Patent Prosecution

The Duty of Candor: Derived from Equity, Progressed to Common Law Fraud

Dave Brezina

March 26, 2012

Development of The Inequitable Conduct Doctrine

- Liars Shouldn't Benefit from Patent
  - *Keystone Driller:* Inequitable to Enforce a Known Invalid Patent
  - *Precision Instrument v. Automotive* – Lied About Date of Invention
  - *Kingsland v. Dorsey* – Lied About Authorship of Exhibit
  - *Walker Process* – Didn't Disclose Own Sale
  - *Grefco v. Kewanee* – Lied about tests run
- Prior Art – Non-Disclosure
  - Cases are legion
  - Good Faith Judgment Permitted
- Other Equity Considerations
  - *Milwaukee v. Activated* – Don't shut down sewage treatment
  - *Vitamin Technologists* – Was the invalidity ruling colored by 'the equities'?

The Patent Application Process

- *Conception & Reduction to Practice = Invention**
- *Novelty Search*
- *Patent Application*
  - *Specification*
  - *Drawings*
  - *Claims*
  - *Oath*
- *Information Disclosure Statement*
  - Duty of Disclosure
  - Procedures for Submission
- ***Examination***
- ***Amendment***
- ***Allowance***

Origins of Doctrines Relating to Fraud and Misconduct In Patent, Trademark and Copyright Prosecution

- *A. The Duty of Disclosure in Patents*
  - 1. Uncompromising Duty of Candor for All Involved in Application *Kingsland v Dorsey*
  - 2. Duty of Disclosure of Prior Art: *Beckman v. Chemtronics*
  - 3. No Misrepresentations about Invention: *Grefco v. Kewanee*
  - 4. Exercise of Professional Judgment: *Toshiba v. Zenith*
  - 5. Materiality and Intent are Interrelated: *J.P. Stevens v. Lex Tex*
  - 6. Burden of Proof on Party Asserting Invalidity American *Hoist v. Sowa*
  - 7. Burden of Proof & Species of Fraud: *Nobelpharma v. Implant*
- ***B. Trademark Fraud***
  - False Specimens *Torres v. Torresela S. A.*
  - Clear and Convincing *In Re Bose*
- ***C. Copyright Fraud***
  - 1. Derivative Works Disclosure: *Berrie v. Elsner*
  - 2. Litigation – Lie About Origin: *qad inc. v. ALN*

Unclean Hands, Relatedness to Patent, *Keystone v General*

- *Concealment of a prior public use relating to basic patent*
- *Suit on that patent and reliance on that judgment in later suit*
- *Unclean hands: the unconscionable act must have immediate and necessary relation to the matter in litigation*
- *Matters cannot fairly be deemed to be unconnected*

290 U.S. 240, 78 L. Ed. 293, 54 S. Ct. 146 (1933)

Duty of Disclosure: *Kingsland v Dorsey*

- Facts:
  - Concealed true identity of technical article author Clarke
  - Dorsey knew
  - Dorsey argued Clarke was a reluctant witness
- Rule:
  - 'By reason of the nature of an application for patent, the relationship of attorneys to the Patent Office requires the highest degree of candor and good faith. In its relation to applicants, the office must rely upon their integrity and deal with them in a spirit of trust and confidence.'
- Dorsey was disbarred

Duty of Disclosure & Consequences: *Kingsland v Dorsey*

- *Facts:*
  - *Concealment of true identity of author of technical article*
  - *Dorsey knew & argued reluctant witness*
- *Rule: 'By reason of the nature of an application for patent, the relationship of attorneys to the Patent Office requires the highest degree of candor and good faith. In its relation to applicants, the office must rely upon their integrity and deal with them in a spirit of trust and confidence.'*
- *Dorsey was disbarred.*

338 U.S. 318, 70 S.Ct. 123, 94 L.Ed. 123 (1949)

Nondisclosure of Prior Art: *Beckman v Chemtronics*

- Facts: Invention for electrodes behind a membrane to find the concentration of oxygen in liquids or gases made by Stow, before Clark.
- Beckman knew of Stow -- contacted Stow & attempted to purchase his invention.
- Held: Beckman, failed to fulfill the "uncompromising duty" of disclosure of an applicant before the Patent Office, because Beckman, possessed of information regarding Stow's invention & realizing its significance, omitted that information from its application.

Affirmative Misrepresentations: *Grefco v Kewanee*

- *misrepresentation and concealment of results of tests referenced in examples of composite board for roofing -- tests not passed, not run correctly*
- *Policy concerns behind duty of candor*
  - highest standards: asking government for a monopoly
  - protect private parties claiming same invention,
  - important to public
  - prosecution free from fraud and inequitable conduct
  - withholding prevents Patent Office discharge of duty -- ex parte, no testing facilities
- "uncompromising duty" to report all facts concerning possible fraud or inequitableness underlying the applications in issue

Exercise of Professional Judgment Permitted: *Toshiba v Zenith*

- *TV screen:*
  - *thin metal membrane "shadow mask" with "negative tolerance" coating*
  - *black on screen around phosphors,*
  - *two prior art references, neither had both, one thought inapplicable to the other*
- *Bingley + Kaplan make obvious:*
  - *contrast improved in shadow mask tube*
  - *spacing phosphors & placing light absorbing material*
- *Rule: exercise of good faith judgment*
- *Judge fraud on 'totality of circumstances'*

Interrelation of Materiality and Intent: *Stevens v Lex Tex*

- ***Facts***
  - Yarn processing patents
  - Licenses under prior art, not disclosed
- ***Kinds of Fraud in "Inequitable Conduct"***
  - "Common law fraud"
  - PTO unenforceabilty broader: materiality & intent
  - Once materiality and intent THEN decide if inequitable conduct

Burden of Proof, Species of Fraud: *American v Sowa*

- Material, Intentional and Inequitable Conduct Can make patent unenforceable
- Burden is permanent: § 282 * * * mandates not only a presumption shifting the burden of going forward in a purely procedural sense, but also places the burden of persuasion on the party who asserts that the patent is invalid.

Unclean Hands In Prosecution Cuts Off All Remedies: *Precision v Automotive*

- Stole invention from Automotive, formed Precision, stole business, false dates in Interference
- Settlement -- both sides took advantage sweeping false statements under the rug
- Rule: "he who comes into equity must come with clean hands" closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant

Burden of Proof, Species of Fraud: *Nobelpharma v Implant*

- NP brought suit, inventor failed to disclose 1977 Book to the U.S. Patent and Trademark Office (PTO)
- Inequitable conduct an equitable defense -- shield
- More serious fraud exposes patentee to antitrust -- sword
- "an antitrust claim premised on stripping a patentee of its immunity from the antitrust laws ... Because most cases involving these issues will therefore be appealed to this court, we conclude that we should decide these issues as a matter of Federal Circuit law
- *Walker Process* counterclaim or Inequitable Conduct Defense

Other Patent Fraud Cases

- Data omission - not all test data to Attorney *Kimberly Clark v. Johnson & Johnson*
- Inconsistent test data *ICI v. Barr Labs*
- Rejection of prior application,
  - cure of inequitable conduct ineffective
  - BPAI decision on critical claim limit not disclosed *Li v. Toshiba*
- no translation of oath -- not inequitable *Seiko Epson v. Nu-Kote*
- IDS with " one-page partial translation" was "accurate but misleadingly incomplete" *Semiconductor Energy Laboratory v. Samsung Electronics*
- Infectious Unenforceability -- patent from continuation unenforceable *Molins v. Textron*
- *Inventorship:* failure to correctly identify inventors *PerSeptive Biosystems. v. Pharmacia Biotech*.

Trademark Fraud

- ***Torres***:
  - Renewal for mark with 3 Towers design, label not currently used
  - ***Fraud in trademark registration:***
    - applicant knowingly makes false,
    - material representations of fact
    - in connection with his application
  - ***Specimen with current use & oath statutory***
- ***Bose:***
  - Knowing, Intentional
  - Clear and Convincing

Copyright -- Derivative Works Disclosure: *Berrie v Elsner*

- **Facts**: Berrie's "Gonga" a copy of pre-existing uncopyrighted Japanese gorilla "Gori-Gori"
- Berrie indicated not a derivative work
- Sued Elsner for copyright infringement on this and other causes of action

- ***Held:***
- *Prima facie* ownership & validity rebutted by evidence Berrie's gorilla was copy of public domain work
- Knowing failure to tell Copyright Office facts which might have occasioned rejection
- Registration invalid

Misconduct in Litigation: *qad v ALN*

- **Facts**
  - qad distributed MFG/PRO program based on source code of HP250
  - Registered without disclosing HP250, obtained injunction testifying common features showed copying
  - Unmistakably a work derivative from HP250
- **Fraud**
  - Failure to state on registrations existence of MFG/PRO's derivation
  - Unlawful -- might not by itself constitute a misuse
- **Misuse**
  - Court may refuse to enforce copyright based on equity, where contrary to public interest
  - Sue & restrain competitor where plaintiff has no rights
  - Misuse of judicial process and copyright law

Walker Process: Enforcement of Invalid Patent Antitrust Violative

- **Facts**:
  - Suit for patent infringement, counterclaim for declaratory judgment holding the patent invalid
  - Antitrust counterclaim "illegally monopolized commerce by having fraudulently and in bad faith obtained and maintained the patent in violation of the antitrust laws" sought treble damages
  - Public use in the United States more than one year before filing -- FMC was a party to the prior use
- **Held**:
  - Enforcement of patent procured by fraud may violate § 2 Sherman
  - All other elements of § 2 monopolization charge need be proved
  - If so, treble-damage § 4 Clayton available
  - No bar by rule that only US may sue to cancel patent
- **Gave Rise to "Technical Fraud" Usage**
  - Meant Violating Duty of Disclosure
  - Incorrectly Interpreted to mean Common Law Fraud

Price Fix & Other Restraints of trade, Equitable Remedy Unavailable: *Pope v Gormully (1892)*

- *Licensor sought specific performance of price, post expiration, exclusive dealing*
- *"It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly"*
- *Freedom to contract doesn't permit contract to do illegal thing or against public policy or in restraint of trade*

Non- Prior Art Inequity, Misuse

- Prosecution based
  - Best mode concealment*
  - Inventorship Deception*
  - Other PTO misconduct, e.g. small entity, various false statements, reissue declarations
- Post Prosecution
  - Resale price maintenance
  - Requiring licensees to buy an unpatented staple item (tying, package licensing)
  - Requiring royalties beyond expiration
  - Forcing royalties on sales of unpatented end products with patented item
  - Requiring licensee to not make items competing with the patented item
  - Predatory design
  - Combining onerous licensing terms
- Non-misconduct based Equitable Limts
  - Public health (*Milwaukee v Activated*)
  - War effort (*Vitamin Technologists*)

Other Inequitable Conduct Issues

- Violating Duty of Candor Leads to Unenforceability
- Exceptional Case Awards of Defense Fees
- Common Law Fraud Damages (*Rambus*?)
- Treble Damages in Antitrust
  - Predatory or Anticompetitive Act
  - Intent to Monopolize
  - Monopoly Power Achievable

Fraud and Misconduct During Patent Office Prosecution – Pre *Therasense*

- Three Supreme Court Unclean Hands Cases
  - Uncompromising Duty of Candor for All Involved in Application: *Kingsland v Dorsey*
  - Unclean Hands: Relatedness to Patent: *Keystone v General*
  - Unclean Hands In Prosecution Cuts Off All Remedies: *Precision v Automotive*
- Court of Appeals Cases
  - Duty of Disclosure of Prior Art: *Beckman v. Chemtronics*
  - Affirmative Misrepresentations about Invention: *Grefco v. Kewanee*
  - Interrelation of Materiality and Intent: *J.P. Stevens v. Lex Tex*
  - Burden of Proof on Party Asserting Invalidity *American Hoist v. Sowa*
  - Burden of Proof & Species of Fraud: *Nobelpharma v. Implant*
  - Exercise of Professional Judgment: *Toshiba v. Zenith*

Inequitable Conduct and Fraud After *Therasense*

- Review of Inequitable Conduct
- Therasense
  - Litigation – Inequitable Conduct Defense
  - Not Rule 56 Duty of Disclosure

Pre-*Therasense* Inequitable Conduct

- Violation of Duty of Candor
- Materiality - Reasonable Examiner
- Intent
- Evidence of Both Materiality and Intent
- Conclusion of Inequity
- Derived from “Unclean Hands”

Duty of Disclosure During Prosecution -- Summary

- Uncompromising Duty of Candor
- Those Involved in Prosecution
- Fraud and Inequitable Conduct Where Breach of Duty of Disclosure
  - Material Facts
  - Intent
- Affirmative Duty Disclosure of Prior Art, Enablement, Best Mode, Inventorship
- Make True Statements, Examples, Interpretations, Arguments
- Subject –Anything Relevant to Patenting
  - Prior Art
  - Operativeness
  - Inventorship
  - Best Mode
- Rules
  - Duty of Disclosure 37 C.F.R. 56
  - Procedures for Complying 97, 98

Therasense, Inc. v. Becton, Dickinson & Co. (Fed. Cir., 2011)

- *Therasense* is only about the inequitable conduct defense in lawsuits.
- Now there are only three materiality standards
  - "But for"
  - Rule 56
  - The "but for" exception of "don't lie"
- "But for" is judged as if the PTO were considering the reference
  - Broad claim interpretation
  - Preponderance standard
- Confirmed specific intent to deceive PTO
- Enforcement of patents may be more efficient as the specter of inequitable conduct reduced
- **Rule 56 is unchanged**

Common Facts Supporting Attacks

- Un-cited Art
- Patentee's own acts, "on sale“
- Inventorship
- Inoperative
- Non-enabling disclosure
- Best Mode

Supreme Court Cases Considered In *Therasense*

- All were traditional "unclean hands" defenses in infringement cases
- *Keystone*, in particular, went through a traditional "unclean hands" analysis
- All involved lies
  - That a disinterested witness was author
  - That a public use was experimental
  - That the party with a better patent was the first inventor

Analysis in *Therasense*

- Unclean hands history
- Inequitable conduct allegations in lawsuitws a problem to the patent system
- Choose between different "materiality" standards
  - objective "but for"
  - subjective "but for"
  - "but it may have been"
  - Old Rule 1.56 reasonable examiner importance
  - Sliding scale depending on intent
  - Current Rule 1.56 *prima facie* unpatentability

Decision in *Therasense*

- No more sliding scale
- "But for" the absence of the information/making of the statement, the patent would not have issued
  - Using broad claim construction
  - Preponderance
- Egregious affirmative acts of misconduct exception
- Specific intent to deceive
- Rule 1.56 *prima facie* unpatentability is not the materiality standard for the inequitable conduct defense in a lawsuit

Nondisclosure of Prior Art: What if *Beckman v Chemtronics* was after *Therasense?*

- Clark invention for electrodes behind membrane to find concentration of oxygen in liquids or gases
- Beckman contacted Stow & attempted to purchase his invention
- Beckman failed to fulfill "uncompromising duty" of disclosure of an applicant because Beckman, possessed of information regarding Stow's invention & realizing its significance, omitted that information from application.
- *Therasense* analysis:
  - Anticipatory reference meets “but for”
  - Intent – Attempted to buy Stow
  - Inequitable Conduct – consistent with *Therasense*

Affirmative Misrepresentations: What if *Grefco v Kewanee* were after *Therasense?*

- Experiments and tests in examples of perlite/foam composite board for roofing -- tests not passed, not run correctly
- Policy concerns behind duty of candor
  - Highest standards: asking government for a monopoly
  - Protect private parties claiming same invention
  - Important to public
  - Prosecution free from fraud and inequitable conduct
  - Withholding prevents patent office discharge of duty -- ex parte, no testing facilities
- Uncompromising duty to report all facts concerning possible fraud or inequitableness underlying the applications Therasense analysis:
  - Not clearly “but for”, but examples common in chem cases
  - Affirmative acts of misconduct – falsifying results

Enablement and Deletions: *Nobelpharma v Implant* after *Therasense*

- Reference to Inventor's 1977 Book in Swedish application
- Deleted from US Application
- Failed to disclose to US Patent Office
- Inventor testified only way disclosure was enabling was with book
- Shields and Swords: species of fraud
  - Inequitable conduct defense
  - Affirmative Antitrust Cause of Action
- *Therasense* analysis
  - If non-enabling, then patent would not have issued
  - Deletion indicates intent

Incomplete Disclosure of Test Data: *Kimberly Clark v. Johnson & Johnson*

- Data omission - not all in-house test data to Examiner in application for patent at issue
- However, test data was in copending case before same Examiner, prosecuted by same Agent
- Not inequitable conduct in 1984
- Under *Therasense*:
  - Not "but for" – relevant claims abandoned
  - Not intent – Patent Agent thought Examiner knew

Exercise of Professional Judgment Permitted: *Toshiba v Zenith*

- Invention combined thin metal membrane "shadow mask" with "negative tolerance" coating black on screen around phosphors, prior art references did not have both, one thought inapplicable to the other
- Bingley with Kaplan made obvious: contrast improved in shadow mask tube by spacing phosphors and placing light absorbing material
- Duty of candor leaves room for exercise of good faith judgment -- here, did not think to combine
- Under *Therasense*:
  - Meets “but for” test – claims were obvious
  - Intent – Not present in 1975, not specific intent to deceive the PTO

Translations

- No translation of oath
  - Signed by non-English speaking inventor
  - Not inequitable Seiko Epson Corp. v. Nu-Kote Int'l, Inc. (Fed Cir 1999)
- *Therasense* analysis
  - “But for”?
  - No intent to deceive, it was the inventor
- IDS with "one-page partial translation“
  - "accurate but misleadingly incomplete“
  - Semiconductor Energy Laboratory Co. v. Samsung Electronics Co., Inc. (Fed Cir 2000)
- *Therasense* analysis
  - Claims obvious
  - Translation directed to non-material parts

What Would Have Made Better Standards

- Don't make a new standard
- Don't Take Inequitable Conduct from Judges
- Don't Reconstitute the Fraud Squad
- Do Recognize interrelatedness of defense and offense

Define elements progressively – more elements and greater consequences

- Keep: Materiality, Intent, Inequity (just a defense)
- Add Exceptionalness (defense plus fees)
- Add Scienter, reliance (damages to defense)
- Add Market Power (treble damage antitrust remedies)

Therasense Critique

- Will *Therasense* reduce "flooding" IDS referencee?
- Can you have But for materiality, under a preponderance, yet not invalidate under clear and convincing?
- But you must have clear and convincing but for materiality?
- Are Egregious Affirmative Acts only misstatements, and not mere omissions?
  - "Technical fraud"?

Comments or Questions?

Dave Brezina