

May 26, 2010

Federal Circuit Affirms Eastern District of Texas Ruling on Inequitable Conduct, Addresses Definitions in Patent Application Prosecution

In a recent decision, *Avid Identification Systems, Inc. v. The Crystal Import Corp.*, 2009-1216 (Apr. 27, 2010), the Federal Circuit affirmed an Eastern District of Texas court's finding that the asserted patent was unenforceable due to inequitable conduct.

Plaintiff Avid Identification Systems Inc. (Avid) brought suit against defendants Datamars SA and its subsidiary The Crystal Import Corporation (collectively Datamars) alleging infringement of Avid's U.S. Patent No. 5,235,326 (the '326 patent) directed to a multimode radio-frequency identification system for reading encoded biocompatible chips. The jury found that Avid's patent was valid in view of the prior art and infringed by Datamars. However, the jury also held Avid's '326 patent to be unenforceable for inequitable conduct.

In the appeal, the Federal Circuit addressed the Eastern District of Texas court's finding of inequitable conduct. Specifically, the Federal Circuit addressed which individuals are "substantively involved" in the preparation or prosecution of a patent application and thus owe a duty of candor and good faith to the U.S. Patent and Trademark Office (USPTO) during prosecution of a patent application.

In the district court, Datamars argued (1) that Avid's founder and president, Dr. Stoddard, withheld material information from the USPTO during prosecution of the application that issued as the '326 patent; (2) that Dr. Stoddard had a duty of candor to disclose that information; and (3) that Dr. Stoddard withheld that information with the intent to mislead the USPTO. The district court granted the motion, finding that the '326 patent was unenforceable because Dr. Stoddard withheld material prior art and that Dr. Stoddard owed a duty of candor to the USPTO.

On appeal, Avid challenged the district court's finding that Dr. Stoddard (1) withheld material prior art and (2) owed a duty of candor to the USPTO. On the first issue (the materiality issue), Avid argued that the withheld prior art was not material because it did not contain all of the elements of the '326 patent. The Federal Circuit concluded that Avid was confusing the concepts of "material" and "invalidating" and noted that it has "often held that a reasonable examiner may find a particular piece of information important to a determination of patentability, even if that piece of information does not actually invalidate the patent." Thus, on the first issue, the Federal Circuit held that the court's analysis of "materiality" was not clearly erroneous and affirmed the finding that the prior art was material.

Next, the Federal Circuit turned to the “duty of candor” issue. U.S. Patent Rule 56 imposes on all individuals associated with the filing and prosecution of a patent application a duty of candor and good faith in dealing with the USPTO during the examination of a patent application. *See* 37 C.F.R. § 1.56. Rule 56 imposes a duty of candor on (1) each named inventor, (2) each attorney or agent that prepares or prosecutes the application, and (3) every other person who is *substantively involved* in the preparation of the application and who is associated with the inventor or assignee. 37 C.F.R. § 1.56(c) (emphasis added).

The Federal Circuit had not previously addressed exactly what constitutes “substantive involvement” in the preparation of the application. Based on section 2001.01 of the Manual of Patent Examining Procedure (MPEP), the Federal Circuit concluded that “substantively involved” in the prosecution of the patent application means “involvement related to the content of the application” or decisions related to the application that are not “wholly administrative or secretarial in nature.”

The district court found that Dr. Stoddard was “substantively involved” with the preparation or prosecution of the application that issued the ’326 patent. For example, the district court found that Dr. Stoddard was “involved in all aspects of the company’s operation, from marketing and sales to research and development.” Further, his involvement in “all aspects” contributed to a reasonable inference that he was involved in the preparation of the patent application related to the company’s research. Moreover, Dr. Stoddard was copied on communications related to the corresponding European patent application covering the invention of the ’326 patent, which further contributed to the inference that Dr. Stoddard was “substantively involved.” In addition, the district court found Dr. Stoddard’s testimony at trial was not credible, citing that “his memory of facts was suspiciously selective, and he refused to acknowledge certain incontrovertible events.” The Federal Circuit held that the district court’s “duty of candor” analysis was not clearly erroneous and affirmed.

The *Avid* decision is an important reminder for prosecution counsel and litigants on two fronts. First, prosecution counsel must conduct an investigation to ensure that potentially material information from all individuals involved with the patented invention is disclosed to the USPTO. While the Federal Circuit noted that this decision does not automatically extend a duty of candor to *all* individuals in contact with the inventor, it does hold that the *courts may consider a variety of factors*, such as “an individual’s position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representation to the PTO in deciding whether that individual is ‘substantively involved.’” Second, defendants in patent litigation should carefully consider their exposure to inequitable conduct allegations and carefully consider all individuals who may have had access to potentially material information during prosecution of the patent application. Failure to do so may result in inequitable conduct defenses being overlooked.

A copy of the opinion can be found at <http://www.cafc.uscourts.gov/opinions/09-1216.pdf>.

The U.S. Court of Appeals for the Federal Circuit Reviews En Banc the “Written Description” Requirement of U.S. Patent Law

In a March 22, 2010 decision, the Court of Appeals for the Federal Circuit held en banc that there are separate written description and enablement requirements in the U.S. Patent Law. The decision is *Ariad Pharm., Inc. v. Eli Lilly & Co.*, ___ F.3d ___, No. 2008-1248 (Fed. Cir. Mar. 22, 2010) (en banc). (Note: “en banc” means “by the full court” or “full bench.” When all the members of an appellate court hear an argument, not a panel of three judges, the court is then said to be sitting en banc.)

As reported in another edition of this newsletter, in an earlier case on April 3, 2009, the Federal Circuit invalidated Ariad Pharmaceuticals, Inc.'s (Ariad's) U.S. Patent No. 6,410,516 for failure to meet the "written description" requirement of the U.S. Patent Law recited at Title 35 U.S.C. § 112, ¶ 1. The earlier case is *Ariad Pharm., Inc. v. Eli Lilly & Co.*, 560 F.3d 1366 (Fed. Cir. 2009). Ariad then petitioned for a rehearing with the Federal Circuit en banc. Ariad argued that the written description requirement was **not** separate from the enablement requirement of Section 112 of the U.S. Patent Law. On August 26, 2009, the Federal Circuit granted Ariad's motion for a rehearing of the case en banc to reconsider the issue of whether 35 U.S.C. § 112 ¶ 1 includes a written description requirement separate from the enablement requirement, and if so, what the scope and purpose of the written description requirement are.

Section 112 of the U.S. Patent Law sets forth the disclosure requirements with which the patent applicant must comply: (1) the specification must contain a written description of the invention, i.e., the inventor must adequately describe the invention; (2) the applicant must describe the manner and process of making and using the invention so as to enable one of skill in the art to make and use the invention; and (3) the applicant must describe the best mode contemplated by the inventor for carrying out his or her invention. U.S. case law has historically interpreted the written description requirement of the first paragraph of section 112 to be separate and distinct from the enablement requirement, thus requiring a separate analysis.

In the March 2010 *Ariad* case, sitting en banc the Federal Circuit reaffirmed its earlier *Ariad* decision. The Federal Circuit confirmed en banc that Section 112 of the U.S. Patent Law requires separate written description **and** enablement requirements. Further, as a test for the written description requirement, the Federal Circuit explained that the "test for sufficiency is whether the disclosure of the application relied upon reasonably conveys to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date." The Federal Circuit further clarified the meaning of possession to mean "possession as shown in the disclosure."

In addition, the Federal Circuit indicated that "a few broad principles that hold true across all cases" determine the sufficiency of written description. First, "the written description requirement does not demand either examples or an actual reduction to practice; a constructive reduction to practice that in a definite way identifies the claimed invention can satisfy the written description requirement." Second, "actual 'possession' or reduction to practice outside of the specification is not enough . . . it is the specification itself that must demonstrate possession." Third, "a description that merely renders the invention obvious does not satisfy the requirement."

The Federal Circuit also noted that it is possible for a patent specification to enable the use and practice of a claimed invention, yet still not describe the invention in sufficient detail so as to satisfy the written description requirement. In particular, the Federal Circuit recognized that "there is little difference in some fields between describing an invention and enabling one to make and use it, but that is not always true of certain inventions, including chemical and chemical-like inventions." The Federal Circuit explained that "although written description and enablement often rise and fall together, requiring a written description of the invention plays a vital role in curtailing claims that do not require undue experimentation to make and use, and thus satisfy enablement, but that have not been invented, and thus cannot be described."

A copy of the opinion may be found at <http://www.cafc.uscourts.gov/opinions/08-1248.pdf>.

Federal Circuit Focuses on Preamble Claim Construction Rules

In an opinion focusing on the construction of the preamble of a claim, the Federal Circuit recently affirmed a district court's finding of invalidity of the patent at issue in *Marrin et al. v. Griffin*, No. 2009-1031 (Fed. Cir. Mar. 22, 2010), and held that "use descriptions [in the preamble] of a claim are rarely treated as claim limitations."

Appellants Jeffrey and Claudia Griffin (the Griffins) appealed the judgment of the U.S. District Court for the Central District of California. The district court granted summary judgment of invalidity, finding the Griffins' United States Patent No. 5,154,448 invalid under 35 U.S.C. § 102(b) as anticipated by the prior art. In a majority opinion written by Judge Dyk (and over a dissent opinion written by Judge Newman), the Federal Circuit reiterated that "[f]or apparatus claims, . . . generally patentability 'depends on the claimed structure, not on the use or purpose of that structure[,] [but] [c]lear reliance on a preamble during prosecution can distinguish a claimed invention from the prior art and render the preamble a claim limitation.'"

In the *Marrin* case, the claimed invention involved the use of a scratch-off label to mark beverage containers and cups. In particular, claims of the patent at issue included language in the preamble of one claim that recited "a use of the claimed invention." In particular, some claims recited a scratch-off label "for permitting a user to write thereon without the use of a marking implement" in the preamble (emphasis added). The district court had found that the "preamble language is not limiting." Without the language in the preamble serving as a limitation, the claim was therefore broader in scope and the district court thereby concluded that "a person of ordinary skill in the art at the time of the invention would find that the limitations of the body of the claims of the . . . patent are anticipated by one or more of" the prior art references related to scratch-off devices.

On appeal, the Griffins' primary contention was that the district court improperly failed to treat the "for permitting" language recited in the preamble as a claim limitation. The Federal Circuit agreed with the district court's finding that the preamble is not limiting because (1) the language in the preamble "only added an intended use," and (2) the prosecution history did not indicate a clear reliance on the preamble language for distinguishing the invention over the prior art. In addition, during prosecution the applicants attested that the preamble language was not, in fact, limiting.

Judge Dyk addressed Judge Newman's argument that the "presumption against reading a statement of purpose in the preamble as a claim limitation is inapplicable because the body of the claim makes no sense without the preamble's reference" to a specific claim term. In response, Judge Dyk reasoned that this fact was also true in other cases and "the mere fact that a structural term in the preamble is part of the claim does not mean that the preamble's statement of purpose or description is also part of the claim."

A copy of the opinion can be found at <http://www.cafc.uscourts.gov/opinions/09-1031.pdf>.

For more information on the issues discussed in this Update, please contact any of the following Morgan Lewis attorneys:

Washington, D.C.

Robert Gaybrick

202.739.5501

rgaybrick@morganlewis.com

Robert Busby

202.739.5970

rbusby@morganlewis.com

About Morgan Lewis's Intellectual Property Practice

Morgan Lewis's Intellectual Property Practice consists of more than 150 intellectual property professionals. We represent and advise clients concerning all aspects of intellectual property: patents, trademarks, and copyrights; intellectual property litigation; intellectual property licensing; intellectual property enforcement programs; trade secret protection; related matters involving franchises, the Internet, advertising, and unfair competition; outsourcing and managed services; and the full range of intellectual property issues that arise in business transactions.

About Morgan, Lewis & Bockius LLP

With 22 offices in the United States, Europe, and Asia, Morgan Lewis provides comprehensive transactional, litigation, labor and employment, regulatory, and intellectual property legal services to clients of all sizes—from global Fortune 100 companies to just-conceived startups—across all major industries. Our international team of attorneys, patent agents, employee benefits advisors, regulatory scientists, and other specialists—more than 3,000 professionals total—serves clients from locations in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, and Washington, D.C. For more information about Morgan Lewis or its practices, please visit us online at www.morganlewis.com.

This Newsletter is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius LLP. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does this message create an attorney-client relationship. These materials may be considered **Attorney Advertising** in some states. Please note that the prior results discussed in the material do not guarantee similar outcomes.

© 2010 Morgan, Lewis & Bockius LLP. All Rights Reserved.

