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Executive Misconduct Can Affect Patent Enforceability

Court bares teeth in case involving pet identification system

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Inequitable conduct can leave an otherwise valid and infringed patent unenforceable. But just whose inequitable conduct is a threat?

In *Avid Identification Systems Inc. v. Crystal Import Corp, Inc.*, the Federal Circuit weighed in on the enforceability of the patent of a company whose president withheld material information. Although the president wasn't the inventor or the patent filer, he owed the U.S. Patent and Trademark Office (USPTO) a "duty of candor" because he was "substantively involved" in the preparation of the patent application.

Going To The Dogs

Avid held a patent related to a radio-frequency identification system for reading computer chips implanted in pets. Avid's president, Hannis Stoddard, formed the company after visiting an animal shelter to recover his own lost dog. According to the court, he made it his mission to develop a better system for dealing with the identification and processing of recovered animals.

Stoddard hired engineers to develop a chip and reader system to meet his objectives. In spring 1990, Stoddard demonstrated some of Avid's technology at a trade show. In August 1991, the inventors assigned their rights to Avid, and the company subsequently filed for the patent on a chip-and-reader system. The patent was issued in August 1993.

In 2004, Avid sued Datamars and several other competitors, alleging patent infringement. After the jury found for Avid on the patent infringement claim, Datamars filed a motion to hold the patent unenforceable for inequitable conduct. The district court granted the motion, finding that the trade show demonstration constituted material information that was withheld from the USPTO with deceptive intent. Avid appealed.

Bone Of Contention

The Federal Circuit explained that information is material if there is a substantial likelihood that a reasonable patent examiner would consider it important in deciding whether to issue a patent. Avid argued that the trade show information wasn't material because the jury had been presented with it and, nonetheless, found the patent valid.

The court, however, found that this stance confused the concepts of "material" and "invalidating." It pointed out that it had often held that a reasonable examiner can find a particular piece of information material to determining patentability — even if that information doesn't actually invalidate the patent. Therefore, the district court didn't err in holding that the trade show information was highly material despite not being invalidating.

Court Says, 'Speak!'

Having established that the information was material, the court turned to the duty of candor. USPTO Rule 56 imposes a duty of candor when dealing with the USPTO on anyone associated with the filing and prosecution of a patent application. The duty encompasses a duty to disclose all information known to each individual that's material to patentability, including prior sale or public use of the invention one year or more before the application is filed.

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The rule uses three groups to define the individuals associated with a patent application's filing and prosecution: Named inventors; attorneys or agents who prepare or prosecute the application; and anyone else who is substantively involved in the preparation or prosecution of the application and is associated with the inventor or assignee.

The court read "substantively involved" to mean that the involvement relates to the content of the application or decisions related thereto beyond wholly administrative or secretarial involvement.

The Federal Circuit held that, when determining whether an individual was substantively involved and owes a duty of candor, courts can consider a variety of factors, including the individual's:

- Position with the company

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- Role in developing or marketing the patented idea
- Contact with the inventors or prosecutors
- Representations to the USPTO

It concluded that the evidence here supported a finding that Stoddard was involved in the preparation of the patent application. It cited his personal mission, the purpose of his company and two communications regarding a European patent application sent to Stoddard by one of the named inventors.

Just A Barking Dog?

The Federal Circuit cautioned that a duty of candor isn't enough to establish inequitable conduct. A court must also consider materiality and deceptive intent. And, if any individual can't assess the materiality of the information, he or she would lack the requisite deceptive intent. ■

A Dissenting Judge Begs To Differ

In *Avid Identification Systems, Inc. v. Crystal Import Corp Inc.* (see main article), one judge didn't agree with his colleagues regarding the plaintiff's "duty of candor" to disclose all material information regarding the case to the U.S. Patent and Trademark Office.

In Judge Richard Linn's view, the majority's interpretation of being "substantively involved" with the filing and prosecution of a patent application imposed a duty to disclose information on persons not in a position to assess materiality. Rather, he wrote, the phrase requires an individual to possess a specific understanding of the substance of the patent application as a threshold to impose the duty of candor.

Linn's definition of "substantively involved" would exclude typists, clerks and similar staff who assist with the application in a nonsubstantive way — as well as corporate officers, managers, employees and "all others who are neither aware of the technical details or legal merits of the application nor engaged in the preparation or prosecution thereof." Merely having a general or financial interest in the invention or a general awareness of the application shouldn't suffice, in Linn's view. ■