

# Inequitable Conduct: Refresher and Update

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## Inequitable Conduct: The Equitable Atomic Bomb

- Inequitable conduct is an equitable defense that bars enforcement of a patent. See 35 U.S.C. § 282(1).
- Inequitable conduct evolved from Supreme Court cases with really “bad actors.”
  - Bribery of “prior user” who filed false affidavit favoring patentee (Keystone Driller Co. v. General Excavator Co., 290 U.S. 240 (1933)).
  - Paying expert to write an article praising invention and submitting it to PTO (Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1944)).
  - Patentee discovered and suppressed evidence of perjury by inventor to obtain favorable settlement (Precision Instruments Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 606 (1945)).

It had expanded until eventually Chief Judge Rader famously called it the “atomic bomb” of litigation.

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## Therasense supposedly defused the atomic bomb

- En banc CAFC held inequitable conduct required evidence to support findings that:
  - (1) Withheld or misrepresented information was *material* (i.e., under BRI, an examiner more likely than not would have rejected a claim);
  - (2) clear and convincing evidence a person substantively involved in prosecution knew of the withheld information and that it had been material; and
  - (3) clear and convincing evidence that the single most reasonable inference is that same person specifically intended to deceive the USPTO by withholding or misrepresenting the information.
- Court also recognized alternative for unenforceability based upon "affirmative egregious misconduct."

See *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc)

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## Have Recent Cases Relit the Fuse?

- Several recent district court cases have found unenforceability.
- Three recent CAFC cases revealed huge cracks in *Therasense* and related concerns:
  - *GS Cleantech Corp. v. Adkins Energy LLC*, 951 F.3d 1310 (Fed. Cir. 2020).
  - *Regeneron Pharma. Inc. v. Merus N. V.*, 864 F.3d 1353 (Fed. Cir. 2017).
  - *Gilead Sciences Inc. v. Merck & Co.*, 888 F.3d 1231 (Fed. Cir. 2018).
- Rule 36 affirmances may be hiding erosion of *Therasense*.

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## Advocacy v. Candor Leads to Inequitable Conduct – *GS Cleantech v. Adkins*

- Four patents in suit. U.S. Pat. No. 7,601,858, Claim 8 read:  
 “A method of recovering oil from thin silage, comprising, in sequence: evaporating the thin silage to create a concentrate having a moisture content of greater than 30% by weight and less than about 90% by weight; and centrifuging the concentrate to recover oil.”
- The other patents claimed relatively minor processing steps.

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## The “on sale” bar

- Trial court held on summary judgment patents were invalid because an offer to sell had occurred prior to the critical date and the “experimental use” exception was not available.
- At bench trial on inequitable conduct trial court found inventors and their attorneys at Cantor Colburn had committed inequitable conduct -- but denied considering evidence offered by patentee on lack of materiality.
- Only inequitable conduct was appealed, and CAFC reviewed finding of on sale under the “abuse of discretion” standard.

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## Facts about “on sale” were complicated

- Inventors Cantrell and Winsness founded a company, “VDT” that had a business relationship with Agri-Energy, which operated a dry mill ethanol plant.
- The inventors filed a provisional application on Aug. 17, 2004, setting the critical date as Aug. 17, 2003. “Old” 102(b).
- On August 1, 2003, Cantrell emailed several Agri-Energy employees and attached the “July 2003 Proposal” offering a “no-risk trial of the VDT oil recovery system” in which the system could be used for 60 days. After that trial, Agri-Energy could purchase “the system” for \$423,000 or return any equipment to VDT (“no questions asked”).
- The proposal was not accepted.

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## The first patent attorney was not told of the “July 2003 proposal” to Agri-Energy

- But the Attorney was told that the invention workable in June 2003, due to the positive results of in-house tests.
- This was used as evidence that the invention was “ready for patenting” and cut off the availability of the experimental use exception to the on-sale bar.
- Plaintiff Cleantech hired the inventors and acquired the VDT technology in 2006 and then transferred the prosecution to attorney Hagarty at Cantor Colburn in 2008. He explained the on-sale bar.
- Note: Miscommunication between attorneys can, in some cases, lead to protection of both attorneys from IC. But not in this case.

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## Now things get complicated...

- Cantor Colburn refiled the first application in 2009 and submitted a “letter” supporting reduction to practice in 2004, but not disclosing the July 2003 proposal or the evidence of earlier reduction to practice.
- CC learned of the July 2003 proposal in March of 2010 and Hagarty filed an IDS listing it but stated that it was irrelevant, because the invention had not been “carried out” prior to the critical date. (He did not discuss possible sale.)

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## Now things get worse...

- Inventor Winsness went to Agri-energy and offered them a royalty free license in exchange for “admitting that the patent was valid.” A CC attorney sent Agri-Energy a letter asking it to “confirm” that it had never received drawings or diagrams of the proposed system in 2003 and that the system had been provided for experimental use. Agri-Energy refused.
- In November of 2010, CC sent in the “first Cantrell” declaration stating that the proposal had been made in August 18, 2003, and argued that there was no on sale bar, since this was less than a year before the filing date of the application. No other information was included.

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## And worse...

- CC filed a “second Cantrell declaration” including an August 2003 letter with the July 23 proposal attached but didn’t retract the false information in the first declaration or explain the significance of the July 23 proposal.
- The district court found, and the Fed. Cir. agreed, that both Cleantech and CC had committed IC. The district court stated that CC “purposefully evaded” disclosing or failed to seek out relevant information and so participated in the IC—“Choosing advocacy over candor.”

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## Did CC have a good faith belief that the July 2003 proposal did not trigger the on sale bar?

- CAFC affirmed finding the proposal was an offer to sell the process, but went on to analyze it under the UCC and found that it was a “sale on approval” since the “delivered goods may be returned by the buyer even though they conform to the contract,” so long as the goods are delivered primarily for use by the buyer.
- CAFC disregarded arguments by Cleantech that it did not perform the method for Agri-Energy, before the critical date, for a promise of future compensation, citing *Plumtree Software v. Datamize*, 473 F.3d 1152 (Fed. Cir. 2004), and so the July 2003 proposal was not a conditional sale.
- *Plumtree* was helpful precedent, but CAFC held Cleantech had waived this argument by failure to raise it below.

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## Inequitable conduct puts great weight on the attorney's subjective state of mind.

- While the on-sale/experimental use inquiries are extremely fact-driven they depend on objective facts but inequitable conduct requires clear and convincing evidence a person knew of the information, knew – not should have known—that it was material, and withheld it with an intent to deceive.
- “Sale on approval” is an obscure corner of contract law. J. Mueller, Patent Law (5<sup>th</sup> ed.) does not cite *Plumtree*.
- Given that the CC attorneys knew of the July 2003 proposal, what if they did not believe that it was a commercial sale, and so believed it was not material? All of the necessary elements of IC are not present.
- But both Cleantech and CC acted to cover up the proposal and the lack of experimental use, and so knowledge of materiality was inferred.

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## The PTO did not believe there was an on-sale bar, but CC did not effectively purge the “fraud”

- Query: If you shoot at a person but miss, but you think you have killed him so you throw away the gun, are you guilty of murder? A: No.
- Generally, if you miss-read a reference, or fail to understand its relevance to pending claims you are prosecuting, you will not be found to have committed inequitable conduct, even if the reference is but-for material. If you hid a non-material reference, you did not commit IC.
- Cleantech and CC would have been better off re: IC – if not validity—if they had sent in the July 2003 proposal and argued that it was not a sale, citing *Plumtree*. Moral – Advocate, but don't Lie.

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## Invalidity in *GS CleanTech*

- Defendant moved for summary judgment of on-sale based upon a letter offering a commercial, monitored "trial" of a "test module" that may have been able to perform the later-claimed method (or something close to it).
  - Plaintiff argued the letter was not an offer, was not of the claimed method, and offered evidence it had been ready for patenting, and any use would have been experimental.
  - The trial court on summary judgment held certain '858 patent method claims had been on-sale.
- After that, the patentee submitted the trial court's opinion and underlying evidence during prosecution of a CON - to the same examiner allegedly intentionally deceived into issuing the '858 patent- and she reviewed the information and granted the CON as a patent.
- Whether an invention is on sale is a question of law based upon underlying facts, and so had the holding been appealable, summary judgment would have been reviewed *de nova* with no deference to the trial court's legal conclusion that no reasonable jury could have found for the patentee.

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## *GS Clean Tech*: Reviewing a finding of invalidity/materiality, knowledge of it, and intent to deceive for abuse of discretion

The district court held a bench trial and found attorneys and others knew of the sale, knew it had been material, and the only reasonable inference was each had an intent to deceive.

- During this trial, the court refused. to consider the USPTO granted the CON or, because of its summary judgment ruling, admit evidence as to whether the invention had been on sale and not experimental.
- On appeal, the CAFC refused to review the on-sale conclusion *de nova*, and instead reviewed it (somehow) under the abuse of discretion standard. The panel also refused to review fact findings for on-sale, materiality, and intent to deceive for clear error but also (somehow) for abuse of discretion.
  - The panel held the trial court did not abuse its discretion in finding that "CleanTech" knew of information, knew it had been material, and "CleanTech" had an intent to deceive.
  - Thus, because the legal conclusions and factual findings were not an abuse of discretion, the panel affirmed

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## **Regeneron: adverse inference of prosecution misconduct because of litigator's actions years later**

- Lawyer is prosecuting the '123 app and after getting NOA learns of new prior art.
- He concludes it's not material and doesn't submit it and doesn't use QPIDS; but does follow OED's suggestion and writes memo to file as to why he believed it was not material.
- '123 Patent issues; lawyer files '456 CON and promptly discloses the prior art in that CON.
- Years later, represented by another firm, client asserts the '123 Patent.
- Defendant asserts inequitable conduct; litigation is heated; years later, some claims found invalid based on the undisclosed prior art.
- Moments before planned bench trial on inequitable conduct, as a sanction for patentee's lawyers' litigation misconduct, trial court bars lawyers from testifying to show lack of intent to deceive the PTO, and instead presumes intent and so finds inequitable conduct by lawyer, et al.
- CAFC affirms (copying fact findings from district court opinion as if it was making them), among other things finds materiality even though lawyer had interpreted the claims more narrowly than (former) client did (years later) in litigation.

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## **Gilead: variations on the theme.**

- Client A was in negotiations with client B but in-house Lawyer for Client A was handling prosecution and was subject to “firewall”.
  - While on call with Client B, Lawyer learned B's confidential info—the structure of their lead compound.
  - Lawyer later used that info to narrow claim of a pending app of Client A (that had support for the narrow claim) and got patent with narrowed claim allowed.
  - Later Client A sued on the narrowed patent and the jury found narrowed claim infringed, not derived, and awarded Client A \$200m.
- ... which was vacated by the d.c. judge, and affirmed by the CAFC due to lawyer's and A's unclean hands in misusing the information, including giving false testimony. Cert. was denied.

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## Prosecution Compared to IPR Candor Rules

	Who	What
<b>Prosecution</b>	Inventor, practitioner, those substantively involved in prosecution	PFC unpatentability  Inconsistent info
<b>IPR generally</b>	Parties, and individuals involved in IPR	“General duty of candor and good faith” presumably limited to at least inconsistent info.
<b>Filing doc in IPR</b>	Inventors, corporate officers, and persons involved in preparing documents in the IPR.	Inconsistent info

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## Substitute Claims and Broader Duty of Candor in IPR

	Who	What
<b>Substitute claims</b>	Rule: “Parties and individuals involved”  <i>MasterImage 3D</i> : “the patent owner”	<i>MasterImage 3D</i> : info showing no patentable distinction over (a) “prior art known to the patent owner;” and (b) “prior art of record” which includes material art: in prosecution history; in the current proceeding, including art asserted in grounds on which the Board did not institute review; and any other proceeding before the Office involving the patent.

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## Takeaways: declarations are still "time bombs"

- *Rohm & Haas*, 722 F.2d 1556 (Fed. Cir. 1983) ("There is no room to argue that submission of false affidavits is not material.")
- *Intellect Wireless v HTC Corp.*, 732 F.3d 1339 (Fed. Cir. 2013): Rule 131 declaration falsely stated invention had been reduced to practice.
  - Other declarations were filed but CAFC agreed there was no evidence that the false statements were withdrawn, called to the attention of the PTO or "fully corrected."
  - IC finding was based on egregious misconduct prong of *Therasense*.

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## False declarations peripheral to patentability may not be material

*Powell vs. Home Depot* (Fed. Cir. 2011)

- Plaintiff filed a petition to make special with a statement that he was obligated to supply saw guards that would infringe his patent claims. Statement was mooted when Home Depot began to use another supplier, but Powell did not update the petition - though he could have asserted actual infringement.
- Fed. Cir. said no "but-for materiality" and found no filing of an "unmistakably false affidavit" and no "affirmative egregious misconduct" = no IC.

*Network Signatures v State Farm* (false petition to revive); *Outside the Box v Travel Caddy* (false declaration of small entity status)

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## Takeaway: Disclose, Disclose, Disclose

- *McKesson* (487 F.3d 897 (Fed. Cir. 2007)) affirmed inequitable conduct due to attorney's failure to cross-cite prior art, office actions, and responses in related applications handled by different Examiners.
- *Therasense* (649 F.3d 1276 (Fed. Cir. 2011)) on remand found inequitable conduct due to failure to cite EP response that contradicted U.S. arguments.
- Good practice: cite all art, actions and responses in *related* U.S. and foreign applications and related litigation/trial proceedings. to U.S. Examiner.

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## Takeaways

- Clients don't like costs associated with multiple IDS's. Automate them to minimize attorney time. Don't fear burying charges.
- It's hard to get inventors, esp. academics, to be their own worst enemies and disclose what they consider to be peripheral art. Educate them.
- An expert should receive *all* the facts before she/he opines, esp. in a Rule 132 declaration. It is not easy to purge misstatements.
- Under some circumstances, you can patent a competitor's secret process, or even a product they have misidentified, but be very aware of any relevant art that may prevent this strategy.
- Advocate via differentiation and other arguments but don't misrepresent a fact that you know is true (or false).
- Clients with market power must be made aware of antitrust issues.

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## More takeaways

- For litigators representing patentees: if a trial court finds invalidity, seek to appeal under Fed. R. Civ. P. 54(b), or seek certified appeal under 1292(b)- or risk "abuse of discretion" review by CAFC of materiality.
- For prosecutors: If a patent you prosecuted is litigated and inequitable conduct is raised, consider obtaining your own counsel.
- For everyone: Take prosecution bars in litigation seriously and monitor for compliance by your lawyers, experts, and the other side's as well!

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Thank you for your attention and participation.

This presentation is intended for education and entertainment, and is not to be construed as advice on any pending legal matter. It does not represent the opinion of Schwegman Lundberg & Woessner or any of its attorneys.

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## Duties of candor, disclosure, and good faith

- 37 C.F.R. § 1.56 - Duty to disclose information material to patentability
- 37 C.F.R. § 1.555 - Information material to patentability in *ex parte* and *inter partes* reexamination proceedings
- 37 C.F.R. § 11.18(b) - Signature and certificate for correspondence filed in the office
- 37 C.F.R. § 11.106(c) - Confidentiality of information
- 37 C.F.R. § 11.303(a)-(e) - Candor toward the tribunal
- 37 C.F.R. § 11.801(a)-(b) - Registration, recognition, and disciplinary matters
- 37 C.F.R. § 11.804(c) - Misconduct (dishonesty, fraud, deceit, misrepresentation)
- 37 C.F.R. § 42.11 - Duty of candor; signing papers; representations to the Board; sanctions



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## Inequitable conduct

### *In re Tendler*, D2013-17 (USPTO 2014)

- Patent attorney filed Rule 131 declaration re: reduction to practice with USPTO.
- Soon after, attorney learned that the inventor did not review the declaration and that declaration contained inaccurate information.
- Respondent did not advise the office in writing of the inaccurate information and did not fully correct the record in writing.
- District court held resultant patent unenforceable due to inequitable conduct, in part, because of false declaration. *Intellect Wireless v. HTC Corp.*, 910 F. Supp. 1056 (N.D. Ill. 2012). Federal Circuit upheld.
  - First requirement is to expressly advise the USPTO of existence of misrepresentation, stating specifically where it resides.
  - Second requirement is that the USPTO be advised of misrepresented facts, making it clear that further examination may be required if USPTO action may be based on the misrepresentation.
  - It does not suffice to merely supply the office with accurate facts without calling attention to the misrepresentation.
- Settlement: Four-year suspension (eligible for reinstatement after two years).

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## **Candor toward tribunal**

### ***In re Hicks, D2013-11 (USPTO 2013)***

- Attorney sanctioned by EDNY for non-compliance with discovery orders.
- Federal Circuit affirmed sanction and found appellate brief to contain “misleading or improper” statements.
  - Brief reads, “Both the Magistrate and the District Court Found that RTI’s and its Litigation Counsel Hicks’ Pre-Filing Investigation Was Sufficient.” However, neither the magistrate judge nor the district court ultimately found that RTI’s or Mr. Hicks’s pre-filing investigation was “sufficient.”
  - Mr. Hicks also failed to inform the court that a case citation was non-precedential and therefore unavailable to support his legal contentions aside from “claim preclusion, issue preclusion, judicial estoppel, law of the case, and the like.”
  - Rates Technology, Inc. v Mediatix Telecom, Inc., 688 F.3d 742 (Fed. Cir. 2012)
- Settlement: public reprimand and one-year probation.

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## **Misrepresentations to the office**

### ***In re Massicotte, D2012-22 (USPTO 2012)***

- Office actions sent to practitioner in several trademark matters.
  - Practitioner received the office actions prior to the expiration of their response periods.
- Applications became abandoned for failure to respond to the office actions.
- Practitioner filed petitions to revive unintentionally abandoned applications indicating that the office actions were not received prior to the expiration of the response period.
  - Petitions were granted based on this assertion.
- Settlement: practitioner received two-year suspension.
  - Eligible for reinstatement after two months
  - Two-year probation after reinstatement

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## Lack of candor

### *In re Anonymous*, D2014-05 (USPTO 2014)

- Practitioner received TM rejection finding client's mark generic.
- Attorney received correspondence and exhibits from a competitor indicating that the mark was used generically by others.
- Attorney read the correspondence, but purposefully did not look at the exhibits.
- Attorney later submitted a declaration including a sworn statement in support of acquired distinctiveness of the mark, including assertions of "substantially exclusive and continuous use" of the mark.
- USPTO accepted the assertions and registered the mark.
- In a related infringement action, court found that mark was obtained by fraud on the office: the acquired distinctiveness assertion was a material misrepresentation made with the intent to deceive the USPTO.
- Settlement: public reprimand.



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## Inequitable conduct

### *Ohio Willow Wood Co. v. Alps South, LLC*, 813 F.3d 1350 (Fed. Cir. 2016)

- Concurrent litigation and reexamination for patent at issue. Patentee used same firm for both litigation and reexam. Firm established an ethical screen between the two teams.
- Director of research at patentee company was the connection between litigation and reexamination teams. He was not a registered practitioner, but had experience in patent matters.
- Director knew of evidence that contradicted arguments made by reexam counsel in favor of patentability.
- Federal Circuit affirmed district court finding of inequitable conduct for failure to bring the evidence to the attention of the USPTO.

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## Information disclosure statements (IDS) *In re Janka, D2011-57 (USPTO 2011)*

- Patent attorney was part of litigation team for infringement suit. District court found contempt connected with attorney's submission of IDS to USPTO in a reexamination proceeding. IDS contained documents covered by a protective order.
- IDS was prepared by the attorney, forwarded to colleague (registered practitioner) who filed it with the USPTO.
- Attorney argued that he believed the confidentiality of the documents had been waived and therefore they were not covered by protective order.
- Conduct violated 37 C.F.R. § 10.77(b) – handling legal matter without preparation adequate under the circumstances.
- Settlement: public reprimand.



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## Information disclosure statements *In re Bollman, D2010-40 (USPTO 2011)*

- Related to *In re Janka, D2011-57 (USPTO 2011)*.
- Patent attorney received an assembled IDS from practitioner involved in litigation related to pending reexamination proceeding. He filed the IDS (six boxes of documents) without inspecting them. Did not file documents as confidential.
- Some of the documents were confidential and subject to a protective order in the related litigation.
- Submitting the IDS without inspection of the documents held to be a false certification pursuant to 37 C.F.R. § 11.18(b).
- Settlement: public reprimand and two-year probation.



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## Decisions imposing public discipline available in “FOIA Reading Room”

- [foiadocuments.uspto.gov/oed/](https://foiadocuments.uspto.gov/oed/)
- Official Gazette for Patents
  - [www.uspto.gov/news/og/patent\\_og/index.jsp](https://www.uspto.gov/news/og/patent_og/index.jsp)
    - Select a published issue from the list, and click on the “Notices” link in the menu on the left side of the webpage.



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## OED investigations

- Court decisions are not dispositive, but are considered in ethical investigations.
  - Including factual findings and legal analysis
- Court decisions can represent an incomplete record of events.
- OED conducts its own investigation.
  - Contacts practitioner
  - Considers information not available to court



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