

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

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ALMONDNET, INC.,

OPINION and ORDER

Plaintiff,

10-cv-298-bbc

v.

MICROSOFT CORPORATION,

Defendant.  
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Plaintiff AlmondNet, Inc. contends that defendant Microsoft Corporation is infringing four of plaintiff's United States patents related to internet advertising. Defendant has filed several affirmative defenses and counterclaims against plaintiff, including a defense and counterclaim that plaintiff engaged in inequitable conduct before the United States Patent and Trademark Office. Now before the court is plaintiff's motion to strike defendant's affirmative defense under Fed. R. Civ. P. 12(f) and dismiss defendant's counterclaim for inequitable conduct under Fed. R. Civ. P. 12(b)(6) for defendant's failure to plead inequitable conduct with particularity. Dkt. #31.

I will grant plaintiff's motion. Defendant has failed to allege sufficient facts to support an inference that the allegedly withheld information was material and that plaintiff withheld it with an intent to deceive the patent office.

In its second amended answer and counterclaims, defendant alleges the following facts regarding plaintiff's alleged inequitable conduct.

## ALLEGATIONS OF FACT

Plaintiff AlmondNet's United States Patents Nos. 6,973,436 (the '436 patent), 7,072,853 (the '853 patent), 7,454,364 (the '364 patent) and 7,822,637 (the '637 patent) are related to methods for transacting advertising on the internet. Roy Shkedi is the founder of AlmondNet and the sole inventor of the patents-in-suit.

### A. Failure to Disclose Publications

In 1997, Shkedi investigated the state of internet advertising in conjunction with his development of a business plan for plaintiff through which plaintiff would market an embodiment of the inventions claimed in the '436, '853, '364 and '637 patents. During the prosecution of the '436, '853, '364 and '637 patents, Shkedi did not disclose to the patent office any of the prior art publications he gathered in the course of his investigation or any of the pertinent information he uncovered about the existing products and services provided by plaintiff's potential competitors. In particular, Shkedi possessed at least three publications containing information about online advertising. These publications are "Web Ads Start to Click," by Linda Himelstein, Ellen Neuborne and Pual Eng, published in Business Week in on October 6, 1997; "Electronic Advertising Market Overview," published

by ClickOver, Inc. on or before June 14, 1997; and a September 1996 research report from Forrester Research titled “Internet Advertising.”

“Web Ads Start to Click” describes types of existing and proposed internet advertising, including use of targeting options to improve performance and increase revenue for advertising providers. For example, the article describes how “a cyber-promo can zero in on Netizens who live in a specific part of town, are female, and who have shown interest in certain topics or products.” Plaintiff’s patents seek to improve targeting options.

“Electronic Advertising Market Overview” discusses prior art internet advertising services, such as user profiling and ad management services. Plaintiff’s patents seek to improve profiling and management services.

“Internet Advertising” contains information on the state of internet advertising, including information on pricing and ad targeting. Plaintiff’s patents seek to improve internet advertising and targeting.

Shkedi attached these articles to the business plan in which he described plaintiff’s plans to commercialize a product that embodies the inventions of the patents in suit.

#### B. Existing Internet Advertising Systems

At the time Shkedi was developing business plans to market the product that embodies the claimed inventions of the ‘436, ‘853 and ‘364 patents, there was publicly available information regarding the products and services of potential competitors

DoubleClick, ClickOver and NetGravity.

In late 1997, DoubleClick offered internet advertising priced such that the advertiser would pay an additional amount for one targeting criterion and a greater additional amount for two targeting criteria. These targeting criteria included geographic location, domain name, SIC code, browser type, operation system and service provider. All of these criteria are listed in dependent claims of the '436 and '853 patents.

In late 1997, ClickOver offered the internet advertising software ClickWise, which would, upon each request for an ad, determine the highest or best ad return. ClickWise software supported ad targeting that included weighted targeting, exclusions and exclusives. ClickWise's targeting options included hour of day, domain name, operating system and browser types. All of these criteria are listed in dependent claims of the '436 and '853 patents.

In late 1997, NetGravity offered internet advertising server software AdServer 3.0, which allowed users to assign their own values to targeting information.

During the prosecution of the '436, '853, '364 and '637 patents, Shkedi did not disclose to the patent office the advertisement selection and pricing mechanisms used by DoubleClick, ClickOver and NetGravity. While Shkedi was prosecuting the patents in suit, he told the patent examiner repeatedly that prior art did not include advertisers assigning values to visitor attributes.

## OPINION

Patent applicants have a duty to prosecute patent applications in the United State Patent and Trademark Office with candor, good faith and honesty. Honeywell International Inc. v. Universal Avionics Systems Corp., 488 F.3d 982, 999 (Fed. Cir. 2007); see also 37 C.F.R. § 1.56. “A breach of this duty-including affirmative misrepresentations of material facts, failure to disclose material information, or submission of false material information—coupled with an intent to deceive, constitutes inequitable conduct.” Honeywell, 488 F.3d at 999. Thus, the two substantive elements to a claim of inequitable conduct are materiality and intent to deceive. Star Scientific, Inc. v. R.J. Reynolds Tobacco Co., 537 F.3d 1357, 1365 (Fed. Cir. 2008). With respect to intent, an accused infringer must show that “an applicant had the *specific intent* to . . . mislead[ ] or deceiv[e] the [Patent and Trademark Office]. In a case involving nondisclosure of information, clear and convincing evidence must show that the applicant *made a deliberate decision* to withhold a *known* material reference.” Id. at 1366 (emphasis in original) (quoting Molins PLC v. Textron, Inc., 48 F.3d 1172, 1181 (Fed. Cir. 1995)).

Inequitable conduct must be pleaded with particularity under Rule 9(b). Exergen Corporation v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1326 (Fed. Cir. 2009). “[I]n pleading inequitable conduct in patent cases, Rule 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission committed before the [Patent and Trademark Office].” Id. at 1327. Additionally, although “knowledge” and

“intent” may be averred generally, a pleading of inequitable conduct “must include sufficient allegations of 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 and Trademark Office].” Id. at 1328-29.

Plaintiff argues in its motion to dismiss that defendant’s inequitable conduct defense and counterclaim are deficient for failing to plead the elements of inequitable conduct with particularity as required under Rule 9(b) and Exergen. I discuss the adequacy of defendant’s inequitable conduct allegations below.

A. Inequitable Conduct Allegations Related to the Three Non-disclosed Publications

Defendant alleges that Shkedi failed to disclose three articles related to the current state of internet advertising during the prosecution of the 436, ‘853, ‘364 and ‘637 patents. Defendant’s allegations identify the “who” and “when” sufficiently by naming Shkedi as the individual who possessed the publications before the patents were issued, used them in authoring a business plan for plaintiff and failed to disclose them to the patent office during prosecution of all of the patents. However, defendant’s allegations regarding the three publications do not satisfy the remainder of the Rule 9(b) and Exergen requirements.

The “what,” “where” and “how” elements of an inequitable conduct claim are relevant to whether the non-disclosed information was “material.” To plead materiality, defendant

must “identify which claims, and which limitations in those claims, the withheld references are relevant to, and where in those references the material information is found.” Exergen, 575 F.3d at 1329. In addition, defendant must allege “‘why’ the withheld information is material and not cumulative, and ‘how’ an examiner would have used this information in assessing the patentability of the claims.” Id. at 1329-30.

Defendant identifies some information in the three publications that it says is relevant to the patents at issue, including discussions of “targeting options,” “user profiling,” “ad management services” and “pricing and targeting of ads.” However, these are generic terms about internet advertising. Defendant provides no details about how the information in the publications is related directly to the subject of the patents. In particular, defendant does not state “what” claims or limitations in the patents are relevant to this information. Defendant alleges only that “a reasonable examiner would have found it important to assessing patentability to know” the background information about internet advertising practices contained in the publications. Dkt. #30, ¶¶ 50, 52, 54, 57, 59, 61. This is insufficient under Exergen. Exergen, 575 F.3d at 1329 (pleading that does not identify claims to which the withheld references are relevant is insufficient). Without knowing how the publications relate to particular claims and limitations in the patents, it is impossible to know “how” a patent examiner would have used the information in the three publications in assessing the patentability of the claims.

In addition, defendant does not allege why the publications were not cumulative, alleging only that “on information and belief, the reference[s] [are] not cumulative of those considered by the examiner.” Dkt. #30 at ¶¶ 50, 52, 54. This is similar to the pleading that the court of appeals found inadequate in Exergen. In that case, the court of appeals said it is not enough to say generally that withheld references were “material” and “not cumulative to the information already of record.” Exergen, 575 F.3d at 1329. Rather, a defendant must plead “the particular claim limitations, or combination of claim limitations, that are supposedly absent from the information of record” before the Patent and Trademark Office. Id. at 1329. Defendant’s allegations do not explain why these three publications were different from other existing publications related to the general state of internet advertising practices.

Finally, defendant’s allegations do not permit a plausible inference that Shkedi “knew of the withheld material information” and withheld it with “a specific intent to deceive” the patent office. Id. at 1328-29. Defendant’s only allegations related to Shkedi’s intent is that Shkedi attached the three publications to a business plan. However, without allegations permitting an inference that the publications contained material information, it would not be plausible to infer that Shkedi withheld the publications from the patent office intentionally in order to deceive the patent examiner.

In sum, defendant has failed to state a claim that plaintiff engaged in inequitable



conduct before the patent office by failing to disclose three publications containing information about internet advertising. Thus, I will grant plaintiff's motion to dismiss with respect to those claims.

B. Inequitable Conduct Allegations Related to Existing Internet Advertising Systems

Defendant also asserts an inequitable conduct counterclaim and defense based on Shkedi's failure to disclose information about existing internet advertising systems. In some ways, defendant's allegations regarding the DoubleClick, ClickWise and NetGravity advertising systems are less conclusory than those about the three publications. With respect to the materiality of the allegedly withheld information, defendant's pleadings link the DoubleClick system of pricing and targeting advertisements to specific targeting criteria listed in dependent claims of the '436 and '853 patents, and the "first price offer" and "supplemental price offer" limitations of the claims in particular. Dkt. #30, ¶ 57. Defendant alleges that the DoubleClick's pricing and targeting options would have made those aspects of plaintiff's patents obvious. Id. at ¶ 58

Defendant alleges that the ClickWise advertising included "weighted targeting" which would have been material to patentability of dependent claims of the '436 and '853 patents, which include target options of "hour of day," "domain name," "operating system" and "browser types," because Shkedi told the examiner that prior art did not include the option for advertisers to assign values to visitor attributes that would be used in the selection of

which ad to return. Id. at ¶ 59. However, defendant does not make any connection between the NetGravity system and any patent claims, alleging only that “a reasonable examiner would have found it important in assessing patentability to know about” the software offered by NetGravity. Id. at ¶¶ 61, 62.

One problem with these allegations of materiality is that defendant pleads *all* of the allegations regarding the three internet advertising systems “upon information and belief.” For example, it states that “[u]pon information and belief, ClickOver’s ClickWise software supported ad targeting that included weighted targeting, exclusions, and exclusives.” Id. at ¶ 59. “Pleading on ‘information and belief is permitted under Rule 9(b) when essential information lies uniquely within another party’s control, but only if the pleading sets forth the specific facts upon which the belief is reasonably based.” Exergen, 575 F.3d at 1330 (citation omitted). In this case, defendant does not allege that the material information about these three advertising systems is in another party’s control; rather, defendant says that all of the information is or was publicly available. Thus, it seems defendant has no justification for pleading everything “upon information and belief.”

This problem reappears when defendant alleges only that “[u]pon information and belief, this information is not cumulative of what was before the examiner.” Dkt. #30, at ¶¶ 57, 59, 61. As explained above, this does not meet the pleading requirements set forth in Exergen. Defendant must allege that the “publicly available” information and the information contained on DoubleClick’s, ClickWise’s and NetGravity’s websites was not

already before the patent examiner. Moreover, defendant has no justification for pleading cumulativeness “upon information and belief” when the patent record is available for its review.

Finally, defendant’s allegations do not permit an inference that Shkedi withheld information about the three advertising systems with an intent to deceive the patent office. Defendant alleges “on information and belief” that Shkedi knew about these advertising systems because their information is available on their websites and through “other publicly available information.” Id. at ¶¶ 58, 60, 62. Even if such an allegation implied that Shkedi knew about the three existing systems, it does not imply that Shkedi knew that specific material information about these three systems was relevant to his patent applications or that he intentionally withheld the information with an intent to deceive the patent office. Exergen, 575 F.3d at 1330 (court cannot “assume that an individual, who generally knew that a reference existed, also knew of the specific material information contained in that reference”). Because defendant’s pleading sets forth no specific facts on which to base its belief of Shkedi’s intent to deceive the patent office, it fails to adequately plead intent to deceive under Rule 9(b) and Exergen. Accordingly, I will dismiss defendant’s inequitable conduct defenses and counterclaims that are based on the allegation that Shkedi failed to disclose information about three internet advertising systems.

### C. With or Without Prejudice

Plaintiff contends that defendant's inequitable conduct defense and counterclaim should be dismissed with prejudice because any amendment to the pleading would be futile. Plaintiff argues that defendant had ample opportunity to review the six undisclosed references and yet failed to identify how the references were material to plaintiff's patents. As further evidence of defendant's inability to plead inequitable conduct, plaintiff points to the invalidity contentions that defendant filed after it pleaded its inequitable conduct counterclaim and defense. In the invalidity contentions, defendant does not contend that any of the publications or systems that form the basis for its inequitable conduct claim anticipate any of plaintiff's patents or render any asserted claim of the patents obvious. Thus, plaintiff argues, defendant has conceded that these references are not material.

Plaintiff's arguments are not persuasive. Regardless whether defendant had ample time to investigate its claims and chose not to include the six references in its invalidity contentions, defendant's pleading deficiencies may be curable. Thus, I will dismiss the defense and counterclaim without prejudice.

### ORDER

IT IS ORDERED that plaintiff AlmondNet, Inc.'s motion to strike and dismiss, dkt. #31, is GRANTED. Defendant Microsoft Corporation's defense and counterclaim of inequitable conduct is DISMISSED without prejudice. Defendant may have until June 3,

2011, to file an inequitable conduct defense and counterclaim that complies with the requirements of Fed. R. Civ. P. 9(b) and Exergen Corporation v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1326 (Fed. Cir. 2009).

Entered this 24th day of May, 2011.

BY THE COURT:

/s/

BARBARA B. CRABB

District Judge