the cards to the client, the remaining portion, or in some cases all, of the wholesale price of the card needs to be invoiced, billed and paid. This billing system is different than the one disclosed in the parent to this application, Ser. No. 08/410,857. In the system described in that application, the event that triggers the invoicing for the card is actual use by the end user, independent of the transaction between the retailer and the end user. Using the method described herein, it is the transfer from the client to the end user and the card's activation that signals to the phone company that the card has changed hands. This activation of the card is evidence that the client has sold or otherwise intends to transfer the card.” *Id.* at 3:66-67; 4:1-16.

### C. The Dorf ‘608 Reference

Murphy represented to the examiner that “[s]pecifically, Dorf fails to disclose, teach or suggest the requirement of a request to add value to a customer account ‘resulting from a purchase of the value,’ wherein the request to add value comprises both ‘value identification data’

and 'account identification data' each received by the point of sale, and the receipt of this information and determination of 'the specific provider based on the account identification data.'" Murphy's statement is a misrepresentation because Dorf '608 clearly teaches that value is added as a result of a purchase of the value which has both value identification data and account identification data and determination of the specific provider based on the account identification data.

The multifunction card system 108 of the present invention is also capable of providing an Electronic Gift Certificate.TM. (EGC) card 101 for a retail issuer. Such a card 101 could be sold by the retail issuer for making purchases only in the retail issuer's stores or for use in a plurality of stores. As in the phone card context, the customer would ask the sales clerk for an Electronic Gift Certificate.TM. card of the desired amount. If the customer already has an Electronic Gift Certificate.TM. card, he or she might ask the clerk to add the desired amount to the already existing balance. The clerk swipes the card 101 and enters the transaction amount, either directly or using a nominal amount and/or the PIN pad, depending upon whether the debit network 107 is to be used. Using one of the methods discussed above, the data then makes its way to the processing hub 103. Alternatively, the activation could occur by processing the card 101 as a typical debit card using the debit network 107. In such a case, the retail issuer would maintain accounts with the sponsor bank. When an activation transaction takes place, the bank would transfer the activation amount from a general account to an account corresponding to the card. If the card is to be accepted at a number of retail locations, the account corresponding to the card could be opened in the name of the card holder if appropriate paperwork is submitted to the bank. In this manner, the card could be used at any retail location capable of processing debit transactions. This would allow the card to serve as a prepaid card substitute for travelers checks and money orders. Regardless of the way in which the card is processed, the transaction data eventually makes its way to the processing hub 103. Upon receipt of the transaction data, the hub 103 recognizes the card 101 as being an Electronic Gift Certificate.TM. card of the retail issuer and activates or recharges the card 101 in the appropriate amount in an EGC database 205 maintained at the processing hub 103.

Dorf '608, at 7:35-64.

Additionally, Graves, Smith and Murphy made material misrepresentations in describing Dorf '608 in U.S. Patent Application Serial No. 10/655,828 (the '828 application), from which the '439 patent purports to claim priority. The '828 application was pending during the entire prosecution of the '439 patent. Graves and Smith stated that although the Dorf '608 "purports to alleviate some of the drawbacks" of another close prior art reference , "it is believed that Dorf fails to verify sources of card activation requests so as to enhance detection of security breaches." The statement was misleading and inaccurate because the Dorf '608 reference specifically discloses verifying sources of card activation for security purposes.

### **III. The '439 Patent**

#### **A. The Priority Date**

On March 20, 2009, the '439 patent examiner issued a rejection, finding that claims 1-9 and 12-27 of the '439 patent were anticipated by Graves et al (2004/0195316). In response to the rejection, Graves, Smith and Murphy represented the following in an April 8, 2009 Amendment and Response to Office Action:

The subject matter claimed in the present invention [the '439 patent] reaches back to the original provisional filing [U.S. Provisional App. 60/149,740, filed August 19, 1999], and its conversion [U.S. Non-Provisional App. 10/655,828, filed September 5, 2003; U.S. Non-Provisional App. 10/411,971 (now U.S. Patent No. 7,083,084), filed April 11, 2003; and U.S. Non-Provisional App. 09/641,363 (now U.S. Patent No. 6,575,361), filed August 18, 2000]. The subject matter in the cited reference [U.S. Patent Application Publication No. 2004/0195316 to Graves, et al.] similarly reaches back. Accordingly, both the current application and the cited reference share the same priority date.



Graves, Smith and Murphy argued that they were entitled to an alleged priority date of August 19, 1999 for all claims in the '439 patent. As a result of this statement, Graves was no longer considered to be prior art to the '439 patent. However, the statement made by Graves, Smith and Murphy was a misrepresentation because the provisional application relied on InComm brochures dating from 1999 and before, none of which disclosed information pertaining to the redemption of stored value cards. The provisional application, therefore, does not disclose the subject matter of at least claims 2, 9, 17, 20 and 27 of the '439 patent, each of which is directed, either wholly or partly, to the redemption of stored value cards. This misrepresentation was material because Graves, Smith and Murphy would not have been able to overcome the examiner's rejections of claims 2, 9, 17, 20 and 27 without it.

#### **B. The Mann Reference**

On July 9, 2009, the '439 patent examiner issued a Notice of Allowance, stating that the distinguishing feature of the invention of the '439 patent (contained in claims 1, 12 and 19) over the prior art was that "each of the one or more terminals has a unique terminal identifier and is associated with a location and a prepaid card merchant, and further, the central processor is in communication with a database having stored therein a plurality of card records, wherein each card record contains data associated with a stored-value card distributed to a prepaid card merchant for further distribution to purchasers at a location controlled by the prepaid card merchant." *See* Jul. 7, 2009 Notice of Allowance, '439 patent, at 2.

On November 3, 2003, David Baker filed U.S. Patent Application Serial No. 10/698,084 (the '084 application), which listed Jonathan O'Neal as its inventor and Baker as the prosecuting attorney. Graves and Smith participated in the '084 application, which issued as U.S. Patent

No. 7,028,891 (the '891 patent) on April 18, 2006. The '891 patent was issued prior to the filing of the '439 patent. The '439 patent did not claim priority to the '891 patent, nor did the '891 patent claim priority to the '439 patent.

During the prosecution of the '891 patent, Examiner Allyson Trail cited U.S. Patent No. 6,119,096 (the Mann reference) in an Ex Parte Quayle action on April 21, 2005. As participants in the '891 patent prosecution, Graves and Smith became aware of the Mann reference at least as early as April 21, 2005 through the office action by Examiner Trail. The Mann reference was not submitted or cited by any examiner in any application or patent to which the '439 patent claims priority before the issuance of the '439 patent.

The Mann reference was materially relevant to at least independent claims 1, 12 and 19 of the '439 patent because it discloses each element of what Examiner Trail considered to be the distinguishing feature of the invention of the '439 patent (*see* July 2009 Notice of Allowance):

(1) An “integrated financial transaction system and method for providing debit or credit/charge functions and enabling ingress/egress to halls, stadiums, public mass transit networks, and the like using biometric identification procedures.” Mann reference at 4:34-38.

(2) Use of a set of turnstiles at various locations “so that scan control and accounting computer 104 can record the entry point in database 106 and then later learn the exit point, to calculate the correct fare to be deducted from the user’s account based on distance traveled.” *Id.* at 8:52-59.

The Mann reference is not cumulative to the prior art of record because none of the prior art of record contained the alleged distinguishing feature of the invention, as identified by the examiner.

### **C. The Resnick Reference**

During the prosecution of the '926 patent, Graves, Smith and Murphy cited the Resnick reference on an Information Disclosure Statement (IDS) filed on June 26, 2007, indicating that they were aware of the Resnick reference during the prosecution of the '439 patent. The Resnick reference was not submitted or cited by any examiner in any application or patent to which the '439 patent claims priority before issuance of the '439 patent. The Resnick reference was materially relevant to at least independent claims 1, 12 and 19 of the '439 patent because it disclosed each element of what the examiner thought to be the distinguishing feature of the invention of the '439 patent (*see* July 2009 Notice of Allowance):

(1) A point-of-sale terminal system that includes “a card reader that enables a merchant’s employee to swipe a credit card whereupon the card reader reads the credit card account number for transmission over the financial network as part of a credit (or debit) card purchase transaction.” Resnick reference at ¶ 20. The system also can facilitate a transaction “in which the cardholder delivers cash or other payment to the merchant at the point-of-sale for the purpose of “recharging, or adding value to an associated user account.” *Id.*

(2) “[O]ne or more point-of-sale terminals to be networked or otherwise coupled to a merchant host computer at the retail location.” *Id.* at ¶ 24. The terminals are able to communicate with a payment processor and a financial network, which will eventually send a message back to the terminal indicating approval or denial of the transaction. *Id.* at ¶ 25.

The Resnick reference is not cumulative to the prior art of record because none of the prior art of record contained the alleged distinguishing feature of the invention.

#### **D. The Talati Reference**

On April 21, 2005, during the prosecution of the '891 patent, the patent examiner cited U.S. Patent No. 5,903,878 (the Talati reference) in an Ex Parte Quayle action. As a participant in the '891 patent prosecution, Smith became aware of the Talati reference at least by this time. The Talati reference is material to claims 1, 12 and 19 of the '439 patent because it disclosed each element of what the examiner considered to be the distinguishing feature of the invention of the '439 patent (*see* July 2009 Notice of Allowance):

(1) An originator that processes a transaction that “may comprise a purchase, payment or request for an information document from recipient 55.” Talati reference at 4:47-52. The Talati reference further contemplates utilizing an Originator Identity (ID) “to identify the originator 50 to a transaction administrator.” *Id.* at 9:39-57.

(2) The Talati reference discloses a merchant identification being sent to a Credit Authority (CA) as part of a Unique Transaction Identifier (UTID). *Id.* at 6:1-5. A client processor receives information from the CA to determine whether the transaction is valid. *Id.* at 6:5-18.

The Talati reference is not cumulative to the prior art of record because none of the prior art of record contained the alleged distinguishing feature of the invention.

#### **E. The Walker and McDonald References**

On February 8, 2007, Murphy filed U.S. Patent Application Serial No. 11/672,689 (the '689 application), which listed Graves and Smith as its inventors and Murphy as the prosecuting attorney. On November 6, 2007, the '689 application issued as U.S. Patent No. 7,292,998 (the '998 patent). The '439 patent was co-pending with the '998 patent but did not claim priority to the '998 patent, nor did the '998 patent claim priority to the '439 patent.

During the prosecution of the '998 patent, Graves, Smith and Murphy cited U.S. Patent Nos. 5,945,653 (the Walker reference) and 6,648,222 (the McDonald reference) in an IDS filed

on February 8, 2007. Both references disclose each element of what the examiner considered to be the distinguishing feature of the invention of the '439 patent (*see* July 2009 Notice of Allowance). The Walker reference disclosed:

(1) A credit card transaction processing system “configured to allow credit card customers and merchants to use and take advantage of function identifiers and corresponding functions during a particular point-of-sale transaction and which can be executed and processed by an account issuer such as a credit card issuer to affect an account or the transaction and, possibly, the amount that is ultimately charged to or debited from a customer’s account.” Walker reference at 8:36-43.

(2) When a transaction takes place, a “merchant enters transaction information such as a merchant ID, a transaction amount and the credit card account number into a point-of-sale (POS) terminal.” *Id.* at 18:19-22.

The McDonald reference disclosed:

(1) A card processing system where the “merchant swipes the customer’s REMOTE SMARTCARD™ through a conventional card reader which includes a keypad adaptable to indicating the amount of credit to be added to the customer’s REMOTE SMARTCARD™ V-1 account.” McDonald reference at 14:24-28.

(2) A requesting terminal identifier utilized when a card swipe operation takes place by an authorized merchant because “the system control center receives data specifying the customer’s card or account number as well as the merchant IP which indirectly specifies the identity of the vendor affiliated with that merchant. The card number/merchant IP address data specifies a single customer account and a single vendor sub account within the system’s overall customer account database to either add or subtract a specified transaction amount value.” *Id.* at 15:5-14.

Neither the Walker nor McDonald reference was submitted or cited by any examiner in any application or patent to which the '439 patent claims priority before issuance of the '439

patent. Also, neither is cumulative to the prior art of record because none of the prior art of record contained the alleged distinguishing feature of the invention.

#### **F. The James Reference**

On February 7, 2007, Murphy filed U.S. Patent Application Serial No. 11/672,204 (the ‘204 application), which listed Graves and Smith as its inventors and Murphy as the prosecuting attorney. On October 14, 2008, the ‘204 application issued as U.S. Patent No. 7,437,328 (the ‘328 patent). The ‘439 patent was co-pending with the ‘328 patent but did not claim priority to the ‘328 patent, nor did the ‘328 patent claim priority to the ‘439 patent.

During the prosecution of the ‘328 patent, Graves, Smith and Murphy cited U.S. Patent 7,054,842 (the James reference) in an IDS filed on February 7, 2007. The James reference is material to claims 1, 12 and 19 of the ‘439 patent because it discloses each element of what the examiner considered to be the distinguishing feature of the invention of the ‘439 patent (*see* July 2009 Notice of Allowance). Specifically, it discloses a terminal for processing transactions involving a virtual card linked to a physical card. James reference at 2:1-15. The James reference further discloses checking a terminal request identifier as the system checks “as to whether there is a valid merchant, a valid merchant location, or against other merchant criteria.” *Id.* at 5:20-23.

The James reference was not submitted or cited by any examiner in any application or patent to which the ‘439 patent claims priority. It also is not cumulative to the prior art of record because none of the prior art of record contained the alleged distinguishing feature of the invention.

### **OPINION**

#### **I. Legal Standard**

In deciding a motion to dismiss, the court must accept as true well-pleaded factual allegations, drawing all reasonable inferences in favor of the pleading party. *Moranski v. General Motors Corp.*, 433 F.3d 537, 539 (7<sup>th</sup> Cir. 2005). Dismissal is warranted when a complaint fails to allege “‘enough facts to raise a reasonable expectation that discovery will reveal evidence’ supporting the plaintiff’s allegations.” *Brooks v. Ross*, 578 F.3d 574, 581 (7<sup>th</sup> Cir. 2009) (quoting *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 556 (2007)). Further, Rule 9(b) requires that “[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity.” Although inequitable conduct is a broader concept than common law fraud, it too must be pleaded with particularity. *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1326 (Fed. Cir. 2009) (citing *Ferguson Beauregard/Logic Controls, Division of Dover Resources, Inc. v. Mega Systems, LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003)); *Central Admixture Pharmacy Services, Inc. v. Advanced Cardiac Solutions, P.C.*, 482 F.3d 1347, 1356 (Fed. Cir. 2007)). Finally, the court may dismiss a pleading for failure to state a claim under Rule 12(b)(6) if “it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.” *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1953 (2009).

To prove a patent unenforceable because of inequitable conduct, the challenger must prove by clear and convincing evidence that an individual associated with the filing and prosecution of a patent application (1) made an affirmative representation of material fact, failed to disclose material information, or submitted false material information; and (2) intended to deceive the Patent and Trademark Office. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Company*, 537 F.3d 1357, 1365 (Fed. Cir. 2008); *Impax Laboratories, Inc. v. Aventis Pharmaceuticals, Inc.*, 468 F.3d 1366, 1374 (Fed. Cir. 2006). In other words, to plead inequitable conduct with sufficient particularity, a party must identify “the specific who, what, when, where, and how of the material

misrepresentation or omission.” *Exergen*, 575 F.3d at 1327 (citing *DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7<sup>th</sup> Cir. 1990)). Although Rule 9(b) states that intent may be “averred generally,” the challenger must allege sufficient underlying facts from which a court may reasonably infer that “a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the patent office.” *Id.* at 1328-29 (citations omitted).

## **II. Misleading Statements**

### **A. Risafi, Lorsch and Dorf ‘608 References**

Blackhawk alleges that the ‘926 patent prosecution attorney, Murphy, made misleading statements about the content of the Risafi, Lorsch and Dorf ‘608 references in an effort to distinguish the references from the claimed invention and that the patent examiner relied on these statements in allowing the patent to issue. Blackhawk also alleges that Graves, Smith and Murphy made similar material misrepresentations in describing Dorf ‘608 during the prosecution of the ‘828 application, from which the ‘439 patent claims priority. In support, Blackhawk sets forth facts alleging how the prior art references actually teach the elements of the claimed invention. Given what it sees as the clear similarity between the teachings of the references and the patent claims, Blackhawk contends that the court may reasonably infer that Murphy, Graves and Smith knew the falsity of their statements and specifically intended to deceive the USPTO.

In its motion to dismiss, InComm argues that the Court of Appeals for the Federal Circuit has made clear that it is not inequitable conduct for a patent applicant to make statements distinguishing prior art, because an applicant is free to advocate its interpretation of the prior



reference, which the examiner is free to accept or reject after reviewing the references and reaching his own conclusions. *See Rothman v. Target Corp.*, 556 F.3d 1310, 1329 (Fed. Cir. 2009) (“This court has little basis to find deceptive intent in the routine back and forth between examiner and applicant.”); *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379 (Fed. Cir. 2008) (“[O]ur precedent has made clear that an applicant is free to advocate its interpretation of its claims and the teachings of prior art.”); *Young v. Lumenis, Inc.*, 492 F.3d 1336, 1348 (Fed. Cir. 2007) (finding that “attorney argument, attempting to distinguish the claims for the prior art” and “an interpretation of what the prior art discloses” cannot constitute “affirmative misrepresentations of material fact”); *Akzo, N.V. v. United States Int’l Trade Comm.*, 808 F.2d 1471, 1482 (Fed. Cir. 1987) (“The examiner was free to reach his own conclusion . . . based on the art in front of him.”).

Blackhawk responds that the Federal Circuit has emphasized that “[a]lthough an attorney is free to argue vigorously in favor of patentability without being subject to allegations of inequitable conduct, ‘the law prohibits genuine misrepresentations of material fact.’” *Ring Plus, Inc. v. Cingular Wireless Corp.*, 614 F.3d 1354, 1360-61 (Fed. Cir. 2010) (quoting *Rothman*, 556 F.3d at 1328). Blackhawk contends that determining whether the statements at issue rise to the level of misrepresentation would require the court to evaluate the merits, which is inappropriate at the pleading stage. I agree.

The parties seem to agree that Blackhawk has satisfied the basic factors outlined in *Exergen*. With respect to the alleged misrepresentations, Blackhawk has identified the actual statements, who made them, when they were made, the relevant patent claims and how the statements were relied upon in granting the patents in suit. At issue is whether Blackhawk’s

theory of liability is legally futile on its face, namely whether the inventors and attorney were merely acting as good advocates or whether they intentionally lied to the USPTO.

The Eastern District of Michigan recently grappled with similar questions in *McKechnie Vehicle Components USA, Inc. v. Lacks Industries, Inc.*, in which McKechnie challenged the factual sufficiency and legal legitimacy of Lacks' counterclaims that the patent applicant misrepresented facts about prior art references. 2010 WL 4643081 (E.D. Mich. Nov. 9, 2010). The court noted that although the "boundary between legal argument and factual misrepresentation can be difficult to ascertain in certain cases," the Federal Circuit's recent decision in *Ring Plus* "goes some way in demystifying the distinction." *Id.* at 6.

In *Ring Plus*, the prosecuting attorney claimed that one of the prior art patents did not disclose "software" to implement a particular system, even though it was plain from a reading of the patent that software was "implicitly disclosed" by the patent. 614 F.3d at 1360. After a bench trial, the U.S. District Court for the Eastern District of Texas concluded that inequitable conduct took place in the prosecution of the patent. *Id.* at 1357. The Federal Circuit reversed but found that the applicant's behavior would have qualified as a misrepresentation of material fact suitable to support an inequitable conduct charge. It held that because "a person of skill in the art would have understood the references to disclose software-based algorithms," representations to the contrary by the applicant were misrepresentations of material fact. *Id.* at 1360. The court rejected arguments that the applicant's claims were innocuous "attorney argument," maintaining that the misrepresentation "was outside the bounds of permissible attorney argument." *Id.* at 1361.

Drawing from *Ring Plus*, the court in *McKechnie* held that "if a person of skill in the art would understand a disclosed piece of prior art to teach a certain fact relevant to the prosecution

of the patent in suit, and an applicant's statement distorts or otherwise misrepresents that fact, that statement[ ] can serve as the basis for inequitable conduct charges." 2010 WL 4643081, \*6. At the same time, if "the statement is not 'demonstrably false' . . . [it] must be considered a legal argument made to distinguish pieces of prior art and cannot serve as the basis for sanctions." *Id.* While this characterization of *Ring Plus* is not binding on this court, I find it persuasive and consistent with the inequitable conduct cases cited by InComm.

Comparing the statements made by Murphy, Smith and Graves to the cited portions of the three references, it is plausible to infer that these statements are "demonstrably false." Further, the court can infer from the patent examiner's statements that he may have actually relied on the alleged misrepresentations in deciding to overturn his previous rejections of the patent claims. Without the benefit of further evidence, I cannot say what a person of skill in the art would have understood the prior art references to disclose, or whether Murphy's Smith's and Graves's statements distorted or otherwise misrepresented those disclosures. *See Rothman*, 556 F.3d at 1323 ("Intent to deceive, like intent evidence generally, often relies on evidence from surrounding circumstances . . ."). Therefore, like the court in *McKechnie*, "while the hurdle to establish inequitable conduct on this theory is high," I cannot conclude that such a theory is "legally futile" in this case. 2010 WL 4643081, \*5.

As Blackhawk points out, in all of the cases cited by InComm, the court was evaluating whether there were sufficient facts to prove allegations of inequitable conduct at summary judgment or trial, not whether the allegations were pleaded sufficiently. Given these considerations, I conclude that determining whether Murphy, Graves and Smith knew that their statements were false and whether they intentionally deceived the USPTO are questions best left

for summary judgment or trial. Therefore, I am denying InComm's motion to dismiss with respect to these allegations.

### **B. Priority Date for the '439 Patent**

Blackhawk alleges that Graves, Smith and Murphy misrepresented to the USPTO that at least claims 2, 9, 17, 20, and 27 of the '439 patent were fully disclosed in the August 19, 1999 provisional application. This is significant because it allowed Graves, Smith and Murphy to claim an August 19, 1999 priority date for the '439 patent and avoid having the Graves reference considered to be prior art. (The patent examiner had rejected several claims as anticipated by the Graves reference.) Blackhawk asserts that the above statement was false because the provisional application relied on InComm brochures dating from 1999 and before, none of which disclosed information pertaining to the redemption of stored value cards.

InComm argues that the statements made about the priority date were merely attorney argument and did not rise to the level of inequitable conduct. For the same reasons discussed above, I am denying InComm's motion to dismiss these allegations. From Blackhawk's allegations it is plausible to infer that the representations made by Graves, Smith and Murphy about the priority date of the '439 patent are "demonstrably false" and therefore rise to the level of inequitable conduct. Whether Blackhawk will be able to adduce sufficient evidence to prove this fact is a different question that will be answered at some later stage in this lawsuit.

In a second argument, InComm points out that Graves, Smith and Murphy actually referred to 3 separate applications—the original provisional application and its conversions—but that Blackhawk only alleges that the provisional application did not disclose the '439 claim elements. Although neither party sufficiently explains the relationship between the provisional

application and the conversions, it does not change the fact that Blackhawk properly alleged that the patent applicants misrepresented the teachings of the provisional application. Whether that will be proven true or whether it can be shown that the applicants' reference to the 2 conversions makes their statement true are matters best left for summary judgment or trial. Therefore, I also am denying InComm's challenges to the statements concerning the priority date of the '439 patent.

### **III. Failure to Disclose Prior Art References**

Blackhawk has alleged that the '439 patent applicants failed to disclose six references of which they had become aware during prosecution of other patents outside the chain of priority of the '439 patent: Mann, Resnick, Talati, Walker, McDonald and James. InComm asserts that these allegations fail as a matter of law under *Exergen* because Blackhawk has not alleged sufficient facts from which the court can infer an intent to deceive the PTO.

In *Exergen*, the court of appeals held that there must be a factual basis from which the court may infer that a specific individual, who owed a duty of disclosure, knew of the specific information alleged to be material to the claims of the patent at issue: "[O]ne cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material information contained in that reference." 575 F.3d at 1330. "The mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct." *Id.* at 1331.

Blackhawk has alleged that Smith and Graves both participated in the prosecution of the '891 patent, during which the patent examiner cited the Mann and Talati references in an Ex

Parte Quayle action.<sup>1</sup> In responding to the dismissal motion, Blackhawk explains that after further investigation, only the prosecuting attorney, Murphy, and not Graves and Smith became aware of the Mann and Talati references through the '891 patent prosecution. Blackhawk also alleges that Graves, Smith and Murphy cited the Resnick, Walker, McDonald and James references in Information Disclosure Statements filed during the prosecution of other patents and therefore knew of them at the time of the '439 patent prosecution. But, as InComm argues, Blackhawk has failed to allege that in any of these instances, Graves, Smith and/or Murphy knew about the specific information in the prior art reference that is allegedly material to the '439 patent.

The fact that the '891 patent examiner generally cited the references in an action after having allowed the patent claims does not support the inference that Murphy knew or would have known how those references related to the '439 patent. The same is true of the citation of the references in the IDSs. At most, this court can infer that Graves, Smith and/or Murphy knew that these references somehow related to the '439 patent. Blackhawk has failed to explain why citing a reference in an Ex Parte Quayle action or an IDS is any different from citing it during the prosecution of a previous patent application. It is impossible to infer from the facts alleged by Blackhawk that either of these documents required Graves, Smith and/or Murphy to have knowledge of any specific disclosures of the references. Under *Exergen*, this is insufficient. In *Exergen*, the counterclaim was dismissed because it did not contain specific factual allegations showing that the individual who had previously cited the prior art reference knew of the specific

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<sup>1</sup> "Under the decision in *Ex Parte Quayle*, 25 USPQ 74, 1935 C.D. 11; 453 O.G. 213 (Comm'r Pat. 1935), after all claims in an application have been allowed the prosecution of the application on the merits is closed even though there may be outstanding formal objections which preclude fully closing the prosecution." *Manual of Patent Examining Procedure (MPEP)* § 714.14.

information that was alleged to be material to the patent-in-suit and then decided to withhold it deliberately from the relevant examiner. 575 F.3d at 1331.

Blackhawk attempts to rely on this court's decision in *Semiconductor Energy Lab. Co., Ltd. V. Samsung Electronics Co., Ltd. (SEL)*, \_\_\_ F. Supp. 2d \_\_\_, 2010 WL 55847 (W.D. Wis. Jan. 5, 2010), arguing that similar allegations were sufficient to give rise to an inference of intent to deceive the PTO. I disagree. In *SEL*, Judge Crabb determined that it was plausible to infer an intent to deceive because the inventor had disclosed the prior art at issue during nine other patent prosecutions and was the named inventor and person responsible for prosecuting both the prior art patent *and* the nine other patents. *Id.* at \*11. Further, during one of the prior patent prosecutions, the inventor had provided a substantive response to the patent examiner on the specific disclosures in the prior art reference that were allegedly material to the patent-in-suit. *Id.* Notably, Judge Crabb determined that the allegations in *SEL* "exceeded those in *Exergen*." That cannot be said of this case. *Id.* Accordingly, I am granting InComm's motion to dismiss Blackhawk's inequitable conduct counterclaims and affirmative defenses related to the non-disclosure of the Mann, Talati, Resnick, Walker, McDonald and James references.

## ORDER

IT IS ORDERED that:

(1) InComm's motion to dismiss Blackhawk's counterclaims and affirmative defenses relating to InComm's alleged misrepresentations about three prior art references during the '926 patent prosecution and the priority date of the '439 patent (dkt. 117 at ¶¶ 185, 232-45 and 261-93) is DENIED; and

(2) InComm's motion to dismiss Blackhawk's counterclaims and affirmative defenses that InComm failed to disclose six prior art references in prosecuting the '439 patent (dkt. 117 at ¶¶ 67-95, 111-25 and 187-231) is GRANTED. Those counterclaims and affirmative defenses are DISMISSED with prejudice for failure to state a claim.

Entered this 22<sup>nd</sup> day of January, 2011.

BY THE COURT:

/s/

STEPHEN L. CROCKER  
Magistrate Judge