

Keywords: inequitable conduct, patent revival, maintenance fee

General: In reviving an abandoned patent, Applicant's compliance with the standard PTO procedure for delayed payment, using the standard PTO form without providing a specific reasons for the unintentional delay, does not provide clear and convincing evidence of inequitable conduct.

Network Signatures, Inc. v. State Farm Mut. Auto. Ins. Co.

U.S. Court of Appeals Federal Circuit

No. 2012-1492

Decided September 24, 2013

I. Facts

U.S. Patent No. 5,511,122 (the '122 patent) was issued on April 23, 1996 and owned by the United States through its Naval Research Laboratory (NRL). The NRL permitted the patent to lapse for nonpayment of the 7.5-year maintenance fee effective April 23, 2004. Two weeks after the lapse became effective, the NRL received an inquiry from the Network Signatures' predecessor company about licensing the patent. The NRL then petitioned the PTO to accept delayed payment of the fee using the PTO's standard form, which was pre-populated with the statement that "[t]he delay in payment of the maintenance fee to this patent was unintentional." The PTO granted the petition and the patent was duly licensed.

In June 2011, Network Signatures brought a patent infringement suit on the '122 patent against State Farm Mutual Automobile Insurance Company in the District Court for the Central District of California. State Farm moved for summary judgment of unenforceability of the '122 patent on the ground that the NRL patent attorney, John Karasek, had engaged in inequitable conduct by falsely representing to the PTO that the NRL's non-payment of the maintenance fee was unintentional. The district court granted summary judgment of inequitable conduct and held patent unenforceable. Network Signatures then appealed to the Federal Circuit.

II. Issue

Did the NRL's attorney engage in inequitable conduct, by using the PTO's standard form for delayed payment of the maintenance fee for an "unintentional" delay without setting forth the details of how or why the delay occurred?

III. Holding & Discussion

No. The court found that the NRL attorney's compliance with the standard PTO procedure for delayed payment, using the PTO form for delayed payment, does not provide clear and convincing evidence of inequitable conduct.

The appeals court's standard for finding inequitable conduct related to prosecuting a patent application was set forth in the en banc decision in *Therasense Inc. v. Becton Dickinson & Co.*, 649 F.3d 1276, 2011 BL 137835, 99 U.S.P.Q.2d 1065 (Fed. Cir. 2011). The Federal Circuit summarized its two pronged standard as requiring proof that the applicant (1) misrepresented or omitted information *material* to patentability and (2) did so with specific *intent* to deceive the patent office. In particular, “[t]o establish *materiality*, it must be shown that the PTO would not have allowed the claim but for the nondisclosure or misrepresentation. To establish *intent*, intent to deceive the PTO must be the single most reasonable inference able to be drawn from the evidence.” The facts of materiality and intent must be established by clear and convincing evidence. The court held that the same two prongs apply in the context of paying maintenance fees and ruled that neither prong was met here by clear and convincing evidence.

The court reasoned that the PTO's standard form “requires only a statement that the delay was ‘unintentional,’” and “does not require a statement of the reasons for the initial non-payment and for the changed position.” The majority, however, did not provide separate holdings as to each prong. Rather, it effectively deferred to the PTO's procedure for making the determination of whether to grant a delayed payment petition. It concluded that this was a matter “unrelated to the substantive criteria of patentability, but within the authority of the Director,” with courts dissuaded from interfering with the “minutiae of Patent Office proceedings.”

In summary, the majority held that the NRL attorney's “compliance with the standard PTO procedure for delayed payment, using the PTO form for delayed payment, does not provide clear and convincing evidence of withholding of material information with the intent to deceive the Director.” Accordingly, the majority reversed summary judgment and remanded for proceedings on the merits.

IV. Dissent

In dissent, Judge Clevenger focused on an argument the NRL made before the district court, which the majority ignored. The NRL attorney testified that his late payment was “unintentional” in light of a “mistake in fact.” That is, had he known of Network Signatures' interest at the time the interest was made—prior to the date the fee was due—the determination for whether to pay the fee would have changed and he would have done so.

Clevenger noted that, while the PTO appears to allow for an argument on a mistake in fact, “Network Signatures cannot cite to any case where the PTO actually granted revival under this theory.” He said that the PTO's policy on revival of an issued patent is no different from revival of an abandoned patent application. And in its 1997 final rule on the latter topic, Clevenger said, the PTO explicitly said it would not revive applications abandoned where “*the applicant deliberately permits an application to become abandoned*” due to a conclusion that “*the invention lacks sufficient commercial value to justify continued prosecution*,” and explicitly rejected an exception for “*the discovery of new information or evidence*” after abandonment.

“The PTO's practice of granting unintentional revival petitions as a matter of course is not the issue,” Judge Clevenger said, addressing the majority's view. “The problem is that Karasek knew the NRL patent was intentionally abandoned and did not alert the PTO to that

fact.” “If the PTO had known the true facts, I have no doubt whatsoever that Karasek’s revival petition would have been denied.” Therefore, Judge Clevenger concluded that the NRL’s attorney’s failure to disclose the NRL’s intentional abandonment of the ‘122 patent was unquestionably material.

He then went on to analyze the intent prong and said that because State Farm has not shown that “the single most reasonable inference” to be drawn is that Karasek intended to deceive the PTO, he would have remanded on the intent issue to the trial court.

V. Conclusion

The Federal Circuit is reluctant to find inequitable conduct, especially in non-substantive matters. In particular here, compliance with the standard PTO procedure for delayed payment, using the standard PTO form, does not provide clear and convincing evidence of withholding of material information with the intent to deceive.