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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

COOLSYSTEMS, INC.,
Plaintiff,
v.
NICE RECOVERY SYSTEMS LLC,
Defendant.

Case No. 16-cv-02958-PJH

**ORDER DENYING MOTION TO
DISMISS AND/OR STRIKE
INEQUITABLE CONDUCT
ALLEGATIONS**

Re: Dkt. No. 30

Plaintiff’s motion to dismiss defendant’s unenforceability counterclaim and strike its defense of inequitable conduct came on for hearing before this court on October 5, 2016. Plaintiff CoolSystems, Inc. (“CoolSystems”) appeared through its counsel, Tamara Fraizer and David Elkins. Defendant NICE Recovery Systems LLC (“NICE”) appeared through its counsel, Aldo Badini. Having read the papers filed by the parties and carefully considered their arguments and the relevant legal authority, and good cause appearing, the court hereby DENIES the motion.

BACKGROUND

This is a patent dispute regarding medical devices to treat injury. CoolSystems and NICE market competing devices that combine compression and circulation of cold water to alleviate pain from injury and/or aid in post-operative recovery. See Compl. ¶¶ 7, 13. The technology consists of a cuff that goes over the injury, which connects to a powered reservoir of ice water that is circulated through the air-pressurized cuff—the basic idea being to apply both cold and compression at the same time. Compl. ¶¶ 7–15.

CoolSystems’ products—marketed under the name “Game Ready”—are covered by U.S. Patent 7,896,910 (the ’910 patent), entitled “Modular Apparatus for Therapy of an Animate Body.” Compl. ¶¶ 1, 10. CoolSystems’ complaint states a single cause of action

1 for patent infringement, alleging that NICE’s competing device, called the “NICE1”,
2 directly infringes claims 7 and 8 of the ’910 patent. Compl. ¶¶ 21–28. The action was
3 originally filed in the Distract of Delaware, and transferred to this court in May 27, 2016 by
4 stipulation of the parties. Dkt. 9, 10.

5 The instant motion concerns NICE’s allegations of inequitable conduct by
6 CoolSystems in the prosecution of the ’910 patent. See Dkt. 25, First Amended Answer
7 (“FAA”) ¶¶ 34–64; Counterclaims ¶¶ 15–17. The defense and counterclaim center on a
8 prior art reference, U.S. Patent Application Pub. No. 2001/0039439 Elkins et al., known
9 as “Elkins ’439.” FAA ¶ 36. Elkins was a founder of CoolSystems, and CoolSystems
10 accordingly owned this patent application, which was abandoned during prosecution in
11 2003. FAA ¶¶ 36, 54. NICE characterizes Elkins ’439 as an earlier and “since-
12 abandoned attempt by the founder of the company [William Elkins] to patent essentially
13 the same invention.” FAA ¶ 62.

14 NICE’s inequitable conduct allegations can be grouped into four different factual
15 bases for CoolSystems’ alleged fraud on the PTO. See generally FAA Counterclaims
16 ¶ 16 (summarizing inequitable conduct allegations). The four grounds are:

17 1. CoolSystems “buried” Elkins ’439, which was the “single most material”
18 reference, on the 8th page of a list of 176 other “minimally relevant” references. FAA
19 ¶¶ 35, 46, 56.

20 2. CoolSystems failed to name William Elkins as a co-inventor. FAA ¶¶ 41–44.

21 3. CoolSystems’ patent prosecutor, Parul Kapur, made an affirmative false
22 statement when she stated that claims 50 and 51 had been “rewritten in independent
23 form including all the limitations of the base claim and any intervening claims.” FAA ¶ 58
24 (emphasis added). In fact, claim 51—which became claim 8 in the issued patent—did
25 not include the limitations of claim 50, an intervening claim. FAA ¶¶ 59–60.

26 4. CoolSystems failed to respond to the patent examiner’s “Statement of Reasons
27 for Allowance” of the ’910 patent, which stated that “[n]one of the prior art of record”
28 disclosed the invention’s particular combination. FAA ¶¶ 61–62. CoolSystems “should

1 have known that the examiner’s statement about the contents of the prior act was
2 glaringly incorrect” in light of Elkins ’439. FAA ¶¶ 62.

3 CoolSystems’ motion seeks to dismiss NICE’s third counterclaim and to strike its
4 sixth affirmative defense, both of which are based on the same inequitable conduct
5 allegations described above.

6 DISCUSSION

7 A. Legal Standards

8 1. Motions to Dismiss

9 A motion to dismiss under Federal Rule of Civil Procedure 12(b)(6) tests the legal
10 sufficiency of the claims alleged. Ileto v. Glock, Inc., 349 F.3d 1191, 1199–1200 (9th Cir.
11 2003). To survive a motion to dismiss for failure to state a claim, a pleading generally
12 must satisfy only the minimal notice pleading requirements of Federal Rule of Civil
13 Procedure 8, which requires a “short and plain statement of the claim showing that the
14 pleader is entitled to relief.” Fed. R. Civ. P. 8(a)(2).

15 A pleading may be dismissed under Rule 12(b)(6) for failure to state a claim if the
16 plaintiff fails to state a cognizable legal theory, or has not alleged sufficient facts to
17 support a cognizable legal theory. Somers v. Apple, Inc., 729 F.3d 953, 959 (9th Cir.
18 2013). While the court is to accept as true all the factual allegations in the pleading,
19 legally conclusory statements, not supported by actual factual allegations, need not be
20 accepted. Ashcroft v. Iqbal, 556 U.S. 662, 678-79 (2009).

21 The allegations “must be enough to raise a right to relief above the speculative
22 level,” and a motion to dismiss should be granted if the pleading does not proffer enough
23 facts to state a claim for relief that is plausible on its face. Bell Atl. Corp. v. Twombly, 550
24 U.S. 544, 555, 558–59 (2007) (citations and quotations omitted). “A claim has facial
25 plausibility when the plaintiff pleads factual content that allows the court to draw the
26 reasonable inference that the defendant is liable for the misconduct alleged.” Iqbal, 556
27 U.S. at 678 (citation omitted). “[W]here the well-pleaded facts do not permit the court to
28 infer more than the mere possibility of misconduct, the complaint has alleged – but it has

1 not ‘show[n]’ – ‘that the pleader is entitled to relief.’” Id. at 679.

2 When, as here, the allegations involve fraud, heightened pleading standards
3 apply. “[T]he circumstances constituting fraud or mistake shall be stated with
4 particularity.” Fed. R. Civ. P. 9(b). Under Rule 9(b), falsity must be pled with specificity,
5 including an account of the “time, place, and specific content of the false representations
6 as well as the identities of the parties to the misrepresentations.” Swartz v. KPMG LLP,
7 476 F.3d 756, 764 (9th Cir. 2007) (citations omitted). “[A]llegations of fraud must be
8 specific enough to give [the parties] notice of the particular misconduct which is alleged to
9 constitute the fraud charged ‘so that they can defend against the charge and not just
10 deny that they have done anything wrong.’” Sanford v. MemberWorks, Inc., 625 F.3d
11 550, 558 (9th Cir. 2010) (citation omitted).

12 **2. Motions to Strike**

13 Under Federal Rule of Civil Procedure 12(f), the court “may order stricken from
14 any pleading any insufficient defense or any redundant, immaterial, impertinent, or
15 scandalous matter.” Fed. R. Civ. P. 12(f). The function of a motion to strike under Rule
16 12(f) is to “avoid the expenditure of time and money that must arise from litigating
17 spurious issues by dispensing with those issues prior to trial.” Whittlestone, Inc. v. Handi-
18 Craft Co., 618 F.3d 970, 973 (9th Cir. 2010) (quotation and citation omitted). To
19 determine whether to grant a motion to strike under Rule 12(f), the court must determine
20 whether the matter the moving party seeks to have stricken is (1) an insufficient defense;
21 (2) redundant; (3) immaterial; (4) impertinent; or (5) scandalous. Id. at 973-74.
22 Motions to strike are not favored and “should not be granted unless it is clear that the
23 matter to be stricken could have no possible bearing on the subject matter of the
24 litigation.” Colaprico v. Sun Microsystem, Inc., 758 F. Supp. 1335, 1339 (N.D. Cal. 1991).
25 When a court considers a motion to strike, it “must view the pleading in a light most
26 favorable to the pleading party.” In re 2TheMart.com, Inc. Sec. Litig., 114 F Supp. 2d
27 955, 965 (C.D. Cal. 2000). A court must deny the motion to strike if there is any doubt
28 whether the allegations in the pleadings might be relevant in the action. Id.

1 **3. The Exergen Standard for Pleading Inequitable Conduct**

2 Whether inequitable conduct claims are plead with particularity is governed by
3 Federal Circuit law. Cent. Admixture Pharm. Servs. v. Advanced Cardiac Solutions, P.C.,
4 482 F.3d 1347, 1356 (Fed. Cir. 2007).

5 The elements of inequitable conduct are “(1) an individual associated with the filing
6 and prosecution of a patent application made an affirmative misrepresentation of a
7 material fact, failed to disclose material information, or submitted false material
8 information; and (2) the individual did so with a specific intent to deceive the PTO.”
9 Exergen Corp. v. Wal-Mart Stores, 575 F.3d 1312, 1327 (Fed. Cir. 2009). Under Rule
10 9(b), pleading inequitable conduct “requires identification of the specific who, what, when,
11 where, and how of the material misrepresentation or omission committed before the
12 PTO.” Id. at 1327.

13 “[A]lthough “knowledge” and “intent” may be averred generally, a pleading of
14 inequitable conduct under Rule 9(b) must include sufficient allegations of underlying facts
15 from which a court may reasonably infer that a specific individual (1) knew of the withheld
16 material information or of the falsity of the material misrepresentation, and (2) withheld or
17 misrepresented this information with a specific intent to deceive the PTO.” Id. 1328–29.
18 A reasonable inference is one that is “plausible and that flows logically from the facts
19 alleged, including any objective indications of candor and good faith.” Id. at 1329 n.5.

20 **B. Analysis**

21 The court will analyze each of NICE’s four bases for inequitable conduct in turn to
22 determine whether they state a valid claim/affirmative defense for inequitable conduct
23 that is sufficiently pled under the Exergen standard.

24 **1. The “Burying” Theory**

25 The first basis for NICE’s counterclaim is that Elkins ’439, the “single most
26 material” reference, was “buried” by the patent prosecutor among a voluminous number
27 of minimally relevant prior art references. FAA ¶¶ 35, 46, 56. The court finds that the
28 “who, what, when, where, and how” of this theory are sufficiently pled under Exergen.

1 The who is “at least” Kapur, and the when/where is during prosecution of the '910 patent
2 before the PTO. The “what” is burying Elkins '439 among the other references.

3 The “how” goes to the issue of materiality. CoolSystems argues that “burying” a
4 reference cannot state a claim for inequitable conduct as a matter of law because a
5 buried reference can never be material. For this point, CoolSystems relies on the Fiskars
6 decision, in which the Federal Circuit stated that “[a]n applicant can not be guilty of
7 inequitable conduct if the reference was cited to the examiner, whether or not it was a
8 ground of rejection by the examiner.” Fiskars, Inc. v. Hunt Mfg. Co., 221 F.3d 1318, 1327
9 (Fed. Cir. 2000). However, the indications from the Federal Circuit on this issue are
10 “contradictory.” ESCO Corp. v. Cashman Equip. Co., 158 F. Supp. 3d 1051, 1062 (D.
11 Nev. 2016); see generally Robert Brendan Taylor, Burying, 19 Mich. Telecomm. & Tech.
12 L. Rev. 99, 110 (2012) (noting that the “mix of appellate law has led to divergent
13 decisions in district courts”). Contrary to its statement in Fiskars, the Federal Circuit has
14 also said that “‘burying’ a particularly material reference in a prior art statement
15 containing a multiplicity of other references can be probative of bad faith.” Molins PLC v.
16 Textron, Inc., 48 F.3d 1172, 1184 (Fed. Cir. 1995),

17 Because Fiskars “did not deal directly with the burying question,” this court
18 concludes that, if it is supported by specific factual allegations, “burying” can state a claim
19 for inequitable conduct. See, e.g., Nomadix, Inc. v. Hosp. Core Servs. LLC, No. CV 14-
20 08256 DDP VBKX, 2015 WL 3948804, at *9 (C.D. Cal. June 29, 2015) (burying
21 allegations are “nothing more than a species of the Rule 9(b) intent standard” and can
22 state a claim); Reid–Ashman Mfg., Inc. v. Swanson Semiconductor Serv., LLC, 2007 WL
23 1394427, at *6–7 (N.D. Cal. May 10, 2007) (declining to strike allegations of obscuring
24 prior art by burying it among voluminous less relevant references); but see Seaboard Int’l,
25 Inc. v. Cameron Int’l Corp., No. 1:13-CV-00281-MLH-SK, 2013 WL 3936889, at *6 (E.D.
26 Cal. July 30, 2013) (“[A]lleged burying of material information in a long list of citations to
27 the PTO by itself is insufficient to state a claim for inequitable conduct.”).

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1 The facts in the FAA are sufficient to show that the buried reference was material.
2 Elkins '439 was included on the eighth page of a nine-page submission with 176 other
3 prior art references. FAA ¶¶ 46–47. In such circumstances, it is possible that the
4 examiner did not give detailed attention to this reference, and may have reached a
5 different conclusion if the reference was more prominently brought to his attention.
6 Moreover, in NICE's telling—which the court must accept as true for pleading purposes—
7 Elkins '439 was “essentially the same” invention as the '910 patent. FAA ¶ 62. NICE
8 provides a comparison chart of the elements of the '910 patent and Elkins '439 to support
9 this allegation. FAA ¶ 38. This is enough to “identify which claims, and which limitations
10 in those claims, the withheld references are relevant to, and where in those references
11 the material information is found.” Exergen, 575 F.3d at 1329. The FAA names all of the
12 limitations of “claims 7 and 8” of the '910 patent as the specific claims at issue. FAA ¶
13 38. NICE notes that a continuation of the '910 patent was rejected on the basis of Elkins
14 '439, providing additional facts to support materiality. FAA ¶ 50.

15 Finally, NICE must plead sufficient facts from which a factfinder could reasonably
16 infer that CoolSystems acted with a specific intent to deceive the PTO. The fact that
17 Elkins '439 was owned by CoolSystems and that Elkins was a founder of CoolSystems
18 provides an ample basis to infer that CoolSystems and its agent Kapur had knowledge of
19 Elkins '439. The “buried” reference here was not some obscure foreign patent
20 application. When the allegedly buried prior art reference was a known, material, and
21 substantially identical invention by a company's founder, there is a sufficient factual basis
22 from which an intent to deceive could be inferred.

23 Ultimately, of course, NICE's allegations will need to be proven by clear and
24 convincing evidence. See Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276,
25 1290 (Fed. Cir. 2011). At the pleading stage, however, the court finds that the facts
26 alleged are sufficient to state a claim with particularity under the Exergen standard.

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1 **2. Failure to Disclose Inventorship**

2 NICE’s second basis for its inequitable conduct counterclaim and defense is its
3 allegation that CoolSystems “omitted the true inventorship” by failing to disclose William
4 Elkins as a co-inventor of the ’910 patent. FAA ¶¶ 41–44. The court finds that this
5 ground for inequitable conduct is not sufficiently pled, because it lacks any allegations of
6 collaboration or joint behavior between Elkins and the named inventors. See Vanderbilt
7 Univ. v. ICOS Corp., 601 F.3d 1297, 1303 (Fed. Cir. 2010) (requiring that “each co-
8 inventor engage with the other co-inventors to contribute to a joint conception”). NICE’s
9 inventorship allegations do not appear to be based on any actual collaboration between
10 the named inventors and Elkins. Rather, NICE alleges that CoolSystems and its patent
11 prosecutor knew that Elkins ’439 was a highly relevant prior art reference, but still omitted
12 Elkins as an inventor of the ’910 patent. FAA ¶ 39–44. But on the facts NICE alleges,
13 Elkins was not an omitted “co-inventor,” but rather the inventor of an anticipating prior art
14 reference. Thus, to the extent that NICE’s allegations of inequitable conduct rely on the
15 theory that Elkins was a co-inventor, they fail to state a claim because there is no
16 allegation that Elkins collaborated with the named inventors to contribute to the
17 conception of the alleged invention. See Eli Lilly & Co. v. Aradigm Corp., 376 F.3d 1352,
18 1362 (Fed. Cir. 2004) (“A contribution of information in the prior art cannot give rise to
19 joint inventorship because it is not a contribution to conception.”).

20 **3. The Allegedly False Statement Regarding Amendment**

21 NICE’s third basis for inequitable conduct is an alleged “materially false”
22 statement made by Kapur during prosecution. The statement reads:

23 Claims 50 and 51 were objected to as being dependent upon a rejected base
24 claim, but would be allowable if rewritten in independent form including all the
25 limitations of the base claim and any intervening claims. Therefore, Applicants
26 have rewritten claims 50 and 51 in independent form including all the limitations of
27 the base claim 47.

28 FAA ¶ 58 (emphasis added). NICE alleges that this statement was misleading because,
despite the intention indicated in the first sentence above, claim 51 as amended did not
include the limitations of an “intervening claim”—claim 50. FAA ¶ 59.

1 The court finds that NICE’s allegations relating to Kapur’s statement provides
 2 another basis for inequitable conduct that is sufficiently pled under Exergen. The
 3 allegations provide the specific who (“at least” Kapur), what (the allegedly false
 4 statement), when (during prosecution of the ’910 patent) and where (in the PTO).
 5 CoolSystems argues that Kapur’s statement was not actually false because claim 51 was
 6 actually amended precisely as described in the second sentence of the quote above to
 7 include “all the limitations of the base claim 47.” However, this ignores the indication in
 8 the first sentence that amendment would include the limitations of intervening claims as
 9 well. Drawing all inferences in favor of the pleader, the court finds that Kapur’s statement
 10 could be construed as misleading.

11 Materiality and intent are also sufficiently pled. Materiality is apparent from the
 12 statement itself—the examiner had objected to claims 50–51, but provided that they
 13 “would be allowable” if amended in a particular way. Construing the allegations in favor
 14 of NICE, Kapur indicated that she had complied with the examiner’s suggestion regarding
 15 the amendment of claim 51 without actually doing so. This is enough to allege “but-for
 16 materiality,” i.e., that claim 51 might not have issued if Kapur had not (allegedly) misled
 17 the examiner. See Therasense, 649 F.3d at 1291. As to intent, given the alleged falsity
 18 of the statement and its careful parsing, as well as all the surrounding circumstances
 19 described above, the court finds that there is a sufficient factual basis from which intent
 20 could be reasonably inferred.

21 **4. The “Failure to Respond” to the PTO’s Reasons for Allowance**

22 NICE’s final basis for inequitable conduct is that CoolSystems “fail[ed] to respond”
 23 to the patent examiner’s “Statement of Reasons for Allowance” of the ’910 patent. FAA
 24 ¶¶ 61–63. NICE alleges that CoolSystems failed to correct the examiner’s statement that
 25 “[n]one of the prior art” disclosed the invention claimed in the ’910 patent. CoolSystems
 26 argues that this basis for inequitable conduct is insufficiently pled because there are no
 27 facts to establish that CoolSystems’ decision not to act was done with a specific intent to
 28 deceive the PTO. Because NICE failed to address this issue in opposition, the court

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finds that NICE has conceded the point.

CONCLUSION

Since the court finds that two of NICE’s factual bases state a claim for inequitable conduct and are pled with the requisite particularity, the court DENIES the motion to dismiss and strike the inequitable conduct allegations. Although the court finds that the other two basis for inequitable conduct are not sufficiently pled, it declines to strike any of these allegations as they plausibly have bearing on issues—such as intent—relevant to the other two theories of inequitable conduct.

IT IS SO ORDERED.

Dated: October 19, 2016



PHYLLIS J. HAMILTON
United States District Judge