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Transitions in IP and antitrust

BY MARK D. JANIS*

In 1973, when Ward Bowman argued that the conflict between patents and antitrust was “illusory,”¹ few others took that position. At the time, most commentators characterized the antitrust and intellectual property (IP) regimes as adverse to one another; the rhetoric of collision and conflict dominated the IP and antitrust literature.² Today, by contrast, commentators commonly assert

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¹ WARD S. BOWMAN, JR., *PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL* ix (1973). Bowman's book included “a detailed and readable analysis of major patent antitrust problems viewed from the vantage point of Chicago school economics.” LAWRENCE ANTHONY SULLIVAN, *ANTITRUST* 502 n.1 (1977) (proceeding to characterize the book as being “of general interest and value,” although less pragmatic than certain other economic analyses of the patent right). See also Richard A. Posner, *Exclusionary Practices and the Antitrust Laws*, 41 U. CHI. L. REV. 506, 506 n.1 (1973) (praising Bowman's book as the “most recent—and a very worthwhile—product of the Chicago school”). For a review and critique, see Oliver E. Williamson, *Review of Patent and Antitrust Law*, 83 YALE L.J. 647 (1973).

² See, e.g., SULLIVAN, *supra* note 1, at 505 (“Let there be no pretense that the patent system is not in potential collision with antitrust: it clearly is”). Tom & Newberg have described this view as the “separate spheres” model of IP and antitrust, which predominated in the early and middle 20th century. Willard K. Tom & Joshua A. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 *ANTITRUST*

that IP and antitrust share a complementary overarching vision,³ while also noting that the respective means of implementing that vision are routinely in tension.⁴

What changed? The answer is complex, and might be given from many perspectives. I take a patent law perspective. Taking as a starting point the 1970s—when Bowman published his synthesis of patent and antitrust law—I examine selected changes within the patent system and consider how they have contributed to bringing IP and antitrust doctrine to its present state.⁵ Three patent

L.J. 167, 167–73 (1997). *See also* Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813 (1984) (describing in detail the patent-antitrust “conflict” and proposing to address the conflict via a “ratio test” requiring optimization of patent life).

³ *See, e.g.,* Sheila F. Anthony, *Antitrust and Intellectual Property Law: From Adversaries to Partners*, 28 A.I.P.L.A. Q.J. 1, 4 (2000) (describing as “outdated” the “adversarial” approach to IP and antitrust); E. Thomas Sullivan, *The Confluence of Antitrust and Intellectual Property at the New Century*, 1 MINN. INTELL. PROP. REV. 1, 2–4 (2000) (asserting that an accurate account of history demonstrates that IP and antitrust are complementary). *See also* DOJ/FTC ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 1.0 (1995) (IP and antitrust regimes are complementary). *But cf.* James Langenfeld, *Intellectual Property and Antitrust: Steps Towards Striking a Balance*, 52 CASE W. RES. L. REV. 91 (2001) (recent decisions concerning issues such as the unilateral refusal to license intellectual property highlight the tension between IP and antitrust).

⁴ *See* HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY § 1.3 (2001); *see also* Norman E. Rosen, *Intellectual Property and the Antitrust Pendulum: Recent Developments at the Interface Between the Antitrust and Intellectual Property Laws*, 62 ANTITRUST L.J. 669 (1994) (attributing to patent and antitrust laws the “identical objective of optimizing economic performance” but noting that they “approach this objective dynamically through different policies and often with considerably different time horizons”).

⁵ That is, just as the starting point for the analysis coincides with the publication of one prominent synthesis of patent and antitrust doctrine (Bowman’s), the ending point of the analysis coincides with the publication of a new and (hopefully) prominent synthesis of IP and antitrust (HOVENKAMP, JANIS & LEMLEY, *supra* note 4).

law developments seem especially important: first, a fundamental institutional change (the creation and maturation of the Court of Appeals for the Federal Circuit); second, doctrinal change in patent inequitable conduct and its consequences for claims of anticompetitive patent enforcement; and, third, evolution in the infringement defense of patent misuse.⁶

I. The rise of the Federal Circuit in IP and antitrust

In its brief 20-year existence, the Court of Appeals for the Federal Circuit has fundamentally transformed U.S. patent law and has established itself as one of the world's dominant institu-

⁶ For a similar effort that proceeds from an antitrust perspective, see, e.g., Tom & Newberg, *supra* note 2, at 167 *et seq.* (describing the transition in antitrust treatment of licensing restrictions from a regime dominated by the "Nine No-Nos" to the present regime of the DOJ/FTC 1995 Antitrust Guidelines for the Licensing of Intellectual Property).

The 1960s and 1970s era scholarly literature on the antitrust treatment of licensing restraints is vast. See, e.g., Harold Marquis, *Limitations on Patent License Restrictions: Some Observations*, 58 IOWA L. REV. 41 (1972); Thomas V. Heyman, *Patent Licensing and the Antitrust Laws—A Reappraisal at the Close of the Decade*, 14 ANTITRUST BULL. 537 (1969); Donald F. Turner, *The Patent System and Competitive Policy*, 44 N.Y.U. L. REV. 450 (1969); William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966); Gerald R. Gibbons, *Price Fixing in Patent Licenses and the Antitrust Laws*, 51 VA. L. REV. 273 (1965). Concerning the antitrust treatment of specific types of licensing provisions, see, e.g., Martin J. Adelman & Friedrich K. Juenger, *Patent-Antitrust: Patent Dynamics and Field-of-Use Licensing*, 50 N.Y.U. L. REV. 273 (1975) (field-of-use restrictions); Wilbur L. Fugate, *Restrictions on Fields of Use*, 2 A.I.P.L.A. Q.J. 44 (1974) (same); Gerald R. Gibbons, *Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition*, 66 COLUM. L. REV. 423 (1966). On territorial restrictions, see, e.g., Malcolm E. Wheeler, *A Reexamination of Antitrust Law and Exclusive Territorial Grants by Patentees*, 119 U. PA. L. REV. 642 (1970); Richard H. Stern, *The Antitrust Status of Territorial Limitations in International Licensing*, 14 IDEA 580 (1970).

For relevant symposia, see *Symposium on Patents and Antitrust Law*, 39 ANTITRUST L.J. 777 (1970); *Patents, Know-How, and Antitrust*, 28 U. PITT. L. REV. 145 (1966).

tional players in patent policy.⁷ Recently, through its decisions on jurisdiction and choice of law in patent/antitrust matters, the Federal Circuit has now also positioned itself as the leading judicial influence over the evolution of IP and antitrust.

A. Federal Circuit appellate jurisdiction

The Federal Circuit takes exclusive jurisdiction over all appeals from final district court decisions “arising under” the patent laws.⁸ A case arises under the patent laws when the patent allegations form part of the “well-pleaded complaint,” meaning that patent law creates the cause of action or is a necessary element of one of the well-pleaded claims.⁹ Under the Federal Circuit’s interpretation, once the well-pleaded complaint rule is satisfied, the Federal Circuit takes appellate jurisdiction over all issues in the case, patent and nonpatent issues alike.¹⁰

These rules have provided the Federal Circuit with broad jurisdictional authority over patent/antitrust matters. For example, in a patent enforcement action where the alleged infringer’s counterclaims raise antitrust allegations, the patent enforcement actions satisfy the well-pleaded complaint rule and the Federal Circuit takes jurisdiction over the entirety of the case, including the antitrust counterclaims.¹¹ This rule holds even where the

⁷ For relevant background on the creation and objectives of the Federal Circuit, see Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 ILL. L. REV. 387, and sources cited therein. For the preeminent study on the Federal Circuit’s first decade, see Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1 (1989).

⁸ 28 U.S.C. § 1295(a)(1) (2002); 28 U.S.C. § 1338 (2002).

⁹ *Christianson v. Colt Indus. Op. Corp.*, 486 U.S. 800, 809 (1988).

¹⁰ *Atari, Inc. v. J. S. & A. Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc).

¹¹ *E.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 864 (Fed. Cir. 1997) (exercising jurisdiction without comment over patent infringement case involving misuse defenses and antitrust counterclaims).

patent claims have been resolved on the merits prior to the appeal, such that the appeal only involves the antitrust claims.¹²

Similarly, because the Federal Circuit considers patent counterclaims to be sufficient to confer appellate jurisdiction,¹³ an antitrust suit that draws a patent infringement counterclaim will fall within the Federal Circuit's appellate jurisdiction.¹⁴ For example, in the *Independent Services Organization* litigation, the Federal Circuit took appellate jurisdiction where plaintiffs alleged anticompetitive refusal to sell patented parts and anticompetitive refusal to license copyrighted software, and the defendant counterclaimed for patent infringement.¹⁵

It is not clear that Congress envisioned such a broad jurisdictional grant in antitrust matters when it passed the Federal Courts Improvement Act creating the Federal Circuit. At the very least, the legislative history expresses concern that parties might manipulate appellate jurisdiction by joining "trivial" patent allegations to "claims involving substantial antitrust issues."¹⁶ The creation of the Federal Circuit and its broad construction of its jurisdictional grant have changed the institutional oversight in IP and antitrust. When this vigorous approach to appellate jurisdiction is coupled

¹² See *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695, 701-02 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989) (appellate jurisdiction proper in appeal involving only antitrust issues, where patent claim was resolved below on jury verdict, and rule 54(b) final judgment entered on antitrust counterclaim); *Korody-Colyer Corp. v. General Motors Corp.*, 828 F.2d 1572 (Fed. Cir. 1987) (same). See generally HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 5.2b2 (discussing relevant authority).

¹³ *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 739-45 (Fed. Cir. 1990) (en banc).

¹⁴ This assumes that the patent counterclaim reaches a merits determination. HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 5.2b3.

¹⁵ *Independent Serv. Orgs. Antitrust Lit.*, 203 F.3d 1322 (Fed. Cir. 2000).

¹⁶ S. REP. NO. 275, 97th Cong., 1st Sess. 20 (1981) (proceeding to state that "[i]f, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal of the antitrust claim . . . should rest with the regional court of appeals").

with the Federal Circuit's appropriation of patent-related antitrust through its new choice-of-law regime, the change in the IP and antitrust legal landscape is especially profound.

B. Federal Circuit choice of law rules

For several years, the Federal Circuit deferred to regional circuit law when adjudicating antitrust issues in patent cases.¹⁷ In its 1998 *Nobelpharma* decision, the court reversed course, ruling that any antitrust issue “premised on the bringing of a patent infringement suit” would be decided as a question of Federal Circuit law.¹⁸ The court reasoned that by applying Federal Circuit law, the court could reduce “confusion” and bring uniform standards to the issue of anticompetitive patent enforcement.¹⁹ This advances a more general trend in the Federal Circuit's choice-of-law decisions, which feature increasingly frequent invocations of the view that a given issue is “unique to patent law” and therefore warrants “a uniform national rule.”²⁰

¹⁷ See, e.g., *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861 (Fed. Cir. 1985) (deferring to 4th Circuit law to adjudicate a § 2 counterclaim alleging baseless patent infringement litigation, *overruled*, *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059, 1067–68 (Fed. Cir.), *cert. denied*, 525 U.S. 876 (1998)). See also HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 5.3a1 n.7 (collecting additional authority).

¹⁸ *Nobelpharma*, 141 F.3d at 1068. In *Nobelpharma*, the Federal Circuit was reviewing a *Walker Process* claim. Accordingly, the precise question of Federal Circuit law before it was “[w]hether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws.” *Id.*

¹⁹ *Id.* at 1068.

²⁰ See, e.g., *Biodex Corp. v. Loredan Biomedical*, 946 F.2d 850, 858–59 (Fed. Cir. 1991) (concluding that the right to file a patent infringement counterclaim to a noninfringement declaratory judgment claim is “unique to patent law and warrants a uniform national rule”).

In *Midwest Indus. v. Karavan Trailers*, 175 F.3d 1356, 1360 (Fed. Cir. 1999), the Federal Circuit rationalized its newly aggressive approach to choice-of-law issues:

. . . *Nobelpharma* make[s] clear that our responsibility as the tribunal having sole appellate responsibility for the development

Although the impact of *Nobelpharma*'s choice-of-law rule has not yet been fully realized, both the Federal Circuit and lower courts have applied the rule in a few settings, not limited to the strict confines of bad faith enforcement actions.²¹ For example, some courts have confronted assertions that bad faith notice letters asserting patent rights may trigger liability along *Walker Process* lines.²² One district court reasoned that whether notice letters asserting patent rights can be shielded from antitrust liability by *Noerr-Pennington* is to be decided as a matter of Federal Circuit law,²³ on authority of *Nobelpharma*.²⁴ The court did not question whether notices deserved to be treated differently from "conduct in procuring and enforcing a patent."

The Federal Circuit's goal of reducing confusion is likely to prove elusive. Indeed, *Nobelpharma* may spawn additional confusion. Even if courts can reliably identify antitrust issues that uniquely impact patent law (and therefore are determined under

of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action.

²¹ For examples of cases in which courts have simply applied the rule to bad faith patent enforcement actions, *see, e.g.*, *Travelers Exp. Co. v. American Exp. Integrated Payment Sys.*, 80 F. Supp.2d 1033, 1042 (D. Minn. 1999); *Victus, Ltd. v. Collezione Europa U.S.A.*, 26 F. Supp. 2d 772, 778-79 n.4 (M.D.N.C. 1998).

²² *See HOVENKAMP, JANIS & LEMLEY, supra* note 4, § 11.2e (describing a split of authority on whether prelitigation activity, such as notice letters, qualifies for *Noerr-Pennington* immunity). Some of these cases have involved copyright or other nonpatent IP claims, and so did not present the choice of law issue.

²³ *Pennpac Int'l, Inc. v. Rotonics Mfg., Inc.*, 2001-1 Trade Cases (CCH) ¶ 73,282, 2001 WL 569264, at *5 n.3 (E.D. Pa. 2001).

²⁴ *But cf. Miller Pipeline Corp. v. British Gas PLC*, 69 F. Supp.2d 1129, 1138 (S.D. Ind. 1999) (apparently assuming that 7th Circuit law applied but looking to other circuit law given the absence of 7th Circuit precedent).

Federal Circuit law), any given antitrust claim is likely to include at least some issues that do not uniquely impact patent law, and thus are to be decided under regional circuit law. For example, in *C.R. Bard*, the Federal Circuit applied *Nobelpharma* to a *Walker Process* claim, noting that the fraudulent procurement issue would be decided as a matter of Federal Circuit law, while the other elements (e.g., market power) would be decided under regional circuit law.²⁵

Similarly, in the *Independent Service Organization* litigation,²⁶ the court provided a very generalized discussion of the choice-of-law issue: it would defer to regional circuit law on most antitrust matters, but would not defer “on issues that clearly involve [Federal Circuit] exclusive jurisdiction,” or on issues impacting the Federal Circuit’s general mandate to bring uniformity to substantive patent law.²⁷ Without further analysis, the court concluded that the plaintiff’s patent-related allegation (defendant’s refusal to sell patented parts) impacted on the Federal Circuit’s substantive patent law jurisdiction, while the copyright-related claims (refusal to license copyrighted software) did not.²⁸

One may wonder how long the Federal Circuit will tolerate this issue-by-issue approach to choice-of-law for patent-antitrust matters. Perhaps the court will extend its arguments for achieving uniformity and reducing confusion, by declaring that if any antitrust issue uniquely impacts patent law, *all* antitrust issues

²⁵ *C.R. Bard, Inc. v. M3 Sys.*, 157 F.3d 1340, 1367 n.7 (Fed. Cir. 1998).

²⁶ *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000).

²⁷ *Id.* at 1325.

²⁸ Given the split in regional circuit law on the issue of unilateral refusals to license, the choice-of-law determination on this issue could be outcome-determinative. See HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 5.3a3 (discussing choice-of-law aspects of the *ISO* litigation). See also *id.* § 13.3d (describing the split of authority on the unilateral duty to license issue between the Federal Circuit’s *ISO* decision and 9th and 1st Circuit approaches).

in the case will be determined as a matter of Federal Circuit law.²⁹ From a doctrinal perspective, this may prove to be a sensible approach. In any event, this would be the final step in a remarkable ascendancy of a court that was not even created when Bowman and others studied the patent/antitrust interface.³⁰

II. The new legal infrastructure of inequitable conduct and anticompetitive enforcement

While the Federal Circuit brought with it the procedural scheme described in the preceding section, it also stimulated changes in substantive patent law that had significant effects on the development of IP and antitrust jurisprudence. One particularly interesting example is the law of “inequitable conduct,” formerly known as “fraud on the Patent Office.” In the past 20 years, the Federal Circuit has refined the standards for inequitable conduct, which in turn has resulted in sharper definition of the concept of *Walker Process* fraud.

²⁹ The court took this approach to appellate jurisdiction in the *Atari* case. See *supra* note 10 and accompanying text.

³⁰ It would also be likely to draw significant criticism on the grounds that it contravened congressional expectations. Similar criticism has already been leveled at the *Nobelpharma* rule. See, e.g., James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 527, 542 (2001) (wondering whether Congress “ever expected the Federal Circuit to have the institutional competence not only to make broad pronouncements about antitrust policy but also to assert that those pronouncements supplant the views of other circuits”); James B. Gambrell, *The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit*, 9 TEX. INTELL. PROP. L.J. 137, 141–42 (2001). Some practitioners have expressed similar sentiments. Ronald Katz & Adam J. Safer, *Why Is One Patent Court Deciding Antitrust Law for the Whole Country?*, SF37 ALI-ABA 219, 245–51 (2000) (critiquing the Federal Circuit’s choice-of-law approach as contrary to congressional intent and unmanageable).

A. *Refinement of inequitable conduct doctrine*

Although the Supreme Court recognized fraud on the Patent Office as an equitable defense to infringement as early as 1933,³¹ and as grounds for government suits for patent cancellation even earlier,³² uniform standards had yet to be articulated clearly by the 1960s and early 1970s. This was true both at the regulatory level and in the courts. Rule 56 of the Patent Office's regulations referred to fraud without defining it, merely giving the Patent Office authority to strike any application "fraudulently filed or in connection with which any fraud is practiced or attempted on the Patent Office."³³ In *Norton v. Curtiss*,³⁴ the C.C.P.A.³⁵ attempted to synthesize the law in both the courts and the Patent Office en route to interpreting rule 56. The C.C.P.A. explored both traditional notions of "technical fraud" (which included, among others, elements of material misrepresentation, intent to deceive, and reliance on the misrepresentation)³⁶ and broader notions of "unclean hands" in equity, expressing a preference for the latter:

We have noticed that unenforceability due to fraudulent procurement is a rather common defense. In such circumstances, we find that the courts are generally applying equitable principles in evaluating the

³¹ *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 54 S. Ct. 146, 78 L.Ed. 293 (1933).

³² Leading cases are *Mowry v. Whitney*, 81 U.S. 434 (1871), and *United States v. Am. Bell. Tel. Co.*, 128 U.S. 315 (1888).

³³ The rule read in full:

Any application signed or sworn to in blank, or without actual inspection by the applicant, and any application altered or partly filled in after being signed or sworn to, and also any application fraudulently filed or in connection with which any fraud is practiced or attempted on the Patent Office, may be stricken from the files.

See 37 C.F.R. § 1.56 (1967).

³⁴ 433 F.2d 779 (C.C.P.A. 1970).

³⁵ The C.C.P.A. was the Court of Customs and Patent Appeals, a predecessor court to the Court of Appeals for the Federal Circuit.

³⁶ *Norton*, 433 F.2d at 793.

charges of misconduct alleged to be fraudulent. Thus, in suits involving patents, today, the concept of "fraud" on the Patent Office (at least where a patentee's conduct pertaining to the relative merits of his invention is concerned), encompasses not only that which we have earlier termed "technical" fraud, but also a wider range of "inequitable" conduct found to justify holding a patent unenforceable.³⁷

However, the C.C.P.A. found it convenient to analyze patent fraud in terms of the elements of technical fraud first, and thereafter consider whether to depart from that analysis in order to incorporate the broader equitable concept of fraud.³⁸

The resulting standard was less than lucid.³⁹ The materiality standard was of hybrid character: in part it was an objective but-for test (materiality established if the claims would not have been patentable but for the misrepresentation); in part, a subjective test (materiality established if the claims would not have been allowed but for the misrepresentation, as evidenced by subjective considerations of the examiner and applicant, regardless of the outcome of an objective patentability analysis).⁴⁰ Similarly, the "intent" standard straddled many boundaries: a party's knowledge of the falsity of a misrepresentation could trigger an inference of intent; a party's gross negligence might even trigger the inference;⁴¹ and

³⁷ *Id.*

³⁸ *Id.* at 794.

³⁹ For contemporary commentary reflecting the variability of the standard, see, e.g., Michael J. Ram, *Patent Fraud: A New Defense?*, 54 J. PAT. OFF. SOC'Y 363, 380 (1972) (summarizing the inequitable conduct test as containing materiality, intent, and reliance elements, but noting a trend toward striking down patents for intentional fraud irrespective of materiality, and noting that evidence of recklessness might suffice to establish the "intent" element); see also SULLIVAN, *supra* note 1, at 513 n.18 (observing that while courts held that inequitable conduct required intent, materiality, and reliance, others focused on intent and declined to make "nice judgments" about materiality).

⁴⁰ 433 F.2d at 795.

⁴¹ *Id.* at 796 ("Where public policy demands a complete and accurate disclosure it may suffice to show nothing more than that the misrepresentations were made in an atmosphere of gross negligence as to their truth").

a party's subjective good faith should be considered, but "not necessarily be made controlling."⁴² Moreover, by retaining a requirement of Patent Office reliance on the misrepresentation, the court was requiring a further inferential leap,⁴³ because examiners rarely supplied express, written reasons in the prosecution history for allowing claims.⁴⁴

Throughout the 1970s and early 1980s, the standards for fraud (or inequitable conduct, the label that came into more common usage by this time period) remained in flux. The standard for "intent" oscillated between true intent and gross negligence.⁴⁵ The Patent Office amended rule 56 to encompass acts or omissions carried out "through bad faith *or* gross negligence."⁴⁶ Some early Federal Circuit cases also seemed to establish that gross negli-

⁴² *Id.* at 795.

⁴³ This assumes that the reliance inquiry has a subjective component. If the reliance standard is purely objective (e.g., whether a reasonable examiner would have relied on the misrepresentation in allowing the claims to issue), the standard is essentially indistinguishable conceptually from materiality.

⁴⁴ The court also determined that proof of inequitable conduct would be subjected to the clear and convincing standard of evidence. 433 F.2d at 797. That remains the standard today. *See, e.g.,* *Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 237 F.3d 1359, 1366 (Fed. Cir. 2001).

⁴⁵ For cases appearing to accept evidence of gross negligence or recklessness as sufficient, *see, e.g.,* *Int'l Tel. & Tel. Corp. v. Raychem Corp.*, 538 F.2d 453, 461 (1st Cir. 1976) (noting that courts have required either intent, recklessness, or gross negligence, and admitting that "the law is not free from doubt"); *Abington Textile Mach. Works v. Carding Specialists (Can.), Ltd.*, 249 F. Supp. 823, 839 (D.D.C. 1965) (suggesting that "[i]n some extreme cases even an inadvertent misrepresentation due to negligence" may suffice, but conceding that deliberate misrepresentation is required as a general proposition).

⁴⁶ 37 C.F.R. § 1.56(d) (1977) (emphasis supplied), *reprinted in* 42 Fed. Reg. 5594 (Jan. 28, 1977). The 1977 amended rule 56 was said to be a codification of longstanding Patent & Trademark Office (PTO) practice. *Nintendo of America, Inc. v. Magnavox Co.*, 707 F. Supp. 717, 721 (S.D.N.Y. 1989).

gence, “in proper circumstances,” could sustain an inequitable conduct allegation.⁴⁷

Today, the Federal Circuit has stabilized the doctrine of inequitable conduct around a set of basic principles,⁴⁸ continuing the basic theme struck in *Norton* that inequitable conduct ranges more broadly than “technical” fraud.⁴⁹ The court has retained the requirements of materiality and “intent,”⁵⁰ but has eliminated the requirement of reliance.⁵¹ The materiality standard has undergone significant changes as a result of PTO changes to rule 56. In 1977, the PTO adopted a materiality standard under which information

⁴⁷ See, e.g., *Specialty Composites v. Cabot Corp.*, 845 F.2d 981, 992 (Fed. Cir. 1988) (ruling that gross negligence was sufficient to prove the “requisite intent,” while “simple negligence” was “insufficient to establish intent”).

⁴⁸ This is not to suggest that the Federal Circuit’s principles for inequitable conduct have met with universal acclaim. For a representative criticism, see John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 ILL. L. REV. 305 (arguing that the doctrine does not adequately induce candid disclosure of information to the PTO because of the difficulty of proving inequitable conduct under modern standards).

⁴⁹ E.g., *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984) (noting that common law fraud embraces a narrower range of conduct than does inequitable conduct).

⁵⁰ The court often articulates the test in three steps, under which the proponent of the inequitable conduct defense must establish that (1) the undisclosed information was “material”; (2) there is evidence of knowledge chargeable to the applicant of the existence and materiality of the undisclosed information; and (3) the failure to disclose the information resulted from an intent to mislead the PTO. See, e.g., *Elk Corp. v. GAF Bldg. Matl’s Corp.*, 168 F.3d 28, 30 (Fed. Cir. 1999).

Consistent with older authority, the Federal Circuit holds that when inequitable conduct is established, the subject patent is rendered unenforceable in its entirety. *Aptix Corp. v. Quickturn Design Sys., Inc.*, 269 F.3d 1369, 1375 (Fed. Cir. 2001) (distinguishing between inequitable conduct, which taints the patent and thus justifies a remedy of patent unenforceability, and litigation misconduct, which prejudices only the litigation opponent).

⁵¹ *Driscoll v. Cebalo*, 731 F.2d 878, 885 (Fed. Cir. 1984).

qualified as material whenever there existed a “substantial likelihood” that a “reasonable examiner” would have considered the information “important” in adjudicating patentability.⁵² The Federal Circuit adopted the reasonable examiner standard as the test for materiality for inequitable conduct purposes.⁵³ In 1993, the PTO changed rule 56 yet again, adopting an intermediate approach: information qualified as material if the information, alone or in combination with other information, rendered claims *prima facie* unpatentable.⁵⁴ It appears that at least some Federal Circuit judges will apply the 1993 rule 56 standard to inequitable conduct allegations concerning patents that were prosecuted post-1993, although Federal Circuit decisions are not uniform on this point.⁵⁵

The Federal Circuit has also transformed the “intent” element.⁵⁶ As the Federal Circuit grew increasingly concerned about a “plague” of inflammatory inequitable conduct allegations,⁵⁷ the Federal Circuit reinterpreted the “gross negligence” cases: none stood properly for the proposition that gross negligence *alone* sufficed; rather, they established merely that evidence of gross

⁵² 37 C.F.R. § 1.56(a) (1977), *reprinted in* 42 Fed. Reg. 5594 (Jan. 28, 1977).

⁵³ *See, e.g.,* Molins PLC v. Textron, Inc., 48 F.3d 1172, 1179 (Fed. Cir. 1995).

⁵⁴ 37 C.F.R. § 1.56 (1993).

⁵⁵ *See, e.g.,* Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1379 (Fed. Cir. 2001) (applying the old rule 56 standard without explanation); *but cf.* Li Second Family Ltd. Partnership v. Toshiba Corp., 231 F.3d 1373, 1379 n.4 (Fed. Cir. 2000) (recognizing the change in the rule 56 standard and applying the standard that was in effect when the patent-in-suit was prosecuted).

⁵⁶ This is critical given the recognition that the “intent” element drives many inequitable conduct analyses. *E.g.,* Brasseler, 267 F.3d at 1380–81 (“Typically, a finding of inequitable conduct hinges on whether the evidence as a whole indicates that patentees or their representatives acted with the intent to deceive”).

⁵⁷ Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed. Cir. 1988) (“[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague”).

negligence, coupled with other circumstantial evidence of culpability, could properly trigger an inference of intent.⁵⁸ In *Kingsdown*,⁵⁹ the en banc Federal Circuit explicitly rejected a bare gross negligence standard: "We adopt the view that a finding that particular conduct amounts to 'gross negligence' does not of itself justify an inference of intent to deceive; the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent to deceive."⁶⁰ Federal Circuit cases now consistently recite the *Kingsdown* standard.⁶¹

Importantly, the Federal Circuit has also expressly endorsed an equitable balancing approach under which courts may weigh materiality together with intent to determine whether the cumulative effect justifies unenforceability.⁶² This approach operates in some tension with the court's insistence on a high level intent requirement, given that strong evidence of materiality and relatively weak evidence of intent might suffice to support a conclusion of inequitable conduct.

While it remains to be seen whether these substantial refinements in inequitable conduct doctrine succeed in inducing patent

⁵⁸ *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 n.9 (Fed. Cir. 1987).

⁵⁹ *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed. Cir. 1988) (en banc in relevant part).

⁶⁰ *Id.* at 876. The court cited the C.C.P.A.'s *Norton* decision without explaining exactly how it supported the newly enunciated rule.

⁶¹ *E.g.*, *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1273 (Fed. Cir. 2001) ("The challenged conduct must be sufficient to require a finding of deceitful intent in light of all the circumstances"); *Upjohn Co. v. Mova Pharm. Corp.*, 225 F.3d 1306, 1312 (Fed. Cir. 2000) (same).

⁶² The court divides its analysis into two steps: "first, a determination of whether the withheld reference meets a threshold level of materiality and intent to mislead, and second, a weighing of the materiality and intent in light of all the circumstances to determine whether the applicant's conduct is so culpable that the patent should be unenforceable." *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327 (Fed. Cir. 1998).

applicants to be more diligent and forthcoming in *ex parte* patent prosecution, it is clear that doctrinal changes in inequitable conduct have pushed changes in IP and antitrust, specifically in regards to *Walker Process* claims, as discussed in the next section.

B. Interaction between inequitable conduct and bad faith enforcement claims

In its 1965 *Walker Process* decision,⁶³ the Supreme Court opened the door to the use of the fraudulent procurement allegation as an element in an affirmative antitrust cause of action.⁶⁴ In *Walker Process*, the Court spent a good deal of its opinion explaining that the cause of action was not a newly-minted affirmative cause of action for patent cancellation arising from the patent laws; rather, it was a species of Sherman Act section 2 violation.⁶⁵ Recognizing such a violation, according to the Court, accorded with “longstanding” patent law decisions that permitted

⁶³ *Walker Process Eqpt. Co. Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). The facts and issues are well-known. The patent owner, Food Machinery (FMC), sued Walker for patent infringement; Walker counterclaimed for invalidity. FMC thereafter moved to dismiss its lawsuit with prejudice on the grounds that the patent-in-suit had expired. Walker then counterclaimed on antitrust grounds, claiming that FMC had procured the patent-in-suit through fraud, intentionally concealing the existence of a 35 U.S.C. § 102(b) (2002) public use bar. Notably, Walker seemed to be claiming that the antitrust violation lay in the obtaining and maintaining in force of the patent, not in the act of threatening or bringing suit against competitors.

⁶⁴ See, e.g., Richard A. Joel, *Fraud in the Procurement of a Patent*, 49 J. PAT. OFF. SOC’Y 596, 603 (1967) (“What was formerly a shield, the defense of fraudulent procurement, may have been turned into a sword. . .”). See also generally Peter D. Rosenberg, *The Assertion of a Fraud Upon the Patent Office as a Means of Defeating the Patent Monopoly*, 50 J. PAT. OFF. SOC’Y 455 (1968) (providing an historical discussion of cases establishing fraud as a defense to patent infringement, and distinguishing *Walker Process* as adding “the right to take affirmative action” against fraud and potentially recover antitrust damages for doing so).

⁶⁵ *Walker Process*, 382 U.S. at 175–76 (acknowledging that there was no authority within the patent statute for a private patent annulment suit).

the assertion of inequitable conduct as a defense to patent infringement, invalidity as the basis of a declaratory judgment claim, or patent misuse as an equitable defense to patent infringement.⁶⁶

The Court said relatively little about the appropriate standards for assessing the existence of fraudulent procurement for section 2 purposes. Proof that the applicant “knowingly and willfully” misrepresented facts to the PTO would be sufficient; “[b]y the same token,” proof of good faith “would furnish a complete defense.”⁶⁷

Justice Harlan’s concurring opinion threw a bit more light on the subject. According to Justice Harlan, proof under the new cause of action required evidence that the relevant patent was obtained by “knowing and willful fraud,” and that all of the other elements of a section 2 monopolization claim were satisfied.⁶⁸ On the other hand, it would be insufficient, Justice Harlan wrote, if the proponent of the antitrust theory showed “no more than invalidity of the patent arising, for example, from a judicial finding of ‘obviousness,’ or from other factors sometimes compendiously referred to as ‘technical fraud’.”⁶⁹

Commentators at the time saw the *Walker Process* theory as an extension of the law of inequitable conduct. *Walker Process* was the “culmination of a liberalizing trend” in judicial treatment of fraudulent procurement allegations;⁷⁰ it was a “modern turning point” that “reawakened interest and concern” regarding the fraud in the procurement theory.⁷¹ The driving force here was the antitrust

⁶⁶ *Id.* at 176–77.

⁶⁷ *Id.* at 177. The Court remarked that evidence of honest mistake as to the legal effect of certain acts (here, whether certain uses would qualify as patent-barring public uses) would constitute good faith, but curiously equated honest mistake with a “technical fraud.” *Id.*

⁶⁸ *Id.* at 179 (Harlan, J., concurring).

⁶⁹ *Id.*

⁷⁰ Joel, *supra* note 64, at 599.

⁷¹ S. William Cochran, *Historical Review of Fraud in Patent Procurement: The Standards and Procedures for Doing Business Before the Patent Office*, 52 J. PAT. OFF. SOC’Y 71 (1970).

concern;⁷² antitrust pulled the patent inequitable conduct theory into new prominence.⁷³

Proponents of Chicago school economics saw a prominent future role for cases of the *Walker Process* variety. Robert Bork argued that the antitrust laws could make a “major contribution both to free competition and to the integrity of administrative and judicial processes” by addressing the general practice of anticompetitive abuse of government process—particularly, abuse by way of sham litigation, of which litigation on a fraudulently-procured patent was merely one example.⁷⁴ Along those lines, Bork urged that *Walker Process* be viewed as more than “a mere patent decision”; rather, it was to be considered “an antitrust precedent of general applicability. . . .”⁷⁵ Bork clearly thought that *Walker Process* would prove to be an important tool in contending with

⁷² In particular, the concern was to give private parties broad rights to attack anticompetitive practices. A similar concern may have motivated the Court’s decision 4 years after *Walker Process*, abolishing the doctrine of licensee estoppel so as to free licensees to challenge the validity of licensed patents. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). See James B. Kobak, Jr., *Professional Real Estate Investors and the Future of Patent-Antitrust Litigation: Walker Process and Handgards Meet Noerr-Pennington*, 63 ANTITRUST L.J. 185, 194 (1994) (noting the theme connecting *Walker Process* and *Lear*).

⁷³ Indeed, some commentators suggested that after *Walker Process*, inequitable conduct allegations became more commonplace. Ram, *supra* note 39, at 371 (“Since 1965 fraud on the Patent Office has become a standard defense in patent infringement actions. . .”).

⁷⁴ ROBERT H. BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* 348–49 (1978). Interestingly, Bowman gave no attention to *Walker Process* or the general topic of anticompetitive patent lawsuits. Like Bork, Bowman presumably viewed *Walker Process* favorably. Apparently Bowman thought it more productive to direct his energies toward critiquing judicial practices that failed to square with economic theory in the Chicago mold—particularly, courts’ approaches to the antitrust treatment of patent licensing restrictions.

⁷⁵ *Id.* at 353.

the “increasingly dangerous threat” of predation through the abuse of government process.⁷⁶

For all this, courts and commentators made little progress in nailing down the appropriate standards for assessing *Walker Process* fraud. There was broad consensus that *Walker Process* fraud was, in some vague way, more serious than inequitable conduct,⁷⁷ but it seemed difficult for courts and commentators to ratchet up the standard elements of materiality, intent, and reliance then governing the inequitable conduct inquiry into something appropriate for *Walker Process* fraud. Concerning materiality, for example, Areeda and Turner offered an entire menu of alternative standards,⁷⁸ running the gamut from strict “but-for” materiality to standards resembling the “important to a reasonable examiner” standard which later appeared in the PTO

⁷⁶ *Id.* at 347. The perception that abuse of government process posed a grave threat to competition was consistent with the broader views of the Chicago school that government institutions, rather than private actors, were principally responsible for creating monopolies.

⁷⁷ See, e.g., Richard H. Stern, *A Future Look at Patent Fraud and Antitrust Laws*, 52 J. PAT. OFF. SOC'Y 3, 4 (1970) (noting that “strong evidence” of bad faith had been required in cases to that point and observing that mere invalidity based on the technicalities “[o]bviousness and prior art” had not yet been successfully asserted as a foundation for *Walker Process* claims).

⁷⁸ PHILLIP AREEDA & DONALD F. TURNER, III *ANTITRUST LAW* ¶707g (1st ed. 1978). Areeda and Turner proposed the following four conceptions of materiality:

- (1) “obvious and indisputable sine qua non for issuance of the patent”
- (2) “the critical factor in the mind of the patent examiner responsible for issuance of the patent”
- (3) “a factor that did in fact or would probably have influenced the examiner”
- (4) “a relevant and not unimportant factor in a judgment about patentability”

Information “obviously and indisputably irrelevant to the issuance of a patent” would fail to qualify as material. *Id.*

regulations.⁷⁹ Areeda and Turner would not have forced courts to choose one of the alternative standards, but would have preferred to employ a sliding scale, balancing materiality against willfulness.⁸⁰

Some courts applied a “but-for” standard of materiality in *Walker Process* cases,⁸¹ although they also routinely folded together the but-for materiality analysis and the reliance inquiry.⁸² In either event, whether treated as a blended standard or as separate standards, applying the but-for test and inquiring into examiner reliance were difficult, and, in many cases, practically futile. The major problem was that the prosecution history of a patent rarely reflected, on its face, the examiner’s motivations for allowing claims to issue. Conceivably, an examiner might be called to testify whether he allowed the claims in reliance on the applicant’s misrepresentations or false information, and some cases contemplated such an approach.⁸³ At least one prominent patent

⁷⁹ See *supra* notes 51–52 and accompanying text (describing the 1980’s version of rule 56).

⁸⁰ AREEDA & TURNER, *supra* note 78, ¶ 707g:

We would define “material” for § 2 purposes to include all four cases, provided that one can tailor the definition of “wilfulness” to the importance of the misrepresented fact or, in the alternative, that one can adopt a fairly conservative definition of wilfulness.

⁸¹ See, e.g., *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966), *rev’d on other grounds*, 274 F.2d 473 (3d Cir. 1967).

⁸² See, e.g., Neil A. Smith, *Fraud Upon the Patent Office as a Violation of the Sherman Antitrust Law*, 53 J. PAT. OFF. SOC’Y 337, 360–61 (1971) (asserting that courts were often lumping together the “but-for” materiality and reliance elements, and urging that the two concepts be treated as separate).

⁸³ See *American Cyanamid Co. v. Federal Trade Comm’n*, 363 F.2d 757, 777 (6th Cir. 1966) (describing remand to the FTC to give the patent examiner an opportunity to testify directly on whether he relied on the misrepresentations in issuing the patent). The PTO is understandably reluctant to allow its employees to testify as to PTO operations, and has promulgated regulations limiting the manner in which such testimony

scholar attacked this practice as being unlikely to yield probative evidence.⁸⁴ Alternatively, courts could presume reliance in some cases, or examine the prosecution history and attempt to draw inferences regarding probable examiner reliance.⁸⁵ Predictably, however, courts that chose to scrutinize the prosecution history often found themselves unable to draw inferences as to reliance.⁸⁶

The standards for "intent" were no clearer than those for materiality and reliance. Generally, intent on the part of the patent

may be procured. *See* 37 C.F.R. pt. 15a (regulations establishing controls over testimony by PTO employees).

⁸⁴ Martin J. Adelman & Ernie L. Brooks, *The Integrity of the Administrative Process, Sherman Section 2 and Per Se Rules: Lessons of Fraud on the Patent Office*, 55 J. PAT. OFF. SOC'Y 255, 272-74 (1973):

[P]roof of what the Examiner, given all the facts, would have done years before the inquest is not possible. After all, even if the Examiner is asked what he would have done had he known all the facts, his response is conjectural. Another difficulty is that there is no way to know whether the Examiner would have been affirmed if he had rejected the patent application. Furthermore, a court cannot confidently conclude what would have happened because the record in the Patent Office may have differed significantly from the record before the court.

⁸⁵ *See, e.g.,* Smith, *supra* note 82, at 364 (arguing that in cases of "clear" statutory bars, the court should be entitled to presume reliance, on the grounds that the examiner surely would not have issued the claims had he or she known of the information that constituted the bar). Cases of "clear" statutory bars are likely rare; it is not always clear whether information qualifies as a statutory bar, nor is it always clear whether that information would anticipate or render obvious any particular claims in a patent.

⁸⁶ *See* SCM Corp. v. Radio Corp. of America, 318 F. Supp. 433 (S.D.N.Y. 1970) (refusing to infer reliance where the face of the prosecution history revealed no "convincing evidence" of what the examiner would have done had the examiner been made aware of the concealed or misrepresented facts; to determine the examiner's probable position would have been "a matter of speculation"); Nashua Corp. v. RCA Corp., 307 F. Supp. 152, 158 (D.N.H. 1969), *aff'd*, 431 F.2d 220 (1st Cir. 1970) (finding no evidence in the prosecution history as to whether an examiner had relied on an affidavit submitted in prosecution, and expressing reluctance to draw inferences regarding reliance).

applicant to deceive the Patent Office, and knowledge on the part of the patentee of the falsity of the applicant's representation, were both required.⁸⁷ But there was little guidance beyond this. Areeda and Turner appeared to prefer a sliding scale, if it could be reliably constructed, balancing materiality against intent such that even "carelessness" would suffice in cases of "decisive" materiality, whereas "gross carelessness" or something greater would be required in cases of lesser materiality.⁸⁸

Today, as a result of the evolution of inequitable conduct doctrine under the Federal Circuit's oversight, *Walker Process* standards are a bit clearer.⁸⁹ In *Nobelpharma*, the Federal Circuit explained in some detail the differences between modern inequitable conduct standards and the standards for *Walker Process* fraud. According to the court, *Walker Process* fraud is "a more serious offense than inequitable conduct,"⁹⁰ and the heightened "seriousness" was manifested in at least four ways. First, *Walker Process* fraud continues to require but-for materiality, in contrast to the less rigorous inequitable conduct materiality standards that the Federal Circuit has adopted.⁹¹ Second, *Walker*

⁸⁷ E.g., Smith, *supra* note 82, at 371. I refer separately to the "applicant" and the "patentee" here because the "patentee" who faces a *Walker Process* allegation might be a subsequent assignee of the patent rights, rather than the original applicant who actually made the misrepresentation or omission.

⁸⁸ AREEDA & TURNER, *supra* note 78, ¶ 707h. However, Areeda & Turner noted that mere carelessness might be appropriate only in the context where the antitrust proponent sought equitable relief (for example, rendering a patent unenforceable, as in a misuse defense), as contrasted with an affirmative claim for damages under the *Walker Process* rubric. *Id.* ¶ 707h1 n.22.

⁸⁹ This is not to suggest that proving *Walker Process* fraud has become any easier. Although numerous patent cases have included *Walker Process* fraud allegations during the Federal Circuit era, it is extremely rare for proponents to succeed in establishing *Walker Process* fraud. See HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 11.2f.

⁹⁰ *Nobelpharma*, 141 F.3d at 1071.

⁹¹ *Id.* at 1070. The Federal Circuit cited *Norton* in support of the but-for materiality standard. The Federal Circuit also noted in passing that

Process fraud continues to require a “clear showing” of reliance, whereas reliance is no longer an element of proof for inequitable conduct.⁹² Third, while inequitable conduct and *Walker Process* fraud both require threshold showings of materiality and intent, *Walker Process* fraud requires “higher” threshold showings.⁹³ Fourth, *Walker Process* fraud does not allow for any equitable balancing of materiality and intent, while inequitable conduct does.⁹⁴

Whether these distinctions will prove to be meaningful is a matter for debate.⁹⁵ But-for materiality may not be terribly different from the new rule 56 “prima facie unpatentability” standard; “intent” for inequitable conduct hardly seems distinguishable from “intent” for *Walker Process* fraud,⁹⁶ and it is difficult enough to know what suffices for the “threshold” showings for inequitable conduct, much less the “higher” threshold showings for *Walker Process* fraud. On the contrary, the unavailability of equitable balancing of materiality and intent in the *Walker Process* context may be of consequence given the usual difficulties of developing intent evidence.⁹⁷

the PTO had promulgated a new rule 56 standard dispensing with the “reasonable examiner” standard and adopting a standard of “prima facie unpatentability.” *Id.* at 1070 n.8; see also *supra* notes 52–54 (explaining the transitions in rule 56).

⁹² *Nobelpharma*, 141 F.3d at 1071. However, the Federal Circuit seemed to equate reliance with but-for materiality. *Id.*

⁹³ *Id.* at 1070.

⁹⁴ *Id.* (calling for “independent and clear evidence of deceptive intent”).

⁹⁵ See, e.g., James B. Kobak, Jr., *The Doctrine That Will Not Die: Nobelpharma, Walker Process, and the Patent Antitrust Counterclaim*, ANTITRUST, Fall 1998, at 47, 52 (questioning whether a great deal of difference exists between *Walker Process* fraud and inequitable conduct standards).

⁹⁶ But cf. *C.R. Bard*, 157 F.3d at 1364 (asserting that *Walker Process* fraud requires a “greater showing of scienter” than does inequitable conduct).

⁹⁷ See HOVENKAMP, JANISS & LEMLEY, *supra* note 4, § 11.2c (noting the significance of refusing to apply the balancing test to *Walker Process* claims).

It is also unclear whether the *Walker Process* doctrine, and claims of anticompetitive sham litigation more generally, have really matured into the powerful antitrust tools that Bork and others envisioned in the 1970s.⁹⁸ Empirical assessments of the matter would be difficult; if *Walker Process* victories are few (as they are), one could conclude that the doctrine has been a disappointment, but one could as easily conclude that the doctrine has significant deterrent effect, deterring patent owners from even initiating or threatening anticompetitive litigation.

What is clear, however, is that the dynamic between inequitable conduct and *Walker Process* fraud has reversed itself. Whereas in the 1960s and early 1970s, *Walker Process* pulled inequitable conduct into prominence—in a general legal environment in which antitrust concerns dominated patent—today, it is clear that developments in inequitable conduct have pushed *Walker Process* standards. For example, the Federal Circuit's elevation of the inequitable conduct standard from bare gross negligence to something more necessarily pushed the refinement of the *Walker Process* intent standard to something more yet.

Indeed, it is of interest that the Federal Circuit chose inequitable conduct, a doctrine over which it has monopoly control, to provide the relevant frame of reference for the articulation of *Walker Process* standards. The Federal Circuit could also have attempted to fold *Walker Process* claims together with the general *Noerr-Pennington/PRE* framework for sham litigation, over which the Federal Circuit lacks plenary authority. Instead, the Federal

⁹⁸ For an example of a current effort to extend the reach of *Walker Process* beyond garden-variety instances of fraudulent procurement, see *In re Buspirone Patent Litigation*, 2002 WL 243184 (S.D.N.Y. Feb. 14, 2002). There, plaintiffs (generic drug manufacturers) asserted that Bristol-Meyers listed a buspirone patent in the FDA "Orange Book," fraudulently represented to the FDA that the patent covered generic buspirone products, and sued generic competitors for patent infringement so as to trigger an automatic stay of FDA approval for the generics. The court concluded that the fraudulent listing, coupled with the subsequent patent lawsuit, stated a *Walker Process* claim, *id.* at *9, and also stated a sham litigation claim under *PRE* standards. *Id.* at *10–11. The *PRE* exception seems to provide a better fit.

Circuit in *Nobelpharma* shrank from doing so. Refusing to “merge” the two lines of authority, the Federal Circuit characterized *PRE* and *Walker Process* as providing “alternative legal grounds” for stripping the patentee of antitrust immunity.⁹⁹ Where the elements of the *Walker Process* claim were made out, liability could be imposed without resort to *PRE*’s sham litigation analysis.¹⁰⁰ Whereas *Walker Process* claims focused on fraudulent behavior in the patent prosecution process, a *PRE* allegation focused on the bringing of a lawsuit that is objectively and subjectively baseless; the patentee’s conduct before the PTO is “not necessarily” at issue.¹⁰¹

This general phenomenon—patent pushing patent-related antitrust—is a manifestation of the new environment of the Federal Circuit era. As the Federal Circuit consolidates its hold on patent law and patent-related antitrust law, one might expect the trend of patent pushing antitrust to continue.

C. Contraction of the patent misuse defense

A brief review of the past and current states of the patent misuse doctrine reinforces the general proposition that dramatic developments within patent law during the Federal Circuit era have contributed to the present state of the IP and antitrust

⁹⁹ *Nobelpharma*, 141 F.3d at 1071.

¹⁰⁰ *Id.*

¹⁰¹ *Id.* at 1072. The Federal Circuit may have exaggerated the distinction. While the *Walker Process* claim certainly focuses on the patentee’s prosecution conduct, the anticompetitive conduct of concern is the subsequent attempt to enforce the resulting patent, by threats or (typically) by bringing a lawsuit.

Moreover, the Federal Circuit itself muddled the waters in its effort to acknowledge the potential for applying either the *Walker Process* or *PRE* theories to the same conduct. The court asserted that “either or both” of the theories could apply to a party’s conduct in “obtaining and enforcing” a patent. *Id.* at 1071.

For a general discussion, see James R. Atwood, *Securing and Enforcing Patents: The Role of Noerr/Pennington*, 83 J. PAT. TRADEMARK OFF. SOC’Y 651 (2001).

interface.¹⁰² Patent “misuse” is a longstanding equitable defense to patent infringement that draws upon competitive concerns that run in parallel with, and may be congruent with, antitrust law concerns.¹⁰³ The central principle underlying the misuse defense is that equity should intervene against a patentee who has sought illegitimately to extend a patent’s enforceable scope, usually by way of restrictive licensing practices. Writing in 1973, Bowman identified the “scope extension” rationale as the core tenet of patent misuse doctrine.¹⁰⁴ Allegations of anticompetitive tying of patented and unpatented technologies dovetailed neatly with the scope extension rationale, and so many leading early patent misuse cases involved tying theories.¹⁰⁵

In 1973, Bowman saw patent misuse as a doctrine on the rise. Criticizing courts for their inability to distinguish between legitimate “monopoly maximization” and illegitimate “monopoly extension,” Bowman lamented the apparent trend by which “[t]he courts, and particularly the Supreme Court . . . have with increas-

¹⁰² Others have written more extensively about patent misuse. *See, e.g.*, Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599 (1990); Robert J. Hoerner, *Patent Misuse: Portents for the 1990’s*, 59 ANTITRUST L.J. 687 (1990–91); J. Dianne Brinson, *Patent Misuse: Time for a Change*, 16 RUTGERS COMP. & TECH. L.J. 357 (1990). *See also* James B. Kobak, Jr., *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1 (1992).

¹⁰³ For a brief summary of the history of patent misuse, *see* HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.2; James B. Kobak, Jr., *The Misuse Defense and Intellectual Property Litigation*, 1 B.U. J. SCI. & TECH. L. 2, 2–7 (1995).

¹⁰⁴ BOWMAN, *supra* note 1, at 57 (asserting that “the basis of much if not most of patent misuse doctrine” is the assumption that patentees can leverage “a legitimate patent monopoly into an additional or broader monopoly,” and arguing that the assumption is incorrect in many cases).

¹⁰⁵ *See, e.g.*, *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

ing strictness contracted the scope of permissible patent use and expanded the definition of patent misuse. . . ."¹⁰⁶

The scope extension rationale is still commonly employed today.¹⁰⁷ But much of what has happened since the early 1970s has reflected precisely the opposite of the trend described in Bowman's work—a trend toward a considerable retraction of the patent misuse defense, both judicially and legislatively.¹⁰⁸

In 1982, Judge Posner, writing in *USM*, argued that patent misuse doctrine had arisen at a time when it was not clear that antitrust law would have reached the full range of abusive patent licensing practices; but with the "present broad scope" of antitrust law, "it is not easy to define a separate role" for patent misuse.¹⁰⁹

¹⁰⁶ BOWMAN, *supra* note 1, at 240. See also Theodore L. Bowes, *The Misapplication of Antitrust Theory to Patent License Conditions*, 10 AKRON L. REV. 39, 55 (1976) (asserting that patent tie-in's "have become virtually per se illegal on the assumption that they serve no purpose other than monopoly extension in inappropriate areas" and calling for a "patent rule of reason" for patent/antitrust cases). For a less critical commentary on relevant decisions, see Larry R. Fisher, *The Misuse Doctrine and Post Expiration, Discriminatory, and Exorbitant Patent Royalties*, 51 J. PAT. OFF. SOC'Y 215 (1969).

¹⁰⁷ *E.g.*, *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir.1986) (patent misuse "requires that the alleged infringer show that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect") (quoting *Blonder-Tongue Lab., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971)); see also HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.2b ("Patent misuse doctrine is concerned with two basic sorts of perceived evils: the use of patents to undermine competition and the expansion of patent rights beyond their lawful scope").

¹⁰⁸ HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.2a (noting that after a brief resurgence in the 1960s and 1970s, the patent misuse doctrine has contracted significantly from the 1980s to the present). On the other hand, misuse has also expanded in some respects. The opening of the copyright regime to software has stimulated the development of a copyright misuse theory. See *id.* § 3.4 (discussing the theory and collecting relevant case law and secondary literature).

¹⁰⁹ *USM Corp. v. SPS Technology, Inc.*, 694 F.2d 505, 512 (7th Cir. 1982). For further discussion, see, *e.g.*, PHILLIP E. AREEDA, EINER ELHAUGE & HERBERT HOVENKAMP, 10 ANTITRUST LAW ¶1781 (1996).

Picking up on this theme, one commentator went so far as to query whether the patent misuse doctrine had become obsolete in view of the fact that antitrust rule of reason analysis might be employed to address the concerns traditionally addressed by the patent misuse doctrine.¹¹⁰

In 1988, Congress considered, but rejected, a legislative proposal that would have codified Posner's *USM* approach to patent misuse.¹¹¹ However, Congress did pass legislation (the 1988 Patent Misuse Reform Act) that departed from the early 1970s *per se* approach to patent ties.¹¹² Prior to 1988, 35 U.S.C. § 271(d) already had placed limits on the misuse cause of action: efforts to enforce patent rights against contributory infringers could not alone qualify as patent misuse.¹¹³ The 1988 legislation added two subsections to § 271(d), one of which, § 271(d)(5), provided that tying would not constitute misuse "unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is

¹¹⁰ Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922 (1997) (concluding that the doctrine is almost—but not quite—obsolete, given that proponents of a patent misuse defense are not constrained by rules of antitrust standing).

¹¹¹ See Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 192–96 (1988/1989) (discussing Senate bill 438, which would have amended the patent statute to allow findings of misuse only when a patentee's practices "in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws").

¹¹² For an extensive discussion of the legislation and its ramifications, see Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?"*, 4 HARV. J.L. & TECH. 1 (1991).

¹¹³ 35 U.S.C. §§ 271(d)(1)–(3). For a discussion of these provisions, see HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.3b1(B); *id.* § 3.3c; see also Dawson v. Rohm & Haas Co., 448 U.S. 176, 202–15 (1980) (discussing the genesis of the inducement and contributory infringement provisions, 35 U.S.C. § 271(b) and (c), and their relationship to the limitations on patent misuse embodied in 35 U.S.C. § 271(d)(1)–(3), all added as part of the 1952 Patent Act).

conditioned.”¹¹⁴ Consistent with Bowman’s proposals, the legislation dispensed with the market power presumption for patents.¹¹⁵ By its language calling for account of the individual “circumstances,” it also appeared to call for a rule of reason approach.¹¹⁶

The Federal Circuit has carried forward the restrictive trend. Two cases best reflect the Federal Circuit’s general understanding of the § 271(d) limitations, and the propositions that the rule of reason analysis should be incorporated into the patent misuse doctrine, but that patent misuse should not be entirely subsumed within antitrust as Posner had suggested in *USM*. In *Mallinckrodt*,¹¹⁷ the court envisioned a patent misuse doctrine that was not entirely coextensive with antitrust. According to the court, a patentee could reconfigure the right to exclude by private agreement, “subject to patent, contract, antitrust, and any other applicable law, *as well as* equitable considerations such as are reflected in the law of patent misuse.”¹¹⁸ Patent misuse would not be defined solely by reference to antitrust violation; on the contrary, “[t]he concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.”¹¹⁹

¹¹⁴ 35 U.S.C. § 271(d)(5). The other added provision specified that the refusal to license or use patent rights did not alone qualify as misuse. 35 U.S.C. § 271(d)(4).

¹¹⁵ HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.3b1(B).

¹¹⁶ See Calkins, *supra* note 111, at 198 (citing legislative history that appears to indicate that the entire misuse allegation, and not just the market power component, is to be tested under the rule of reason).

¹¹⁷ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). For relevant commentary, see, e.g., James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC’s Mallinckrodt Decision*, 75 J. PAT. TRADEMARK OFF. SOC’Y 550 (1993).

¹¹⁸ *Mallinckrodt*, 976 F.2d at 703 (emphasis supplied).

¹¹⁹ *Id.* at 704.

The court in *Mallinckrodt* also set forth a patent misuse analysis that applied both a "scope extension" and a rule of reason analysis to the license restriction or other conduct alleged to constitute misuse. As to the scope extension portion of the analysis, the court determined that "[s]hould the restriction be found to be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims, that ends the inquiry."¹²⁰ Thus, this portion of the analysis was a rule of *per se* legality, if properly a *per se* rule at all. Where the patentee conduct exceeded the scope of the grant, the court would apply the rule of reason:

[If] there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the rule of reason.¹²¹

In *Virginia Panel*, the Federal Circuit developed a tripartite regime for evaluating assertions of patent misuse:¹²² (1) acts qualified as *per se* misuse; (2) acts *per se* disqualified from misuse; (3) all other acts. The first category is defined by Supreme Court precedent condemning *per se* certain tying practices and postexpiration royalty provisions,¹²³ and the Federal Circuit has made clear that it only grudgingly accepts the existence of such a category of practices.¹²⁴ The second category is defined by the specific exclu-

¹²⁰ *Id.* at 708.

¹²¹ *Id.*

¹²² *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997).

¹²³ *Id.* at 869. The court cited *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491 (1942) (tying of staple goods) and *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964). The Federal Circuit did not indicate whether it considered this category to be subject to expansion. See HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.2c (predicting that the *per se* category is unlikely to expand).

¹²⁴ See, *e.g.*, *Senza-Gel Corp. v. Sieffhart*, 803 F.2d 661, 665 n.5 (Fed. Cir. 1986) (observing that commentators "have questioned the rationale appearing in the Supreme Court opinions dealing with misuse in view of recent economic theory and Supreme Court decisions in non-mis-

sions set forth in 35 U.S.C. § 271(d).¹²⁵ All other acts are subjected to scrutiny under the *Mallinckrodt* “scope extension” analysis: a court must determine if that practice is “reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims,” and if the practice does extend the patent scope, and does so with anticompetitive effect, the practice must be evaluated under the rule of reason.¹²⁶

In sum, recent developments in patent misuse law reflect a dynamic similar to that observed in the law of anticompetitive patent enforcement: the Federal Circuit is taking the lead in reformulating relevant standards. The impetus for further evolution in the law of patent misuse is likely to come as a function of patent law pushing antitrust standards, a remarkable turnabout in the short time since *Bowman* sought to synthesis the law of patent/antitrust.

use contexts,” but proclaiming an intention to follow binding Supreme Court precedent); *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 n.9 (Fed. Cir. 1986). Of course, even the “*per se*” category may be subject to the requirement that the patentee possess market power, as is the case for “*per se*” misuse for illegal tying. See HOVENKAMP, JANIS & LEMLEY, *supra* note 4, § 3.2c.

¹²⁵ *Virginia Panel*, 133 F.3d at 869.

¹²⁶ *Id.* (quoting *Mallinckrodt*).