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Patent Law and Antitrust Law: Neither Friend Nor Foe, But Business Partners

Remarks of J. Thomas Rosch

PATENT LAW AND ANTITRUST LAW: NEITHER FRIEND NOR FOE, BUT BUSINESS PARTNERS

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INTRODUCTION

I will take up the question whether patent law and antitrust law are friends or foes in encouraging and rewarding innovation. Let me suggest to you that the answer is neither. Instead, each has its own role to play in respect to the larger enterprise that we call innovation, and what we should strive to do as regulators and enforcers—at least in the United States—is to ensure that they work cooperatively and complementarily as "business partners" in that enterprise.

In suggesting this answer, I speak, of course, from the perspective of the Federal Trade Commission. I therefore don't purport to have particular insight into how any other agency (for example, the U.S. Patent and Trademark Office), or the United States Congress, is thinking about the interplay between patent law and antitrust law.

The Commission's principal enforcement statute is Section 5 of the Federal Trade Commission Act.[1] For the purposes of my remarks, Section 5 has two relevant parts, one substantive and one procedural.[2] First, Section 5(a) is substantive in that it declares as unlawful "unfair methods of competition."[3] Violations of the Sherman and Clayton Acts are considered "unfair methods of competition" under this statute.[4] But as the Supreme Court confirmed in the famous *S&H* case,[5] "unfair competitive practices" proscribed by Section 5 are "not limited to those likely to have anticompetitive consequences after the manner of the antitrust laws[.]"[6]

* The views stated here are my own and do not necessarily reflect the views of the Commission or other Commissioners. I am grateful to my attorney advisor, Henry Su, for his invaluable assistance in preparing these remarks.

1 15 U.S.C. § 5 (2010). The Commission enforces the Sherman Act through Section 5, but it does have separate and independent enforcement authority under the Clayton Act, *see* 15 U.S.C. § 21 (2010).

2 There are a number of other subsections in Section 5 that are not pertinent to the discussion here.

3 15 U.S.C. § 5(a) (2010).

4 *See, e.g., FTC v. Ind. Fed'n of Dentists*, 476 U.S. 447, 465-66 (1986) ("The factual findings of the Commission regarding the effect of the Federation's policy of withholding x rays are supported by substantial evidence, and those findings are sufficient as a matter of law to establish a violation of § 1 of the Sherman Act, and, hence, § 5 of the Federal Trade Commission Act."); Fashion Originators' *Guild, Inc. v. FTC*, 312 U.S. 457, 464 (1941) ("And the Federal Trade Commission concluded in the language of the Clayton Act that these understandings substantially lessened competition and tended to create a monopoly. We hold that the Commission, upon adequate and unchallenged findings, correctly concluded that this practice constituted an unfair method of competition.").

5 *FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233 (1972).

6 *Id.* at 244 (reviewing *FTC v. R.F. Keppel & Bros., Co.*, 291 U.S. 304 (1934)).

Second, Section 5(b) sets out the Commission's procedure for bringing an enforcement action under the statute. Specifically, it requires that the Commission determine that it has "reason to believe" there has been a violation of one or more of the antitrust (or consumer protection) laws that the Commission enforces, and that bringing an enforcement action would be in the public interest.[7] As I have observed on other occasions, the reason-to-believe standard is akin to a prosecutor's probable cause standard.[8]

Why is Section 5 of the FTC Act important to my remarks today about the interplay between patent law and antitrust law? Because, to my way of thinking, the statute reminds us that while innovation certainly can be a key ingredient of competition on the merits, and a key driver of a dynamic and robust economy, the Commission can be said to "promote" innovation only indirectly – through its principal role as a law enforcement agency. In other words, our prime directive is not simply to make competition "better" or consumers "better off" by encouraging more innovation or fostering certain activities deemed to be innovative over other activities that appear not to be.

In saying this, I don't mean to denigrate the important advocacy and policy work of the Commission in the patent – antitrust arena.[9] But the Commission is – first and foremost – a law enforcement agency, and I therefore will focus on what considerations should come into play when we are deciding whether to bring an antitrust case challenging an acquisition, assertion, or licensing of patents. In my view, we as a Commission should recognize: *one*, that as an antitrust institution, we don't have sole guardianship of innovation, and other federal agencies, including notably the U.S. Patent and Trademark Office (PTO), have equally important roles to play; *two*, that even if we are enforcing the antitrust laws in order to promote innovation, we generally still have to anchor our enforcement cases to relevant markets for goods or services in which competition has occurred or is occurring; and *three*, that the public interest underlying our mission means our guardianship of innovation generally needs to benefit competition, and not solely competitors or other purely private interests.

I.

As I have said, the Commission is a law enforcement agency. Namely, we invoke the judicial power of the federal courts as well as our own administrative powers to enjoin and remedy proven violations of antitrust law.[10] In the 2004 *Trinko* decision,[11] however, the

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7 15 U.S.C. § 5(b) (2010).

8 J. Thomas Rosch, Comm'r, Fed. Trade Comm'n, So I Serve as Both a Prosecutor and a Judge – What's the Big Deal? Remarks before the ABA Annual Meeting 4 (Aug. 5, 2010), http://www.ftc.gov/speeches/rosch/100805abaspeech.pdf.

9 For recent examples of the Commission's patent-related advocacy work, see Brief of the Federal Trade Commission as Amicus Curiae Supporting Appellants and Urging Reversal, *In re* K-Dur Antitrust Litig., Nos. 10-2077, -2078 & -2079 (3d Cir. argued Dec. 12, 2011), *available at* http://www.ftc.gov/os/2011/05/110518amicusbrief.pdf; Brief of Amicus Curiae Federal Trade Commission on Rehearing En Banc Supporting Neither Party, *Tivo Inc. v. EchoStar Corp.*, 646 F.3d 869 (Fed. Cir. 2011) (No. 2009-1374), *available at* http://www.ftc.gov/os/2010/08/100802tivoechostarbrief.pdf; Brief of Amicus Curiae Federal Trade Commission on Rehearing En Banc Supporting Neither Party, *Princo Corp. v. ITC*, 616 F.3d 1318 (Fed. Cir. 2010) (No. 2007-1386), *available at* http://www.ftc.gov/os/2010/02/100219amicusbrief.pdf. The Commission's policy work includes, notably, the several reports prepared by staff on the interplay between patent law and antitrust law. FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION (2011), *available at* http://www.ftc.gov/os/2011/03/110307patentreport.pdf [hereinafter PATENT REPORT]; U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007), *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf [hereinafter ENFORCEMENT REPORT]; FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf [hereinafter INNOVATION REPORT].

10 *See* 15 U.S.C. §§ 21(b), 45, 53(b) (2010).

11 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 U.S. 398 (2004).

Supreme Court cautioned that we, as antitrust enforcers, "must always be attuned to the particular structure and circumstances of the industry at issue."[12] Specifically, the Court stressed that "[o]ne factor of particular importance is the existence of a regulatory structure designed to deter and remedy anticompetitive harm. Where such a structure exists, the additional benefit to competition provided by antitrust enforcement will tend to be small, and it will be less plausible that the antitrust laws contemplate such additional scrutiny."[13]

In my view, *Trinko's* cautionary note squarely applies to our enforcement approach in the patent-antitrust arena. That is to say, as antitrust enforcers we need to be cognizant of the regulatory structure that already exists in respect to patents. Significantly, last September, President Obama signed into law the Leahy-Smith America Invents Act (AIA),[14] the first major overhaul of the U.S. patent system since 1952.[15] In passing the AIA, the U.S. Congress inserted in the statute its expressed "sense . . . that the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country which includes protecting the rights of small businesses and inventors from predatory behavior that could result in the cutting off of innovation."[16]

To ensure that the patent system properly promotes innovation, Congress therefore enacted a number of reform measures in the AIA. Let me mention two particular measures that arguably inform our antitrust enforcement agenda in this arena.[17]

First, the AIA created new procedures for interested third parties to seek post-grant and inter partes review of the validity of issued patents, to be heard by a newly created, administrative Patent Trial and Appeal Board.[18] These procedures appear to be designed to encourage and favor an administrative resolution of questions of patent validity by the PTO, in the first instance, over a judicial resolution by the courts, which can be more costly and time-consuming.[19]

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12 *Id.* at 411.

13 *Id.* at 412. It bears noting that *Trinko* was unanimously decided, and Justice Scalia's opinion of the Court had bipartisan support from Chief Justice Rehnquist and Justices O'Connor and Kennedy, on the one hand, and Justices Ginsburg and Breyer, on the other.

14 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

15 Press Release, U.S. Dep't of Commerce, President Obama Signs America Invents Act and Announces New Steps to Help Entrepreneurs Create Jobs (Sept. 16, 2011), http://www.commerce.gov/news/press-releases/2011/09/16/president-obama-signs-america-invents-act-and-announces-new-steps-hel.

16 Leahy-Smith America Invents Act § 30, 125 Stat. at 339.

17 Another reform measure of interest – given the Commission's recent policy work in this arena – is the AIA's direction to the Comptroller General, through his Government Accountability Office (GAO), to study the consequences of patent litigation brought by the so-called "non-practicing entities" (NPEs) or "patent assertion entities" (PAEs). *Id.* § 34(a), 125 Stat. at 340. The Commission had discussed the potentially adverse impact of PAEs on innovation at length in its 2011 patent report. *See* Patent Report, *supra* note 9, at 8-9 & n.5, 27, 29, 30, 50-51 & n.2, 58-72. Now the GAO will study the problem, by looking at the volume of cases brought by NPEs and PAEs over a twenty-year period; the number of cases found to be without merit by the courts; the time required to resolve the claims through litigation and the costs of litigation for all stakeholders; the economic impact of such litigation on the U.S. economy, including inventors and consumers; and any benefits to commerce supplied by NPEs and PAEs. Leahy-Smith America Invents Act § 34(b), 125 Stat. at 340. A report to the Judiciary Committees of the Senate and the House is due no later than one-year anniversary of the AIA's enactment, and it is supposed to recommend changes that might be made to the laws and regulations to minimize any negative impact flowing from NPE- or PAE-instituted litigation. *Id.* § 34(c), 125 Stat. at 340.

18 Leahy-Smith America Invents Act § 6, 125 Stat. at 299-313 (provisions relating to inter partes and post-grant review; codified at 35 U.S.C. §§ 311-19, 321-29 (2011)); *id.* § 7, 125 Stat. at 313-15 (provisions relating to the Patent Trial and Appeal Board; codified as amended at 35 U.S.C. §§ 6, 141 (2011)). The inter partes and post-grant reviews are similar procedures in that both are designed to permit a third party to challenge the validity of an issued patent in the PTO. But in terms of timing and scope, they are different. Post-grant review may be sought only within the first nine months after issuance whereas inter partes review may be sought nine months after issuance, or after termination of post-grant review, whichever is later. *Id.* § 6, 125 Stat. at 299, 306 (codified at 35 U.S.C. §§ 311(c), 321(c) (2011)). Moreover, the invalidity grounds that may be raised in post-grant review are broader than those that may be raised in inter partes review, the former procedure encompassing any ground of invalidity (except an alleged failure to disclose best mode), and the latter procedure being limited to lack of novelty and obviousness based on prior art patents and printed publications. *Id.* (codified at 35 U.S.C. §§ 311(b), 321(b) (2011)).

19 *See id.* § 6, 125 Stat. at 300-02, 307-08 (codified at 35 U.S.C. §§ 315, 325 (2011); detailing the relationship of these procedures to other proceedings, including stays of civil actions filed subsequently by a party that has already petitioned the PTO for inter partes or post-grant review).

Second, the AIA also creates a supplemental examination procedure for patent owners to ask the PTO "to consider, reconsider, or correct information believed to be relevant to the patent."[20] If the PTO determines that the submitted information raises "a substantial new question of patentability," it can order a reexamination of the patent.[21] Importantly, the new statute provides that, with two stated exceptions, a patent cannot be held unenforceable based on conduct "relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent."[22] Clearly, a purpose of this new procedure is to encourage full consideration of all information that is relevant to patentability, and to discourage charges of inequitable conduct based on the mere fact that some relevant information might not have been fully or correctly considered during the original examination.

At the same time, however, the AIA directs the PTO Director, during the course of the supplemental examination and reexamination proceeding, to refer any discovered instances of "material fraud on the Office that may have been committed in connection with the patent" to the Attorney General for possible criminal prosecution or other action as appropriate.[23] Furthermore, the statute makes clear that it is not to be construed, *inter alia*, "to preclude the imposition of sanctions based upon criminal or antitrust laws (including section 1001(a) of title 18, the first section of the Clayton Act, and section 5 of the Federal Trade Commission Act to the extent that section relates to unfair methods of competition)."[24] The new statute thus also evinces an intent to punish instances of actual misconduct before the PTO.

Why might these reform measures that I have described be significant to antitrust enforcement? First of all, U.S. antitrust law has long recognized that the enforcement of a patent procured by fraud on the PTO, or asserted in bad faith by the patent owner (for example, with knowledge of its invalidity), can potentially give rise to a violation of Section 2 of the Sherman Act for monopolization or attempted monopolization. We even have popular names for those types of Section 2 claims – the former is known as a *Walker Process* claim[25] and the latter is known as a *Handgards* claim.[26] But the same cases that have recognized and lent their names to those types of Section 2 claims also make clear that the bar for proving fraudulent procurement or bad faith enforcement has been purposely set high, in order to prevent private, treble-damages, antitrust litigation from burdening or

20 *Id.* § 12, 125 Stat. at 325 (codified at 35 U.S.C. § 257(a) (2011)).
21 *Id.*, 125 Stat. at 325-26 (codified at 35 U.S.C. § 257(b) (2011)).
22 *Id.*, 125 Stat. at 326 (codified at 35 U.S.C. § 257(c) (2011)). The two exceptions are (1) allegations of inequitable conduct that have already been pled or described with particularity in a pending civil action or in a Paragraph IV notice before the date of the supplemental examination request relating to the same information at issue; and (2) defenses of inequitable conduct raised in an infringement action or an ITC Section 337 unfair import investigation based on information that was the subject of a supplemental examination request if the supplemental examination and reexamination have not concluded before the date the action or investigation is brought. *Id.*
23 *Id.*, 125 Stat. at 326-27 (codified at 35 U.S.C. § 257(e) (2011)). For example, declarations submitted to the PTO come with the warning that willful false statements are subject to criminal prosecution under 18 U.S.C. § 1001 (2011).
24 *Id.*, 125 Stat. at 327 (codified at 35 U.S.C. § 257(f) (2011)).
25 *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965) ("We have 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.").
26 *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993 (9th Cir. 1979) (holding that "infringement actions initiated and conducted in bad faith contribute nothing to the furtherance of the policies of either the patent law or the antitrust law" and that the district court was therefore correct in holding that "such actions may constitute an attempt to monopolize violative of Section 2 of the antitrust law"), *cert. denied*, 444 U.S. 1025 (1980). *Accord Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77 (Fed. Cir. 1985), *overruled on other grounds by Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (*en banc* in relevant part).

chilling the legitimate exercise of patent rights.[27] As a result of these standards, successful *Walker Process* and *Handgards* claims have been few and far between.[28]

At the same time, however, antitrust legal scholars and economists (including two economists who respectively have led the Commission's Bureau of Economics and the Economic Analysis Group of the Department of Justice's Antitrust Division) have mused about the adverse impact of "weak" or potentially invalid patents on innovation and social welfare.[29] Although we all may generally agree that "weak" or potentially invalid patents are not good for the health of an innovative and competitive economy, the question on the table is whether *antitrust law* is the right instrument to attack those patents.[30] To my way of thinking, the answer is – in most cases – no, and the AIA-instituted reforms correctly put the general problem of invalid patents squarely back in the lap of the agency best situated to remedy it – the PTO.

Why do I say that? Here are three reasons. First, we have to recognize that patents – whether strong or weak, valid or invalid – are the product of a regulatory process administered by the PTO. The law presumes that the PTO, as an administrative agency, acts properly and according to law when it examines patent applications and issues patents.[31] That presumption of administrative correctness in turn gave rise to a common-law presumption of patent

27 *Walker Process*, 382 U.S. at 176 (expressing a lack of concern with the prospect of "innumerable vexatious suits," or the punitive consequences of private, treble-damages claims brought under Section 2 of the Sherman Act and Section 4 of the Clayton Act, because "[i]t must be remembered that we deal only with a special class of patents, *i.e.,* those procured by intentional fraud") & 180 (Harlan, J., concurring) (emphasizing that the Court is *not* holding that private antitrust suits can reach patent monopolies "that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent"); *Handgards*, 601 F.2d at 993 (recognizing the dilemma that "bad faith" "is a subjective state of mind the existence of which, while not susceptible to certain proof, easily can spring from suggestive and weakly corroborative circumstances," and therefore an antitrust court must have "the means whereby the bad faith infringement action can be identified post hoc with a sufficiently high degree of certainty to make it highly improbable that the action in fact was brought in good faith") & 996 (concluding that the solution "is to erect such barriers to antitrust suits as are necessary to provide reasonable protection for the honest patentee who brings an infringement action to protect his legal monopoly").

28 *See, e.g., C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998) (affirming the jury verdict on M3's antitrust counterclaim); *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984) (affirming the jury's antitrust verdict against Ethicon), *cert. denied*, 469 U.S. 1190 (1985).

29 *See, e.g.,* Josh Lerner, *The Litigation of Financial Innovations*, 53 J.L. & ECON. 807, 827 (2010) (concluding that observed patterns in litigation over patents on "financial inventions" are consistent with models of strategic exploitation of weak patents, which "can have socially detrimental effects beyond the deadweight losses associated with the licensing payments [. . . ranging] from distortions in the incentives to innovate to spending on socially unproductive litigation"); Joseph Farrell & Carl Shapiro, *How Strong Are Weak Patents?*, 98 AM. ECON. REV. 1347, 1347 (2008) ("The bigger issue, we suggest, concerns patents that are not clearly invalid, but are weak – they may well be invalid, but nobody knows for sure without conclusive litigation."); Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101, 104 (2006) ("But antitrust law's current treatment of invalid patents remains inadequate. While antitrust law recognizes that enforcing invalid patents can constitute illegal monopolization or attempted monopolization, courts have refused to consider the anticompetitive effects of simply having an invalid patent."); Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, J. ECON. PERSPECTIVES, Spring 2005, at 75, 88 ("What is driving this striking result that even a weak patent can command royalties approaching those of an ironclad patent covering the same claims? The key insight is that invalidating a patent generates significant positive externalities, and activities that generate positive externalities are undersupplied.").

30 For example, Professor Christopher Leslie has argued that antitrust law should do more to rid society of invalid patents. *See* Christopher R. Leslie, *Invention, Creation, & Public Policy Symposium: Innovation & Competition Policy: Antitrust and Patent Law as Component Parts of Innovation Policy*, 34 IOWA J. CORP. L. 1259, 1289 (2009) ("Too many judges appear to assume that patent problems should be addressed solely through patent law. This is a mistake. Analyzing these problems through an antitrust lens provides a more effective response to patent misconduct that stifles innovation."); Leslie, *supra* note 29, at 183 (advocating for the elimination of the "enforcement" requirement in *Walker Process* claims so that the mere possession of "knowingly invalid" patents would violate the antitrust laws).

31 *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir.) ("When no prior art other than that which was considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job, which includes one or more examiners who are assumed to have some expertise in interpreting the references and to be familiar from their work with the level of skill in the art and whose duty it is to issue only valid patents. In some cases a PTO board of appeals may have approved the issuance of the patent."), *cert. denied*, 469 U.S. 821 (1984). *See also FCC v. Schreiber*, 381 U.S. 279, 296 (1965) (observing that an administrative agency (e.g., the FCC) is entitled to the presumption that it will act properly and according to law).

validity, now codified in our Patent Act.[32] Viewed against this regulatory backdrop, the incremental benefits of bringing antitrust enforcement against weak or potentially invalid patents are not particularly compelling – absent strong evidence that the patent in question was obtained by intentional fraud on the PTO,[33] or is manifestly defective such that its enforcement would be regarded as objectively baseless and subjectively in bad faith.[34] Those latter two circumstances describe instances of regulatory failure where it would be appropriate for antitrust enforcers to discard the presumption that the PTO has done its job properly and according to law.[35]

That brings to me to the second reason, which is that we would expect instances of regulatory failure, that is, intentional fraud on the PTO or a manifestly defective patent, to be rare. The mine run of cases will be those numerous instances that the *Walker Process* Court termed "technical fraud,"[36] that is, errors and omissions that invariably arise because the patenting process has been, and still remains, an exercise of human judgment (whether on the part of the applicant or the examiner) within a complex set of rules and procedures. Antitrust law is ill-suited to address the mine run of cases because such challenges would produce the very scenario that the *Walker Process* Court sought to avoid – the risk that a patent owner will be subjected to "innumerable vexatious suits" that may chill innovation.[37] Indeed, we have seen this very scenario play out in the courts in respect to the oft-asserted and "overplayed" defense of inequitable conduct – the kissing cousin of fraudulent procurement, which the Federal Circuit (the court of appeals that has exclusive jurisdiction over patent cases) has repeatedly characterized as "an absolute plague" on the courts and the patent system.[38] Consequently, last year, in the *Therasense* case, that court sat *en banc* to fix the problem by tightening the standard for proving inequitable conduct,[39] thereby bringing the doctrine virtually congruent with intentional fraud under *Walker Process*.[40]

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32 35 U.S.C. § 282 (2011) ("A patent shall be presumed valid. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity."). *See American Hoist*, 725 F.2d at 1359 (observing that section 282 merely codified what had already been recognized and accepted in the common law – that a government agency like the PTO is presumed to do its job (*citing Radio Corp. of Am. v. Radio Eng'g Labs*., Inc., 293 U.S. 1, 7 (1934))); *accord Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2243, 2251-52 (2011) (reaffirming the clear-and-convincing-evidence standard for overcoming the presumption of validity as a choice made by Congress when it enacted the 1952 Patent Act, and declining "to judge the comparative force of [the] policy arguments" for and against a heightened standard of proof, including Microsoft's argument that the prevailing standard "dampens innovation by unduly insulating 'bad' patents from invalidity challenges").

33 In this discussion, I am lumping inequitable conduct before the PTO together with intentional fraud. As observed later, there may not be much of a difference, if any, between the two types of conduct after the Federal Circuit tightened the requirements of intent and materiality for inequitable conduct in *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*). *See infra* notes 38-40 and accompanying text.

34 In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, the Supreme Court outlined a two-part definition of "sham" litigation, which applies to bad faith enforcement of patents: "First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. . . . [Second], the court should focus on whether the baseless lawsuit conceals 'an attempt to interfere *directly* with the business relationships of a competitor,' . . . through the 'use [of] the governmental *process* – as opposed to the *outcome* of that process – as an anticompetitive weapon[.]'" 508 U.S. 49, 60-61 (1993) (citations omitted).

35 In *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, the Supreme Court, in articulating a duty of candor to the PTO regarding information relevant to the prosecution of a patent application, recognized the PTO's responsibility "to safeguard the public in the first instance against fraudulent patent monopolies." 324 U.S. 806, 818 (1945). The point here is that antitrust enforcement can and should intervene if it is shown that the PTO has failed to perform, or been prevented from performing, its gatekeeping role to protect the public from invalid or fraudulent patent monopolies.

36 *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp*., 382 U.S. 172, 177 (1965). *See also id.* at 179, 180 (Harlan, J., concurring).

37 *Id.* at 176; *see also id.* at 180 (Harlan, J., concurring).

38 *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1289 (Fed. Cir. 2011) (*en banc*) (citing prior decisions of that court).

39 *Id.* at 1290 ("This court now tightens the standards for finding both intent and materiality in order to redirect a doctrine that has been overused to the detriment of the public."). The Federal Circuit reaffirmed that inequitable conduct requires proof of specific intent to deceive the PTO, which means clear and convincing evidence "that the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it." *Id.* Constructive knowledge is not sufficient, nor is inference based on the materiality of the undisclosed prior art reference. *Id.* Moreover, intent and materiality are separate requirements to be independently analyzed, and a sliding scale whereby a strong showing of one element may compensate for a weak showing of the other element is inappropriate. *Id.* Concluding that a higher intent standard alone did not reduce the number of inequitable conduct cases, the Federal Circuit also raised the bar for proving materiality by introducing a "but-for" test, i.e., whether the PTO would have allowed the claim or patent if it had been aware of the undisclosed reference. *Id.* at 1291-92.

40 *Cf. Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1346-47 (Fed. Cir.) (observing that the then-prevailing inequitable conduct standard was broader and more inclusive than *Walker Process* fraud because the latter required a greater showing of both intent and materiality than the former), *cert. denied*, 552 U.S. 948 (2007). *Therasense* has more or less closed that gap. *See generally* George G. Gordon & Stephen A. Stack, *Aligning Antitrust and Patent Law: Side Effects from the Federal Circuit's Cure for the Inequitable Conduct "Plague" in* Therasense, ANTITRUST, Fall 2011, at 88.

A third reason is that antitrust enforcement, like most federal court litigation, can be very expensive and time-consuming. Litigants sometimes blithely ignore or forget the fact that *Walker Process* and *Handgards* claims require proof as well of the other elements of a Section 2 violation, which includes defining a relevant antitrust market and demonstrating the existence of monopoly or market power in that market.[41] That exercise in most cases requires some econometric analysis provided by a testifying economist, which consumes time and resources, not only of the litigants but also of the courts.

Recognizing that litigation is generally a less-than-desirable vehicle for resolving garden-variety issues involving weak or potentially invalid patents, the AIA-instituted reform measures redirect the general problem back to the PTO through the administrative channels of post-grant review, inter partes review, and supplemental examination. This approach makes sense because it will allow the PTO to bring its regulatory expertise to bear on issues of validity, and thereby free up the courts – and the antitrust enforcement agencies – to focus on the egregious cases that may well warrant the imposition of treble-damages liability under the antitrust laws.

There is potentially an added benefit to the AIA-instituted reform measures from the standpoint of antitrust enforcement. Specifically, as mentioned earlier, the new supplemental examination procedure directs the PTO Director to report any "material fraud on the Office" that may have been committed in connection with a patent being reexamined to the Attorney General for possible enforcement action.[42] Although we as a Commission do not have criminal jurisdiction, we wield enforcement powers under Section 5 to combat cases involving intentional fraud and inequitable conduct before the PTO as "unfair methods of competition," which the AIA has explicitly recognized.[43]

Perhaps the best known example of our enforcement in this arena is the tetracycline case we brought against Pfizer, American Cyanamid, and others in the 1960s.[44] In that case, the Commission charged and found that Pfizer had violated Section 5, *inter alia*, by making "deliberately false and misleading statements to, and with[holding] material information from, the Patent Office in securing its tetracycline patent," and by using that tetracycline patent to restrain competition, and to create a monopoly, in the manufacture and sale of the drug.[45] The Commission's decision was twice reviewed by the Sixth Circuit and affirmed the second time.

In the first review, however, the court of appeals overturned the Commission's findings with respect to the inequitable conduct charge for lack of substantial evidence because the Commission – without calling the PTO employee who had examined Pfizer's

41 *Walker Process*, 382 U.S. at 177 ("To establish monopolization or attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. Without a definition of that market there is no way to measure Food Machinery's ability to lessen or destroy competition."). *See, e.g., Delano Farms Co. v. Cal. Table Grapes Comm'n*, 655 F.3d 1337, 1350-52 (Fed. Cir. 2011) (affirming the district court's dismissal of the plaintiff's *Walker Process* claim for failure to allege a plausible basis for finding that a variety of grapes constitutes its own relevant submarket); *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1363-65 (Fed. Cir. 2004) (concluding that the district court had erred in letting the verdict of *Walker Process* liability stand because the plaintiff had failed to provide any evidence of economic substitutability critical to market definition), *rev'd on other grounds*, 546 U.S. 394 (2006); *Neumann v. Reinforced Earth Co.*, 786 F.2d 424, 429-30 (D.C. Cir.) (Bork, J.) (affirming the district court's judgment notwithstanding the verdict in a sham litigation case because the plaintiff failed to meet his burden of defining a relevant market), *cert. denied*, 479 U.S. 851 (1986).

42 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, 326-27 (2011) (codified at 35 U.S.C. § 257(e) (2011)).

43 *Id.*, 125 Stat. at 327 (codified at 35 U.S.C. § 257(f) (2011)).

44 *See Charles Pfizer & Co., Inc. v. FTC*, 401 F.2d 574 (6th Cir. 1968); *Am. Cyanamid Co. v. FTC,* 363 F.2d 757 (6th Cir. 1966). Notably, the Supreme Court had decided *Walker Process* during the same period, in 1965.

45 *Cyanamid*, 363 F.2d at 762. The Commission also found that American Cyanamid aided and abetted Pfizer's inequitable conduct on the PTO by making erroneous representations to the PTO about the patentability of tetracycline, and failing to correct those representations or disclosing that they were inaccurate until after the PTO had granted the patent. *Id.*

tetracycline patent application to testify – had "[drawn] opposite inferences and reached opposite conclusions" from its hearing examiner as to what that PTO employee supposedly knew, intended, and required in connection with the processing of patent applications.[46] The Sixth Circuit held that the PTO employee's testimony would have conclusively resolved the issue of inequitable conduct, and that there was no reason why he should not have been subpoenaed to testify in the public interest.[47]

The problem with the Sixth Circuit's first ruling in *American Cyanamid* is that there was – and still is – a general PTO policy against patent examiners being called as witnesses, especially if the questions being asked will delve into their mental processes, analyses, or conclusions in acting on a patent application.[48] If that policy were strictly enforced, it would arguably make the "but-for" materiality required for intentional fraud or inequitable conduct[49] more difficult to prove – at least from the standpoint of having direct evidence bearing on this issue.

But the AIA-instituted supplemental examination procedure may get around that problem because it places an obligation on the PTO Director to identify and report instances of "material fraud." Implicit in that obligation – it would seem – is an expectation of cooperation from the PTO in providing whatever testimony and other evidence needed to prove the putative fraud, whether as a criminal violation or an antitrust violation. Moreover, because the PTO Director would be the one reporting instances of "material fraud" perpetrated on his agency, that will arguably minimize the risk of false positives for antitrust enforcement and conserve resources to combat only meritorious and provable claims of intentional fraud or inequitable conduct.

Let me say a brief word about appellate jurisdiction over patent-antitrust claims. As the Eleventh Circuit recently reminded us in *FTC v. Watson Pharmaceuticals, Inc.*,[50] even prior to the enactment of the AIA, Congress had given the Federal Circuit exclusive jurisdiction over appeals in cases "arising under" the patent laws.[51] Obviously, an antitrust claim does not "arise under" patent law from the standpoint of federal patent law creating that cause of action.[52]

Federal Circuit jurisdiction can still exist, however, if the "right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a

46 *Id.* at 779.
47 *Id.* at 778, 779.
48 *Id.* at 778-79; *see* 37 C.F.R. § 104.23(a) (2011) (limiting testimony for private litigants, if authorized in advance, to facts within the examiner's personal knowledge, and permitting expert or opinion testimony only upon a showing that exceptional circumstances so warrant and that the anticipated testimony will not be adverse to the interests of the PTO or the United States); U.S. PAT. & TRADEMARK OFFICE, MANUAL OF PAT. EXAMINING PROC. § 1701 (8th ed. 2001 & rev. 2010) ("Members of the patent examining corps are cautioned to be especially wary of any inquiry from any person outside the USPTO, including an employee of another U.S. Government agency, the answer to which might indicate that a particular patent should not have issued."); U.S. PAT. & TRADEMARK OFFICE, MANUAL OF PAT. EXAMINING PROC. § 1701.01 (8th ed. 2001 & rev. 2010) (taking the position that it is impermissible "[t]o inquire into the bases, reasons, mental processes, analyses, or conclusions of [a PTO] employee in performing the quasi-judicial function"). *See also* Note, *Legal Basis for Precluding a Patent Examiner from Testifying*, 42 IND. L.J. 255 (1967) (commenting on the Sixth Circuit's decision in *American Cyanamid*).
49 *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011) (*en banc*); *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1347 (Fed. Cir.), *cert. denied*, 552 U.S. 948 (2007).
50 No. 10-12729, 2012 U.S. App. LEXIS 8377, at *45 (11th Cir. Apr. 25, 2012).
51 28 U.S.C. § 1295(a) (2011) (vesting the Federal Circuit with exclusive jurisdiction over appeals of final district court decisions "in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection"). The AIA amended section 1295(a) to include exclusive jurisdiction over actions involving compulsory counterclaims for patent infringement, thereby overruling the specific holding in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826, 830-32 (2002). *See* Leahy-Smith America Invents Act, Pub. L. No. 112-29 § 19(b), 125 Stat. 284, 331-32 (2011) (codified as amended at 28 U.S.C. § 1295(a)(1) (2011)).
52 *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988); *In re* DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 685 (2d Cir. 2009).

necessary element of one of the well-pleaded claims."[53] Applying that jurisdictional test, *Walker Process* claims have been held to "arise under" federal patent law because a necessary element of the claim – fraudulent procurement of the patent – turns on a substantial question of patent law,[54] which requires an application of Federal Circuit precedent.[55] It is by no means clear, however, whether the Federal Circuit would have exclusive jurisdiction over patent–antitrust claims, including *Walker Process* claims, decided by the Commission under its Part 3 administrative process, as opposed to the district courts, because a different appellate statute governs.[56]

II.

Let me now turn to a second consideration that we as a Commission should keep in mind when we are deciding whether to bring an antitrust case challenging the acquisition, assertion, or licensing of patents. As a law enforcement agency, the Commission promotes or protects innovation principally by bringing cases that charge some conduct or transaction as violations of the antitrust laws that we enforce. Accordingly, even if we are concerned about the adverse impact of some conduct or transaction on innovation, we still must translate that concern into an antitrust law violation that we can allege and prove, either in federal court or in our own adjudicative process.[57] That generally means we still should anchor our enforcement cases to markets for goods or services in which competition has occurred or is occurring, even though patents may be the main source of concern, because those commercial markets are what the antitrust laws were enacted to protect.[58]

The principal statute that the Commission enforces is Section 5 of the FTC Act, which outlaws, *inter alia*, "unfair methods of competition in or affecting commerce."[59] To be sure, Section 5's proscription is not limited to practices that violate the letter or the spirit of the antitrust laws.[60] If the Commission is enforcing the statute as an antitrust law, however, then its jurisdiction would be based on the existence of present or potential competition, and the harm or injury to such competition caused by, or likely to be caused by, the employment of practices that are deemed "unfair."[61] When used as an antitrust

53 *Id.*
54 *DDAVP*, 585 F.3d at 685; *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323, 1330 n.8 (Fed. Cir. 2008). Although *Ciprofloxacin* was principally an antitrust case challenging the legality of a "pay-for-delay" settlement under Sections 1 and 2 of the Sherman Act and related state antitrust and consumer protection laws, the plaintiffs amended their complaint to add a "state law *Walker Process* type antitrust claim." That may have provided the "hook" needed to give the Federal Circuit exclusive jurisdiction over the ensuing appeal. *Id.* at 1329-30. In *Watson Pharmaceuticals*, however, apparently the Eleventh Circuit intimated that a "pay-for-delay" settlement case, which raises a question regarding the strength, validity, or exclusionary power of the patent, is a case "arising under" patent law and thus subject to the Federal Circuit's exclusive jurisdiction. 2012 U.S. App. LEXIS 8377, at *46 ("We are ill-equipped to make a judgment about the merits of a patent infringement claim, which is what we would have to do in order to decide how likely the claim was to prevail if it had been pursued to the end. The FTC's approach is in tension with Congress' decision to have appeals involving patent issues decided by the Federal Circuit.").
55 *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (*en banc* in relevant part).
56 *Compare* 28 U.S.C. § 1295(a)(1) (2011) (conferring exclusive jurisdiction to the Federal Circuit over *final decisions of the district courts* in patent cases), *with* 15 U.S.C. § 45(c) (2010) (conferring jurisdiction to the regional Circuits over *Commission decisions* based on "where the method of competition or the act or practice in question was used or where such person, partnership, or corporation resides or carries on business").
57 *See generally* 16 C.F.R. pt. 3 (2012).
58 This does not mean that when anticompetitive effects have occurred, we are barred from "backing into" the relevant market, i.e., defining the relevant market after the effects have been identified. *See* Concurring Opinion of J. Thomas Rosch, Comm'r, Fed. Trade Comm'n, at 1–2, Polypore Int'l, Inc., No. 9327, 2010 FTC LEXIS 96, at *2-6 (F.T.C. Dec. 13, 2010), *available at* http://www.ftc.gov/os/adjpro/d9327/101213polyporeconcurringopinion.pdf. Notably, in *FTC v. Indiana Federation of Dentists*, the Supreme Court upheld the Commission's "finding of actual, sustained adverse effects on competition in those areas where [Indiana Federation] dentists predominated, viewed in light of the reality that markets for dental services tend to be relatively localized," as legally sufficient for a rule-of-reason analysis. 476 U.S. 447, 461 (1986). As the Court explained, because the only purpose of the inquiries into market definition and market power is to assess the potential of a challenged restraint to cause adverse effects of competition, "proof of actual detrimental effects, such as a reduction of output," can obviate the need to make those inquiries. *Id.* at 460-61 (quoting 7 PHILLIP AREEDA, ANTITRUST LAW ¶ 1511, at 429 (1986)). In other words, market definition is but a means to an end, not an end unto itself.
59 15 U.S.C. § 45(a)(1) (2010).
60 *FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 239 (1972); *Atl. Ref. Co. v. FTC*, 381 U.S. 357, 369 (1965).
61 *FTC v. Raladam Co.*, 283 U.S. 643, 649, 654 (1931).

statute, Section 5 protects "the public from the evils likely to result from the destruction of competition or the restriction of it in a substantial degree, and this presupposes the existence of some substantial competition to be affected, since the public is not concerned in the maintenance of competition which itself is without real substance."[62] This is in line with the objectives of the Sherman Act[63] and the Clayton Act,[64] which the Commission also enforces.

In the patent-antitrust arena, the fact that an antitrust law violation is typically premised on a showing of actual or likely substantial harm to competition in some market for goods or services means that we should not just focus on the patents themselves, even though they may be the main source of the concern. A case that illustrates this very point is the Pfizer tetracycline patent litigation that I have already mentioned.

In *American Cyanamid*, one of the issues before the Sixth Circuit was whether the Commission had jurisdiction – assuming Pfizer's tetracycline patent had been obtained by misrepresentation and improper conduct before the PTO – to hold that Pfizer's use of that patent for the purpose of excluding competition was an unfair method of competition proscribed by Section 5, and to order as a remedy the compulsory licensing of that patent on a reasonable royalty basis.[65] Pfizer argued that the Commission was overstepping its jurisdiction under Section 5 by essentially "second-guessing" the actions of the PTO as to the validity of Pfizer's patent.[66] The court of appeals disagreed, however, with Pfizer's characterization that the Commission was passing judgment on the validity of the patent; the gravamen of Pfizer's violation of Section 5 lay not in its allegedly obtaining the patent by misrepresentation, standing alone, but rather, in its subsequent use of that patent to exclude competition in the tetracycline product market by suing and threatening to sue its competitors.[67]

In other words, as much as we may deplore misrepresentation and other misconduct before the PTO, which, to be sure, can lead to the issuance of weak or questionable patents that dampen or chill innovation, it is the use of such patents to monopolize or suppress competition in a relevant goods or service market that triggers the intervention of the antitrust laws,[68] and the Commission's enforcement jurisdiction

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62 *Id.* at 647-48. As the Supreme Court observed in *S&H*, *Raladam* was subsequently criticized in *FTC v. R.F. Keppel & Bros., Inc.*, 291 U.S. 304 (1934), as presenting too narrow a statement of the entire scope of Section 5's proscription of "unfair methods of competition in commerce." *Sperry Hutchinson*, 405 U.S. at 242-44. "Thenceforth, unfair competitive practices were not limited to those likely to have anticompetitive consequences after the manner of the antitrust laws; nor were unfair practices in commerce confined to purely competitive behavior." *Id.* at 244. But *Raladam* was not actually overruled by either *Keppel* or *S&H*, and its description of Section 5 *as an antitrust statute* would seem to have continued vitality today. *But see supra* note 58 (regarding whether market definition is required when there is evidence that competition has been adversely affected).

63 *See, e.g., United States v. Grinnell Corp.*, 384 U.S. 563, 572-73 (1966) (explaining that the "any part of the trade or commerce" language in Section 2 of the Sherman Act refers to markets for goods or services); *Apex Hosiery Co. v. Leader*, 310 U.S. 469, 500 (1940) (explaining that Section 1 of the Sherman Act was intended to remedy public wrongs that "flow from restraints of trade in the common law sense of restriction or suppression of commercial competition"); *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 265 (7th Cir. 1984) (Posner, J.) (explaining that to make out a Section 2 claim based on patent fraud, "[t]he patent must dominate a real market"; "[i]f a patent has no significant impact in the marketplace, the circumstances of its issuance cannot have any antitrust significance"), *cert. denied*, 472 U.S. 1018 (1985).

64 *See, e.g., United States v. Continental Can Co.*, 378 U.S. 441, 458 (1964) (explaining that the "line of commerce" language in Section 7 of the Clayton Act calls for an evaluation of the impact of a merger on existing competition and competition "that is sufficiently probable and imminent" in any given market).

65 *Am. Cyanamid Co. v. FTC,* 363 F.2d 757, 768 (6th Cir. 1966).

66 *Id.* at 769.

67 *Id.* at 769-70. *See also id.* at 771 ("We hold that the Commission had jurisdiction to determine that the conduct of the parties before the Patent Office resulting in the issuance of the patent, and the subsequent use of the fruits of such conduct may, in total, be found to constitute violation of Section 5 of the Act.").

68 "The Federal Trade Commission Act may be construed *in pari materia* with the Sherman and Clayton Acts. 'This construction allows for using cases decided under any of the antitrust laws in dealing with cases brought by the Commission.'" *Id.* at 771 (quoting *Atl. Ref. Co. v. FTC*, 344 F.2d 599, 606 (6th Cir.), *cert. denied*, 382 U.S. 939 (1965)). *See also Atl. Ref. Co. v. FTC,* 381 U.S. 357, 369-70 (1965) ("When conduct does bear the characteristics of recognized antitrust violations it becomes suspect, and the Commission may properly look to cases applying those laws for guidance.").

thereunder.[69] This enforcement approach also accords due respect to the regulatory structure of patent law – that is to say, the Commission should not be in the business, as Pfizer had charged, of "second-guessing" the PTO with respect to the examination of patent applications. Instead, the mine run of problems associated with potentially invalid or defective patents should be addressed by the PTO in the first instance.

If *American Cyanamid* is an exemplar of how the Commission should enforce Section 5 as an antitrust law against patent-based conduct, then *SCM Corp. v. Xerox Corp.*[70] illustrates the difficulties that can arise when an antitrust challenge to patent-based conduct is not based on a showing of actual or likely substantial harm to competition in some market for goods or services existing at the time of the conduct in question. At the outset, I should point out that *SCM* was an appeal from a private, treble-damages action brought by SCM Corporation under Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act against Xerox Corporation. Neither Section 5 of the FTC Act, which only the Commission can enforce, nor a public law enforcement action was involved.[71] Nevertheless, the points made by the Second Circuit in *SCM* deserve fair consideration even in the context of a public law enforcement action, as I will explain.

The appeal primarily concerned SCM's claim that "by 1969 Xerox had willfully acquired monopoly power in a relevant product market consisting of convenience office copiers using plain and coated paper and in a relevant submarket consisting only of plain-paper copiers, and that Xerox's conduct excluded SCM from the relevant market and submarket."[72] At trial, the jury had found that the only patent-based conduct that bore a causal relationship to SCM's exclusion claim was a 1956 agreement between Xerox and Battelle Memorial Institute, under which Battelle transferred title to four basic patents claiming the xerographic process, which had been invented by Chester Carlson, to Xerox.[73] Battelle also granted Xerox an exclusive license to the remaining Carlson-Battelle patents as well as a right to receive all future xerographic patents and know-how developed by Battelle.[74]

In order to recover damages for its exclusion claim, SCM had to allege and prove "antitrust injury," that is, harm that the antitrust laws were meant to redress.[75] Because SCM claimed only injury from Xerox's allegedly unlawful, patent-based conduct, and because the jury found that the only patent-based conduct that could have caused that injury was the 1956 Xerox-Battelle agreement, Xerox's patent acquisition under the 1956 agreement therefore had to be an antitrust violation in order for SCM to have suffered any "antitrust injury."[76] That was the question before the Second Circuit.

The Second Circuit concluded that the 1956 agreement did not violate the antitrust laws because the relevant market and submarket in question did not exist at the time of the patent acquisition but rather, came into being some eight to thirteen years later.[77] Indeed, the first plain-paper copier did not even come to market until 1960.[78]

69 Again, my discussion here is of Section 5 as an *antitrust law*, and I leave open the question, for example, whether and under what circumstances patent-related misrepresentations might constitute an "unfair or deceptive act or practice" in violation of Section 5.
70 645 F.2d 1195 (2d Cir. 1981).
71 The Commission had brought its own enforcement action under Section 5 against Xerox in January 1973, charging a number of violations that included both patent-based and non-patent-based conduct. *See* Xerox Corp., 86 F.T.C. 364 (1975) (complaint, decision and order). That action was settled with the entry of a consent decree in 1975, however, whereas SCM's private case, filed in July 1973, continued to trial. *SCM Corp.*, 645 F.2d at 1201.
72 *SCM Corp.*, 645 F.2d at 1201.
73 *Id.* at 1199, 1201.
74 *Id.* at 1199.
75 *See Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977).
76 *SCM Corp.*, 645 F.2d at 1203, 1206-07.
77 *Id.* at 1208-09 (disposing of Section 2 claim), 1209-10 (disposing of Section 1 claim), & 1211 (disposing of Section 7 claim).
78 *Id.* at 1200.

Antitrust liability under both the Sherman Act and the Clayton Act, the court held, required an assessment of the actual or likely, adverse impact of the patent acquisition on either the market power possessed by Xerox, or the level of competition, in some relevant market at the time of the acquisition.[79]

The Second Circuit rejected SCM's argument that antitrust liability could attach merely by showing that a "reasonably foreseeable" effect of the patent acquisition was the eventual acquisition of monopoly power by Xerox in some relevant product market.[80] In the court's view, this argument would penalize a purchaser of a patent not for its market position, but rather for the potential commercial success that is latent in any patent.[81] Such a rule could chill innovation because a purchaser would have to be concerned about reaping "too much" commercial success from a patent, lest the patent create its own relevant product market in which the purchaser would have monopoly power. Moreover, a seller of a patent would have to be concerned about being able to transfer the patent to another firm if the commercial success of the claimed invention were "virtually guaranteed," because that might give the purchaser exclusionary power in a relevant market at some point down the road.[82]

In summary, *American Cyanamid* and *SCM* illustrate the general requirement of relating the challenged patent-based conduct or transaction to its actual or likely impact on a relevant goods or services market existing at the time of the conduct or transaction. I need to make a couple of clarifications, however. First, the issue here is not *how* and *to what degree of precision* a relevant market will be defined but *whether* one exists at all and can be identified.[83] Being able to identify a relevant antitrust market is what allows us, and the courts, to recognize and assess the effects of the challenged conduct or transaction on competition. Second, in the preceding observations, I am leaving aside the occasional enforcement cases in which the patents, or the technologies and inventions claimed therein, might be properly analyzed as belonging to a relevant "technology market" or "innovation market."[84] For example, a case might concern a market for licenses of competing, alternative technologies that are covered by patents. In such a case, it may be less important to identify a goods or services market impacted by the challenged conduct or transaction.

III.

A third consideration that we as a Commission should keep in mind when we are deciding whether to bring an antitrust case challenging the acquisition, assertion, or licensing of patents is the public interest. As I have said, Section 5(b) requires the Commission not only to have "reason to believe" there has been a violation of law, but also to conclude that bringing an enforcement action would be in the public interest. This means that we need to

79 *See id.* at 1208 ("In scrutinizing acquisitions of patents under § 2 of the Sherman Act, the focus should be upon the market power that will be conferred by the patent in relation to the market position then occupied by the acquiring party.") & 1211 ("The existing market provides the framework in which the probability and extent of an adverse impact upon competition may be measured.").

80 *Id.* at 1208-09.

81 *Id.* at 1208 ("The limitation that SCM would impose, however, turns not upon the market position of the acquiring party, but rather, upon the potential for commercial success a particular patent may hold.").

82 *Id.* ("Presumably, under SCM's proposed rule, where the commercial success of a patented invention virtually is guaranteed, no person other than the inventor can hold exclusive rights in the patent, at least where it is foreseeable that the products generated under the patent will create their own relevant product market.").

83 *See supra* note 58. As I have said, once we have shown the anticompetitive effects of the challenged conduct or transaction, we can "back in" to a definition of the relevant market. We do not have to define the market first before proving the existence of anticompetitive effects.

84 *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY §§ 3.2.2 & 3.2.3 (1995), *available at* http://www.ftc.gov/bc/0558.pdf.

make sure that we are acting to protect competition and consumers, and not purely to advance the private interests of a competitor, customer, or other third party.[85]

The Supreme Court construed the "public interest" standard of Section 5 in its 1929 opinion in *FTC v. Klesner*.[86] That case arose as a proverbial tale of two merchants in Washington, D.C. – Sammons, a maker and seller of window shades who did business as "The Shade Shop," and Klesner, an interior decorator who did business under the name of Hooper & Klesner and, from time to time, took orders for window shades. Sammons had sublet some space from Klesner for his shop but one day, he abruptly decided to move his shop to another building nearby. By vacating the premises as he did, Sammons had undoubtedly breached his agreement with Klesner. "An acrimonious controversy ensued[,]" one that ultimately led to Klesner setting up, out of pure spite, a rival, window-shade business in Sammons' vacated space, and deliberately using the "Shade Shop" trade name in an apparent attempt to confuse customers and steal business away from Sammons.[87]

Based on these facts, the Commission entered a cease and desist order against Klesner enjoining him from using the words "Shade Shop" in connection with any aspect of his business. The Commission filed suit in the Court of Appeals for the District of Columbia to enforce its order, but the court dismissed the case,[88] finding that the words "Shade Shop" were descriptive and hence incapable of conferring any exclusive trademark rights, and that there was insufficient evidence of Klesner's alleged deception and theft of Sammons' customers.[89]

On appeal, the Supreme Court held that the dismissal could be affirmed without examining the merits because Section 5 "does not provide private persons with an administrative remedy for private wrongs[,]"[90] and it therefore follows that if the Commission is filing an action in its own name – as it must, then "the purpose must be protection of the public."[91] Furthermore, that public interest must be "specific and substantial," such as when the conduct or practice challenged as an "unfair method"[92] (1) "threatens the existence of present or potential competition," (2) "involve[s] flagrant oppression of the weak by the strong," or (3) causes an aggregate loss that is "so serious and widespread as to make the matter one of public consequence," but the loss to any one affected individual is too small to warrant a private suit.[93]

Measured against the "public interest" standard, the case against Klesner was, in the Court's view, essentially a private dispute.[94] Notably, the Commission did not file its enforcement action until *after* Sammons' own *private* suit to enjoin Klesner's use of the

85 Of course, an enforcement action that we bring may well benefit a particular competitor or customer, as well as protect competition and consumers. There is nothing wrong with that.
86 280 U.S. 19 (1929).
87 *See generally id.* at 23–24.
88 The court initially dismissed the Commission's case citing a lack of jurisdiction, but that order was reversed, and the case remanded, by the *Supreme Court. FTC v. Klesner*, 274 U.S. 145 (1927).
89 *Klesner*, 280 U.S. at 24-25.
90 *Id.* at 25.
91 *Id.* at 27. "The protection thereby afforded to private persons is the incident." *Id.*
92 Note that *Klesner* was decided prior to the 1938 Wheeler-Lea Amendments that added "unfair or deceptive acts or practices" to the Commission's Section 5 jurisdiction, which thereby made clear that the Commission may act to protect consumers as well as competition. 83 CONG. REC. 391, 391-92 (1938) (statement of Rep. Clarence F. Lea, co-sponsor of the Wheeler – Lea Amendments) (explaining that the proposed addition of "unfair or deceptive acts or practices" to the Commission's Section 5 jurisdiction will relieve the agency of the burden of having to show that an "unfair practice is injurious to a competitor" and will also allow the agency to "afford a protection to the consumers of the country that they have not heretofore enjoyed"); *FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244 (1972) (observing that the addition of the phrase "unfair or deceptive acts or practices" to Section 5's original ban on "unfair methods of competition" makes clear that Congress charged the Commission with protecting consumers as well as competition).
93 *Klesner*, 280 U.S. at 28.
94 *Id.* at 28 & 30. Perhaps the conclusion might have been different had the Commission been able to challenge Klesner's actions as an "unfair or deceptive act or practice." *See supra* note 92.

words "Shade Shop" had been dismissed by the District of Columbia courts.[95] By that time, Klesner had been using the words "Shade Shop" for five years, and any confusion that might have been present at the outset would have largely been dissipated.[96]

In my view, notwithstanding the passing decades, *Klesner* still stands as a warning beacon to the Commission not to get involved in what are purely private disputes, with no specific and substantial public interest at stake. We should therefore proceed with caution in the patent-antitrust arena because complaints sometimes come to us from firms that are already embroiled in private, patent infringement lawsuits or disputes, and what those complainants may be expecting us to do is to use our official investigative and enforcement powers to cow the other side into submission.

For example, in *Flynn & Emrich Co. v. FTC*,[97] the Commission had entered a cease-and-desist order against Flynn & Emrich Company, enjoining it from threatening any person or firm with patent infringement "in bad faith for the purpose of diverting the trade of any competitor or competitors to it and without intention to sue."[98] The administrative record reflected, however, a substantial factual dispute as to whether Flynn's assertions of infringement, which were based on the advice of its patent counsel and directed only to the competing products of Perfection Grate & Supply Company, were in fact made in bad faith.[99] On a petition for review, the Fourth Circuit concluded that the record did not support the Commission's finding of bad faith.[100]

Additionally, the court of appeals held that the Commission's cease-and-desist order lacked the required public interest. Importantly, the only competing product targeted by Flynn was Perfection's, and the record showed that none of the purchasers approached by Flynn's salesmen about the risk of liability for patent infringement were actually prevented from buying Perfection's product.[101] The record also reflected that in response to Flynn's representations of patent infringement in the marketplace, Perfection had threatened suit to enjoin Flynn from continuing to make those representations but it never followed through with that threat.[102]

On that record the Fourth Circuit announced – and I quote:

> The case here is rather a controversy of a private and personal nature between the petitioner and the Perfection Company, and could have been readily settled in the courts, and if a proper case were made an injunction would have issued against the petitioner. Certainly Congress never intended that the machinery of the Federal Trade Commission, severe as its operation can be made, should be set in motion for the

95 *Id.* at 29.
96 *Id.* In the words of the Court, "[i]f members of the public were in 1920, or later, seriously interested in the matter, it must have been because they had become partisans in the private controversy between Sammons and Klesner." *Id.*
97 52 F.2d 836 (4th Cir. 1931).
98 *Id.* at 836.
99 Flynn denied the charges in the Commission's complaint and explained that it did not follow through with its threats and file suit because of the expense involved in litigation, no matter the result. *Id.* at 837. Also, there was a report from the Commission's hearing examiner who, after taking the testimony of witnesses, concluded that Flynn's instructions to its salesmen, who were to advise customers that had purchased or were in the process of purchasing Perfection's stokers of the alleged infringement, had been made in good faith and based on the opinion of patent counsel. The Commission attorneys argued that the report should not be part of the record, a position that the Fourth Circuit found difficult to understand since the examiner was the one who had seen and heard the witnesses, and observed their demeanor. *Id.*
100 *Id.* at 838 ("Here the petitioner, in claiming infringement, did only what its officers undoubtedly thought they had a perfect right to do and what they had been advised to do by their attorneys, who were clearly acting in perfect good faith."). *Flynn* was decided nearly 50 years before *Handgards* but the record as described likely would not support a claim of "sham" litigation under the now prevailing *Professional Real Estate* standard either. *See supra* notes 26 & 34.
101 *Id.*
102 *Id.* at 837.

> settlement of private controversies, when the courts can act. The official character of the Commission makes it all the more necessary that it act only when the public interest is involved. It was never intended that the Commission should act the part of a petty traffic officer in the great highways of commerce.[103]

In other words, *Flynn* and *Klesner* both involved private disputes between two parties that the courts can and do resolve without the Commission's intervention. In *Klesner*, Sammons had already unsuccessfully sought injunctive relief from the courts when the Commission decided to file suit. In *Flynn*, Perfection could have asked a court to enjoin Flynn from making the representations but it chose not to sue, for whatever reason.

Not all disputes between two parties are purely private in nature, however. Depending on the structure of the affected market, some disputes affect competition and consumers too, and in such cases, the Commission may properly intervene using Section 5 as a standalone, antitrust statute because it is broader than either the Sherman Act or the Clayton Act. A recent example is our issuance of a litigated complaint against Intel Corporation, charging a course of conduct to maintain monopoly power in the markets for central processing units (CPUs) and near-monopoly power in the markets for graphics processing units (GPUs) as a violation of Section 5.[104]

In a statement concurring with the Commission's view that Intel's course of conduct violated Section 5, I observed that although Intel's conduct was directed at Advanced Micro Devices ("AMD"), allegedly its only competitor in the CPU market, and at AMD and Nvidia Corporation, allegedly its only competitors in the GPU market, that conduct harmed competition and consumers as well because the markets were highly concentrated and the entry barriers were uncommonly high.[105] Intel's conduct therefore had the alleged effect of inhibiting the only rivals who were in a position to constrain its exercise of monopoly or near-monopoly power in those markets. "Under those unique circumstances, the oft-repeated admonition that the Sherman and Clayton Acts protect competition, not competitors, and the federal courts' attendant disinclination to protect competitors in cases brought under those statutes, do not fit well."[106] In my view, the *Intel* case therefore provided an appropriate situation to proceed under Section 5. We weren't just protecting AMD and Nvidia as competitors; we were also protecting the competition and consumer choice afforded by their presence as the only putative rivals in the CPU and GPU markets, respectively.[107]

In the patent-antitrust arena, another situation in which there may be a strong public interest element is the enforcement of patents that cover some feature or function of an adopted industry standard. If a patented feature or function faces any competition at all

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103 *Id.* at 838. In a similar vein, the Supreme Court has held, in the context of a labor dispute between a union and an employer, in which there was a threat to withhold labor services, that the Sherman Act "does not purport to afford remedies for all torts committed by or against persons engaged in interstate commerce." *Hunt v. Crumboch*, 325 U.S. 821, 826 (1945). Furthermore, Judge Posner has observed that, in the context of a lawsuit between two parties over who had superior rights to a patented process for making antistatic yarn, that "[i]f injury to a competitor, caused by wrongful conduct, were enough to bring the antitrust laws into play, the whole state tort law of unfair competition would be absorbed into federal antitrust law[.]" *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 267 (7th Cir. 1984), *cert. denied*, 472 U.S. 1018 (1985).

104 Complaint ¶¶ 2-28, Intel Corp., No. 9341, 2009 FTC LEXIS 227, at *3-12 (F.T.C. Dec. 16, 2009), *available at* http://www.ftc.gov/os/adjpro/d9341/091216intelcmpt.pdf.

105 Concurring and Dissenting Statement of J. Thomas Rosch, Comm'r, Fed. Trade Comm'n, at 1, Intel Corp., No. 9341 (F.T.C. Dec. 16, 2009), *available at* http://www.ftc.gov/os/adjpro/d9341/091216intelstatement.pdf. I dissented, however, from the Complaint's inclusion of "tag-along" Section 2 claims for prudential reasons. *Id.* at 3–4.

106 *Id.* at 1.

107 *Id.* at 1-2.

from alternative technologies, that competition is effectively eliminated once that feature or function is chosen over its alternatives by the standards body for incorporation in the standard. If the standards body and industry participants make that choice in reliance on a commitment by the patent owner to make the patented feature or function available to everyone at a reasonable and nondiscriminatory royalty rate, then any subsequent conduct by the patent owner that is inconsistent with that prior commitment upsets the expectations of the standards body and industry participants, and thereby harms both competition and consumers.[108] Moreover, such conduct hurts innovation because it can deter firms from developing technologies and products based on the adopted standard.

For example, in *Negotiated Data Solutions LLC*,[109] a company called National Semiconductor Corporation had committed to license a suite of patents covering the "NWay" autonegotiation technology, which had been chosen for use in the so-called Fast Ethernet standard, for a one-time fee of $1,000 to anyone practicing the standard.[110] Subsequent owners of those patents, including Negotiated Data Solutions LLC ("N-Data"), however, chose not to honor the prior commitment.[111] The Commission therefore charged N-Data with engaging in unfair methods of competition by reneging on a prior commitment.[112] The matter settled with the entry of a consent decree, which I voted to accept and make final. I also joined the Commission majority's statement in which we explained the rationale for our decision.[113]

In our view, there was no doubt that N-Data's type of conduct harmed consumers because "[t]he process of establishing a standard displaces competition; therefore, bad faith or deceptive behavior that undermines the process may also undermine competition in an entire industry, raise prices to consumers, and reduce choices."[114] We described an industry standard as an engine driving the modern economy, and N-Data's conduct as threatening to stall that engine to the detriment of all consumers.[115] In the Commission's complaint, we alleged that N-Data's predecessor-in-interest, Vertical Networks, had not only reneged on National's commitment to the standards body, the Institute of Electrical and Electronics Engineers (IEEE), but it had also widely targeted 64 companies in the relevant industry with a demand for license fees and a threat of suit.[116] In summary, like the *Intel* case, the situation in *N-Data* was not at all like the bilateral, private disputes seen in *Klesner* and *Flynn*.

CONCLUSION

As I said at the outset, patent law and antitrust law should be viewed as "business partners" in protecting the enterprise of innovation. Properly administered and enforced, both bodies of law have separate but complementary roles to play in ensuring that our economy and the public benefit from the fruits of innovation. Sometimes, however, one body of law may overstep its boundaries and impinge on the work of the other. In such a situation, it is appropriate to call a halt to the partnership because the mutual business objectives are no longer being advanced.

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108 *See, e.g., Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 313-14 (3d Cir. 2007).
109 No. C-4234, 2008 FTC LEXIS 120 (F.T.C. Sept. 22, 2008) (Final Decision and Order), *available at* http://www.ftc.gov/os/caselist/0510094/080923ndsdo.pdf.
110 Complaint ¶¶ 12-13, Negotiated Data Solutions LLC, No. C-4234, 2008 FTC LEXIS 119, at *4-5 (F.T.C. Sept. 22, 2008), *available at* http://www.ftc.gov/os/caselist/0510094/080923ndscomplaint.pdf.
111 *Id.* ¶¶ 25-35, 2008 FTC LEXIS 119, at *9-12.
112 *Id.* ¶¶ 1-2, 36-39, 2008 FTC LEXIS 119, at *1-2, *12-14.
113 Chairman Deborah Majoras and Commissioner William Kovacic dissented.
114 Statement of the Federal Trade Commission at 2, Negotiated Data Solutions LLC, No. C-4234 (F.T.C. Jan. 23, 2008) (footnote omitted), *available at* http://www.ftc.gov/os/caselist/0510094/080122statement.pdf.
115 *Id.* at 3.
116 Complaint ¶¶ 27-28, Negotiated Data Solutions LLC, No. C-4234, 2008 FTC LEXIS 119 (F.T.C. Sept. 22, 2008), *available at* http://www.ftc.gov/os/caselist/0510094/080923ndscomplaint.pdf.