

USPTO Director Cracks Down on Patent Owner for Withholding Data and Imposes Severe Sanctions

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The Director of the USPTO initiated *sua sponte* review of a PTAB panel's decision to impose sanctions based on patentee's conduct during IPR proceedings. The PTAB cancelled all of patentee's claims, including those not unpatentable on the merits, after finding that patentee deliberately withheld data relevant to the patentability of the claims at issue. In her review, the Director addressed which regulations are implicated upon a party's misconduct during AIA proceedings and addressed whether entry of judgment in the trial was an appropriate sanction.

Background

The patents at issue related to methods and compositions for killing pathogens in biological samples without degrading nucleic acids, which petitioner challenged in IPR proceedings. Patentee commissioned a facility to conduct tests against certain microbes to determine which prior art compositions met the claimed limitations, but then instructed the facility to prepare a report containing only a portion of all tested microbes. Patentee submitted this report to the board and to its own expert witness, who testified based on the results of the report lacking the withheld data. The submitted report suggested that the prior art compositions did not kill pathogens as required by the claims.

When petitioner questioned the facility's employees during depositions about testing of additional microbes, patentee's counsel repeatedly invoked attorney work product immunity. The board later granted petitioner additional time to depose each witness and ordered patentee to serve on petitioner any inconsistent information, as required under Rule 42.51(b)(1)

(iii). Patentee then served petitioner the withheld data showing that some microbes were killed by the prior art compositions.

The board found that patentee's counsel intentionally withheld test results that were inconsistent with its patentability position and in doing so violated several regulations, including the duty of candor and good faith (37 C.F.R. § 42.11(a)), certification requirements (37 C.F.R. §§ 42.11(c) and 11.18(b)(2)), and mandatory discovery rules (37 C.F.R. § 42.51(b)(1)(iii)). The board imposed severe sanctions, including adverse judgment against all challenged claims, even those that the board did not find unpatentable, and denied patentee's motions to amend.

In its sanctions order, the board held that the work product doctrine cannot be used as both a sword and shield to conceal factual information that is "inconsistent with positions taken by a party" before the board and held that patentee waived work product immunity by submitting only favorable data. The board further noted that patentee could have maintained immunity while complying with its duty of candor by filing withheld data under seal, requesting an in-camera review, submitting a privilege log identifying the data, or producing a redacted copy of the data. The board also found that patentee's expert might have substantively altered his opinion if he was allowed to view the withheld data.

Director Review

In her review, the Director first concluded that Rule 42 applies to AIA proceedings based on its plain language. The Director then affirmed the PTAB's sanctions, emphasizing patentee's "deliberate scheme" to mislead the board and petitioner. Patentee's conduct was particularly egregious because it took patentability positions inconsistent with its withheld data, misrepresented to the board that no other testing existed relating to the results it submitted, and elicited defective testimony from its own expert.

Patentee argued that it complied with the safe harbor provision of Rule 42.11(d)(2), which allows a non-moving party to cure deficiencies before a motion for sanctions is filed. The Director noted that although the plain language of the safe harbor allows for correction of deliberate misconduct, patentee nonetheless failed to satisfy safe harbor requirements here by not withdrawing or correcting its misleading statements. Rather, patentee merely clarified its claim construction arguments instead of correcting its statement that no other testing existed or allowing its expert to reevaluate his opinion with the complete data.

The Director highlighted that sanctions are case-specific based on conduct and harm and concluded that judgment in the trial deeming all challenged claims unpatentable was appropriate here because the board relied on withheld data to determine patentability of claims at issue. Patentee’s misconduct also required additional time and expense, delayed the board’s decision, and risked an “unjust result,” thus harming “the integrity of the [PTAB] and the public interest in equitable and streamlined resolution of patentability disputes.” Lesser sanctions like compensatory damages or additional discovery would have been insufficient because they would have put the parties in the same position as if patentee met its duty and therefore would not have deterred future misconduct.

Lastly, the Director warned that parties have a duty to monitor their counsel and cannot avoid the consequences of their “freely selected” agents. Parties can separately recover against their counsel’s misconduct via malpractice suits.

Practice Tip: This case highlights the importance of adhering to ethical standards and the duty of candor in all patent-related proceedings. This ruling is an example of how the PTAB may handle similar cases of misconduct in the future and reinforces that deliberate and egregious violations of USPTO regulations will be met with severe penalties including possible cancellation of patent claims.

Spectrum Solutions LLC v. Longhorn Vaccines & Diagnostics, LLC, IPR2021-00847, Paper 142 (Director Vidal July 11, 2024).

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