Patents of Damocles

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INTRODUCTION

For centuries, military thinkers have long-recognized that weapons need not actually be fired in order to have a deterrent effect on one's enemies. The build-up of navies, maintenance of large standing armies, and nuclear deterrence all reflect this simple insight. Outside of military contexts, the weapon need not even be actually displayed in order to have the desired effect, such as the bank robber who pats his pocket menacingly but never actually brandishes a gun. Taking a page from military strategy, many patentholders have also realized that patents can be used as weapons against competitive rivals even without actually enforcing one's patent rights in court. Like the mythical Sword of Damocles, these patents hang over the head of any potential entrant into the market.

Over four decades ago, the Supreme Court in *Walker Process* recognized that the fraudulent procurement and enforcement of a patent can—if the remaining elements are satisfied—violate antitrust's prohibition on illegal monopolization. However, courts have narrowly defined "patent enforcement" to mean infringement litigation, which permits monopolists with fraudulently procured patents to illegally monopolize markets while evading antitrust liability so long as they do not explicitly threaten competitors with infringement lawsuits. While there is nothing suspicious about patentholders efficiently using the mere existence of their patents to deter infringement, when the patentee has acquired its intellectual property rights through fraud the ability to exclude competitors without explicitly threatening a lawsuit allows firms to engage in patent fraud while insulating their fraudulently procured patent from legal scrutiny. This Article explains how the current constricted conception of patent enforcement undermines this important antitrust cause of action and seriously weakens both competitive markets and the patent system as well.

Part I of this Article explores the balance between antitrust and patent law. While Section Two of the Sherman Act generally condemns monopolies as inefficient and anti-consumer, antitrust law tolerates monopolies created by patents in order to foster innovation. Fraudulently procured patents distort this balance because they injure competition without any countervailing virtues. Recognizing this anti-competitive threat, the Supreme Court in *Walker Process* held that a monopolist's fraudulent procurement of a patent can create antitrust liability, provided that the remaining elements of a Section Two claim are established.

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However, *Walker Process* required that the monopolist actually enforce its fraudulently procured patent in order to be liable for an antitrust violation.

Part II discusses this enforcement requirement in antitrust cases based on fraudulently procured patents. This Part exposes two problems with current *Walker Process* jurisprudence regarding enforcement issues. First, what constitutes "patent enforcement" is not particularly well-defined. Second, to the extent that courts have defined the concept, the current definition is overly narrow, focusing solely on the filing of infringement litigation and explicit threats to file such lawsuits.

Part III argues that the concept of patent enforcement in antitrust litigation should be broadly interpreted to include more than simply initiating or explicitly threatening to initiate litigation. In particular, this Part considers whether each of the following activities constitutes enforcement: publicly flaunting one's patent, stating a general intent to sue infringers, accusing competitors of infringement, threatening competitors' business partners, and licensing activities. This Part explains how, in some markets, each of these actions can increase the exclusionary power of a fraudulently procured patent, yet courts hold that such conduct does not constitute enforcement sufficient to create liability for illegal monopolization under *Walker Process*.

Part IV explains that the activities considered in Part III do not automatically rise to the level of patent enforcement necessary to find that a monopolist with a fraudulently procured patent has violated Section Two of the Sherman Act. Rather, whether the monopolist's conduct constitutes such patent enforcement is a function of context.

Part V argues that expanding the definition of patent enforcement for purposes of *Walker Process* litigation is an effective approach to exposing fraudulently procured patents and deterring illegal monopolization. Currently, patent fraud can be cost-beneficial because a monopolist with a fraudulently procured patent can strategically deploy the exclusionary power of the patent against competitors (and potential competitors) while shielding the patent from judicial scrutiny and the monopolist from antitrust liability. By reconceiving the contours of what constitutes patent enforcement, antitrust litigation can render patent fraud less attractive to monopolists. Furthermore, antitrust is the appropriate body of law to solve the problem because it focuses on those patents most likely to cause harm and it provides more appropriate remedies than can patent law. Finally, antitrust law has many filters that protect innocent patentholders. In order to establish Section Two liability under a *Walker Process* or *Handgards* theory of recovery, the antitrust plaintiff must prove that the defendant had monopoly power, that that market power is a result of the challenged patent, that the patent was fraudulently procured, and that the plaintiff suffered antitrust injury and had antitrust standing. Each element protects the honest patentee against an inaccurate finding of antitrust liability.

I. ANTITRUST LAW AND FRAUDULENTLY PROCURED PATENTS

Section Two of the Sherman Act condemns the acquisition of monopoly power through predatory conduct by dominant firms. Monopolization injures both consumers and the efficiency of a competitive marketplace. A firm with monopoly power possesses the ability to raise price and to exclude competitors.[1] A monopolist maximizes its profits by reducing output while increasing price. As the available quantity of a given product decreases, the market price increases, with sales being made only to those consumers who have relatively high reservation prices. The monopolist makes fewer sales but earns more profit on each transaction, thereby increasing its overall bottom line. In contrast, all consumers are worse off—those consumers who continue to purchase the product must pay a higher price, while other consumers are denied the product altogether.

In addition to the harms to consumers who could afford to purchase the product at the competitive price, monopolization also reduces efficiency. By reducing output below the efficient market equilibrium, monopoly pricing creates deadweight loss. Deadweight loss refers to the forgone social benefit associated with the sales that did not take place because the monopolist constrained output. Each of the excluded consumers was willing to pay more for the good than its cost of production. But the monopolist declines these socially beneficial sales in order to charge a higher price on the remaining sales. Even antitrust commentators who are generally unconcerned about higher prices denounce the imposition of deadweight loss associated with monopolies.[2]

For the monopolist's strategy to work, the monopolist must be able to exclude competitors who would otherwise expand output to satisfy the unmet consumer demand and thus drive price back down to its competitive levels. Most scholarly debate about illegal monopolization focuses on *how* a monopolist has excluded its competitors; Section Two of the Sherman Act does not condemn all monopolies, only those achieved or maintained through anticompetitive or predatory conduct. Thus, a dominant firm that achieves its monopoly power through "superior product, business acumen, or historic accident" does not run afoul of the antitrust laws.[3] Antitrust liability for illegal monopolization requires the plaintiff to prove that the monopolist achieved or maintained that power through illegal exclusionary conduct. In contrast, an antitrust defendant will seek to show that—even if it does possess monopoly power—it has acquired that market power legitimately.

One way in which a firm might legally achieve monopoly power is by obtaining a patent on a desirable product or process. When a firm acquires a patent, it secures "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" during the life of the patent.[4] This bundle of exclusionary rights does not necessarily give the patentee monopoly power. While older court cases often referred to "patent monopolies,"[5] courts now recognize that most patents do not confer any market power,[6] because either there is no demand for the patented product or there are noninfringing substitutes. However, a substantial minority of

1. United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 391 (1956).

2. *See* William M. Landes, *Optimal Sanctions for Antitrust Violations*, 50 U. CHI. L. REV. 652, 653 (1983).

3. United States v. Grinnell Corp., 384 U.S. 563, 570–71 (1966).

4. 35 U.S.C. § 154(a)(1)-(2) (2000).

5. *E.g.*, Brenner v. Manson, 383 U.S. 519, 534 (1966); Graham v. John Deere Co., 383 U.S. 1, 6–9 (1966).

6. Ill. Tool Works, Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006).

patents are quite valuable.[7] When the claims of a patent essentially encompass a relevant product market, the patent can create a significant barrier to entry and can afford monopoly power to the patentee.

The relationship between patents and antitrust is complicated because when patents do confer market power, patent monopolies can create the same inefficiencies and anti-consumer effects as illegal monopolies. As Professor Dreyfuss has noted, "Patented products are more expensive; quantity and quality are less than they would be in a competitive market. Furthermore, there is deadweight loss created as those who would buy the product at the competitive price forgo purchase at the higher patent price."[8] However, antitrust law tolerates these ill effects in the context of patented products because the patent system encourages innovation by preventing free riding and providing short-term exclusionary rights to inventors in exchange for their disclosure. In short, antitrust law and patent law attempt to balance the goals of competition and innovation, and, as a result, antitrust law tolerates monopolies secured through patents.

Unfortunately, many patents are invalid.[9] The patent system is currently ill-equipped to prevent invalid patents from issuing and potentially distorting competitive markets. While at the turn of the millennium, the U.S. Patent and Trademark Office (PTO) received approximately 1,000 patent applications every business day,[10] it received over 400,000 per year by 2005.[11] Therefore, evaluating the claims of each application imposes a substantial burden on the PTO. That burden is not sufficiently eased by reliance on the patent applicant for information. While the patent applicant must disclose known information relevant to patentability, the PTO imposes no duty on the applicant to research the prior art.[12] Given their duty to report any negative information of which they are aware, applicants may find it rational not to perform any research that might expose

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7. *See* John R. Allison, Mark A. Lemley, Kimberly A. Moore & R. Derek Trunkey, *Valuable Patents*, 92 GEO. L.J. 435 (2004).

8. Rochelle Cooper Dreyfuss, *Are Business Method Patents Bad for Business?*, 16 SANTA CLARA COMPUTER & HIGH TECH. L.J. 263, 275 (2000).

9. *See* John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998); Mark A. Lemley, *An Empirical Study of the Twenty-Year Patent Term*, 22 AIPLA Q.J. 369, 420 (1994). Invalid is, of course, different than fraudulently procured. Courts can invalidate a patent as improvidently issued even though the patent applicant committed no fraud or any wrong conduct against the U.S. Patent and Trademark Office.

10. FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, EXECUTIVE SUMMARY, 9–10 (2003), http://www.ftc.gov/os/2003/10/innovationrpt.pdf [hereinafter FTC INNOVATION REPORT].

11. *Patent Quality Enhancement in the Information-Based Economy: Oversight Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 2 (2006) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property), *available at* http://judiciary.house.gov/media/pdfs/dudas040506.pdf

12. John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 314–15 (2001) ("Concerned that the failure to disclose a known reference will lead to the unenforceability of the patent, some applicants prefer to await the examiner's search results rather than consult the prior art themselves.").

material adverse information.[13] Because patent applications are prosecuted ex parte—and applications are generally confidential for the first eighteen months after filing—third parties are typically not in a position to provide information that would cause the examiner to correctly reject the application.[14] In addition to these informational limitations, patent examiners generally have fewer than twenty-four working hours "to read and understand the application, search for prior art, evaluate patentability, communicate with the applicant, work out necessary revisions, and reach and write up conclusions."[15] This time crunch is particularly grueling in complex areas of innovation such as biotechnology patents.[16] As the scope of patentable subject matter expands, patent examiners sometimes do not possess sufficient training to evaluate applications.[17] Yet, the burden of proof is on the examiner to show that the patent should not issue.[18] Furthermore, once a patent issues, the patentee has no continuing obligation to inform the Patent Office of information it later discovers that would have been material during the application process.[19] Thus, if a patentee subsequently learns that its patent should not have issued, it has no duty to alert either the PTO or its competitors that its patent is, in fact, invalid. Given the number of patents issued each year, their duration, the number of patents found to be invalid, and the extreme difficulty of challenging patent validity,[20] it is reasonable to conclude that hundreds—if not thousands—of invalid patents exist in the American marketplace.

It is unclear how many of these invalid patents issue as a result of fraud or misconduct. Patent applicants can commit fraud upon the Patent Office in myriad ways. Applicants can commit fraud either by failing to disclose material information or by submitting false information.[21] For example, because a patent

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13. Clarisa Long, *Patent Signals*, 69 U. CHI. L. REV. 625, 669 n.127 (2002) (citation omitted) ("According to Glenn S. Tenney, past chair of the Intellectual Property Committee of the Institute for Electrical and Electronic Engineers, patent attorneys advise their clients only to reveal information they already know, and not to search for additional information, lest it reveal material that adversely affects the patentability of the invention.").

14. *See* Rochelle Cooper Dreyfuss, *Dethroning* Lear*: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 755 (1986) ("Patent applications are prosecuted ex parte and, although the PTO keeps extensive files of prior art, the absence of an interested party adverse to the patentee makes it improbable that every argument against patentability will be considered in every case.").

15. FTC INNOVATION REPORT, *supra* note 10, ch. 5, at 5.

16. *Id.* at ch. 1, p. 34.

17. *See id.*

18. *Id*. at ch. 5, p. 8.

19. 6 DONALD S. CHISUM, CHISUM ON PATENTS § 19.03[2][b][iv], at 19–20 (Matthew Bender 2007) (1978) ("A patent owner need not disclose to the PTO information that comes to its attention after a patent issues.").

20. *See infra* notes 36–37 and accompanying text.

21. *See* Warner-Lambert Co. v. Teva Pharms. USA, Inc., 418 F.3d 1326, 1342–43 (Fed. Cir. 2005); Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1070 (Fed. Cir. 1998) ("a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation."). In many instances, the applicant omits references to relevant prior art, but other omissions can be important as well. For example, a patent may also be invalid because the applicant failed to disclose the best mode for practicing the invention:

cannot issue if the inventor made public use of the invention—or sold or offered it for sale—more than one year before filing an application,[22] a patent applicant may misrepresent the date of the first public use or sale or offer for sale.[23] Depending on the type of fraud, potential competitors may have no way to determine whether the patentee committed fraud in order to obtain its patent from the PTO.

Fraudulently procured patents upset the delicate balance between antitrust law's prohibition of monopolization and patent law's encouragement of innovation through the grant of exclusionary rights. For those fraudulently procured patents that confer monopoly power, competition is injured without any countervailing social benefit. Like valid patents, fraudulently procured patents represent serious barriers to entry in some markets.[24] Fear of inviting an infringement suit will deter many competitors from entering a market with a product that would infringe the dominant firm's patent, even if the competitors suspect that that patent is invalid. The cost of defending against any infringement suit runs into the millions, win or lose. [25] And the difficulty of establishing invalidity is high because patents must be proven invalid by clear and convincing evidence,[26] and juries strongly favor patentholders in validity challenges.[27]

Fraudulently procured patents thus impose costs on competitors, who must investigate the validity of the dominant firm's patent as well as determine whether their product infringes that patent. New competitors wishing to avoid infringing the patent may attempt to design around the patent in order to create a noninfringing substitute.[28] Others may engage in negotiations with the monopolist and pay royalties for a license on the patent.[29] All of these avenues delay market entry and cost money; all of these costs increase the barriers to entry.

> The patent statute requires that a patent specification "shall set forth the best mode contemplated by the inventor of carrying out his invention." 35 U.S.C. § 112 (1994). Determining whether a patent fails to comply with the best mode requirement and is thus invalid involves two factual inquiries. First, the fact-finder must determine whether at the time an applicant filed an application for patent, he or she had a best mode of practicing the invention, which is a subjective determination. Second, if the inventor had a best mode of practicing the invention, the fact-finder must determine whether the best mode was disclosed in sufficient detail to allow a skilled artisan to practice it without undue experimentation, which is an objective determination. *See* United States Gypsum Co. v. National Gypsum Co., 74 F.3d 1209, 1212 (Fed.Cir. 1996).

Nobelpharma, 141 F.3d at 1064.

22. 35 U.S.C. § 102(b) (2000).

23. *See, e.g.*, Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965).

24. *See* Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101 (2006).

25. AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF ECONOMIC SURVEY 22 (2003).

26. *E.g.*, *Nobelpharma*, 141 F.3d at 1065 ("[T]he burden is on an accused infringer to show by clear and convincing evidence facts supporting the conclusion that the patent is invalid.").

27. *See* Leslie, *supra* note 24, at 135–36.

28. FTC INNOVATION REPORT, *supra* note 10, ch. 2, at 22 ("In still other contexts the design-around may add little value, merely requiring that competitors 'work harder to get to the same place.'").

29. *See infra* notes 105–109 and accompanying text.

While the patent system aims to increase research and innovation, fraudulently procured patents can have precisely the opposite effect. Fear of costly infringement litigation can cause competitors to give too wide a berth to an invalid patent. Following its extensive hearings on the patent system, the Federal Trade Commission reported:

> One firm's questionable patent may lead its competitor to forgo R&D in the areas that the patent improperly covers. For example, firms in the biotech industry reported that they avoid infringing questionable patents and therefore will refrain from entering or continuing with a particular field of research that such patents appear to cover. Such effects deter market entry and follow-on innovation by competitors and increase the potential for the holder of a questionable patent to suppress competition.[30]

Commentators, too, have noted that "[i]nvalid patents lack any semblance of constitutional, statutory or policy justification. Contrary to the basic policy of the patent law they obviously impede technical innovation and competition, as well as increase prices."[31] In short, fraudulently procured patents can deter market entry as effectively as valid patents.

When a patent applicant commits fraud against the Patent Office and subsequently achieves monopoly power because of the fraudulently issued patent, antitrust laws are implicated. In *Walker Process*, the Supreme Court held that when a monopolist procures a patent through fraud on the PTO, excluded competitors can bring suit under Section Two of the Sherman Act; specifically, the Court held "that the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present."[32] The Ninth Circuit in *Handgards*[33] later applied *Walker Process*'s reasoning to situations in which a monopolist does not commit fraud against the PTO, but instead obtains an invalid patent from another party that the monopolist knows committed fraud against the PTO to acquire the patent.[34]

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30. FTC INNOVATION REPORT, *supra* note 10, Executive Summary at 5–6.

31. Allan N. Littman, *Restoring the Balance of Our Patent System*, 37 IDEA 545, 556 (1997). In its amicus brief in support of the petitioner, Walker Process, the government took note of "the public policy favoring the elimination of fraudulently obtained patents, which otherwise would clog our system of free competition." Brief for the United States as Amicus Curiae Supporting Petitioner at 14, Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1964) *in* 17 ANTITRUST LAW: MAJOR BRIEFS AND ORAL ARGUMENTS OF THE SUPREME COURT OF THE UNITED STATES 1955 TERM–1975 TERM at 730 (Philip B. Kurland & Gerhard Casper eds., 1979).

32. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 174 (1965).

33. Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979).

34. *Id*. Justice Harlan, in his concurrence in *Walker Process*, foreshadowed this development:

> [A] treble-damage action for monopolization which, but for the existence of a patent, would be violative of § 2 of the Sherman Act may be maintained . . . if two conditions are satisfied: (1) the relevant patent is shown to have been procured by knowing and willful fraud practiced by the defendant on the Patent Office or, if the defendant was not the original patent applicant, he had been

An antitrust plaintiff charging a dominant firm with illegal monopolization under either a *Walker Process* or *Handgards* theory of recovery would have to prove all of the necessary elements of a Section Two claim, namely "(1) the [defendant's] possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."[35] This means that the excluded competitor must define the relevant market and establish that the patentee had the ability to control price in that market. *Walker Process* and *Handgards* essentially provide an excluded competitor a means of satisfying the second prong of a monopolization case—that the monopolist acquired its market power through anticompetitive conduct, not through competition on the merits. But satisfying this prong by showing that the monopolist acquired a patent through fraud is no easy task. Because patents are presumed valid, the antitrust plaintiff must prove patent invalidity by clear and convincing evidence.[36] Furthermore, the plaintiff must show that the monopolist committed fraud—or knew that the original patent applicant committed fraud—against the Patent Office. Under either a *Walker Process* or a *Handgards* claim, the antitrust plaintiff must also prove that the patent holder took steps to enforce the fraudulently procured patent against that plaintiff. Finally, the plaintiff must prove causation—namely that it was driven from the market *because* of the defendant's fraudulently procured patent—and that it suffered antitrust injury as a result.[37] This Article addresses only the enforcement component of these antitrust claims.

Walker Process litigation would seem to be a great tool to deter monopolization through fraudulent patents. But the promise has not matched the reality; there are very few successful *Walker Process* lawsuits. Two possible explanations spring to mind. One is that patent applicants are not committing fraud against the PTO in order to secure illegal monopolies. The second explanation is that something is wrong with the *Walker Process* legal test itself, which makes it an ineffective weapon against fraudulently procured patents. Much anecdotal evidence unfortunately suggests that the former explanation is not correct.[38] Instead, the problem lies with the *Walker Process* test, and specifically with the enforcement requirement.

II. THE PATENT ENFORCEMENT REQUIREMENT IN ANTITRUST LAW

Walker Process and *Handgards* form a cohesive body of antitrust law that denounces the use of fraudulent patents to secure monopoly power. *Walker Process*

> enforcing the patent with knowledge of the fraudulent manner in which it was obtained; and (2) all elements otherwise necessary to establish a § 2 monopolization charge are proved.

Walker Process, 382 U.S. at 179 (Harlan, J., concurring).

35. United States v. Grinnell Corp., 384 U.S. 563, 570–71 (1966). The plaintiff could also pursue an attempted monopolization claim, which would require her to show "(1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power." Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 456 (1993).

36. *See* Al-Site Corp. v. VSI Int'l, Inc., 174 F.3d 1308, 1323 (Fed. Cir. 1999).

37. *See* Leslie, *supra* note 24, at 165–70.

38. *See, e.g.*, Brunswick Corp. v. Riegel Textile Corp., 752 F.2d 261 (7th Cir. 1984).

condemns a monopolist's enforcement of a patent that it obtained by committing fraud against the PTO, while *Handgards* bars a monopolist from enforcing a patent—that it knows to have been fraudulently procured by the original applicant—in order to secure a monopoly. While *Walker Process* and *Handgards* claims differ in how the monopolist acquired its fraudulently procured patent, both causes of action impose liability only if the patent holder actually enforces that patent in order to acquire or maintain monopoly power in a relevant market.

Enforcement of the fraudulently procured patent has become the touchstone for *Walker Process* liability. Lower courts declared that the "carefully chosen language of the Supreme Court makes it perfectly clear that it is 'the *enforcement* of a patent *procured* by fraud on the Patent Office' that is a necessary precondition to possible Section 2 Sherman Act liability."[39] Federal courts now treat patent enforcement efforts as the "sine qua non" of *Walker Process* cases.[40]

Unfortunately, the *Walker Process* Court did not define what it meant by "enforcement." In the context of that case, the patentee clearly enforced the fraudulently procured patent because it sued its competitor for infringement, so the Court had no occasion to define the precise contours of the conduct that constitutes enforcement.

Lower courts, stepping into the gap left by the Court, have narrowly construed what constitutes patent enforcement. Clearly, bringing an infringement lawsuit constitutes patent enforcement, as the facts of *Walker Process* itself demonstrate.[41] In addition, an explicit threat to sue an infringing competitor can also represent enforcement.[42] The threats that satisfy the *Walker Process* enforcement requirement are essentially defined by patent law, in that the Federal Circuit has held that "as a matter of Federal Circuit antitrust law, the standards . . . for determining jurisdiction in a Declaratory Judgment Action of patent invalidity also define the minimum level of 'enforcement' necessary to expose the patentee to a *Walker Process* claim."[43] Until quite recently, in order to have standing to pursue a

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39. Struthers Scientific & Int'l Corp. v. Gen. Foods Corp., 334 F. Supp. 1329, 1332 (D. Del. 1971) (emphasis in original).

40. *Id*. at 1331; Cal. E. Labs., Inc. v. Gould, 896 F.2d 400, 403 (9th Cir.1990) ("Without some effort at enforcement, the patent cannot serve as the foundation of a monopolization case.").

41. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 175 (1965) ("Both Walker and the United States . . . argue that if Food Machinery obtained its patent by fraud and thereafter used the patent to exclude Walker from the market through 'threats of suit' and prosecution of this infringement suit, such proof would establish a prima facie violation of § 2 of the Sherman Act.").

42. Indium Corp. of Am. v. Semi-Alloys, Inc., 566 F. Supp. 1344, 1352–53 (N.D.N.Y. 1983).

43. Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc., 375 F.3d 1341, 1358 (Fed. Cir. 2004), *rev'd on other grounds*, 546 U.S. 394 (2006) (discussing attempted monopolization). Other courts have also reasoned that the standard for showing "enforcement" sufficient to survive a summary judgment motion in a *Walker Process* case is essentially equivalent to the test for declaratory judgment standing in patent cases. *See* Northlake Mktg. & Supply, Inc. v. Glaverbel S.A., 861 F. Supp. 653, 660 (N.D. Ill. 1994); *Indium Corp.*, 566 F. Supp. at 1353 ("The [*Walker Process* enforcement] standard also parallels the case and controversy requirement for declaratory judgment jurisdiction over patent suits, thereby obviating the contradictory possibility that a complaint alleging patent invalidity might be sufficient under

declaratory judgment seeking to expose a patent as invalid, a competitor had to show that it is infringing (or has taken concrete steps with the intent of infringing) the suspect patent and that the patentee has executed "an explicit threat or other action . . . which creates a reasonable apprehension" that an infringement suit is forthcoming.[44]

Although the Supreme Court recently discarded the Federal Circuit's reasonable apprehension test, the Federal Circuit has continued to make the same errors, albeit under a different rubric. In order to show that that little has changed, Part III will illustrate the problems under the reasonable apprehension test before discussing its abandonment and subsequent reincarnation in a different guise. Part III will analyze a combination of antitrust and declaratory judgment cases in order to explore how artificially circumscribed this test is and how those monopolists who have committed patent fraud can take refuge in this legal test to avoid the risk of being held liable for illegal monopolization.

III. HARNESSING THE EXCLUSIONARY POWER OF FRAUDULENTLY PROCURED PATENTS WITHOUT "ENFORCING" THEM

Companies flex their patent muscle in myriad ways beyond actually threatening or initiating litigation. Under the *Walker Process* doctrine, antitrust law only condemns patent fraud by a monopolist when the patent holder actively enforces the patent through litigation or threats of litigation. However, a monopolist can profit from its fraudulently procured patent even without taking such explicit enforcement efforts. Allowing monopolization claims to proceed only when a defendant has enforced its patent through actual or explicitly threatened litigation is insufficient.

It is clear why filing infringement litigation represents patent enforcement. Litigation is the quintessential method of enforcing patent rights. Why does threatening infringement litigation constitute enforcement? No court or commentator has ever addressed the question, but the answer seems straightforward. A patentee threatens infringement litigation in order to keep a rival out of the market altogether or to force the other firm to pay a licensing fee, which necessarily imposes costs on the competitor. Either way, the threat of litigation creates a barrier to entry. It invokes the exclusionary rights associated with the patent to dissuade competitors from entering the market easily or cheaply.

But other forms of conduct that patentees engage in have these same exclusionary effects: deterring (or delaying) market entry [45] and raising rivals' costs of entry. This section reviews some of the other ways that a patentee can threaten potential competitors without meeting the enforcement requirement for antitrust claims based on monopolization through fraudulent patents. These

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the antitrust laws, but not under the Declaratory Judgment Act.").

44. Teva Pharms. USA, Inc. v. Pfizer, Inc., 395 F.3d 1324, 1330 (Fed. Cir. 2005); *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 541 (E.D.N.Y. 2005). The Supreme Court's abandonment of the reasonable apprehension test is discussed below, *see infra* notes 144–154 and accompanying text.

45. Any delay could be worth a significant amount of money to an antitrust violator. Edwin A. Blackstone & Gary W. Bowman, *Antitrust Damages: The Loss from Delay*, 32 ANTITRUST BULL. 93, 95 (1987).

include: publicly flaunting one's patent; stating a general intent to sue infringers; accusing competitors of infringement; threatening competitors' business partners; and licensing activities. If these forms of conduct achieve the same exclusionary effects as infringement lawsuits and explicit litigation threats—which clearly constitute patent enforcement—then these acts should similarly satisfy the enforcement requirement of a *Walker Process* claim.

These less explicit forms of patent enforcement are often designed to make competitors concerned that market entry can lead to substantial damages should the patentee successfully sue for infringement. In addition to the fear of liability for infringement—which can be crippling—litigation costs play an important role in the exclusionary effect of a patentee's implicit threats to sue. Defending against an infringement lawsuit generally costs a competitor millions of dollars.[46] Yet even if it wins, the successful defendant in a patent infringement suit is not generally entitled to attorney's fees except in exceptional cases.[47] In some markets, such as those involving software and business method patents, "the high costs of patent litigation may discourage [competitors] from challenging a patent at all."[48] Several factors may increase the exclusionary effects of litigation costs. For example, when the new competitor is smaller than the patentee, litigation costs may be a particularly important barrier to entry because

> a large firm is a more efficient bearer of litigation costs than a small firm. An infringement suit based on a fraudulent patent claim is costly for both plaintiff and the defendant, but considered as a percentage of output or profits it is more costly to the rival, whose output is much smaller.[49]

Further, the alleged infringer's litigation costs are likely greater than those of the patentee bringing an infringement suit.[50] Also, when the competitor is not yet entrenched in the market—either because it has not entered or has not ramped up production—it may make more business sense to avoid that market altogether than to engage in costly infringement litigation.[51]

Even if market entry is not deterred completely, soft enforcement by a patentee may limit the speed and size of entry. A prudent potential entrant must investigate the patent to determine its validity and scope, which can take several months. New competitors know that even if they attempt to enter the market and draw an infringement suit, the litigation could delay their ultimate market entry for several years,[52] especially if the patentee secures a preliminary injunction. Furthermore,

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46. AM. INTELLECTUAL PROP. LAW ASS'N, *supra* note 25, at 22.

47. 35 U.S.C. § 285 (2000) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

48. Thomas, *supra* note 12, at 320 (discussing software and business method patents).

49. HERBERT HOVENKAMP, THE ANTITRUST ENTERPRISE 153 (2005).

50. Plastic Container Corp. v. Cont'l Plastics of Okla., Inc., 515 F. Supp. 834, 856 (W.D. Okla. 1980) ("The defendant's costs in defending a patent infringement suit are generally substantially greater than those of the plaintiff." (citation omitted)).

51. HOVENKAMP, *supra* note 49, at 153 ("But actual or threatened litigation is an effective exclusion device when the rival has not yet begun to produce, or is producing at such a low level that the costs and risks of litigation overwhelm it.").

52. *See* Thomas, *supra* note 12, at 320 ("However, competitors of the patentee may face

because each sale of an infringing product increases the damages an infringer owes if the patentee successfully sues, the fear of litigation means that, in at least some cases, "infringers' entry will be limited . . . because the marginal benefit of entry is weighed against pro-rata damages."[53] This means that public threats can reduce competition, making these threats essentially an exercise of patent rights.

Two important caveats to the following discussion are in order. First, none of these acts alone constitutes anticompetitive conduct sufficient to satisfy the anticompetitive element of an illegal monopolization claim. No antitrust liability exists unless the patentee engaging in this conduct also possesses monopoly power in a relevant market, has procured the patent it is enforcing by committing fraud on the Patent Office, and is using that patent to maintain an illegal monopoly. Even then, no damages could be awarded unless the plaintiff could further prove that it suffered an antitrust injury and that the defendant's enforcement conduct caused that injury. Second, these acts are not *necessarily* patent enforcement sufficient to satisfy the *Walker Process* requirement. Rather, as Part IV argues, whether an activity constitutes enforcement is contextual. Part III merely examines and condemns judicial opinions that hold that certain acts by patentees can *never* constitute enforcement, and argues that some of these acts may, in certain circumstances, represent enforcement sufficient to satisfy the enforcement element of a *Walker Process* or *Handgards* claim.

A. Publicly Flaunting a Patent

Firms publicly announce that they own patents in a variety of ways. First, firms often mark their products as either patented or as being subject to a pending patent application. It is common for companies to note on their packaging that a product is protected by one or more patents. Second, many print ads and television commercials note that a product has received patent protection. In many cases, a firm may advertise its patent to convince gullible consumers that a patent represents the government's endorsement or imprimatur that the advertised product is actually effective.[54] But such ads necessarily inform competitors that a patent has issued and that the manufacture or sale of an infringing product could invite litigation. Third, in addition to noting one's patent in advertisements or on the product itself, firms may also tout their patents in public announcements or private correspondence. Patentees sometimes write letters to competitors informing them that a particular patent has survived reexamination.[55] All of these actions can put competitors on notice that a dominant firm possesses a relevant patent.

Courts are generally unsympathetic to the possible exclusionary effects of patentees announcing their patents to competitors. Judges have held that "widely

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delays of several years as they seek to strike down such [software and business method] patents.").

53. Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power Without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 MICH. L. REV. 985, 993 (1999) (emphasis omitted).

54. *See* Ann Bartow, *Separating Marketing Innovation from Actual Invention: A Proposal for a New, Improved, Lighter, and Better-Tasting Form of Patent Protection*, 4 J. SMALL & EMERGING BUS. L. 1, 3 (2000).

55. *See, e.g.*, Cygnus Therapeutics Sys. v. Alza Corp., 92 F.3d 1153, 1160 (Fed. Cir. 1996).

publiciz[ing] the existence" of a patent "to the industry in general" is not enforcement sufficient to allow a *Walker Process* claim to proceed.[56] Neither does sending a letter stating that one's patent is valid, having survived reexamination, constitute enforcement for these purposes.[57] Subjectively threatening letters can be written so as to appear nonthreatening to a federal judge.[58] Also, an apparent double standard can be seen in the fact that a patentee's nonenforceable assurances that it is not going to sue for infringement denies standing to a would-be competitor that pursues a patent-invalidating declaratory judgment action, and thus is not enforcement for antitrust purposes.[59] However, neither a refusal to covenant not to sue[60] nor a patentee's refusal to release claims creates a reasonable apprehension of suit.[61]

Publicly announcing one's patent can represent a form of patent enforcement when touting a patent deters competitors from entering the market. The decision to secure patent protection generally evinces a desire to acquire and exercise exclusionary rights. The intent to enforce is generally implied in the patent grant. The reason that most inventors secure patent protection is to acquire the bundle of exclusionary rights.[62] If the inventor had no desire to erect barriers to entry, she

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56. Hydril Co. v. Grant Prideco, 385 F. Supp. 2d 609, 611 (S.D. Tex. 2005), *rev'd on other grounds*, 474 F.3d 1344 (Fed. Cir. 2007); *see also* Northlake Mktg. & Supply, Inc. v. Glaverbel S.A., 861 F. Supp. 653, 661 (N.D. Ill. 1994) ("But whatever that hypothetical lesser quantum of conduct might be [to constitute patent enforcement for a *Walker Process* claim], it surely would have to be more than the Delphic reference to the existence of a patent or patents that Northlake offers here. If it were otherwise, any such reference—however innocuous—could trigger exposure to an antitrust claim. Any such rule would be absurd, for common sense teaches that some more assertive conduct is required before a patent holder can be said, within the meaning of the antitrust laws, to be enforcing its patent." (emphasis omitted)).

57. *See, e.g.*, *Cygnus Therapeutics*, 92 F.3d at 1160.

58. *See* Mark A. Lemley, Essay, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1516 (2001) ("[C]ompetitors or potential competitors may have received a letter alerting them to the existence of the patent, though that letter will likely have been couched in extremely bland terms, purporting merely to make the competitor aware of the patent in case it should want to take a license.").

59. *See, e.g.*, Hewlett-Packard Co. v. Genrad, Inc., 882 F. Supp. 1141 (D. Mass. 1995); *see also* Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1059 (Fed. Cir. 1995); Evans Med. Ltd. v. Am. Cyanamid Co., 980 F. Supp. 132, 136 (S.D.N.Y. 1997) ("Such agreement need not be unconditional nor covenanted to divest the jurisdiction of the court."). Fortunately, the Federal Circuit has recently held that a patentee's assurances of nonenforcement can be outweighed by the patentee's other acts that do indicate an intent to enforce. Sandisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372, 1382–83 (Fed. Cir. 2007) ("[A patentee's] direct and unequivocal statement that '[it had] absolutely no plan whatsoever to sue [the declaratory judgment plaintiff]' . . . [does not] eliminate[] the justiciable controversy created by [its] actions, because [the patentee] has engaged in a course of conduct that shows a preparedness and willingness to enforce its patent rights despite [that] statement.").

60. *See* K-Lath v. Davis Wire Corp., 15 F. Supp. 2d 952, 962 (C.D. Cal. 1998); Ryobi Am. Corp. v. Peters, 815 F. Supp. 172, 174 (D.S.C. 1993).

61. *See* Dataline, Inc. v. MCI Worldcom Network Servs., No. 00 CIV. 1578 LAP., 2001 WL 102336, at *5 (S.D.N.Y. Feb. 6, 2001).

62. Firms can also acquire patents for reasons unrelated to enforcement against actual

could simply disclose her invention without applying for a patent (or, if she were worried that another inventor could patent the product or process, she could patent her invention and dedicate her patent to the public domain). A firm generally would not communicate that it owns a patent unless it was trying to communicate a belief in the patent's validity and the intent to enforce the patent.

Public announcements are also threatening to competitors because they can increase the patent's punch at litigation. If a competitor makes an infringing product and it knew about the patentee's patent, then the infringing competitor can be held liable for willful infringement.[63] A firm found to have committed willful infringement can be liable for treble damages.[64] That risk alone is sufficient to deter many would-be competitors, especially small upstarts, from entering a market. In order to try to avoid an eventual finding of willful infringement, the prudent competitor—who is afraid of potentially infringing—will need to secure an opinion letter from an attorney, which imposes an additional set of costs.

A dominant firm's announcement of its patent will often impose costs on actual and prospective competitors who feel compelled to investigate the scope and validity of the touted patent. In many cases, a patent is invalid for a reason that potential competitors do not know but could possibly find out.[65] The issue is "at

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and potential infringers. First, some firms "engage in 'defensive patenting,' obtaining patents to stake their claim to an area of technology in hopes of preventing other companies from suing them. Indeed, there is anecdotal evidence that at least among high-technology and start-up companies, the primary purpose of patents is defensive." Lemley, *supra* note 58, at 1504; Mark A. Lemley, *Reconceiving Patents in the Age of Venture Capital*, 4 J. SMALL & EMERGING BUS. L. 137, 143 (2000) ("One of the major reasons that companies get patents is that they're afraid that their competitors have them, and they don't want to be the only one left who doesn't have the ability to play in this game."). Second, the mere possession of even unenforced patents can communicate relevant information to capital markets and labor markets. Professor Clarisa Long shows how "patents can serve as a signal of firm quality. By acting as a signal, possession of intellectual property may reduce the cost of communicating private information to the market regarding the financial prospects of the firm." Long, *supra* note 13, at 637; *see* Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1 (2005). Merely possessing patents may inform capital markets, investors, and consumers that a firm is innovative. *See* Long, *supra* note 13, at 651. This signaling function occurs independently of patent enforcement. Third, "[e]stablished companies may patent out of inertia, to maintain a reputation as a market leader, or simply for the marquee value of selling a product with 'patented technology.'" Lemley, *supra* note 58, at 1506.

63. *See* Golden Blount, Inc. v. Robert H. Peterson Co., 438 F.3d 1354, 1369–70 (Fed. Cir. 2006); Clontech Labs., Inc. v. Invitrogen Corp., 406 F.3d 1347, 1357 n.6 (Fed. Cir. 2005) ("Failure to take on the costs of a reasonably competent search for information necessary to interpret each patent, investigation into prior art and other information bearing on the quality of the patents, and analysis thereof can result in a finding of willful infringement, which may treble the damages an infringer would otherwise have to pay."); Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1342–43 (Fed. Cir. 2004) ("Determination of willfulness is made on consideration of the totality of the circumstances . . . .").

64. *See Knorr-Bremse*, 383 F.3d at 1342 ("'[T]he court may increase damages up to three times the amount found or assessed.'" (citing 35 U.S.C. § 284 (2000))).

65. *See In re* Portola, 110 F.3d 786, 789 (Fed. Cir. 1997) Discussing the policy justifications for a reexamination proceeding, the court cited the congressional testimony of Donald R. Dunner, the president of the American Patent Law Association, who stated, "[I]t is inevitable . . . that all of the prior art will not be uncovered [by the PTO]. A determined

what cost?" Search costs can be high.[66] For small start-up companies, even seemingly small additional costs could delay or prevent entry to the market. When that dominant firm announces its patent knowing it was fraudulently procured, the firm is creating an inefficient barrier to entry. Making potential new entrants investigate whether the patent was fraudulently procured is clearly anticompetitive conduct that will increase the entry costs of competitors or reduce the likelihood of quick entry into the marketplace. Antitrust law generally views raising rivals' costs as exclusionary conduct, even if it does not deter market entry altogether, because it can delay entry and render competitors less aggressive price cutters, as they must recoup the unnecessary costs imposed by the dominant firm's predatory conduct. Given that raising rivals' costs can satisfy the anticompetitive conduct element of a Section Two claim in cases not involving patent-holding monopolists, it would be anomalous if it did not constitute patent enforcement in *Walker Process* litigation.

In addition to general announcement of a patent's existence, marking a product as patented should, in some circumstances, constitute patent enforcement for antitrust purposes. Patentees may mark their products as patented to serve at least two interrelated goals. On the one hand, patentees need to mark their products as patented in order to increase the potential damages that they can recover in the event of infringement.[67] As such, marking is option-preserving. But marking also holds out the patent as the legitimate property of the patentee, and also indicates an intent to enforce. Because the primary reason to mark a product as patented is to ensure the availability of a damage award in an enforcement action against an infringer, the marking primarily makes sense in conjunction with a threat to enforce. By analogy, a sign that says "No Trespassing" is clearly designed to threaten those who do not heed the warning. The sign is designed to deter trespassing in the same way that patent-marking is designed to deter market entry. Both attempt to enforce a property right.[68]

In some ways, the holder of a fraudulently procured patent can achieve more cost-effective market exclusion by just brandishing the patent and not undertaking

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advocate, desiring to do in a patent, spending tens of thousands of dollars in litigation situations, can often, if not always, find something that has not been considered by the [PTO]." *Id.* (citation omitted).

66. *See* Thomas, *supra* note 12, at 345.

67. *See* 35 U.S.C. § 287(a) (2000) ("In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice."). Professor Lisa Dolak argues that it is wrong to allow marking to constitute notice but not to trigger standing to pursue a declaratory judgment:

> Any inconsistency between the standards for notice of infringement and declaratory judgment jurisdiction is also contrary to the policies underlying the patents clause of the Constitution and the patent statute, in that a potentially invalid patent may be used to deter the accused infringer from pursuing activities that are potentially beneficial to society. At the same time, the accused infringer is powerless to litigate and resolve the merits of the patent.

Lisa A. Dolak, *Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer*, 38 B.C. L. REV. 903, 946 (1997).

68. Furthermore, it is conduct that serves absolutely no other legitimate purpose.

the costs of actual litigation.[69] Marking products as patented and making public announcements entail a mere nominal cost but they can pack a significant deterrent punch. For example, if the potential market entrant is unaware that a relevant patent was fraudulently procured, it will not compete even though the dominant firm has no valid right to exclude new entrants. It is not just actual infringement suits that deter entry into markets; it is the fear of such lawsuits.[70] Potential competitors can be deterred by the risk of infringement litigation even if the patent holder does not explicitly threaten likely entrants whose products would infringe the relevant patent if it were valid. The primary reason to inform competitors of one's patent is to create a fear of litigation, which the patentee hopes will either cause the target to license the patent for a royalty payment or keep the target's competing, but allegedly infringing, products out of the market altogether.[71] Courts should recognize that such efforts to create fear by brandishing a patent can constitute a form of patent enforcement.

In sum, there are many ways to flaunt a patent short of explicitly threatening or initiating litigation against a specific infringer, and this conduct can chill competitive activity in the same ways as explicit threats or lawsuits. Therefore, it may satisfy the threshold enforcement element of a *Walker Process*-type cause of action.[72]

B. Publicly Stating Intent to Enforce

Patentees express their plans to punish infringers by creating reputations for aggressively defending their patent rights. Patentees sometimes explicitly threaten to sue—or actually commence litigation against—one alleged infringer in order, in part, to deter other potential infringers from entering the market.[73] Aggressive patentees tout their previous victories in patent infringement litigation to scare away competitors.[74] If a dominant firm with patents can earn a reputation for responding belligerently to new rivals, then it does not have to threaten each individual potential infringer in order to deter them from entering the market, lest the new entrant draw a lawsuit.

However, absent an explicit threat of infringement litigation against a particular infringer, courts have held that that infringer has no standing to challenge patent

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69. *See* Joseph Borkin, *The Patent Infringement Suit–Ordeal by Trial*, 17 U. CHI. L. REV. 634, 644 (1950) ("An arrow in the quiver is more valuable than one expended on a missed target.").

70. Leslie, *supra* note 24, at 114–19.

71. While there may be nonexclusionary reasons to inform venture capitalists of one's patents, *see supra* note 62, the reason that a firm informs its competitors of its patents is to warn infringers about the prospect of litigation.

72. *See supra* Part II.

73. *See, e.g.*, Agron, Inc. v. Lin, No. CV0305872MMM(JWJX), 2004 WL 555377 (C.D. Cal. Mar. 16, 2004).

74. *See, e.g.*, Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 714 (9th Cir. 2003) (Pregerson, J., concurring in part and dissenting in part) ("Raychem informed Bourns that it could never enter the market without a patent license and that it had successfully enforced the patents in question against another competitor, Therm-O-Disc.").

validity.[75] For example, courts have denied declaratory judgment standing to firms when the patentee affirmatively tells another party in license negotiations that the patentee intends to enforce its patent.[76] Courts typically give little weight to the fact that some patentees affirmatively perfect their general reputations for aggressively enforcing their patent rights. Thus, one court held that a patentee's previous filing of thirty-eight lawsuits against other alleged infringers of its other patents did not create a reasonable apprehension of suit in an infringing competitor who had not been directly and personally threatened by the patentee.[77] This ignores the reality that such a patentee does not have to issue direct, targeted threats: all would-be competitors now know that market entry will very likely be met with costly litigation. Knowing this, rational firms will not enter the market.

Courts consistently downplay the threatening nature of public commitments to sue infringers.[78] In *Cygnus Therapeutics*, at a public conference the patentee's CEO responded to a question from an audience member about companies who the CEO had asserted were "developing products that are covered by our patents."[79] He stated that those competitors

> won't market the products because we're not going to give them licenses and the patents are valid. In many cases, they've already been challenged and have been upheld. And our policy will be that we have spent a great deal of money developing this technology and we have a very strong proprietary position.[80]

The Federal Circuit held that this statement did not "give rise to a reasonable apprehension of suit" on the part of the companies developing the allegedly infringing products.[81] The court seemed to think it important that the statement "was made in response to a question from the audience."[82] But why is that important? It was still a threat to enforce the patents. While the statement was not directed to a particular infringer, it communicated an intent to enforce patents against those competitors making allegedly infringing products. The competitors who were the target of the threat could take no solace from the fact that it was made in response to an audience member's question. Potential infringers had clearly been warned that market entry would almost certainly guarantee litigation.

Some judges have also ratcheted up the requirement so that infringers must show that the patentee's suit is imminent. For example, "the Federal Circuit has focused on whether the patentee's conduct evidences an intent to institute an infringement action *imminently*."[83] Similarly, when sitting as a district court judge

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75. Cygnus Therapeutics Sys. v. ALZA Corp., 92 F.3d 1153, 1159 (Fed. Cir. 1996) (quoting B.P. Chems., Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993)).

76. *See, e.g.*, Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 888–89 (Fed. Cir. 1992).

77. Premo Pharm. Labs., Inc. v. Pfizer Pharms., Inc., 465 F. Supp. 1281, 1283–84 (S.D.N.Y. 1979).

78. *See, e.g.*, Kustom Signals, Inc. v. Applied Concepts, Inc., No. 96-2274-JWL, 1996 WL 568817 (D. Kan. Sept. 6, 1996) (denying standing for declaratory judgment).

79. *Cygnus Therapeutics*, 92 F.3d at 1156.

80. *Id.*

81. *Id.* at 1159.

82. *Id.* at 1160.

83. Dolak, *supra* note 67, at 908 (emphasis in original).

by designation in a patent suit in 2003, Judge Posner asserted that in the context of patent challenges, the "declaratory-judgment procedure permits a prospective defendant in effect to precipitate the plaintiff's suit . . . provided the plaintiff's suit is imminent."[84] However, Judge Posner later seemed to up the standard even more to "a serious, palpable, foreseeable, imminent threat of being sued . . . ."[85] The addition of these criteria is made without support of any citation to authority or any analysis. Under either the Federal Circuit's or Judge Posner's approach, the imminent threat standard is deeply flawed because the rational firm will not enter the market in a manner that apparently infringes a patent if the firm believes that it will be sued in two years. Those two years of business would simply run up the successful patentee's damages at trial should the patentee prevail in litigation. A threat to sue in the distant future can deter market entry now.

Public announcements by a patentee about its general intent to sue infringers should be sufficient to satisfy *Walker Process*'s enforcement requirement when such statements are designed to make would-be competitors exit the market or not enter in the first place. If such warnings successfully deter competitors, then the patentholder has effectively exercised the exclusionary rights of its patent. That is enforcement for the purposes of illegal monopolization. The fact that the patentee did not have to actually sue shows the credibility of its implicit threat.

The fact that a public threat to enforce a patent may not promise imminent litigation does not substantially diminish its exclusionary effect on competitors. The power of the sword of Damocles was the possibility that it *might* fall. It instilled fear in the diner not because of the eventuality of its falling—or even the likelihood—but the mere ever-present possibility. So it can be with patents. Most patentees do not have to initiate infringement litigation to gain the exclusionary value of their patents. In some industries, the mere presence of the patent is sufficient to ward off competitors. For example, in the *Walker Process* case itself, buzz throughout the industry indicated that the monopolist's patent was invalid, yet no one entered the market for years even though the monopolist was charging customers three times the competitive price.[86] The fear of drawing the infringement suit and the potential liability was sufficient to deter market entry despite the rumors of invalidity and the prospect of significant returns on investment.

Additionally, actual infringement litigation against one competitor should be sufficient to satisfy the *Walker Process* enforcement requirement in illegal monopolization claims brought by other infringing competitors. Any patent enforcement efforts "can have a chilling effect on new entry. As Irwin Steltzer observed, a hunter who walks past a field with a no trespassing sign may ignore it, unless the field is littered with bodies of previous trespassers."[87] Some patentholders try to hone and advertise their reputations for aggressively enforcing their patent rights.[88] For example, in one case, the patentee warned a competitor

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84. Asahi Glass Co. v. Pentech Pharm., Inc., 289 F. Supp. 2d 986, 990 (N.D. Ill. 2003) (Posner, J.) (citations omitted).

85. *Id.*

86. *See* Leslie, *supra* note 24, at 119, 123.

87. Paul Stephen Dempsey, *Predatory Practices & Monopolization in the Airline Industry: A Case Study of Minneapolis/St. Paul*, 29 TRANSP. L.J. 129, 185 (2002).

88. Michael J. Meurer, *Controlling Opportunistic and Anticompetitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 518 n.59 (2003) ("The reputation for being tough

that it "should never think about" manufacturing a particular product and it ominously referenced an infringement suit it had brought eight years earlier against another competitor.[89] This, according to the court, did not constitute a sufficient threat to afford the alleged infringers standing to challenge patent validity.[90] Yet, this is clearly a statement of intent by the patentee to sue infringers; the statement is designed to deter market entry. The patent is being leveraged against rivals: that's enforcement.

Even previous infringement lawsuits that end in settlements reinforce the patentee's willingness to aggressively assert its patent rights. And the settlements often include an agreement between the parties that the patent is valid,[91] providing yet another warning to those competitors who would consider entering the market with a potentially infringing product. In short, firms with a reputation for aggressive patent enforcement need not file suit against a particular competitor in order to deter market entry through the threat of litigation. Unfortunately, courts often do not recognize such warnings as enforcement.[92] But the previous suits are, by definition, enforcement and should be sufficient to trigger *Walker Process* liability if the patentee is a monopolist who knows that her patent was fraudulently procured.

C. Insinuations of Infringement

Short of explicitly threatening infringement litigation, some patentees accuse their competitors of manufacturing or selling an infringing product. Other patentees actively investigate their competitors' products, all the while letting their competitors know that the sword of Damocles above them is being sharpened.

While some jurists have assumed in dicta that an infringement notice constitutes enforcement,[93] courts have used either of two flawed arguments in order to consistently deny competitors who receive such notifications standing to pursue both declaratory judgments and antitrust actions. First, the Federal Circuit has inappropriately defined what it means to accuse a competitor of infringement. For example, the court has held that a patentee's assertions to another firm that its

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makes the frivolous claim more credible and more valuable."); *see also* Patrick Bolton, Joseph F. Brodley & Michael H. Riordan, *Predatory Pricing: Strategic Theory and Legal Policy*, 88 GEO. L.J. 2239, 2300–01 (2000) (discussing suing others to create a reputation for aggressively going after competitors).

89. Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 714 (9th Cir. 2003) (Pregerson, J., concurring in part and dissenting in part) ("In May 1994, Raychem informed Bourns that it 'should never think about' manufacturing PPTCs and reminded Bourns of its 1986 suit against Therm O Disc [sic].").

90. *Id*. at 714–15.

91. *See, e.g.*, Valley Drug Co. v. Geneva Pharms., Inc., 344 F.3d 1294, 1300 (11th Cir. 2003).

92. *See, e.g.*, *Bourns*, 331 F.3d at 712 ("The threats that Bourns showed were made by Raychem to enforce its patents were made in May 1994 and September 1994. They were threats to a bystander who was pawing the ground: don't get into our turf. They were not threats to a competitor or to a business prepared to be a competitor.").

93. *See, e.g.*, Miller Pipeline Corp. v. British Gas PLC, 69 F. Supp. 2d 1129, 1138–39 (S.D. Ind. 1999) ("[T]he patentholder's competitors who receive infringement notices . . . have available to them the vehicle of a declaratory judgment action . . . .").

product is "covered by" the patents do not represent an infringement accusation sufficient to create standing to challenge the patent's validity.[94] In particular, in the context of licensing negotiations between a patentee and an alleged infringer, the Federal Circuit has famously held that accusations by the patentee that its competitor's "activities 'fall within,' are 'covered by,' and are 'operations under' [the patentee's] patent fall short of alleging infringement."[95] This reading is wooden. A firm has no need to take a license if its product does not potentially infringe another firm's valid patent. For the patentee to say that its rival had better purchase a license because the rival's product is "covered by" the patent can *only* be an allegation of infringement. There is no other possible reason for the patentee to use this language in a licensing negotiation.

Second, courts assume the patent is valid and then proceed to deny standing to challenge the patent's validity. For example, one court affirmed a dismissal of a *Walker Process* claim because "patents would be of little value if infringers of them could not be notified of the consequences of infringement or proceeded against in the courts."[96] This completely misses the point. Of course, holders of valid patents can notify or sue infringers. But such actions represent forms of enforcement. The relevant question in an illegal monopolization claim is whether or not the patentholder's conduct at issue is enforcement, not whether such enforcement by the holder of a valid patent is wrongful. Patentees have a right to sue infringers, but that does not mean that bringing a lawsuit is not enforcement.

Furthermore, courts have held that a patentee does not create a reasonable apprehension that it will initiate litigation by asking a competitor for product samples to check for infringement.[97] This approach seems mistaken because the patentee's inquiry communicates critical information to the competitor. Asking competitors for samples to check for infringement demonstrates that the patentholder is actively monitoring the market in order to detect infringement, and is an implicit statement that the patent will be enforced if infringement is found. Otherwise, there is no reason for the patentholder to check for infringement. The infringement investigation only makes sense if the patentee intends to demand royalties or sue the competitor for possible infringement if the patentee determines that the product comes within the patent's claims. Knowing that it is being investigated for infringement will ordinarily chill the competitive zeal of a new market entrant. Many firms would not continue to sell products—potentially racking up damages—while the patentee is openly investigating them for infringement.[98] If this investigative activity does reduce market entry, then the patentee's conduct has harnessed the patent's exclusionary power—that's enforcement.

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94. Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha, 57 F.3d 1051, 1052 (Fed. Cir. 1995).

95. Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 889 (Fed. Cir. 1992).

96. Oetiker v. Jurid Werke GMBH, 671 F.2d 596, 601 (D.C. Cir. 1982) (quoting Virtue v. Creamery Package Mfg., 227 U.S. 8, 37–38 (1912)).

97. *See, e.g.*, Am. Needle & Novelty Co. v. Schuessler Knitting Mills, Inc., 379 F.2d 376, 378 (7th Cir. 1967).

98. *See supra* text accompanying note 54.

D. Statements to Business Partners

No business can survive without suppliers, distributors, and financing. Dominant firms realize that if they can deny a new competitor access to any or all of these necessities, they can deter new market entry or squash it when it does occur. If a firm holds a patent, it may threaten these other players with infringement litigation or attempt to convince them that doing business with the new competitor (whose product allegedly infringes the dominant firm's patent) is not worth the risk. And, indeed, the case law is rife with examples of monopolists with fraudulently procured patents threatening competitors' business partners with infringement litigation.[99]

Courts have generally failed to appreciate that patentees often enforce their patents not by threatening to sue their competitors directly, but by intimidating their competitors' business partners.[100] For example, courts have made it safe for patentees to threaten a competitor's suppliers as long as the patentee is in licensing negotiations with the allegedly infringing competitor.[101] In one case, even though the patentee sent an explicit cease and desist letter to the alleged infringer's suppliers, the court reasoned that there can be no reasonable apprehension of suit so long as the patentee and its competitor are in licensing negotiations.[102] This overlooks the effect of the threat on the supplier and the potential to destroy the business relationship between the new competitor and its necessary supplier.

When the patentee makes accusations of infringement or implicit threats of litigation to its competitor's business partners or both, these threats and accusations should constitute patent enforcement sufficient for the competitor to bring *Walker Process* litigation. Such communications harness the patent's exclusionary power. Letters to suppliers or distributors sometimes cause competitors to lose business as other firms refuse to work with them because of the implicit threat of infringement litigation against the suppliers and distributors.[103] Financiers may be less willing to

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99. *See generally, e.g.*, Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282 (9th Cir. 1984); Arcade, Inc. v. Minn. Mining & Mfg. Co., No. CIV-1-88-141, 1991 WL 185155 (E.D. Tenn. July 2, 1991).

100. One notable recent change involves the treatment of threats against customers. Until recently, courts had held that informing the alleged infringer's customers that the products infringe a patent—and thus could make the customers liable for infringement—did not constitute a threat of enforcement. Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 714 (9th Cir. 2003) (Pregerson, J., concurring in part and dissenting in part) ("Finally, Raychem informed its customers that Bourns' potential PPTC products would be in violation of its patents."); *see also* Publ'ns Int'l, Ltd. v. Futech Educ. Prods., Inc., No. 97 C 0236, 1997 WL 627641 (N.D. Ill. Oct. 1, 1997) (involving a patentee threatening a customer, though threats to at least one customer were made by a fifty percent owner of the joint venture that had exclusive rights over the patent and not by the joint venture itself). However, the Federal Circuit just held that "a valid Walker Process claim may be based upon enforcement activity directed against the plaintiff's customers." Hydril Co. v. Grant Prideco, 474 F.3d 1344, 1350 (Fed. Cir. 2007); *see also In re* Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 544–45 (E.D.N.Y. 2005).

101. *See, e.g.*, Livorsi Marine, Inc. v. Nordskog Publ'g, Inc., 268 F. Supp. 2d 994 (N.D. Ill. 2003).

102. *Id*. at 999.

103. *See, e.g.*, Gardiner v. Gendel, 727 F. Supp. 799, 805 (E.D.N.Y. 1989) ("The Court

fund a new business whose product allegedly infringes a dominant firm's patent. One commentator noted:

> Consider the plight of the person who wishes to begin manufacturing widgets, which are protected by a dubious patent. He needs to borrow five million dollars for a widget factory but he cannot until he knows whether the patent is valid. Nevertheless, he probably lacks standing to bring a declaratory judgment action. He has not yet manufactured widgets nor has he been threatened with infringement proceedings.[104]

Threatened with potential infringement litigation by the patentee, some business partners may demand indemnification from the new competitor whose product allegedly infringes the patent.[105] Indemnification drives up the competitor's costs, which makes it a less aggressive price competitor and more likely to exit the market. All of these effects—deterring business partners, chasing away financing, and raising rivals' costs—are essentially methods of enforcing the patent.

The current state of the law creates a perfect storm against competitors facing monopolists with fraudulently procured patents. The monopolist can leverage the full exclusionary effect of the patent by making vague threats or insinuations of possible infringement litigation to their competitors' business partners while still shielding their patent from declaratory judgment validity challenges and antitrust claims. The ability to fire lethal shots from such a secure fortress could embolden firms with fraudulently procured patents to exercise market power illegitimately.

E. Licensing or Refusing to License

Licensing is a critical component of a patent-infused marketplace. Inventors often do not have the factories, labor force, or other necessary inputs to actually manufacture patented products. In such markets, licensing helps get products to market. For many inventors, the primary value from patents comes in the form of licensing fees. Patentholders often license their patents to their competitors, receiving royalties in exchange for promising not to sue for infringement.

Competitors sometimes pay to license a patent that they suspect was fraudulently procured because risk of infringing and being held liable is too great.[106] While some scholars suggest that a competitor need not pay a royalty to

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concludes that plaintiffs have engaged in unfair competition based upon the false and misleading threats of patent infringement sent to defendants' customers prior to the time that plaintiffs had acquired any enforceable rights. The false cease and desist letters were knowingly sent in bad faith with the intent to injure defendants' business, and resulted in the loss of at least one of the defendants' distributors, who testified at trial that he dropped defendants' product as a direct result of receipt of plaintiffs' letter.").

104. Gregory Gelfand, *Expanding the Role of the Patent Office in Determining Patent Validity: A Proposal*, 65 CORNELL L. REV. 75, 104 (1979).

105. *See* Agron, Inc. v. Lin, No. CV0305872MMM(JWJX), 2004 WL 555377, at *3 (C.D. Cal. Mar. 16, 2004) ("[T]hreats of litigation that have been made have purportedly resulted in requests for defense and indemnification . . . .").

106. *See* MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764, 768 (2007) ("If respondents were to prevail in a patent infringement action, petitioner could be ordered to pay treble damages and attorney's fees, and could be enjoined from selling Synagis, a product that has accounted for more than 80 percent of its revenue from sales since 1999.

make and sell a product that infringes upon a patent of suspect validity,[107] it is often rational for the competitor to license a patent that she does not believe is valid. If the licensee enters the market without a license and cannot prove invalidity, the patent litigation could bankrupt the firm. The cost of a license can be considerably less than the damages for infringement discounted by the probability of being held liable. Even if it were assured victory at trial, the rational, risk-averse competitor would pay a modest licensing fee for a suspect patent as the cost of avoiding litigation.[108] The FTC has noted that in the computer hardware and semiconductor industries, patentees "seeking to hold up rivals can set the licensing fees below the cost of litigation, including the managerial distraction, so as to make the taking of a license the only economically sensible alternative, regardless of the strength of the patent."[109] As a result, "by seeking royalties below the cost of challenging a patent's validity, [patentees] can obtain royalties on improperly granted patents."[110]

Licensing activity does not currently qualify as enforcement for *Walker Process* purposes.[111] Courts have held that a patentee's "cautioning possible infringers and offering licenses, does not constitute a charge of infringement."[112] Even if the patentee explicitly threatens infringement litigation during licensing negotiations, courts find no enforcement. For example, federal courts considering *Walker Process* claims have found statements by a patentee that it "would be forced to vindicate its patent rights if no settlement proposal were received" from the alleged infringer to be insufficient to meet the enforcement threshold of an illegal monopolization claim.[113] The Federal Circuit has held that even explicit threats to

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Unwilling to risk such serious consequences, petitioner paid the demanded royalties 'under protest and with reservation of all of [its] rights.'").

107. *See, e.g.*, Dreyfuss, *supra* note 14, at 717 ("Finally, if the licensee thought the patent invalid, it could refuse to enter any agreement that required royalty payments after lapse; refuse to agree not to challenge the patent itself; refuse to license the patent and instead bring an action to have it declared invalid; initiate the patent's reexamination by the PTO; or simply begin to infringe." (citations omitted)). *See supra* notes 10–21 and accompanying text (discussing why patent system does not solve problem of invalid patents).

108. *See* Lemley, *supra* note 58, at 1507 ("The cost of licensing without going to court is also dramatically lower than the cost of litigation."); Thomas, *supra* note 12, at 335 ("This analysis may strike some readers as both speculative and rather cynical. Still, patentees from George Selden to Jerome Lemelson have long recognized that prospective licensees often prefer to pay a modest royalty rather than contest an invalid patent.").

109. FTC INNOVATION REPORT, *supra* note 10, ch. 3, at 40.

110. *Id.*, ch. 3, at 41 . While a competitor may be willing to pay a license fee for a patent, it is not reasonable for the patentee to accept that money if she knows that her patent is not valid. The rationality of the licensee's decision to pay royalties does not excuse the patentee's misdeed.

111. The Supreme Court's recent decision in *MedImmune* could ultimately alter the law. In *MedImmune*, the Court held that a licensee in good standing was not necessarily precluded from challenging the validity of the patent for which it had a license. 127 S. Ct. at 777. While that holding is a step in the right direction, it is a far cry from granting *Walker Process* standing to competitors who are paying royalties on a patent that they believe to have been procured by fraud.

112. Am. Needle & Novelty Co. v. Schuessler Knitting Mills, Inc., 379 F.2d 376, 378 (7th Cir. 1967).

113. Oetiker v. Jurid Werke GMBH, 671 F.2d 596, 601 (D.C. Cir. 1982).

sue for patent infringement do not constitute enforcement of the patent if the threats are made in the context of licensing negotiations.[114]

When a patentholder negotiates and accepts a licensing fee for a patent, that should constitute enforcement of the patent sufficient to satisfy the enforcement requirement announced in *Walker Process*. This is so for several related reasons. First, licensing activity often signals an intent to enforce the patent rights through litigation.[115] The Federal Circuit has recognized that in licensing negotiations, "[t]he threat of enforcement . . . is the entire source of the patentee's bargaining power."[116] Indeed, the threat of infringement litigation is inherent in licensing negotiations.

Second, licensing should constitute enforcement for *Walker Process* purposes because it imposes costs on competitors that they would not incur in a competitive market unhindered by fraudulently procured patents. For example, a competitor must pay the negotiated licensing fee. Courts have recognized that "unless the license is royalty-free, the royalty itself is a barrier to entry, anathema to unfettered competition."[117] This raises rivals' costs and secures the monopolist additional ill-gotten profits. Independently of the license fee itself and regardless of the outcome of the licensing discussions, even engaging in the process of negotiating for a license costs competitors money and delays their market entry.[118] This all has significant social costs, as the FTC concluded, because when a "competitor chooses to negotiate a license to and pay royalties on the questionable patent, the costs of follow-on innovation and commercial development increase due to unjustified royalties."[119]

Third, despite the fact that a licensee may suspect that a patent is invalid, if the monopolist accepts payment for the licensing of a patent that it knows was fraudulently procured, then it is effectively enforcing its patent. The right to collect a licensing fee is one of the implicit rights accorded the holders of legitimate patents. Collecting the royalty is a form of exercising one's patent rights.[120] More importantly, in many license agreements—especially those resulting from settlement negotiations—"the accused infringer always either explicitly or implicitly acknowledges the patent's validity."[121] Licensing activity can increase the perception among other potential competitors that the patent is, in fact, valid.[122]

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114. *See infra* Part E.

115. After all, if the patentee did not intend to enforce its exclusionary rights, she could simply grant a royalty-free license or sign a covenant not to sue. Cashing the royalty checks implies a willingness to sue if the checks cease coming. It also smacks of fraud. When one sells a product, she is representing that she has valid title over the product. Collecting licensing fees on a patent that the patentholder knows to be invalid is as fraudulent as receiving rent for real property that the purported landlord does not own.

116. EMC Corp. v. Norand Corp., 89 F.3d 807, 811 (Fed. Cir. 1996).

117. *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 533 (E.D.N.Y. 2005).

118. *See* Cygnus Therapeutics Sys. v. ALZA Corp., 92 F.3d 1153, 1158 (Fed. Cir. 1996).

119. FTC INNOVATION REPORT, *supra* note 10, executive summary, at 6.

120. It may also represent a hedge against uncertainty.

121. *Ciprofloxacin*, 363 F. Supp. 2d at 533.

122. Furthermore, because licenses may be relevant to later judicial assessments about whether a patent is obvious, licensing activity can bolster the patentee's case that its patent is

Finally, the licensing of the patent can potentially disarm the licensee as a possible challenger to the patent's fraudulent procurement. Although a licensee can challenge the licensed patent's validity after the patent is licensed,[123] the licensee may have the same incentive to conceal the patent's invalidity as the patentee: if other potential (nonlicensee) competitors believe the patent is valid, it will deter market entry and may allow the licensee to charge a supra-competitive price.[124] And each license lets the patentee avoid potential patent litigation that could result in the invalidation of the patent.[125] Of course, the holders of fraudulently procured patents sometimes refuse to license patents to would-be competitors. In some cases, such refusals to license can be part of an anticompetitive scheme by a firm that has committed patent fraud. For example, in one litigated case, the dominant firm in a market obtained its critical patent through fraud and then declined multiple requests from competitors for licenses, all the while honing a reputation for aggressive patent enforcement.[126] Firms that claim to have valid patents sometimes explicitly state that they have policies of refusing to license in order to keep their competitors out of the market.[127]

Despite this, courts in patent declaratory judgment suits have reasoned that a patentee's refusal to license creates no reasonable apprehension of suit on the part of the party denied a license because the patentee "had no obligation to [license]—it could do nothing with the patent if it so desired—and [the patentee] had merely exercised its lawful commercial prerogatives with respect to the patent."[128] As a matter of determining patent enforcement for antitrust purposes, this analysis is flawed. By that reasoning, actually threatening litigation in a cease and desist letter would not constitute enforcement because the owner of a valid patent has a right to

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valid. *See, e.g.*, *In re* Hayes Microcomputer Prods., Inc. Pat. Litig., 982 F.2d 1527, 1544 n.12 (Fed. Cir. 1992) ("USR took a license under the patent. This is supportive of the conclusions of infringement and nonobviousness.").

123. *See* MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764 (2007); Lear, Inc. v. Adkins, 395 U.S. 653 (1969); Dreyfuss, *supra* note 14, at 679.

124. *See* Thomas, *supra* note 12, at 335–36 ("Casting doubt on the Supreme Court's view that licensees 'may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery,' Professor Dreyfuss has explained that the interests of patent licensees are often aligned with the patent owner in seeking to maintain the validity of the patent.").

125. *See, e.g.*, United States v. Gen. Elec. Co., 80 F. Supp. 989, 1003 (S.D.N.Y. 1948) ("The defendants claim that the American Cuttings Alloy and Fansteel licenses were issued to avoid patent litigation . . . ."); *see also* Borkin, *supra* note 69, at 643 (describing "the situation where a patentee, dubious about the strength of his own patent position, establishes an attractive licensing or pooling system in order to 'buy off' potential infringers while at the same time preventing his patents from reaching adjudication.").

126. Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 714 (9th Cir. 2003) (Pregerson, J., concurring in part and dissenting in part) ("During trial, Bourns introduced evidence that throughout its business relationship with Raychem, it sought to dominate the PPTC market by making it clear to Bourns and other competitors that Bourns could not enter the market because of Raychem's PPTC patents, which were obtained by fraud. On ten occasions from 1986 to 1993, Raychem rejected Bourns' request for a PPTC manufacturing license.").

127. *See supra* notes 81–82 and accompanying text.

128. Kustom Signals, Inc. v. Applied Concepts, Inc., No. 96-2274-JWL, 1996 WL 568817, at *5 (D. Kan. Sept. 16, 1996) (discussing Cygnus Therapeutics Sys. v. ALZA Corp., 92 F.3d 1153 (Fed. Cir. 1996)).

send such a letter. The issue is whether the refusal to license constitutes enforcement, not whether holders of valid patents have the legal right to refuse to license those patents.

The refusal to license a patent should constitute enforcement in *Walker Process* litigation for three related reasons. First, to the extent that the refusal to license is one of the patent rights held by patentholders, such refusal is an exercise of patent rights.[129] In rejecting some challenges to patent validity spurred by a patentee's refusal to license, courts have held that the patentee is "under no obligation to license" and the refusal is part of the patentee's right to exclude others.[130] Unfortunately, in these cases, courts seem to assume that the patent is valid in order to deny legal challenges to the patent's validity.[131] This presents a real dilemma for the competitor who is afraid to enter the market with a nonlicensed, infringing product even when the competitor believes the patent is invalid and perhaps fraudulently procured. For present purposes, it is important to emphasize the court's recognition that the refusal to license is an exercise of an exclusionary right. Such an exercise certainly appears to be enforcement of the patent. Second, the refusal to license may impose costs on the competitor. The risk-averse competitor who is denied a license may feel compelled to invent around the patent.[132] This can entail significant—and unnecessary—costs.[133] Also, being denied a license can delay competitors from entering into a market controlled by a patent.[134] In such cases, the holder of the invalid patent gets a competitive benefit from its refusal to license—indeed the same benefit that it would get by explicitly threatening an infringement suit to enforce a valid patent.

Third, refusing to license a patent implies a threat to litigate. The refusal to license communicates the message, "I own this intellectual property, I will not share it, and I will enforce my rights." How else could a reasonable would-be licensee interpret the refusal to license? By analogy, refusing to sell someone a movie ticket represents an implied threat that if she enters the theater without a ticket, the movie theater will take legal action against her. The only reason not to sell the ticket is to say "stay out." Similarly, the message communicated by a refusal to license is "I'm exercising my right to exclude you from the market."

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129. *See* United States v. Studiengesellschaft Kohle, 670 F.2d 1122, 1127 (D.C. Cir. 1981) ("A patentee has the right to exclude others from profiting from the patented invention. This includes the right to suppress the invention while continuing to prevent all others from using it, to license others, or to refuse to license, and to charge such royalty as the leverage of the patent monopoly permits." (citations omitted)).

130. *Cygnus Therapeutics*, 92 F.3d at 1160 ("As for ALZA's refusal to license the subject matter of the '580 patent, totally apart from the constraints of its contractual relationship with Janssen, ALZA was under no obligation to license its fentanyl patch. The patent statute grants a patentee the right to exclude others from making, using, or selling the patented invention. 35 U.S.C. §§ 154, 271(a) (1994)." (emphasis omitted)).

131. *See id*.

132. Craig Allen Nard, *Certainty, Fence Building, and the Useful Arts*, 74 IND. L.J. 759, 774 (1999) ("That is, despite familiarity with the claimed invention, the patentee and a license-seeking competitor may simply fail to come to terms. In such a case, the competitor may decide to design around the patented invention . . . .").

133. *See* Leslie, *supra* note 24, at 119–22.

134. *See Cygnus Therapeutics*, 92 F.3d at 1157.

Without the license, many rational rivals will not compete out of fear of potential infringement litigation.[135] That is fine if the patent is valid. But if the patentee knows that it fraudulently procured its patent, exercising the exclusionary right is illegitimate and represents an antitrust violation if all of the other elements of a Section Two claim are present.

It might seem inconsistent to argue that both granting a license and refusing to grant a license constitute enforcement. This seems like a Catch-22 for patent owners: licensing is enforcement, and refusing to license is enforcement. While seemingly conflicting, this result makes sense for several reasons. First, both actions can deter competition and communicate an intent to enforce patents. There are generally two ways to exercise property rights in real estate and physical goods: first, refuse to share or to permit entry, and second, charge for entry or use. For example, a hotel owner can enforce her real property rights by refusing to let a person check into the hotel or by requiring that a person pay money in exchange for temporary shelter. A bicycle owner can enforce his personal property rights by refusing to let another person ride his bike or by charging rent to those who would like to ride the bike. Property rights in tangibles can be exercised by complete exclusion or permission to use in exchange for compensation. So it is with patents that a patentee can exercise her exclusionary rights by denying a license or charging for one.

Furthermore, antitrust liability stemming from patent enforcement attaches only to monopolists who know that their patent was acquired by the commission of fraud against the PTO. It is reasonable to put such firms into a Catch-22. The bind of "damned if you do, damned if you don't" does not seem so unfair if the person at issue should, in fact, be damned. A monopolist who procures patents by fraud and extracts market power from them is such a person. For the monopolist who commits such a misdeed, it would impose no unfair hardship to require it to inform would-be licensees that the patent they seek to license is not valid and, therefore, no license is necessary. Furthermore, the apparent inconsistency is not unfair because we are merely defining enforcement, not creating liability. Even if a broad range of licensing activities constitutes enforcement, the patentee who engages in such activities faces no antitrust consequences unless it is a monopolist that acquired that patent by fraud.

From a policy standpoint, if collecting licensing fees constitutes patent enforcement, then it makes sense to treat refusals to license similarly. Otherwise, patentees may decide not to license their patents since to do so would satisfy the enforcement requirement of a *Walker Process* claim—while refusing to license would not. Legal rules should not unnecessarily discourage licensing activity for valid patents. Licensing activity is generally beneficial. It can increase competition when licensees compete on price, service, convenience of location, and other variables that consumers care about. In some markets, a newly patented product may compete against an entrenched product. If the new product represents the only noninfringing substitute for the reigning dominant firm, then licensing can help topple monopolists.

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135. *See* Dreyfuss, *supra* note 14, at 755 ("Moreover, the potential competitor risks liability for treble damages if he practices the invention without a license.").

In any event, a more expansive definition of patent enforcement makes more sense than the current failure to treat licensing as enforcement. Not only do courts fail to recognize the enforcement characteristics of licensing-related conduct, they have constructed a safe harbor whereby a patentee's explicit threats to sue made directly to an allegedly infringing potential competitor do not constitute enforcement so long as the threats are made during licensing discussions with the alleged infringer.[136] The Federal Circuit has held that a patentee who demands a licensing fee from an alleged infringer has not threatened to enforce its patent when in response to the competitor asking "Will you enforce your patent?," the patentee answers "Yes."[137] The court focused on the license negotiation context of the litigation threat and characterized the patentee's warning as "merely 'jawboning'" and "reflexive and obligatory."[138] Yet, the fact that the answer is reflexive should not strip the words of their legal significance. For example, when federal investigators asked Martha Stewart whether she had sold stock based on inside information, she gave the reflexive answer: no. That response resulted in her serving time in federal prison. Unfortunately, the Federal Circuit has diminished the legal significance of threatening words so that any monopolist with a fraudulently procured patent who wants to use its patent to deter a competitor without risking antitrust liability merely needs to offer the competitor a license and then threaten to sue the competitor should it enter the market. If the threat succeeds, the patentee can continue to charge the monopoly price, undisciplined by its would-be rivals. If the threat fails and the competitor enters the market, the monopolist need not follow through on its threat. Either way, the firm that committed patent fraud is effectively immune from antitrust scrutiny for its conduct. Whatever the perceived unfairness of treating both licensing and refusals to license as enforcement, such a system is preferable to—and more fair than—the current legal regime that affirmatively protects monopolists who commit patent fraud.

In sum, licensing one's patent should generally constitute enforcement for the purposes of a *Walker Process* claim. But there is also a strong argument that refusing requests for a license could constitute enforcement as well. If the knowing holder of a fraudulently procured patent wishes to avoid the bind, it can issue royalty-free licenses.[139] And if a monopolist wishes to charge a royalty for a patent license, it is not breaking the law; it is merely enforcing its patent. If the patent is valid, the monopoly is legitimate and the patentee is safe from liability. If the patent was procured by fraud, the possibility of Section Two liability looms, as it should.

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136. *See* InfoSys, Inc. v. Billingnetwork.com, Inc., No. 03 C 3047, 2003 WL 22012687, at *6 (N.D. Ill. Aug. 27, 2003) ("Threats of litigation within the context of license negotiations . . . do not create a reasonable apprehension.").

137. Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 889 (Fed. Cir. 1992).

138. *Id*.

139. Neil A. Smith, *Fraud Upon the Patent Office as a Violation of the Sherman Antitrust Law*, 53 J. PAT. & TRADEMARK OFF. SOC'Y 423, 435 (1971) ("[A] patent may dominate a significant part of trade or commerce by its claims, yet if its owner did not enforce it and gave royalty-free nonexclusive licenses to all who wished them, it is doubtful if the owner would be subject to antitrust liability.").

F. Summary

Part III documented the ways in which a patentee can, under current law, exploit a patent to exclude competitors without triggering the enforcement requirement of a *Walker Process* claim. When the patent is fraudulently procured and used by a dominant firm to acquire monopoly power, this should create antitrust liability. But, unfortunately, in evaluating what constitutes "patent enforcement" for *Walker Process* claims—as well as what creates a "reasonable apprehension" of litigation for declaratory judgment actions, which is currently the same standard—courts often confuse the relationship between patent rights and enforcement efforts.

Courts seem to think that if the holder of a valid patent can legally engage in particular conduct then that conduct cannot constitute "patent enforcement" for purposes of antitrust claims. Some courts mock the position "that a reasonable apprehension of suit arises when a patentee does nothing more than exercise its lawful commercial prerogatives and, in so doing, puts a competitor in the position of having to choose between abandoning a particular business venture or bringing matters to a head by engaging in arguably infringing activity."[140]

Such reasoning misses the point completely: we are trying to determine what conduct constitutes patent enforcement, not what conduct the owners of valid patents can legally engage in. Holders of legitimate patents have the right to sue for infringement, but that does not mean that suing is not enforcement. In too many instances, courts implicitly assume a patent is valid and then use that assumption to deny standing to competitors to challenge the patent's validity on the false basis that any activity permissible for the holder of a valid patent does not constitute enforcement.[141]

Judges mistakenly perceive that competitors are challenging the patentee's enforcement efforts themselves as somehow illegal. Courts opine that patentholders have the right to do these acts—acts that include announcing their patents, warning infringers, intimidating competitors' business partners, and licensing their intellectual property rights—and thus some judges apparently consider such conduct beyond reproach. But antitrust plaintiffs are not attacking these enforcement measures as illegal in themselves. They are attempting to show patent enforcement merely because courts interpret enforcement as a necessary element of a *Walker Process* claim.[142] It is the monopolist's fraudulent procurement of the patent that forms the foundation of the Section Two violation. The holder of a fraudulently procured patent has no legitimate exclusionary rights and it fundamentally violates both antitrust and patent law principles to allow such a firm to exclude competitors.[143]

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140. Cygnus Therapeutics Sys. v. ALZA Corp., 92 F.3d 1153, 1160 (Fed. Cir. 1996).

141. *See, e.g.,* Citizen Elecs. Co. v. Osram GmBH, 377 F. Supp. 2d 149, 156 (D.D.C. 2005).

142. I have argued previously that the enforcement requirement should be eliminated altogether. Leslie, *supra* note 24.

143. *See* HOVENKAMP, *supra* note 49, at 268.

G. A New Test for Declaratory Judgments, but the Old Problems Remain

The Supreme Court has recently rejected the "reasonable apprehension of suit" test for declaratory judgments in *MedImmune, Inc. v. Genentech, Inc.*[144] The Federal Circuit immediately acknowledged that *MedImmune* overruled the Federal Circuit's "reasonable-apprehension-of-suit" test,[145] but it did not offer a glimpse at how it would proceed in light of the overruling[146] until half a year after *MedImmune*, in *Benitec Australia, Ltd. v. Nucleonics, Inc.*[147] In *Benitec*, the patentee sued its competitor for infringement and when the defendant counterclaimed for a declaratory judgment that the patent was invalid (as well as arguing that the defendant's process was not infringing), the patentee voluntarily dismissed its suit and said that it would not sue the competitor again for its pre-dismissal conduct.[148] The district court, in turn, dismissed the competitor's declaratory action.[149] The Federal Circuit affirmed, despite the fact that the competitor was embarking on a new program, which the patentee had communicated it believed would infringe its patent.[150] The Federal Circuit acknowledged that *MedImmune* rejected the reasonable-apprehension-of-suit test.[151] The Federal Circuit aptly quoted *MedImmune* for the rule of law:

> [I]n order for a court to have jurisdiction over a declaratory judgment action: 'the dispute [must] be definite and concrete, touching the legal relations of parties having adverse legal interests; and that it [must] be real and substantial and admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts. Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial

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144. 127 S. Ct. 764, 774 n.11 (2007) ("The [Federal Circuit's] reasonable-apprehension-of-suit test . . . conflicts with . . . Maryland Casualty Co. v. Pacific Coal & Oil Co., 312 U.S. 270, 273 (1941) . . . and Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 239 (1937) . . . [and] is also in tension with Cardinal Chemical Co. v. Morton Int'l, Inc., 508 U.S. 83, 98 (1993), which held that appellate affirmance of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.").

145. Teva Pharms. USA, Inc. v. Novartis Pharms. Corp., 482 F.3d 1330, 1339 (Fed. Cir. 2007) ("Thus, because the Supreme Court in *MedImmune* cautioned that our declaratory judgment 'reasonable-apprehension-of-suit' test 'contradict[s]' and 'conflicts' with its precedent, these Federal Circuit tests have been 'overruled by . . . an intervening . . . Supreme Court decision.'") (alteration in original).

146. *See* Sandisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372, 1380 n.2 (Fed. Cir. 2007) ("In this case, we address only the first prong of this court's two-part test. There is no dispute that the second prong is met. We therefore leave to another day the effect of *MedImmune*, if any, on the second prong.").

147. 495 F.3d 1340 (Fed. Cir. 2007).

148. *Id.* at 1343.

149. *Id.*

150. *Id.* at 1342.

151. *Id.* at 1343.

> controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.'[152]

However, the *Benitec* majority went on to hold that the federal courts had no declaratory judgment jurisdiction in the case because, as the allegedly infringing new project had not yet been launched, the competitor could not meet "its burden of showing that it is engaged in any present activity that could subject it to a claim of infringement" and thus it could not "meet the immediacy and reality requirement of *MedImmune*."[153]

The majority misread both the words and spirit of the *MedImmune* opinion. First, while the *controversy* must be immediate and real, that does not necessarily mean that the alleged infringement must be already occurring and certainly does not mean that an actual infringement lawsuit must be in place. Second, the *Benitec* dissent notes that the Supreme Court in *MedImmune* "emphasized the importance the Declaratory Judgment Act plays in protecting against the Hobson's choice of abandoning lawful endeavors or risking liability for infringement."[154] In contrast, the majority simply re-inflicted that precise dilemma on would-be competitors.

Based on its misreading of *MedImmune*, the Federal Circuit has essentially changed the name but not the substance of its approach to denying competitors access to courts in order to challenge suspect patents. The Federal Circuit acknowledged that the competitor may not be able to secure necessary financing for the allegedly infringing project absent a declaratory judgment, but proceeded to decline jurisdiction until the infringement actually occurs, the specific outcome that both the Declaratory Judgment Act and the *MedImmune* decision sought to prevent.

In short, even with the reasonable-apprehension-of-suit test officially scuttled, the same problem endures: the standard for declaratory judgments—and consequently the definition of patent enforcement—remains overly constricted. While Part III lays out examples in which the narrow definition of enforcement under current law allows patentees to exclude competitors with impunity, the activities canvassed here do not automatically constitute enforcement for *Walker Process* purposes, as Part IV explains.

IV. PATENT ENFORCEMENT IS CONTEXTUAL

The current judicial approach to defining patent enforcement is formulaic: If the patentee does not threaten to sue an infringer explicitly, then its conduct does not constitute patent enforcement for *Walker Process* purposes. As a result, the threatening words and activities of a patentee can successfully deter would-be competitors and yet—in many judges' minds—not represent a sufficiently direct and explicit threat to allow the competitor to pursue an antitrust claim based on the patent's fraudulent origins. The problem is largely a function of judges failing to appreciate the business significance of veiled threats and the judicial practice of considering each alleged enforcement action in a vacuum, devoid of context.

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152. *Id.* at 1344 (citation and internal quotation marks omitted in original).
153. *Id.* at 1348.
154. *Id.* at 1350 (Dyk, J., dissenting).

Context is critical to understanding whether a patentee has threatened to enforce its patent in a manner that antitrust law cares about. First, the social norms of the industry in which the patentee and alleged infringer compete are important. For example, in many information technology markets, the first cease-and-desist letter from a patentholder is often disregarded and patent litigation is not viewed as an all-consuming threat.[155] In contrast, such letters are taken very seriously in pharmaceutical markets.[156] As a result, what might constitute patent enforcement in some industries or markets would not in others.

Second, judges need to consider the totality of the patentee's conduct. Some courts look at evidence in isolation and miss the overall context.[157] But holders of fraudulently procured patents sometimes engage in a comprehensive, multi-pronged scheme to intimidate would-be competitors. A wide-ranging strategy can include public announcements that one's patent is valid, veiled accusations that a competitor is infringing, a few well-publicized suits against minor infringers, and threatening insinuations to rivals' business partners—all culminating in an offer to license at a high royalty rate. The context in which each threatening act occurs is significant. After all, a patentee's reference to its previous infringement suits coupled with an allegation that its competitor is also infringing is much more threatening than either statement alone. Yet the Federal Circuit has used res judicata to isolate a patentee's threats and prevent an appreciation of the big picture. In *Citizen Electronics*, the alleged infringer brought a declaratory judgment action, which the court dismissed, finding the patentee's conduct not sufficiently threatening.[158] Following that dismissal, the patentee issued a report on its website containing more oblique threats of infringement litigation.[159] When the alleged infringer brought a second declaratory judgment complaint based on the cumulative effect of the patentee's aggressive posture, the Federal Circuit upheld the district court's use of res judicata to estop the challenger from relying on any of the events prior to the first dismissal. Because the post-dismissal facts were insufficient on their own to establish a controversy, the targeted competitor could not challenge the dominant firm's suspect patent. The court's decision makes it difficult to show context in these cases. Once the patentee gets a declaratory judgment complaint dismissed for lack of sufficient proof of imminent enforcement action, the patentee has a clean slate from which it can make oblique threats designed to deter market entry.

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155. Mark A. Lemley, *Ignoring Patents*, __ MICH. ST. L. REV. __ (forthcoming 2008).

156. The threat of infringement litigation is viewed more seriously in pharmaceutical markets, in part, because the potential infringement damages may far exceed the profits that the prospective infringer could make from entering the market and charging a competitive price.

157. *See, e.g.*, Northlake Mktg. & Supply, Inc. v. Glaverbel S.A., 861 F. Supp. 653, 660–61 (N.D. Ill. 1994) ("But when the Press Release is viewed *alone*—as it must be because it is really Northlake's only evidence in opposition to the current Rule 56 motion—it is *un* reasonable to construe the document as supporting any such inference.")(emphasis in original).

158. Citizen Elecs. Co. v. Osram GmBH, 377 F. Supp. 2d 149 (D.D.C. 2005).

159. Citizen Elecs. Co. v. Osram GmBH, 225 F. App'x 890, 892 (Fed. Cir. 2007) ("[O]bjective in taking legal action against Citizen and issuing warnings to Dominant is to prevent unauthorized use of our technology.").

Even without these procedural machinations, in many cases, federal judges seem to compartmentalize the various threatening aspects of a particular situation and thus fail to see the big picture. Thus, courts have held that a patentee's letter to a competitor does not threaten litigation even when the letter states that the competitor's product "may infringe" the writer's patent, that the competitor should "cease and desist from making, using, selling, leasing, importing or offering for sale or lease" the infringing products, and that the patentee "has aggressively enforced its right to exclude others" from the market.[160] In short, incorporating context into the analysis requires appreciating the cumulative anti-competitive effects of individual acts.

Third, judges should consider the actual exclusionary effects of the patentee's conduct. Language that may seem facially harmless to a federal judge often speaks in a well-known code within each industry. As the leading treatise on antitrust and intellectual property notes, "the Federal Circuit seems to discount the possibility that a patentee could threaten competitors with sufficiently indirect language that it avoids provoking a suit for declaratory judgment. Patentees have grown skilled at making such indirect threats over the years."[161] To determine whether a patentee's words and actions are innocuous or menacing, courts should examine the concrete consequences of the conduct on competitors, the patentee's intended targets. Federal judges sometimes cannot appreciate how business threats are made and how reasonable people respond to such statements.[162]

The *Indium* litigation illustrates how appreciating the context of a patentee's conduct can properly inform the court's analysis of the enforcement inquiry. When the district court first considered whether the defendant Semi-Alloys had enforced its patent against Indium in a manner that met the *Walker Process* requirement, the judge concluded that "the allegations that Semi-Alloys sued other competitors on the patents, offered to discuss a license with Indium, and sued Indium for unfair competition do not amount to enforcement or a threat of enforcement of its patents against Indium."[163] However, the court allowed Indium an opportunity to amend its complaint. While Indium did not present additional allegations of enforcement activities, the court—when considering Semi-Alloys' motion to dismiss the amended complaint—was impressed that the amended complaint "place[d] the previously alleged acts in a new light by alleging, in considerable detail, the business context in which such conduct occurred."[164] In his second opinion, the judge reasoned that "it would be a mistake to interpret 'enforcement' too narrowly, and thereby limit the remedy of a *Walker Process* type antitrust action to competitors that have actually been sued or threatened with suit by the defendant."[165] The court considered the context, namely the patentee's intent,

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160. SGM Elettronica, S.r.L v. Vari-Lite, Inc., No. 99CIV.11684(BSJ), 2000 WL 977701, at *1 (S.D.N.Y. July 14, 2000).

161. HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST 11–15 (2002).

162. *See supra* notes 57–59 and accompanying text.

163. Indium Corp. of Am. v. Semi-Alloys, Inc., 566 F. Supp. 1344, 1353 (N.D.N.Y. 1983).

164. Indium Corp. of Am. v. Semi-Alloys, Inc., 591 F. Supp. 608, 611 (N.D.N.Y. 1984).

165. *Id.* at 614 ("The concept [of patent enforcement] must be broad enough to afford a remedy not only to those who actually produced an infringing article and were forced to stop

cumulative conduct, and its exclusionary effect. Thus, in the first instance, the court reasoned that the alleged infringer's allegations were insufficient, but after the amended complaint put the patentee's action in context, the same court held that that same conduct was sufficient because the court understood from the context the potentially exclusionary nature of the conduct. When courts appreciate context, the concept of enforcement expands to more appropriately include the actual effects of the patentee's deeds.

In short, context is critical. Antitrust law should shun sweeping categorical rules that hold certain types of activity are never patent enforcement as a matter of law. Courts need to ask the contextual question of whether *this* conduct in *this* industry is effectively enforcement of a patent. If enforcement is truly an issue, then judges should take extra effort to consider the context of the patentee's conduct. While this may add a layer of complexity, it is far better than maintaining an artificially narrow conception of patent enforcement that allows holders of fraudulently procured patents to exercise ill-gained market power while evading antitrust scrutiny.

Adopting a contextual approach to defining patent enforcement does not mean that the current definition of patent enforcement for *Walker Process* claims should be completely abandoned. Instead, courts should recognize two separate routes for satisfying the *Walker Process* enforcement requirement: per se and contextual. On the one hand, some conduct—filing an infringement suit or explicitly threatening to do so—constitutes patent enforcement as a matter of law. This per se approach to defining patent enforcement would spare courts from needing to examine context when the patent enforcement is clear. Conversely, however, when the patentee's conduct falls short of enforcement per se, the antitrust plaintiff should still be permitted to argue that the patentee's conduct was exclusionary given the context in which it occurred. The Federal Circuit has been focusing exclusively on per se enforcement—in other words—what conduct *necessarily* satisfies *Walker Process*' enforcement requirement. But the issue of contextual enforcement—what conduct might satisfy the enforcement requirement, depending on the surrounding facts and circumstances—has not been well-developed.

In sum, when applying *Walker Process*'s enforcement requirement, courts should appreciate how patentees harness the exclusionary power of patents beyond direct, explicit threats and the initiation of infringement litigation. The concept of patent enforcement must be expanded to deny the benefits of reduced competition to monopolists who maintain their market power by holding fraudulently procured patents. Courts have essentially created a loophole that allows patentees who commit patent fraud to exercise their patent rights without triggering antitrust liability. Part V explains why expanding the concept of patent enforcement in antitrust law is a wise way to address patent fraud.

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by infringement suit or the threat thereof, but also to those who were ready, willing, and able to produce the article and would have done so but for the exercise of exclusionary power by the defendant.").

V. ADDRESSING PATENT FRAUD BY EXPANDING THE DEFINITION OF "PATENT ENFORCEMENT"

As currently construed, the *Walker Process* cause of action requires a would-be competitor to infringe the monopolist's patent and then wait until it is sued—or receives a sufficiently explicit threat of litigation—before that competitor can bring an antitrust action. But this path to challenging the monopolist's conduct is too risky because it requires an excluded competitor to open itself up to potentially staggering infringement liability. Under the current legal test, an excluded competitor who is risk averse may never have the opportunity to bring an antitrust suit against a monopolist that maintains market power through fraudulently procured patents.

This Part explores how narrowly defining the patent enforcement that must be shown to succeed in a *Walker Process* case makes patent fraud a rational strategy for a firm concerned only with maximizing its profits. It then notes how monopolists can manipulate legal rules to reduce the amount of successful *Walker Process* litigation while still exploiting fraudulently procured patents to exclude competitors. Finally, it shows how expanding the definition of patent enforcement can help restore the balance between antitrust law and patent law, such that anticompetitive conduct is condemned without hindering legitimate patent activity.

A. Patent Fraud Is Cost-Beneficial Under Current Law

Given the narrow definitions of patent enforcement that courts have adopted for antitrust claims, the current legal regime has made patent fraud potentially cost-beneficial for many firms. Unfortunately, if the expected benefits of fraud outweigh the costs, then risk-neutral firms concerned only with profit-maximization will rationally commit fraud in their patent applications. This simple calculation might help explain the number of invalid patents in the American marketplace. The potential benefits of patent fraud are significant. A fraudulently procured patent may give the patentholder the power to charge monopoly prices by deterring competitors from entering the market for products covered by the patent. Depending on the market, this can represent tens of millions of dollars in ill-gotten gains. In contrast, the cost of obtaining a fraudulently procured patent should be the same as acquiring a legitimate patent. A patent applicant likely expends no additional money by, for example, concealing an invalidating prior sale or public use.

The current system does not adequately deter and punish patent fraud. First, the probability of being caught is low. Because patent fraud often involves the concealment of largely private information, competitors or government officials may never discover that a patent was fraudulently obtained. Even if invalidity or fraud appears likely, it is often too difficult to successfully challenge the suspect patent in court because evidentiary standards significantly favor the patentholder.[166]

Second, the consequences of patent fraud are insufficiently low. This is not to say that the consequences are minor or insignificant; they are simply low relative to

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166. *See* Leslie, *supra* note 24, at 133–34.

the potential gains from successfully committing fraud and wielding the patent against competitors. The patent system does not affirmatively punish fraud as a matter of course; it simply takes the invalid patent away.[167] This may be a significant consequence, but it merely places the deprived patentholder in the position she would have been in had she never committed the fraud in the first place.

For any illegal enterprise, deterrence of the unlawful activity can be undermined by either a low probability of detection or insufficiently low punishment upon detection. The patent system is currently characterized by both of these components. Thus, it is hardly surprising that some firms commit fraud.

Given that monopolization through patent fraud can be cost-beneficial, one might expect *Walker Process* plaintiffs to reveal a significant number of fraudulently procured patents. But while fraudulently procured patents are sometimes exposed through antitrust litigation that proceeds when a patentholder has sued—or sufficiently threatened—an infringing competitor (so that the enforcement element of the antitrust claim is satisfied),[168] the success rate for *Walker Process* suits appears to be relatively low.[169] Many factors contribute to this relatively low success rate. First, infringement defendants reflexively make antitrust counterclaims, even when there is no basis for the accusation. These *Walker Process* claims fail because they should. Second, a *Walker Process* plaintiff must make its case regarding the patent fraud element with clear and convincing evidence, not a mere preponderance.[170] As a result, some antitrust claims fail even if the defendants' conduct should, if properly proven, lead to liability. Third, some patent applicants may secure a patent by committing fraud but end up receiving a patent that does not confer monopoly power[171] and, thus, does not implicate section 2 of the Sherman Act and the fraud will not be exposed through *Walker Process* litigation. Fourth, the threat of antitrust liability may actually reduce the amount of patent fraud.[172]

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167. While the reexamination procedure may bring greater accuracy to the patent system, it probably will not provide a meaningful deterrent to fraud in the first place because it does not punish bad behavior.

168. *See, e.g.*, Arcade, Inc. v. Minn. Mining & Mfg. Co., No. CIV-1-88-141, 1991 WL 185155 (E.D. Tenn. July 2, 1991); Indium Corp. of Am. v. Semi-Alloys, Inc., 591 F. Supp. 608, 613 (N.D.N.Y. 1984) ("[P]laintiff alleges that it lost profits of 'at least about $12.8 million' that it could have earned through sales of tack-welded frame lids, had it not been restrained by Semi-Alloy's [enforcement of invalid patents in violation of the Sherman Act.]").

169. HOVENKAMP ET AL., *supra* note 161.

170. Lawrence B. Dodds, *Fraud on the Patent Office*, 56 J. PAT. OFF. SOC'Y 345, 346–47 (1974) ("First, the decisions uniformly hold that a charge of fraud on the Patent Office can be proved only by *clear and convincing evidence*, not by mere preponderance of the evidence.") (emphasis in original).

171. *See supra* notes 35–38 and accompanying text.

172. 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, 77 (1970) ("The threat of incurring treble damages might make everyone having business before the Office more fraud conscious, and this alone may have the effect of reducing the incidence of possible fraud.").

This Part proposes an additional explanation for why *Walker Process* victories appear few in number: patentees that procure patents by fraud can too easily avoid antitrust scrutiny by gaming the enforcement requirement. If a firm knows that its patent was procured by fraud—and that there is a fair probability of that fact being exposed in litigation—then it would not enforce its patent through infringement litigation. Instead, it would find ways to harness the anticompetitive power of the fraudulently procured patent without actually enforcing it in a manner that could enable a competitor to bring either a declaratory judgment action or a *Walker Process* suit. Maintaining a patent as a head on a pike can simultaneously deter competitors while not leading to *Walker Process* lawsuits, as Part III demonstrated.

If a new competitor ultimately enters the market despite the presence of the patent—either because the new entrant is unaware of the patent, believes that its product is noninfringing, or concludes that the patent was fraudulently procured—then the rational monopolist who knows its patent was acquired by fraud would simply do nothing. The patentee neither sues nor explicitly threatens to sue; it does nothing that would subject it to an antitrust suit. At a minimum, the fraudulently procured patent probably delayed entry as the competitor had to seek counsel, determine the patent's validity, and debate whether to enter the market despite the possibility of drawing an infringement suit. This delay alone could be worth millions in ill-gotten gains to the monopolist who possesses an invalid patent.[173]

A less risk-averse monopolist could actually sue an allegedly infringing competitor while minimizing scrutiny of its patent's validity.[174] If the patentee sued for infringement and the alleged infringer made an antitrust counterclaim, then if the patentee feared discovery of its fraud, it could settle the litigation. Even without the threat of antitrust liability, the patentee would be better off giving the competitor a royalty-free license than risking having its patent declared invalid in court.[175] Providing a royalty-free (or reduced royalty) license also saves the patentee its litigation costs and potential antitrust liability. In sum, only patentees who are relatively confident about the validity of their patents would litigate the issue to completion.[176]

In short, strategic patentees who have fraudulently procured patents and are therefore vulnerable to *Walker Process* liability can pursue one of two courses of action: exercise the exclusionary power of their patent in a manner that courts (improperly) do not recognize as enforcement for antitrust purposes or settle any litigation that does occur. Taking either of these tacks would result in no published

173. *See* Leslie, *supra* note 24, at 123.

174. It may seem odd for a patentee that knows its patent was fraudulently procured to sue for infringement. To the extent that patent plaintiffs perceive that *Walker Process* counterclaims are perfunctory, any firm should be rationally reluctant to bring an infringement suit on a fraudulently procured patent. It would be better to keep the patent as a talisman—threatening competitors without ever entering a courtroom as either a plaintiff (in an infringement suit) or a defendant (in an antitrust suit).

175. While a competitor would rather have antitrust damages than a mere royalty-free license, the competitor who has not yet discovered definitive proof of patent fraud and who is facing infringement liability would probably welcome a quick settlement of the infringement litigation and its *Walker Process* counterclaim.

176. A firm that did not commit fraud or knowingly enforce an invalid patent, but was unsure about whether its patent could survive attack in court, would settle the case.

opinion finding *Walker Process* liability. Consequently, the small number of reported *Walker Process* victories by plaintiffs may be evidence that monopolists who commit patent fraud are successfully gaming the system. Because patentees can avoid liability relatively easily through creative "enforcement" and settlement strategies, the limited number of reported cases finding *Walker Process* liability does not prove an absence of patent fraud.

Finally, it bears noting that the patent system's internal mechanisms for vetting bad patents are inadequate, which probably increases the attractiveness of committing fraud for some firms. On the front-end, patent examiners do not have sufficient time, training, and information to reject all patent applications that should be rejected.[177] Post-issuance review fares little better. Historically, the PTO's reexamination procedure has been underutilized.[178] Recent changes in the reexamination system are unlikely to solve the problems with the older system.[179] More importantly, the reexamination procedure does not provide any mechanism for requiring the patentee to pay damages that would compensate a competitor for the injuries inflicted by knowing maintenance of a monopoly by a patentholder before the reexamination, and thus it cannot adequately deter either fraud or the knowing possession of invalid patents.

Private parties are generally hampered in their efforts to vanquish fraudulently procured patents. It has long been assumed that infringement suits will effectively vet such patents (and those invalid for other reasons).[180] It is tempting to say that a potential competitor who believes the dominant firm's patent was fraudulently procured can simply enter the market and, if the need arises, defend against an infringement suit.[181] Alternatively, in theory, competitors can use declaratory judgment actions to expose invalid patents.[182] Unfortunately, collective action problems plague private litigation because challenging patent validity costs money that will not be entirely recouped since the benefits of patent invalidation flow to the market at large and not simply to the firm that mounts the legal challenge.[183] What rational firm would voluntarily incur litigation costs and risk debilitating

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177. *See supra* notes 9–20 and accompanying text.

178. *See* Leslie, *supra* note 24, at 140–42.

179. Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 HARV. J.L. & TECH. 1, 74 (1997) ("As crucial as these changes may be to creating an administrative review system that provides a litigation alternative, liberalizing third-party participation will accomplish little unless accompanied by more fundamental reforms. Unfortunately, the third-party participation provisions are embedded in a second-generation reexamination scheme that was designed primarily to cure governmental defects, and only secondarily to provide a litigation alternative.").

180. Roscoe Steffen, *Invalid Patents and Price Control*, 56 YALE L.J. 1, 11 (1946) ("After all, it is a tacit assumption of our patent laws that in a competitive economy the infringement suit will ordinarily suffice to purge the patent system of invalid patents.").

181. *See* Brunswick Corp. v. Riegel Textile Corp., 752 F.2d 261, 265 (7th Cir. 1984) ("[A] patent known to the trade to be invalid will not discourage competitors from making the patented product or using the patented process.").

182. Though, as Part III demonstrated, it can be difficult to pursue a declaratory judgment action in the absence of a direct, explicit threat by the patentholder to sue the competitor for infringement.

183. Leslie, *supra* note 24 at 148–49; Thomas, *supra* note 12 at 334–35.

infringement liability when the benefits of invalidating a suspect patent would be shared equally with its own potential competitors who can simply free ride on its efforts?[184]

In sum, the patent system has serious problems on the front-end and the back-end. As currently configured, it simply cannot prevent fraudulently procured patents from issuing in the first place or remove them from the marketplace once they have issued. As Professor Thomas aptly notes, "[t]he entire menu of domestic patent challenges, including protests, public use proceedings, two varieties of reexaminations, and declaratory judgments includes not a single vehicle capable of animating would-be patent protestors."[185] This is not to say that patent reform to address these issues within the patent system is not a wise endeavor—it is. However, as the following section argues, patent reform cannot adequately solve the problem on its own.

B. An Antitrust Solution

Antitrust litigation can address the problem of fraudulently procured patents more effectively than can the patent system alone. For it to do so, however, the conception of when a monopolist is enforcing its patent must be broadened. Expanding the definition of patent enforcement for *Walker Process* claims has several advantages in reducing patent fraud. First, it provides the proper incentive for excluded competitors to sue to expose fraudulently procured patents held by monopolists. Currently, patent law inhibits firms from bringing declaratory judgment actions or from entering the market while inviting an infringement suit in hopes of exposing a rival's fraudulently procured patent. The litigation costs of such a course of action are high and the rewards are relatively low—a competitive market for all but no individual remedy. In contrast, a victorious antitrust plaintiff receives treble damages for sales lost because of the fraudulently procured patent, as well as attorney's fees. While the whole market benefits from the invalidation of a fraudulently procured patent, the illegally excluded competitor can appropriate direct benefits that provide greater individual incentive to challenge the suspect patent through an antitrust suit than by seeking a declaratory judgment of patent invalidity.

Second, an antitrust approach with a broader conception of enforcement can render patent fraud not cost-beneficial. Current law may discourage *active* enforcement of patents procured by fraud, but it does not adequately deter monopolists from committing fraud upon the PTO in the first place because firms can exploit the patent's exclusionary power while shielding it from judicial scrutiny by avoiding the limited conduct that a court will hold constitutes enforcement.[186] A more realistic, expanded definition of patent enforcement would reduce the

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184. As with the enforcement requirement in *Walker Process* cases, the "reasonable apprehension" test for standing to pursue declaratory judgment actions is too rigid to satisfy. The FTC recognized in its report on patents and competition that "current standing requirements prevent a potentially infringing party from determining in advance the merits of a questionable patent." FTC INNOVATION REPORT, *supra* note 10, ch. 3, at 22.

185. Thomas, *supra* note 12, at 331 ("Each sort of revocation procedure instead includes a unique, readily identifiable defect that almost wholly suppresses potential users.").

186. *See supra* Part III.

incentive to commit fraud for two related reasons. First, the monopolist would not be able to exclude competitors using the "soft enforcement" measures discussed in Part III. Second, when the monopolist's fraudulent patent is exposed, antitrust law exacts a meaningful punishment. While a declaratory judgment could invalidate a patent, antitrust's trebled damages could disgorge the monopoly profits—and then some—from a firm that illegally monopolized a relevant market through fraudulent procurement of a patent.[187] With an expanded definition of patent enforcement, firms could no longer acquire patents through fraud and then charge a monopoly price while excluding competitors through vague threats that do not allow antitrust scrutiny in a *Walker Process* claim. The proposed change in the understanding of enforcement would raise both the probability and the cost of detection, which would make patent fraud less likely to be cost-beneficial.

Third, antitrust litigation focuses social resources on those patents most likely to distort competitive markets.[188] While investing more money at the front-end of the patent examination process might screen out some invalid patents, most patents do not confer market power and indeed are never used in any manner.[189] It is thus not cost-effective to invest resources in eliminating all worthless or fraudulently procured patents. An antitrust solution insures that only those invalid patents that actually injure competition are punished. Patent fraud may be an affront to the PTO, but the principal economic injury is to the marketplace and the competitive process. Competitive injuries are better addressed through antitrust law than patent law. Antitrust law also allows injunctive relief to restore competitive markets.[190]

Expanding the definition of patent enforcement for antitrust purposes may seem too modest a proposal to eliminate a significant number of fraudulently procured patents. A more realistic definition of patent enforcement for *Walker Process* litigation should expose and eliminate some fraudulently procured patents held by monopolists, but not all or even most of them. After all, if competitors do not know that a patent was fraudulently procured, then this reinterpretation of enforcement would likely provide little help. However, the effectiveness of any proposal must be weighed against the social costs of responding too aggressively to a problem. Modesty can be a virtue over excess.

The intersection of antitrust and intellectual property law involves a middle ground where two areas of law sometimes conflict. Fraudulently procured patents represent one area where antitrust and patent scholars should easily reach agreement: fraudulently procured patents disrupt the patent system and the competitive marketplace. But there is no consensus about how to address the problem. At the extreme, the surest way to eliminate all fraudulently procured patents would be to eliminate all patents. Of course, this is unacceptable because society would lose the innovation created by our patent system. In confronting invalid patents that create illegal monopolies, antitrust law should minimize the

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187. Disgorgement is more likely if consumers were granted standing to bring follow-on *Walker Process* suits.

188. FTC INNOVATION REPORT, *supra* note 10, ch. 5, at 28 ("Litigation is a mechanism for focusing enhanced attention on those patents that are most likely to hold commercial significance and for weeding out from this group those patents that should not have been granted.").

189. *See supra* note 6 and accompanying text.

190. Leslie, *supra* note 24, at 173–74.

number of such invalid patents without reducing legitimate patenting activity. Expanding the legal definition of patent enforcement can expose invalid patents without punishing valid patents. As a result, the modesty of the proposal is a major part of its beauty.

In reality, defining patent enforcement more broadly is a second-best solution. I have argued previously that the enforcement requirement in *Walker Process* litigation is itself suspect. Because patents—even invalid patents—can exclude competitors without any affirmative enforcement activity by the patentholder, it would be efficient and achieve the goals of both antitrust law and the patent system to eliminate the enforcement requirement altogether.[191] Some may believe that such an approach would require Congressional or Supreme Court action. However, an argument can be made that the enforcement language in the *Walker Process* opinion is dicta. Despite the prominence of the enforcement requirement, it is unclear why the Supreme Court made antitrust liability dependent on patent enforcement. Part of the answer may lie in the facts of *Walker Process* and how the government framed the issues. In his oral argument before the Supreme Court in *Walker Process*, the government's attorney noted that under its theory of the case, the antitrust plaintiff

> will have to show not only that they had the patent, but that they enforced it against the petitioner in this case. In other words, not merely the possession of the patent, but the allegations that they made that they lost a great deal of business, in fact, that they actually were excluded from the market.[192]

Today, the need to show actual exclusion from the market is a necessary part of the inquiry into causal antitrust injury,[193] a concept that was not fully developed at the time of *Walker Process*. Under this reading, "patent enforcement" is merely a shorthand for exclusionary effects. That the actual filing of an infringement suit represented the enforcement in *Walker Process* does not mean that every *Walker Process* claim actually requires such enforcement, as opposed to requiring the antitrust plaintiff to prove exclusionary effects from the fraudulently procured patent. That, after all, is the essence of antitrust law. But as long as courts retain the enforcement requirement instead of eliminating it, the definition of patent enforcement should be broadened.

One further virtue of expanding the definition of patent enforcement is that lower courts can do so on their own without attempting to characterize the *Walker Process* enforcement language as pure dicta. Expanding the definition of

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191. *Id*. at 171–75.

192. Oral Argument of United States as Amicus Curiae Supporting Petitioner at 9, Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965) (No. 13), *in* 17 ANTITRUST LAW: MAJOR BRIEFS AND ORAL ARGUMENTS OF THE SUPREME COURT OF THE UNITED STATES 1955 TERM–1975 TERM 751 (Philip B. Kurland & Gerhard Casper eds., 1979). This suggests that there has to be enforcement by the holder of the invalid patent, but the DOJ's attorney did not define what precisely he meant by "enforcing" the invalid patent. Although he suggests that it requires something more than "merely" possessing the invalid patent, he then implies that the test is met by a competitor showing lost business. As Part Three argued, this can be done without actually filing a lawsuit.

193. *See infra* notes 203–04 and accompanying text.

enforcement is a more moderate and quickly attainable route to using antitrust law to ferret out fraudulently procured patents held by monopolists. If lower courts feel unable to abandon the enforcement inquiry altogether, then they should at least interpret patent enforcement more realistically so as to encompass the myriad ways that patent owners use their patents to exclude and harm competitors. While the Supreme Court stated that there must be enforcement, the Court has not dictated what efforts by a patentee constitute enforcement sufficient to trigger *Walker Process* liability. The restrictive approach of current law, detailed in Part III, has been developed by lower courts interpreting the *Walker Process* opinion. Thus, lower courts have much greater latitude to expand the concept of patent enforcement than to eliminate the patent enforcement requirement from *Walker Process* claims altogether.

In sum, the antitrust system presents an effective mechanism to address patent fraud. This leaves one major issue—whether increasing the possibility of antitrust liability creates the risk of false positives and, thus, deters legitimate patenting activity, which the following section addresses.

C. Proper Filters to Protect Innocent Patentholders

Antitrust law should not create disincentives for firms and individuals to patent their inventions and enforce their valid patents. The prospect of temporary monopoly profits creates a substantial incentive for firms to invest in research and development that leads to the development of valuable new products and processes. Antitrust law should not impede this incentive structure. Some might argue that if patent enforcement is defined too broadly for the purposes of antitrust claims, inventors could be more reluctant to seek patents or to exercise their legitimate rights. No firm—whether it owns patents or not—wants to draw an antitrust suit. All litigation is costly, and antitrust damages can pack a significant punch.[194] Fearing antitrust litigation and potential liability, patentees may be less willing or eager to engage in licensing activity or to flaunt the range and importance of their patents. This could reduce the expected value of patents and make investments in innovation less attractive.

Thus, there needs to be an effective screen against frivolous *Walker Process* litigation. But that screen should not be an overly narrow definition of "enforcement" because that approach purges legitimate suits and unnecessarily protects fraudulent patents. Importantly, antitrust law has other, more appropriate filters against false positives in *Walker Process* cases. First, the fact that antitrust liability only exists against patent-holding monopolists will eliminate many potential frivolous *Walker Process* claims.[195] For example, *Walker Process* defendants often prevail at summary judgment because the plaintiff fails to define the relevant market properly[196] or does not establish the patentee's monopoly

194. However, the concern is not simply that a competitor would necessarily win its lawsuit, but that it would bring antitrust litigation to harass a dominant firm and perhaps even secure a settlement.

195. Also, those patentees with a dangerous probability of acquiring monopoly power could be subject to an attempted monopolization claim.

196. *See, e.g.*, Northlake Mktg. & Supply, Inc. v. Glaverbel S.A., 861 F. Supp. 653, 663

power in that market, even if properly defined.[197] Even a defendant that acquires its patent through fraud on the PTO—and is actually found guilty of inequitable conduct—will not face section 2 liability if its market share is low.[198]

In addition, even if the plaintiff can prove that the patentee is a monopolist, the plaintiff must establish by clear and convincing evidence that the monopolist's patent is invalid, an extremely demanding standard.[199] More importantly, it is not enough that the patent is invalid; the plaintiff must prove that the monopolist committed fraud against the PTO to obtain the patent.[200] Establishing patent fraud is notoriously difficult. The plaintiff must prove:

> (1) a representation of a material fact, (2) the falsity of that representation, (3) the intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (scienter), (4) a justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon, and (5) injury to the party deceived as a result of his reliance on the misrepresentation.[201]

Walker Process defendants routinely prevail because the plaintiff cannot prove fraud.[202]

Finally, a *Walker Process* plaintiff can succeed only if it suffered antitrust injury caused by the monopolist's fraud against the PTO.[203] This causation requirement, not an overly narrow concept of enforcement, should be doing the heavy lifting of filtering out inappropriate plaintiffs. For example, the causation standard addresses the industry-specific problem. In markets where apparently threatening language (of a cease-and-desist letter, for example) does not deter entry, the causation requirement would filter out litigation. After all, if the patentee's threat does not actually *cause* the competitor to exit the market (or reduce its sales), then it has suffered no cognizable antitrust injury. In contrast, in industries where threats are worded in an apparently benign manner, but such softly coded threats are

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(N.D. Ill. 1994) (rejecting a *Walker Process* claim at summary judgment, in part, for failure to show relevant market).

197. *See, e.g.*, Forbro Design Corp. v. Raytheon Co., 532 F.2d 758, 765 (1st Cir. 1976) (holding no *Walker Process* liability because there was no proof of patentee's market power).

198. Buehler AG v. Ocrim, S.p.A., 836 F. Supp. 1305, 1325–26 (N.D. Tex. 1993).

199. *See* Leslie, *supra* note 24, at 133–34.

200. Kockums Indus. Ltd. v. Salem Equip., Inc., 561 F. Supp. 168, 173 (D. Or. 1983) ("[A] good faith infringement suit will not violate the antitrust laws even though the patent proves to be invalid.").

201. *In re* Spalding Sports Worldwide, Inc., 203 F.3d 800, 807 (Fed. Cir. 2000).

202. *See, e.g.*, E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247, 1273 (8th Cir. 1980); Rogers Corp. v. Arlon, Inc., 855 F. Supp. 560, 571 (D. Conn. 1994) ("Defendant has not produced evidence sufficient to permit a reasonable jury to conclude that the patent was fraudulently obtained, or that plaintiff brought or maintained this lawsuit in bad faith or with an intent to monopolize."); Meurer, *supra* note 88, at 539–40 ("The *Walker Process* theory has limited utility because it is difficult to prove fraudulent patent procurement.").

203. *See In re* Corrugated Container Antitrust Litig., 756 F.2d 411, 416 (5th Cir. 1985) ("To recover in a private antitrust action the plaintiff must prove a violation of the antitrust laws and must further prove that the violation caused damage.").

understood and deter market entry, the causation requirement would allow the antitrust claim to proceed. The causation requirement also rationalizes the scope of damages. If a competitor does not leave the market (and does not suffer a reduction in sales), it could bring a *Walker Process* claim (or counterclaim if sued for infringement) but it would not receive antitrust damages.[204] If the antitrust plaintiff did suffer a reduction in sales attributable to the monopolist's patent fraud, these are appropriately labeled antitrust injuries and are recoverable and trebled. In short, the causation element protects patentees from frivolous antitrust suits.

The enforcement requirement of a *Walker Process* claim need not be viewed extremely narrowly in order to protect innocent patentholders from frivolous claims; the elements of monopoly power, patent invalidity, proof that the patentee committed fraud, and, finally, causation offer such protection. Empirically, courts have no trouble dismissing *Walker Process* claims or granting summary judgment to patentee-defendants based on these elements.[205] A narrowly drawn enforcement definition, however, does not appropriately distinguish between legitimate and illegitimate *Walker Process* claims. Rather, the narrowly drawn enforcement requirement provides a roadmap for bad actors to potentially monopolize with impunity.

In sum, properly designed antitrust law does not upset the patent system. First, owners of valid patents have little to fear from antitrust law. They can enjoy their full panoply of patent rights without incurring antitrust liability. While there is always a risk of false positives, they seem relatively unlikely given the many elements that an antitrust plaintiff must prove.[206] To the extent that false positives are perceived as a problem, the risk can be addressed through heightened evidentiary standards.[207] Second, patent enforcement currently entails a significant risk of facing an antitrust lawsuit. Infringement suits today routinely draw *Walker Process* counterclaims.[208] There is no evidence to suggest that the perceived inevitability of an antitrust counterclaim has reduced either relevant research or patenting activity. Thus, there is little reason to believe that expanding the legal definition of patent enforcement for antitrust claims would provide a meaningful disincentive to those inventors seeking to acquire and assert valid patents. Third, to the extent that current enforcement definitions are sometimes unclear and inconsistent, even holders of valid patents would benefit from a more precise and accurate legal conception of patent enforcement.

D. Decoupling Antitrust Law from the Declaratory Judgment Standard

Currently, the *Walker Process* enforcement requirement is tethered to nonantitrust law. Federal courts initially caused the problem by defining patent enforcement for *Walker Process* claims by reference to the declaratory judgment

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204. A successful *Walker Process* claimant would receive reasonable attorneys' fees.

205. *See, e.g.,* 2 PHILLIP E. AREEDA, DONALD F. TURNER, HERBERT HOVENKAMP & JOHN L. SOLOW, ANTITRUST LAW ¶ 335 (2d ed. 2000) (citing cases). If these filters are not sufficient, then they should be beefed up.

206. *See supra* notes 35–40 and accompanying text.

207. *See* Leslie, *supra* note 24, at 179.

208. *See supra* text accompanying note 169.

standard for challenging patent validity.[209] As courts contracted their jurisdiction to hear declaratory judgment suits against patentees, the *Walker Process* enforcement element consequently became harder to satisfy. Because federal courts linked the legal tests, flaws in patent law's jurisdictional test were visited upon antitrust jurisprudence.

The Supreme Court in *Walker Process* suggested that the declaratory judgment standard should be easier to satisfy than the enforcement requirement.[210] This would be true if the declaratory judgment standard were merely a jurisdictional hurdle. However, according to some scholars and jurists, the Federal Circuit in the declaratory judgment area has conflated constitutional doctrine with prudential principles. For example, Professor Lisa Dolak has explained that when denying standing to plaintiffs pursuing declaratory judgments against patentees, federal "courts have often decided cases on jurisdictional grounds when the underlying facts have principally or exclusively prudential significance."[211] Perhaps not surprisingly, the Federal Circuit in *Teva Pharmaceuticals USA, Inc. v. Pfizer Inc.* denied that its now-rejected two-part test was prudential rather than constitutional.[212] In his dissent from the court's denial of Teva's petition for rehearing, however, Judge Gajarsa noted, "The *Teva* court ignores [relevant] precedent and reads general infringement policy considerations into Article III, where they do not belong."[213] Consequently, the Federal Circuit confused its well-intentioned desire to protect patentholders from frivolous litigation with its jurisdictional power to hear patent disputes. As Professor Dolak persuasively argues, "protecting patent owners, a concededly laudable objective, ought to be regarded as a matter of legislative or judicial policy. It definitely is not a matter of the federal courts' constitutional *power*."[214] This stilted reading of courts' constitutional authority in the declaratory judgment context simultaneously transformed substantive antitrust law in a manner that could allow holders of fraudulently procured patents to restrain competition while avoiding antitrust liability.

In theory, the Supreme Court's directive in *MedImmune* to loosen the declaratory judgment standard in patent cases should improve the position of *Walker Process* plaintiffs. However, instead of addressing the problems discussed

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209. *See supra* note 43 and accompanying text.

210. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 176 (1965) ("In fact, one need not await the filing of a threatened suit by the patentee; the validity of the patent may be tested under the Declaratory Judgment Act.") (citation omitted).

211. Lisa A. Dolak, *Power or Prudence: Toward a Better Standard for Evaluating Patent Litigants' Access to the Declaratory Judgment Remedy*, 41 U.S.F. L. REV. 407, 408 (2007).

212. 395 F.3d 1324, 1335 (Fed. Cir. 2005).

213. Teva Pharm. USA, Inc. v. Pfizer Inc., 405 F.3d 990, 994 (Fed. Cir. 2005) (Gajarsa, J., dissenting); *see* Dolak, *supra* note 206, at 419 ("As discussed below, Judge Gajarsa is right. The Federal Circuit's declaratory judgment jurisprudence has been inconsistent and ambiguous with respect to the distinction between jurisdiction—the *power* of the lower federal courts to hear declaratory judgment cases--and the appropriate role of policy considerations—the *prudence* of allowing a particular declaratory judgment action to go forward.").

214. Dolak, *supra* note 211, at 429.

in Part III by fixing the shortcomings in the Federal Circuit's declaratory judgment jurisprudence, courts should define patent enforcement for *Walker Process* claims independently. This would require decoupling substantive antitrust law from the declaratory judgment standard in patent cases. Such decoupling is appropriate because the declaratory judgment standard in patent validity cases and the enforcement element in *Walker Process* litigation serve entirely different functions. The declaratory judgment standard should define the constitutional threshold for whether the plaintiff has presented a case or controversy sufficient to confer jurisdiction on a federal court. The standard is a screening mechanism to prevent inappropriate attacks on patent validity and forestall courts from issuing advisory opinions. In contrast, the *Walker Process* patent enforcement requirement is not about jurisdictional power. In *Walker Process* litigation, a case or controversy clearly exists: the underlying alleged antitrust violation. The antitrust plaintiff is not seeking a declaration of patent invalidity; she is suing for damages caused by the defendant's alleged Section Two violation. Instead of serving a jurisdictional function, the *Walker Process* enforcement requirement provides a proxy for exclusionary effects and should be defined in order to serve that purpose.

To the extent that the declaratory judgment standard in patent validity cases is used to filter out frivolous suits, that standard need not be imported into *Walker Process* litigation because antitrust law has its own screens to protect firms from frivolous litigation and false positives. The antitrust plaintiff must plead and sufficiently allege several elements beyond mere patent invalidity. For example, she must allege that the patent was acquired by fraud, that the defendant has monopoly power in a relevant market, and that she has suffered antitrust injury. As courts have shown an increasing willingness to dismiss antitrust claims using screens that are part of substantive antitrust law,[215] *Walker Process* litigation need not rely on patent law to protect defendants from frivolous antitrust suits.

In sum, it makes little sense to import an ill-defined quasi-jurisdictional test from patent law into the substantive body of antitrust law, particularly since the requirement of enforcement serves different goals in the different contexts. If the patent enforcement requirement is to exist at all,[216] federal courts should ask whether the patentee has taken any actions that exclude competitors from the market.[217] The plaintiff's need to satisfy the remaining elements of a *Walker Process* claim sufficiently insure that the case is properly before the court.

CONCLUSION

Despite the potentially high number of fraudulently procured patents in the American marketplace, courts and scholars have paid scant attention to the effect of these patents on competitive dynamics. There is a general belief that fraudulently procured patents, like other invalid patents, impose social costs; indeed, the modern examination system was established in response to the "disastrous experience with

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215. *See, e.g.*, Bell Atlantic Corp. v. Twombly, 127 S. Ct. 1955 (2007); Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398 (2004).

216. *See* Leslie, supra note 24, at 182 (advocating elimination of the enforcement requirement).

217. *See supra* Part III.

a patent registration system run amuck" issuing bad patents.[218] The primary social cost of fraudulently procured patents is that they can confer market power, which allows the patentee to reduce production and charge a monopoly price, creating inefficient dead-weight loss. While much is made about the tension between antitrust and patent law, they should not be in conflict when it comes to the issue of fraudulently procured patents. Neither area of law values such patents. Both areas of law benefit from the removal of such patents from the marketplace. One can believe in broad patent rights but still support antitrust liability for a monopolist knowingly possessing a fraudulently procured patent that provides a causal link in its maintenance of monopoly power.

The definition of patent enforcement plays a critical role in antitrust jurisprudence. But to date it has received insufficient judicial and scholarly attention. If patentees can use a fraudulently procured patent to deter market entry without satisfying the enforcement element of a *Walker Process* claim as currently defined, then firms can use their patents to illegally monopolize while insulating themselves from antitrust liability.

In sum, monopolists with fraudulently procured patents should not be able to harness the exclusionary power of their patents with impunity. For the purposes of *Walker Process* liability, patent enforcement should include actions by a patentholder that communicate an intent to enforce its patent against perceived infringers. A more realistic definition of patent enforcement would, depending on context, include public threats, prior infringement litigation, touting one's patent to competitors, threats and insinuations directed to competitors' business partners, and licensing activity. If the holders of fraudulently procured patents can exclude rivals without risking antitrust liability, competition is injured without any countervailing increase in innovation. Unless patent enforcement is defined more broadly, the law creates a safe harbor for the potentially exclusionary acts of those who would use fraudulently procured patents in a predatory manner.

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218. Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 593 (1999).