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Advocacy vs. Candor Paves the Road to Inequitable Conduct

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In GS Cleantech Corp. v. Adkins Energy LLC, the Fed. Cir. upheld a finding of an on-sale bar to patenting and also found that the main prosecuting attorney committed inequitable conduct by providing false or misleading information to the PTO. To provide a law review analysis of the opinion (appeal no. 2016-2231, 2017-1838 (Fed. Cir., March 2, 2020) would require more pages of text than this 39 page opinion, and I will spare you that. At least the invention was a not-overly-complex method of recovering oil from a dry mill ethanol plant's by product called thin stillage.

Four patents were in suit. U.S. Pat. No. 7,601,858. Claim 8 read:

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. The inventors, Cantrell and Winsness, founded a company, "VDT", which had a business relationship with Agra-Energy, which operated a dry mill ethanol plant. Cantrell sifted his focus from animal oil recovery to ethanol oil recovery. On August 1, 2003 Cantrell emailed several Agri-Energy employees and attached the "July 2003 proposal" offering a "no-risk trial of the VDT oil recovery system" in which the system could be used for sixty days. After that trial Agri-Energy could purchase the ''system" for $423,000 or return any equipment to VDT "(no questions asked.") The proposal was not accepted, but Agri-Energy eventually installed the system in 2004.

In February 2004, the inventors contacted attorney Doriso about prepared a patent application for their process. Doriso warned them about the 102(b) on-sale bar, and asked if an offer had been made.The inventors told Doriso about their in-house tests but did not tell them about the July 2003 proposal or about a diagram that detailed the process that VDT had prepared (ed. note: It is not clear to me that the diagram was shown to Agri-Energy.) A provisional application was filed on August 17, 2004, setting the critical date as August 17, 2003. As noted above, Agri-Energy received the "July 2003 proposal" on August 1st, just prior to the critical date.

Doriso later informed the PTO and provided the inventors with a draft opinion that the inventors could prove reduction to practice in June 2003, and so 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.

Plaintiff Cleatech aquired the inventors and the VDT recovery technology in 2006 and transferred the prosecution to attorney Peter Hargarty at Cantor Colburn in 2008. Now things start to get complicated. In the past I have written that miscommunication between prosecuting attorneys can protect a later attorney from liability for inequitable conduct if he/she wrongly but in good faith relies on representations or work done or not done by prior attorneys working on an application. It didn't go that way in this case.

After a due diligence request by an investor, Cantor Colburn withdrew the application from issue and filed a letter with the PTO stating that "sometime in May 2004, feasibility testing of [the process] was performed. Inter alia, the July proposal to Agri-Tech was not disclosed, although the inventors had retained copies. Hargarty sent two "original" copies of the proposals to the TPO 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 (ed. note: What happened to "sold?")

Things got worse from there, Inventor Winsness went to Agri-Energy and offered them a royalty-free license in exchange for "admitting the patent was valid." A Cantor Colburn attorney 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.

And worse. In November 2010, Cantor Colburn filed a [false] declaration by Cantrell with the PTO, attaching the July 2003 Proposal, in which Cantrell said he had hand-delivered on Aug. 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.

The Fed. Cir. panel noted that the district court found that the invention had been reduced to practice and that the signed proposal was a commercial contract under the UCC, thus violating the on-sale bar and rendering the patent(s) invalid. The district court then held a bench trail on inequitable conduct ("IC") and found the CleanTech committed IC due to the actions of the Inventors to conceal the fact that the July 3 Proposal created an on-sale bar. The district Court also found that Cantor Colburn "purposefully evaded" disclosing or failed to seek out relevant information and so participated in the IC – "Choosing advocacy over candor."

The Fed. Cir. panel begins its discussion on page 23 of the opinion, and walks through the requirements of IC, the on-sale bar, and the experimental use exception to the on-sale bar, and I will not repeat them here. However, it is notable that the Fed. Cir. agreed with the district court judge that the July 2003 Proposal was a "sale on approval", since the "delivered goods may be returned by the buyer even though they confirm to the contract", so long as the good are delivered primarily for use.

The panel disregarded arguments by CleanTech that it "did not perform the method for AgriEnergy, before the critical date, for a promise of further compensation [citing Plumtree Software v Datamize, 473 F.3d 1152 (Fed. Cir. 2006)]. In a footnote, the panel found that AgriEnergy had waived this argument on appeal due to its failure to waive it below.

Contracts was my best subject in law school and I have never heard of the requirements for a "sale on approval." The 5th edition of J Mueller, "Patent Law" does not cite Plumtree once. In view of the Plumtree standards, at least some of which appear relevant here, doesn't this incorporation of these

standards into the on-sale bar offer the attorney a chance to argue that he had a good-faith belief that the requirements for the on-sale bar had not be met? The courts here would probably say that it doesn't matter what the attorney believed since he and the inventors took affirmative steps to conceal the actual date of the July 2003 Proposal.

But inequitable conduct findings put great weight on the attorney's subjective state of mind. If you shoot at someone, believe you have killed them, and so throw the gun away, should you be found guilty of murder? The Fed. Cir.'s emphasis on the failure of CleanTech to argue this defense below is at least troubling.

If, legally, under the UCC, there was an offer to sell prior to the bar date, the patents are invalid. But if the attorney reasonably believed there was no offer to sell, the other elements of an IC inquiry such as intent to deceive evaporate, right? Even if the attorney and the inventors knew of the Proposal, but didn't believe it was a "prior commercial sale", and so believed it was not material and decided to withold it, not all the elements of IC are met. Even if the attorney failed to give the inventors the correct advice in view of this exotic Proposition, does this rise above the level of negligence? The opinion reads like a good "who done it?" but the ending falls legally flat.

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