

# **WALKER PROCESS PROOF: THE PROPER PRESCRIPTION**

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Anglo-American courts have long condemned the acquisition of public rights through fraud on public institutions. Extending this tradition in 1965, the Supreme Court held in *Walker Process Equipment, Inc. v. Food Machinery and Chem. Corp.* that acquisition of a patent by means of deliberate misrepresentations to the U.S. Patent and Trademark Office (the “Patent Office”) may subject the patent owner to treble damages under the antitrust laws.<sup>1</sup> Of course, the Supreme Court has overturned several of its antitrust holdings predating 1970.<sup>2</sup> But the Court has not questioned the *Walker Process* holding, and there has been no call for the Court to curtail or back away from the *Walker Process* doctrine.<sup>3</sup> Who is going to defend fraud on the Patent Office?

As a matter of antitrust law, there should be no reason to question the *Walker Process* holding. Soon after deciding *Walker Process*, the Supreme Court held that actionable monopolization under section 2 of the Sherman Act requires both possession of monopoly power in a relevant market and “the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historical accident.”<sup>4</sup> This formulation of the Section 2 offense remains the cornerstone of the Supreme Court’s monopolization analysis.<sup>5</sup> Acquisition of a patent through deliberate misrepresentations to the Patent Office easily qualifies as “willful” under the Supreme Court’s formulation; it certainly does not qualify as “innocent” acquisition of market power through business acumen or historical accident. And a wrongfully obtained patent could not be considered a “superior product.”

Correspondingly, nothing in patent law conflicts with the *Walker Process* doctrine. Most fundamentally, patent law must “promote the Progress . . . of useful

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<sup>1</sup> 382 U.S. 172 (1965).

<sup>2</sup> See, e.g., *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 127 S. Ct. 2705 (2007) (overruling treatment of resale price maintenance as per se unlawful); *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006) (overruling presumption that a tying product patent confers sufficient market power to make a tie unlawful); *State Oil Co. v. Khan*, 522 U.S. 3 (1997) (overruling treatment of maximum price fixing as per se unlawful).

<sup>3</sup> Leading antitrust commentators consider the *Walker Process* cause of action to be well established. 3 P. AREEDA & H. HOVENKAMP, *ANTITRUST LAW* ¶¶ 705-706 (3d ed. 2008). A recent scholarly publication proposing a variety of reforms of interrelated patent and antitrust legal principles does not even mention the *Walker Process* doctrine. M. CARRIER, *INNOVATION FOR THE 21<sup>ST</sup> CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY AND ANTITRUST LAW* (2009).

<sup>4</sup> *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

<sup>5</sup> See *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407 (2004) (quoting the passage from *Grinnell* quoted in the text of this article).

Arts.”<sup>6</sup> To enforce patent rights acquired by means of deliberate misrepresentations to the Patent Office would promote, not the “useful Arts,” but misrepresentations to the Patent Office. It is no wonder, then, that the Supreme Court has long held that proof of “fraudulent procurement” defeats enforcement of a patent.<sup>7</sup> In fact, patent law generally recognizes that “inequitable conduct” short of outright fraud will defeat patent protection.<sup>8</sup> As an antitrust scholar has justifiably concluded, the fraudulent conduct before the Patent Office in *Walker Process* “posed significant threats to competition” but did not further “any interest that the [patent] laws were intended to protect.”<sup>9</sup>

Nevertheless, certain federal Circuit Courts have consciously curtailed the *Walker Process* cause of action.<sup>10</sup> This is particularly true of the Federal Circuit Court of Appeals, which in 1983 was granted exclusive jurisdiction over appeals in patent cases.<sup>11</sup> The purpose of this article is to critique holdings of the Circuit Courts, and in particular the more recent decisions of the Federal Circuit, restricting proof of *Walker Process* claims. The premise of the article is that the Federal Circuit and certain other Circuits have improperly constrained the *Walker Process* cause of action in a straightjacket of four erroneous proof requirements.

First and foremost, several circuit courts, including the Federal Circuit, have required clear and convincing proof of the “fraud-on-the-Patent-Office” element of the *Walker Process* cause of action.<sup>12</sup> Second, the Federal Circuit has engrafted the elements of the common law action for fraud onto the antitrust elements in a *Walker Process* case.<sup>13</sup> Third, the Ninth and Federal Circuits have required *Walker Process* claimants to prove some affirmative enforcement of the offending patent.<sup>14</sup> Fourth, and most recently, the Federal Circuit, while conducting an unprecedentedly intrusive review of factual sufficiency, required “direct evidence” affirmatively establishing fraudulent intent in *Walker Process* cases.<sup>15</sup>

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<sup>6</sup> U.S. CONST., art. I § 8, cl. 8; see *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966) (the patent clause is “limited to the promotion of the ‘useful arts’”).

<sup>7</sup> See *Walker Process*, 382 U.S. at 186, citing *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945), *Hazel-Atlas Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944), and *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933).

<sup>8</sup> Compare *Precision Instrument*, 324 U.S. at 816 with *Kingsdown Medical Consultants, Inc. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc).

<sup>9</sup> Hovenkamp, *The Intellectual Property-Antitrust Interface*, 3 ISSUES IN COMPETITION LAW AND POLICY 1979, 1980 (ABA Section of Antitrust Law 2008).

<sup>10</sup> See, e.g., *Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*, 450 F.2d 769, 772 (9<sup>th</sup> Cir. 1971) (contending that the proscriptions of *Walker Process* are “extremely circumscribed”).

<sup>11</sup> 28 U.S.C. § 1295(a)(1) (“exclusive jurisdiction” over appeals from final decisions of district courts in all cases whose jurisdictional basis is that portion of 28 U.S.C. § 1338 granting the district courts jurisdiction over “any civil action arising under any Act of Congress relating to patents”).

<sup>12</sup> See, e.g., *Unitherm Food Systems, Inc. v. Swift Eckrich, Inc.*, 375 F.3d 1341, 1360 (Fed. Cir. 2004), *rev’d on other grounds*, 546 U.S. 394 (2006).

<sup>13</sup> *Hydril Co. LP v. Grant Prideco LP*, 474 F.3d 1344, 1349 (Fed. Cir. 2007), quoting *Unitherm*, 375 F.3d at 1358 (further citations omitted).

<sup>14</sup> *Hydril*, 474 F.3d at 1350; *Unitherm*, *supra* note 12, 375 F.3d at 1358.

<sup>15</sup> *Dippin’ Dots, Inc. v. Mosey*, 476 F.3d 1337, 1347-48 (Fed. Cir.), *cert. denied*, 128 S. Ct. 375 (2007).

The article will base its critique on a review of the principles underlying the *Walker Process* doctrine that are derived from patent legislation and Supreme Court decisions, with a particular focus on the policy concerns expressed by the Supreme Court. Similarly, the article will examine the extent to which Federal Circuit holdings conform to Supreme Court precedent and the policies underlying that precedent. The article will also endeavor to those principles that truly and properly conform to Supreme Court precedent and sound policy in general.

Employing this general approach, the article will proceed as follows. First, in order to identify longstanding concerns and principles of Anglo-American law pertinent to the issues, the article will review the treatment of fraud in English common law leading up to the adoption of the United States Constitution.

The Constitution contained an explicit provision empowering the U.S. Congress to enact legislation granting patents, subject to specified limitations.<sup>16</sup> For that reason, the history of United States law pertaining to fraud before the Patent Office follows two interconnected paths – Congress’ enactment of legislation directed toward fraud in the acquisition of patents and the Supreme Court’s rulings in cases dealing with fraudulent procurement of patents. The article will therefore explore the pertinent history of both patent legislation and Supreme Court decisions.<sup>17</sup> This historical background will conclude with a close reading of the Supreme Court’s decision in *Walker Process*.

The article will next analyze circuit court treatment of *Walker Process* claims. The first half of this critical examination will be devoted to decisions of the “regional” or “traditional” Circuit Courts predating the formation of the Federal Circuit. The second half will focus on *Walker Process* decisions of the Federal Circuit, which are intimately tethered to the Federal Circuit’s decisions concerning the “inequitable conduct” defense. The Federal Circuit’s treatment of these two doctrines in tandem makes some sense, but it also causes misapplication of one doctrine to infect its handling of the other.

The article will then return to a review of Supreme Court decisions that are generally applicable to issues of *Walker Process* proof. Not surprisingly, when viewed in the proper context, these issues are largely answered by the *Walker Process* decision itself. The article hopes to demonstrate that the four proof requirements now imposed by the Federal Circuit fail to conform either to the analysis or to the policies established by Supreme Court authority.

Ultimately, the article proposes and will strive to defend the proper legal principle that should govern each of the four proof propositions under consideration. Specifically, (1) all the elements of a *Walker Process* claim are governed by the preponderance standard of proof; (2) a *Walker Process* statutory antitrust claim does not incorporate the elements of the common law fraud cause of action; (3) *Walker Process* cases do not require proof of any particular affirmative enforcement of the fraudulently obtained patent; and (4) *Walker Process* fraud, just like fraud in other contexts, may be proved through purely circumstantial evidence of intent, and there are no uniquely stringent

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<sup>16</sup> Article 1, section 8, clause 8 gave Congress the power to pass legislation “To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries.”

<sup>17</sup> For reasons that should become clear as the historical survey proceeds, and in particular in light of the structure and holding in *Walker Process* itself, the analysis largely treats the concerns of the antitrust laws givens.

principles of factual sufficiency review that would authorize the Federal Circuit to overturn jury verdicts in *Walker Process* cases.

## I.

### **English Law and the Fraudulent Acquisition of Public Rights – A Brief History**

The English common law authorized civil suit against the fraudulent acquisition of public rights before it acknowledged a cause of action for fraud in private transactions. Early English “law – though quite willing to admit in vague phrase that no one should be suffered to gain anything by fraud – was inclined to hold that a man has himself to thank if he is misled by deceit – ‘It is his folly.’”<sup>18</sup> It is true that in the twelfth and thirteenth century, when “protection against fraud [was] yet in its infancy,” English law did acknowledge “a writ of deceit.”<sup>19</sup> “[F]or a long time,” however, “the only cause” that would “justify the issue of such a writ [was] a deceit of the court.”<sup>20</sup>

English common law, therefore, first confined the deceit cause of action to “a fraudulent perversion of the course of justice.”<sup>21</sup> Common examples were “cases in which there [was] personation, the bringing or defending of an action in the name of one who has given no authority for the use of his name.”<sup>22</sup> Notably, the person suffering damages from the fraud on the justice system could “obtain sometimes a money compensation, sometimes a more specific remedy, the collusive proceedings being annulled; but the punitive element in the action [was] strong; the defendant [had] deceived the court and should be sent to [jail].”<sup>23</sup>

These features of early English law contain important lessons for this article’s inquiry. The use of deceit to obtain a recovery in court is closely analogous to the use of deceit to obtain a patent. Each involves the acquisition of a public good or right through a false statement to a public judicial body. As noted in the prior paragraph, the early English law considered fraud on the court not just actionable but criminally sanctionable, whereas fraud in private commercial transactions was not actionable at all. The underlying premise for this distinction was that a private person must protect himself from fraud in his own private business transactions, whereas no one is able to prevent a fraud upon the court and therefore needs a legal remedy for the latter. This policy concern also provides a close analogy. Third parties similarly have no ability to protect against fraud on the Patent Office; they too need similar protection.

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<sup>18</sup> II F. POLLOCK & F.W. MAITLAND, THE HISTORY OF ENGLISH LAW, ch. VIII, § 3, at 536 (2d. Ed. 1899) (citations omitted).

<sup>19</sup> *Id.* at 534.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* This feature of the common law deceit cause of action closely aligns with the Judeo-Christian sense of justice that no doubt underlay early English judicial principles. For example, the Ten Commandments do not proscribe lying in general, but it do instruct that a person “shall not bear false witness” against another. EXODUS 20:16 (New Revised Standard Version). The Book of Exodus makes clear that this proscription was designed to prevent a “perversion of justice.” *Id.* 23:2. Lying to a neighbor is not forbidden. Lying in a judicial forum, however, skews public justice and is forbidden. See ALTER, THE FIVE BOOKS OF MOSES 448 n.2.

<sup>22</sup> POLLOCK & MAITLAND, *supra* note 13 at 534.

<sup>23</sup> *Id.* at 534-35.

According to Blackstone's Commentaries on the Laws of England, which were published in the latter half of the eighteenth century, the common law of deceit remained largely the same at the time of the U.S. Constitution. It was normally limited to situations analogous to those in which one person "brings an action in another's name," thereby causing injury to the other.<sup>24</sup> The only common law protection for parties to private transactions was provided by implied warranties in sales of goods and services.<sup>25</sup>

Blackstone's Commentaries are important because they served as a guide to principles of common law for American lawyer at the time the U.S. Constitution was drafted and ratified.<sup>26</sup> In addition, the history of English common law reveals that for centuries, common law judges rationally concluded that it was more important to provide a remedy for fraud on public bodies than it was to remedy fraud in private transactions.

## II.

### Legislation Applicable to Fraud on the Patent Office – A More Complete History

Judicial decisions concerning patents have seldom addressed the history of the patent legislation applicable to particular issues, but that history offers important lessons for proper application of the *Walker Process* doctrine.

#### A. Historic Patent Legislation

The First Congress of the United States promptly implemented its Constitutional authority by enacting the Patent Act of 1790. Section 5 of that act provided in part as follows:

[U]pon oath or affirmation made before the judge of the district court, . . . , that any patent . . . was obtained surreptitiously by, or upon false suggestion, and motion . . . within one year after issuing the said patent, . . . , it shall and may be lawful to and for the judge . . . , if the matter alleged shall appear to him to be sufficient, to grant a rule that the patentee or patentees, [or the patentee's] executors, administrators or assigns, show cause why process should not issue . . . to repeal such patents; . . . . And in case no sufficient cause shall be shown to the contrary, or if it shall appear that the patentee was not the first and true inventor or discoverer, judgment shall be rendered by such court for the repeal of such patent or patents; . . . .<sup>27</sup>

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<sup>24</sup> 3 W. BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND, ch. 9 at pp. 165-66 (1769).

<sup>25</sup> *Id.* at 164-65.

<sup>26</sup> The American lawyers responsible for writing the Constitution were Christians of some nature, and many no doubt had a very deep understanding of the King James version of the Christian bible. *See* note 21, *supra*.

<sup>27</sup> 1 STAT. 111. Interestingly, it seems clear that, under this show cause procedure, the verified motion placed the burden on the patentee to establish that the patent had not been "obtained surreptitiously by, or upon false suggestion."

This provision by which private parties might repeal surreptitiously obtained patents was largely carried forward as section 10 of the 1793 Patent Act.<sup>28</sup> The only substantive change expanded the permitted time for bringing such a show cause proceeding to three years after patent issuance.<sup>29</sup>

Congress revised the patent laws in 1836. Borrowing key language from the prior acts, Section 15 of the new act listed several “special matters” that would lead to a judgment for the accused infringer; one such special matter was “that [the patentee] had surreptitiously or unjustly obtained the patent for that which was in fact invented or discovered by another, who was using reasonable diligence in adapting and perfecting the same.”<sup>30</sup> Notably, this new enactment accomplished separate procedural and substantive modifications. First, Congress abandoned the separate show cause procedure, instead making surreptitious or unjust patent procurement one of the explicit defenses to an infringement action. Second, and more significant, Congress removed the requirement of “false suggestion,” allowing a defense to infringement based only on “surreptitious” or “unjust” procurement of the patent.

Section 61 of the 1870 Act carried forward this defense based on surreptitious or unjust patent procurement as its “Second” listed special matter that could be raised by the defendant in an infringement case.<sup>31</sup> Throughout the nineteenth century, therefore, it was the considered judgment of Congress that alleged infringers should be provided defense against patents obtained surreptitiously or unjustly, without proof of outright fraud.

## **B. The 1952 Patent Act**

Section 282 of the current Patent Act, adopted in 1952, now sets out the defenses that may be asserted in patent infringement litigation.<sup>32</sup> The second paragraph lists specific matters that “shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded.”<sup>33</sup> Subparagraph 1 of this second paragraph then lists “unenforceability” as such a defense.<sup>34</sup>

All of these provisions were originally adopted as part of the Patent Act of 1952.<sup>35</sup> The legislative report for the 1952 Act contained general comments and an appendix of notes on specific revisions. The general comments to section 282 stated that the “defenses to suit for infringement are stated in general terms, changing the language in the present statute, but not materially changing the substance.”<sup>36</sup> The Revision Notes to section 282 in the 1952 Act merely added that the specification of specific defensive matters in prior legislation was “omitted and replaced by a broader paragraph specifying

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<sup>28</sup> 1 STAT. 323.

<sup>29</sup> *Id.*

<sup>30</sup> 5 STAT. 123.

<sup>31</sup> 16 STAT. 208.

<sup>32</sup> 35 U.S.C. § 282.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> 66 Stat. 812.

<sup>36</sup> S. REP. NO. 1979, 82d Cong. 2d Sess., U.S. CODE CONG. & ADMIN. NEWS 2403 (1952),.

defenses in general terms.”<sup>37</sup> In other words, the provisions of section 282 concerning defenses were not intended to bring about a substantive change from the provisions of prior legislation.

In light of this legislative intent to reword but not to change the substance of the prior patent law, the best reading of the “unenforceability” language in section 282 is that it carried forward the substance of the defense to enforcement of a patent based on proof that the patentee had “surreptitiously or unjustly obtained the patent.”

### C. Conclusion

The Supreme Court and Federal Circuit have agreed that some defense is available under the current patent statutes to render unenforceable an “unjustly obtained” patent.<sup>38</sup> What the history of patent legislation shows clearly, however, is the intent of Congress to allow an accused infringer to escape liability on a showing short of fraudulent acquisition. It was the longstanding judgment of Congress that a patentee should lose legal protection for the invention claimed in a patent if an accused infringer were able to prove mere surreptitious or unjust conduct in acquisition of the patent. A patentee could lose patent protection without proof of actual fraud.

## III.

### Unjust Patent Acquisition in the Supreme Court

In the 1824 case of *Ex Parte Wood and Brundage*, the Supreme Court addressed the show cause procedure in section 10 of the 1790 Act for attacking a patent allegedly obtained “surreptitiously by, or upon false suggestion.”<sup>39</sup> In doing so, Justice Story summarized what section 10 provided: “If a patent has been fraudulently obtained or upon false suggestions, it may be repealed within three years if a jury, upon a trial, shall be satisfied of the fact.”<sup>40</sup> In other words, a private party could bring an action resulting in repeal a patent so long as it could persuade a jury that the patent applicant had committed fraud *or* obtained the patent through mere “false suggestions.”

In the twentieth century, the Supreme Court addressed similar issues in *Keystone Driller Co. v. General Excavation Co.*<sup>41</sup> There, the plaintiff owned five patents assigned to it by its general manager Downie that were improvements on four patents owned by one Clutter. During the application for one of his patents, Downie had discovered potentially invalidating prior use of the Clutter invention. In order to support an earlier infringement suit, Downie acquired the Clutter patents but concealed the potentially invalidating prior use. This “corrupt transaction” had also been concealed in the earlier court case, but had been revealed in the subsequent cases that reached the Supreme Court. On the theory that the misconduct had only taken place in the prior lawsuit, the district

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<sup>37</sup> *Id.* at 2422.

<sup>38</sup> See *Walker Process*, 382 U.S. at 186; *Kingsdown Medical Consultants, Inc. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc).

<sup>39</sup> 22 U.S. [9 Wheat.] 603 (1824).

<sup>40</sup> *Id.* at 613-14.

<sup>41</sup> 290 U.S. 240 (1933).

court had declined to apply the doctrine of “unclean hands” and granted injunctive relief. The Sixth Circuit reversed and ordered the cases dismissed.<sup>42</sup>

The Supreme Court agreed with the Sixth Circuit, ruling that there was a sufficient connection between the misconduct and the cases before it.<sup>43</sup> In doing so, the Court commented that courts apply the unclean hands “maxim, not by way of punishment for extraneous transactions, but upon considerations that make for the advancement of right and justice.”<sup>44</sup>

The Supreme Court expanded on these principles in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*<sup>45</sup> During interference proceedings in the Patent Office between two competing applications owned by Automotive and Precision, Automotive obtained evidence that the Precision application may have been fraudulent. Automotive nevertheless obtained an assignment of the Precision application to settle the interference, and the two patents were issued.

Within months, Automotive sued Precision for infringement of both patents and for breach of the settlement agreement. Initiated just a few years after the 1938 merger of law and equity in federal court, the lawsuit apparently sought only equitable relief. In any event, the district court dismissed the complaints for “want of equity,” supporting the decision with findings of fact and conclusions of law. The Seventh Circuit reversed, holding that the district court’s decision was not supported either by legal principles or by substantial evidence, in part because the evidence indicated that Automotive had not known for sure that the Precision application was fraudulent.<sup>46</sup>

The Supreme Court reversed and upheld the district court’s decision. The Court explained that the “unclean hands” maxim of equity requires that litigants “shall have acted fairly and without fraud or deceit as to the controversy in question.”<sup>47</sup> The Court further held that the “maxim necessarily gives wide range to the equity court’s use of discretion in refusing to aid the unclean litigant.”<sup>48</sup> The Court reiterated its statement in a prior case that equity courts are “not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.”<sup>49</sup> Correspondingly, “any willful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for the invocation of the maxim.”<sup>50</sup>

The Court reasoned further that “where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportion.”<sup>51</sup> “Clearly,” the Court remarked, “these are matters concerning far more than the interests of the adverse parties.” The Court expanded on this observation as follows:

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<sup>42</sup> 62 F.2d 48 (6<sup>th</sup> Cir.), *rehearing denied*, 64 F.2d 39 (1933).

<sup>43</sup> 290 U.S. at 244-27.

<sup>44</sup> *Id.* at 245.

<sup>45</sup> 324 U.S. 806 (1945).

<sup>46</sup> 143 F.2d 332 (7<sup>th</sup> Cir. 1944).

<sup>47</sup> 324 U.S. at 814-15.

<sup>48</sup> *Id.* at 815.

<sup>49</sup> *Id.* quoting *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. at 246-47.

<sup>50</sup> 324 U.S. at 815.

<sup>51</sup> *Id.* at 816.

A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the ‘Progress of Science and the useful Arts.’ . . . 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 . . . .<sup>52</sup>

Having recognized the overriding public interest in the operation of the patent system, the Court rejected the proposition that the lawsuit should be allowed to proceed because Automotive did not have direct evidence of perjury before the Patent Office. Rather the Court reasoned as follows:

[I]t is clear that Automotive knew and suppressed facts that, at the very least, should have been brought in some way to the attention of the Patent office, especially when it became clear that the interference proceedings would continue no longer. Those 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 the equitableness underlying the applications in issue. . . . This duty is not excused by reasonable doubts as to the sufficiency of the proof of the inequitable conduct nor by resort to independent legal advice. Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies. Only in that way can the Patent Office and the public escape from being classed among the “mute and helpless victims of deception and fraud.”<sup>53</sup>

In brief, the superior interests of the public require an “uncompromising duty” of candor in patent prosecution, and that duty cannot be “excused by” a mere insufficiency in “the proof of inequitable conduct.” Accordingly, concluding that “Automotive acted affirmatively to magnify and increase the effects of the suspected fraud and perjury” by pursuing the Precision application after discovering its discoveries, the Court held that this “inequitable conduct . . . justified dismissal of Automotive’s entire cause of action by resort to the unclean hands doctrine.”<sup>54</sup>

It is indisputable, therefore, that the Court ruled that the “inequitable conduct” principle would apply to conduct other than outright fraud – the decision was based on the patent applicant’s “duty” to report all facts concerning possible “fraud *or the equitableness* underlying” a patent application. It is likewise clear that the rule was not premised on an underlying fraud, because Automotive did not participate in the suspected fraud. It merely prosecuted the Precision application without revealing the evidence of

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<sup>52</sup> *Id.*

<sup>53</sup> *Id.* at 818.

<sup>54</sup> *Id.* at 819.

apparent perjury in the application. The proof that it had “acted affirmatively” to “increase” the effects of the suspected fraud was a sufficient equitable basis to uphold dismissal of its infringement suit.

Crucially, the Supreme Court identified one key result required by the public interest in avoiding unsupportable patent monopolies: “all facts relevant to” what the Court called “the equitableness underlying the application” have to “be submitted” to the Patent Office. Accordingly, the Court emphasized that the duty of disclosure should be “*uncompromising*,” and was not to be excused by doubts about the sufficiency of proof or resort to legal advice.

#### IV.

##### Walker Process

At the outset in *Walker Process*, the Supreme Court identified the “question before us” to be “whether the maintenance and enforcement of a patent obtained by fraud on the Patent Office may be the basis of an action under § 2 of the Sherman Act, and therefore subject to a treble damage claim by an injured party under § 4 of the Clayton Act.”<sup>55</sup> What the Court meant by “fraud,” however, can only be gleaned from a review of the entire decision and its procedural context.

As summarized by the Court, the plaintiff Food Machinery had sued Walker Process for patent infringement. After the patent expired, Food Machinery moved to dismiss its complaint, prompting Walker Process to counterclaim that Food Machinery had “illegally monopolized interstate and foreign commerce by fraudulently and in bad faith obtaining and maintaining \* \* \* its patent \* \* \* well knowing that it had no basis for \* \* \* a patent.”<sup>56</sup> Walker Process further alleged that Food Machinery had falsely sworn to the Patent Office that its purported invention had not been in prior use more than a year before its patent application, and that “the existence of the patent had deprived Walker of business that it would have otherwise enjoyed.”<sup>57</sup>

The district court granted Food Machinery’s motion to dismiss the antitrust counterclaim, and the Seventh Circuit affirmed the dismissal. The Supreme Court, however, “concluded that the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present” and that in “such event the treble damages provisions of § 4 of the Clayton Act would be available to an injured party.”<sup>58</sup>

The Court summarized the positions of the parties. Walker Machinery, together with the United States as *amicus curiae*, asserted “that if Food Machinery obtained the patent by fraud and thereafter used the patent to exclude Walker from the market through ‘threats of suit’ and this infringement suit, such proof would establish a prima facie violation of § 2.”<sup>59</sup> Food Machinery argued in response “that a patent monopoly and a

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<sup>55</sup> 382 U.S. at 173.

<sup>56</sup> *Id.* at 174.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 175.

Sherman Act monopoly cannot be equated; the removal of the protection of a patent grant because of fraudulent procurement does not automatically result in a § 2 offense.”

The Court held first that the counterclaim was not precluded by its earlier decision that the U.S. government alone could set aside a patent in equity.<sup>60</sup> In support of this holding, the Court noted that the Walker Process counterclaim was based on the antitrust laws rather than the patent laws, and that Walker Process did not seek annulment of the patent.<sup>61</sup> According to the Court, “the gist of Walker’s claim is that since Food Machinery obtained its patent by fraud it cannot enjoy the limited exception to the prohibitions of § 2 of the Sherman Act, but must answer under that section and § 4 of the Clayton Act in treble damages to those injured by any monopolistic action taken under the fraudulent patent claim.”<sup>62</sup> Noting that the basis for its earlier decision had been the equitable interest in protecting patentees from vexatious suits, the Court reasoned that this supposed equitable concern could not “be used to frustrate the assertion of rights conferred by the antitrust laws.”<sup>63</sup> The Court also justified its refusal to be governed by its equitable concerns in the earlier case with the observation that “[i]t must be remembered that we deal only with a special class of patents, i.e., those procured by intentional fraud.”<sup>64</sup>

Next, the Court cited *Precision Instrument* and *Keystone Driller* for the proposition that “[u]nder decisions of this Court a person sued for infringement may challenge the validity of the patent on various grounds, including fraudulent procurement.”<sup>65</sup> It also noted its previous holding “that an injured party may attack the misuse of patent rights.”<sup>66</sup> The Court then reasoned that allowing “recovery of treble damages for the fraudulent procurement of the patent coupled with violations of § 2 accords with these long-recognized procedures.”<sup>67</sup>

The Court further reasoned that allowing an antitrust remedy “would also promote the purposes so well expressed in” *Precision Instrument*, quoting the following passage:

A patent by its very nature is affected with a public interest. \* \* \* [I]t is an exception to the general rule against monopolies and to the right to access to a free and open market. 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.<sup>68</sup>

Based on these policy considerations, the Court held that the allegations “that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to

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<sup>60</sup> *Id.* at 175-76, referring to the decision in *Mowry v. Whitney*, 24 Wall. 434 (1872).

<sup>61</sup> 382 U.S. at 176.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*, citing *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944).

<sup>67</sup> 382 U.S. at 176-77.

<sup>68</sup> *Id.* at 177, quoting *Precision Instrument*, 324 U.S. at 816.

the Patent Office” would suffice “to strip Food Machinery of its exemption from the antitrust laws.”<sup>69</sup> It also noted in a footnote that “[t]his conclusion applies with equal force to an assignee who maintains and enforces the patent with knowledge of the patent’s infirmity.”<sup>70</sup>

“By the same token,” the Court explained, “Food Machinery’s good faith would furnish a complete defense.”<sup>71</sup> According to the Court, good faith would include “an honest mistake as to the effect of prior installation upon patentability – so-called ‘technical fraud.’”<sup>72</sup>

Noting that section 2 required proof of market power in a relevant market, the Court commented that these issues were matters “of proof, as is the amount of damages suffered by Walker.”<sup>73</sup> The Court expressed reluctance to resolve these issues “on the bare pleadings and absent examination of market effect and economic consequences.”<sup>74</sup> Accordingly, the Court rejected the argument of Walker Process and the United States that fraudulent patent procurement would establish a *per se* antitrust violation.<sup>75</sup>

Acknowledging “the novelty of the claim asserted and the paucity of guidelines available in the decided cases,” the Court refused to rule based on “deficiencies” in the trial court proceedings.<sup>76</sup> In the end, the Court concluded that “[f]airness requires that on remand Walker have the opportunity to make its § 2 claims more specific, to prove the alleged fraud, and to establish the necessary elements of the asserted § 2 violation.”<sup>77</sup>

Given the concerns of this article, several features of the *Walker Process* decision stand out. First, while referring more than once to the proof to be attempted on remand, the Court suggested no special standard for proving “the alleged fraud” in order to remove the protection of the patent that would be different from the standard generally applicable to “establish the necessary elements of the asserted § 2 violation.”

Second, the Court did not refer at all to the common law cause of action in tort, much less to its various elements. The Court clearly focused on the antitrust cause of action and its elements. The proof of fraud would have served merely to remove any protection from antitrust liability otherwise supplied by the patent, not to create common law tort liability. The “fraud” to which the Court referred in this context was therefore the fraudulent conduct alleged in the counterclaim. Most importantly, the Court explicitly stated the “alleged fraud” that Walker Process would have to prove in order to strip Food Machinery of its patent “exemption” on remand – namely, that “Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office.”

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<sup>69</sup> 382 U.S. at 177.

<sup>70</sup> *Id.* n.5.

<sup>71</sup> *Id.* at 177.

<sup>72</sup> *Id.* This supposed “defense” based on “good faith” is curious at best. The Court did not explain how such an “honest mistake” could possibly amount to “knowingly and willfully misrepresenting facts” in order to establish liability in the claimant’s affirmative case – or, from the reverse perspective, how the patentee could possibly prove that such a knowing and willful factual misrepresentation was nevertheless an “honest mistake.”

<sup>73</sup> *Id.* at 177-78.

<sup>74</sup> *Id.* at 178.

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

Third, the Court did refer to “enforcement” of the patent, but only in describing the facts that Walker Process alleged. The Court did not prescribe proof of enforcement as an essential element of the antitrust claim. To the contrary, the Court remanded to allow Walker Process to pursue antitrust relief on the basis of its allegations “that the existence of the patent had deprived” it “of business that it would have otherwise enjoyed.” Furthermore, the Court had commented that the “gist” of the claim that Walker Process could pursue on remand, if successful, would result in treble damages for “any monopolistic action taken under the fraudulent patent claim.”

Fourth, the Court made no suggestion that proof of the alleged fraud on the Patent Office was subject to any special method or form of probative evidence. Instead, the Court merely remanded to allow Walker Process “to prove the alleged fraud,” without elaboration.

In addition, the *Walker Process* decision leaves no doubt about the pertinent policy considerations involved in resolving any of these issues. Any interest in protecting patentees from vexatious litigation simply cannot “be used to frustrate the assertion of rights conferred by the antitrust laws.” The policy concerns of the antitrust and patent laws are therefore truly congruent in the *Walker Process* context. Patents are exceptions to the general antitrust rule prohibiting monopolies and contravene the public’s right to the benefits of a free economy. Accordingly, under both patent and antitrust law, it is the “public’s interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct” that is “paramount.”

## V.

### *Walker Process* in the “Regional” Circuits

The early decisions of the traditional federal circuits applying the *Walker Process* decision hewed closely to the Supreme Court’s decisions and holdings in *Walker Process*. As time transpired, however, decisions began to impose restrictions on the *Walker Process* cause of action that not only conflicted with the *Walker Process* decision, but also reflected transparent analytical errors.

#### A. *Beckman Instruments* – Fifth Circuit

The first significant appellate ruling concerning the parameters of *Walker Process* in private actions for treble damages appears to be the Fifth Circuit’s decision in *Beckman Instruments, Inc. v. Chemtronics, Inc.*<sup>78</sup> This early decision both faithfully applies *Walker Process* and reveals the extent to which the *Walker Process* antitrust claim is intimately bound up with the inequitable conduct defense in patent infringement litigation.

Beckman sued Chemtronics for patent infringement. Besides raising patent defenses, Chemtronics filed a *Walker Process* counterclaim. The district court held the patent valid, but found that there had been no infringement, and denied all relief

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<sup>78</sup> 428 F.2d 555 (5<sup>th</sup> Cir. 1970). The Fifth Circuit had addressed a *Walker Process* claim asserted by the Federal Trade Commission in *American Cyanamid Co. v. FTC*, 363 F.2d 757 (5<sup>th</sup> Cir. 1966).

requested by both parties. The Fifth Circuit reversed on both patent and antitrust grounds.

The panel held first that prior art – the “Stow device” – anticipated and thus invalidated the patent at issue.<sup>79</sup> The Fifth Circuit then addressed Chemtronics’ claim (also rejected by the district court) that the patent was invalid because Beckman had failed to disclose the Stow device to the Patent Office. The Fifth Circuit relied heavily on the Supreme Court’s admonition in *Precision Instrument*, emphasizing Beckman’s “uncompromising duty” to disclose relevant facts to the Patent Office.<sup>80</sup> The Fifth Circuit therefore focused on the proof that a technical patent employee of Beckman had advised that the Stow device was “clearly” relevant to the pertinent patent application, concluding that Beckman had reason to believe that its device “was not patentable.”<sup>81</sup> Furthermore, Beckman had not only failed to disclose the Stow device but had “also made affirmative representations” to the Patent Office that no such prior art existed.<sup>82</sup> Rejecting as “utterly incredible” the argument that Beckman did not consider the Stow device material to patentability, the Fifth Circuit concluded that Beckman had not fulfilled its uncompromising duty of disclosure to the Patent Office, and held that the patent was invalid on this additional ground.<sup>83</sup>

Addressing the *Walker Process* counterclaim, the panel first observed that the district court had dismissed the counterclaim in part on the basis of its erroneous conclusion that the Stow device was not relevant.<sup>84</sup> Finding fact issues requiring resolution on remand, the panel first noted evidence of Beckman’s market power. The court next highlighted Chemtronics’ drop in sales after Beckman sued, along with testimony that Beckman had “threatened suit against a potential Chemtronics customer and caused that customer to withdraw its orders.”<sup>85</sup> Finally, the panel cited “evidence tending to show that appellants knew when they applied for their patent that they had omitted relevant, material prior art from their references.”<sup>86</sup>

The Court explicitly instructed the district court how to handle the *Walker Process* claim on remand. “The trial court should look first to the evidence to determine whether appellants indulged in knowing, willful misrepresentation of material facts.”<sup>87</sup> The Court commented that its ruling on inequitable conduct under *Precision Instrument* did not “fully answer” this question.<sup>88</sup> The Court further instructed the district court that if it found such knowing and willful misrepresentation, the district court should then “look to see whether the other elements of Sherman Act violations are present.”<sup>89</sup>

Inasmuch as it was bound to follow rather than extend *Walker Process*, the Fifth Circuit properly concluded that a finding of inequitable conduct based on *Precision*

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<sup>79</sup> 428 F.2d at 560-64.

<sup>80</sup> *Id.* at 565.

<sup>81</sup> *Id.* at 565-66.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 567 & n.26.

<sup>85</sup> *Id.* at 567.

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*

<sup>88</sup> *Id.* n.27.

<sup>89</sup> *Id.* at 567.

*Instrument* would not “fully” answer the *Walker Process* issue of a knowing and willful misrepresentation. Like the Supreme Court in *Walker Process*, the Fifth Circuit did not suggest any heightened standard of proof or any additional element of proof beyond those required by the antitrust laws in its detailed directions to the district court on remand. The *Beckman* panel reasonably concluded that monetary loss causally related to the market power conferred by the (fraudulently obtained) patent was recoverable under Clayton Act § 4.

## B. *Cataphote* – Ninth Circuit

Soon after the Fifth Circuit’s decision in *Beckman Instruments*, however, the Ninth Circuit addressed *Walker Process* in *Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*<sup>90</sup> The Court acknowledged the Supreme Court’s holding “that the knowing and willful misrepresentation of relevant facts to the Patent Office would not only invalidate a patent, but might also constitute grounds for violation of § 2 of the Sherman Act.”<sup>91</sup> And the Ninth Circuit correctly concluded that to “recover under *Walker Process*,” the claimant “must prove that (1) the [patent at issue] was procured by knowing and willful fraud practiced by Cataphone on the Patent Office; and (2) all the elements necessary to establish a § 2 violation are present.”<sup>92</sup> Like the Fifth Circuit’s decision in *Beckman*, this summary correctly recited the elements of proof explicitly required by the *Walker Process* decision.

The Ninth Circuit went further, however. It first announced that the “patent fraud proscribed by *Walker* is extremely circumscribed.”<sup>93</sup> To support this proposition, the Ninth Circuit referenced the Supreme Court’s comment in *Walker Process* that honest mistakes or inadvertent errors were not fraud for antitrust purposes.<sup>94</sup> The Ninth Circuit, however, made no effort to explain how this unremarkable passage in *Walker Process* distinguishing innocent conduct from willful misrepresentation was meant by the Supreme Court to impose “extreme” limitations.

Premised on this dubious analysis, moreover, the Ninth Circuit followed with an even more significant and indefensible comment. According to the court, the “road to the Patent Office is so tortuous and patent litigation is usually so complex, that ‘knowing and willful fraud’ as the term is used in *Walker*, can mean no less than clear, convincing proof of intentional fraud involving affirmative dishonesty, ‘a deliberately planned and carefully executed scheme to defraud.’”<sup>95</sup> This pronouncement, however, does not withstand careful scrutiny.

As already noted, there is nothing in *Walker Process* to suggest a heightened proof standard, even though the Supreme Court had ample opportunity to require a heightened standard. Moreover, the phrase “a deliberately planned and executed scheme to defraud” was taken from the Supreme Court’s decision in *Hazel-Atlas Glass Co. v.*

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<sup>90</sup> 450 F.2d 769 (9<sup>th</sup> Cir. 1971).

<sup>91</sup> *Id.* at 771-72.

<sup>92</sup> *Id.* at 772.

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> *Id.*, quoting *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 245 (1944).

*Hartford-Empire Co.*<sup>96</sup> That case primarily involved fraud on a court of appeals. The case therefore implicated the judiciary’s strong desire for the finality of judgments – hardly a close analogy to the judiciary’s opinion of Patent Office decisions.<sup>97</sup> In the passage quoted, moreover, the Supreme Court was merely describing the fraud on the court actually involved in *Hazel-Atlas*. This description was by no means a holding or even a suggestion that a heightened standard of proof should apply in a patent case, much less any indication that a heightened standard should apply to any part of an antitrust claim.<sup>98</sup> Furthermore, the Ninth Circuit’s use of language from a patent case to restrict the private antitrust cause of action runs counter to the admonitions of the Supreme Court in *Walker Process* that equitable considerations in patent litigation (even if legitimate) should not be used to “frustrate” the private antitrust remedy.<sup>99</sup>

After misapplying *Walker Process* and *Hazel-Atlas* in this respect, the Ninth Circuit cited *Precision Instrument* for the proposition that “[p]atent fraud cases prior to *Walker Process* required a rigorous standard of deceit.”<sup>100</sup> As noted above, however, *Precision Instrument* held that the misconduct defense could be premised on a failure to disclose inequitable conduct; the decision did not in any respect impose a “rigorous standard of deceit.” Compounding its errors, the *Cataphone* Court cited the *Beckman Instruments* decision for the proposition that “*Walker* requires no less” than rigorous proof of deceit. As already explained, however, even though both *Walker Process* and *Beckman Instruments* gave instructions concerning proof on remand, neither suggested any rigorous or heightened standard of proof.

The Ninth Circuit’s rationale for imposing a clear and convincing standard of proof, therefore, is in no way supported by the precedent it cited. Unfortunately, the *Cataphote* language was quoted verbatim by the Ninth Circuit in its influential *Handgards* decision.<sup>101</sup> There, in a case that did not involve a *Walker Process* claim, the Ninth Circuit adopted the *Cataphone* reasoning to require clear and convincing proof of antitrust actions based on bad faith pursuit of patent infringement litigation.<sup>102</sup> In doing so, the Ninth Circuit repeated the concerns about vexatious antitrust litigation expressed in *Cataphote*, even though, as noted, the Supreme Court in *Walker Process* had explicitly rejected the threat of vexatious litigation as a reason for limiting private antitrust actions based on fraud.<sup>103</sup>

### C. Norton Co. v. Carborundum Co. – First Circuit

Four years after *Cataphote*, the First Circuit reached the same conclusion as the Ninth Circuit concerning the standard of proof for *Walker Process* fraud in *Norton Co. v.*

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<sup>96</sup> 322 U.S. 238, 245 (1944).

<sup>97</sup> See *id.* at 239, 244.

<sup>98</sup> *Id.* at 245.

<sup>99</sup> 382 U.S. at 176.

<sup>100</sup> 450 F.2d at 772.

<sup>101</sup> *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9<sup>th</sup> Cir. 1979), *cert. denied*, 44 U.S. 1025 (1980).

<sup>102</sup> *Id.* at 995-96.

<sup>103</sup> Compare *Walker Process*, 382 U.S. at 176 with *Handgards*, 601 F.2d at 996.

*Carborundum Co.*<sup>104</sup> That decision involved a district court finding that the *Walker Process* counterclaimant Carborundum had not proved “legally actionable fraud.”<sup>105</sup> The First Circuit noted at the outset that it could uphold that finding on either of two independent grounds: (1) that it was not “clearly erroneous” under Federal Rule 52(a); or (2) that Carborundum itself had taken the position before the Patent Office that the pertinent patent was valid.<sup>106</sup> The First Circuit did not stop there, however.

The panel first stated that “[a]n allegation of fraud must be proved by clear, unequivocal and convincing evidence and not by a mere preponderance of the evidence which leaves the issue in doubt.”<sup>107</sup> Rather than look to *Walker Process* for the answer to that issue, however, the First Circuit cited the Supreme Court’s nineteenth century decision in the *Bell Telephone* case.<sup>108</sup> From this premise, the panel concluded that “the record does not indicate that Norton’s behavior constituted common law fraud on the Patent Office.”<sup>109</sup> As a basis for its reference to common law fraud, the First Circuit noted a district court opinion and a law review article.<sup>110</sup>

The fundamental criticisms leveled at the *Cataphone* decision in the foregoing section apply with equal force to the *Carborundum* decision. Nothing in the *Walker Process* decision suggests the applicability of a heightened standard of proof. To the contrary, as noted repeatedly above, the Supreme Court was careful to note that nineteenth century equitable considerations in patent cases may *not* be used to “frustrate” the private antitrust remedy.<sup>111</sup> The *Bell Telephone* holding as a matter of equity simply does not apply to *Walker Process* damage claims.

In *Bell Telephone*, moreover, the Supreme Court imposed a heightened standard of proof in reliance on cases involving annulment of land patents, and justified that reliance on the ground that the U.S. Government was attempting to nullify a patent that the Government itself had granted.<sup>112</sup> Even if *Walker Process* had not categorically rejected such nineteenth century equitable restrictions on the private antitrust remedy, this reasoning would not have any relevance in a private antitrust case.

In addition, the First Circuit’s reference to “common law fraud” seems misplaced. The only authority offered for the reference were a decision in a patent case predating *Walker Process* by twenty years and a law review article on patent law predating *Walker Process* by five years.<sup>113</sup> And the First Circuit also quoted one commentator’s caution against incorporating “in their pristine rigor the elements of common law deceit into actions predicated upon misrepresentations before the Patent Office” and his contention “that easing the evidentiary burden of the party alleging misrepresentation would serve ‘to implement more effectively the public policy goals implicit in the patent and antitrust

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<sup>104</sup> 530 F.2d 435 (1<sup>st</sup> Cir. 1976).

<sup>105</sup> *Id.* at 444.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*, citing *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897).

<sup>109</sup> 530 F.2d at 444.

<sup>110</sup> *Id.* n. 26.

<sup>111</sup> 382 U.S. at 176.

<sup>112</sup> 167 U.S. at 239-41.

<sup>113</sup> *See* 530 F.2d at 444 n.26 and 439 n.11.

laws.”<sup>114</sup> The First Circuit conceded that “[t]here is a certain attractiveness in this suggestion, and we suspect that it may one day be generally adopted.”<sup>115</sup> Citing *Walker Process*, however, the First Circuit asserted that “the controlling cases do not go beyond fraud in the traditional sense.”<sup>116</sup>

With all due respect, the Ninth Circuit’s conclusion is based on a clear misreading of *Walker Process*, which in no way relied on fraud in any “traditional” sense. Furthermore, the First Circuit gave no reason, much less a cogent or valid reason, for injecting common law fraud into a *Walker Process* claim.

#### **D. Concluding Note**

To summarize this section of the article, the Fifth Circuit’s decision in *Beckman Instruments* faithfully adhered to the Supreme Court’s decision in *Walker Process*. In stark contrast, the holdings of the Ninth Circuit in *Cataphote* and the First Circuit in *Carborundum* that a heightened standard of proof governs the “fraud” element of the *Walker Process* cause of action are marred by multiple analytical errors, not least of which are their transparent conflicts with the decision in *Walker Process*. Likewise, the First Circuit’s careless reference to the elements of common law fraud reflects a misreading of the *Walker Process* decision.

### **VI.**

#### **Walker Process in the Federal Circuit**

The development of the *Walker Process* cause of action in the Federal Circuit is intertwined with the Federal Circuit’s inequitable conduct decisions in patent cases. As noted by the Fifth Circuit in *Beckman Instruments*, the Supreme Court’s holding in *Walker Process* can be read to mean that, to establish actionable fraud on the Patent Office for antitrust purposes, the antitrust claimant must prove more than the mere inequitable conduct deemed sufficient by the Supreme Court in *Precision Instrument* to render the patent unenforceable.<sup>117</sup> As a predicate for review of the Federal Circuit’s *Walker Process* decisions, therefore, this section begins with a survey of key inequitable conduct decisions.

#### **A. Norton v. Curtiss**

No analysis of the relevant Federal Circuit decisions would be complete without a review of the decision of its (partial) predecessor the Court of Customs and Patent

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<sup>114</sup> 530 F.2d at 445 & nn.27 and 28, citing Carney, *Misrepresentation Before the Patent Office: Antitrust and Other Legal Effects*, 12 B.C. IND. & COM. L. REV. 1005, 1006, 1007 (1971).

<sup>115</sup> 530 F.2d at 445.

<sup>116</sup> *Id.*

<sup>117</sup> On the other hand, strictly speaking, the Supreme Court in *Walker Process* held merely that the proof of the alleged misrepresentations would be “sufficient” to support an antitrust claim, not that proof of those allegations was “necessary.” See 382 U.S. at 187.

Appeals in *Norton v. Curtiss*.<sup>118</sup> It should be noted that the Court of Customs and Patent Appeals only heard appeals from decisions of government agencies. Unlike the Federal Circuit, it had no appellate jurisdiction over patent judgments in trial courts, and certainly no responsibility for appeals raising issues under the antitrust laws. Fundamentally, *Norton v. Curtiss* is not an antitrust decision, yet it has significantly influenced the Federal Circuit's antitrust decisions (while having ultimately *insignificant* influence on the Federal Circuit's "inequitable conduct" law).

In *Norton*, the losing party in a patent interference proceeding appealed the Commissioner of Patents's decision granting priority to the opposing party despite evidence of improper conduct during prosecution of the opponent's patent. The appeal turned largely on application of Patent Office Rule 56, which then provided that the Patent Office could strike "any application fraudulently filed or in connection with which any fraud is practiced or attempted on the Patent Office."<sup>119</sup> The Court of Customs and Patent Appeals concluded that the "only rational, practical interpretation of the term 'fraud' in Rule 56 . . . is that the term refers to the very same types of conduct which the courts, in patent infringement suits, would hold fraudulent."<sup>120</sup> In other words, the decision primarily involved interpretation of the Patent Office regulations, and did not address the "alleged fraud" at issue in *Walker Process*.

The *Norris* court concluded that "the concept of 'fraud' on the Patent Office (at least where a patentee's conduct pertaining to the relative merits of his inventions is concerned), encompasses not only" conduct constituting common law fraud, "but also a wider range of 'inequitable' conduct found to justify holding a patent unenforceable."<sup>121</sup> While eschewing "approval of specific holdings," the court did "subscribe to the recognition of a relationship of trust between the Patent Office and those wishing to avail themselves of the governmental grants which that agency has been given authority to issue."<sup>122</sup> Furthermore, the Court addressed pertinent policy concerns. The "ex parte prosecution and examination of a patent application must not be considered as an adversary proceeding and should not be limited to the standards in inter partes proceedings."<sup>123</sup> Because of the limited resources of the Patent Office, the volume of patent applications and the Office's reliance on patent applicants for essential information, the "highest standards of honesty and candor on the part of applications in presenting such facts to the office are thus necessary elements in a working patent system."<sup>124</sup>

The *Norton* court nevertheless addressed the elements of common law fraud, apparently for the sake of comparison, and plainly not for the purpose of any direct application of those elements to patent litigation. The court first analyzed the element of materiality of the allegedly false statement. Echoing *Precision Instrument*, the court cautioned that traditional tests for materiality "cannot be applied too narrowly if the relationship of confidence and trust between applicants and the Patent Office is to have

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<sup>118</sup> 433 F.2d 779 (C.C.P.A. 1970).

<sup>119</sup> *Id.* at 782 & n. 4.

<sup>120</sup> *Id.* at 792.

<sup>121</sup> *Id.* at 793.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* at 793-94.

<sup>124</sup> *Id.* at 794.

any real meaning.”<sup>125</sup> Put another way, traditional common law notions should not constrain the application of the inequitable conduct defense.

With respect to “state of mind” element for a finding of fraud, the court reasoned that “the existence of a fiduciary-like duty should have its effect” in this context, because “the procurement of a patent involves the public interest.”<sup>126</sup> For this reason, the court concluded, “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 fraudulent intent.”<sup>127</sup> Indeed, because “public policy demands a complete and accurate disclosure it may suffice to show nothing more than that the misrepresentations were made in an atmosphere of gross negligence.”<sup>128</sup> The *Norton* court held, therefore, that it had been “error” for the Commissioner to give dispositive weight to the patent applicant’s “subjective belief,” because that approach “narrowed the requirement almost to that of proving actual intent.”<sup>129</sup>

This passage is important. It is and was a staple of the traditional law of fraud that an inference of fraudulent intent may be drawn from the mere fact of a misrepresentation and knowledge of the falsity of the statement.<sup>130</sup> Accordingly, the *Norton* court concluded that the inequitable conduct defense could be established with misrepresentations made as a result of mere “gross negligence.” That holding accurately captures the true distinction between traditional or common law fraud and the inequitable defense as acknowledged by the Supreme Court in *Walker Process* and *Precision Instrument*. Gross negligence suffices for inequitable conduct, but something (but not much) more is required to prove “fraud on the Patent Office.

With respect to the “injury” element of common law fraud, the *Norris* court quoted the passage in *Precision Instruments* reasoning that the public has “a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct.”<sup>131</sup> According to the court, injury to the public from fraud on the Patent Office “is manifest.”<sup>132</sup>

Analyzing the evidence, however, the court ultimately held that the Commissioner had not erred in declining to find operative “fraud” on the Patent Office. Certain of the representations appeared to be technically accurate, and in the view of the court, the acknowledged misrepresentations involved no more than simple negligence.<sup>133</sup> The Court did not attempt to explain how excusing misrepresentations to the Patent Office on this ground could be squared with the “uncompromising duty” of disclosure the Supreme Court had held to be required by the public interest in *Precision Instrument*. Most

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<sup>125</sup> *Id.* at 795.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.* at 795-96.

<sup>128</sup> *Id.* at 796

<sup>129</sup> *Id.*

<sup>130</sup> *See, e.g.,* *Rea v. Missouri*, 84 U.S. (17 Wall.) 532, 536, 543 (1873) (as properly instructed by the trial court, circumstantial evidence is permissible to prove common law fraud, and is often the only probative evidence available).

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

<sup>133</sup> *Id.* at 796-97.

importantly, the *Norton* court’s analysis of the common law fraud cause of action actually demonstrated that it should not be fully or strictly applicable in the patent fraud context.

## **B. A Short History of the Inequitable Conduct Defense in the Federal Circuit**

Early decisions of the Federal Circuit ignored the principles announced in *Precision Instrument*. In *Orthopedic Equipment Co. v. All Orthopedic Appliances*, for example, the patent owner had cited certain prior art in prior litigation to defend against infringement claims, but failed to disclose the same prior art to the Patent Office when prosecuting its own patent application.<sup>134</sup> The district court held the asserted patent claims invalid on the basis of the omitted prior art, but rejected the defendant’s request for fees under section 185 of the Patent Act on the ground that there had been no intent to deceive the Patent Office. In fact, the district court found that the examiner had independently uncovered the key prior art.<sup>135</sup>

In response to the defendants’ appeal of the denial of fees, the Federal Circuit cited prior decisions of the regional circuits to support the following analysis. “Establishing that a patent was procured by fraud or with such egregious conduct as to render it unenforceable requires clear, unequivocal, and convincing evidence of an intentional misrepresentation or withholding of a material fact from the PTO.”<sup>136</sup> Furthermore, “[a]lthough inequitable conduct requires less stringent proofs as to both materiality and intent than common law fraud, mere evidence of simple negligence, oversight, or an erroneous judgment made in good faith not to disclose prior art is not sufficient to render a patent unenforceable.”<sup>137</sup> Deferring to the district court’s fact findings, the panel conceded that it could not “place our stamp of approval on the overall actions of [the patent owner], we agree with the district court’s holding that [the patentee’s conduct during prosecution . . . does not constitute fraud or inequitable conduct.”<sup>138</sup>

Soon thereafter, the Federal Circuit faced a remarkable set of circumstances in *Connell v. Sears, Roebuck & Co.*<sup>139</sup> It was “undisputed” that the patentee had “concealed from the PTO at least the five prior art patents he received from the patent lawyer he first consulted and who advised that his invention might not be patentable.”<sup>140</sup> It was further established that the patentee then hired new counsel to file his application and that the new counsel told the PTO that a particular feature had not been disclosed in the prior art.<sup>141</sup> The record was equally clear, however, that the patentee “knew” that the feature was disclosed in the prior art, and that a “patent would not have issued if that prior art disclosure had not been concealed.”<sup>142</sup> Had the case been tried before the district judge,

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<sup>134</sup> 707 F.2d 1376 (Fed. Cir. 1983)

<sup>135</sup> *Id.* at 1383-84.

<sup>136</sup> *Id.* at 1383 (citations omitted).

<sup>137</sup> *Id.*

<sup>138</sup> *Id.*

<sup>139</sup> 722 F.2d 1542 (Fed. Cir. 1983).

<sup>140</sup> *Id.* at 1550.

<sup>141</sup> *Id.*

<sup>142</sup> *Id.*

he would have found the patent unenforceable because of this misconduct.<sup>143</sup> The issue, however, had been tried to a jury, which had found the patent to be enforceable. Because the district judge found “substantial, though not overwhelming, evidence” to support that verdict, the district court had refused to grant judgment notwithstanding that verdict.<sup>144</sup>

The Federal Circuit focused on the testimony of the new counsel for the patentee. He had “testified that in failing to disclose prior art he believed he was following the standard of candor due the PTO at that time.”<sup>145</sup> The court speculated that his testimony was “doubtless credited by the jury as establishing a lack of intent to improperly mislead the PTO.”<sup>146</sup> In other words, counsel’s intent to mislead the PTO was clear. It was only the possibility that he had not intended to mislead the examiner “improperly” under prior PTO disclosure regulations that was considered “substantial evidence” to support the jury verdict. According to the Federal Circuit, that regulation, since revised, had “apparently led him to find room for the kind of gamesmanship . . . reflected in his testimony.”<sup>147</sup> Even though the Federal Circuit considered the conduct to be “egregious,” even under the amended PTO regulation on which counsel had relied, it concluded that it was “precluded by the jury’s verdict, the [post-judgment procedural rules], and the need to preserve the right to trial by jury, from acting on our own assessment of the credibility of” the counsel’s testimony.<sup>148</sup> The court, therefore, refused to disturb the judgment upholding the enforceability of the patent.<sup>149</sup> In other words, in direct contravention of the Supreme Court’s admonition in *Precision Instruments* that a failure to disclose material information to the Patent Office could not be excused by resort to legal advice, this panel upheld the jury verdict solely on the testimony of a lawyer.

A dramatically different result was reached in the Federal Circuit decision published immediately following the *Connell* opinion in the same official reporter. In *Rohm & Haas Co. v. Crystal Chem. Co.*, the district court had reviewed an extensive evidentiary record of the patent prosecution involved and concluded that defendants have “failed to carry the burden and adduce sufficient probative evidence to establish that Rohm and Haas procured the patent in suit by fraud or inequitable conduct.”<sup>150</sup> In reaching this conclusion, the district court had reasoned that “[w]hat is important” was the “fact that the person who prepared inaccurate affidavits submitted to the PTO believed them to be true.”<sup>151</sup>

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<sup>143</sup> *Id.* at 1550-51.

<sup>144</sup> *Id.* at 1551.

<sup>145</sup> *Id.*

<sup>146</sup> *Id.*

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> This decision, which is ironic in light of more recent Federal Circuit decisions, has several apparent flaws. First, given the admittedly uncontested facts, there is simply no way to reconcile the Federal Circuit’s decision in *Connell* with the “uncompromising duty” of disclosure established by the Supreme Court in *Precision Instrument*. The holding in *Connell* allowed that duty to be compromised as a matter of (overly) constrained application of the appellate rules for reviewing jury verdicts. As a practical matter, moreover, the decision may well have compromised the duty of disclosure for all time by laying out a sample script for attorneys to follow in future cases to explain away even abject violations of the disclosure duty of disclosure.

<sup>150</sup> 722 F.2d 1556, 1560 (Fed. Cir. 1983).

<sup>151</sup> *Id.* at 1559.

Before the Federal Circuit, Rohm and Haas conceded that the pertinent affidavits contained falsified data, but argued “(1) that the activity does not amount to fraud because the affidavits were not material and because (2) the intent of the deceased patent agent who prepared the affidavits is not known.”<sup>152</sup> This panel of the Federal Circuit, however, was unwilling to conclude “that these representations to the PTO were the result of an honest mistake.”<sup>153</sup> Noting that “direct proof of intent to mislead is normally absent,” the court specifically held that purposeful submission of misleading material “usually will support the conclusion” that the submitted material “was the chosen instrument of an intentional scheme to deceive the PTO.”<sup>154</sup> Furthermore, “proof of the actual state of mind of the applicant or persons associated with or representing an applicant is not required.” Instead, the “intent element . . . may be proven by a showing of acts the natural consequence of which are presumably intended by the actor.”<sup>155</sup> The court therefore concluded that the district court had committed “legal error” by focusing on the state of mind of the person who prepared the misleading affidavit.<sup>156</sup>

Ultimately, the Federal Circuit convened itself en banc to address the parameters of the inequitable conduct defense in *Kingsdown Medical Consultants, Inc. v. Hollister, Inc.*<sup>157</sup> The extraordinary nature of this procedure cannot be passed unnoticed. The court did not convene en banc to correct the result in the appeal. The court unilaterally decided to sit en banc for the express purpose of choosing principles to resolve conflicting holdings in existing precedent.<sup>158</sup> In other words, the court sat virtually as a legislature to revise the patent law, apparently without seeking briefing from the parties to the appeal and clearly without any reference to either the Patent Act or Supreme Court precedent.<sup>159</sup>

First, the en banc *Kingsdown* court noted that some of its own “opinions have suggested that a finding of gross negligence compels a finding of intent to deceive.”<sup>160</sup> Of course, that statement mischaracterizes the prior opinions, which (a) are entirely consistent with the Supreme Court’s opinion in *Precision Instrument* that no proof of intent to deceive is required and (b) are fully supported by the reasoned decision in *Norton v. Curtiss* in reliance on *Precision Instrument* that “gross negligence” suffices for the inequitable conduct defense. Nevertheless, the full Federal Circuit adopted “the view that a finding” of gross negligence “does not of itself justify an inference of intent to deceive; the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent

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<sup>152</sup> *Id.* at 1570.

<sup>153</sup> *Id.* at 1571.

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *Id.*

<sup>157</sup> 863 F.2d 867, 876 (Fed. Cir. 1988).

<sup>158</sup> *Id.* at 876 n.16.

<sup>159</sup> The court’s apparent motivations for taking this approach were highly suspect. The en banc decision followed on the heels of the concluding remarks of the original panel, which expressed concern that a finding of inequitable conduct “would merely encourage the present proliferation of inequitable conduct charges.” *Id.* n.15, quoting *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988). Rather than consider the policy considerations identified in *Precision Instrument*, therefore, both the original panel and the en banc court consciously acted to discourage assertion of the inequitable conduct defense.

<sup>160</sup> 863 F.2d at 876.

to deceive.”<sup>161</sup> Astonishingly, the full *Kingsdown* court cited *Norton v. Curtiss* for this very proposition, which *Norton* refuted.<sup>162</sup> In other words, the full court distorted the holding in *Norton v. Curtiss* and flatly ignored *Precision Instrument* in restricting the availability of the inequitable conduct defense.

The full court’s part of the decision in *Kingsdown*, therefore, raises two key points in any critique of the parallel history of the *Walker Process* cause of action in the Federal Circuit. First, the *Kingsdown* proof requirement for the inequitable conduct defense is unjustifiably strict. It is directly contrary to the holding of the Supreme Court in *Precision Instrument*, as properly applied in *Norton v. Curtiss*. Second, and critically important for analyzing subsequent Federal Circuit decisions on *Walker Process*, by requiring a finding of specific fraudulent intent to support the inequitable conduct defense, the Federal Circuit made the inequitable conduct defense at least co-extensive with, if not more restrictive than, common law fraud, and certainly more restrictive than the scope of fraud on the Patent Office permitted to support private antitrust claims in *Walker Process*.

### C. *Nobelpharma* – the Federal Circuit Takes Over *Walker Process*

With this truncated history of the Federal Circuit’s “inequitable conduct” decisions concluded, the investigation can return to the fate of *Walker Process* itself in the Federal Circuit. At first, the court deferred to the *Walker Process* decisions of the Circuit Court for the district court in which the *Walker Process* claim arose, invariably as a counterclaim in patent infringement litigation.<sup>163</sup> This deference is part and parcel of the Federal Circuit’s longstanding decision to leave principles of non-patent law, usually issues of pretrial or trial procedure, to be resolved in accordance with the law of the circuit in which the patent infringement trial was conducted.<sup>164</sup>

The Federal Circuit, however, ultimately eschewed reliance on the *Walker Process* decisions of the regional circuits, at least in part, in *Nobelpharma AB v. Implant Innovations, Inc.*<sup>165</sup> Because the court was overruling prior precedent as in *Kingsdown*, the court once again convened itself en banc to resolve this issue.<sup>166</sup> The full court held

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<sup>161</sup> *Id.*

<sup>162</sup> *Id.* The full court also held, in an implicit and ironic rejection of the decision in *Connell*, that the inequitable conduct defense is equitable in nature. The author has criticized this and later Federal Circuit decisions on this point, arguing that both the Patent Act and the First Amendment require jury trials to resolve inequitable conduct defenses in patent infringement damage actions. Daniel, *The Right of Trial by Jury in Patent Infringement Cases*, 28 REVIEW OF LITIGATION 736, 766-74 (2009).

<sup>163</sup> *See, e.g.,* *Cygnus Therapeutics Sys. V. ALZA Corp.*, 92 F.3d 1153, 1161 (Fed. Cir. 1996), *following* *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985).

<sup>164</sup> This approach is questionable after the Supreme Court’s decision in *Unitherm Food Systems, Inc. v. Swift Eckrich, Inc.*, 546 U.S. 394 (2006), *rev’g* 375 F.3d 1341 (Fed. Cir. 2004). There the Federal Circuit faithfully applied Tenth Circuit error preservation rules in reversing a *Walker Process* judgment for lack of evidence. Holding the Tenth Circuit rule to be improper, however, the Supreme Court reinstated the antitrust recovery. Because applying another Circuit’s law does not avoid reversible error, the Federal Circuit’s approach seems fundamentally flawed.

<sup>165</sup> 141 F.3d 1059 (Fed. Cir. 1998).

<sup>166</sup> *Id.* at 1068 n.5.

first that “whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.”<sup>167</sup> On the other hand, the court decided “to continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law, which is subject to our exclusive jurisdiction.”<sup>168</sup>

#### D. *Nobelpharma* – the Panel Decision on *Walker Process*

In the *Nobelpharma* case, the *Walker Process* counterclaim had been tried to a jury, which had rendered a favorable verdict, awarding antitrust damages. The trial court denied the patentee’s motion for judgment as a matter of law. On appeal, therefore, the Federal Circuit panel was resolving whether the district judge had abused his discretion in refusing to undo the jury verdict.<sup>169</sup> It should be noted that the full court did not participate in this part of the decision. The *Walker Process* holdings were decisions of the original panel.

In conducting its analysis, the panel quoted from *Walker Process* and reviewed the Supreme Court’s discussion of the nature of the actionable fraud, but ultimately placed more emphasis on the concurring opinion in *Walker Process*.<sup>170</sup> Most of its analysis was devoted, moreover, to the proposition that the proof requirement for *Walker Process* must necessarily be more stringent than that for inequitable conduct.<sup>171</sup> Incongruously, the panel relied most prominently on the decision of the Court of Customs and Patent Appeals in *Norton v. Curtiss*, which of course was not a *Walker Process* decision at all. In any event, in purporting to draw the distinction between *Walker Process* fraud and inequitable conduct, the *Nobelpharma* panel quoted at length from the *Norton* court’s recitation of the elements of common law fraud, rather than the decision in *Walker Process*.<sup>172</sup> The panel further noted that antitrust led to recovery of treble damages, whereas the inequitable conduct theory only resulted in loss of the patent.<sup>173</sup>

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<sup>167</sup> *Id.* at 1068.

<sup>168</sup> *Id.* Questionable aspects of this decision are apparent. The focus on “jurisdiction” and “choice of law” is a red herring. Nowhere did the full Federal Circuit suggest that Supreme Court antitrust law should matter, yet the Supreme Court has jurisdiction over all appeals from all circuits and resolves applicable federal law in all circuits. The Federal Circuit nevertheless decided to apply its “own” law to part of the claim and other circuits’ law to other parts of the claim. This is unnecessarily and confusing. The applicable law is the unitary law of antitrust, federal statutory law that governs all circuits alike. The Federal Circuit should apply that single law in accordance with the Sherman and Clayton Acts as authoritatively interpreted by the Supreme Court, rather than devise its own law based on its patent law precedents. Whether technically defensible, moreover, the Federal Circuit “choice of circuit law” approach will not avoid reversible error. See footnote 164, *supra*.

<sup>169</sup> *Id.* at 1067.

<sup>170</sup> See *id.* at 1068-69.

<sup>171</sup> *Id.* at 1069-71.

<sup>172</sup> *Id.* at 1069-70.

<sup>173</sup> *Id.* at 1070.

“Simply put, *Walker Process* fraud is a more serious offense than inequitable conduct.”<sup>174</sup>

The *Nobelpharma* panel next recited the status of Federal Circuit law applicable to the inequitable conduct defense. Based on its own inequitable conduct law and the proposition that *Walker Process* requires an even greater evidentiary showing, the *Nobelpharma* panel concluded that “*Walker Process* fraud must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, *i.e.*, that the patent would not have issued but for the representation or omission.”<sup>175</sup>

In the end, this extended analysis of supposed *Walker Process* principles in *Nobelpharma* was largely dictum. The jury had been “instructed that a finding of fraud could be premised on ‘a knowing, willful and intentional act, misrepresentation or omission before the’ Patent Office.”<sup>176</sup> There is no indication that the patentee objected to this instruction, and it fairly closely conforms to the Supreme Court’s articulation of pertinent “alleged fraud” in *Walker Process* itself. Furthermore, the panel’s analysis of the probative evidence appears to have tested that evidence against the proper jury instruction as much as its own gloss on *Walker Process*.<sup>177</sup> The panel ultimately concluded that the trial court had properly decided not to overturn the jury’s verdict.<sup>178</sup>

#### **E. The Four Principles Adopted in Decisions Following *Nobelpharma***

As could have been anticipated, Federal Circuit decisions following *Nobelpharma* have found ways to solidify and even expand the restrictions on the *Walker Process* cause of action suggested by the original panel in *Nobelpharma*. These are the four restrictions introduced at the outset of the article – (1) a heightened standard of proof for *Walker Process* fraud; (2) application of the elements of common law fraud to proof of *Walker Process* fraud; (3) the notion of a patent-enforcement standing requirement for *Walker Process* claims; and (4) additional proof requirements for *Walker Process* claims.

##### **1. Standard of Proof**

A subsequent panel adopted the holding of the Ninth Circuit in *Handgards* (and thus *Cataphote*) to require a clear and convincing standard of proof for *Walker Process* fraud in *C.R. Bard, Inc. v. M3 Systems, Inc.*<sup>179</sup> In doing so, the Federal Circuit agreed with the Ninth Circuit that “the road to the Patent Office is so tortuous and patent litigation is so complex, that ‘knowing and willful fraud’ as the term is used in *Walker* can mean no less than clear, convincing proof of intentional fraud involving affirmative dishonesty.”<sup>180</sup> More recently, the Federal Circuit reaffirmed that a *Walker Process* claimant is required “to present evidence that a reasonable jury could view as clear and

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<sup>174</sup> *Id.*

<sup>175</sup> *Id.* at 1071.

<sup>176</sup> *Id.* at 1070.

<sup>177</sup> *Id.* at 1072-73.

<sup>178</sup> *Id.* at 1073.

<sup>179</sup> 157 F.3d 1340 (Fed. Cir. 1998).

<sup>180</sup> 157 F.3d at 1364, quoting *Handgards*, supra note 101, 601 F.2d at 996.

convincing proof that [the patentee] intended to defraud the PTO” in *Unitherm Food Systems, Inc. v. Swift Eckrich, Inc.*<sup>181</sup>

## 2. The Elements of the Common Law Fraud Cause of Action

Relying on *Nobelpharma* and *Norton v. Curtiss*, the Federal Circuit fully engrafted the elements of common law fraud onto the *Walker Process* claim in *C.R. Bard* and *Unitherm*. In *C.R. Bard*, the panel held that “[f]raud in the procurement of a patent requires proof of the elements of fraud as developed in the common law.”<sup>182</sup> In *Unitherm*, the panel held correspondingly that the “determination of whether or not to strip [the patentee] of its antitrust immunity therefore requires us to apply the facts of this case to each of [the] elements [of common law fraud].”<sup>183</sup>

## 3. A Requirement to Allege or Prove Enforcement

A Federal Circuit decision prior to *Nobelpharma*, following a decision of the Ninth Circuit, imposed a requirement that a claimant present evidence of “enforcement” of a patent as a precondition to pursuit of a *Walker Process* claim.<sup>184</sup> The Federal Circuit expressly adopted this principle as a matter of its “own” law in *Unitherm*. “We therefore hold that, as a matter of Federal Antitrust law, the standards that we have developed for determining jurisdiction in a Declaratory Judgment Action of patent invalidity also define the minimum level of ‘enforcement’ necessary to expose the patentee to a *Walker Process* claim.”<sup>185</sup> Notably, the Federal Circuit treated this requirement as a consequence of “enforcement” language in *Walker Process*, even though it separately analyzed the issue of antitrust standing with reference to enforcement activity as well.<sup>186</sup>

In the interim, of course, the Supreme Court rejected the Federal Circuit’s test for the exercise of declaratory judgment jurisdiction in patent infringement cases.<sup>187</sup> A subsequent Federal Circuit decision therefore skirted the issue, but ultimately declined “to invalidate a *Walker Process* claim alleging threats of enforcement litigation directed against a supplier’s customers” by the patentee charged with fraud.<sup>188</sup> This language suggests that the Federal Circuit may adhere to some sort of requirement to prove enforcement, without treating that requirement as a predicate for declaratory judgment jurisdiction.

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<sup>181</sup> 375 F.3d 1341, 1360 (Fed. Cir. 2004), *rev’d on other grounds*, 546 U.S. 394 (2006).

<sup>182</sup> *C.R. Bard*, *supra* note 180, 157 F.3d at 1364.

<sup>183</sup> *Unitherm*, *supra* note 181, 375 F.3d at 1360; *accord*, *Hydril Co. LP v. Grant Prideco LP*, 474 F.3d 1344, 1349 (Fed. Cir. 2008). This articulation of the court’s role in appellate review is in obvious conflict with the properly limited role of a court in reviewing the sufficiency of the evidence in a jury case. *See Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 151 (2000).

<sup>184</sup> *Cygnus Therapeutics*, *supra* note 164, 92 F.3d at 1161-62, citing *California Eastern Lab., Inc. v. Gould*, 896 F.2d 400, 403 (9<sup>th</sup> Cir. 1990).

<sup>185</sup> *Unitherm*, *supra* note 181, 375 F.3d at 1358.

<sup>186</sup> *Compare id.* at 1357-58, *with id.* at 1362-63.

<sup>187</sup> *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

<sup>188</sup> *Hydril Co.*, *supra* note 170, 474 F.3d at

#### 4. Requiring Direct Proof of Specific Intent; Intrusive Appellate Review

In *C.R. Bard*, the Federal Circuit reviewed a judgment based on favorable jury findings in an antitrust case on *Walker Process* and alternative antitrust theories, including a verdict “by clear and convincing evidence that each of the [patents at issue] had been procured by fraud in the” Patent Office.<sup>189</sup> Focusing on the slim evidence presented at trial, this panel concluded that this particular jury verdict was not supported by “substantial evidence of fraud.”<sup>190</sup>

In *Unitherm*, the panel reviewed a challenge to a jury verdict of fraud in a *Walker Process* case and specifically noted “the limited factual review that we apply to sufficiency of the evidence arguments about jury findings.”<sup>191</sup> Conducting such limited review with respect to all the elements of common law fraud, the panel upheld the jury finding of fraud.<sup>192</sup>

A “scorecard” of the results in Federal Circuit cases from *Nobelpharma* through *Unitherm* would probably be helpful in understanding the Federal Circuit’s next *Walker Process* decision, *Dippin Dots Inc. v. Mosey*.<sup>193</sup> In *Nobelpharma* itself, the Federal Circuit had upheld an antitrust jury verdict based on patent fraud.<sup>194</sup> In the subsequent *C.R. Bard* decision, the court had overturned a jury verdict of patent fraud, but a majority of the panel upheld the favorable antitrust judgment on an alternative theory.<sup>195</sup> In *Unitherm*, the panel had upheld the jury’s fraud finding, but had reversed the antitrust judgment for lack of proof of market power.<sup>196</sup> The Supreme Court, however, reversed the Federal Circuit on error preservation grounds, and reinstated the antitrust judgment adverse to the patentee.<sup>197</sup> In other words, even though the Federal Circuit had overturned the *Walker Process* judgment in two of the three cases, the antitrust judgment remained in force against the patentees in all three cases.

In this context, the decision in *Dippin’ Dots* evidences an increased hostility to *Walker Process* claims. The underlying facts were fairly dramatic. In July 1987, more than one year before his patent application was filed, the patentee Jones sold the beaded ice cream he invented to over 800 customers.<sup>198</sup> “The declaration of commercial success which ultimately persuaded the examiner to grant the patent contained a sworn statement by Jones that ‘the initial sales were in March of 1988,’ less than one year before the filing date.”<sup>199</sup> The jury found that the patent was invalid as obvious (in light of the 1987 sales), inequitable conduct and fraud, but “found no antitrust damages.”<sup>200</sup> As required by Federal Circuit precedent, the trial court independently assessed the evidence and

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<sup>189</sup> 157 F.3d at 1364.

<sup>190</sup> *Id.* at 1365-67.

<sup>191</sup> 375 F.3d at 1361, citing *Reeves*, supra note 183, 530 U.S. at 151.

<sup>192</sup> *Id.* at 1358-62.

<sup>193</sup> 476 F.3d 1337 (Fed. Cir.), cert. denied, 128 S. Ct. 375 (2007).

<sup>194</sup> 141 F.3d 1059.

<sup>195</sup> 157 F.3d 1340.

<sup>196</sup> 375 F.3d 1341.

<sup>197</sup> 546 U.S. 394.

<sup>198</sup> 476 F.3d at 1340.

<sup>199</sup> *Id.* at 1341.

<sup>200</sup> *Id.* at 1342.

determined as a matter of equity that the patent should be held unenforceable, and based on the jury's finding of *Walker Process* fraud, awarded fees under the Clayton Act.<sup>201</sup> The only practical consequence of the jury's favorable *Walker Process* verdict, therefore, was this award of fees, which was appealed along with the inequitable conduct ruling.<sup>202</sup>

The Federal Circuit upheld the jury's verdict of invalidity as supported by "substantial evidence."<sup>203</sup> The court found no abuse of discretion in the trial court's finding of inequitable conduct.<sup>204</sup> In doing so, the court noted that the patentee had "wholly neglected" to disclose the 1987 sales, while it had "enthusiastically touted sales made after the critical date as evidence of the commercial appeal of its process."<sup>205</sup> The court described this conduct as a "combination of action and omission," but considered the evidence of intent to be "not particularly strong."<sup>206</sup>

Of course, this was a set up for disparate resolution of the *Walker Process* issue. The court abandoned any pretense of "substantial evidence" review of the jury finding of fraud. In fact, the jury verdict was not mentioned at all. Relying instead on *Nobelpharma* and its progeny in the Federal Circuit, the *Dippin' Dots* panel held that to "demonstrate *Walker Process* fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct."<sup>207</sup>

In other words, the Federal Circuit ignored all established principles allowing circumstantial proof of actionable intent and limited appellate review of jury findings, and instead deployed its own (indefensible) inequitable conduct principles to ratchet the standard of *Walker Process* proof to new heights. The court conceded that this was exactly what it was doing: "The difference in breadth between inequitable conduct and *Walker Process* fraud admits the possibility of a close case whose facts reach the level of inequitable conduct but not of fraud before the PTO. This is such a case."<sup>208</sup>

The court used some fancy footwork to justify its decision. It agreed that the jury was "allowed to disbelieve or discount evidence tending to support" the offered innocent explanations for the patentee's conduct.<sup>209</sup> But the court considered dispositive the supposed failure of the claimant to present "evidence of their own – aside from the absence of the Festival Market sales from the prosecution record – which affirmatively shows . . . fraudulent intent. That intent cannot be shown merely from the absence of evidence which would come about from the jury's discounting" the innocent explanation."<sup>210</sup> Citing prior Federal Circuit decisions, the court stated that because private antitrust remedies provide a "sword" rather than a "shield," a *Walker Process* claimant "must prove deceptive intent independently."<sup>211</sup> It concluded that the

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<sup>201</sup> *Id.*

<sup>202</sup> For this reason, the Supreme Court's denial of certiorari in the case must be considered meaningless. There simply was not enough at stake to justify Supreme Court consideration the antitrust issue.

<sup>203</sup> *Id.* at 1345.

<sup>204</sup> *Id.* at 1346.

<sup>205</sup> *Id.*

<sup>206</sup> *Id.*

<sup>207</sup> *Id.*

<sup>208</sup> *Id.* at 1347.

<sup>209</sup> *Id.*

<sup>210</sup> *Id.*

<sup>211</sup> *Id.*

“defendants have not done so here to the extent necessary for a reasonable jury to find *Walker Process* fraud.”<sup>212</sup>

There are multiple problems with this decision. For example, the court simply ignored the record. The patentee had affirmatively sworn to the Patent Office that the “initial sales” had occurred in 1988 rather than 1987.<sup>213</sup> The record conclusively proved affirmative misrepresentations, not mere omissions.

Similarly, the court ignored its own conclusions. It had expressly found that the “combination of action and omission permits an inference” of deceptive intent.<sup>214</sup> Under applicable “substantial evidence” review, this evidence should have been more than enough to support the jury’s fraud verdict. The jury was entitled to draw this inference of intent, and to make its own determination of the strength of that inference. However strong that inference may have been, it was up to the jury to determine whether that inference itself was a sufficient justification to reject the “innocent” explanations offered.

Additionally, the court did not explain what evidence could have “affirmatively” shown “fraudulent intent.” Even if the attorney-client privilege would not have blocked access to such evidence, the passage of almost twenty years would have made it highly unlikely that any such evidence still existed. The absence of such evidence should not have been allowed to override the permissible inference of deceptive intent.

Perhaps tellingly, the decision reveals no appreciation for trial proof in real cases. The “innocent explanations” could have been transparent lies, which themselves demonstrated deceptive intent. The trial lawyers could rationally have concluded that the presentation of additional evidence was unnecessary and probably counterproductive. Certainly the trial court did not believe that the jury verdict was against the weight of the evidence.

In the end, it is clear that the Federal Circuit erected an unprecedented barrier to recovery for *Walker Process* fraud, uniquely requiring “affirmative” evidence of fraudulent intent, and establishing special Federal Circuit law permitting unduly intrusive appellate review of jury findings. Some may argue that *Dippin’ Dots* is a decision involving unique facts with little precedential value. It is possible, however, that the decision portends increased Federal Circuit hostility to future *Walker Process* claims.

## VII.

### **Walker Process Proof Requirements in the Federal Circuit: A Critique**

The most prominent feature of these recent Federal Circuit’s decisions in *Walker Process*, and in particular their holdings on the four noted points, is the extent to which the court’s decisions on matters of proof simply ignore Supreme Court precedent. The court pays lip service to selected language in the *Walker Process* decision, but proceeds to resolve key issues without regard to applicable holdings of the Supreme Court, in *Walker Process* or other governing cases. It is now explicitly applying “Federal Circuit law” to these issues, and shows no inclination to search for governing Supreme Court authority.

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<sup>212</sup> *Id.*

<sup>213</sup> *Id.* at 1341.

<sup>214</sup> *Id.* at 1346.

Thus, in imposing a “clear and convincing” standard of proof for *Walker Process* fraud, the court relied directly on Ninth Circuit cases that did not themselves analyze applicable Supreme Court authority. Likewise, the Federal Circuit engrafted the elements of a common law action for fraud onto the antitrust cause of action, not by analysis of the Supreme Court’s decision in *Walker Process*, but by citing and then misapplying a Court of Customs and Patent Appeals decision that did not involve antitrust law. Similarly, the superimposition of a separate “patent enforcement” requirement of proof also misreads the *Walker Process*, and originally relied on a test for declaratory relief in patent cases since rejected by the Supreme Court. The *Dippin’ Dots* decision involves a “double dip” of error – the Federal Circuit ignored and contravened both longstanding law of the Supreme Court concerning the sufficiency of circumstantial evidence to prove fraud and the rules for limited review of jury verdicts more recently established by the Supreme Court.

In the past few years, the Supreme Court has not hesitated to reverse Federal Circuit decisions that have strayed from Supreme Court precedent.<sup>215</sup> The Supreme Court has repeatedly rejected rules uniquely adopted by the Federal Circuit. In this context, the following four subsections discuss the Supreme Court precedent applicable to each of the four *Walker Process* proof issues.

#### **A. The Standard of Proof for *Walker Process* Fraud**

An abundance of Supreme Court authority addresses the standard of proof to be applied in private civil actions in federal court – in civil cases in general, in fraud cases, and in antitrust cases. A heightened standard of proof for the “fraud” element of a *Walker Process* claim cannot be squared with this Supreme Court authority. As a matter of governing Supreme Court precedent, the proper standard of proof for the entirety of a *Walker Process* claim should be preponderance-of-the-evidence.

##### **1. General Supreme Court Authority and Principles Governing the Standard of Proof**

One of the “conventional rules of civil litigation” acknowledged by the Supreme Court “is that parties to civil litigation need only prove their case by a preponderance of the evidence.”<sup>216</sup> Furthermore, the Court has cautioned that “[e]xceptions to this standard are uncommon, and in fact are ordinarily recognized only when the government seeks to take unusual coercive action – action more dramatic than entering an award of money

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<sup>215</sup> See, e.g., *Carlsbad Technology, Inc. v. HIF Bio, Inc.*, 129 S. Ct. 1862 (2009), *rev’ing* 508 F.3d 1862 (Fed. Cir. 2007) (appellate review of remand orders); *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 746 (2007), *rev’ing* 427 F.3d 958 (Fed. Cir. 2005); (Declaratory Judgment Act jurisdiction); *EBAY Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006), *rev’ing* 401 F.3d 1323 (Fed. Cir. 2005) (standards for injunction against patent infringement).

<sup>216</sup> *Price Waterhouse v. Hopkins*, 490 U.S. 228, 253 (1989). Although the decisions of the Court in *Price Waterhouse* were seriously splintered, a review of those various decisions reveals that the Court unanimously agreed that the district court and D.C. Circuit had “erred in requiring . . . “proof by clear and convincing evidence” in a Title VII case. *Id.* at 237.

damages or other conventional relief – against an individual.”<sup>217</sup> “Only rarely” has the Court “required clear and convincing proof where the action defended against seeks only conventional relief.”<sup>218</sup> Not surprisingly, therefore, the Supreme Court has consistently applied the conventional preponderance burden to civil actions under federal statutes based on alleged fraud.<sup>219</sup>

Furthermore, the Supreme Court has not left the subject to mere application of precedent. Instead, in a series of recent cases, the Supreme Court has set out a precise methodology for resolving the appropriate standard of proof in federal civil litigation.<sup>220</sup>

In *Addington v. Texas*, the Court addressed the appropriate burden in civil cases for the commitment of the mentally ill.<sup>221</sup> The Court noted that, in general, the proof standard applied in any particular case “serves to allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision.”<sup>222</sup> With this background, the Court reviewed the “three standards or levels of proof for different types of cases.”<sup>223</sup>

First “is the typical civil case involving a monetary dispute between private parties.”<sup>224</sup> According to the Supreme Court, “society has a minimal concern with the outcome of such private suits,” so that the “burden of proof is a mere preponderance of the evidence.”<sup>225</sup>

The Court next noted that “[i]n a criminal case, on the other hand, the interests of the defendant are of such magnitude that historically and without any explicit constitutional requirement they have been protected by standards of proof designed to

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<sup>217</sup> *Id.* (citation omitted).

<sup>218</sup> *Id.* (citations omitted).

<sup>219</sup> *Grogan v. Garner*, 498 U.S. 279 (1991) (fraud that precludes bankruptcy discharge); *Herman & MacLean v. Huddleston*, 459 U.S. 375, 390 (1983) (securities fraud damages case); *SEC v. C.M. Joiner Leasing Corp.*, 320 U.S. 344, 355 (1943) (SEC action to establish fraud); *Lilienthal’s Tobacco v. United States*, 97 U.S. 237, 266 (1887) (acknowledging the general rule in an internal revenue forfeiture case based on fraud). *See also* *Sedima S.P.R.L. v. Imrex Co.*, (strongly suggesting a preponderance evidence standard for civil actions under the Racketeering Influenced and Corrupt Organizations Act, 18 U.S.C. § 1964).

<sup>220</sup> The author previously published an analysis of general Supreme Court principles governing the standard of proof in cases arising under federal statutes that is similar to the following analysis in the text. *See Daniel, Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 *AIPLA Q.J.* 369, 373-77 (2008)

<sup>221</sup> 441 U.S. 418 (1979).

<sup>222</sup> *Id.* at 423.

<sup>223</sup> *Id.*

<sup>224</sup> *Id.*

<sup>225</sup> *Id.* Since correct outcomes in private lawsuits fulfill important societal policies reflected in the law governing recovery in private litigation, correct outcomes should matter. But the Court’s underlying point remains valid, although it is probably better to make the point differently. Favoring no particular party or special interest, a free society should not care which side prevails under the unique facts of any private lawsuit. A preponderance-of-the-evidence standard equally allocating the risk of error to each side is therefore appropriate as the default standard for those cases.

exclude as nearly as possible the likelihood of an erroneous judgment.”<sup>226</sup> Accordingly, the state must “prove the guilt of an accused beyond a reasonable doubt.”<sup>227</sup>

Finally, the Court acknowledged an “intermediate standard” calling for “clear and convincing” evidence.<sup>228</sup> The Court noted that a typical use of the standard is in civil cases involving allegations of fraud or some other quasi-criminal wrongdoing by the defendant. The interests at stake in those cases are deemed to be more substantial than mere loss of money and some jurisdictions accordingly reduce the risk to the defendant of having his reputation tarnished erroneously by increasing the plaintiff’s burden of proof.”<sup>229</sup> As will become clear from subsequent Supreme Court holdings to be discussed, this reference to the rules of “some jurisdictions” governing fraud actions was by no means an endorsement of the heightened standard in federal fraud cases.

Balancing the respective interests of the defendant and the public in accordance with this analysis, the Court concluded that due process required “clear and convincing” proof for a civil commitment order, but not proof beyond a reasonable doubt.<sup>230</sup> This decision therefore represents an example of the type of case in which unusual coercive action by the government warrants a heightened standard of proof.<sup>231</sup>

Next, in *Herman & MacLean v. Huddleston*,<sup>232</sup> the Court resolved the standard of proof for a claim of securities fraud under section 10(b) of the 1934 Securities and Exchange Act.<sup>233</sup> The Court stated that “[w]here Congress has not prescribed the appropriate standard of proof and the Constitution does not dictate a particular standard, we must prescribe one.”<sup>234</sup> Reviewing its prior decisions on the subject, the Court noted that it had “required clear and convincing evidence where particularly important individual interests or rights are at stake.”<sup>235</sup> “By contrast,” the Court noted, “imposition of even severe civil sanctions that do not implicate such interests has been permitted by proof by a preponderance of the evidence.”<sup>236</sup>

The Court further explained that the “preponderance-of-the-evidence standard allows both parties to ‘share the risk of error in roughly equal fashion,’” whereas each of the other standards “expresses a preference for one side’s interests.”<sup>237</sup> The Court observed that “[o]n the one hand, the defendants face the risk of opprobrium that may result from a finding of fraudulent conduct.”<sup>238</sup> The Court concluded, however, that the interests of defendants in securities fraud cases “do not differ quantitatively from the interests of defendants sued for violations of other federal statutes such as the antitrust or civil rights laws, for which proof by a preponderance of the evidence suffices.”<sup>239</sup> “On

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<sup>226</sup> *Id.*

<sup>227</sup> *Id.* at 424.

<sup>228</sup> *Id.*

<sup>229</sup> *Id.*

<sup>230</sup> *Id.* at 425-33.

<sup>231</sup> See *Price Waterhouse*, supra note 216, 490 U.S. at 253.

<sup>232</sup> 459 U.S. 375 (1983).

<sup>233</sup> 15 U.S.C. § 78j(b).

<sup>234</sup> 459 U.S. at 389.

<sup>235</sup> *Id.* (citing *Addington* and other cases involving individual rights).

<sup>236</sup> *Id.* (citation omitted).

<sup>237</sup> *Id.* at 390.

<sup>238</sup> *Id.*

<sup>239</sup> *Id.*

the other hand,” the Court reasoned, “[d]efrauded investors are among the very individuals Congress sought to protect in the securities laws.”<sup>240</sup> Accordingly, the Court held that securities plaintiffs should be allowed to prevail “[i]f they prove that it is more likely than not that they were defrauded.”<sup>241</sup>

In *Herman & MacClean*, the Court dealt directly with the heightened standard of proof used by some state courts for proof of common law fraud. However, the Supreme Court found little relationship between the reasoning behind principles of common law fraud and the goals of federal securities law.<sup>242</sup> The Court further concluded that “the antifraud provisions of the securities laws are not coextensive with common-law doctrines of fraud.”<sup>243</sup> In this analysis, moreover, the Court explicitly discussed the old line of cases, including the *Bell Telephone* case, requiring clear and convincing proof for annulment of land patents and patents issued by the Patent Office.<sup>244</sup> The Court concluded that nineteenth century equity proceedings “bear little relationship to modern lawsuits under the federal securities laws.”<sup>245</sup>

Eight years later, the Supreme Court reaffirmed the balance-of-interest methodology in *Grogan v. Garner*.<sup>246</sup> There the Court addressed the burden of proof for a creditor to defeat a debtor’s discharge in bankruptcy on grounds of “actual fraud.”<sup>247</sup> Noting first that neither the statute nor its legislative history discussed the standard of proof for discharge exceptions, the Court commented that “[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof.”<sup>248</sup> Next, quoting *Herman & MacClean*, the Court in *Grogan* explained that “[b]ecause the preponderance-of-the-evidence standard results in a roughly equal allocation of the risk of error between litigants, we presume that this standard is applicable in civil actions between private litigants unless ‘particularly important individual interests or rights are at stake.’”<sup>249</sup>

In balancing the relevant interests under the discharge provision of the Bankruptcy Code, the Court concluded as follows:

We think it unlikely that Congress, in fashioning the standard of proof that governs the applicability of these provisions, would have favored the interest in giving perpetrators of fraud a fresh start over the interest in protecting victims of fraud. Requiring the creditor to establish by a

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<sup>240</sup> *Id.*

<sup>241</sup> *Id.*

<sup>242</sup> 459 U.S. at 388-389.

<sup>243</sup> *Id.* at 388-89 & n.28.

<sup>244</sup> *Id.* at 388 n.27.

<sup>245</sup> *Id.*

<sup>246</sup> 498 U.S. 279 (1991). It is worth noting (1) that Justice Stevens wrote the opinion in *Grogan* and was a member of the unanimous Courts that decided *Addison* and *Herman & MacLean*; and (2) that while in the Solicitor General’s Office, current Chief Justice Roberts appeared in *Grogan* on behalf of the United States as amicus curiae to advocate the preponderance-of-the-evidence standard.

<sup>247</sup> 11 U.S.C. § 523(a)(2).

<sup>248</sup> 498 U.S. at 286.

<sup>249</sup> *Id.* at 286, quoting *Herman & MacClean*, 459 U.S. at 375.

preponderance of the evidence that his claim is not dischargeable reflects a fair balance between these conflicting interests.<sup>250</sup> In conclusion, the Court in *Garner* deemed it “fair to infer that Congress intended the ordinary preponderance standard to govern the applicability of all the discharge exceptions.”<sup>251</sup>

## 2. Supreme Court Authority on the Antitrust Standard of Proof

A few terms before *Addington*, the Supreme Court had addressed the standard of proof in civil antitrust litigation in *Ramsey v. United Mine Workers*.<sup>252</sup> The case involved section 6 of the Norris-LaGuardia Act, which prohibited antitrust liability for union officers or members for the “unlawful acts” of other individuals “except upon clear proof of actual participation in, or authorization” or “ratification of such acts.”<sup>253</sup> The trial court had required “clear proof” not only to resolve the issues concerning the “indirect” liability of the the union officers and members for the “direct” antitrust violations of others, but also to resolve all the elements of those direct violations. An evenly divided D.C. Circuit had affirmed the trial court’s judgment.

The Supreme Court reversed, noting first that the lower courts had departed “from the usual preponderance-of-evidence rule generally applicable to civil actions in federal courts.”<sup>254</sup> For the usual preponderance rule, the Court cited a nineteenth century decision involving forfeiture for internal revenue fraud.<sup>255</sup> After a close analysis of the statute and prior decisions, and despite a vigorous dissent, the Court read section 6 as requiring “clear and convincing evidence only as to the Union’s authorization, participation in, or ratification of the acts allegedly performed on its behalf.”<sup>256</sup> Furthermore, the Court could not “discern any basis for our fashioning a new standard of proof applicable in antitrust actions against labor unions.”<sup>257</sup>

As noted in the previous section, the Supreme Court in the *Herman & MacLean* case later confirmed that “proof by a preponderance of the evidence suffices” in cases under the “antitrust” laws.<sup>258</sup> In fact, the Court must have considered the proposition well-established, because it did not offer a citation for the proposition.

## 3. Analysis

The decisions of the Circuit Courts imposing a “clear and convincing” proof standard for proof of fraud in a *Walker Process* case cannot be defended under any of this

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<sup>250</sup> 498 U.S. at 287.

<sup>251</sup> *Id.*

<sup>252</sup> 401 U.S. 302 (1971).

<sup>253</sup> 29 U.S.C. § 106.

<sup>254</sup> 401 U.S. at 308.

<sup>255</sup> *Id.*, citing *Lilienthal’s Tobacco v. United States*, 97 U.S. 237, 266 (1887).

<sup>256</sup> 401 U.S. at 311. There is no indication that any dissenter disagreed that the preponderance standard would apply to antitrust claims outside the union context.

<sup>257</sup> *Id.*

<sup>258</sup> 459 U.S. at 390.

Supreme Court authority. In fact, under the reasoning of these Supreme Court cases, no heightened standard of proof can be squared with the decision in *Walker Process* itself.

From a legalistic perspective, a heightened standard of proof would appear to be inescapably contrary to Supreme Court precedent. The Supreme Court has repeatedly cautioned that the clear and convincing standard should be confined to lawsuits in which governments seek coercive relief against individuals.<sup>259</sup> The Court has confirmed the preponderance standard in antitrust cases,<sup>260</sup> and has repeatedly applied the preponderance standard to civil actions under federal statutes based on fraud.<sup>261</sup> The Court applied the preponderance standard to a bankruptcy action in *Grogan* even though a finding of fraud deprives the bankruptcy petitioner in bankruptcy of a potentially significant public benefit – discharge in bankruptcy – to which the petitioner would otherwise be automatically entitled under the bankruptcy laws.<sup>262</sup> The Court has also definitively concluded that even severe monetary sanctions do not justify a heightened standard of proof.<sup>263</sup> The Court even applied the preponderance standard in *Ramsey* to permit treble damages against individual union members.

There is simply no meaningful basis for distinguishing proof of *Walker Process* fraud from proof of the antitrust claims in *Ramsey*, the securities fraud claims in *Herman & Maclean* or the “bankruptcy” fraud challenge to discharge in *Grogan*.<sup>264</sup> Just as in *Ramsey*, therefore, the Supreme Court would almost certainly conclude, in the absence of legislation like Norris-LaGuardia § 6, that it need not and should not fashion a special rule for proof of fraud in *Walker Process* cases.<sup>265</sup>

Furthermore, interpreting *Walker Process* in light of the *Herman & Maclean* and *Grogan* decisions fully supports application of a preponderance standard in *Walker Process* cases. In both *Herman & MacLean* and *Grogan* the Supreme Court considered legislative silence about the standard of proof to be compelling evidence that Congress

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<sup>259</sup> *Price Waterhouse*, *supra* note 216, 490 U.S. at 253; *Herman & MacLean*, 459 U.S. at 389.

<sup>260</sup> *Herman & MacLean*, 459 U.S. at 390; *Ramsey*, 401 U.S. at 311.

<sup>261</sup> See note 219, *supra*.

<sup>262</sup> See 11 U.S.C. §§ 727(a), (b), 1141(d)(1)(A), (2).

<sup>263</sup> *Herman & MacLean*, 459 U.S. at 389.

<sup>264</sup> Applying a heightened standard of proof to *Walker Process* fraud also creates an anomaly that no court has acknowledged. In that case, a clear and convincing standard would apply to proof of fraudulent intent, whereas a preponderance standard would apply to proof of monopolistic intent, one of the elements of a Section 2 offense under *Walker Process*. Application of disparate proof standards to the same conduct in the same case does not make practical sense.

<sup>265</sup> There is a presumption of patent validity in the patent statute. 35 U.S.C. § 282. That statutory provision, however, should not change the analysis for a cause of action under the antitrust laws. Furthermore, it is arguable that the statutory presumption has nothing to do with the standard of proof. Presumptions usually apply to control the burden of going forward with evidence, not the burden or standard of proof. The better reading of the statutory presumption of patent validity is that it merely requires an accused infringer to present evidence of invalidity, and does not heighten the standard of proof for invalidity. See Daniel, *Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 AIPLA Q.J. 369, 381, 412 (2008). In the end, moreover, the statutory presumption is not a presumption that the patent applicant did not misrepresent material facts to the Patent Office. The statutory presumption of validity, therefore does not support a heightened standard of proof for proof for either the inequitable conduct defense or *Walker Process* fraud.

did not mean to apply a heightened standard of proof to securities fraud or bankruptcy discharge cases. Congress was equally silent about the standard of proof in Clayton Act § 4.<sup>266</sup> But the more critical silence is the silence of the *Walker Process* Court itself when it discussed what Walker Process would have to “prove” to make its case on remand. Not only was the Court silent with respect to the standard of proof, but it also affirmatively expressed the countervailing concern not to “frustrate” the private remedy of Clayton Act § 4. Read correctly, therefore, the *Walker Process* decision itself precludes a heightened standard of proof in *Walker Process* cases.

In addition, balancing the interests involved as required by Supreme Court precedent precludes a heightened standard of proof in *Walker Process* cases. The Supreme Court in *Herman & Maclean* equated the interests of securities fraud defendants with defendants in antitrust cases, even though treble damages are not available for securities fraud, and concluded that the interests of neither deserves a heightened standard of proof.<sup>267</sup> Just like the victims of securities fraud in *Herman & Maclean*, moreover, those who have suffered competitive injury as a consequence of a monopolist’s exclusionary conduct “are among the very individuals Congress sought to protect in” Clayton Act § 4. To paraphrase *Grogan*, it is almost inconceivable that the Supreme Court would apply the balance-of-interests test in a *Walker Process* case to favor “the interest of” monopolist patent cheats with market power “over the interest in protecting victims of fraud” who have suffered antitrust injury.

In fact, the balance of interests in the *Walker Process* context supports a preponderance standard even more than the balance in prior cases. The Supreme Court in *Walker Process* confirmed the policy considerations first articulated in the *Precision Instrument* decision. The “far-reaching social and economic consequences of a patent . . . 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.”<sup>268</sup> Accordingly, the *paramount* interest in *Walker Process* cases is the public’s interest in avoiding monopolies obtained by fraud. Because the *Walker Process* claimant represents the public interest, it should be favored in the burden of proof balance “so that patent monopolies are kept within their legitimate scope.” At the very least, therefore, the appropriate interests analysis requires a preponderance standard.

The holdings of circuit courts requiring imposition of a heightened standard of proof in *Walker Process* cases are indefensible in this context. Both the First Circuit’s decision in *Carborundum* and the Ninth Circuit’s decision in *Handgards* post-dated the decision in *Ramsey*, yet neither addressed *Ramsey*, much less considered the implications of the Supreme Court’s decision in that case. All of the recent Federal Circuit decisions concerning the standard of proof in *Walker Process* cases post-date the decisions in *Ramsey*, *Herman & Maclean* and *Grogan*. Inexcusably, not one even mentions this applicable and binding Supreme Court precedent, and none conducts the required balance-of-interests analysis.

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<sup>266</sup> Any person “injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefore, . . . and shall recover threefold the damages by him sustained, . . .” 15 U.S.C. § 15(c)(a).

<sup>267</sup> 459 U.S. at 390.

<sup>268</sup> 382 U.S. at 177, quoting *Precision Instrument*, 324 U.S. at 816.

The First Circuit in *Carborundum* relied directly on the Supreme Court's nineteenth century decision in *Bell Telephone* to impose a heightened standard of proof.<sup>269</sup> Soon thereafter, however, the Supreme Court in *Herman & Maclean* refused to apply the *Bell Telephone* holding because it bore "little relationship to" a "modern" securities fraud case.<sup>270</sup> In this context, the Supreme Court expressly stated that securities fraud actions were not "qualitatively different" from antitrust damage actions that were resolved by a preponderance.<sup>271</sup> Accordingly, the First Circuit's reliance on *Bell Telephone* cannot be reconciled with *Herman & Maclean*. For much the same reason, moreover, reliance on *Bell Telephone* cannot be reconciled with *Walker Process* itself, which rejected application of a corollary principle of nineteenth century equity jurisprudence, lest the private antitrust remedy of Clayton Act § 4 be "frustrated."<sup>272</sup> Had the First Circuit concluded (correctly) that it was under no obligation to follow *Bell Telephone*, and applied the proper balancing test, the panel may well have applied a preponderance standard.

The notion of the Ninth and Federal Circuits that a heightened standard of proof is required because of the circuitous and complex nature of patent litigation is off base.<sup>273</sup> In the first place, there is nothing in patent litigation that is significantly more complex than antitrust or securities fraud litigation. And antitrust litigation is often far more circuitous than a patent infringement case. More importantly, there is nothing in the Supreme Court authority on standards of proof that would treat the complexity or circuitry of litigation as support for a heightened proof standard. Under a balance of interests test, the complexity and circuitry of any litigation would be at least equal for all litigating parties. If anything, the complexity of antitrust litigation is an argument for strengthening private antitrust remedies. Nothing could tip the balance in favor of a heightened standard that would hamstring antitrust litigation. In any event, the *Walker Process* Court definitively resolved this point when it concluded that concerns about

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<sup>269</sup> 530 F.2d at 444.

<sup>270</sup> 459 U.S. at 388 n.27.

<sup>271</sup> 459 U.S. at 390.

<sup>272</sup> 382 U.S. at 176.

<sup>273</sup> Surprisingly, the Federal Circuit has not contended that the use of a preponderance standard to govern *Walker Process* claims will threaten innovation. That policy concern is at least more legitimate than the perceived complexity of patent litigation. See *Pfaff v. Wells Elecs. Inc.*, 525 U.S. 55, 63 (1998) (the "patent system" recognizes the public "interest in motivating innovation and enlightenment by rewarding innovation with patent protection"). But concerns about innovation should have no force in the *Walker Process* context. For the standard of proof to matter, an innovator would have to know either that she had a significant financial interest in a business with monopoly power in a market for her innovation or that patenting of the innovation would give her or "her" business such monopoly power and thus monopoly returns. Such a situation is highly improbable in and of itself. But there would have to be more. The innovator would have to be concerned that obtaining a patent would require actions before the Patent Office that could be considered sufficiently fraudulent in patent infringement litigation to warrant an accused infringer to undertake the enormous expense of a *Walker Process* claim. To set out these necessary conditions for innovation to be influenced by the standard of proof in *Walker Process* cases is to show that no negative impact on innovation would ever occur in the real world.

vexatious litigation could not frustrate the private antitrust remedy provided by Congress.<sup>274</sup>

In conclusion, the imposition of a heightened standard of proof for the “fraud” element of a *Walker Process* claim contravenes applicable Supreme Court authority on every level. Accordingly, **preponderance-of-the-evidence should be and is the proper standard for proving the entirety of a *Walker Process* cause of action.**

## B. *Walker Process* and Common Law Fraud

In *Walker Process*, the Supreme Court made no reference whatsoever either to “common law fraud” or to the elements of “common law fraud.” As the Supreme Court reasoned with respect to standards of proof in *Herman & Maclean* and *Grogan*, this silence is a strong indication that the common law cause of action for fraud had nothing at all to do with proof of pertinent fraud on the Patent Office. Furthermore, the Court in *Herman & Maclean* concluded that a private cause of action for securities fraud was not co-extensive with the common law fraud cause of action.<sup>275</sup> The “fraud” at issue in a *Walker Process* case is even farther afield from the common law cause of action for fraud. One of the purposes of the proof of fraud in a *Walker Process* case, moreover, is avoidance – to “strip” the patentee “of its exemption from the antitrust laws.”<sup>276</sup> The cause of action for recovery of (treble) damages (and fees and costs) is then provided by Clayton Act § 4. Adding the elements of a common law cause of action to the elements of recovery prescribed by Congress makes no sense.

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<sup>274</sup> Professor Hovenkamp has nevertheless suggested that a heightened standard of proof is defensible. H. Hovenkamp, *The Intellectual Property-Antitrust Interface*, 3 ISSUES IN COMPETITION LAW AND POLICY 1979, 2000 & n. 121 (ABA Section of Antitrust Law 2008). He worries that “if strict standards are not applied, many patent infringement suits would draw *Walker Process* counterclaims.” *Id.* at 2000. This result in turn “could serve to make patents less attractive and far more costly to defend. The owner of a patent must have some assurance about its rights to protect its investment.” *Id.* With all due respect to Professor Hovenkamp, this argument is not compelling. First and foremost, it is doubtful that innovators even think about *Walker Process*. Furthermore, the Supreme Court’s antitrust decisions erect stout barriers to recovery, without resort to a heightened standard of proof. *See, e.g.*, *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955 (2007) (strict pleading standards); *Matsushita Elec. Ind. Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986) (lowered summary judgment standards); *Associated Gen. Contractors of Cal., Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983) (standing restrictions); *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977) (antitrust injury requirement). Those decisions should provide sufficient assurance to an honest innovator that gave *Walker Process* any thought. By contrast, a patentee with market power in a definable market based on a fraudulently obtained patent should not be allowed to use fraudulent conduct to extract monopoly returns from consumers. The balance of interests between potentially dishonest patentee and absolutely innocent customer requires use of the preponderance of the evidence standard.

<sup>275</sup> 459 U.S. at 388-89 & n.28.

<sup>276</sup> The far closer common law analogue, therefore, is the principle that fraudulent inducements make contracts “voidable.” *See* RESTATEMENT (SECOND) OF CONTRACTS § 164. The *Walker Process* principle that misrepresentations can strip a patentee of its patent rights is very close to the principle stated in § 164 – namely, that a contract is voidable if procured by a “fraudulent or a material misrepresentation.”

Furthermore, the Supreme Court’s decision in *Walker Process* is decidedly inconsistent with incorporation of elements from the common law cause of action. The Court focused throughout on the allegation of the Walker Process counterclaim “that [the patentee] obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office.”<sup>277</sup> The Court held that “proof of *this assertion* would be sufficient to strip [the patentee] of its exemption from the antitrust laws.”<sup>278</sup> Accordingly, the Supreme Court remanded to give Walker Process the “opportunity” to “prove *the alleged fraud*.”<sup>279</sup> The descriptions of the common law action for “deceit” in the Second Restatement of Torts make clear that the word “fraudulent” can be used either to describe the “liability” regime as a whole, or conduct – namely, the “character of a misrepresentation.”<sup>280</sup> There can be little doubt that the sense of the word “fraud” in *Walker Process* involved conduct – a misrepresentation with particular deceitful characteristics – rather than the elements of a cause of action.

In addition, the Supreme Court did set out the elements of proof for Walker Process’s lawsuit. Beyond proof of the “alleged fraud,” Walker Process was required merely “to establish the necessary elements of the asserted § 2 violation.”<sup>281</sup> Of course, the *Walker Process* Court had already pointed out Walker Process’s reliance on Clayton Act § 4, and that statute clearly supplies the causation, injury, and damage elements for the antitrust cause of action.<sup>282</sup>

There is no ambiguity in the *Walker Process* decision. The entire focus in *Walker Process* was the fraud “alleged” and “asserted” by Walker Process, namely the procurement of the patent “by knowingly and willfully misrepresenting facts to the Patent Office.” Walker Process was only required to prove that “alleged fraud.” There was no mention of the elements of a common law fraud cause of action. In stark contrast, the Supreme Court explicitly referred to the “necessary elements” of proving the antitrust violation, which entailed proof of the elements stated in the civil remedy provisions of section 4 of the Clayton Act.

In its decisions, the Federal Circuit merely quoted sound bites from *Walker Process* and then unthinkingly relied on a decision of the Court of Customs and Patent Appeals in a non-antitrust case to inject the elements of the common-law fraud cause of action into a *Walker Process* claim. There is probably no other circumstance in which a federal court has engrafted all the elements of a common law cause of action onto the elements of a federal statutory cause of action – resulting in two proof elements for causation, two proof elements for actionable injury, and two proof elements for damages. The Federal Circuit offered no reason for taking such a strange step.

Once again, the engrafting of the elements of common law fraud onto the *Walker Process* cause of action cannot be reconciled with the decision in *Walker Process* itself. Accordingly, **the elements of a common law action for fraud are not part of a *Walker***

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<sup>277</sup> 382 U.S. at 177.

<sup>278</sup> *Id.*

<sup>279</sup> *Id.* at 178.

<sup>280</sup> Compare RESTATEMENT (SECOND) OF TORTS § 525 with Comment a.

<sup>281</sup> 382 U.S. at 178.

<sup>282</sup> A person “*injured* in his business or property *by reason of* anything forbidden in the antitrust laws may sue therefore, . . . and shall recover threefold the *damages* by him sustained, . . .” 15 U.S.C. § 15(c)(a) (emphasis added).

**Process case. To prove “fraud” sufficient to strip the patentee of its patent-based exemption from antitrust liability, the *Walker Process* claimant need only prove that the patentee obtained the patent by “knowingly and willfully misrepresenting facts to the Patent Office.”**

### **C. *Walker Process* and Proof of Enforcement**

To repeat, the *Walker Process* decision closed with a precise specification of the elements for proof of Walker Process’s counterclaim. On remand, Walker Process was to “prove the alleged fraud” and then “establish the necessary elements of the asserted § 2 violation.” Nowhere did the Supreme Court mention any requirement to prove “enforcement” of the patent, except if needed to satisfy Clayton Act § 4. To the contrary, the Supreme Court essentially endorsed the Walker Process theory of antitrust recovery, except to the extent that Walker Process argued for automatic liability upon prove of “the alleged fraud.” According to the Court, “the gist of Walker’s claim is that since Food Machinery obtained its patent by fraud it cannot enjoy the limited exception to the prohibitions of § 2 but must answer under that section and § 4 of the Clayton Act in treble damages to those injured by *any monopolistic action taken under the fraudulent patent claim.*”<sup>283</sup> It was this “gist” of the Walker Process claim that was endorsed by the Court in holding that the “assertion” of Walker Process was “sufficient” to avoid the patentee’s exclusionary rights under the patent and thereby have access to the remedies of Clayton Act § 4.

The references to enforcement in *Walker Process*, by contrast, were only prefatory comments or descriptions of the particular circumstances of the case – the patentee Food Machinery had in fact attempted to enforce the patent claim through its original infringement lawsuit. Nothing in the *Walker Process* decision suggests a requirement of proof that the patentee took action to enforce the claim. In conformance with the language of the *Walker Process* decision, proof of enforcement may be assist in the proof of antitrust injury under Clayton Act § 4, but that proof is not required.

Any patent-based requirement that a *Walker Process* claimant prove enforcement of the patent cannot be reconciled with a proper reading of the *Walker Process* decision. Quite clearly, **the *Walker Process* claimant is entitled to prove antitrust injury from “any monopolistic action taken under the fraudulent patent claim.”**

### **D. Judicial Review of Fraud Jury Verdicts and Circumstantial Evidence of Fraud**

The proper scope of judicial review of jury findings in federal court has been firmly established by the Supreme Court. First, in determining whether sufficient evidence is in the record to uphold a judgment based on the jury verdict rather than to enter judgment as a matter of law contrary to that verdict, a “court should review all the evidence.”<sup>284</sup> In this process, the court “must draw all reasonable inferences in favor of the nonmoving party, and it may not make credibility determinations or weigh the

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<sup>283</sup> 382 U.S. at 176 (emphasis added).

<sup>284</sup> *Reeves v. Sanderson Plumbing Products, Inc.*, 530 U.S. 133, 150 (2000).

evidence.”<sup>285</sup> Credibility of witnesses and the weight of evidence are to be left to the jury.<sup>286</sup> Accordingly, the court “must disregard all evidence favorable to the [party challenging the verdict] that the jury is not required to believe.”<sup>287</sup> Put another way, in reviewing all the evidence, the “court should give credence to the evidence favoring the [party obtaining the favorable jury verdict] as well as that ‘evidence supporting the moving party that is uncontradicted and impeached, at least to the extent that that evidence comes from disinterested witnesses.’”<sup>288</sup>

The Court has also consistently observed a variety of principles concerning circumstantial evidence of wrongful intent. First is “the general principle of evidence law that the factfinder is entitled to consider a party’s dishonesty about a material fact as ‘affirmative evidence of guilt.’”<sup>289</sup> Accordingly, proof that an innocent “explanation is unworthy of credence is simply one form of circumstantial evidence that it probative of intentional” conduct.<sup>290</sup> The factfinder may therefore “infer from the falsity of the explanation that the” witness “is dissembling to cover up” wrongful intent.<sup>291</sup>

In addition, the Supreme Court long ago established that fraud in a civil case may be proved with circumstantial evidence and without direct or “affirmative” evidence of fraud. “To establish fraud, it is not necessary to prove it by direct and positive evidence.”<sup>292</sup> To the contrary, “[c]ircumstantial evidence is not only sufficient, but in most cases it is the only proof that can be adduced.”<sup>293</sup> In other words, requiring direct evidence of fraud would “in most cases” eviscerate the claimant’s rights to recover based on fraud.

All of the regional circuits apply these Supreme Court principles to proof of fraud in criminal cases.<sup>294</sup> As the Ninth Circuit recently held, criminal intent to defraud “may be inferred from misrepresentations” alone.<sup>295</sup> If this inference is permissible in a criminal case, it must be permissible in a civil antitrust case.

The Federal Circuit’s decision in *Dippin’ Dots* contravenes every one of these principles. It drew inferences against the prevailing *Walker Process* claimant. It explicitly weighed the strength of the evidence. It refused to accept the credibility determinations of the jury concerning the allegedly innocent explanations offered by the patentee. It credited the testimony of interested witnesses. And even though it concluded

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<sup>285</sup> *Id.* (citation omitted).

<sup>286</sup> *Id.* (citation omitted).

<sup>287</sup> *Id.* (citation omitted)

<sup>288</sup> *Id.*, quoting 9A C. WRIGHT & A. MILLER, FEDERAL PRACTICE & PROCEDURE § 2529, p. 300 (2d ed. 1995).

<sup>289</sup> *Reeves*, *supra* note 265, 530 U.S. at 147, quoting *Wright v. West*, 505 U.S. 277, 296 (1992).

<sup>290</sup> *Reeves*, 530 U.S. at 147 (citation omitted).

<sup>291</sup> *Id.*

<sup>292</sup> *Rea v. Missouri*, 84 U.S. 532, 543 (1873).

<sup>293</sup> *Id.*

<sup>294</sup> *E.g.*, *United States v. Sullivan*, 522 F.3d 967, 974 (9<sup>th</sup> Cir. 2008); *United States v. Boeson*, 491 F.3d 852, 857 (8<sup>th</sup> Cir. 2007); *United States v. Winkle*, 477 F.3d 407, 413 (6<sup>th</sup> Cir. 2007); *United States v. Reifler*, 446 F.3d 65 (2d Cir. 2006); *United States v. Rivera*, 295 F.3d 461 (5<sup>th</sup> Cir. 2002); *United States v. Godwin*, 272 F.3d 656, 666 (4<sup>th</sup> Cir. 2001); *United States v. Sawyer*, 239 F.3d 31, 47 (1<sup>st</sup> Cir. 2001); *United States v. Yoon*, 128 F.3d 515, 523-24 (7<sup>th</sup> Cir. 1997); *United States v. Pearlstein*, 576 F.2d 531, 541 (3d Cir. 1978).

<sup>295</sup> *Sullivan*, *supra* note 294, 522 F.3d at 974.

that the evidence supported the inference of fraudulent intent drawn by the trial judge, it refused to uphold the same inference drawn by the jury because the *Walker Process* claimant supposedly did not present “affirmative” evidence of fraudulent intent.<sup>296</sup>

The Federal Circuit’s reasoning provides no excuse for this rampant commission of error. To the contrary, the court’s adoption of plainly erroneous positions just to keep the *Walker Process* claim more difficult to prove than the inequitable conduct defense conclusively demonstrates that the court’s proof requirements for the inequitable conduct defense have become improperly difficult.

Furthermore, as the Supreme Court made clear in *Herman & Maclean*, the severity of civil remedies does not justify the creation of special rules to protect the defendants in those cases. Indeed, if normal inferences from circumstantial evidence can support the imposition of criminal sanctions for fraud, they have to be the proper approach in civil cases requiring proof of fraud.

In an antitrust case, this is a critical point. Congress has mandated recovery of treble damages in an antitrust case because of the age-old conclusion that the financial incentive of monopoly profits *requires* a greater-than-actual damage recovery by antitrust plaintiffs.<sup>297</sup> Of course, the antitrust plaintiff must also prove monopoly power and monopolistic conduct in violation of Sherman Act § 2 to achieve that recovery under Clayton Act § 4. To increase impediments to recovery deemed appropriate by Congress, based on a court’s own view of the severity of the sanction, is to contravene the conclusion in *Walker Process* that such judicial considerations may not be used to “frustrate” the civil remedy chosen by Congress.

The Federal Circuit’s resolution of the *Walker Process* claim in *Dippin’ Dots* piles error on error. The proper conclusion must be that ***Walker Process* fraud may be proved with entirely circumstantial evidence, and that review of the sufficiency of evidence to support a favorable jury finding of *Walker Process* fraud must be conducted in accordance with generally applicable standards for that review.**

## VIII.

### **Conclusion: The Proper Proof Prescription**

In summary, the foregoing analysis prescribes the following principles for proof of a *Walker Process* claim:

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<sup>296</sup> In addition, the Federal Circuit panels in *Dippin’ Dots* and other cases seem to believe that regardless of the instruction given to the jury, the court itself can readjust the result simply by conducting appellate review in accordance with unique “Federal Circuit” law. See also C.R. Bard, *supra* note 167, 157 F.3d at 1365-67. Just this summer, the Supreme Court rejected just that approach, explaining that proper jury instructions and factual sufficiency review are critical to achieving just results in litigation. *CSX Transportation, inc. v. Thurston Hensley*, 129 S. Ct. 2139, 2141-42 (2009) (per curiam).

<sup>297</sup> See HOVENKAMP, THE ANTITRUST ENTERPRISE 66 (2005). The seventeenth century English statute proscribing monopolies similarly provided for the “forfeiture of treble damages.” 4 W. BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND, ch. 12, § 9 at p. 159 (1769).

1. preponderance-of-the-evidence is the proper standard for proving the entirety of a *Walker Process* cause of action;
2. the elements of a common law action for fraud do not apply in a *Walker Process* case; to prove “fraud” sufficient to strip the patentee of its patent-based exemption from antitrust liability, the *Walker Process* claimant need only prove that the patentee obtained the patent by “knowingly and willfully misrepresenting facts to the Patent Office;”
3. a *Walker Process* claimant is entitled to prove antitrust injury from “any monopolistic action taken under the fraudulent patent claim;” and
4. *Walker Process* fraud may be proved with entirely circumstantial evidence, and review of the sufficiency of evidence to support a favorable jury finding in a *Walker Process* case must be conducted in accordance with generally applicable standards for that review.