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## UC Irvine Law Review

### Title

Antitrust, Inequitable Conduct, and the Intent to Deceive the Patent Office

### Permalink

<https://escholarship.org/uc/item/60v3m1zk>

### Journal

UC Irvine Law Review , 1(2)

### ISSN

2327-4514

### Author

Leslie, Christopher R.

### Publication Date

2011-06-01

# Antitrust, Inequitable Conduct, and the Intent to Deceive the Patent Office

Christopher R. Leslie\*

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Discussions about the intersection of patent law and antitrust law generally focus on those areas in which tension apparently exists. Complications, however, also exist when the two bodies of law condemn the same conduct. For example, both patent law and antitrust law condemn patent fraud. Because each area of law

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\* Professor of Law, University of California, Irvine School of Law. The author thanks Tim Holbrook, Mark Lemley, and Tony Reese for reading an early draft. Ruhi Kumar provided excellent research assistance.

employs its own elements and remedies, the Federal Circuit has drawn some artificial distinctions. This Article illustrates this point using the Federal Circuit's treatment of patent applicants' omission of material sales information.

Part I introduces the on-sale bar, which precludes a patent from issuing on an invention that has been sold or offered for sale more than one year before a patent application is filed. The Patent and Trademark Office (PTO) depends on patent applicants to disclose prior sales activity because it is difficult or impossible for patent examiners to discover such sales on their own. Unfortunately, some patent applicants decide to conceal their prior sales activity from the Patent Office, which leads to the issuance of patents that violate the on-sale bar.

Part II examines the legal consequences of an applicant's failure to disclose prior sales activity that is deemed material. First, the omission may constitute inequitable conduct, which renders the patent unenforceable. Second, the omission may constitute fraud, which could form the basis of an antitrust violation if the patentee has monopolized a relevant market. The former is a patent defense, the latter an antitrust cause of action that entitles the successful plaintiff to treble damages from the patentee. Because the consequences of finding fraud are greater than finding inequitable conduct, courts require a higher degree of scienter for fraud. This heightened standard for antitrust liability risks rendering fraud by omission cost-beneficial because concealing prior sales can be profit maximizing even if the patent applicant is eventually caught.

Part III proposes that the standard for deceptive intent used in antitrust claims based on patent fraud should more closely mimic the test used for inequitable conduct purposes. This change reflects that the fact that the intent to deceive the PTO is the same regardless of whether the legal issue at hand is the inequitable conduct defense or an antitrust claim. Courts should not require more evidence to prove deceptive intent for *Walker Process* purposes than for inequitable conduct purposes. Employing a more unified deceptive intent standard should lead to more appropriate disclosure of relevant sales activity. The two legal doctrines would remain distinct, however, because the test for materiality is more rigorous for antitrust claims than for the inequitable conduct defense and because the antitrust cause of action requires plaintiffs to prove several additional elements.

Finally, Part IV addresses the concerns that some may have about the changes proposed in Part III. These include: the fear that making it easier for patent challengers to show deceptive intent is equivalent to strict liability; the cost to patent applicants of having to produce more information; and the possibility of encouraging wasteful overcompliance by patent applicants.

## I. INVALID PATENTS, THE ON-SALE BAR, AND THE PROBLEM OF OMISSIONS

The Patent Office issues many patents that courts subsequently declare to be invalid. Close to half of litigated patents are pronounced invalid.<sup>1</sup> The high number of invalid patents is a function of several factors. Patent examiners have little time to review each application—as little as “8 to 25 hours to read and understand each application, search for prior art, evaluate patentability, communicate with the applicant, work out necessary revisions, and reach and write up conclusions.”<sup>2</sup> The patent examiner bears the burden of proving that a patent should not issue. Because the patent applicant has no duty to research for prior art, the time-strapped and resource-constrained patent examiner is likely to be unaware of patent-invalidating prior art in many cases.

Invalid patents undermine both the patent system and the competitive marketplace. They raise entry costs and delay market entry, deter customers and business partners from contracting with new entrants, cause consumers to pay artificially inflated prices, and hurt innovation.<sup>3</sup> This is true even when other firms know or suspect the patent of being invalid.<sup>4</sup> The Federal Trade Commission (FTC) has noted that “improperly awarded patents may distort firms’ research choices and influence them to shun whole areas of R&D activity.”<sup>5</sup> Moreover, the Federal Circuit has found that both the public at large and the patent system itself suffer because:

A patent by its very nature is affected with a public interest. The far reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. Where fraud is committed, injury to the public through a weakening of the Patent System is manifest.<sup>6</sup>

In their book, *The Patent Crisis and How the Courts Can Solve It*, to which this symposium is dedicated, Professors Burk and Lemley note that “the patent system may actually do more harm than good to innovation, because the assertion and litigation of too many bad patents against companies that make innovative products ends up raising their costs and reducing their innovation more than the

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1. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998) (forty-six percent of litigated patents were held invalid).

2. FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, EXECUTIVE SUMMARY 9–10 (2003) [hereinafter FTC INNOVATION REPORT].

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

4. *Id.* at 166.

5. FTC INNOVATION REPORT, *supra* note 2, at ch. 5, p. 2.

6. *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1361 (Fed. Cir. 2004) (quoting *Norton v. Curtiss*, 433 F.2d 779, 796 (C.C.P.A. 1970) (citations omitted)).

existence of those patents spurs new innovation.”<sup>7</sup>

A patent can be invalid for many reasons. For example, in order for an invention to be patentable, it must be useful, novel, and nonobvious.<sup>8</sup> Patent examiners review the prior art to determine whether a patent applicant’s invention is obvious. If the patent examiner misinterprets or is unaware of relevant prior art, a patent may issue that should not. When the defendant in an infringement action presents the prior art at trial, the patent would be invalidated.

A patent may also be invalid because it violates one of the patent code’s statutory bars. Section 102(b) provides that a patent cannot issue if the invention was “in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.”<sup>9</sup> The date one year before the application is filed is known as the “critical date.” Section 102(b) contains separate statutory bars to patentability—the public-use bar and the on-sale bar.

The on-sale bar, in turn, includes two separate bars: sales and offers to sell. If an inventor has sold or offered to sell her invention more than one year before filing her patent application, the invention is no longer patentable. The on-sale bar provides the inventor a one-year grace period that Congress designed to recognize “the inventor’s right to control whether and when he may patent his invention” but also “to protect the public’s right to retain knowledge already in the public domain.”<sup>10</sup> The on-sale bar “represents a balance of the policies of allowing the inventor a reasonable amount of time to ascertain the commercial value of an invention, while requiring prompt entry into the patent system after sales activity has begun.”<sup>11</sup> Ultimately, the on-sale bar should expedite the dissemination of new inventions.<sup>12</sup>

Section 102(b) contains statutory bars relating to public use and to sales activity. Although courts sometimes considered them together, the provisions are legally distinct.<sup>13</sup> Circumstances exist where one bar may apply while the other

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7. DAN L. BURK & MARK A. LEMLEY, *THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT* 30 (2009) (citations omitted).

8. 35 U.S.C. §§ 101–103 (2006).

9. 35 U.S.C. § 102(b) (2006).

10. *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 65 (1998) (noting that in 1939 Congress reduced the grace period from two years to one year).

11. *Seal-Flex, Inc. v. Athletic Track and Court Constr.*, 98 F.3d 1318, 1322 (Fed. Cir. 1996) (citation omitted).

12. *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1062 (Fed. Cir. 1989) (“One policy underlying the [on-sale] bar is to obtain widespread disclosure of new inventions to the public via patents as soon as possible.”); see also Timothy R. Holbrook, *The More Things Change, the More They Stay the Same: Implications of Pfaff v. Wells Electronics, Inc. and the Quest for Predictability in the On-Sale Bar*, 15 BERKELEY TECH. L.J. 933, 939 (2000) (“[T]he on-sale bar promotes the public interest by requiring a prompt and widespread disclosure of new inventions to the public. Encouraging such disclosures and discouraging removal of information from the public domain presumably promotes greater technological development by adding to and maintaining the knowledge base in a given field.”).

13. *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1291 (9th Cir. 1984) (“Although it is clear that the ‘on sale’ and ‘in public use’ defenses are separate, many courts have evaluated them

does not. For example, an inventor may make public use of the invention without “any sale or offer to sell and, alternatively, there may be sales which neither the vendor nor the purchaser desires to make public but which nevertheless impose an obligation of the inventor to file his application within one year.”<sup>14</sup> In short, a public use need not involve a sale and disqualifying sales can be nonpublic. Moreover, the two statutory bars have different focuses: “the public use bar focuses on the public’s reliance on an invention that is thought to be in the public domain, while the on-sale bar centers on any commercialization beyond the one year grace period.”<sup>15</sup> The different purposes can affect the legal analysis of whether a particular bar has been triggered.<sup>16</sup>

This Article focuses primarily on the on-sale bar because an applicant’s omissions of prior sales or offers that trigger the on-sale bar are particularly insidious because the patent examiner will most likely be unaware of this patent-invalidating information.<sup>17</sup> In its manual, the Patent Office hypothesizes that a patent examiner may have “personal knowledge” of the applicant’s sales activity.<sup>18</sup> This, however, seems very unlikely. In the vast majority of cases, patent examiners are dependent on applicants for such information. For example, patent examiners will not know about invalidating sales that were kept secret. Although the on-sale bar is designed to prevent an inventor from “remov[ing] existing knowledge from public use,”<sup>19</sup> private sales trigger the on-sale bar.<sup>20</sup> Even if the sales agreement requires that the invention be used “under conditions of secrecy,” the activity still counts for purposes of the on-sale bar.<sup>21</sup> Yet patent examiners—and infringement

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together.”); *Dart Indus., Inc. v. E.I. Du Pont De Nemours & Co.*, 489 F.2d 1359, 1365 (7th Cir. 1973) (35 U.S.C. § 102(b) “contains several distinct bars to patentability, each of which relates to activity or disclosure more than one year prior to the date of the application. Two of these—the ‘public use’ and the ‘on sale’ objections—are sometimes considered together although it is quite clear that either may apply when the other does not.”).

14. *Dart Indus.*, 489 F.2d at 1364 n.8.

15. *Honeywell Int’l, Inc. v. Universal Avionics Sys., Corp.*, 343 F. Supp. 2d 272, 290 (D. Del. 2004).

16. *Id.*

17. See HERBERT HOVENKAMP, MARK JANIS, MARK LEMLEY & CHRISTOPHER LESLIE, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 11.2 (2d ed. 2009) (“Indeed, the most common and insidious forms of fraud on the PTO are not affirmative statements, but the failure to disclose information, such as prior art references the PTO is unlikely to find on its own or information about the patentee’s own commercial activities. The latter is particularly likely to induce reliance, since the information is uniquely within the possession of the patentee.”).

18. *MANUAL OF PATENT EXAMINING PROCEDURE* § 706.02(c) (8th ed., rev. 8, 2010) (“An applicant may make an admission, or submit evidence of sale of the invention or knowledge of the invention by others, or the examiner may have personal knowledge that the invention was sold by applicant or known by others in this country.”).

19. *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 64 (1998).

20. *Manufacturing Research Corp. v. Graybar Elec. Co., Inc.*, 679 F.2d 1355, 1362 (11th Cir. 1982) (“[A]ny sale or offer, whether public or private, is enough to implicate the statutory bar.”).

21. *Hobbs v. U.S., Atomic Energy Comm’n*, 451 F.2d 849, 860 (5th Cir. 1971).

defendants—are unlikely to know about the sale precisely because it is secret.

Similarly, offers that were not accepted are particularly hard for patent examiners or infringement defendants to discover through their own research. It may be easy for patent applicants to conceal such offers because generally there is no public record of unsuccessful sales attempts. Because the on-sale bar applies to offers that are not actually received by the intended offeree,<sup>22</sup> in this unusual circumstance, not even the offeree may know about the patent-invalidating offer.

In order to determine whether one of the statutory bars should prohibit a patent from issuing, patent examiners perform research but also rely on information from the patent applicants. Patent applicants have a duty of candor. This means that “[t]hose who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequity underlying the applications in issue.”<sup>23</sup> Unfortunately, the patent case law is rife with examples of patent applicants concealing prior art, public use, and sales activity before the critical date.

In many ways, an applicant’s concealment of her prior sales activity is more threatening to the patent system than the omission of other types of material information. For example, sales activity is different than prior art that an examiner—or a competitor—is able to discover through independent research. Similarly, omissions of sales activity are harder to discover than failures to disclose public use, which must be “accessible to the public” or in the case of commercial exploitation “likely requires more than, for example, a secret offer for sale.”<sup>24</sup>

In sum, it is vital that applicants disclose all material sales activity because it is too hard for examiners and competitors to uncover the relevant sales activity through their own investigations.<sup>25</sup>

## II. THE CONSEQUENCES OF CONCEALING SALES ACTIVITY

Because the on-sale bar can render an invention unpatentable, patent applicants have an incentive to file their patent applications within a year of the critical date. Patent applicants who have delayed filing for more than one year after the critical date, unfortunately, have a powerful incentive to conceal all sales activity that might lead a patent examiner to reject their patent application under the on-sale bar. Both patent law and antitrust law have doctrines to deal with

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22. See MANUAL OF PATENT EXAMINING PROCEDURE § 2133.03(b) (8th ed., rev. 8, 2010) (“In fact, the offer need not even be actually received by a prospective purchaser.”) (citing *Wende v. Horine*, 225 F. 501 (7th Cir. 1915)).

23. *Precision Co. v. Automotive Co.*, 324 U.S. 806, 818 (1944).

24. *Invitrogen Corp. v. Biocrest Mfg., L.P.*, 424 F.3d 1374, 1380 (Fed. Cir. 2005).

25. Christopher A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. 723, 783 n.158 (2009) (“This information is unlikely to be found in any database available at the USPTO.”).

patent applicants who withhold material information regarding prior sales activity. This Part reviews those legal doctrines and discusses how they apply to questions involving the on-sale bar.

*A. Patent Law: The Inequitable Conduct Defense*

Patent law responds to a patent applicant's failure to disclose sales activity through the inequitable conduct defense. The defense of inequitable conduct applies to situations when a patent applicant makes an affirmative misrepresentation of a material fact, or fails to disclose material information, or makes a submission of false material information coupled with an intent to deceive to the PTO.<sup>26</sup> Thus, inequitable conduct entails two separate elements: materiality and intent.

For decades, the Federal Circuit applied a sliding scale in evaluating these two elements. The court balanced the elements such that "[t]he more material the omission or misrepresentation, the less intent that must be shown to elicit a finding of inequitable conduct."<sup>27</sup> The Federal Circuit later added an additional step to this balancing analysis so that even if the infringement defendant can establish both materiality and intent by clear and convincing evidence, "the district court must still balance the equities to determine whether the applicant's conduct before the PTO was egregious enough to warrant holding the entire patent unenforceable."<sup>28</sup>

In 2011, the Federal Circuit sitting en banc in *Therasense v. Becton, Dickinson and Co.*<sup>29</sup> reevaluated its treatment of inequitable conduct. Although many issues divided the court, all of the judges agreed that in applying the inequitable conduct doctrine, the court should not employ a sliding scale.<sup>30</sup> The elimination of the

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26. See *Pharmacia Corp. v. Par Pharm., Inc.*, 417 F.3d 1369, 1373 (Fed. Cir. 2005) ("[I]nequitable conduct includes affirmative misrepresentation of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive."); see also *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1190 (Fed. Cir. 2006) ("Even if an omission is found to be material, the omission must also be found to have been made with the intent to deceive.").

27. *Impax Labs., Inc. v. Aventis Pharms. Inc.*, 468 F.3d 1366, 1375 (Fed. Cir. 2006); see also *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1256 (Fed. Cir. 1997) ("The more material the omission or the misrepresentation, the lower the level of intent required to establish inequitable conduct, and vice versa.").

28. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008) ("Thus, even if a threshold level of both materiality and intent to deceive are proven by clear and convincing evidence, the court may still decline to render the patent unenforceable.") (citations omitted).

29. 649 F.3d 1276 (Fed. Cir. 2011).

30. *Id.* at 1290 ("A district court should not use a 'sliding scale,' where a weak showing of intent may be found sufficient based on a strong showing of materiality, and vice versa."); see also *id.* at 1288 (condemning sliding scale because it "conflated, and diluted, the standards for both intent and materiality"); *Id.* at 1302 (Bryson, J., dissenting) ("[T]here should be no 'sliding scale' whereby a strong showing as to one element can make up for weaker proof as to the other.").



sliding scale, however, did not render the materiality element completely extraneous to the intent inquiry. Although “a district court may not infer intent solely from materiality,”<sup>31</sup> materiality is still relevant in determining intent. District courts often must infer deceptive intent from circumstantial evidence because direct evidence is rarely available.<sup>32</sup> The degree of materiality of a misrepresentation or omission is one form of circumstantial evidence that a district court may rely upon.<sup>33</sup>

The inequitable conduct doctrine is a defense employed by defendants in patent infringement litigation. The defendant carries the burden of proof and must prove both elements—materiality and intent—with clear and convincing evidence. If the defendant can prove that the patent applicant engaged in inequitable conduct when prosecuting its patent, then the patent is unenforceable.<sup>34</sup> Even if the inequitable conduct only relates to one claim, all of the patent claims in the application are unenforceable.<sup>35</sup> The unenforceability may even expand to related patent applications.<sup>36</sup> If the defendant prevails by proving that the patentee engaged in inequitable conduct, the case may be deemed “exceptional,”<sup>37</sup> entitling the defendant to a fee reward, “which can reach well into the seven figure range.”<sup>38</sup>

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31. *Id.* at 1290.

32. *Id.*

33. *See id.* at 1297 n.1 (O’Malley, J., concurring in part and dissenting in part) (“the majority does not hold that it is impermissible for a court to consider the level of materiality as circumstantial evidence in its intent analysis.”); *see also id.* at 1304 n.1 (Bryson, J., dissenting) (“It is important to distinguish between relaxing the required proof of intent if the proof of materiality is strong, which is impermissible, as opposed to considering the degree of materiality as relevant to the issue of intent, which is appropriate . . . .”) (citations omitted).

34. *See* *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006) (“[A] patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution.”).

35. *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 877 (Fed. Cir. 1988) (en banc) (“When a court has finally determined that inequitable conduct occurred in relation to one or more claims during prosecution of the patent application, the entire patent is rendered unenforceable.”); *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008) (highlighting the penalty for inequitable conduct as so severe as to result in “the loss of the entire patent even where every claim clearly meets every requirement of patentability.”). This is important for on-sale bar purposes because the on-sale bar is evaluated on a claim-by-claim basis; a particular sale may invalidate some claims in a patent application but not others. *Allen Engr. Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1353 (Fed. Cir. 2002).

36. *See* *Fox Indus., Inc. v. Structural Pres. Sys., Inc.*, 922 F.2d 801, 803–04 (Fed. Cir. 1990) (stating that inequitable conduct “may render unenforceable all claims which eventually issue from the same or a related application”); *Cotropia*, *supra* note 25, at 725 (citing *Consol. Aluminum Corp. v. Foseco Int’l, Ltd.*, 910 F.2d 804, 812 (Fed. Cir. 1990)) (“If there is a pattern of inequitable conduct, unenforceability can transfer from one patent to another.”).

37. *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1380 (Fed. Cir. 2001) (“The prevailing party may prove the existence of an exceptional case by showing: inequitable conduct before the PTO . . . .”).

38. *Cotropia*, *supra* note 25, at 764–65.

In sum, a patent applicant's failure to disclose material information regarding its sales activity—both offers and actual sales—can constitute inequitable conduct if the applicant withholds the information with an intent to deceive the patent examiner. This would render the patent unenforceable, even if the patent would have issued if the patent examiner had known about the sales information.

### B. Antitrust Implications: Walker Process Liability

A patent applicant's failure to disclose sales activity to the PTO can also create antitrust liability in some circumstances. Section 2 of the Sherman Act condemns illegal monopolization.<sup>39</sup> It is not illegal to possess a monopoly; rather it is illegal to acquire or maintain a monopoly through anticompetitive conduct. In order to establish illegal monopolization, a plaintiff must prove two elements. First, the defendant possesses monopoly power in a relevant market.<sup>40</sup> Second, the plaintiff must prove the defendant's "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."<sup>41</sup>

This second element is often called "monopoly conduct." The Sherman Act does not define monopoly conduct. Instead, through the common law process, courts have characterized some anticompetitive behavior as monopoly conduct. Most importantly for our purposes, the Supreme Court in *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*<sup>42</sup> held that enforcing a patent acquired through fraud on the PTO constitutes monopoly conduct. The Federal Circuit, in turn, has defined patent fraud incorporating the same elements as common law fraud: "(1) that a false representation of a material fact was made, (2) with the intent to deceive, (3) which induced the deceived party to act in justifiable reliance on the misrepresentation, and (4) which caused injury that would not otherwise have occurred."<sup>43</sup> Thus, like inequitable conduct, *Walker Process* liability requires materiality and intent.

*Walker Process* claims are often brought as counterclaims by defendants in patent infringement litigation. The counterclaimant can establish antitrust liability if she can prove that the patentee possesses monopoly power and either acquired or is maintaining that power by enforcing a fraudulent patent.<sup>44</sup> Unlike the

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39. 15 U.S.C. § 2 (2006).

40. *U.S. v. Grinnell Corp.*, 384 U.S. 563, 570 (1966).

41. *Id.* at 570–71. A private plaintiff must also prove that it has suffered antitrust injury.

42. 382 U.S. 172 (1965).

43. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1364 (Fed. Cir. 1998); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 807 (Fed. Cir. 2000) (defining patent fraud as "(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.").

44. See Christopher R. Leslie, *Patents of Damocles*, 83 IND. L.J. 133 (2008) (advocating a broader

inequitable conduct defense, a *Walker Process* claim is a cause of action and the successful antitrust claimant is entitled to damages. Whatever actual damages she can prove are automatically trebled.

### C. *The Intent to Deceive*

Both the patent law defense of inequitable conduct and the antitrust cause of action for monopolization through patent fraud require the party with the burden of proof to show that the patent applicant misrepresented or omitted material information with an intent to deceive. This Section critiques the Federal Circuit's intent-to-deceive analysis from two different perspectives. First, the Federal Circuit improperly treats the intent to deceive for *Walker Process* fraud purposes more harshly than it treats that same element for inequitable conduct purposes. Second, comparing *Walker Process* litigation in which Federal Circuit found intent to deceive and litigation in which it did not reveals a judicial focus on distinctions that should not make a difference.

#### 1. *Different Standards for the Intent to Deceive for Inequitable Conduct and Walker Process Purposes*

Although both inequitable conduct and *Walker Process* claims require proof of intent to deceive the PTO, the Federal Circuit applies disparate analysis to the deceptive intent issue depending on which legal doctrine it is evaluating. In *Dippin' Dots, Inc. v. Mosey*, the plaintiff had a patent covering "a process for making a form of cryogenically prepared novelty ice cream product."<sup>45</sup> Plaintiff, Dippin' Dots, Inc. (DDI), sold "beaded ice cream" to over 800 customers at a public festival before the critical date. The patentee did not disclose the sales to the PTO. The district judge ruled that the patentee had engaged in inequitable conduct and thus could not enforce its patent against the alleged infringer. The jury also found that the patentee had engaged in patent fraud and, after finding the other elements of illegal monopolization present, ruled for the alleged infringer on its antitrust counterclaim.

The patentee appealed to the Federal Circuit. The appellate panel affirmed the ruling on inequitable conduct. Applying the two-element test for the inequitable conduct defense, the court held that the first element of "materiality[] is clearly met here."<sup>46</sup> The sales activity at the public fair was clearly something that the reasonable patent examiner would want to know about when considering the on-sale bar. The second element of intent was a more contentious issue. In the end, the court upheld the judge's finding that DDI intended to deceive the PTO because

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definition of patent enforcement for *Walker Process* purposes).

45. 476 F.3d 1337, 1340 (Fed. Cir. 2007).

46. *Id.* at 1345.

[w]hile DDI wholly neglected to disclose the Festival Market sales to the PTO, it enthusiastically touted sales made after the critical date as evidence of the commercial appeal of its process. That combination of action and omission permits an inference of the minimum, threshold level of intent required for inequitable conduct.<sup>47</sup>

Ultimately, strong evidence regarding materiality compensated for relatively weak intent evidence.<sup>48</sup>

The Federal Circuit, however, reversed the jury verdict on the antitrust counterclaim. The court began its discussion by holding that “[t]o demonstrate *Walker Process* fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct.”<sup>49</sup> The court again upheld the materiality finding because “the evidence supports a finding that the patent would not have issued if DDI had disclosed the Festival Market sales to the PTO.”<sup>50</sup>

The court then held that the antitrust counterclaimant could not prove that DDI withheld this material information of its sales activity with an intent to deceive. The court reasoned that the intent evidence against DDI was insufficient because all the antitrust plaintiff could show was that the patentee omitted material information and that the jury disbelieved the patentee’s explanation for why it concealed the prior sales activity.<sup>51</sup> Reasoning that this knowing omission of a material fact coupled with a pretextual explanation was not enough to show deceptive intent, the Federal Circuit held that no reasonable jury could find *Walker Process* fraud and reversed the jury verdict on the antitrust counterclaim.<sup>52</sup>

The Federal Circuit’s disparate treatment of deceptive intent for inequitable conduct and antitrust purposes is perplexing. The court held that there was sufficient evidence for the judge to find intent to deceive PTO for inequitable conduct purposes, but that no reasonable jury could have found intent to deceive PTO for *Walker Process* fraud purposes. This is puzzling because no patent applicant intends to deceive the PTO for inequitable conduct purposes, but not for *Walker Process* purposes. The patent applicant’s intent to deceive is effectively the same with respect to inequitable conduct and fraud. In both instances, the patent applicant is withholding information in an effort to get the Patent Office to approve a patent that is as broad as possible.

Through its holding in *Dippin’ Dots*, the Federal Circuit essentially asserts that the quantum of evidence is different between inequitable conduct and fraud. But it

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47. *Id.* at 1346.

48. The court employed the sliding scale that it has since rejected in *Therasense*.

49. *Dippin’ Dots*, 476 F.3d at 1346.

50. *Id.* at 1347.

51. *Id.* at 1348 (“That intent cannot be shown merely from the absence of evidence which would come about from the jury’s discounting DDI’s explanation.”).

52. *Id.* (“[T]hey must prove deceptive intent independently. The defendants have not done so here to the extent necessary for a reasonable jury to find *Walker Process* fraud.”).

articulates no evidentiary standards to explain this holding. The Federal Circuit does not define how the intent to deceive the PTO in order to commit inequitable conduct is different than the intent to deceive the PTO in order to commit *Walker Process* fraud. Yet, the court has imposed two different legal tests for these two purposes, albeit without actually stating what the two different tests are. The *Dippin' Dots* distinction between deceptive intent for inequitable conduct and deceptive intent for antitrust fraud makes little sense.

## 2. *Defining the Intent to Deceive by Comparing Walker Process Decisions*

In reversing the jury verdict in *Dippin' Dots*, the Federal Circuit directed litigants to its opinion in *Nobelpharma AB v. Implant Innovations, Inc.*<sup>53</sup> “as a good example of the sort of facts that do prove *Walker Process* fraud by omission.”<sup>54</sup> In *Nobelpharma*, the inventor had drafted a Swedish patent application that included a citation to a book that the patentee had written years earlier.<sup>55</sup> Before the application was filed in Sweden, the patentee removed all references to the book and also omitted any citation to the book in its American patent application. An American patent issued. When discovered later, however, the book was held to anticipate the patent and thus the patent was invalid.<sup>56</sup> When asked at trial why he deleted references to the book from the draft patent application, the patent agent “could not explain, even in retrospect” why he had done so.<sup>57</sup> Distinguishing its holding in *Nobelpharma*, the *Dippin' Dots* panel noted that the earlier panel had “found that the evidence of actual deletion by the patent agent gave the jury reasonable ground to find intent to defraud by the patentees.”<sup>58</sup> The *Dippin' Dots* panel then sought to distinguish the facts before it from those in *Nobelpharma* by asserting that “[t]here is no similarly strong evidence that the omission in this case was fraudulent.”<sup>59</sup>

Although the *Dippin' Dots* court saw the facts of *Nobelpharma* as markedly different, the pertinent facts are essentially the same. In both cases, the applicant withheld clearly material information. The patentee in *Nobelpharma* omitted a reference to a book that was relevant prior art. The patentee in *Dippin' Dots* omitted a reference to sales that made the invention unpatentable under the on-sale bar.

In both cases, the applicant considered disclosing information but ultimately decided against it. The patentee in *Nobelpharma* initially cited the book in the draft of a foreign patent application, but later removed the reference before filing either

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53. 141 F.3d 1059 (Fed. Cir. 1998).

54. *Dippin' Dots*, 476 F.3d at 1348.

55. 141 F.3d at 1062.

56. *Id.* at 1072.

57. *Id.*

58. *Dippin' Dots*, 476 F.3d at 1348.

59. *Id.*

that application or the American one. This act of deletion proves nothing except that the applicant was considering including the information and ultimately decided against its inclusion. The patent applicant made a judgment call and decided to omit the reference. The patent applicant in *Dippin' Dots* made a similar judgment call—it considered including a reference to the 800 sales and decided not to. That decision, according to the Federal Circuit, was wrong. If *Dippin' Dots* had included a reference to the 800 sales on an internal draft version of its patent application and then decided that the disclosure was not necessary and thus removed it, not a single relevant fact would have changed. Yet, under *Nobelpharma*, *Dippin' Dots* would have committed fraud.

In neither case did the antitrust plaintiff have direct evidence of intent to deceive. In *Nobelpharma*, the court allowed deceptive intent to be inferred from the deletion of a material reference. No direct evidence showed that the patent agent removed the reference to the book in order to deceive the various patent offices. Similarly, the patent infringement defendants in *Dippin' Dots* lacked direct evidence of deceptive intent.

In sum, the underlying misconduct is the same in the two cases. Although the Federal Circuit in *Dippin' Dots* sought to distinguish *Nobelpharma*, this is a distinction without a meaningful difference. In both cases: the patentee knew material information; the patentee withheld the material information; no direct evidence of intent to deceive existed; and the jury inferred deceptive intent from the omission and the lack of a reasonable explanation of that omission. The most important difference between *Dippin' Dots* and *Nobelpharma* is that in *Nobelpharma* the Federal Circuit affirmed the jury verdict finding *Walker Process* fraud and in *Dippin' Dots* the Federal Circuit held that there was insufficient evidence to find fraud. This difference in legal outcomes based on similar facts illustrates the confusion surrounding how to prove deceptive intent for *Walker Process* purposes.

When these two decisions are read in tandem, the ultimate lesson is a roadmap for patent fraud. Any patentee who wants to avoid *Walker Process* liability while omitting material information should simply be sure to not put the information into a draft application and then subsequently remove it. If the Federal Circuit continues to limit *Nobelpharma* to its facts, it will be exceedingly difficult for antitrust plaintiffs to prove *Walker Process* fraud even when they convince a jury. After all, it is the rare case that an applicant puts damning information in a draft, removes it, and leaves a paper trail so that infringement defendants and federal judges can confirm the inclusion and subsequent subtraction.<sup>60</sup>

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60. While other forms of evidence to prove fraudulent intent are possible, patent applicants rarely have reason to memorialize their deceptive intent.

*D. The Problem Post-Dippin' Dots*

Through the manipulation of the intent element, the Federal Circuit has made it exceedingly difficult for *Walker Process* plaintiffs to prevail. The Federal Circuit is increasingly reluctant to find inequitable conduct.<sup>61</sup> Various judges of the court have referred to the defense as a “plague” and an “atomic bomb.”<sup>62</sup> While these characterizations are suspect,<sup>63</sup> they affect *Walker Process* doctrine because the court makes it impossible to prove *Walker Process* fraud in the absence of inequitable conduct. Yet, as shown above, the Federal Circuit seems too reluctant to find deceptive intent for *Walker Process* fraud even when it finds deceptive intent for inequitable conduct purposes. More suspect, the Federal Circuit has artificially distinguished a case in which it affirmed a jury verdict finding *Walker Process* fraud and antitrust liability. Ultimately, the Federal Circuit is quick to label omissions of information to be the product of honest judgment calls that applicants must make.<sup>64</sup>

The Federal Circuit’s impulse to minimize the significance of omissions in *Walker Process* cases is misguided. Omissions should be taken more seriously. The Patent Office has weakened disclosure requirements since the Supreme Court’s opinion in *Walker Process*. While the patentee in *Walker Process* had to swear that it neither knew nor believed that a statutory bar applied, the Federal Circuit has explained that “[t]he PTO does not currently require inventors to file a sworn statement regarding such knowledge or belief.”<sup>65</sup> That is an important difference—omissions during the *Walker Process* era operated as misstatements because the applicant affirmatively swore that nothing was omitted. Ideally, this should be a distinction without a difference. After all, the Federal Circuit has opined that “a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation.”<sup>66</sup> In reality, however, the Federal Circuit treats

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61. See *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) (“[C]ourts must be vigilant in not permitting the [inequitable conduct] defense to be applied too lightly.”); *id.* at 1365 (“[T]he need to strictly enforce the burden of proof and elevated standard of proof in the inequitable conduct context is paramount because the penalty for inequitable conduct is so severe, the loss of the entire patent even where every claim clearly meets every requirement of patentability.”).

62. *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, 525 F.3d 1334, 1349 (Fed. Cir. 2008) (Rader, J., dissenting).

63. Benjamin Brown, *Inequitable Conduct: A Standard in Motion*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 593, 626 (2009) (“[I]nequitable conduct is not a plague upon the courts but, rather, a defense that is pled in a mere 20% of patent infringement cases.”).

64. See *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1365 (Fed. Cir. 1998) (“Deceptive intent is not inferred simply because information was in existence that was not presented to the examiner; and indeed, it is notable that in the usual course of patent prosecution many choices are made, recognizing the complexity of inventions, the virtually unlimited sources of information, and the burdens of patent examination.”).

65. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 n.6 (Fed. Cir. 1998) (citing 35 U.S.C. § 115 (1994); 37 C.F.R. § 1.63 (1996)).

66. *Nobelpharma*, 141 F.3d at 1070.

misrepresentations more harshly than omissions in that the court is more likely to infer fraudulent intent from a misrepresentation than from an omission. For example, the *Dippin' Dots* court held that

to find a prosecution omission fraudulent there must be evidence of intent separable from the simple fact of the omission. A false or clearly misleading prosecution statement may permit an inference that the statement was made with deceptive intent. For instance, evidence may establish that a patent applicant knew one fact and presented another, thus allowing the fact-finder to conclude that the applicant intended by the misrepresentation to deceive the examiner.<sup>67</sup>

This distinction is artificial because the patentee in this case “knew one fact”—that it had made sales of the patented product before the critical date—“and presented another,” namely, that no such sales occurred. The fact that the patentee accomplished its deceit through an omission instead of an affirmative statement is beside the point. The harm caused by the omission is the same as the harm caused by a misrepresentation.

### III. HARMONIZING THE DEFINITION OF DECEPTIVE INTENT

In theory, the applicants’ duty of candor should ensure that applicants disclose all material information concerning their sales and offers. At its heart, the inequitable conduct doctrine primarily serves a disclosure function because if the applicant fails to disclose material information with deceptive intent, then the patent becomes unenforceable.<sup>68</sup> Antitrust liability provides an even more powerful incentive for patent applicants to disclose all material sales information by creating a cause of action for those who suffer injury caused by an illegal monopoly acquired through patent fraud.

Section Two showed how the Federal Circuit has made it difficult for antitrust plaintiffs to prove intent to deceive in the context of omissions. The Federal Circuit is loath to infer deceptive intent from omissions for *Walker Process* purposes. This is odd given that the court is willing to do so when applying the inequitable conduct doctrine.

This Section argues that courts should not treat intent to deceive more harshly for *Walker Process* purposes than for inequitable conduct purposes. This is especially true in the context of omitting sales activity because direct evidence of fraudulent intent generally does not exist. If courts systematically err on the side of treating omissions as innocent mistakes, patent applicants have a powerful incentive to omit invalidating sales from their patent applications. When

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67. *Dippin' Dots*, 476 F.3d at 1347; see also *id.* (“That is not the case with an omission, which could happen for any number of nonfraudulent reasons—the applicant could have had a good-faith belief that disclosure was not necessary, or simply have forgotten to make the required disclosure.”).

68. *Cotropia*, *supra* note 25, at 753 (“The inequitable conduct doctrine is a disclosure doctrine, which, by its inherent nature, creates a flow of information from the applicant to the USPTO.”).



applicants succumb, invalid patents result.

There must be consequences for withholding information from the PTO and those consequences must outweigh the expected value of the willful concealment.<sup>69</sup> This cannot occur unless fraudulent conduct is accurately recognized and properly penalized. Only then can patent fraud be optimally deterred. One major impediment to deterring patent fraud by omission is the Federal Circuit's interpretation of deceptive intent for *Walker Process* purposes.

#### *A. Inferring Deceptive Intent from Omissions*

Proving intent to deceive the PTO is inherently complicated. Patent applicants do not generally commit their fraudulent intentions to paper. They do not document their plans to deceive the Patent Office and its examiners. Consequently, the Federal Circuit has "held that because direct evidence of deceptive intent is rarely available, such intent can be inferred from indirect and circumstantial evidence."<sup>70</sup> In general, however, deceptive intent may not be inferred from the omission alone.<sup>71</sup>

The Federal Circuit has never actually *defined* fraud by omission. It has presented examples of it, as in *Nobelpharma*. But this is a far cry from a functional test for detecting and deterring this species of fraud. Instead, intent is proven through inferences. Because intent to deceive must be inferred from surrounding circumstances,<sup>72</sup> the issue becomes what circumstantial evidence gives rise to inferences of dishonesty. There is no clarity on this issue.<sup>73</sup>

One way to bring more rationality to the definition of deceptive intent for *Walker Process* purposes is to utilize the pre-*Therasense* approach used by the Federal Circuit when analyzing deceptive intent for inequitable conduct purposes. On numerous occasions, the Federal Circuit has inferred deceptive intent when the patent applicant withheld information that it knew or should have known was

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69. Invalidity alone is an insufficient deterrent if the patent should not have issued in the first place.

70. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) (citing *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364 (Fed. Cir. 2007)); *see also Impax Labs., Inc. v. Aventis Pharm., Inc.*, 468 F.3d 1366, 1375 (Fed. Cir. 2006) (Deceptive intent "rarely can be, and need not be, proven by direct evidence."); *Molins PLC v. Textron*, 48 F.3d 1172, 1180–81 (Fed. Cir. 1995) ("Generally, intent must be inferred from the facts and circumstances surrounding the applicant's conduct.")

71. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1365 (Fed. Cir. 1998).

72. *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, 525 F.3d 1334, 1344 (Fed. Cir. 2008) ("Given that direct evidence is often unavailable, intent is generally inferred from surrounding facts and circumstances.")

73. Terrence P. McMahon & Mary B. Boyle, *The "Elevated Evidentiary Burden" to Prove Inequitable Conduct*, 10 SEDONA CONF. J. 197, 201 (2009) ("This general issue—under what circumstances may deceptive intent be inferred—remains a source of uncertainty in the law and, apparently, conflict between different panels in the Federal Circuit.")

material, and failed to provide a credible explanation for the omission.<sup>74</sup> For example, in inequitable conduct cases the Federal Circuit has inferred intent from omission, reasoning that “[t]he high materiality of the withheld prior art coupled with the lack of ‘a credible explanation for the nondisclosure’ led us to conclude that the district court had not committed clear error by inferring an intent to deceive.”<sup>75</sup>

A similar approach should be employed in *Walker Process* cases. Courts should treat materiality of the omitted information as circumstantial evidence of deceptive intent for *Walker Process* purposes. Part of the circumstantial evidence from which intent may be inferred should include the materiality of the omitted information.<sup>76</sup> Even in the absence of a sliding scale, the materiality of the omission is a relevant piece of circumstantial evidence that a reasonable jury could use to infer deceptive intent. Omitting sales information that is indisputably material—i.e., a sale that clearly invalidates the patent under the on-sale bar—is more suspicious than omitting information that is only arguably patent invalidating. The more material the omission, the more appropriate the inference of bad intent.

If a patent applicant knows that sales activity has occurred (whether or not it constitutes a sale or offer before the critical date) and the applicant knows that he must disclose that information to the PTO, the failure to disclose is evidence of intent. This is essentially the approach that the Federal Circuit took in *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.*,<sup>77</sup> in which the judges inferred deceptive intent from the applicant’s omission of a fact despite its knowledge that the fact was material.<sup>78</sup> With respect to deceptive intent regarding misstatements, courts have held that “the fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent.”<sup>79</sup> Similarly, the withholding of material information with the knowledge that the patent applicant is required to produce it should suffice to provide a legal basis for inferring an intent to deceive.

#### *B. Defining Deceptive Intent in a Manner that Optimizes Disclosure*

A less narrow definition of deceptive intent for *Walker Process* purposes

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74. See, e.g., *Monsanto Co. v. Bayer Biosci. N.V.*, 514 F.3d 1229, 1241 (Fed. Cir. 2008) (Gajarsa, J.) (“[A]bsent a credible reason for withholding the information, intent may be inferred where a patent applicant knew, or should have known, that withheld information would be material to the PTO’s consideration of the patent application.”).

75. *McKesson Info. Solutions, Inc. v. Bridge Med., Inc.*, 487 F.3d 897, 916 (Fed. Cir. 2007) (discussing *Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd.*, 394 F.3d 1348 (Fed. Cir. 2005)).

76. This survives *Therasense*.

77. 375 F.3d 1341 (Fed. Cir. 2004).

78. *Id.* at 1360.

79. *Norton v. Curtiss*, 433 F.2d 779, 795–96 (C.C.P.A. 1970).

should increase disclosures of material information. A rational patent applicant deciding whether to include or omit a reference to particular sales activity must consider the costs and benefits of omission. If the omission is deemed material and deceptive intent is found, the inequitable conduct defense would render the patent unenforceable. If the information is sufficiently material that the patent would not have issued if it had been disclosed, then the patent applicant may conclude that the omission is rational. If the penalty for omission is losing a patent that would not have issued but for the omission, then omission is cost-beneficial given the possibility that the misconduct will not be discovered. In contrast, if the penalty for omitting patent-invalidating information is actual damages—which are trebled—awarded to an antitrust plaintiff, then omission is less likely to be cost-beneficial and disclosure is more likely.

To perform their jobs effectively, patent examiners must have access to all material information.<sup>80</sup> Otherwise, patent quality suffers.<sup>81</sup> In many cases, in order to apply the on-sale bar properly, patent examiners must request additional information from the applicant.<sup>82</sup> This, however, assumes that the patent examiner has enough information to appreciate that further questioning is necessary. Unfortunately, patent examiners are generally dependent on patent applicants to provide the relevant information regarding sales activity in the first place.<sup>83</sup> For example, in *Dippin' Dots*, the examiner could not ask specific questions about the 800 sales at the public festival because she was unaware of them.

While holders of valid patents have the right to exclude infringing competitors from the market, even invalid patents can deter market entry.<sup>84</sup> This results in higher prices, lower output, and market inefficiency. While competitors could theoretically enter the market if they thought a patent were invalid, rival firms sometimes do not have access to the information necessary to make an informed decision to enter a market despite the presence of a patent.<sup>85</sup>

Proper disclosure in patent applications is important to help markets function. More disclosure during the patent application process can inform rivals' market entry decisions after the patent issues. Disclosure helps competitors evaluate patent validity when deciding whether to enter the market in a manner

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80. Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 STAN. L. REV. 45, 46 (2007) ("Information is a second significant impediment to PTO review.").

81. Cotropia, *supra* note 25, at 748 ("The assurance of a good patent quality is all about information—both access to it and time for the examiners to use it.").

82. See MANUAL OF PATENT EXAMINING PROCEDURE § 706.2(c) (8th ed., rev. 8, 2010); see also *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1187 ("[E]xaminers have broad authority to request information that they deem relevant to the issue of patentability.").

83. See Cotropia, *supra* note 25, at 754 ("Patent examiners also must rely on applicants to inform them of potential offers to sale, conference presentations, test data, and product brochures regarding the invention.").

84. Leslie, *supra* note 3, at 113–39.

85. See Cotropia, *supra* note 25, at 754 n.156 ("A vast amount of inventor specific material, or hard to find material in a given field, is just not accessible.").

that appears to infringe the patent. When competitors have more information, it adds predictability.<sup>86</sup> Once a firm receives a cease-and-desist letter, it can more easily evaluate the validity of the patent that it is accused of infringing and make a more informed decision whether to cease/desist or to continue “infringing.” Information in the patent application is particularly important in this scenario because the accused infringer does not yet have access to discovery.

Additionally, increased disclosure could render infringement litigation more efficient. After a firm is sued for infringement, it can make a more informed decision whether to settle or litigate. Because the information is already in the file, alleged infringers will have access to the information and be able to focus discovery on determining whether the sales at issue are disqualifying ones and to ask more pointed questions about it during depositions and at trial. Infringement defendants would have more information to make an appropriate on-sale bar defense. At a minimum, it informs and guides the infringement defendant’s discovery efforts in the litigation.

Having additional information in the patent applications would increase transparency.<sup>87</sup> If published patents included when and where the first sale (or offer for sale) took place, those with contrary knowledge would be more likely to expose an earlier invalidating sale. Cleaning up invalid patents improves the efficiency of the overall patent system.<sup>88</sup>

*C. Harmonizing Deceptive Intent for Inequitable Conduct and Walker Process Purposes,  
While Keeping the Doctrines Distinct*

Antitrust liability based on fraudulently procured patents and the defense of inequitable conduct are two separate legal doctrines. In his concurring opinion in *Walker Process*, Justice Harlan made a point of distinguishing between misconduct by a patent applicant that gives rise to antitrust liability and misbehavior that falls outside of antitrust’s purview.<sup>89</sup> The majority opinion, he noted, sought to

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86. Holbrook, *supra* note 12, at 945 (“Competitors similarly suffered because they could not, with certainty, form opinions regarding the validity of a patent when deciding whether to sell a competing and perhaps infringing product.”). Scholars have argued that firms in some industries do not bother to read patents before entering the market because knowing about the patent increases the risk of being found to have willfully infringed, which would increase the damages for infringement. Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law’s Willfulness Game*, 18 BERKELEY TECH. L.J. 1085 (2003). While this may be true in some industries, in others, firms do investigate patents before entering the market.

87. See JAMES BESSEN & MICHAEL JAMES MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK 242 (2008) (“It has become a virtual cliché among policymakers to ever and always emphasize the superiority of transparent government policies. This is certainly true for patents and other property rights.”).

88. Christopher R. Leslie, *Antitrust and Patent Law as Component Parts of Innovation Policy*, 34 J. CORP. L. 1259, 1270–72 (2009).

89. *Walker Process Equip., Inc. v. Food Machinery Corp.*, 382 U.S. 172, 180 (1965) (“[T]o hold, as we do not, that private antitrust suits might also reach monopolies practiced under patents

“achiev[e] a suitable accommodation in this area between the differing policies of the patent and antitrust laws.”<sup>90</sup> Antitrust law reached those “patent[s] procured by deliberate fraud.”<sup>91</sup> Misconduct by patent applicants involving nonfraudulently procured patents was left to patent law. To conflate *Walker Process* fraud with other lesser forms of patent invalidity could chill innovation.

Some may worry that having a more unified definition of deceptive intent risks conflating inequitable conduct and *Walker Process* liability. The doctrines should be kept separate because the inequitable conduct defense is broader than *Walker Process* fraud and reaches more forms of misconduct.<sup>92</sup> Further, *Walker Process* liability imposes a greater penalty in the form of treble damages<sup>93</sup> than the inequitable conduct defense, whose remedy is unenforceability of the affected patent. As the Federal Circuit has noted, “[s]imply put, *Walker Process* fraud is a more serious offense than inequitable conduct.”<sup>94</sup>

The Federal Circuit’s primary flaw in *Dippin’ Dots* was to suggest that the intent requirement is what separates inequitable conduct from fraud. The intent to deceive for both doctrines is essentially the same. The patent applicant intends to conceal damaging information from the patent examiner because of the fear that the examiner will either reject the application or narrow the reach of any patent that eventually issues. The patent applicant does not intend to commit inequitable conduct while not committing *Walker Process* fraud. The patent applicant intends to deceive, period.

What separated inequitable conduct from fraud at the time of the *Dippin’ Dots* decision was not the intent requirement—it was the materiality requirement. The materiality standards for inequitable conduct and fraud were significantly different. A fact was “material” for the purposes of inequitable conduct if a “reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.”<sup>95</sup> A statement could be material for the

that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent, might well chill the disclosure of inventions through the obtaining of a patent because of fear of the vexations or punitive consequences of treble-damage suits. Hence, this private antitrust remedy should not be deemed available to reach [Sherman Act] § 2 monopolies carried on under a nonfraudulently procured patent.”)

90. *Id.* at 181.

91. *Id.* at 179–80.

92. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998) (“Consistent with the Supreme Court’s analysis in *Walker Process*, as well as Justice Harlan’s concurring opinion, we have distinguished ‘inequitable conduct’ from *Walker Process* fraud, noting that inequitable conduct is a broader, more inclusive concept than the common law fraud needed to support a *Walker Process* counterclaim . . . . Inequitable conduct in fact is a lesser offense than common law fraud, and includes types of conduct less serious than ‘knowing and willful’ fraud.”) (citations omitted).

93. 15 U.S.C. § 15(a) (1994).

94. *Nobelpharma*, 141 F.3d at 1070.

95. *Baxter Intern., Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327 (Fed. Cir. 1998); see also *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1367 (Fed. Cir. 2008) (“With respect to the materiality prong, we have held that ‘information is material when a reasonable examiner would

purposes of showing inequitable conduct “even if it does not meet the standard for Rule 56 if, in the totality of the circumstances, a reasonable examiner would have considered such information important in deciding whether to allow the patent application.”<sup>96</sup> In contrast, omitted information was material for *Walker Process* purposes only “if the patent would not have issued ‘but for’ the omission.”<sup>97</sup>

The Federal Circuit’s en banc decision in *Therasense*, however, changed the legal test for materiality for inequitable conduct purposes. In *Therasense*, the Federal Circuit held “that, as a general matter, the materiality required to establish inequitable conduct is but-for materiality.”<sup>98</sup> The majority, however, also “recognize[d] an exception in cases of affirmative egregious misconduct . . . such as the filing of an unmistakably false affidavit.”<sup>99</sup> Thus, although the Federal Circuit explicitly rejected PTO Rule 56, which defined materiality using a “reasonable examiner” standard, the court did not adopt a true but-for test.

If a unified definition of deceptive intent were adopted, the inequitable conduct defense and the *Walker Process* antitrust cause of action would remain separate and distinct legal doctrines, the latter of which being harder to prove. First, inequitable conduct has a lower standard for materiality than *Walker Process* fraud. Before *Therasense*, the Federal Circuit held that inequitable conduct “encompass[ed] misconduct less egregious than fraud.”<sup>100</sup> Most importantly, inequitable conduct included omissions of information that are not relevant to

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consider it important in deciding whether to allow the application to issue as a patent.”) (quoting *Symantec Corp. v. Computer Assocs. Int’l, Inc.*, 522 F.3d 1279, 1297 (Fed. Cir. 2008)).

96. *Monsanto Co. v. Bayer Biosci. N.V.*, 514 F.3d 1229, 1237 n.11 (Fed. Cir. 2008).

There is a dispute over the precise definition of “materiality” for inequitable conduct purposes:

Concerning the ‘materiality prong,’ there are two standards for determining whether information is material. According to the ‘reasonable examiner standard,’ information is material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.” [sic] In 1992, the Patent Office set forth its own interpretation of the standard for materiality in Rule 56, which provides that information is material if it establishes a prima facie case of unpatentability of a claim or if it refutes or is inconsistent with positions taken by the applicant during examination.

Monica A. De La Paz, *Inequitable Conduct: Overview and Current Concepts*, 22 NO. 2 INTELL. PROP. & TECH. L.J. 12 (2010) (citing *Symantec Corp. v. Computer Assocs. Int’l, Inc.*, 522 F.3d 1279, 1297 (Fed. Cir. 2008)); see also Monica A. De La Paz, *Inequitable Conduct: Overview and Current Concepts*, 22 NO. 2 INTELL. PROP. & TECH. L.J. 12 (Feb. 2010) (citing *Digital Control Inc. v. Charles Machine Works*, 437 F.3d 1309, 1316 (Fed. Cir. 2006)) (“In *Digital Control Inc. v. Charles Machine Works*, a 2006 decision, the Federal Circuit held that the reasonable examiner standard still applies and is not superseded by Rule 56, thus resulting in two separate standards for determining materiality that may be applied.”).

97. *United States v. Ciba-Geigy Corp.*, 508 F.Supp. 1157, 1170 (D. N.J. 1979); see *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070 (Fed. Cir. 1998).

98. *Therasense v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011).

99. *Id.* at 1292.; see also *id.* at 1298 (“The majority defines materiality under a but-for test, with an exception for intentionally false affidavits filed with the PTO.”) (O’Malley, J., concurring in part and dissenting in part).

100. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008).

patentability.<sup>101</sup> Although *Therasense* has narrowed the definition of materiality for inequitable conduct, that definition remains broader than materiality for *Walker Process* purposes. *Walker Process* uses true but-for materiality, while *Therasense* adopted what may be termed “but-for plus” since “affirmative egregious misconduct” can be material even if the patent would have otherwise issued. As a result, even after *Therasense*, misconduct can be material for inequitable conduct purposes but still not give rise to *Walker Process* liability.

Second, most instances of inequitable conduct will not give rise to antitrust liability because Section 2 of the Sherman Act requires several other elements before liability attaches to patent misconduct. For example, the antitrust plaintiff must prove that the patentee possesses monopoly power in a relevant market. Many *Walker Process* cases fail because the plaintiff cannot either define a relevant market or prove market power therein.<sup>102</sup> Another difference between inequitable conduct and *Walker Process* fraud is that only the latter requires the claimant to prove reliance. The inequitable conduct defense does not include the element of reliance.<sup>103</sup> Finally, the *Walker Process* plaintiff must prove that it has suffered antitrust injury and calculate damages.<sup>104</sup>

In short, if the *Walker Process* and inequitable conduct tests both employed the same intent element, they would remain separate and distinct legal doctrines.

#### D. Deference to Factual Findings

The Federal Circuit claims to be deferential to jury findings of fact in *Walker*

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101. See Gerald Sobel, *Reconsidering the Scope of the Inequitable Conduct Doctrine in View of Supreme Court Precedent and Patent Policy*, 18 FED. CIRCUIT B. J. 169, 182 (2009) (“Under the Federal Circuit’s standard, information is material even when it is neither important nor relevant to patentability.”); McMahon & Boyle, *supra* note 73, at 199 (“Thus, the inequitable conduct defense is not confined to instances of misrepresentation that bear on the patentability of claims in an application but may involve other types of misrepresentation to the PTO.”); *id.* at 200 (citing McKesson Info. Solutions, Inc. v. Bridge Med., Inc., 487 F.3d 897, 913 (Fed. Cir. 2007)) (“It is well settled that information may be material even if that information would not by itself invalidate the claims.”). For example, concealing past relationships among declarants and a patent’s assignee may constitute inequitable conduct, *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1231 (Fed. Cir. 2006), but would not provide a basis for antitrust liability unless the patent would not have issued had the patent examiner been aware of the relationship. Similarly, inappropriate claiming of small-entity status can constitute inequitable conduct, *Nilssen v. Osram Sylvania, Inc.* 504 F.3d 1223 (Fed. Cir. 2007), but would not constitute *Walker Process* fraud.

102. HOVENKAMP, JANIS, LEMLEY & LESLIE, *supra* note 17, at 11–49.

103. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1365 (Fed. Cir. 1998) (“The requirements of common law fraud are in contrast with the broader sweep of ‘inequitable conduct,’ an equitable defense that may be satisfied when material information is withheld with the intent to deceive the examiner, whether or not the examiner is shown to have relied thereon.”); see also *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1361 (Fed. Cir. 2004) (“The best evidence of the fourth element of the alleged fraud, the PTO’s justifiable reliance on Singh’s deception that induced PTO action, is that the PTO issued the patent.”).

104. See *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1355 (Fed. Cir. 2004).

*Process* cases.<sup>105</sup> For example, it claims that “[t]he jury was entitled to find *all* of [one side’s] evidence credible and to disbelieve *every* assertion that [the other side] made about a disputed fact.”<sup>106</sup> The Federal Circuit has opined that “[t]he drawing of inferences, particularly in respect of an intent-implicating question . . . is peculiarly within the province of the fact finder that observed the witnesses.”<sup>107</sup> But there is reason to believe that Federal Circuit judges do not defer as they should.

In 2008, the Federal Circuit announced an evidentiary standard for drawing inferences that comes close to eliminating altogether deference to trial judges’ findings regarding inequitable conduct. In *Scanner Technologies Corp. v. Icos Vision Systems Corp.*, the court held that “[w]henver evidence proffered to show either materiality or intent is susceptible of multiple reasonable inferences, a district court clearly errs in overlooking one inference in favor of another equally reasonable inference.”<sup>108</sup> The en banc *Therasense* court embraced this approach.<sup>109</sup> On its face, this standard is nonsensical because it implies that when there are two “equally reasonable inference[s],” the trial court errs by picking either one. More importantly, under this standard, the Federal Circuit has essentially usurped the trial judge’s fact-finding role entirely. For example, employing this standard, the Federal Circuit reversed the trial judge’s finding of inequitable conduct in a case because the appellate judges concluded that “deceptive intent is not ‘the single most reasonable inference able to be drawn from the evidence.’”<sup>110</sup> If it is clear error to not use the “single most reasonable inference” and the Federal Circuit decides the single most reasonable inference, then there is no deference on fact-finding at all.

Even before the announcement of this new nondeferential standard, patent

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105. *Id.* at 1361 (referring to “the limited factual review that we apply to sufficiency of evidence arguments about jury findings”).

106. *Id.*

107. *Molins PLC v. Textron*, 48 F.3d 1172, 1180–81 (Fed. Cir. 1995). When reviewing an infringement defendant’s successful use of an inequitable conduct defense, the Federal Circuit claims to “review the underlying factual determinations for clear error, but we review the ultimate decision as to inequitable conduct for an abuse of discretion.” *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008) (citing *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364–65 (Fed. Cir. 2007)); *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, 525 F.3d 1334, 1343 (Fed. Cir. 2008) (“We review a district court’s finding of intent to deceive for clear error.”); *Monsanto Co. v. Bayer Bioscience N.V.*, 514 F.3d 1229, 1233 (Fed. Cir. 2008); *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364 (Fed. Cir. 2007). A finding of intent will not be overturned “in the absence of a ‘definite and firm conviction’ that a mistake has been made.” *Hoffmann-LaRoche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1359 (Fed. Cir. 2003) (quoting *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995)). Thus, when “the district court’s determination of inequitable conduct is based on a clearly erroneous finding of materiality and/or intent, it constitutes an abuse of discretion and must be reversed.” *Star Scientific*, 537 F.3d at 1365 (Fed. Cir. 2008) (citing *Impax Labs., Inc. v. Aventis Pharm., Inc.*, 468 F.3d 1366, 1375 (Fed. Cir. 2006)).

108. 528 F.3d 1365, 1376 (Fed. Cir. 2008).

109. *Therasense v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011).

110. *Ariad Pharm., Inc. v. Eli Lilly & Co.*, 560 F.3d 1366, 1379 (Fed. Cir. 2009).



scholars have observed that the Federal Circuit often does not defer to the factual findings of juries. The appropriate level of appellate deference is a function of whether the appellate court is reviewing a finding of fact or a holding of law, the former receiving a much higher degree of deference.<sup>111</sup> Much evidence suggests that the Federal Circuit often essentially applies de novo review to questions of fact. Professor Arti Rai has argued that “[i]gnoring conventional allocation-of-power principles that give trial courts primary authority over factual questions, the Federal Circuit has asserted power over fact.”<sup>112</sup> For example, the Federal Circuit often reviews infringement determinations de novo<sup>113</sup> and “in important cases involving the enablement requirement, the court has paid mere lip service to principles of deferential review.”<sup>114</sup> Professor Rai explains:

The court has been quite aggressive in its application of de novo review. Two recent empirical studies estimate that the Federal Circuit has disagreed with lower court claim construction in at least one-third of all appealed cases. Notably, the Federal Circuit’s plenary review of claim construction can have something of a domino effect, leading the court to arrogate power over issues even it admits are factual, such as infringement. This domino effect works as follows: because claim construction bears heavily on the question of infringement, a decision to overturn the district court’s claim construction often means that a new determination regarding infringement must be made. At that point, the Federal Circuit faces two choices. It can either remand to the district court for cumbersome new fact-finding on the question of infringement, or it can simply determine the question of infringement itself. Even though infringement is, under the Federal Circuit’s own jurisprudence, a factual issue, the Federal Circuit is often reluctant to remand for a new trial on infringement. Rather, the court simply declares that there is no factual dispute with respect to infringement. As a consequence, de novo review of claim construction effectively becomes de novo review of infringement.<sup>115</sup>

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111. See Jeanne C. Fromer, *Patentography*, 85 N.Y.U. L. Rev. 1444, 1460 (2010) (“The degree of deference accorded to district court determinations in patent law depends on whether they are labeled as factual or legal issues. The Supreme Court has ruled that the Federal Circuit, like the other federal courts of appeal, must review factual findings deferentially for clear error.”) (citing *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 809–11 (1986) (per curiam)).

112. Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877, 883 (2002).

113. See William C. Rooklidge and Matthew Weil, *Judicial Hyperactivity: The Federal Circuit’s Discomfort With Its Appellate Role*, 15 BERKELEY TECH. L.J. 725 (2000).

114. Rai, *supra* note 112, at 886; see Timothy R. Holbrook, *Patents, Presumptions, and Public Notice*, 86 IND. L.J. 779 (2011).

115. Rai, *supra* note 112, at 884–85 (citing Christian Chu, *Empirical Analysis of the Federal Circuit’s Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075, 1104 (2001)) (giving figure of 44%); Kimberly A. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 15 HARV. J.L. & TECH. 1, 11 (2001) (giving figure of 33%).

Whether this overreaching is the result of an honest mistake or a naked power grab,<sup>116</sup> the result for litigants is the same: factual findings at the district court level carry little weight on appeal before the Federal Circuit.

These observations by patent scholars also resonate in cases involving allegations of deceptive conduct by patent applicants. The Federal Circuit seems prone to overturning jury verdicts for antitrust plaintiffs in *Walker Process* lawsuits as well as findings of inequitable conduct in patent infringement cases.<sup>117</sup> In *Walker Process* cases, the issue of whether a patent applicant intended to deceive the PTO is a factual question and thus the determination by the jury—or the district judge in a bench trial—is entitled to substantial deference. Nevertheless, the Federal Circuit appears unwilling to defer to jury findings in *Walker Process* cases involving fraud by omission. For example, in *Dippin' Dots*, the Federal Circuit reversed the jury's finding of fraud because "an omission . . . could happen for any number of nonfraudulent reasons—the applicant could have had a good-faith belief that disclosure was not necessary, or simply have forgotten to make the required disclosure."<sup>118</sup> But the jury clearly rejected those alternative interpretations when it found—as a matter of fact—that the patent applicant intended to deceive the PTO. The Federal Circuit, essentially, did not treat the jury's verdict as based on a factual finding entitled to deference and instead the Federal Circuit simply substituted its own interpretation of the patent applicant's decision to withhold material information.

The Federal Circuit should defer more to factual findings of fraudulent intent for two reasons. First, it is reasonable for a jury to infer deceptive intent from an omission when the applicant knows about a particular fact, knows that it has a duty to disclose that fact, and conceals that fact from the patent examiner. In *Dippin' Dots*, the Federal Circuit claimed to defer to the jury by stating that the "jury was of course allowed to disbelieve or discount evidence tending to support this claim,"<sup>119</sup> but then went on to reject the jury's finding of deceptive intent because "the defendants submitted no evidence of their own—aside from the absence of the Festival Market sales from the prosecution record—which affirmatively shows DDI's fraudulent intent."<sup>120</sup> But the court gave no guidance as to what this "affirmative" evidence would look like—especially given the fact that

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116. See Fromer, *supra* note 111, at 1475 ("Some critics wonder whether the Federal Circuit's labeling of some questions as legal—while thoroughly reviewing other, ostensibly factual questions—might be a 'power grab.'") (citing Peter Zura, *Looking for Fire Amidst the Smoke—Is the Federal Circuit Really Exceeding Its Appellate Authority in Patent Infringement Cases?*, 12 U. BALT. INTELL. PROP. L.J. 1, 22 (2003)).

117. See, e.g., *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) (reversing jury verdict for *Walker Process* plaintiff); *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1367–68 (Fed. Cir. 2008) (reversing finding of inequitable conduct).

118. *Dippin' Dots v. Mosey*, 476 F.3d 1337, 1347 (Fed. Cir. 2007).

119. *Id.* at 1348.

120. *Id.*

no patent applicant memorializes his fraudulent intent in writing and, under longstanding precedent, such intent must be inferred. The Federal Circuit opined that “intent cannot be shown merely from the absence of evidence which would come about from the jury’s discounting DDI’s explanation.”<sup>121</sup> But when the patent applicant knows about the sales and claims that it did not disclose them because it thought it did not have to, and the jury finds that the applicant lied in order to conceal material information, the jury’s factual finding that the applicant is lying supports a finding of deceptive intent. In contrasting omissions with misstatements made during the prosecution of the patent, the *Dippin’ Dots* court asserted that “to find a prosecution omission fraudulent there must be evidence of intent separable from the simple fact of the omission. A false or clearly misleading prosecution statement may permit an inference that the statement was made with deceptive intent.”<sup>122</sup> The Federal Circuit apparently ignored the fact that the jury did find that the patentee made an affirmative misrepresentation: it happened at trial. The patentee claimed that it withheld the information for a legitimate reason and the jury concluded that that statement was false. That factual conclusion deserves deference.<sup>123</sup>

Second, the Federal Circuit should also defer to factual findings of deceptive intent because the fact finder is better positioned to make such a determination. In reviewing findings of deceptive intent, the Federal Circuit gives lip service to the principle that “credibility determinations are an aspect of fact-finding that appellate courts should rarely reverse.”<sup>124</sup> Such pronouncements, however, appear insincere given the court’s proclivity to reverse these precise factual findings, as the court did in *Dippin’ Dots*. While it may be possible to construct an argument that “in patent law, when the Federal Circuit’s judges are greater patent experts than the district court’s, the Federal Circuit might seem to be in a better position to review technological facts and credibility,”<sup>125</sup> patent expertise is less relevant when determining credibility regarding deceptive intent. More importantly, not being present at trial, the Federal Circuit judges have little basis for evaluating witness credibility, including demeanor, speech patterns and body language—all of the various factors that jurors assess when determining whether a witness is telling the truth or being deceptive.<sup>126</sup>

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121. *Id.*; see also *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1367–68 (Fed. Cir. 2008) (reversing district court finding of deceptive intent regarding inequitable conduct).

122. *Dippin’ Dots*, 476 F.3d at 1347.

123. See *Star Scientific*, 537 F.3d at 1367–68 (“The district court indicated that it viewed [the patentee’s] testimony as not credible and that this credibility determination was a major basis for its finding of deceptive intent.”). The Federal Circuit reversed the fact finder. *Id.*

124. *Id.*

125. Fromer, *supra* note 111, at 1475.

126. See *id.* at 1476 (“[I]he Federal Circuit’s usurpation of factfinding is not ideal. For one thing, the Federal Circuit typically sees only a cold record, usually as abridged by the litigants’ lawyers. It neither evaluates witness testimony in the first instance, nor sees all of the evidence—testimonial and documentary—that comes before the district court . . .”).

*E. An Antitrust Remedy for Failing to Disclose Material Sales Activity*

If a patent applicant conceals material sales activity, there should be negative consequences for the failure to disclose. The patent law response is the defense of inequitable conduct, which renders the claims in the patent application unenforceable if the infringement defendant can establish the elements of the defense.<sup>127</sup> The antitrust response is the *Walker Process* cause of action for illegal monopolization.

Antitrust liability is the proper response when a patent applicant knows that she has a duty to disclose, fails that duty, and uses the fraudulent patent to acquire or maintain a monopoly. Fraudulently procured patents can wreak havoc on a competitive economy.<sup>128</sup> Although the patent system is the most immediate victim of patent fraud through omission, patent law provides an inadequate response to such misconduct.

Patent law's reliance on the inequitable conduct defense to penalize omission of material information is insufficient for several reasons. First, to be effective, the legal response to the patent misconduct that distorts markets and reduces innovation must accomplish several related goals: (1) prevent owners of tainted patents from exercising the exclusionary rights associated with the patent; (2) disgorge the ill-gotten gains associated with the misconduct; (3) deter future misconduct; and (4) compensate the victims of the misconduct.<sup>129</sup> While the inequitable conduct defense can achieve the first step and perhaps some modicum of deterrence, the patent system is not designed to disgorge or compensate.<sup>130</sup> As a result, if the only response to patent fraud is the inequitable conduct defense, patent fraud would be profitable for patentees. Ill-gotten gains are not disgorged and the victims of the patent fraud are not entitled to any compensation under patent law. So, under patent law, the transgressor is entitled to keep any supra-competitive profits received before the inequitable conduct defense invalidates the patent.

Second, by the time that a patent is rendered unenforceable through the inequitable conduct defense, the misconduct may already be net profitable. Absent their inequitable conduct, the applicant would probably not receive the patent.<sup>131</sup>

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127. See *supra* notes 26–38 and accompanying text.

128. See *supra* notes 3–7 and accompanying text.

129. Leslie, *supra* note 88, at 1286.

130. *Id.* In theory, deterrence could be achieved at the attorney level. The individual patent attorney may also be punished, Cotropia, *supra* note 25, at 763, but this rarely happens. Furthermore, attorney sanctions do not deter all misconduct because some attorneys will try to be willfully ignorant of invalidating sales. See *Brasseler v. Stryker Sales Corp.*, 93 F.Supp.2d 1255, 1264 (S.D.Ga. 1999) (“But patent counsel’s studied refusal to timely investigate and disclose after the fact easily supplies the inequitable conduct needed to satisfy 35 U.S.C. § 285.”). Also patentees may try to “empty-head” their own patent counsel” by denying them material information about invalidating sales. *Id.* at 1264.

131. Brown, *supra* note 63, at 612–13 (“[I]f the patentee committed inequitable conduct, then the patent is probably invalid.”); *Id.* at 614 (“[P]atentees that commit inequitable conduct typically

A patent owner with an invalid patent—even one that others suspect to be invalid—can expect to earn more profits than a comparable firm without the patent.<sup>132</sup> If the patent is later rendered unenforceable pursuant to the inequitable conduct doctrine, the deceptive patent applicant has already collected licensing fees, charged a supracompetitive price, and earned a supracompetitive profits. In some cases, by the time that the court invalidates the patent, the patent may have already expired. For example, in *Walker Process* itself, the patentholder brought the infringement suit when there were only six months left before the patent expired. By the time that the court ruled on either an inequitable conduct defense or an antitrust counterclaim, the claimed invention would have already entered the public domain.<sup>133</sup> Under these facts, the inequitable conduct defense has no teeth. A legal doctrine that makes an expired patent unenforceable is worthless.

In contrast to patent law, an antitrust response to patent fraud achieved through the omission of material sales activity with an intent to deceive the PTO can achieve all of the necessary goals. First, the patent is rendered unenforceable as it would be under the inequitable conduct defense.<sup>134</sup> The holder of the fraudulent patent can no longer wield it as a club to threaten competitors and to exclude them from the market.

Further, because the enforcement of fraudulently procured patents is monopoly conduct, if the other elements of a Section 2 claim are present, the antitrust plaintiff is entitled to treble damages. This would be triple the lost profits of illegally excluded competitors. In those jurisdictions that allow consumers standing to pursue *Walker Process* lawsuits, consumers would be entitled to triple the overcharge that they paid because of the fraudulent patent. Antitrust's treble damages should both disgorge the patentee's ill-gotten gains and compensate victims who suffered damages caused by the fraudulent patent. As a result, antitrust liability for fraudulent omissions of sales activity better achieves the goals of the patent system.

In short, antitrust liability for omissions of patent-invalidating sales information—done with deceptive intent—better protects the patent system from fraud by omission of sales activity. So long as the Federal Circuit's antitrust jurisprudence interprets deceptive intent in a manner that makes it unreasonably difficult for plaintiffs to establish *Walker Process* liability, the patent system is unlikely to deter fraud by omission. The net effect of liberalizing the means of proving deceptive intent for antitrust purposes is to render patent fraud not cost-

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have patents that are invalid when the court decides both issues.”).

132. Leslie, *supra* note 3.

133. *See* *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989) (“[A]fter the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.”).

134. In those cases in which the *Walker Process* cause of action is brought as a counterclaim, the infringement defendant would likely raise an inequitable conduct defense and thus the patent may be rendered unenforceable before the antitrust claim is even considered.

beneficial and thus to deter future fraud.

#### IV. POSSIBLE CONCERNS

Changing patent law to make it easier to impose antitrust liability on patentees who withhold material sales information from patent examiners will be controversial. To some, it may smack of strict liability. Others may fear that the antitrust cause of action may become indistinguishable from the inequitable conduct defense. Finally, the concern that patent applicants will inefficiently overcomply with the new requirements will dissuade some readers from embracing this Article's proposal. This section addresses these concerns.<sup>135</sup>

##### *A. Strict Liability*

Under the proposal in Part III, deceptive intent can be shown through circumstantial evidence of a patentee's knowing omission of certain sales information. This is not a revolutionary change given that intent has always been provable through circumstantial evidence.<sup>136</sup> Some may fear that the suggestions in Part III are tantamount to strict liability because materiality can provide evidence of intent. Strict conflation would be misguided because "[w]ith regard to the deceptive intent prong, [the Federal Circuit has] emphasized that 'materiality does not presume intent, which is a separate and essential component of inequitable conduct.'"<sup>137</sup>

The proposals do not constitute strict liability, however, because the patentee who is an antitrust defendant can escape liability by showing that she lacked the requisite intent. First, the patentee can argue that she made an honest judgment call that happened to be wrong. Good faith negates deceptive intent<sup>138</sup> and represents a defense against fraud, including *Walker Process* fraud.<sup>139</sup> It may be harder to convince juries of good faith when the disclosure requirements are more

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135. Another potential objection is that infringement defendants may file weak *Walker Process* claims that they otherwise would not. A uniform standard for deceptive intent for inequitable conduct and antitrust fraud purposes should not have a meaningful effect on the course of infringement litigation. First, *Walker Process* counterclaims are already ubiquitous. Second, any infringement defendant induced to bring a *Walker Process* claim because of the lower intent requirement would already be making an inequitable conduct defense, which under the proposal has the same intent requirement. Consequently, the discovery sought by the infringement defendant should remain the same. Third, weak *Walker Process* claims will fail because the *Walker Process* plaintiff must still prove that the patent applicant made a material omission or misrepresentation that caused a patent to issue that should not have.

136. Cotropia, *supra* note 25, at 734 ("Circumstantial evidence can be used to prove the relevant party's intent.")

137. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) (quoting *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1274 (Fed. Cir. 2001)).

138. *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988) (en banc).

139. *See C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1365 (Fed. Cir. 1998) ("Good faith is an absolute defense to the charge of common law fraud.")

clear and more rigorous.<sup>140</sup> However, if the patentee can provide “a credible reason for the withholding, the materiality of the references standing alone is not sufficient to establish intent.”<sup>141</sup> The failure to have a good faith explanation can be evidence of deceptive intent.<sup>142</sup>

Second, the patentee can argue that the omission was the result of a transcription error, not a conscious decision or intentional act. The Federal Circuit has suggested that a “failure to disclose . . . due purely to inadvertence” is insufficient to establish deceptive intent.<sup>143</sup> If the patentee can convince the fact finder that she made a clerical mistake—not a deliberate omission—then this would negate deceptive intent. This, however, is a question of fact for the jury (or trial judge in a bench trial) to determine based on witness credibility.

In sum, direct evidence of intent to defraud the Patent Office almost never exists. This Article argues that a patentee’s omission of particular categories of sales data is *prima facie* evidence of deceptive intent. There is no strict liability because the jury must find intent and the patentee can refute the evidence of intent. Although the patentee can argue that the omission was a good faith judgment call or a transcription error, the jury is free to disbelieve the patentee’s explanation of the omission and to infer intent from the omission. Appellate courts should not interfere with the province of the jury on what is an inherently factual issue. Ultimately, this is a jury question and appellate courts should respect its decision.

### B. *Too Costly*

Some may argue that any change in the method of proving deceptive intent that encourages greater disclosures could increase the cost of every patent application. This arguably would be inefficient because only a minority of patents are actually enforced. Mark A. Lemley has argued that resources are better spent evaluating those patents that prove to be valuable instead of laboriously vetting every patent application, most of which will not affect market competition.<sup>144</sup> The point is well taken that neither patent applicants nor patent examiners should overinvest in the search for prior art during the patent examination process. But

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140. *Purdue Pharma L.P. v. Endo Pharm., Inc.*, 438 F.3d 1123, 1133–35 (Fed. Cir. 2006) (“[A] patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality, can expect to find it difficult to establish ‘subjective good faith’ sufficient to prevent the drawing of an inference of intent to mislead.”).

141. *Pfizer, Inc. v. Teva Pharm. USA, Inc.*, 518 F.3d 1353, 1367 (Fed. Cir. 2008).

142. *See Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306, 1315 (Fed. Cir. 2008).

The *Therasense* majority held that “[t]he absence of a good faith explanation for withholding a material reference does not, *by itself*, prove intent to deceive.” *Therasense v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011) (emphasis added). This suggests that the lack of an explanation can help build a circumstantial case, even if it is not dispositive.

143. *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, 176 F. App’x 117, 123 (Fed. Cir. 2006).

144. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495 (2001).

these arguments are not particularly persuasive in the context of sales information.

More rigorous disclosure requirements regarding the patentees' own sales activity is reasonable. It is important not to impose unreasonable burdens on patent applicants. For example, the patent applicant bears no affirmative duty to search for prior art.<sup>145</sup> The patent applicant does not have to research prior art because that would impose too great a burden, especially on independent inventors. But the patent applicant already knows about its sales activity. Requiring the applicant to disclose the information to the PTO does not represent an onerous burden because patent applicants know about their own sales activity. From an efficiency standpoint, they should bear the burden of producing all potentially relevant information because they are the lowest-cost provider of that information.<sup>146</sup> As Polk Wagner has explained, “[a]mong the ‘parties’ to the patent transaction, the patentee is either the best informed or the one who can most easily and cheaply become the best informed about the context of her innovation.”<sup>147</sup> This is particularly true in the context of the patentee’s own sales history.<sup>148</sup>

### C. Overcompliance

Another concern may be that increasing the potential liability for omissions by making it easier to infer deceptive intent may lead patent applicants to overcomply by providing too much information, including much that is

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145. *FMC Corp. v. Hennessy Indus., Inc.*, 836 F.2d 521, 526 n.6 (Fed. Cir. 1987) (“As a general rule, there is no duty to conduct a prior art search, and thus there is no duty to disclose art of which an applicant could have been aware.”).

146. *See Cotropia*, *supra* note 25, at 781.

147. R. Polk Wagner, *Reconsidering Estoppel: Patent Administration and the Failure of Festo*, 151 U. PA. L. REV. 159, 213 (2002); *Cotropia*, *supra* note 25, at 754 (“The doctrine generates valuable information by placing information production responsibilities on a low-cost provider. Production of information costs the applicant, but the doctrine limits this cost by requiring the applicant to consider only the information already in her possession.”).

148. The on-sale bar applies not only to sales and offers by the patent applicant, but by any third party whether or not it has a relationship with the patent applicant. *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1355 (Fed. Cir. 2001) (“By phrasing statutory bar in the passive voice, Congress indicated that it does not matter who places the invention ‘on sale’; it only matters that someone—inventor, supplier or other third party—placed it on sale.”); *J.A. LaPorte, Inc. v. Norfolk Dredging Co.*, 787 F.2d 1577 (Fed. Cir. 1986) (The “on sale” bar “is not limited to sales by the inventor or one under his control, but may result from activities of a third party.”); *see Evans Cooling Sys., Inc. v. General Motors Corp.*, 125 F.3d 1448 (Fed. Cir. 1997) (on-sale bar triggered by sales of third party that misappropriated applicant’s invention); *see also* 2 DONALD S. CHISUM, CHISUM ON PATENTS, § 6.02 [6] (2008) (“[T]he public use and on sale bars apply even when the activity is by a person or persons who independently create the invention.”).

Third-party sales are different because the patent applicant did not make them and may not have direct information about them. If the reason for inferring fraud from the withholding of the material information in the sales context is that the patent holder has unique information, this premise is not applicable when the sales were made by a third party. Nevertheless, if the patent applicant had actual knowledge of those third-party sales and still declined to disclose them, that could still provide the basis for an inequitable conduct offense or a *Walker Process* counterclaim.



extraneous, to patent examiners.<sup>149</sup> Scholars have argued that the urge to overdisclose exists currently because a finding of inequitable conduct invalidates the entire patent.<sup>150</sup> Risk-averse patent applicants may overcomply to avoid the possibility of being found to have engaged in inequitable conduct by withholding information.<sup>151</sup> Less valid reasons to overproduce material for patent examiners include the desire to bury bad information in a flood of irrelevant records<sup>152</sup> and the desire of an unscrupulous attorney to run up the legal bills.<sup>153</sup>

The costs of overcompliance can be great. As patent applicants overload the examiner with irrelevant information, the examiner may overlook facts that would result in denial of the patent.<sup>154</sup> The pressure to overcomply may increase the price of patent prosecution.<sup>155</sup> The submission of irrelevant prior art reference waste resources.<sup>156</sup> The ultimate effect of overcompliance may be to reduce patent quality.<sup>157</sup>

The arguments about overcompliance are well taken. The problem, however,

149. *Therasense v. Becton, Dickinson and Co.*, 649 F.3d 1276, 1289 (Fed. Cir. 2011) (“With inequitable conduct casting the shadow of a hangman’s noose, it is unsurprising that patent prosecutors regularly bury PTO examiners with a deluge of prior art references, most of which have marginal value.”).

150. *Cotropia*, *supra* note 25, at 729 (“[T]he doctrine, through the extreme legal and extra-legal costs it currently imposes, incentivizes inventors and, in particular, patent attorneys to overcomply by submitting all information, regardless of relevance, to the USPTO.”).

151. *Id.* at 768 (“Even if the information is not material to the claimed invention, disclosure absolves any potential violation of the doctrine.”).

152. *Brown*, *supra* note 63, at 619 (“Many patent applicants submit massive amounts of prior art references in Information Disclosure Statements (IDS) to avoid any later inequitable conduct allegations that they omitted any material information, but in so doing bury relevant references among those having little or no significance.”); *cf.* *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1184 (Fed. Cir. 1995) (“‘[B]urying’ a particularly material reference in a prior art statement containing a multiplicity of other references can be probative of bad faith.”).

153. *Cotropia*, *supra* note 25, at 769 (“Added to this is the fact that overcompliance generates more legal fees. The attorney gets to charge her client for the time required to submit the additional information and continue prosecution if necessary.”).

154. *See id.* at 771 (“Information overload can even cause the examiner to become so overwhelmed that she does not even attempt to sift through the applicant’s submissions. She ignores them completely.”); *Therasense*, 649 F.3d at 1289 (“This tidal wave of disclosure makes identifying the most relevant prior art more difficult.”).

155. *Cotropia*, *supra* note 25, at 772.

156. *See id.* at 777 (“Reading and evaluating a reference is the most attorney intensive, and thus expensive, part of submitting information to the USPTO.”).

157. *See id.* at 729 (“The tremendous incentive for applicants to overcomply can actually decrease patent quality.”). Professor Cotropia explains:

Overcompliance puts any improvement in patent quality created by the inequitable conduct doctrine at risk. It overloads the examiner with information that, in most instances, is immaterial. The examiner, with an extremely small amount of time to examine highly technical subject matter, does not process all of the submitted information or ignores it altogether, erasing any quality gains. In fact, the doctrine may end up doing more harm than good. Overcompliance can so stress the examiner as to impair her ability to make a sound decision based on the information she does process. Overcompliance further prices inventors out of the patent system, causing its own set of societal harms.

*Id.* at 770.

is less applicable to sales activity than other prior art references. The submission of excessive and unnecessary references is primarily a concern in the context of prior art references that are potentially limitless as when a patent applicant floods the Patent Office with tangential studies and irrelevant reports in foreign languages.<sup>158</sup> In contrast, sales activity is more finite and patent applicants are less able to deluge patent examiners with irrelevant sales information. Also, as Professor Chris Cotropia notes, “The chances of overload are particularly high when the information is highly technical or complex.”<sup>159</sup>

Compared to other aspects of the patent examination process, sales information is not likely to be either technical or complex.

Still, any enhancement of disclosure rules should be implemented in a manner that reduces the risk of inefficient overcompliance. Rules should encourage disclosure, but that disclosure should be in a form that allows for efficient processing. For example, the Patent Office could reduce the risk of information overload by requiring an itemized list of all sales activity. This reduces the risk of suspect sales being buried in documents and a patent examiner not reviewing them. Further, patent applicants could be required to include relevancy statements with their sales activity disclosure.<sup>160</sup> This would reduce the risk of extraneous disclosures designed to overburden the examiner.

In any case, the problem of overcompliance with Patent Office disclosure requirements must be balanced against the risk of undercompliance. While some patent applicants may overcomply by producing irrelevant references, others are undercomplying by withholding material information, as the *Dippin’ Dots* case illustrates. The costs of undercompliance are significant as well. The omission is dangerous because the information is not in the PTO record. In the event of overcompliance, at least the relevant information is in the patent application for later infringement defendants to easily discover. When a patent issues that should not have because the examiner did not receive patent-invalidating information, the patentee improperly acquires the ability to exclude competitors from the market and patentees may be able to secure tens of millions of dollars in monopoly profits.<sup>161</sup> Because the potential gains from deception by omitting patent-invalidating sales information are so great, the consequences of deception must be

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158. Cf. John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 315 (2001) (“Where the applicant is already well informed of the prior art, the specter of inequitable conduct too often causes applicants to submit virtually every reference of which they are aware.”).

159. Cotropia, *supra* note 25, at 771.

160. *Id.* at 743 (“Relevancy statements help the USPTO understand the submitted information in the context of patent application. The USPTO does not need to spend as much time digesting the submitted information. Nor does the USPTO have to expend as much energy placing the submitted information in the context of the patentability of the claimed invention. Such statements facilitate a better and more efficient examination.”).

161. Leslie, *supra* note 3, at 124.

correspondingly great. Antitrust liability imposes a more meaningful cost on patent fraud and therefore is more likely to deter deceptive omissions of information that would cause a patent examiner to reject an application based on the on-sale bar.

#### V. CONCLUSION

Because antitrust liability is seen as a harsh weapon, the Federal Circuit is too quick to find an absence of deceptive intent. This invites fraud by making fraud by omission appear profitable. Courts should not require antitrust plaintiffs to provide more evidence of deceptive intent for *Walker Process* purposes than infringement defendants need to provide in order to prevail on an inequitable conduct defense. If courts did this, it should enhance deterrence of patent fraud.