The AIPLA Antitrust News

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CHAIRS' CORNER

Greetings once again to all of our loyal Antitrust Law Committee members and others interested in intellectual property and antitrust. The four months since our last newsletter have produced a number of interesting developments in the IP/antitrust arena, and a great deal of activity for the AIPLA Antitrust Law Committee.

Committee Activities

The Antitrust Law Committee took a lead role in two resolutions passed by the AIPLA Board at its March 15 meeting. The first involved proposed amendments to the antitrust laws outlawing certain forms of patent settlements between branded and generic pharmaceutical manufacturers. The bill reported out of the Senate Judiciary Committee would impose per se antitrust liability for any settlement in which (1) the generic manufacturer received anything of value, and (2) the generic agreed to delay research, development, manufacturer, marketing or sale of its product. The AIPLA Board's resolution, which was proposed by AIPLA's Special Committee on Hatch-Waxman, opposes per se liability for patent settlements in favor of rule-of-reason analysis, and favors a process that would immunize the settling parties from antitrust liability for settlements that are judicially determined to be reasonable.

The second Board resolution involved the scope of the Noerr-Pennington antitrust exemption for patent infringement litigation. Normally, an antitrust plaintiff would have to prove that a patent litigation was "objectively baseless" in order to avoid a Noerr-Pennington dismissal. In a case pending in the Ninth Circuit, *Kaiser Fdn. Health Plan v. Abbott Labs*, however, antitrust plaintiffs are arguing that a more relaxed, purely subjective test should be applied because the patent owner had brought several suits against various infringers, not just a single suit. The Federal Trade Commission staff has argued for a similar test in the case of "repetitive litigation" in a recently issued report on the Noerr-Pennington doctrine. The AIPLA Board resolution, which was proposed by the Antitrust Law Committee, opposes the elimination of the "objective baselessness" requirement from the "sham" exception to Noerr-Pennington immunity in the context of intellectual property infringement litigation. The Board's position can now serve as the basis for future amicus briefs should the opportunity arise.

The Antitrust Law Committee has also collaborated with the AIPLA Electronic and Computer Law Committee in conducting round-table discussions with the Federal Trade Commission and Justice Department staffs on antitrust and intellectual property issues faced by participants in standards-development activities. These meetings were held on February 28 and March 1 and elicited lively and informative views from all angles of the standards process.

By the time you read this, the Antitrust Law Committee and the Electronic and Computer Law Committee will also have collaborated on a joint committee program at the AIPLA Spring Meeting on Antitrust, Intellectual Property and the Standards Development Process.

Legal Developments

On April 30, 2007, the Justice Department issued a Business Review Letter regarding the IEEE's standards development process, which we are currently analyzing. For those who are interested, it is available in full text at http://www.usdoj.gov/atr/public/busreview/222978.htm.

Last month the FTC and DOJ issued their joint report on Antitrust Enforcement and Intellectual Property Rights – essentially volume II of the report on the 2002 IP/Antitrust Hearings. The report contained very few surprises and largely confirmed the agencies' continued reliance on the 1995 Antitrust Guidelines for the Licensing of Intellectual Property. Notably absent was any discussion of patent settlements, a topic that was the subject of hearings, but on which the two agencies have been in fairly public disagreement. This issue contains a brief summary of the report by Kristy Downing, who has just been appointed as the liaison to our committee from the Young Lawyers Committee. The text of the Report is available at http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

In February, the FTC issued its opinion on the remedy in the *Rambus* case. In a somewhat uncharacteristic move, the Commission ordered compulsory licensing of certain Rambus patents at issue in the FTC proceeding. The case is now teed up for appeal in the D.C. Circuit. The Commission's opinion is available at http://www.ftc.gov/os/adjpro/d9302/070205opinion.pdf.

On April 2, the Antitrust Modernization Commission issued its final report. There were only two recommendations on the subject of antitrust and intellectual property. One recommendation was to assess joint negotiations between SDOs and intellectual property owners under the rule of reason, rather than the per se rule. The second was for Congress to seriously consider the recommendations of the Federal Trade Commission and the National Academy of Sciences relating to patent reform. The text of the report is available at http://www.amc.gov/report_recommendation/amc_final_report.pdf.

There have also been two significant Federal Circuit antitrust decisions, both involving claims of fraud on the PTO. These are discussed in articles in this issue – one by Kevin Kerns on the *Dippin' Dots* case, and one by Joyce Craig-Rient on the *Hydril* case.

Committee Developments

This issue of the AIPLA Antitrust News will be the swan song for our editor, Tryn Stimart. We all owe our thanks to Tryn for his hard work in putting together a valuable resource for our membership. Our new editor will be Joyce Craig-Rient, of the Finnegan, Henderson firm. For those of you interested in submitting articles for our next edition, you can contact Joyce at joyce.craig-rient@finnegan.com.

We foresee a number of interesting projects over the coming months. Anyone wishing to volunteer to assist in the work of our committee should contact either Chris or me.

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THE FTC AND DOJ WEIGH IN ON THE INTERSECTION OF ANTITRUST ENFORCEMENT AND IP RIGHTS

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In April of 2007, the Federal Trade Commission and the Department of Justice issued a report purposed at providing guidelines for antitrust enforcement and intellectual property rights.[1] While the practice of intellectual property continues to flourish, the FTC and DOJ are concerned with determining the appropriate limitations of antitrust principles in relation to IP while not undermining free competition. Nevertheless, antitrust limitations should not seek to undermine innovation, particularly in the patent system premised upon the promotion of innovation.

The goal of the FTC-DOJ Report is to develop a better understanding of questions that arise when IP law and antitrust law intersect and to examine the historical approaches of each agency in resolving such issues. The Report is based on a series of hearings entitled, "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy." Hearing participants included representatives from small and large firms, academics, and legal practitioners. Scholarly literature was also consulted.

In the Report, the Agencies weigh in on a number of areas of concern that arise when IP law and antitrust law intersect, including: (i) unilateral refusals to license patents; (ii) patents being incorporated into collaboratively set standards (e.g., the Institute of Electrical and Electronic Engineers standards); (iii) antitrust implications on portfolio cross-licensing agreements and patent pools; (iv) variations in IP licensing practices; (v) antitrust implications with tying and bundling IP rights; and (vi) extension of market power conferred from patents beyond its statutory breadth. The Report provides unprecedented insight into the FTC and DOJ's collaborative perspective on these issues. Below is a brief overview of the issues addressed by the Report.

UNILATERAL REFUSALS TO LICENSE PATENTS

Does an unconditional refusal to license patents have antitrust implications? There are two fairly recent appellate cases in which this was a central question: Image Technical Services, Inc. v. Eastman Kodak ("Kodak") and In re Independent Service Organizations Antitrust Litigation ("CSU").[2] Claimants in both cases alleged violations of § 2 of the Sherman Act after an OEM refused to sell patented parts and/or license patented technology. Section 2 of the Sherman Act is balanced against Section 271(d)(4) of the Patent Code. ("No patent owner… shall be denied relief or deemed guilty of misuse or illegal extension of the patent by reason of having… refused to license or use any rights to the patent."). While the Ninth Circuit found sufficient pretext evidencing a conspiracy to create a monopoly in Kodak, the Court of Appeals for the Federal Circuit in CSU declined to consider the patentee's subjective motivation, concentrating on objective economic evidence of monopolistic intent, in effect finding no conspiracy.[3] The Report provides several conclusions based on the hearings including, *inter alia*:

- Section 271(d)(4) of the Patent Act does not create antitrust immunity for unilateral refusals to license patents.[4]
- Antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.[5]

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[1] *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).

[2] 125 F.3d 1195 (9th Cir. 1997) and 203 F.3d 1322 (Fed. Cir. 2000), respectively.

[3] *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007) at 16-17.

[4] PROMOTING INNOVATION AND COMPETITION *supra* at 6 & 16-32.

[5] *Id*.

- Conditional unilateral refusals to license, however, do raise antitrust concerns "because they can create anticompetitive incentives that cannot be created through unconditional refusals to license."[6] Such "undesirable result[s]" might include "exclusive dealing, cross-licensing requirements, exclusive grantbacks, tying, selective licensing, or even price fixing…"[7]

PATENTS INCORPORATED INTO COLLABORATIVELY SET STANDARDS

Oftentimes businesses in particular industries collaborate to share and develop best practices or standards, e.g., SDRAM. Such standard-setting organizations ("SSOs") have been concerned with standards being set that promote practices within the scope of patents assigned to participating organizations. Some consider it to be an improper/deceitful mode of promoting their business.

The Report states that the FTC and DOJ promote enhanced disclosure requirements for members of the standard setting organizations. Any interest in IP rights that may be infringed by the standard must be disclosed to the SSO. Additionally, the Agencies considered *ex ante* licensing discussions that would require participates to commit to licensing terms before the standard setting organization adopts the patented technology. The FTC and DOJ found that such requirements would be procompetitive.[8] Even joint *ex ante* consideration of license terms – by SSO members with other SSO members or bilateral negotiations – should not trigger special antitrust scrutiny.

ANTITRUST IMPLICATIONS ON PORTFOLIO CROSS-LICENSING AGREEMENTS AND PATENT POOLS

Portfolio cross-licensing or patent pool agreements are often undertaken where several enabling technologies are patented by different organizations. Each organization may collaborate to lower the price of any royalties they might have to pay by including in the bargain a license of their patented technology. In such arrangements patents are not licensed individually but as a group. According to the Agencies, portfolio cross-licensing can lead to price fixing, output restrictions and discouraging innovation.

In sum, the Agencies acknowledged that while "[c]ombining complementary patents with in a pool is generally procompetitive," each agreement will be reviewed on a "case-by-case basis" and that any such portfolio cross-licensing agreements and patent pools will be analyzed under a rule of reason approach.[9] Notably, the Agencies will concentrate on the formation of the pool and whether its structure is "likely to enable pool participates to impair competition" (as opposed to evaluating the reasonableness of any royalties).[10]

VARIATIONS IN IP LICENSING PRACTICES

Variations in licensing practices (including those in which IP are the underlying asset) may raise an anti-competitive brow. Section 1 of the Sherman Act prohibits contracts or conspiracies that restrain trade – i.e., vertical restraints in trade. Such restrictions are reviewed according to the rule of reason which balances the anticompetitive effects the restraint will have (if any) against its procompetitive benefits. Courts ask if the restraint is "reasonably necessary" to achieve its procompetitive benefits.[11]

According to the Agencies, the test should not change for agreements relating to IP. "The Agencies will continue to apply the flexible rule of reason analysis of the Antitrust-IP Guidelines to assess intellectual property licensing

[6] PROMOTING INNOVATION AND COMPETITION *supra* at 19.
[7] *Id*.
[8] PROMOTING INNOVATION AND COMPETITION *supra* at 7-8 & 33-56.
[9] PROMOTING INNOVATION AND COMPETITION *supra* at 8-9 & 57-86.
[10] *Id*.
[11] PROMOTING INNOVATION AND COMPETITION *supra* at 9.

agreements, including non-assertion clauses, grantbacks, and reach-through royalty payments."[12] The rule of reason is preferable to a bright-line test because the competitive impact of the licensing practice may differ according to the circumstances of its application.[13] The Agencies recommended their 1995 Antitrust Guidelines for the Licensing of Intellectual Property for instructions on how specific licensing practices should be analyzed (e.g., non-assertion clauses, grantbacks, and reach-through royalty agreements.)

ANTITRUST IMPLICATIONS WITH TYING AND BUNDLING IP RIGHTS

Tying and bundling of IP rights can implicate antitrust law as well. Tying occurs when a seller conditions the sale of one product or service upon a second purchase. In the IP context, companies may require the purchase of a portfolio of patents or other IP before they enable rights to the desired patented technology, thus driving up the overall sales price. Bundling arrangements occur when products or services are sold only collectively (e.g., as a set of golf balls or a pair of socks). When IP rights are distributed in this manner such agreements may be subject to antitrust review.

The Agencies reaffirmed the traditional approach stated in its 1995 Antitrust Guidelines for the Licensing of Intellectual Property, "Agencies consider both the anticompetitive effects and the efficiencies attributable to a tie, and would be likely to challenge a tying arrangement if: '(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.'"[14] In sum, tying and bundling arrangements that involve IP will be evaluated in a fashion similar to those that do not involve IP.

EXTENSION OF MARKET POWER CONFERRED FROM PATENTS BEYOND ITS STATUTORY BREADTH

A patentee is only entitled to royalties related to use of the patented technology before the expiry of the patent. A patentee may, however, collect royalties for past usage beyond the statutory term of the patent. The FTC-DOJ Hearings also focused on agreements that extended market power beyond the term of a patent, e.g., collection of royalties beyond the statutory term.

According to the Agencies, such agreements should be evaluated according to their ability to confer market power. In such instances, "[s]tandard antitrust analysis applies to practices that have the potential to extend the market power conferred by a patent beyond its expiration."[15] Arguably then, the more market power the agreement enables, the greater degree of (antitrust) scrutiny the agreement will be subject to.

CONCLUSION

Overall the Report provides very detailed insight as to the FTC and DOJ's take on several points of intersection between IP law and antitrust law. Many conclusions in the Report are in line with the 1995 Antitrust Guidelines for the Licensing of Intellectual Property.[16] Both Reports are worth consulting should the aforementioned issues/questions arise in practice.

[12] PROMOTING INNOVATION AND COMPETITION *supra* at 10 & 87-102.

[13] *Id*. at 88.

[14] PROMOTING INNOVATION AND COMPETITION *supra* at 11 & 103-114.

[15] PROMOTING INNOVATION AND COMPETITION *supra* at 12 & 115-23.

[16] U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995).

FEDERAL CIRCUIT CONSIDERS THE INTERPLAY BETWEEN INEQUITABLE CONDUCT AND *WALKER PROCESS* FRAUD IN *DIPPIN' DOTS*

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The inequitable conduct defense to a claim for patent infringement and a Sherman Act monopolization claim based on a theory of *Walker Process*[1] fraud each require a showing that the patent holder intentionally misrepresented or failed to disclose material information to the Patent and Trademark Office ("PTO")[2] As the Federal Circuit explained in *Nobelpharma*, the primary distinction between the affirmative defense of inequitable conduct and a claim for *Walker Process* fraud is the heightened standard for materiality and intent for the latter.[3] Despite this distinction, similarity between inequitable conduct and *Walker Process* fraud led some practitioners to wonder whether, in practice, the stated differences between the two standards were meaningful or merely esoteric. Indeed, inequitable conduct and *Walker Process* fraud claims very often arise in the same matter, and are supported by the same evidence.

In *Dippin' Dots, Inc. v. Mosey, et al.* (decided on February 9, 2007),[4] the Federal Circuit brightened the line between mere inequitable conduct and antitrust fraud, at least where the alleged fraud is based on an omission. In that case, the Federal Circuit considered an appeal of a verdict in favor of patent infringement defendants on their affirmative defense of inequitable conduct and attempted monopolization counterclaim based on *Walker Process* fraud.

The Federal Circuit's decision highlights the subtle, but significant, differences in the proof required to show deceptive intent for the defense of inequitable conduct versus an antitrust claim for *Walker Process* fraud. In *Dippin' Dots*, the Federal Circuit affirmed the district court's judgment that a patent holder's omission of certain prior sales rendered the patent unenforceable for inequitable conduct, but reversed the judgment that the same evidence constituted an intentional failure to disclose a material fact to the PTO under the *Walker Process* standard. The Federal Circuit

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[1] In *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp*., 382 U.S. 172 (1965), the United States Supreme Court held that a claim under Section 2 of the Sherman Act could be maintained against the holder of a patent who obtained that patent through fraud on the Patent Office, assuming all other elements of a Section 2 monopolization claim are met.

[2] The Patent Office imposes a duty of candor and good faith that requires anyone prosecuting a patent to disclose all material information relating to the invention. Violation of this duty of candor can result in a finding of inequitable conduct, or, in some cases, liability under the antitrust laws for *Walker Process* fraud.

[3] *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070-1071 (Fed Cir. 1998). The Federal Circuit explained in *Nobelpharma*:

> A finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct. Moreover, unlike a finding of inequitable conduct . . . a finding of *Walker Process* fraud may not be based upon an equitable balancing of lesser degrees of materiality and intent. Rather, it must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, <u>i.e.</u>, that the patent would not have issued but for the misrepresentation or omission. Therefore, for an omission such as a failure to cite a piece of prior art to support a finding of *Walker Process* fraud, the withholding of the reference must show evidence of fraudulent intent. A mere failure to cite a reference to the PTO will not suffice.

141 F.3d at 1070-71.

[4] *Dippin' Dots*, 476 F.3d 1337 (Fed. Cir. 2007).

observed that "[t]he difference in breadth and scope 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 on the PTO."[5] *Dippin' Dots*, it explained, "is such a case."[6]

THE STANDARDS FOR INEQUITABLE CONDUCT AND *WALKER PROCESS* FRAUD

A patent may be rendered unenforceable due to inequitable conduct if an applicant, "with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution."[7] The party alleging inequitable conduct must show materiality and deceptive intent by clear and convincing evidence. For inequitable conduct, information is material if "a reasonable examiner would have considered it important in deciding whether to allow the application as a patent."[8] Significantly, a court is permitted, in an inequitable conduct inquiry, to weigh the threshold findings of materiality and intent and determine whether the equities warrant a conclusion of inequitable conduct.[9]

Walker Process fraud on the PTO is a very close cousin to the doctrine of inequitable conduct. In *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, the Supreme Court held that knowing enforcement of a patent procured by fraud on the PTO could subject the individual or entity enforcing the patent to antitrust liability under Section 2 of the Sherman Act if the fraud is proven by clear and convincing evidence and the remaining elements of a Section 2 claim are proven.[10] While the language of the two doctrines is virtually identical, the Federal Circuit has made clear that the *Walker Process* standard is more stringent: "[a] finding of inequitable conduct does not by itself suffice to support a finding of *Walker Process* fraud, because 'inequitable conduct is a broader, more inclusive concept than the common law fraud needed to support a *Walker Process* counterclaim.'"[11] Specifically, Walker Process fraud requires a higher threshold showing of materiality and intent.[12] The heightened standard of materiality in a *Walker Process* case requires that the patent would not have issued but for the patent examiner's justifiable reliance on the patentee's misrepresentation or omission.[13] In the words of Justice Harlan's concurring opinion in *Walker Process*, the fraud has to be both "deliberate" and material, not so-called "technical fraud" or inequitable conduct. Moreover, the equitable balancing that the court is permitted to conduct on an inequitable conduct claim is ***not*** allowed on a *Walker Process* claim—a strong showing of materiality ***cannot*** make up for a weaker showing of intent.[14]

DIPPIN' DOTS: BACKGROUND AND DISTRICT COURT PROCEEDINGS

The case arose out of a patent dispute between Dippin' Dots, Inc. ("DDI") and its former distributors. DDI sells cryogenically prepared, beaded novelty ice cream products under the

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[5] *Id*. at 1347.

[6] *Id.*

[7] Digital Control, Inc. v. Charles Mach. Works, 437 F.3d 1309, 1313 (Fed. Cir. 2006) (citation omitted).

[8] *Dayco Prods., Inc. v. Total Containment, Inc*., 329 F.3d 1358, 1363 (Fed. Cir. 2003).

[9] *Mollins PLC v. Textron*, 48 F.3d 1172, 1178 (Fed. Cir. 1995) ("Once threshold findings of materiality and intent are established, the court must weigh them to determine whether the equities warrant a conclusion that inequitable conduct occurred.")

[10] Specifically, to prevail on a *Walker Process* claim, an antitrust plaintiff must prove the following: 1) a false representation or deliberate omission of a fact material to patentability; 2) with the intent to deceive the patent examiner; 3) on which the examiner justifiably relied on granting the patent; 4) but for which the patent would not have been granted; 5) knowledge of the fraud at time of suit; and 6) sufficient injury to competition to satisfy the requirements of Section 2 of the Sherman Act. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1364 (Fed. Cir. 1998).

[11] *Dippin' Dots*, 476 F.3d at 1346 (*citing Nobelpharma*, 141 F.3d at 1069).

[12] *See Id*. at 1347 (*citing Nobelpharma*, 141 F.3d at 1071).

[13] *C.R. Bard v. M3 Sys., Inc.*, 157 F.3d 1340, 1364 (Fed. Cir. 1998).

[14] *Dippin' Dots*, 476 F.3d at 1347 (*citing Nobelpharma*, 141 F.3d at 1071).

brand name "Dippin' Dots" at stadiums, amusement parks and the like. DDI was the holder of a patent covering a method for making a form of cryogenically prepared beaded novelty ice cream products (the '156 patent).[15] Specifically, the patented method was for preparing, storing and serving a free flowing, frozen alimentary dairy product comprising six separate steps. A dispute arose between DDI and several of its former distributors who had severed their relationship in order to compete against DDI. DDI initiated a series of patent infringement lawsuits in the Northern District of Texas against its new competitors, who defended on, among other grounds, inequitable conduct. The distributors also asserted a *Walker Process* counterclaim under Section 2 of the Sherman Act for DDI's alleged assertion of a fraudulently obtained patent.

The distributors' challenge to the patent-in-suit centered on largely undisputed facts relating to the allegedly intentional omission of information regarding certain prior sales from the '156 patent application. Under 35 U.S.C. §102(b), sales made more than one year before the patent's "priority date" trigger the on-sale bar. For the '156 patent, that critical date was March 6, 1988. It was undisputed that the inventor (Curt D. Jones, the president of DDI) sold a cryogenically prepared, beaded ice cream product at a Kentucky Festival Market in July 1987. Nonetheless, in its patent application, DDI included a sworn statement by Jones that "[t]he initial sales were in March of 1988." It was undisputed that the 1987 festival sales were not disclosed by DDI in its application to the PTO.[16]

The district court conducted a jury trial on the issues of invalidity, unenforceability and the antitrust counterclaims. At trial, inventor Jones testified that he considered the festival sales to be irrelevant to patentability. He explained that at the festival he had only practiced the first three steps of the claimed method related to the preparation and freezing of the ice cream beads, and not the last three steps relating to the storing and serving of the ice cream.[17] The patent attorney who prosecuted the patent application (Schickli) testified that he considered these festival sales to have been experimental sales for purposes of test marketing, and thus did not disclose them.[18] It does not appear that the distributors introduced any affirmative evidence of DDI's deceptive intent, but rather asked the jury to infer inceptive intent from the decision not to cite the festivals sales to the PTO.

The jury found by special verdict that the festival sales by Jones prior to March 1988 could be asserted against the patent as prior art, and, therefore, all claims of the '156 patent were invalid as obvious. The jury also found that both Jones and the attorney prosecuting the application had, with intent to deceive, made material misrepresentations or omissions in violation of the duty of candor to the PTO.[19] Finally, the jury found that the defendants had proven the elements of their Sherman Act counterclaims, including the requisite intentional fraud on the PTO. The jury awarded no antitrust damages, but the district court awarded substantial attorney's fees to the distributors.

The district court denied DDI's motion for judgment notwithstanding the verdict, and DDI appealed to the Federal Circuit. The principal issues on appeal were the district court's claim construction and grant of summary judgment on the issue of non-infringement, and its refusal to overturn the jury's verdict on obviousness, inequitable conduct and liability under Section 2 of the Sherman Act.

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15 The six steps in the claimed process were: 1) preparing an alimentary composition for freezing; 2) dropping said alimentary composition into a freezing chamber; 3) freezing and dropping the composition into beads; 4) storing the beads so as to maintain their free-flowing form; 5) bringing the beads to a higher temperature prior to serving; and 6) serving the ice cream beads in a free-flowing form. *Id.* at 1340.

16 The '156 patent was initially been rejected by the PTO on grounds of obviousness. After the initial rejection, DDI resubmitted its application and included a declaration touting the commercial success of its method that it argued should serve as an indicia of nonobviousness. The examiner agreed and the '156 patent issued. *Id*.

17 *Id*. at 1341.

18 *Id.*

19 *Id*. at 1342.

THE FEDERAL CIRCUIT DECISION

The court first affirmed the judgment on the issues of claim construction, non-infringement and obviousness,[20] and then turned to the issues of inequitable conduct and *Walker Process* fraud. The Federal Circuit first considered the jury's finding against DDI on the issue of inequitable conduct. After quickly disposing of the issue of materiality (finding it to be "clearly met here"),[21] it also affirmed the verdict on the question of deceptive intent, but found the issue to be "a more difficult one." The court noted that the question of intent for inequitable conduct must be "inferred from the facts and circumstances surrounding the applicant's overall conduct."[22] It observed that an applicant's omission of sales made before the critical date is "especially problematic" due to the fact that unlike in the case of prior art, the examiner has no way of securing the information on his own.[23]

While finding the evidence that DDI intended to deceive the examiner to be "not particularly strong", the court noted that it was permitted to "balance the relatively weak evidence of intent together with the strong evidence that DDI's omission was highly material to the issuance of the '156 patent and to find that on balance, inequitable conduct had occurred." The court engaged in that balancing, and concluded that:

> While DDI wholly neglected to disclose the festival market sales to the PTO, it enthusiastically touted sales made after the critical date as evidence of the commercial appeal of its process. That combination of action and omission permits an inference of the minimum, threshold level of intent required for inequitable conduct.

Having concluded that the evidence supported the verdict on the distributors' defense of inequitable conduct, the Federal Circuit then took up the issue of whether the same evidence supported the jury's verdict on the *Walker Process* antitrust counterclaim. The court found that the heightened standard for *Walker Process* materiality had been met, since the evidence supported a finding that the PTO would not have issued the patent if the 1987 festival sales had been disclosed. The difficult question for the Federal Circuit was whether omission of the festival sales, which was sufficient to prove intent for purposes of inequitable conduct, was also sufficient to prove the requisite deceptive intent for *Walker Process* fraud.

The Federal Circuit found that the requisite deceptive intent could ***not*** be shown on the evidence before it. The court first conceded that DDI's statements to the PTO would "have been more completely accurate" had the festival sales been disclosed. However, the court viewed DDI's statements as incomplete rather than false.[24] In the absence of an ***actually false*** statement, the court focused on the intent evidence offered by the counterclaim plaintiffs.

At trial, the distributors had offered no affirmative evidence on the issue of intent. Rather, they

[20] The issue of claim construction related primarily to the proper construction of the term "beads." DDI had urged that the claimed step of freezing the dripping alimentary composition into beads be interpreted to as "freezing the alimentary composition into both beads and irregular pellets." The district court rejected this interpretation, and the Federal Circuit affirmed. The court also found substantial evidence existed for the jury's verdict on the issue of obviousness based on the festival sales as prior art. *Id*. at 1342-43.

[21] As the court noted, the standard for materiality on a claim for inequitable conduct is whether a reasonable examiner would have considered the undisclosed materials to be important to the issue of patentability. Here, the festival sales clearly satisfied that standard.

[22] *Dippin' Dots,* 476 F.3d at 1345 (*citing Paragon Podiatry Lab., Inc. v. KLM Labs., Inc*., 984 F.2d 1182, 1189 (Fed. Cir. 1983)).

[23] *Id*. at 1345 (*quoting Paragon Podiatry*, 984 F.2d at 1189) ("Absent explanation, the evidence of a knowing failure to disclose sales that bear all the earmarks of commercialization reasonably supports an inference that the inventor's attorney intended to mislead the PTO.")

[24] *Id.* at 1347 (noting that DDI's statement "would have been more helpful to the PTO if it had also disclosed that the first free-flowing sales arguably happened at Festival Market.")

essentially had asked the jury to infer deceptive intent from the omission of the festival market sales.[25] The court held that the omission, by itself, was not sufficient to establish the intent necessary for *Walker Process* fraud. In so doing, the court drew a distinction between *Walker Process* claims based upon affirmatively false statements and omissions of material fact:

> We believe, though, that to find a prosecution omission fraudulent, there must be evidence of intent separable from the simple fact of the omission. A false or clearly misleading prosecution statement may permit an inference that the statement was made with deceptive intent. For instance, evidence may establish that a patent applicant knew one fact and presented another, thus allowing the factfinder to conclude that the applicant intended by the misrepresentation to deceive the examiner. This is not the case with an omission, which could happen for any number of nonfraudulent reasons – the applicant could have had a good-faith belief that disclosure was not necessary, or simply have forgotten to make the required disclosure.[26]

The court stated that the jury was free to disbelieve DDI's explanation of why it did not cite the festival sales to the PTO, but cautioned that the requisite "intent cannot be shown merely from the absence of evidence which would come about from the jury's discounting DDI's explanation."[27] Because the distributors had not introduced evidence that affirmatively showed DDI's fraudulent intent, the court reversed the verdict on the *Walker Process* claim.

The Federal Circuit flatly rejected the argument by the distributors that because the omitted fact was of such importance, the applicant must have made a decision not to disclose motivated by deceptive intent. While granting that this argument has "some force," the court stated that to "take it too far would be to allow the high materiality of the omission to be balanced against a lesser showing of deceptive intent by the patentee."[28] While such a balancing would be appropriate in a inequitable conduct inquiry, it is impermissible to determine *Walker Process* fraud under Federal Circuit jurisprudence. The court therefore reversed the antitrust verdict against DDI.

***DIPPIN' DOTS*: IMPLICATIONS**

Since *Nobelpharma*, a question had lingered regarding whether a real world difference existed between the defense of inequitable conduct and the type of fraud necessary to establish *Walker Process* liability. *Dippin' Dots* is the first reported decision to draw a practical line between inequitable conduct and *Walker Process* fraud. The Federal Circuit made clear in *Dippin' Dots* that, at least with respect to alleged fraud by omission, the subtle difference in the two standards can be telling, and indeed dispositive. *Dippin' Dots* provides a concrete example of a fact pattern where the same alleged omission supported a finding of deceptive intent for purposes of inequitable conduct, but did not support a finding of *Walker Process* fraud on the PTO.

Dippin Dots and *Nobelpharma*, read together, combine to provide some contour as to the quantum of evidence needed to establish a *Walker Process* fraud claim based on an omission. *Dippin' Dots* teaches that an omission, no matter how highly material, cannot lead to an inference of deceptive intent sufficient to prove *Walker Process* fraud. In this respect, the *Dippin' Dots* decision is consistent with the Federal Trade Commission's pronouncement in its 2006 Staff Report that in order for a communication with the PTO to lose antitrust immunity under *Noerr-Pennington*, the fraud should be deliberate, "factually verifiable" and "clear and apparent with respect to particular and sharply defined facts."[29] However, an

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25 *Id*.

26 *Id.*

27 *Id.* at 1348.

28 *Id.*

29 *See Enforcement Perspectives on the Noerr-Pennington Doctrine*, An FTC Staff Report at pp. 25-28 (2006); *see also* Opinion of the Federal Trade Commission *In the Matter of Union Oil Company of California*, Docket No.

omission still may in certain circumstances form the basis for a claim of *Walker Process* fraud – but only where that omission is coupled with actual evidence of intent, such as the applicant's deletion of a prior art reference in *Nobelpharma.* Indeed, the Federal Circuit in *Dippin' Dots* specifically noted that the holding in *Nobelpharma* "serves as a good example of the sort of facts that do prove *Walker Process* fraud by omission."[30] In *Nobelpharma*, the patent applicant had included a prior art reference in a draft, but then deleted that reference from its final application. The deleted reference was ultimately held to anticipate the patent. The evidence of the actual deletion of the prior art reference by the applicant's patent agent was sufficient grounds for the jury to find intent to defraud.[31] By contrast, in *Dippin' Dots*, the distributors presented no evidence of their own to counter DDI's assertions that it did not disclose the prior sales because it believed them to be cumulative. While the jury was free to disbelieve that explanation for purposes of its inequitable conduct determination, the court said, a finding of *Walker Process* fraud must be supported by some affirmative evidence of deceptive intent.[32]

Dippin' Dots thus should all but eliminate the possibility that an innocent omission of even a highly material fact will not, without more, lead to antitrust liability. This is significant to antitrust defendants, as *Walker Process* liability should not arise even in cases where the same facts lead to a finding of inequitable conduct based primarily on inferences drawn from credibility determinations.

9305, at p. 36 (July 7, 2004), *citing* 1 Areeda & Hovenkamp, Antitrust Law, §203f2 at 175.

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

31 *Nobelpharma*, 141 F.3d at 1071-72.

32 *Dippin' Dots*, 476 F.3d at 1347-48.

THREATS DIRECTED TO PLAINTIFF'S CUSTOMERS ARE SUFFICIENT TO SUPPORT A *WALKER PROCESS* ANTITRUST CLAIM, EVEN ABSENT PLAINTIFF'S REASONABLE APPREHENSION OF SUIT

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In *Hydril Co. v. Grant Prideco LP*, 474 F.3d 1344 (Fed. Cir. 2007), decided January 25, 2007, the Federal Circuit held that a plaintiff states a claim under Section 2 of the Sherman Act when it alleges that the holder of a fraudulently procured patent has directed threats of enforcement to the plaintiff's customers. The Court reversed the dismissal of the Sherman Act claim and a patent infringement claim and vacated the dismissal of a state law breach of contract claim.

BACKGROUND AND DISTRICT COURT PROCEEDINGS

Hydril Company LP and Hydril U.K., Ltd. (collectively, "Hydril") manufacture threaded connections for lengths of pipe used in oil and gas wells. Hydril generally sells its connections to drill pipe distributors who assemble finished pipe for end users. Grant Prideco, a competitor of Hydril's, manufactures and sells drill pipe and pipe connections, and owns U.S. Patent No. 6,244,631, directed toward certain combinations of drill pipe and connections fitting such pipe. Grant Prideco notified distributors of Hydril's products and other industry players of the existence of the '631 patent through letters requesting that the recipients take action to ensure Grant Prideco's patent rights "are being respected" in connection with sales of certain drill pipe.

In 2005, Hydril filed suit against Grant Prideco, alleging, *inter alia,* that Grant Prideco monopolized a relevant market in violation of Section 2 of the Sherman Act by obtaining and maintaining market power through threats of enforcement of the '631 patent, which Grant Prideco had obtained by way of fraud on the U.S. Patent and Trademark Office.

The Complaint alleged that Grant Prideco had obtained and maintained market power in relevant markets by wrongfully threatening to enforce the '631 patent against other market participants, including connection manufacturers, drill pipe distributors, and end users.

Hydril contended that the U.S. Patent and Trademark Office would not have issued the '631 patent had Grant Prideco not intentionally failed to disclose relevant prior art of which it was aware. Hydril argued that Grant Prideco obtained and maintained market power in the relevant markets by threatening to enforce its fraudulently-procured patent against other connections makers, drill pipe distributors, and end users. Hydril further contended that Grant Prideco's letters were intended and understood to be threats to refrain from sales of 5-7/8 inch drill pipes, which, if heeded, would reduce sales of one of Hydril's products, a tool used to connect pipes and other conduits. Hydril's Complaint, however, did not allege that Grant Prideco threatened Hydril with infringement litigation.

The district court applied the test for determining jurisdiction in a declaratory judgment action to determine whether Hydril's *Walker Process* claim was properly stated. In doing so, the court cited *Unitherm Food Systems v. Swift-Eckrich, Inc.*, 375 F.3d 1341 (Fed. Cir. 2004), which held that "as a matter of Federal Circuit antitrust law, the standards . . . for determining jurisdiction in a Declaratory Judgment Action for patent invalidity also define the minimum level of enforcement necessary to expose the patentee to a *Walker Process* claim for attempted monopolization." *Unitherm*, 375 F.3d at 1358. The district court concluded that, because Hydril has failed to allege enforcement activity that would create "an objectively reasonable apprehension that Grant Prideco intended to enforce the '631 patent against Hydril," Hydril had failed to allege the minimum level of enforcement necessary to state a *Walker Process* claim against Grant Prideco. Specifically, the district court found that Grant Prideco's letters to Hydril's distributors did not contain an explicit threat or other language, which, under the totality of the circumstances, could create a reasonable apprehension that Grant Prideco might sue Hydril for patent infringement.

FEDERAL CIRCUIT DECISION

On appeal, the Federal Circuit first noted that, under *Walker Process*, Grant Prideco would be stripped of its exemption from the antitrust laws if Hydril could prove that Grant Prideco was seeking to enforce a patent procured by fraud on the U.S. Patent and Trademark Office. In assessing the lower court's decision, the Federal Circuit stated that neither a failure to allege sufficient enforcement activity by Grant Prideco, nor Grant Prideco's failure to threaten such activity against Hydril itself rather than Hydril's customers, justified dismissal of the Complaint. Rather, it held that a valid *Walker Process* claim may be based on enforcement activity directed against the plaintiff's customers.

The Federal Circuit explained that "[t]hreats of patent litigation against customers, based on a fraudulently-procured patent, with a reasonable likelihood that such threats could cause the customers to cease dealing with their supplier, is the kind of economic coercion that the antitrust laws are intended to prevent." Thus, it concluded that the district court improperly failed to consider in its *Unitherm* analysis that a supplier may be injured if its market share decreases because its customers stopped dealing with it.