

# IP Strategies

## Proving Fraud Just Got Tougher in Trademark Cancellations The Impact of the *In re Bose* Decision

On August 31, 2009, the United States Court of Appeals for the Federal Circuit changed the standard of proof for fraud in trademark oppositions and cancellations. This standard is now aligned with the standards of proof for fraud in other types of intellectual property, namely, copyrights and patents. One consequence of this decision is the revival of the role of the often-battered and misunderstood incontestability status of trademarks. As expected, this change in standard of proof will be felt mostly by litigants in opposition and cancellation proceedings before the Trademark Trial and Appeals Board (TTAB).

To understand the implications of this return to an intent-based standard of proof, we begin with a historical overview of trademark law, we then discuss *inter partes* proceedings before the TTAB, and, finally, we address how the new standard of proof diverges from precedent at the TTAB.

### *Historical Perspective*

Copyrights and patents are constitutional rights woven deeply into the fabric of this nation by its founders. Article 1, Section 8, Clause 8 of the U.S. Constitution grants to the federal government the right “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

In contrast, trademark law was born from the desire to curb unfair competition in the marketplace.<sup>1</sup> In the 19th century, Congress first restricted confusion of customers by enacting the first federal act directing itself trademark registration.<sup>2</sup> In this act, infringement of marks was somewhat analogous to a claim of fraud in a commercial environment. The constitutional grant of power invoked to regulate trademarks is the Commerce Clause of the U.S. Constitution.<sup>3</sup>

By the 20th century, a strict definition of fraud was no longer required for a finding of trademark infringement. The

focus shifted slowly to the likely confusion of buyers and their impression in the marketplace.<sup>4</sup> To this day, the beating heart of trademark law is the grant of limited rights sufficient to police the marketplace and ultimately aid the real beneficiaries: consumers. The current trademark law, often referred to as the Lanham Act, was enacted in 1946 and codifies these policies.<sup>5</sup>

### *Trademarks Today*

The three most easily recognized types of intellectual property are patents, copyrights, and trademarks. Certificates of registration or grant can be obtained for each from the United States. There is an important distinction to be made between each of these types of intellectual property. Patents and copyrights are exclusionary rights granted to an individual (inventor or author) against third parties, whereas trademarks are granted to those who offer goods or services in commerce but with limited rights based on the ever-changing conditions of the marketplace. A trademark owner is a mere guardian of the marketplace, protecting its clients from confusion. A trademark registration is not a monopoly and, accordingly, standards for proof of fraud committed in the process of securing a trademark registration differs from other standards for proof of fraud in intellectual property.

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Trademark is a form of property recognized by the law. Rights may be established by proving actual use in commerce or via a certificate of registration in the trademark registry with the United States Patent and Trademark Office. Trademarks can be established for words, designs, and composite marks, but also shapes, colors, smells, or any other feature that can lead to public association with a source of origin of goods or services. Trademark registration is used to enforce rights through trademark infringement proceedings. In the United States, a trademark is granted to the “first to use” the mark, unlike some other jurisdictions in which the mark is granted to the “first to file.”

A federal registration gives the owner of a mark important legal rights and benefits, but the registration does not create the trademark. It only recognizes and provides notice of these rights to others.<sup>6</sup> Owners abandon marks, goods and services sold under a mark evolve, corporations merge, and public perception evolves and changes. Famous examples of marks that have traveled to and back from a graveyard of genericness include the mark SINGER for sewing devices and the mark THERMOS for glass vacuum bottles.

### ***Cancellations and Oppositions at the Trademark Office***

*Inter partes* proceedings are mechanisms established by the Lanham Act to block, alter, or remove registrations from the Trademark Registry. In particular, oppositions and cancellations enable one to either prevent registration or remove/correct a mark from the registry, respectively. The Lanham Act permits cancellations by one who “believes that he/she is or will be damaged by the registration.”<sup>7</sup> It is important to understand that, unlike a voided patent or copyright, a cancelled trademark registration does not result in the cancellation of the common-law rights associated with the trademark.

A cancellation proceeding may be instituted at any time after a registration has been granted. During an initial period of five years from registration, the mark can be cancelled based on any ground that would have prevented registration at the outset. After the initial five years, a trademark owner can file a claim of incontestability and thereby limit the grounds upon which cancellation can be sought. The policy reason for this five-year statute of limitations is a balancing of the interest of the public, which after five years has come to know and associate the mark for this potentially wrongful source of origin.<sup>8</sup>

For example, suppliers and manufacturers of goods are owners of marks but not their local distributors. Let’s assume that a distributor filed for a mark rather than the manufacturer. In normal circumstances the manufacturer is entitled to the registration; but once five years have elapsed and only if the distributor has filed for incontestability after continuous and open use of the mark for five years, the statute of limitations protects consumers by leaving the marketplace undisturbed even if, originally, the mark was awarded to the wrongful legal owner.

As with any statute of limitations, a keen sense of unfairness may be felt by close observers unless one is reminded that consumers, not trademark owners, are the real beneficiaries of trademarks. One of the few grounds available for cancellation of an incontestable mark is fraud. As a practical matter, attorneys often circumvent incontestability by making far-reaching claims of fraud. These claims are as varied as the process of registration. Some attorneys argue that the translation of a mark inspired by a foreign word was omitted from the original trademark application or was incorrect; others argue that a color is missing from a claimed design, etc. Claims of fraud today are pivotal in many cancellation proceedings. These claims, as they were easy to win, served to somewhat nullify the incontestability status of marks.

#### ***Practice Tip:***

The fifth anniversary of the registration of a mark is a critical date. Always file the statement of continuous use required on that date and claim incontestability status, as there is no disadvantage.

File federal applications for trademarks within five years of the market introduction, as this may uncover pending or issued marks filed by distributors, agents, or individuals before the potentially conflicting marks become incontestable.

Even if a mark is unregistered, trademark attorneys should docket and evidence the date of first use in commerce to benefit at an earlier stage of incontestability if a common-law mark ever enters the registry.

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### **Fraud Prior to *In re Bose***

Prior to *In re Bose*, the standard of proof of fraud in the trademark sense must have been shown at the time a registration is obtained or when statements were made to renew a registration. Plaintiffs had a heavy burden of proof to demonstrate fraud by a preponderance of the evidence.<sup>9</sup> Fraud must have been pled with particularity following the Federal Rules of Civil Procedure.<sup>10</sup>

To prove fraud in a cancellation, a petitioner must prove five elements: (1) a false representation of a material fact; (2) knowledge or belief on the part of the filer that the representation is false; (3) intent to induce the PTO to act or refrain from acting in reliance on the misrepresentation; (4) reasonable reliance by the PTO on the misrepresentation; and (5) damage from such a reliance.<sup>11</sup>

The TTAB is the administrative body that has jurisdiction over cancellation proceedings. In *Medinol*, the case of precedence before *In re Bose*, the TTAB took the position that “[t]he appropriate enquiry is ... not into the registrant’s subjective intent [to lie], but rather into the objective manifestation of that intent ... [a] trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration which it knows or should know to be false or misleading.”<sup>12</sup> As a consequence, a subjective standard was used to determine whether knowledge could be implied.

In *Medinol*, registration of the mark NEUROVASX for catheters and stents was cancelled based on a finding of fraud. At the end of the application process, the registrant made a hasty online declaration that use was for all goods in the notice of allowance. The mark owner later admitted that the mark was never used for stents but for catheters only. The statement may not have amounted to fraud in the traditional sense of the term. However, the TTAB cancelled the registration for both stents and catheters, finding that the registrant should have known there was no use of the mark for stents and that fraud had been perpetuated before the Office. The TTAB simply did not care that the mark NEUROVASX was used in the marketplace for catheters or that consumers were starting to associate the mark with the registrant.

Thus, the *Medinol* ruling resulted in very harsh penalties for simple errors. Patent cases never have followed the *Medinol* rule. The Federal Circuit in *Exergen*,<sup>13</sup> two years before *In re Bose*, dismissed a claim of inequitable conduct (a broader concept than fraud) in a patent case on failure to plead actual knowledge of conduct. The Federal Circuit sided with the “known” standard from the Court of Customs

and Patent Appeals over the “known or should have known” requirement of the TTAB.<sup>14</sup> The Federal Circuit reaffirmed that even in pleadings under Rule 9(b) of the Federal Rules, the standard is one of knowledge, not of implied knowledge.<sup>15</sup> In *Exergen*, the Federal Circuit made its position quite clear, paving the way for *In re Bose*. Today, things have changed as a result of *In re Bose*.

### **Practice Tip:**

It is important to update the recitation of goods and services when filing Statements of Use to remove goods or services with which the mark has not been used. Such amendment does not mean the registration cannot later be read to recapture such goods or services.

Under the doctrine of reasonable expansion of trade or the doctrine of related goods, a certificate may be read to include related goods such as the stents, while the certificate is directed only to catheters (i.e., doctors associate a manufacturer of catheters with a manufacturer of stents).

### ***In re Bose Changes the Law***

The Bose Corporation owns U.S. Trademark Registration No. 1,633,789 for the mark WAVE. In 2001, the general counsel for Bose signed a Section 9 renewal application stating that the mark was still used in conjunction with several goods, including audiotape recorders and players. Hexawave, Inc. filed a petition for cancellation, arguing that Bose no longer sold or manufactured audiotape recorders and players as of 1996. The situation was highly analogous to *Medinol*.

Bose admitted this fact but argued that it still used the mark in conjunction with the repair and maintenance of those goods. The TTAB concluded that the repair and maintenance of old recorders did not constitute sufficient use in commerce in connection with the goods. Additionally, the TTAB concluded that fraud had been committed before the Office based on a finding that the corporate officer “should have known” that Bose had discontinued use of the mark in connection with audiotape recorders and players.

The Federal Circuit reversed the ruling of *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009), and explained that the TTAB erroneously lowered the fraud standard to a simple

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negligence standard when it added the “should have known” language to the *Medinol* opinion.<sup>16</sup> The court continued: “Because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence. But such evidence must be clear and convincing, and inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”<sup>17</sup>

The court went even further and said that the involved conduct must be a “willful intent to deceive.”<sup>18</sup> In the case of the Section 9 statement related to the claim of use of the mark for audiotape players, the court found that misstatements did not represent a conscious effort to obtain for Bose a registration to which Bose’s general counsel knew it was not entitled. At the time of the signature of the statement, the general counsel stated in a deposition that he believed the statement to be true and simply did not know Bose had discontinued the product.

The Federal Circuit deleted a portion of the goods on the registration certificate and tried to explain some of the policy considerations that are unique to trademarks, namely, that the purpose of Section 8 or 9 renewals (statements of continuous use) is “to remove from the register automatically marks which are no longer in use. When a trademark registrant fulfills the obligation to refrain from knowingly making material misrepresentations, it is in the public interest to maintain registrations of technically good trademarks on the register so long as they are still in use. Nothing is to be gained from and no public purpose is served by canceling the registration of this trademark.”<sup>19</sup>

### Practice Tip:

The Court explained that evidence must be clear and convincing. Since lesser evidence is no longer relevant, only direct evidence can be used to prove intent. This implies that registrants who conduct a full investigation but mistakenly believe use is ongoing disadvantage themselves. Fraud claims should now be filed when the record of a mark implies strongly that registrants lied willfully, not merely had incompetent counsel.

### Conclusion

We are currently involved in several pending cancellation proceedings before the TTAB in which fraud has been asserted as a ground for cancellation. These pending cases and other decisions to be published will result in a

better understanding of the actual level of evidence needed to sustain a claim of fraud. Currently, the docket of the TTAB is filled with petitions for cancellation based on claims of fraud, and we do not believe that the TTAB can take a hard line and require uncontested proof of intent, since this would have disastrous effects on the capacity of trademark owners to police the registry. There is no doubt that *In re Bose* is the end of baseless fraud claims before the TTAB. We do expect summary judgment to be granted more often at early stages of litigation. These dispositive motions must be filed before the opening of the testimony period and after the closure of the pleading phase. We will continue to monitor the evolution of this situation and provide you with an update in subsequent issues of *IP Strategies*.

<sup>1</sup> McCARTHY ON TRADEMARKS, §1:10.

<sup>2</sup> Act of July 8, 1870, 16 Stat. 198, §§ 77–84.

<sup>3</sup> Trade-Mark Cases, 100 U.S. 82, 85 (1879).

<sup>4</sup> *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 130 (1947).

<sup>5</sup> Signed into law by President Truman on July 5, 1946, now 15 U.S.C.A. §1051 et seq.

<sup>6</sup> McCARTHY ON TRADEMARKS, §20:41.

<sup>7</sup> Lanham Act §14, 15 U.S.C.A. §1064.

<sup>8</sup> *Consorzio del Prosciutto di Parma v. Parma Sausage Prods., Inc.*, 23 U.S.P.Q.2d 1894 (TTAB 1992).

<sup>9</sup> *Massey Junior College, Inc. v. Fashion Inst. of Tech.*, 492 F.2d 1399 (CCPA 1974).

<sup>10</sup> Fed. R. Civ. P. 9(b).

<sup>11</sup> *Arcraft Novelties v. Baxter Lane Co.*, 685 F.2d 988, 992 (5th Cir. 1982); *Hard Rock Café Int'l, Inc. v. Hard Rock Café Int'l, Inc.*, 951 F.2d 684 (5th Cir. 1992).

<sup>12</sup> *Medinol v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205, 1209 (TTAB 2003).

<sup>13</sup> *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2006).

<sup>14</sup> *King Automotive Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008, 1010 (CCPA 1981).

<sup>15</sup> *FMC Corp. v. Manitowoc Co., Inc.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987).

<sup>16</sup> *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009).

<sup>17</sup> *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

<sup>18</sup> *Metro Traffic Control, Inc. v. Shadow Network Inc.*, 104 F.3d 336 (Fed. Cir. 1997).

<sup>19</sup> *In re Bose Corp.*, No. 2008-1448 (Fed. Cir. 2009).

## Case Law Review

### A PRODUCT IS READY FOR PATENTING WHEN IT HAS BEEN REDUCED TO PRACTICE AND, IF AN OFFER FOR SALE EXISTS, THIS STARTS THE CLOCK TICKING TOWARD A BAR TO PATENTABILITY

*Cygnus Telecommunications Technology, LLC v. Telesys Communications, LLC*  
(Fed. Cir. 2008)

Patents may be invalidated under 35 U.S.C. §102(b) if the invention was already patented or described in a printed publication anywhere in the world, or was in public use or on sale in the United States, more than one year prior to the

date a U.S. patent application was filed. Patent practitioners sometimes joke that the “b” in 102(b) stands for a “bar” to patentability. While 102(b) may likely be the most well known section of the patent statute, the present case serves as a reminder that 102(b) is no joking matter and that patentees and patent owners alike must remain vigilant and keenly aware of how certain actions may impact patent validity or whether a patent application should be filed at all. It is equally important that the legal terminology involved in 102(b) decisions be well understood so that such terminology is not incorrectly used, where something else entirely may be meant, as such misuse could result in unfortunate consequences for patent holders.

Using some of the facts of the present case, creating a few imagined scenarios and posing a few speculative questions, we provide a thumbnail review of some important intertwining legal concepts and terminology and also provide suggestions as to what might have been done to prevent patent validity problems. We note how, in the present case, the validity attack may have been defended against, assuming of course that operative facts existed in support of patent validity. Our created scenarios assume such facts exist.

Patent validity in the present case turned on the issue of whether the invention was “on sale” prior to the critical date of one year from the filing date of the patent applications in question. Subissues concerning reduction to practice were also discussed by the Federal Circuit, including whether the patented invention had been “reduced to practice” and whether the invention was “ready for patenting.” Before delving into the specific facts of *Cygnus Telecommunications*, we review some of the legal principles involved in the Federal Circuit’s decision. Reduction to practice may legally manifest in one of two forms.

### ***The Concept of Reduction to Practice***

*Constructive reduction to practice* occurs when a patent application is filed. The patent application must meet the legal requirement of teaching one of ordinary skill how to make and use the invention. An *actual reduction to practice* occurs when the inventor builds the invention and, in the language of the Federal Circuit, “realizes that the invention as later claimed indeed works for its intended purpose.” At that point “further ‘experimentation’ may constitute a barred public use.” (“Public use,” as noted above, is another condition that may bar patentability under the patent statute; however, the issue of whether there was a public use of the invention in *Cygnus Telecommunications* was

touched upon by the Federal Circuit only to note that the lower court had no need to address it.)

### ***The Concept of Experimental Use***

A concept intimately related to actual reduction to practice is the “experimental use” doctrine. The Manual of Patent Examining Procedure (MPEP) defines experimental use as “perfecting or completing an invention to the point of determining that it will work for its intended purpose.” Therefore, according to the MPEP, “experimental use ends with an actual reduction to practice.”

Experimental use may handily be invoked to prevent an on-sale bar under 102(b) if, as stated by the MPEP, “the primary purpose of the inventor at the time of sale, as determined from an objective evaluation of the facts surrounding the transaction, was to conduct experimentation.”

### ***The Concept of the “On-Sale” Bar***

Whether there was an offer for sale within the meaning of the patent statute involves applying traditional contract law principles of offer, acceptance and consideration. An important Supreme Court case that sets forth the requirements for finding an “on-sale” bar is *Pfaff v. Wells Elec.*, 525 U.S. 55 (1998), which was cited and relied upon by the Federal Circuit in *Cygnus Telecommunications*.

In *Pfaff*, the Supreme Court concluded that two conditions must be satisfied before the critical date, in order to find an on-sale bar. “First, the product must be the subject of a commercial offer for sale, ... [and] ... [second, the invention must be ready for patenting.” Whether an invention is “ready for patenting” may be determined in at least two ways: (1) “by proof of reduction to practice before the critical date”; or (2) “by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.” Note that the preparation of drawings and enabling description of the invention is similar to constructive reduction to practice, but without proceeding to file a patent application based on the prepared papers.

For example, in *Pfaff*, the inventor Wayne Pfaff filed a patent application for a computer chip socket on April 19, 1982. His “critical date” was therefore April 19, 1981, one year prior to the patent application filing date. Prior to March 1981, Pfaff provided drawings (a sketch) of his concept to representatives of a potential manufacturer, and on April 8, 1981 the manufacturer provided Pfaff with a written

confirmation of a previous oral purchase order for 30,100 of his chip sockets, along with a total price. The manufacturer proceeded to take several months, until July 1981, to produce the chip sockets due to the tooling it needed to develop. The July 1981 time frame was found to be the time frame of actual reduction to practice. That is, Pfaff's actual reduction to practice was accomplished less than one year prior to his constructive reduction to practice date of April 19, 1982.

Nevertheless, the Supreme Court found an on-sale bar because the drawings Pfaff provided to the manufacturer were sufficient to enable the manufacturer to make the chip socket. That is, the Supreme Court found a commercial sale, and an enabling description, of the invention. The enabling description is similar to constructive reduction to practice as noted above.

### ***The Cygnus Telecommunications Case***

In the present case, *Cygnus Telecommunications* appealed from the district court's grant of summary judgment that two of Cygnus's patents were invalid under the on-sale bar of 35 U.S.C. §102(b). The Federal Circuit affirmed the district court's holdings.

The technology at issue involved a "black box" system that enabled callers located outside of the United States to take advantage of less expensive U.S. international billing rates. The black box user would first place a call to the United States (actually to the black box located in the United States), but the call would be terminated and the user would receive a callback. The user would then enter the international number to be dialed, and the black box system would make the needed connections based out of the United States, thereby obtaining the lower billing rate. The so-called "black box" had the disadvantage of requiring a dedicated line per user, which was expensive. Therefore, the black box system was replaced by a computer-based system (the "386 system"), which did not require the dedicated line.

The inventor testified that he worked with a computer engineer to develop the software needed for the 386 system and with several individuals overseas who first used the black box system and then used the 386 system. The inventor described two of the overseas individuals as "beta-testers" who assisted him in troubleshooting the 386 system. However, the overseas individuals were also invoiced for the cost of their telephone calls.

During the same time period, the inventor also had discussions with another telecommunications company

regarding implementing and marketing the invention on a commercial scale. A commercialization agreement was entered into on April 24, 1991.

On April 24, 1992, the inventor filed a patent application on the computerized callback system and the application matured into U.S. Patent No. 5,883,964 and a successor patent, U.S. Patent No. 6,035,027. *Cygnus Telecommunications* became the owner of the two patents in question as a successor-in-interest to the company originally founded by the inventor.

The district court held the two patents to be invalid, finding that a sale occurred, due to the payments by the overseas participants for their phone calls, and that the 386 system had been reduced to practice, both actions having occurred more than one year prior to the critical date of April 24, 1992. Although *Cygnus* argued that the use of the 386 system prior to the critical date was experimental use, the district court rejected this argument, holding that the experimental use exception is not available after the invention has been reduced to practice.

The critical evidence relied on to establish reduction to practice was a 1997 sworn declaration from the inventor in which he stated, "I reduced to practice the invention of the claims before June 27, 1990." The court also found that *Cygnus* provided no satisfactory explanation for the inventor's statement and did not explain why *Cygnus* believed that it should have been disregarded. Another declaration filed in 1994, and a 2006 deposition, were alleged to be inconsistent with the 1997 declaration statement.

However *Cygnus Telecommunications'* appeal suffered from procedural problems in that, while some evidence germane to the issue of whether the inventor's declaration should be disregarded may have been present in the overall record on appeal, *Cygnus* did not present that evidence to the district court on the issue of summary judgment and also apparently presented such possible evidence several months after the summary judgment order was issued. To overcome the district court's summary judgment ruling, *Cygnus* needed to convince the Federal Circuit that there was some issue of material fact (discernable in the allowable record on appeal) that, without resolution, precluded summary judgment. *Cygnus* failed to do so because, as stated in the present case, "a genuine issue of fact sufficient to survive summary judgment [cannot be created by a party] simply by contradicting his or her own previous sworn statement...without explaining the contradiction or attempting to resolve the disparity."

### Some Imagined Scenarios and Questions

We therefore speculate here as to what evidence might have saved the day for Cygnus and explained the contradiction or disparity with the inventor's sworn declaration. Our first question is whether the inventor incorrectly used the terminology "reduced to practice." More directly, was the inventor accurate in stating that the invention was reduced to practice? After all, the inventor testified that at least two of his overseas participants were "beta-testers" and that they were "troubleshooting" the 386 system. This begs the questions of what aspect the beta-testers were involved with and why such troubleshooting was required by the inventor. If, indeed, some portion of the 386 system was not yet working, this evidence may have been sufficient to show that the purported sale was actually related to continuing experimental use and that therefore actual reduction to practice was not yet completed. That is, if Cygnus could have shown that "the primary purpose of the inventor at the time of sale, as determined from an objective evaluation of the facts surrounding the transaction, was to conduct experimentation," Cygnus may have framed an argument around the inventor's usage and understanding of the terminology "reduced to practice" as used in the inventor's declaration. In other words, the inventor's apparent intent to experiment, and the reasons experimentation seemed warranted, may have been inconsistent with his sworn declaration statement. Key to this argument would have been to somehow use such inconsistent information to show that the inventor was not clear as to the specific legal meaning of the phrase "reduced to practice." In other words, the inventor may have meant only that he built a prototype that required experimentation to "perfect or complete" the invention.

There is some further issue in the actual record of the present case, however, because the inventor testified that, prior to June 27, 1990, he "had built a system that the idea would work, but not necessarily commercially," which the Federal Circuit viewed as a confirmation of his declaration statement. This statement alone, however, still seems questionable as to what was specifically meant by "that the idea would work." Without reviewing the actual complete testimony, one may imagine that the inventor's view that the idea would work may still have been subject to experimentation.

Another speculative question related to the inventor's declaration is whether the inventor was referring to the 386 system or the black box system (despite, of course, the inventor's "invention of the claims" language). If the inventor

was referring to the black box system, then the follow-up question is whether the black box system in reality embodied the claims of the patents and was in fact the "invention of the claims." The Federal Circuit noted that the question of whether an invention is ready for patenting turns on "whether the system embodied the claims in the two patents at issue." (The declaration apparently did contain some reference to the 386 system as a functional computerized callback device as of June 1990.)

There are questions regarding the sale also. The MPEP states that, for a sale to exist, a "sale or offer for sale must take place between separate entities ... Where the parties to the alleged sale are related, whether there is a statutory bar depends on whether the seller so controls the purchaser that the invention remains out of the public's hands." MPEP 2133.03(b) (quoting *Ferag AG v. Quipp, Inc.*, 45 F.3d 1562, 1566 (Fed. Cir. 1995)). The MPEP provides an example fact pattern: "Where the seller is a parent company of the buyer company, but the President of the buyer company had 'essentially unfettered' management authority over the operations of the buyer company, the sale was a statutory bar." However, in the present case, the overseas individuals may have been employees of the inventor's company. Such evidence may have overcome the finding of a sale.

The inventor's declaration appeared to be the controlling factor in *Cygnus Telecommunications* in that the holding that reduction to practice had occurred, per the inventor's own words, prevented arguments regarding experimental use of the purported sold system.

We nonetheless hope our imagined scenarios serve the purpose of providing a view toward awareness of pitfalls that inventors and patent owners may encounter regarding patentability and patent validity issues.

#### Practice Tip:

Patent owners and inventors should be aware of the meaning of terminology related to 102(b) to prevent inadvertently incorrect statements that could result in patent invalidity. Whether an invention is barred from patentability is a legal question that requires careful gathering and assessment of facts. Vedder Price patent attorneys can assist in making these determinations prior to filing patent applications, and they can provide legal opinions on patent validity and assist in related litigation situations.

**ASSIGNMENT CONTRACTS SHOULD SPECIFY  
ISSUED PATENTS BY NUMBER RATHER THAN  
MERELY AS APPLICATIONS STEMMING FROM THE  
PARENT PATENT**

***The Euclid Chemical Company v. Vector  
Corrosion Technologies, Inc.***

(Fed. Cir. 2009)

Euclid Chemical filed a declaratory judgment action alleging that it did not infringe six patents and/or that five of the six patents were invalid. Euclid alleged that the patents were licensed exclusively to Vector Corrosion Technologies. Vector Corrosion convinced the lower court, in its counterclaim, that it owned one of the patents-in-suit based on a December 20, 2001 assignment agreement. Euclid Chemical appealed two remaining issues, one regarding the assignment's conveyance. The Federal Circuit vacated the lower court's decision and remanded the case for consideration of extrinsic evidence.

The ownership dispute involved U.S. Patent No. 6,217,742 (the "'742 patent"). The '742 patent is a continuation-in-part of an earlier patent application that issued as U.S. Patent No. 6,033,553 (the "'553 patent"). The '742 patent, was however, issued on April 17, 2001, that is, before the December 20, 2001 assignment.

By applying Ohio law, the lower court found the assignment unambiguous because it contained language stating that it assigns "all rights in the '553 patent and all continuations-in-part thereof." Under Ohio contract law, external evidence could not be used to expound upon the contract meaning unless the contract was found ambiguous. The lower court, however, found the assignment contract unambiguous and therefore external evidence was barred.

The Federal Circuit disagreed with the lower court's findings in its *de novo* review of the ruling, citing Sixth Circuit precedent and stating that "[a]mbiguity exists only where a term cannot be determined from the four corners of the agreement or where contract language is susceptible to two or more reasonable interpretations." Although the district court was held correct that the assignment purported to convey "US Patent 6,033,553" and "any and all divisional applications, continuations, and continuations in part," and that the '742 patent is a continuation-in-part of the '553 patent, "[t]he Assignment, however, also include[d] language that suggests that it was not intended to effect an assignment of the '742 patent."

The Federal Circuit pointed out that, while "applications" were referenced (i.e., in the plural), a single "issued US

patent" was referred to in the singular. Had the assignee intended, through the assignment of "continuations in part" to assign other *issued* U.S. patents, it would be expected that the Assignment would have said that the inventor was assigning his "issued U.S. patents"—plural—and even recited the patent number of the issued '742 patent. The Federal Circuit therefore found the assignment to be subject to at least two reasonable interpretations, thereby rendering the assignment ambiguous. The case was therefore remanded to the lower court to address the issue by allowing inspection of extrinsic evidence.

Judge Newman dissented in part with the ruling and argued that a trial was not necessary to determine whether it was intended to assign the '742 patent, because the '742 patent was for a different invention from the 553 patent and was fully known to Vector Corrosion. Looking to the assignment contract, Judge Newman showed that, in the assignment's five enumerated listed items, only one issued patent was listed; namely, the '553 patent. All four of the other listed items were applications. No mention was made in the assignment of the '742 patent that issued eight months before the assignment was executed. Also, a second agreement existed (a "Consulting Agreement"), which also listed only the same "issued US patent 6,033,553." Judge Newman therefore believed that the remand was due to "an abundance of caution" and that only one reasonable interpretation of the assignment was possible. That is, that the '742 patent was not included in the assignment.

***Practice Tip:***

Patent assignees, and assignment contract drafters, should be diligent and ensure that any issued patents that stem from applications related to primary patents being assigned are explicitly listed in an assignment contract if the intention is indeed to assign such patents. Listings of the various application types that may stem from a parent in the language of assignment (i.e., divisionals, continuations, continuations-in-part, foreign applications, etc.) may be held ambiguous, and should not be relied upon, if some of those applications have already issued as patents.



**CLAIM TERMS SHOULD BE CHOSEN AND  
DESCRIBED CAREFULLY TO AVOID NARROW  
MEANS-PLUS-FUNCTION TREATMENT  
UNDER §112, PARAGRAPH SIX**

***Welker Bearing Co. v. PHD Inc.***  
(Fed. Cir. 2008)

The full scope of an invention is most often conceptual in nature and is not limited to the particular examples or structural limitations provided in a patent application. Patent practitioners seeking the broadest possible protection for an invention will often draft claims describing the individual elements in terms of functional language to capture the full scope of the invention. In the past, it was common for claim drafters to use means/step-plus-function language to capture the full inventive concept or function of an otherwise structural element to avoid having a claim be misconstrued as limited to a few structural embodiments or examples. Congress enacted the predecessor to 35 U.S.C. §112, paragraph six, to expressly sanction means/step-plus-function language in a patent claim and to statutorily overrule the Supreme Court's negative treatment of means-plus-function claiming in *Halliburton Oil Well Cementing Co. v. Walker*, 329 U.S. 1, 71 U.S.P.Q. 175 (1946), specifically with regard to the definiteness of these claims when means-plus-function language is employed at a point of novelty. See *In re Donaldson Co.*, 16 F.3d 1189, 29 U.S.P.Q.2d 1845 (1994). However, over the years, §112, paragraph six, means-plus-function language has become interpreted by the courts as having very limited scope. Paragraph six of 35 U.S.C. §112 states as follows (emphasis added):

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim *shall be construed to cover the corresponding structure, material, or acts described in the specification* and equivalents thereof.

Accordingly, courts have consistently construed means-plus-function language in a claim as including only the corresponding material and structure appearing in the specification. See *In re Donaldson Co.*, 29 U.S.P.Q.2d at 1849-50. Although the statute further states that the scope of means-plus-function language includes "and equivalents thereof," this language has been interpreted narrowly to include only materials and structures performing an identical

function that are equivalent to those disclosed in the specification and in existence at the time of filing. In addition, there remains great uncertainty over the relationship between statutory equivalence under §112, paragraph six, and the judicial doctrine of equivalence.

To avoid the narrow and uncertain treatment of means/step-plus-function claim language, many patent practitioners elect instead to become their own lexicographers and to describe elements broadly in the specification. However, when taking this approach, it is important that a draftsman provide sufficient detail in the specification when describing the element, and choose terminology carefully to avoid having such claim terms be construed essentially as means-plus-function language that are interpreted narrowly under 35 U.S.C. §112, paragraph six. Even though a claim does not recite "means for," a court may still determine that the element is described in functional terms, and thus falls within the ambit of 35 U.S.C. §112, paragraph six.

In *Welker Bearing Co. v. PHD Inc.*, 550 F.3d 1090, 89 U.S.P.Q.2d 1289 (Fed. Cir. 2008), Welker Bearing had two patents issued, the '478 patent and the '254 patent, with identical specifications covering a pin clamp for holding a work piece securely in place during welding and other manufacturing processes. The pin clamp features an actuator for propelling and inserting a bullet-shaped locating pin into a hole of the work piece with clamping fingers that emerge out of the pin to securely hold the work piece firmly in place. The '478 patent was the first to issue, claiming the pin assembly with "said assembly *characterized by a mechanism for rotating* in response to said rectilinear movement of said locating pin for moving said finger radially." Thus, the claims explicitly required a rotational movement mechanism for extending and retracting the fingers. With the '478 patent issued, Welker Bearing filed a continuation application that later issued as the '254 patent with broader claims reciting that "said assembly characterized by a mechanism for moving said finger along a straight line into and out of said locating pin perpendicular to said axis A in response to said rectilinear movement of said locating pin." Thus, the claims of the '254 patent did not require rotational movement.

Thereafter, Welker Bearing sued PHD, Inc. in the District Court for the Eastern District of Virginia, accusing their "Clamp I" and "Clamp II" products of infringing their claims. Clamp I contained the rotational mechanism, but, after unsuccessful licensing negotiations, PHD designed Clamp II to exclude the rotational movement. Before the District Court, Welker Bearing conceded that Clamp II did not

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infringe the '478 patent because it lacked the rotational mechanism for the clamping fingers. Thus, the inquiry by the Court was limited to whether Clamp I infringed the '478 patent and whether Clamp II infringed the '254 patent. With regard to the '478 patent, the District Court determined that PHD had not infringed, since there were no infringing activities after the date of its issuance, and thus awarded summary judgment of noninfringement to the defendant.

With regard to the '254 patent, however, the court construed the claim language "mechanism for moving said finger" as a means-plus-function limitation. As such, the court determined that the means-plus-function claim element should be limited to the corresponding structure provided in the specification. Since the only description provided for this element in the specification of the '254 patent involved a rotational mechanism, the "mechanism for moving said finger" was limited to only rotational movement. Therefore, because the Clamp II device did operate by rotational movement, the District Court held on summary judgment that Clamp II did not infringe the claims of the '254 patent.

Welker Bearing appealed, but the Federal Circuit affirmed the decision of the District Court in favor of PHD. In its opinion, the Federal Circuit cited *M.I.T. v. Abacus Software*, 462 F.3d 1344, 80 U.S.P.Q.2d 1225 (Fed. Cir. 2006) for guidance and authority on the issue. In that case, the court considered an appeal from a stipulated judgment of noninfringement concerning the proper claim construction of three terms appearing in the same claim of an allegedly infringed patent covering a color processing system. The three terms in question in *M.I.T.* were "scanner," "aesthetic correction circuitry," and "colorant selection mechanism." In its opinion, the court stated that "Claims must be read in view of the specification, of which they are a part ... Indeed, the specification is usually dispositive and is the single best guide to the meaning of a disputed term." See *M.I.T.* 80 U.S.P.Q.2d at 1229 (citing *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005)). With regard to the term "scanner," the court concluded that the term was not defined in the specification. Thus, the court looked to several contemporaneous dictionaries around the time of filing as extrinsic evidence of the meaning the term. The court then affirmed the construction of the term "scanner" as requiring relative movement between the scanning element and the object to be scanned, and therefore held that the term "scanner" did not include a camera. The court further determined that the term "scanner" required close proximity, according to its ordinary and customary meaning to a person

of ordinary skill in the art at the time of invention (i.e., its filing date) based on scanners that were in existence at the time of filing. Other extrinsic sources (e.g., dictionaries) did not instruct on this issue. See *M.I.T.* 80 U.S.P.Q.2d at 1230.

With regard to the term "colorant selection mechanism," the appellants in *M.I.T.* argued that the District Court erred in construing this term as a means-plus-function element. However, the Federal Circuit affirmed the District Court's conclusion. In its opinion, the Federal Circuit stated that "the phrase 'colorant selection mechanism' is presumptively not subject to §112, paragraph six because it does not contain the term 'means.' However, a limitation lacking the term 'means' may overcome the presumption against means-plus-function treatment if it is shown that 'the claim term fails to recite sufficiently definite structure or else recites function without reciting sufficient structure for performing that function.'" See *M.I.T.* 80 U.S.P.Q.2d at 1231.

The Federal Circuit agreed that the presumption against finding means-plus-function claiming was overcome, and stated that "[t]he generic terms 'mechanism,' 'means,' 'element,' and 'device,' typically do not connote sufficiently definite structure [to avoid 112, 6]." See *M.I.T.* 80 U.S.P.Q.2d at 1231. The court in *M.I.T.* distinguished the term "digital detector" in *Personalized Media Comm., LLC v. Int'l Trade Commission*, 161 F.3d 696, 48 U.S.P.Q.2d 1880 (Fed. Cir. 1998) since the term "detector" in that case recited sufficient structure to avoid §112, paragraph six. However, the majority in *M.I.T.* stated that "a generic term like 'mechanism' can sometimes add sufficient structure to avoid 112, 6." For example, in *Greenberg v. Ethicon Endo-Surgery, Inc.*, 91 F.3d 1580, 39 U.S.P.Q.2d 1783 (Fed. Cir. 1996), the court held that §112, paragraph six did not apply to the term "detent mechanism" because the noun "detent" denotes a type of device with a generally understood meaning in the mechanical arts. Indeed, the court noted that many devices take their names from the functions they perform. However, the court distinguished *Greenberg* in stating that (1) the term "colorant selection" as a modification of the term "mechanism" was not defined in the specification, (2) there was no dictionary definition, and (3) there was no generally understood meaning in the art. Thus, the court concluded that "colorant selection mechanism" did not connote sufficient structure to a person of ordinary skill in the art to avoid §112, paragraph six treatment. Therefore, the term "colorant selection mechanism" was construed to only cover the "ink correction module (ICM)" embodiment described in the specification.

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With regard to the term “aesthetic correction circuitry,” the appellants argued that the District Court erred in holding that the presumption against §112, paragraph six treatment was overcome. On appeal, the Federal Circuit agreed with the appellants. The court reasoned that “[i]n contrast to the term ‘mechanism,’ dictionary definitions establish that the term ‘circuitry,’ by itself, connotes structure,” giving particular weight to contemporaneous technical dictionaries. The court cited two prior cases in support of its conclusion that the term “circuit” *coupled with a description of its function* (e.g., its operation or other identifier) generally connotes sufficient structure to avoid §112, paragraph six. See *Linear Tech. Corp. v. Impala Linear Corp.*, 379 F.3d 1311, 72 U.S.P.Q.2d 1065 (Fed. Cir. 2004); and *Apex Inc. v. Raritan Computer, Inc.*, 325 F.3d 1364, 66 U.S.P.Q.2d 1444 (Fed. Cir. 2003). The court then concluded that the term “circuitry” “does not merely describe a circuit; it adds further structure by describing the operation of the circuit.” See *M.I.T.* 80 USPQ2d at 1232. The court then decided to leave it to the District Court to define the term “aesthetic correction circuitry” with greater particularity on remand.

In the dissenting opinion, Chief Judge Michel took issue with the majority in *M.I.T.* in its construction of the term “aesthetic correction circuitry.” The dissenting opinion distinguished both the *Apex* and *Linear* cases, in that the term “circuit” in those cases was further qualified by an *appropriate* identifier that had at least some additional connotation or suggestion of structure to one of ordinary skill in the art according to technical dictionaries or as evidenced by expert testimony. The dissent argued that not any “adjectival qualification (A.Q.)” connotes sufficient structure for the term “circuit” to avoid §112, paragraph six, but rather only an “appropriate A.Q.” as demonstrated by technical dictionaries or other evidence will suffice. The dissent further argues that “aesthetic correction” is not an “appropriate A.Q.,” to connote sufficient structure to the term “circuitry.” Rather, the dissent concludes that “aesthetic correction” is solely functional language that provides no further suggestion about the structure or operation of the circuit. Accordingly, the dissent argues that the term “aesthetic correction circuitry” should have been construed as a means-plus-function element under §112, paragraph six.

In view of these precedents, including *M.I.T.*, the Federal Circuit in *Welker Bearing* concluded that the term “mechanism for moving said finger” was properly construed by the District Court as a means-plus-function element under §112, paragraph six. Since this element was construed as covering only the corresponding structure in

the specification of a “rotating central post,” the court affirmed the District Court’s summary judgment ruling of non-infringement. The court reasoned that the term “mechanism for moving said finger” includes even less structure than “colorant selection mechanism” in *M.I.T.*, and no adjective endows the claimed “mechanism” with a physical or structural component. Furthermore, the Court further reasoned that the claim in which the element appears provides no structural context for determining the characteristics of the “mechanism” other than to describe its function. Thus, “the unadorned term ‘mechanism’ is simply a nonce word or a verbal construct that is not recognized as the name of structure and is simply a substitute for the term ‘means for.’” See *Welker Bearing* 89 U.S.P.Q.2d at 1294. Interestingly, the court in *Welker, Bearing* provides some guidance for how the applicant could have avoided the outcome in this case:

The applicant for the ’254 patent could have supplied structural context to claim 1 in any number of ways. If claim 1 of the ’254 patent had recited, e.g., a “finger displacement mechanism,” a “lateral projection/retraction mechanism,” or even a “clamping finger actuator,” *this court could have inquired beyond the vague term “mechanism” to discern the understanding of one of skill in the art. If that artisan would have understood such language to include a structural component, this court’s analysis may well have turned out differently.* Instead the applicant chose to express this claim element as “a means or step for performing a specified function without the recital of structure, material, or acts in support thereof.” 35 U.S.C. §112 6. Therefore, this court must agree with the district court, which properly applied means-plus-function treatment to this term.

See *Welker Bearing* 89, U.S.P.Q.2d at 1294 (emphasis added).

Finally, *Welker Bearing* argued that Clamp II would infringe the ’254 patent under the doctrine of equivalents, if not literal infringement. The court rejected this argument in stating that “[t]his case presents only the question of structural equivalents under §112, 6” and that the judicial doctrine of equivalents does not apply because the asserted linear movement equivalent was in existence at the time of filing. Although “[s]tructural equivalents [under §112, 6] and the doctrine of equivalents are closely related” with both based on “similar analyses of ‘insubstantiality of the

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differences,” the court in *Welker Bearing* stated that “where, as here, a proposed equivalent has arisen before patent issuance, a §112, 6 structural equivalents analysis applies and any analysis for equivalent structure under the doctrine of equivalents collapses into the §112, 6 analysis.” See *Welker Bearing*, 89 U.S.P.Q.2d at 1296. The court then concluded that the linear moving Clamp II design was not an equivalent under §112, paragraph six, since there was evidence that the linear moving alternatives were considered by the inventor and rejected in favor of the rotating central post, which undermined any assertion of “insubstantial” differences between the two approaches.

As *Welker Bearing* and *M.I.T.*, as well as the cases cited therein, clearly demonstrate, when a patent practitioner or applicant attempts to draft a patent application to cover the full scope of an invention, including the lexicographic creation of a structural element in terms of its function, it is important that any coined terms be selected carefully to connote sufficient structure according to an ordinarily skilled artisan, so that the element will not be construed narrowly by the Patent Office or later by a court of law as a means-plus-function element under §112, paragraph six. Indeed, it would be wise for an applicant or practitioner to consult current dictionaries and technical resources in choosing these terms to balance the sufficient connotation of structure without unduly limiting the scope of the claims. In addition to choosing sufficiently “structural” claim element terms, an applicant or practitioner should also fully define the element term in the specification as fully as possible, including hierarchical layers of description from a fully functional description to groupings of structure and function, and then specific examples under each grouping, providing a representative number of species to support the full genus of the claim element term. Such layers of descriptiveness for a term may be recited in a series of dependent claims to provide a path of retreat in case of limited claim construction or invalidity of the broader claims. Such an approach should also provide a dual benefit of not only avoiding the narrow §112, paragraph six treatment of the claim element, but also help to ensure that such claim element is definite under 35 U.S.C. §112, second paragraph, and fully supported and enabled under 35 U.S.C. §112, first paragraph.

Failure to define claim element terms with sufficient structural connotation and description of the claim element in the specification can lead to drastic results, such as a finding of non-infringement and possible invalidity due to indefiniteness. Cf. *Aristocrat Technologies v. Int’l Game Tech.*, 521 F.3d 1328, 86 U.S.P.Q.2d 1235 (Fed. Cir. 2008); *Blackboard Inc. v.*

*Desire2Learn Inc.*, 91 U.S.P.Q.2d 1481 (Fed. Cir. 2009), and cases cited therein. However, when “fleshing out” the description and examples for such claim elements in the specification, the applicant or practitioner should be cautioned against going too far and possibly facilitating an obviousness rejection by suggesting equivalency of examples in the prior art.

### **Practice Tip:**

When acting as a lexicographer in drafting broad claim elements, the draftsman should carefully select claim element terms that suggest sufficient structure and provide a sufficiently detailed definition of the term in the specification to avoid narrow treatment under § 112, paragraph six.

### **PAST RELATIONSHIP BETWEEN DECLARANT AND PATENT APPLICANT SHOULD ALWAYS BE EXPRESSLY STATED IN DECLARATION**

***Nilssen v. OSRAM Sylvania Inc.***  
(Fed. Cir. 2007)

***Ferring B.V. v. Barr Labs., Inc.***  
(Fed. Cir. 2006)

When the patent practitioner has reached an impasse with the examiner regarding a disagreement over the proper interpretation of underlying factual issues and the presentation of new evidence, affidavits and declarations submitted under 37 C.F.R. §1.132 can be powerful tools to advance prosecution of a patent application before the U.S. Patent and Trademark Office. However, care must be taken to ensure that all necessary disclosures are made in Rule 1.132 declarations to avoid any potential inference by a court of law that the applicant has engaged in deceptive practices before the Office. A case in point is *Nilssen v. OSRAM Sylvania Inc.*, 504 F.3d 1223, 84 U.S.P.Q.2d 1811 (2007), where the Federal Circuit panel indicated that whenever the relationship between the declarant/affiant and the applicant is not fully disclosed to the examiner during prosecution of a patent application as part of a Rule 1.132 declaration, any patents issuing therefrom may be held unenforceable under the doctrine of inequitable conduct.

In *Nilssen*, the inventor, Nilssen, and the exclusive licensee, the Geo Foundation, sued OSRAM Sylvania Inc. for the manufacture and sale of electronic ballasts that allegedly infringed on a large number of Nilssen’s patents

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relating to electrical lighting products. However, after a six-day bench trial, the District Court of Northern Illinois agreed with OSRAM in holding that Nilssen's patents were unenforceable due to inequitable conduct on several grounds, including claims of a false priority date, improper payment of small entity fees, and failure to disclose prior art and identify ongoing litigation in another related case. It is of particular interest, however, that the District Court further held that Nilssen had engaged in inequitable conduct in submitting two affidavits, one during prosecution and reexamination of two patents, and another for not disclosing financial interests of the affiant and the personal and professional association of the affiant with the applicant. The court held that there was inequitable conduct even though the examiner had not raised an issue concerning any such relationship and had not requested an affidavit from a disinterested person.

On appeal, the Federal Circuit affirmed and concluded that the District Court did not abuse its discretion in holding that the applicant had engaged in inequitable conduct by submitting the affidavits in support of patentability without informing the examiner of the affiant's relationship to the applicant. The court stated that "[e]ven though the examiner did not raise a question concerning any such relationship, it is material to an examiner's evaluation of the credibility and content of affidavits to know of any significant relationship between an affiant and an applicant ... failure to disclose that relationship violated [the patentee's] duty of disclosure." See *Nilssen*, 84 U.S.P.Q.2d at 1815-16 (citing *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 78 U.S.P.Q.2d 1161 (Fed. Cir. 2006)). The court dismissed applicant's argument that the '345 and '690 patents should not have been considered because they were withdrawn from the suit just before the trial began. The Federal Circuit concluded that there was no abuse of discretion for the court to first determine whether there was inequitable conduct related to the withdrawn patents prior to determining whether any such inequitable conduct should be extended to render additional patents in suit unenforceable under the "doctrine of infectious unenforceability."

In *Ferring*, cited in the *Nilssen* opinion, the Federal Circuit shed more light on the issue of inequitable conduct as it relates to Rule 1.132 declarations/affidavits and the apparent affirmative duty of the declarant/affiant to disclose any interests, as well as past relationships with the patent applicant. In that case, Ferring patented a known antidiuretic compound in a solid oral dosage form, as well as a method of orally administering the compound for gastrointestinal

delivery. The claims were thought to be an improvement over the prior art since existing compositions containing the compound were limited to absorption through the walls of the patient's mouth or nasal passages. During prosecution, the claims were rejected over the '491 patent teaching the antidiuretic compound, and stating in a list of approaches that the compound may be administered by "peroral" application. Ferring argued, however, that the term "peroral" would not be considered to include oral delivery for gastrointestinal absorption. The examiners suggested that the applicants obtain evidence from a noninventor to support their interpretation. Applicants then submitted four declarations, two from the applicant, one from Dr. Miller and one from Dr. Czernichow, each stating in effect that "peroral" in the '491 patent meant through the mouth (e.g., absorption through cheek or under tongue). As will be relevant below, the Czernichow declaration did not disclose that Czernichow had, in the past, received research funding from the applicant for about a year. There was no research or employment relationship between Dr. Miller and the applicant, and none was asserted. Despite these submissions, however, the examiner upheld the rejection.

On appeal, the Board of Patent Appeals and Interferences accepted the view of the declarants that the claims were not anticipated, but rejected the claims as obvious in view of an additional reference. With prosecution reopened before the examiner, the applicants submitted five additional declarations to address the suggested combination. Three of the declarations were made by the same individuals as before, whereas the other declarations were from two new individuals, namely Dr. Robinson and Dr. Barth. However, as will be relevant below, the Robinson declaration did not disclose that Robinson was a former research director at Ferring and had been an occasional paid consultant, and the Barth declaration failed to disclose his having worked with the applicant in the past on small research projects. After their submissions, the examiner allowed the previously rejected claims, and the subject '398 patent issued.

After issuance of the '398 patent, Barr Laboratories, Inc. filed a paragraph IV certification in connection with an ANDA before the Food and Drug Administration seeking approval of a generic version of the compound and stated therein that the '398 patent was invalid. In response, Ferring and Aventis Pharmaceuticals together filed an infringement action against Barr. The District Court for the Southern District of New York granted summary judgment to Barr on the basis of noninfringement and invalidity due to inequitable conduct. On appeal, the Federal Circuit affirmed the District Court's

decision and found the '398 patent unenforceable due to inequitable conduct.

Inequitable conduct may occur when either affirmative misrepresentations or omissions of material facts are made during patent prosecution with an intent to deceive or mislead. The questions of materiality and intent must be proven by clear and convincing evidence, and the question of intent refers to the intent of the applicant, not the affiant/declarant. A court must weigh the materiality and intent in light of all of the circumstances to determine if the conduct is so egregious that the patent should be held unenforceable. With regard to declarations submitted during patent prosecution, the majority opinion cites prior authority and states that "a declarant's prior relationships with the patent applicant may be material, and that failure to disclose such relationships to the examiner may constitute inequitable conduct." See *Ferring* 78 U.S.P.Q.2d at 1166. For example, in *Refac Int'l, Ltd. v. Lotus Dev. Corp.*, 81 F.3d 1576, 38 U.S.P.Q.2d 1665 (Fed. Cir. 1996), affidavits were submitted from three individuals during prosecution, but they failed to disclose that at least one of the individuals worked for the inventor's company for an eight-week period and was already familiar with the invention. In that case, the court held that there was a material omission that supported a finding of inequitable conduct. In *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 25 U.S.P.Q.2d 1561 (Fed. Cir. 1993), the examiner requested "disinterested third party" declarations, but the applicants in that case failed to disclose that one of the inventors owned stock in the company and had, in the past, been a consultant. The court affirmed a finding of unenforceability due to inequitable conduct.

After reviewing these precedents, the court in *Ferring* rejected the applicant's arguments that the omission was immaterial because the affiliations did not bear on the assertions made, and the declarants did not have a direct financial stake in the patent, stating that, with regard to the question of materiality, "a declarant's past relationships with the applicant are material if (1) the declarant's views on the underlying issue are material and (2) the past relationship to the applicant was a significant one." See *Ferring* 78 U.S.P.Q.2d at 1167. Accordingly, the court reasoned that the declarations themselves were highly material and that the past relationships were significant. Thus, the court concluded that the declarants in *Ferring* were not disinterested and that failure to disclose of their relationship to the applicant was material as a matter of law.

On the question of intent, the Court summarized applicable case law and stated that "intent to deceive is *generally inferred* from the facts and circumstances surrounding a knowing failure to disclose material information" and that "a patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality, can expect to find it difficult to establish 'subjective good faith' sufficient to prevent the drawing of an inference of intent to mislead." See *Ferring* 78 U.S.P.Q.2d at 1169. The court continued by saying, "summary judgment is appropriate on the issue of intent if there has been a failure to supply highly material information and if the summary judgment record establishes that (1) the applicant knew of the information; (2) the applicant knew *or should have known* of the materiality of the information; and (3) the applicant has not provided a credible explanation for the withholding." See *Ferring* 78 U.S.P.Q.2d at 1169 (emphasis added). On the basis of the summary judgment record, the court concluded that the applicant knew of the information (i.e., their relationship to the declarants), that the applicants knew *or should have known* that the information was material and that the applicants had not provided favorable evidence for the withholding during the summary judgment proceeding. The court concluded that a *prima facie* case of intent had been made, shifting the burden to appellants, and that this finding of intent was un rebutted.

Finally, on the basis of these underlying "factual" determinations, the court in *Ferring* affirmed the District Court's ultimate finding of inequitable conduct. Importantly, as pointed out in Judge Newman's dissent, the court's holding of inequitable conduct in this case was made despite that (1) there was no evidence showing that the information contained in the declarations was inaccurate, (2) the declarants did not receive any direct compensation for their declarations, (3) there was no evidence that the declarants would receive any direct benefit from issuance of the '398 patent, (4) the declarations in question were from noninventors, as requested by the examiner during prosecution, and (5) the four declarants were each highly respected scientists in their respective fields. The court upheld the finding of inequitable conduct on appeal from a summary judgment ruling even though all inferences should be drawn in favor of the non-moving party. The court reached its decision by applying a *per se* rule of materiality when the relationship or affiliation in question is "significant," and by finding intent if the applicant "*should have known*" that the information was material.

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The *Nilssen* and *Ferring* cases, as well as cases cited therein, make clear that affidavits or declarations submitted under 37 C.F.R. §1.132 during prosecution of a patent application should always disclose in sufficient detail any direct or indirect relationship or affiliation between the declarant/affiant and the applicant. Indeed, the court provided an exhortation for all applicants and patent practitioners submitting affidavits or declarations during prosecution to “disclose the known relationships and affiliations of the declarants so that those interests can be considered in weighing the declarations.” See *Ferring* 78 U.S.P.Q.2d at 1172. Such affidavits or declarations should also expressly state in detail any direct or indirect financial or other interest that the declarant/affiant may have or receive from issuance of the patent. To exclude such information or to assume its immateriality carries too great a risk that a court may later find the entire patent unenforceable under the doctrine of inequitable conduct.

### **Practice Tip:**

Affidavits and declarations submitted during patent prosecution should always state the direct or indirect interests of the affiant/declarant in the patent as well as any past relationships or affiliations between the affiant/declarant and the patent applicant.

## **Vedder Price Wins Patent Dispute before the International Trade Commission**

The U.S. International Trade Commission (ITC) has upheld the patent for composite wear products manufactured by Magotteaux International, a company specializing in the design and manufacture of advance metal, ceramic and composite materials in crushing, grinding and wear-resistant castings. Magotteaux is headquartered in Belgium and its U.S. affiliate is located in Franklin, Tennessee. The case is captioned: In the Matter of Certain Composite Wear Components and Products Containing Same, number 337-TA-644 before the U.S. International Trade Commission. Vedder Price Attorneys John J. Gresens and Robert S. Rigg led the Intellectual Property trial team representing Magotteaux International.

“This is an extremely important victory for Magotteaux,” noted Gresens, “and one that was extremely hard-fought. The client was fully committed to defending its position.” Reflecting on the Commission’s order, Bob Rigg commented that: “it was very rewarding to see this issue through to a Final Determination.”

The ITC ruling confirmed the decision by an Administrative Law Judge issued in May 2009 that two companies were in violation of Section 337 of the Tariff Act of 1930 by importing products that infringed the claims of the Magotteaux’s U.S. Patent RE 39,998. The parts were destined for a variety of heavy industrial applications, including mining and electric power generation. The ITC issued a Limited Exclusion Order against AIA Engineering and Vega Industries, and a further Cease and Desist Order against Vega prohibiting them from “importing, marketing, distributing, selling or advertising the covered metal ceramic grinding tools” and prohibiting the two companies from aiding others in the importation of these products. A bond was set at 100 percent of entered value for any composite wear components imported into the United States during the 60-day presidential review of the ITC Final Determination.

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## Technology and Intellectual Property Group

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We also have been principal counsel for both vendors and users of information technology products and services.

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We welcome your input for future articles. Please call Angelo J. Bufalino, the Intellectual Property and Technology Practice Chair, at 312-609-7850 with suggested topics, as well as other questions or comments concerning materials in this newsletter.

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