

# Jarkesy Ruling May Redefine Jury Role In Patent Fraud

By **Michael Powell, John Augelli and Michael Russo** (August 9, 2024)

Though the U.S. Supreme Court's June decision in *U.S. Securities and Exchange Commission v. Jarkesy* specifically addresses the SEC's enforcement authority, it touches on fundamental principles affecting many areas of law.

One area that may not yet be appreciated is inequitable conduct, also known as fraud on the U.S. Patent and Trademark Office. *Jarkesy* provides an opening for litigants to upend the status quo that judges, not juries, decide the entirety of this defense.

Though inequitable conduct's remedy arises historically from equity, its factual underpinnings have come to closely track common law fraud, which *Jarkesy* explains is a legal question traditionally decided by juries.

*Jarkesy* thus breathes life into arguments that juries should address inequitable conduct's underlying facts — with the question of the appropriate remedy being left to judges.

Historical analogues support such an approach and, in fact, many courts already rely on advisory jury verdicts when adjudicating inequitable conduct.

## **Jarkesy and the Seventh Amendment Right to a Jury Trial**

In a split 6-3 decision, *Jarkesy* held that, regardless of where an SEC enforcement action is brought, defendants are entitled to a jury trial when the claim is legal in nature.[1]

This holding arises from the Seventh Amendment, which guarantees the right to a jury trial in "suits at common law" and extends to statutory claims that are "legal in nature." [2] When determining whether the case presented such a legal claim, *Jarkesy* analyzed both the remedy and nature of claim, continuing the Supreme Court's practice of seeking guidance in history and tradition. [3]

Chief Justice John Roberts, writing for the majority, analyzed the distinction between legal and equitable remedies, ultimately reasoning that the SEC's antifraud proceedings were legal in nature instead of equitable. [4] The court explained that the civil penalties the SEC sought to impose were a traditional common law remedy because the penalties were designed to punish and deter fraud, rather than "restore the status quo." [5]

Shifting its focus to the nature of the claim, the court identified a "close relationship" between securities fraud and common law fraud, [6] explaining that both "target[] the same basic conduct as common law fraud, employ the same terms of art, and operate pursuant to similar legal principles." [7] The court also looked to history, emphasizing that fraud has traditionally been a legal question decided by juries. [8]



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The court made it a point to clarify that these fraud claims were not exactly identical — nor did they have to be for the purposes of its analysis.[9] It differentiated securities fraud as being narrower as to the specific subject matter and disclosures it targets, yet broader in that it imposes a less stringent burden of proof.[10]

Despite these differences, the court held that securities fraud was similar enough to its common law counterpart to warrant a Seventh Amendment jury right.[11]

### **Applying Jarkesy to Inequitable Conduct**

Inequitable conduct, sometimes called the "atomic bomb" of patent law, is a longstanding patent infringement defense rooted in fraud.[12] It requires a showing that the patentee made material statements or omissions to the USPTO with an intent to deceive, leading to the fraudulent procurement of its patent.[13]

As the name suggests, the defense "hinges on basic fairness" and the inequity of allowing a patentee to enforce a fraudulent patent.[14] The standard remedy is thus unenforceability — that the patentee cannot enforce its patent rights in court — with judges retaining broad latitude to render other related patents infected by the same misconduct unenforceable as well.[15]

But the defense's origin in equitable principles is only part of the story. Indeed, the underlying facts of inequitable conduct have come to closely track common law fraud: They deal with the intent to deceive, material misrepresentations and nondisclosure. [16]

For this reason, a claim for inequitable conduct must be pled with particularity under Federal Rule of Civil Procedure 9(b).[17] This suggests that the current iteration of the claim has become legal in all relevant respects, notwithstanding its genesis.

Indeed, inequitable conduct has come to be co-extensive with the fraud element of Walker Process claims — another patent infringement defense that, due to its origin in antitrust law, is a legal question for the jury. To prevail on a Walker Process claim, the proponent must show that the defendant obtained the patent from the USPTO through willful fraud, and prove all elements required to establish a Sherman Act monopolization claim.[18]

Courts have recognized that the showing needed for Walker Process fraud is "nearly identical to the evidentiary showing of inequitable conduct." [19] Both require a material misrepresentation, intent to deceive, and but-for causation.[20] Yet by historical accident, only one is decided by juries.

Inequitable conduct thus tracks common law fraud in all the ways deemed important by Jarkesy. In fact, even the remedy "is designed to punish or deter the wrongdoer," which Jarkesy equates to one at law.[21]

All of this supports the notion that juries should play an integral role in deciding the claim.

### **A Middle Ground Consistent with Jarkesy: Letting the Jury Find Facts and the Judge Fashion the Remedy**

Inequitable conduct is highly fact intensive, and the party bringing the claim bears a heavy burden of proof.[22]

Both materiality and intent to deceive must be proven by clear and convincing

evidence.[23] To be material, a statement or omission must be one that would have prevented the patent from being granted.[24]

Intent to deceive is subjective, making direct evidence rare.[25] The evidence is thus typically indirect and circumstantial, which requires a thorough case-by-case analysis.[26]

### ***Advisory Verdicts***

For these reasons, juries are well-equipped to decide inequitable conduct's underlying facts: Their task is to weigh and assess evidence, often from disparate sources, and they already answer questions akin to materiality when addressing anticipation and obviousness.

In fact, many juries already are deciding these facts. The Federal Rules of Civil Procedure provide for the use of advisory verdicts in "an action not triable of right by a jury." [27] And the U.S. Court of Appeals for the Federal Circuit has explicitly sanctioned the submission of inequitable conduct questions to juries.[28]

Following the Federal Circuit's lead, courts are increasingly seeking inequitable conduct advisory verdicts, adopting them if supported by substantial evidence.[29]

For example, in *ISCO International Inc. v Conductus Inc.* in 2003, the U.S. District Court for the District of Delaware adopted a jury's advisory verdict where its findings of fact were supported by substantial evidence.[30] In *Echometer Company v. Lufkin Industries Inc.* in 2004, the U.S. District Court for the Northern District of Texas gave "substantial weight" to the jury's advisory verdict and adopted it as its own.[31]

The U.S. District Court for the Western District of Texas confirmed in *M-I LLC v. FPUSA LLC* in 2021 that "courts often use advisory juries regarding inequitable conduct in patent cases." [32] And courts in California, such as the U.S. District Court for the Central District of California in *Target Technology Co. v. Williams Advanced Materials Inc.* in 2007, frequently approve the use of advisory juries for both prongs of inequitable conduct analyses to "promote judicial efficiency." [33]

Thus, courts may be inclined to accept Jarkesy-based inequitable conduct arguments because doing so makes practical sense and aligns with existing practices.

### ***Employment Discrimination***

The proposal to give juries the facts, while reserving the remedy for judges, finds support in other areas of law.

For example, employment discrimination claims and claims arising out of the Americans with Disabilities Act provide both legal and equitable remedies under Title VII, with juries deciding issues of underlying fact, i.e., liability and damages.

Congress' adoption of the Civil Rights Act of 1991 expanded the remedies available under Title VII to include compensatory and punitive damages, entitling plaintiffs to a jury trial.[34] Juries now decide liability and award damages, while the equitable remedy of backpay remains within the judge's discretion if a plaintiff seeks the award.

The U.S. Court of Appeals for the Third Circuit's opinion in *Spencer v. Wal-Mart Stores Inc.* in 2006 supports this approach. There, a jury found for the plaintiff on her hostile work environment claim under the ADA, awarding compensatory damages for emotional distress

and backpay.[35]

The defendants subsequently filed a motion for judgment as a matter of law, arguing that the plaintiff failed to establish her hostile work environment claim and that she was not entitled to backpay.[36]

The district court upheld the jury's finding on the hostile work environment claim and award for emotional distress, and the Third Circuit affirmed its determination that the award of backpay should have been decided by the court, even though the factual determinations underlying the claim were properly decided by the jury.[37]

Similarly, in *Lutz v. Glendale Union High School* in the U.S. Court of Appeals for the Ninth Circuit in 2005, the plaintiff sought compensatory damages and backpay for her claim arising out of the ADA. The Ninth Circuit recognized that while the liability and damages portion of the case was tried to a jury pursuant to Title 42 of the U.S. Code, Section 1981a(c)(1), the backpay issue remained an equitable issue for the district court to award at its discretion.[38]

### ***Willfulness***

Similarly, juries are tasked with deciding the underlying facts of willful infringement, with the court reserving the right to award enhanced damages. Indeed, willfulness is a question of fact that is reviewed for substantial evidence, while the decision to enhance damages is reviewed for an abuse of discretion.[39]

Unlike inequitable conduct, however, the court's authority to enhance damages for willful infringement is statutory.[40] The two claims are nevertheless comparable because the underlying issues are questions of fact, while the remedy is left to the sound discretion of the trial judge.

### **Counterarguments and Impact**

It remains to be seen how far *Jarkesy* will extend.

It explicitly addresses only the SEC's antifraud provisions and curbs agency authority, not judicial authority.[41] Successful *Jarkesy*-based inequitable conduct arguments will need to clear this first hurdle.

Further, the proponent will need to overcome recent Federal Circuit precedent. In 2020, the Federal Circuit in *GS Cleantech Corp. v. Adkins Energy LLC* reaffirmed the practice of trying inequitable conduct claims before a judge.[42] At a bench trial, the district court found that the patentee had engaged in inequitable conduct in obtaining the patents-in-suit and thus held the patents unenforceable.[43]

On appeal, the patentee argued that the district court's materiality finding violated its Seventh Amendment right to a jury trial because it made new fact findings regarding invalidity.[44] Support for its argument was sparse, and the patentee did not explicitly assert that all underlying facts of its inequitable conduct claim warranted a jury trial.

In turn, the Federal Circuit dedicated a lone sentence to reject the argument, reaffirming that because inequitable conduct is a claim based in equity, there is no right to a jury and trial courts have the exclusive right to resolve underlying facts of materiality and intent.[45] Though *Jarkesy* calls this analysis into question, a trial court will need to be persuaded to

agree.

From a practical standpoint, presenting inequitable conduct issues to juries will alter the dynamics of patent trials, creating new issues that may add complexity to trial presentation and jury instructions. It also risks confusing the jury on legal issues of invalidity with evidence relevant only to the inequitable conduct claim.

Again, trial courts will need to be persuaded that the benefits outweigh these risks.

## **Conclusion**

Regardless of whether Jarkesy implicates the direction of inequitable conduct in the future, the decision has created opportunities for defendants to argue more substantively for jury trials than ever before.

A compromise would be to have the jury decide on the issues of materiality and intent while leaving the remedy to the district court judge.

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[1] SEC v. Jarkesy, 603 U.S., at \*6, 13 (2024).

[2] *Id.* at \*8; see also U.S. Const. amend. VII.

[3] Jarkesy, 603 U.S. at \*9.

[4] *Id.* at \*13 (quoting *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 53 (1989)).

[5] *Id.* at \*9 (quoting *Tull v. United States*, 481 U.S. 412, 422 (1987)).

[6] *Id.* at \*11.

[7] *Id.* at \*21.

[8] See *id.* at \*19-20.

[9] *Id.* at \*12.

[10] *Id.* at \*12-13.

[11] *Id.* at \*13.

[12] See *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1287-88 (Fed. Cir.

2011).

[13] *Id.* at 1290-92.

[14] *Id.* at 1292.

[15] *Id.* at 1288-89.

[16] Compare *Jarkesy*, 603 U.S. at \*11 (identifying the common law elements of fraud in various states) with *Therasense*, 649 F.3d at 1290-91 (discussing the elements of inequitable conduct).

[17] *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1326-27 (Fed. Cir. 2009) (discussing the requirements of Fed. R. Civ. P. 9(b)).

[18] *TransWeb, LLC v. 3M Innovative Properties Co.*, 812 F.3d 1295, 1306 (Fed. Cir. 2016) (citing *Ritz Camera & Image v. SanDisk Corp.*, 700 F.3d 503, 506 (Fed. Cir. 2012)).

[19] *Inline Packaging, LLC v. Graphic Packaging Int'l, LLC*, 962 F.3d 1015, 1025 (8th Cir. 2020) (citing *TransWeb*, 812 F.3d at 1307).

[20] *In re Loestrin 24 Fe Antitrust Litig.*, 433 F. Supp. 3d 274, 305 (D.R.I. 2019) (citing *Therasense*, 649 F.3d at 1290-91).

[21] *Jarkesy*, 603 U.S. at \*9.

[22] *Vandenberg v. Dairy Equipment Co., a Div. of DEC Intern., Inc.*, 740 F.2d 1560, 1568 (Fed. Cir. 1984); see also *ProStrakan, Inc. v. Actavis Lab'ys UT, Inc.*, No. 16-CV-00044, 2018 WL 11363829, at \*49 (E.D. Tex. Sept. 28, 2018), *aff'd*, 787 F. App'x 757 (Fed. Cir. 2019).

[23] *Dayco Products, Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1362 (Fed. Cir. 2003) ("Both intent and materiality are questions of fact that must be proven by clear and convincing evidence").

[24] *Therasense*, 649 F.3d at 1291.

[25] *Id.* at 1290.

[26] *Id.*

[27] Fed. R. Civ. P. 39(c).

[28] *Am. Calcar, Inc. v. Am. Honda Motor Co.*, 651 F.3d 1318, 1333-34 (Fed. Cir. 2011).

[29] *M-I LLC v. FPUSA, LLC*, No. 15-CV-406, 2021 WL 8946454, at \*5 (W.D. Tex. Feb. 3, 2021).

[30] *Isco Int'l, Inc. v. Conductus, Inc.*, 279 F. Supp. 2d 489, 503-04 (D. Del. 2003), *aff'd*, 123 F. App'x 974 (Fed. Cir. 2005).

[31] *Echometer Co. v. Lufkin Indus., Inc.*, No. 7:00-CV-0101, 2004 WL 575954, at \*2 (N.D. Tex. Mar. 22, 2004).

[32] M-I LLC, 2021 WL 8946454, at \*5.

[33] See, e.g., Target Tech. Co., LLC v. Williams Advanced Materials, Inc., No. 04-CV-01083, 2007 WL 6201689, at \*28 (C.D. Cal. Feb. 6, 2007) ("The Court finds that submitting the issue of inequitable conduct to the jury for an advisory verdict will promote judicial efficiency."); Whitewater W. Indus., Ltd. v. Pac. Surf Designs, Inc., No. 17-CV-1118, 2019 WL 2211897, at \*2 (S.D. Cal. May 22, 2019) (Seeking an advisory verdict for both inequitable conduct prongs); Duhn Oil Tool, Inc. v. Cooper Cameron Corp., 818 F. Supp. 2d 1193, 1228 (E.D. Cal. 2011) (Ultimately agreeing with the advisory jury's finding of no inequitable conduct).

[34] See 42 U.S.C. § 1981a(c); Landgraf v. USI Film Prod., 511 U.S. 244, 247, 252 (1994).

[35] Spencer v. Wal-Mart Stores, Inc., 469 F.3d 311, 313 (3d Cir. 2006).

[36] Id. at 313-14.

[37] See id. at 314, 319.

[38] See Lutz v. Glendale Union High Sch., 403 F.3d 1061, 1067-69 (9th Cir. 2005).

[39] Polara Engineering Inc v. Campbell Company, 894 F.3d 1339, 1353 (Fed. Cir. 2018).

[40] Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. 93, 103 (2016); 35 U.S.C. § 284 ("When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.").

[41] Jarkesy, 603 U.S. at \*2 ("Held: When the SEC seeks civil penalties against a defendant for securities fraud, the Seventh Amendment entitles the defendant to a jury trial.").

[42] GS Cleantech Corp. v. Adkins Energy LLC, 951 F.3d 1310, 1331 (Fed. Cir. 2020).

[43] Id. at 1325.

[44] Id. at 1331.

[45] Id.