# DUTY OF CANDOR

## Li Second Family Ltd. Partnership v. Toshiba Corp.

**No. 99-1451, 2000 U.S. App. LEXIS 27921 (Fed. Cir. Nov. 8, 2000)**

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### Abstract

In affirming, the Federal Circuit stated that to determine whether inequitable conduct occurred, the trial court must determine that "the alleged nondisclosure or misrepresentation has occurred, that the nondisclosure or misrepresentation was material, and that the patent applicant acted with the intent to deceive the PTO." Information regarding an effective filing date is of significant importance to an examiner and a misrepresentation by an applicant that he is entitled to the benefit of an earlier filing date is highly material. The duty of candor requires an applicant to disclose to relevant material. This duty extends throughout the prosecution of an application, this duty spans related applications, requiring explicit disclosure of all related applications.

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## CASE SUMMARY

U.S. Patent No. 4,916,513 (the '513 patent) and the related U.S. Patent No. 4,946,800 (the '800 patent) are owned by Li Second Family limited partnership ("Li"). The ‘513 patent and the ‘800 patent are directed to the structure of and methods for making semiconductor devices. The ‘800 patent which issued in 1990 was filed as a continuation-in-part ("CIP") of a now-abandoned 1971 application Serial No. 05/154,300 (the ‘300 application). The ‘513 patent issued in 1990 was also filed as a CIP of the ‘300 application. The ‘300 application was itself a CIP of a 1968 application that issued in 1971 as U.S. Patent No. 3,585,714, which in turn was a CIP of a 1965 application that issued in 1969 as U.S. Patent No. 3,430,109 (the ‘109 patent). The ‘800 patent and the ‘513 patent were assigned to different examiners at the PTO. The ‘800 patent and the ‘’513 patent contain the common limitation that the bottom of an "isolation groove" must be within 1.0 micron of a specific junction ("the 1.0 micron limitation") on the semiconductor body.

Li attempted to overcome rejections for anticipation and obviousness under 35 U.S.C. §§ 102 and 103 during prosecution of the '513 patent by claiming the benefit of an earlier priority date of 1969 or 1965 under 35 U.S.C. §§ 120. In particular, Li argued that the 1.0 micron limitation in the '513 patent was supported by the disclosures of the parent applications, from which the ‘513 patent CIP is derived. However, the Examiner found that the earlier applications did not disclose the subject matter contained in the claims of the '513 patent and, therefore, denied the extension of the earlier priority date. Li appealed the Examiner’s decision to the PTO Board of Appeals, which affirmed the Examiner's findings and denied Li the benefit of the earlier priority date.

The ‘800 patent, during subsequent prosecution before a different examiner, was assert by Li that it also deserved the benefit of the earlier priority date of 1969 or 1965 for the 1.0 limitation. Li failed to disclose the substance of the PTO Board's decision regarding the limitation to the examiner in writing. However, Li did refer to the '513 patent's application, but only through a genealogy chart of related applications that was included as a supplement. The Examiner allowed the claims of the '800 patent, indicating that the priority date for the relevant technology was the earlier date under 35 U.S.C. §§ 120.

Li sued the Toshiba Corp. ("Toshiba") in the US District Court for the Eastern District of Virginia for infringement of the '800 patent. Toshiba argued that the '800 patent was unenforceable due to Li's inequitable conduct in failing to disclose the PTO's decision to the examiner during prosecution of the '800 patent. Li alleged that Li’s patent attorney had discussed the PTO's decision with the examiner, but there is no written record of a disclosure

to the PTO by Li or Li's patent attorney of the Board's 1981 negative decision regarding priority dates in the '758 application. The district court concluded that Li's failure to disclose or, alternatively, to make written record of the discussion with the examiner constituted inequitable conduct and ruled that the '800 patent was thus unenforceable. Li appealed the ruling.

Upon review for abuse of discretion, the Federal Circuit noted that a patent applicant is responsible for putting all prior, relevant communication with the examiner in writing. Additionally, the Court agreed with the district court that inclusion of a genealogy chart of related patent applications does not make an examiner sufficiently aware of the substance of a PTO's decision regarding one of those patents. Thus, the Federal Circuit found no clear error in the district court's findings that Li's failure to disclose the PTO's decision and instead affirmatively arguing the opposite constituted a "persistent course of nondisclosure and misrepresentation."

The Federal Circuit noted that nondisclosure and misrepresentation constitute inequitable conduct when there is intent to deceive the examiner and the information withheld is material. The Court found that information regarding the priority date of disclosed technology is critical to an examiner's decision to allow a patent claim. The facts supported the district court's finding that Li's arguing that it deserved the benefit of an earlier priority 1969 or 1965 date revealed intent to deceive the examiner. Thus, the Federal Circuit affirmed the district court's findings that the '800 patent is unenforceable for inequitable conduct by Li during prosecution of the patent.

## Issues

Does a party commit ***inequitable conduct***, during patent prosecution, by affirmatively claiming the benefit of an earlier priority date under 35 U.S.C. §§ 120 and failing to disclose a PTO Board decision rejecting the benefit of that earlier date with respect to claims having similar limitations regarding the same technology in a related patent? As the issue is very fact dependent, in general the party probably has committed inequitable conduct. Nondisclosure and misrepresentation constitute inequitable conduct when there is intent to deceive the examiner and the information withheld would be material to an examiner's decision to issue the patent.

Does submission of a patent application/dependency genealogy chart referencing a previously dismissed patent application constitute ***sufficient written disclosure*** in a later patent application? Clearly, an applicant's submission of a patent application/dependency genealogy chart with reference to a previously dismissed application, without specific mention of the PTO Board's decision, is insufficient disclosure to an examiner.

***Is an oral briefing*** of a patent examiner as to the perceived irrelevance of an earlier patent dismissal is ***sufficient disclosure*** of that dismissal? Clearly not, as it is an applicant's

responsibility to ensure that all business conducted before the PTO is documented in writing, including disclosures such as the substance of an earlier rejection.

## Duty of Disclosure

The duty of disclosure on a patentee is clear. As stated by Rule 56:

> (a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability. Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section. The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned.

## Inequitable Conduct

Inequitable conduct is fact intensive (see *B.F. Goodrich Co. v. Aircraft Braking System Corp.*, 72 F.3d 1577, 37 USPQ2d 1314 (Fed. Cir 1996) where the court held that “careless patent prosecution” alone did not constitute inequitable conduct.

Patent applicants are required to prosecute patent applications with candor, good faith, and honesty. *See Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178, 33 USPQ2d 1823, 1826 (Fed. Cir. 1995). "[I]nequitable conduct includes affirmative misrepresentation of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive." *Id.* The alleged infringer, whether a defendant in a patent infringement suit or a declaratory judgment plaintiff, must demonstrate by clear and convincing evidence both that the information was material and that the conduct was intended to deceive. *See id.*

The court first discerns whether the withheld references or misrepresentations satisfy a threshold level of materiality and whether the applicant’s conduct satisfies a threshold showing of intent to deceive. *See id.* If these thresholds are satisfied, the trial court balances materiality and intent to determine whether the equities warrant the conclusion that inequitable conduct occurred. *See id.* at 1178, 33 USPQ2d at 1827. "In light of all circumstances, an equitable judgment must be made concerning whether the applicantís conduct is so culpable that the patent should not be enforced." *Id.*

## Materiality

37 C.F.R. ß 1.56 (1995) ("Rule 56") defines information as material to patentability when:

> [I]t is not cumulative to information already of record or being made of record in the application, and
> (1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or
> (2) It refutes, or is inconsistent with, a position the applicant takes in:
> (i) Opposing an argument of unpatentability relied on by the Office, or
> (ii) Asserting an argument of patentability.

## Intent

"Intent need not be proven by direct evidence; it is most often proven by a showing of acts, the natural consequence of which are presumably intended by the actor." *Molins*, 48 F.3d at 1180, 33 USPQ2d at 1828-29. "Generally, intent must be inferred from the facts and circumstances surrounding the applicant's conduct." Id. at 1180-81, 33 USPQ2d at 1829. "Since the fact-finder has personally heard and observed the demeanor of witnesses, we accord deference to the fact-finder's assessment of a witness's credibility and character." *Id.* at 1181, 33 USPQ2d at 1829.

Proof of high materiality and that the applicant knew or should have known of that materiality makes it difficult to show good faith to overcome an inference of intent to mislead. *See Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257, 43 USPQ2d 1666, 1669 (Fed. Cir. 1997). "The more material the omission or the misrepresentation, the lower the level of intent required to establish inequitable conduct, and vice versa." *Id.* at 1256, 43 USPQ2d at 1668.

## Conclusion

In affirming, the Federal Circuit stated that to determine whether inequitable conduct occurred, the trial court must determine that "the alleged nondisclosure or misrepresentation has occurred, that the nondisclosure or misrepresentation was material, and that the patent applicant acted with the intent to deceive the PTO." Li's genealogy chart with a reference to the '513 patent cited art did not sufficiently disclose the Board's negative decision. Li was granted the '800 patent only after the examiner was convinced that Li was entitled to the earlier filing date. Li deliberately concealed the Board's decision from the examiner. There was no written record of the oral briefing between the examiner and Li. It was "the responsibility of the applicant to ensure that the substance of any interview with the examiner is included in the written record of the patent application, unless the examiner indicates that he will do so." Information regarding an effective filing date is of significant importance to an examiner and a misrepresentation by an applicant that he is entitled to the benefit of an earlier filing date is highly material.

The duty of candor requires an applicant to disclose to relevant material. This duty extends throughout the prosecution of an application, this duty spans related applications, requiring explicit disclosure of all related applications.