
Inequitable Conduct and Small Entity Status

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Background: Claiming Small Entity Status

The U.S. Patent and Trademark Office (PTO) allows parties that qualify as "small entities" to pay reduced fees for certain activities associated with the procurement and maintenance of patent applications and issued patents. "Small entities" can include businesses not exceeding 500 employees as well as universities or other institutions of higher education. However, if "any rights in the invention" are assigned or licensed to one who would not qualify for small entity status (i.e., a "large entity"), then the applicant or patent holder must notify the PTO before or at the time of payment of a subsequent patent issue fee or patent maintenance fee. The applicant or patent holder would not then be entitled to the reduced fees for these subsequent payments. On the other hand, where a claim of small entity status properly *can* be maintained and is desired, an affirmation of entitlement to small entity status must be made upon payment of the patent issue or patent maintenance fee.

[PTO rules](#) warn that an attempt to fraudulently establish or affirm status as a small entity "shall be considered as a fraud practiced or attempted" on the PTO, which may result in the ultimate unenforceability of the patent.

The applicable regulations leave room for small companies and universities who license their patents to fall prey to adverse effects resulting from improperly claiming small entity status (even in the context of paying maintenance fees), as the following Federal Circuit decision highlights.

A Trap for the Unwary?

In [Ulead Systems v. Lex Computer](#), Lex properly claimed small entity status during payment of the first maintenance fee due on its patent. Subsequently, Lex granted a nonexclusive license to a company that was a large entity. When later submitting its second and third maintenance fees to the PTO, Lex affirmed the claim of small entity status. During litigation, Lex asserted that its president had been unaware of the relevant law regarding small entity status, and that its patent counsel was unaware of the license.

The district court, finding Lex's testimony to be suspect, granted Ulead's motion for summary

judgment that Lex's patent was unenforceable because of (1) Lex's misrepresentations of small entity status to the PTO and (2) the patent having expired due to Lex's failure to pay the correct maintenance fees. PTO rules allow erroneous establishment of small entity status to be excused upon payment of the deficiency owed if the initial error occurred in "good faith." This payment had been made by Lex (and accepted by the PTO), but the district court found the requisite good faith to be lacking, and thus held that the patent had "expired."

On appeal, the Federal Circuit stated that the appropriate standard for determining whether misconduct occurred in the course of claiming small entity status (the first basis for summary judgment) was "inequitable conduct," rather than a more stringent common law "fraud" standard. Though issues of unenforceability had historically arisen only in cases involving inequitable conduct that occurred *during* the prosecution of patents, the court asserted that there was no reason why inequitable conduct could not be applied to post-issuance activity such as regarding payment of maintenance fees. However, since issues of fact were raised by Lex's testimony, the question of whether actual intent (a key element of inequitable conduct) could be inferred from the testimony and other evidence was directed back to the district court for further consideration through a full trial.

Addressing the second basis for summary judgment, the Federal Circuit focused on the fact that requesting correction of incorrect fees, with the knowledge that the initial small entity fee was not paid in good faith, *would* (if true) amount to inequitable conduct. Whether this was in fact the case here, though, needed to be further explored by the district court at trial.

Be Diligent

The PTO's [Manual of Patent Examining Procedure \(MPEP\)](#) states that the person making the assertion of entitlement to small entity status "has a duty to investigate the circumstances surrounding entitlement to small entity status to the fullest extent. It is important to note that small entity status must not be claimed unless the person or persons can unequivocally make the required self-certification." The *Ulead* decision illustrates that a patentee needs to be careful when paying issue or maintenance fees where small entity status was previously asserted or is being maintained. Though the case was remanded, the Federal Circuit gave the district court a green light to find inequitable conduct if, after further exploring the issue in a full trial, intent to deceive was (still) found to be present.

In any case in which small entity status was improperly claimed or maintained, the issue of inequitable conduct may be raised, along with the possibility that the patent in issue will be found unenforceable.

A patentee should investigate whether certain events (such as license agreements to large entities) occurred prior to any initial or continuing assertion of small entity status, or whether the risks outweigh the potential cost savings of asserting small entity status at all.

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