

Keywords: inequitable conduct, advocacy, candor, materiality, intent, *Therasense* standard of review

General: Obscuring and withholding evidence of a pre-critical date offer for sale renders a patent unenforceable for inequitable conduct.

GS CleanTech Crop. v. Adkins Energy LLC

951 F.3d 1310 (Fed. Cir. 2020)

Case No. 2016-2231, 2017-1838

Decided March 2, 2020

I. Background & Facts

In 2000, David Cantrell founded Vortex Dehydration Technology (“VDT”) to sell methods of processing factory waste. In 2002, David Winsness joined VDT as its Chief Technology Officer. Later, with the help of processing equipment sold by Greg Barlage of Alfa Laval AB, Cantrell and Winsness (together, “the Inventors”) began developing an oil recovery product specifically designed for animal processing waste products. During this time, VDT maintained a business relationship with Agri-Energy LLC (“Agri-Energy”), which operated a dry-mill ethanol plant. Cantrell believed VDT’s oil recovery system might be applicable in an ethanol plant and, later, directed Barlage to conduct tests using samples of Agri-Energy’s thin stillage samples. In his June 2003 testing report, Barlage concluded that VDT’s oil recovery system was successful.

On August 1, 2003, Cantrell emailed several Agri-Energy employees and attached a proposal (the “Proposal”), dated July 31, 2003, offering a “No-Risk trial” of the VDT “Oil Recovery System” during which the system could be used and evaluated for its value for sixty days. After that trial period, Agri-Energy could “purchase the system” for \$423,000 or return any equipment to VDT “no questions asked.” Agri-Energy understood the July 2003 Proposal as an offer for sale. On August 18, 2003, Cantrell traveled to Agri-Energy and presented his proposal to the Agri-Energy Board of Directors, which the Board of Directors rejected. In early 2004, VDT and Agri-Energy again communicated regarding the oil recovery system, and a centrifuge was installed in the Agri-Energy plant.

In February 2004, the Inventors contacted patent counsel Andrew Dorisio about preparing a patent application for their oil recovery method. Dorisio warned them about the 35 U.S.C. § 102(b) on-sale bar and asked if an offer had been made. The Inventors told Dorisio about their in-house tests but did not disclose the July 2003 Proposal or about a diagram that detailed the process that VDT had prepared. Dorisio filed a provisional patent application for the processing system with the USPTO on August 17, 2004, thus, setting the critical date as August 17, 2003. Dorisio later provided the Inventors with a draft opinion and informed the PTO that the Inventors could prove reduction to practice in June 2003 and, thus, could swear behind a prior art application which

was filed on July 25, 2003. This was used as evidence that the invention was “ready for patenting” in June 2003 and set a cut-off date for application of the experimental use exception to the on-sale bar. In May 2005, Dorisio filed a non-provisional application and subsequent continuing applications.

In 2006, the Inventors joined GS CleanTech Corporation (“CleanTech”), which acquired VDT’s patent applications. In March 2008, Winsness transferred the prosecution of the applications to the law firm Cantor Colburn LLP (“Cantor Colburn”).

After a due diligence request by an investor, Cantor Colburn withdrew the application from issue and filed a letter with the PTO stating that “[s]ometime in May 2004, feasibility testing of a process and system for recovering oil from thin stillage was performed.” Among other things, the July proposal to Agri-Tech was not disclosed, although the Inventors had retained copies. Peter Hagerty, an attorney at Cantor Colburn, sent two “original” copies of the proposals to the PTO in March of 2010, but argued that the July 2003 Proposal was irrelevant to patentability since the method was never “disclosed, carried out, or performed” more than one year before the filing date.

Winsness then went to Agri-Energy and offered them a royalty-free license in exchange for “admitting the patent was valid.” Another Cantor Colburn attorney, Michael Rye, sent Agri-Energy a letter asking it to “confirm” that it had never received drawings or diagrams of the proposed system in 2003 and that the system had been provided for experimental use. Agri-Energy refused.

Throughout prosecution of the applications, Cantor Colburn filed two declarations signed by Cantrell. In November 2010, they filed a (false) declaration by Cantrell with the PTO, attaching the July 2003 Proposal, in which Cantrell said he had hand-delivered the Proposal to Agri-Energy on August 18, 2003 (i.e., that the July 2003 Proposal was actually disclosed on August 18, 2003). When Cantrell was deposed, he was shown an email of the July 2003 proposal that he sent to Agri-Energy, but claimed it was not authentic. Attorney Hagerty testified that he felt that the July 2003 Proposal “did not disclose anything or amount to an offer.” Cantor Colburn withdrew the application containing the first declaration and sent in a second Cantrell declaration that included the email but did not comment on the first declaration or on the significance of the August 1st email. In the second declaration, filed during prosecution of the ‘484 patent, Cantrell stated that he had forgotten about sending the August 2003 Email with the July 2003 Proposal attached.

The USPTO ultimately issued CleanTech several patents covering its ethanol processing system.

Starting in 2009 and continuing through 2014, CleanTech filed lawsuits against a number of parties, including Adkins Energy, LLC (Adkins), for infringing CleanTech’s patents covering an oil recovery system. The disputed patents include U.S. Patent No. 7,601,858, No. 8,008,516, No. 8,008,517, and No. 8,283,484 (collectively, “Patents-in-Suit”). The Patents-in-Suit share a specification and relate to the recovery of oil from a dry mill ethanol plant’s byproduct, called thin stillage. Particularly, the Patents-in-Suit disclose a method of successful recovery of the valuable oil from the thin stillage byproduct by evaporating the thin stillage to form a concentrate, and then separating the oil from the concentrate using a centrifuge. U.S. Patent No. 7,601,858 Claim 8 reads: “A method of recovering oil from thin stillage, comprising, in sequence: evaporating the thin stillage to create a concentrate having a moisture content of greater than 30% by weight and least than about 90% by weight; and centrifuging the concentrate to recover oil.” The other patents had relatively minor processing steps.

Numerous actions were subsequently combined into a multidistrict litigation case. In 2013, both CleanTech and Adkins moved for summary judgement. In response, the District Court

determined that the Proposal was a commercial offer for sale and evidence showed that the system was ready for patenting in August 2003.

After the summary judgment determinations, the District Court held an inequitable conduct bench trial. The District Court concluded that CleanTech committed inequitable conduct through a complete lack of regard for their duty to the USPTO. The District Court also determined that the Inventors took affirmative steps to hide the offer for sale from their lawyers, then, later from the USPTO. It was decided that the Inventors purposefully acted to deceive the USPTO so they could profit from obtaining patents. Finally, the District Court concluded that Cantor Colburn participated in the inequitable conduct by “choosing advocacy [of their clients] over candor.”

Due to these conclusions, the District Court held the Patents-in-Suit unenforceable. CleanTech appealed the District Court’s decision.

II. Issues

Whether the District Court abused its discretion in concluding that:

- The claimed invention was the subject of a pre-critical date offer;
- The patentee and its attorneys were aware that the claimed invention violated the on-sale bar under 35 U.S.C. § 102(b); and
- The patentee and its attorneys deliberately withheld material information from the PTO that would have impacted the bar.
- Thus, the Patents-in-Suit were unenforceable due to inequitable conduct.

III. Discussion

CleanTech argued that the District Court made “clearly erroneous findings of fact” and misapplied the law with respect to its on-sale bar determination, as well as its conclusions regarding the parties’ knowledge of materiality and their intent to deceive. The Federal Circuit established that the applicable review standard is “abuse of discretion” because “inequitable conduct is an equitable issue committed to the discretion of the trial court,” contrary to CleanTech’s argument that the Federal Circuit should conduct *de novo* review.

The Federal Circuit performed an analysis of all the District Court’s final determinations, as follows:

A. On-Sale Bar

- “A patent is invalid under the on-sale bar if, before the filing date, the invention was both (1) the subject of a commercial sale or offer for sale and (2) “ready for patenting.” See *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998).
 - Regarding (1), the Federal Circuit determined that based on “contract law principles,” the District Court properly concluded that the July 2003 Proposal was an “offer for sale,” because the proposal provided an offer of “all items necessary to recover oil and the price” and “the Inventors understood the offer to Agri-Energy was a ‘first sale’ that would lead to additional sales.” *GS Cleantech Corp. v. Adkins Energy LLC*, 951 F.3d 1310, 1326 (Fed. Cir. 2020).
 - With respect to (2), the Federal Circuit determined that “The District Court Did Not Abuse Its Discretion in Determining the Claimed Invention Was Ready for Patenting Before the Critical Date.” *Id.* The panel noted that “in June 2003, Mr.

Barlage tested an ethanol syrup with a pH, moisture content, and temperature within the claimed ranges recited in the Patents-in-Suit.” *Id.* at 1327. The Federal Circuit also noted that “the Inventors themselves made statements contemporaneous to the June and July 2003 testing that the claimed invention was reduced to practice.” *Id.*

- CleanTech contended that under *Allen Eng’g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1352-53 (Fed. Cir. 2002), the June and July 2003 testing was “experimental” in nature because its claimed invention clearly needed experiments under actual conditions of use. *Id.* at 1327. The Federal Circuit, however, stated that “CleanTech’s counterarguments are meritless and misleading.” *Id.* It explained that the District Court considered *Allen* and concluded the testing was not for purposes of experimentation because “reduction to practice does not require a showing that the method would work acceptably in a plant environment.” *Id.*

B. Inequitable Conduct / Duty of Disclosure.

- The Federal Circuit stated “To prevail on a claim of inequitable conduct in a patent case, the accused infringer must prove by clear and convincing evidence that the patentee: (1) ‘knew of the reference’ or prior commercial sale, (2) ‘knew that it was material’ [to patentability] and (3) ‘made a deliberate decision to withhold it.’ *Id.* at 1324. (citing *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011) (*en banc*)).
- The Federal Circuit concluded that the District Court did not abuse its discretion in concluding that the Inventors at CleanTech and Cantor Colburn intended to deceive the USPTO. Several reasons were given in upholding the District Court’s inequitable conduct determination—notably that the record of evidence sufficiently demonstrated that:
 - The District Court’s conclusion that “CleanTech *knew* the July 2003 Proposal to Agri-Energy threatened its chances of patenting its ethanol oil recovery method.” *Id.* at 1329 (emphasis added). The Federal Circuit noted that in “February 2004, the inventors sought information from the USPTO website about the on-sale bar” and days later, Dorisio, the inventors’ initial patent attorney, informed the inventors about the on-sale bar. *Id.*
 - The “inventors and the attorneys at Cantor Colburn withheld evidence of successful testing in 2003 and made false representations by implying that the invention was not reduced to practice until 2004.” *Id.* The Federal Circuit explained that Cantor Colburn possessed the Ethanol Oil Recovery System Diagram and the test reports themselves, but Cantor Colburn did not provide them to the USPTO during the prosecution and referenced them only to assert that the claimed invention predates *Prevost*, a cited prior art document. *Id.*
 - The District Court’s determination that CleanTech and Cantor Colburn threatened Agri-Energy “to coerce its support regarding the critical date for the Patents-in-Suit, after the July 2003 Proposal surfaced and during the pendency of the ’516 and ’517 patents.” *Id.* at 1330. The Federal Circuit specifically noted that “Winsness traveled to Agri-Energy and ‘offered Agri-Energy a royalty-free license in exchange for Agri-Energy’s willingness to admit that the pending patents were valid.’” *Id.* Also, Cantor Colburn sent Agri-Energy an email,

- “request[ing] a statement ‘confirming and clarifying’ certain facts relating to the offer.” *Id.*
- The finding that “the Inventors and Cantor Colburn made a ‘patently false’ statement in the First Cantrell Declaration” filed in November 2010, “by claiming the July 2003 Proposal was delivered to Agri-Energy after the critical date.” *Id.* “The attorneys at Cantor Colburn testified that they themselves were skeptical of the veracity of the claim” but still filed the First Declaration. *Id.* The Federal Circuit also noted that Cantor Colburn possessed the June and July 2003 Tests and Report and the Ethanol Oil Recovery System Diagram since September 2008. *Id.*
 - It was not an abuse of its discretion for the District Court to find that Cantor Colburn’s failure to correct the false First Declaration was “strong evidence of intentional deceit.” *Id.* at 1331. In a September 2011 deposition, Cantor Colburn “*kn[e]w for certain*” that the First Declaration was false, but it made no correction at the USPTO. *Id.* Moreover, the Second Declaration provided the USPTO with “the false impression” that the unsigned letter had less significance than the signed one and failed to distinctly point out and/or explain the false information previously provided to the examiner. *Id.*

Further, the Federal Circuit found CleanTech’s counterarguments unpersuasive. CleanTech argued that the District Court’s review of materiality “exceeded the scope of the bench trial, which was only on ‘inequitable conduct.’” *Id.* However, as the District Court found, materiality is an element of the inequitable conduct claim and was squarely before the District Court. *Id.* CleanTech argued that the District Court’s materiality finding “violated its right to a jury trial.” *Id.* The Federal Circuit disagreed. *Id.* It held that “inequitable conduct is based in equity, there is no right to a jury trial.” *Id.* CleanTech contended that the District Court excluded some evidence barring CleanTech from relitigating materiality. *Id.* at 1331-32. The Federal Court, however, found that the District Court properly excluded that evidence under Federal Rule of Evidence 403. *Id.* at 1332.

Thus, the Federal Circuit affirmed the lower court.

IV. Conclusion and Takeaways

As discussed, CleanTech’s patents were ruled invalid and therefore unenforceable, thereby stripping CleanTech of any patent rights it previously possessed.

After the decision, CleanTech filed an *en banc* rehearing petition and subsequent *writ of certiorari* petition to the Supreme Court arguing that the panel wrongly determined the Patents-in-Suits unenforceable due to inequitable conduct at the USPTO during prosecution by the inventors and their attorneys. Both of these petitions were denied.

The outcome of this case suggests that withholding vital information regarding patentability of an invention from the USPTO can have dire consequences on patents and associated applications. While the Federal Circuit’s 2011 *Therasense* decision raised the bar for proving inequitable conduct, this *CleanTech* decision shows that inequitable conduct is still a valid defense to patent infringement.

It is important for patent practitioners to always remember their duty of disclosure to the USPTO (e.g., disclosing knowledge of prior art or sale) and to avoid “choosing advocacy over candor.” It is imperative to disclose pertinent information to the USPTO, even if that information may result in a bar to patentability (as it was here with the on-sale bar). The duty of disclosure exists during prosecution and generally ends with the issuance of the patent. The duty, however, revives if prosecution is reopened, such as in post-grant proceedings such as *ex parte* reexamination, reissue applications, AIA *inter partes* review, AIA post-grant review, and supplemental examination.

As this decision shows, patent practitioners may be charged with inequitable conduct in relation to individuals they represent. Thus, it is wise to pay attention to warning signs raised by your clients’ statements and behavior and inquire about such possibilities. In certain scenarios, it may be best to withdraw from representation if the client seems to be deceptive and to correct any previous misstatements on the record.