PATENT FRAUD BY DESIGN♦

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ABSTRACT

Patent law is supposed to offer property-right protection to inventors in order to promote and incentivize innovation. Yet current patent law doctrine effectively incentivizes patentees to defraud the patent office, allowing them to secure undeserved legal protection. What is worse, once such protection is fraudulently obtained, patentees can use it to stop downstream innovation, harm competitors, and charge supracompetitive prices to consumers. The current patent system generates all of these harms because it offers strong legal protection while failing to impose equally strong sanctions against those who attempt to abuse it. Indeed, the current system rarely sanctions patentees who have defrauded the patent office, and even when it does, it typically allows them to retain huge profits reaped from their fraud. The patent system thus creates a strong incentive to commit patent fraud, thereby inhibiting, rather than promoting, innovation and competition.

To combat these problems, this Article suggests a novel enforcement mechanism designed to uncover patent fraud and to sanction meaningfully patentees who commit it. It argues that because competitors of those patentees are best situated to identify the fraud, they should be allowed to lead class action lawsuits against wrongdoers. The Article further argues that patentees found to have engaged in patent fraud must be required to give up all profits derived from the fraud to make sure that fraud is no longer economically beneficial. It demonstrates that existing legal doctrines, such as the remedy of disgorgement, Walker Process

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We thank Professor Michael Burstein for helpful guidance and comments on an earlier version of this article and the participants of the 2019 Israeli Intellectual Property Scholars workshop. We also thank Sanford T. Colb for his generous financial support of the project.

antitrust claims, and class action procedures, can be invoked to offer such legal solutions.

INTRODUCTION

Patent law is one of the main legal tools for incentivizing innovation.[1] Patents reward inventors with exclusive rights over their inventions for a limited period,[2] thereby securing exclusive economic benefit for their owners.[3] Absent such protection, inventors would be unable to enjoy the fruits of their labor and would have little incentive to

[1] *See* Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, *in* NAT'L BUREAU OF ECON. RESEARCH, THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS 609, 616-17 (1962), https://www.nber.org/chapters/c2144.pdf [https://perma.cc/FQ8B-G2FJ].

[2] Patent Act, 35 U.S.C. § 271(a) (2018), https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partIII-chap28-sec271.pdf [https://perma.cc/73CZ-BD7U] (granting the patent holder the exclusive right to exclude others from making, using, offering for sale, selling or importing their invention upon the issuance of a patent).

[3] Patent protection lasts for a term of twenty years, beginning on the date of the patent application's initial filing. *Id.* § 154(a)(2), https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partII-chap14-sec154.pdf [https://perma.cc/CV23-PAX6] ("[S]uch grant shall be for a term beginning on the date on which the patent issues and ending [twenty] years from the date on which the application for the patent was filed in the United States . . . ."). If, however, there has been an unreasonable delay in the patent prosecution, or the patented drug's regulatory approval has consumed a portion of the patent term, a special term extension is available. *See id.* § 154(b); *see also id.* § 156, https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partII-chap14-sec156.pdf [https://perma.cc/K5D7-H84M].

innovate.[4] Hence, patent law is a necessary element in any legal system seeking to advance human knowledge, science, and technology.[5]

Yet despite its acknowledged importance and the crucial task attributed to it, contemporary patent law has been heavily criticized in recent years.[6] Increasingly, commentators and experts have voiced the concern that, in its current structure, patent law works to stifle innovation rather than promote it.[7]

This Article joins this ongoing debate by highlighting an aspect of the problem that is currently under-explored: the issue of patent fraud. Very generally, to procure a patent, an applicant must meet the high standards of novelty,[8] utility,[9] non-obviousness,[10] and subject matter eligibility.[11] The authors of this Article argue that under the current system, when an applicant is struggling to meet these criteria, they will have a strong incentive to commit patent fraud. This is a fundamental structural failure of the current system. Simply put, the nature of the problem is that under existing incentive structures created by the patent

4 *See* Christopher A. Cotropia, *"After-Arising" Technologies and Tailoring Patent Scope*, 61 N.Y.U. ANN. SURV. AM. L. 151, 168-71 (2005), www.law.nyu.edu/sites/default/files/ecm_pro_064628.pdf [https://perma.cc/Y6WT-E3BE] (explaining that patent protection provides patentees with an opportunity to invent and have exclusive control over their inventions); *see also* Mark A. Lemley, *Ex Ante versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129-30 (2004), https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=5249&context=uclrev [https://perma.cc/R9AZ-Y8HZ] (noting that a standard justification for intellectual property protection is its capacity to safeguard inventors' investments in their ideas).

5 *See* DAN L. BURK & MARK A. LEMLEY, THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT 8 (reprt. ed. 2011).

6 *See* JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK 2 (2009) (demonstrating how patents largely fail to provide predictable property rights); *see also* Maureen K. Ohlhausen, *Patent Rights in a Climate of Intellectual Property Rights Skepticism*, 30 HARV. J.L. & TECH. 103, 110-11 (2016), https://jolt.law.harvard.edu/assets/articlePDFs/v30/30HarvJLTech103.pdf [https://perma.cc/8RD6-LGBY].

7 *See* BURK & LEMLEY, *supra* note 5, at 3-4 (arguing that, because patent law's rigid legal framework is unable to adjust patent protection to the ever-changing needs of different factual contexts and industries, the patent system is in crisis).

8 *See* 35 U.S.C. § 102, https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partII-chap10-sec102.pdf [https://perma.cc/NNK8-MLN7] (requiring, as a prerequisite for patentability, that the claimed invention not have been made publicly available before its effective filing date); *see also* BURK & LEMLEY, *supra* note 5, at 9 (discussing the novelty requirement for patentability).

9 *See* Utility Examination Guidelines, 66 Fed. Reg. 1092, 1098 (Jan. 5, 2001), https://www.govinfo.gov/content/pkg/FR-2001-01-05/pdf/01-322.pdf [https://perma.cc/KZV3-3BRV] ("If the applicant has asserted that the claimed invention is useful for any particular practical purpose . . . and the assertion would be considered credible by a person of ordinary skill in the art, do not impose a rejection based on lack of utility."); *see also* 35 U.S.C. § 101, https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partII-chap10-sec101.pdf [https://perma.cc/C2AW-685N]; *see also* BURK & LEMLEY, *supra* note 5, at 9.

10 *See* 35 U.S.C. § 103, https://www.govinfo.gov/content/pkg/USCODE-2018-title35/pdf/USCODE-2018-title35-partII-chap10-sec103.pdf [https://perma.cc/VG7Y-D8Q9]; *see also* BURK & LEMLEY, *supra* note 5, at 9.

11 Patent-eligible subject matter is subject matter that falls within one of the three recognized categories susceptible to patent protection: utility patents, design patents, or plant patents. *See* 35 U.S.C. § 101.

system, the best course of action for a patentee who is having trouble securing a legitimate patent is to try to defraud the patent office in order to enjoy undeserved legal protection. What is worse, once such protection is fraudulently secured, it can be used by the patentee to attack other valuable and legitimate inventions. In other words, patent fraud not only secures undeserved protection for fraudulently obtained patent rights, but also cannibalizes other innovative efforts. This Article will refer to this problem as "patent fraud by design" because the collective design of several different patent doctrines inevitably incentivizes patent fraud.

In this Article, the authors will explore the structural features of the current system that incentivize patent fraud, then move on to offer a novel solution to the problem. The Article identifies three main patterns that incentivize fraud under the current system: First, the current system provides an overly narrow definition of what constitutes patent fraud, thereby allowing many types of fraudulent conduct to proceed unchecked. Second, even where the current system does recognize fraud, it responds with weak remedial consequences, providing sanctions that are insufficient to deter prospective fraudsters. Indeed, even if patent fraud is uncovered, the patentee will typically be obligated to pay damages amounting to only a fraction of the benefit already derived from the fraud. Third, under current law, the knowledge required to prevent patent fraud is rarely (if ever) accompanied by the legal power to do so. In particular, competitors of the fraudster patentee, who are the parties most likely to have both the greatest knowledge about the fraud and the greatest interest in preventing it, do not usually have standing to assert the kinds of claims that can deter the fraud.

Based on this analysis of the problem, this Article advocates a novel legal mechanism aimed at providing proper incentives for competitors to uncover patent fraud. The proposed solution offers both powerful remedies against fraud and procedural means for obtaining them. Under this framework, competitors will have *sui generis* standing to initiate class actions on behalf of consumers who paid supracompetitive prices for products protected by fraudulently-obtained patents. This will assure that the party best situated to prevent patent fraud also has the legal tools and incentives to do so. Additionally, this Article proposes calibrating the remedy available to competitor-plaintiffs to the benefits reaped by the fraudster during the time the patent was presumed valid. This will assure that fraud does not pay, and that the sanction against fraud outweighs its benefits.

The Article proceeds as follows. Section I provides a theoretical framework for discussing the problem of patent fraud. It shows the costs associated with this phenomenon and outlines its detrimental effects for

welfare and innovation. Section II discusses the sanctions against patent fraud under current law. This Section begins with an analysis of the patent law doctrines aimed at addressing patent fraud and their implications. This Section then proceeds to discuss antitrust doctrines utilized to recover losses generated by patent fraud. Specifically, this Section makes the normative argument that the way current legal doctrines are structured creates incentives for patentees to commit fraud while failing to provide sufficient incentives for other parties to uncover patent fraud. This Article further argues that competitors are the parties best suited to uncover patent fraud and, as such, should be provided with appropriate incentives to do so. Section III moves on to present the authors' proposed solution, which combines substantive remedies with the procedures necessary to invoke them. With respect to substantive remedies, this Article advocates the use of disgorgement to strip the patentee of all profits obtained through their fraud and the protection of an invalid patent. On the procedural front, it calls for empowering competitors to file claims for patent fraud and to serve as class representatives for injured consumers. In return, these competitors will receive monetary rewards, incentivizing them to bring the claims in the first place. The aim of this mechanism is twofold: First, it provides for complete disgorgement of illegitimate profits derived from patent fraud; and second, it provides competitors with incentives to actively uncover patent fraud. This Article also discusses possible challenges and counterarguments to its proposal. A short conclusion follows.

I. THE SOCIAL COSTS OF PATENT FRAUD

The patent system establishes a quid pro quo in which the inventor discloses their invention to the public in exchange for exclusive rights in the invention for a limited period of time.[12] The patent system has been aptly described as "a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time."[13] While it is difficult to assess the most efficient scope of patent protection[14] or its optimal duration,[15] scholars generally agree that patent

12 *See id.* §§ 154(a)(2), (b), 156.

13 Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 63 (1998).

14 *See* Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM L. REV. 839 (1990), https://wr.perma-archives.org/public/z82a-r4va/20200402071813mp_/https://pdfs.semanticscholar.org/a21b/42ee518e9d38db4f460b19e2bd235a6c3446.pdf?_ga=2.124743818.1452897997.1585811870-1305258352.1585811870 [https://perma.cc/Z82A-R4VA]; *see also* Katya Assaf, *Of Patents and Cobras: Exposing the Problem of Asymmetry*, 35 CARDOZO ARTS & ENT. L.J. 1, 9 (2016), http://www.cardozoaelj.com/wp-content/uploads/2017/02/35.1-Assaf.pdf [https://perma.cc/JG48-63JV].

15 *See* Miriam Marcowitz-Bitton et al., *Recoupment Patent*, 98 N.C. L. REV. 481 (2020), https://

law should strive to provide minimal protection while still providing incentives for innovation.[16]

However, this supposed bargain between the inventor and the public often fails when the patent system incentivizes the patent applicant to withhold information from the patent office. As one scholar has noted, "[a]cquiring and asserting invalid patents is privately profitable, but it has a high social cost."[17] When patentees secure patent protection based on false or inadequate disclosure of information, they fail to uphold their end of the patent-bargain. Fraudulent patent grants symbolize a triple failure of the expected quid pro quo. First, if the application includes a false or inadequate written description and enabling disclosure, it is impossible for a person having ordinary skill in the art to make and use the invention. This means the patentee failed to make the invention available to the public. Second, if the patentee fails to disclose information that would have resulted in the rejection of the patent application (e.g., the patentee withholds information that shows the invention is not novel), patent protection should not be awarded in the first place. If a patent is granted under these circumstances, consumers will have to pay a monopoly price for an invention that should be offered at a competitive price. Third and finally, unmerited patent protection stifles innovation by preventing the patentee's competitors from using intellectual assets that should be in the public domain. The fact that competitors are barred, sometimes for years, from using certain technologies and products can spell disaster for downstream innovation.

Because the patent system imposes limited sanctions on a patentee who fails to meet the disclosure requirements, it incentivizes patent fraud by offering the possibility of undeserved protection with little risk of punishment. Even if a fraudulent patent is eventually invalidated, the process can take years; in the intervening period between the date of the patent's issuance and the date of its invalidation, the patentee benefits from the fraud. And since the patentee is allowed to retain these benefits, it remains profitable, which incentivizes fraud ex ante. Meanwhile, consumers pay supracompetitive prices while the patent is presumed valid, and competitors are wrongly deterred from practicing their rights.

scholarship.law.unc.edu/cgi/viewcontent.cgi?article=6775&context=nclr [https://perma.cc/4CPS-D32E] (proposing a novel patent regime under which the duration of patent protection can be calibrated proportionally to the nature of the investment required for the invention's creation).

16 *See* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031 (2005), https://www-cdn.law.stanford.edu/wp-content/uploads/2015/06/MarkALemleyPropertyIntell.pdf [https://perma.cc/3XUC-C4UY] ("[T]he proper goal of intellectual property law is to give as little protection as possible consistent with encouraging innovation."); *see also* Assaf, *supra* note 14, at 9.

17 Assaf, *supra* note 14, at 31.

If those harms remain uncompensated, the de facto outcome is that the patent system harms consumers and stifles innovation.

Moreover, patent fraud can generate harms even before the patent is issued. Indeed, as soon as the patent applicant applies for patent protection, competitors may be deterred from using a potentially infringing invention out of fear of subsequent legal action. Fraudulent patents therefore stifle innovation and generate supracompetitive prices even prior to issuance.

The problematic potential of patent fraud is clearly exemplified in the pharmaceuticals sector. Once a patent for a drug expires (or is invalidated) and generic competitors enter the market, the price of the drug drops significantly.[18] For an innovative pharmaceutical company holding a patent for a drug, each year of exclusivity could mean billions of dollars in supracompetitive revenues. Under current patent law, such patentees have ample incentive to try to fraudulently extend their patent. Just one or two more years of exclusivity could result in extremely high revenues; the risk of being sanctioned for patent fraud pales in comparison.

II. HOW EXISTING LAW INCENTIVIZES PATENT FRAUD

Under current law, patent applicants have full incentive to attempt patent fraud by presenting false or inadequate information to the patent office. Because patent fraud is narrowly defined, many acts of inaccurate disclosure, although deeply harmful, cannot currently be sanctioned; patentees therefore are not deterred from committing them. Additionally, because sanctions for patent fraud are low relative to the profits that may be gained from it, patentees have a strong incentive to cheat.

To illustrate, assume a patent applicant is aware of a prior art document that would lead to a rejection of their application, but also aware that the document is hard to find. Under current law, the applicant's incentive is to omit disclosure of that document and have their patent application granted so that they can benefit from exclusivity, at least temporarily, until the patent is eventually invalidated (assuming the hard-to-find prior art is ultimately discovered and asserted in invalidity proceedings).[19] Even if the patent is invalidated and the patentee is

[18] *See* Ernst R. Berndt & Murray L. Aitken, *Brand Loyalty, Generic Entry and Price Competition in Pharmaceuticals in the Quarter Century After the 1984 Waxman-Hatch Legislation*, 18 INT'L J. ECON. BUS. 177 (2011); *see also* IMS INST. FOR HEALTHCARE INFORMATICS, PRICE DECLINES AFTER BRANDED MEDICINES LOSE EXCLUSIVITY IN THE U.S. (2016), https://www.iqvia.com/-/media/iqvia/pdfs/institute-reports/price-declines-after-branded-medicines-lose-exclusivity-in-the-us.pdf [https://perma.cc/C54Y-RPP5].

[19] *See* discussion *infra* Section II.B (demonstrating how the current system's limited sanctions against patentees who commit patent fraud enable the perpetrators of that deception to reap

required to pay damages, the fraud will remain profitable for the patentee, because their profits will most often exceed the damages they must pay. This means the patent system provides a "carrot" without a "stick," offering protection without meaningful sanctions for those who abuse it.

A. *Inequitable Conduct in Patent Law*

The main sanction for faulty disclosure within patent law is the judge-made doctrine of inequitable conduct.[20] This doctrine is designed to offer sanctions against patentees in the form of patent invalidation if it is proved that the patentee acted "inequitably" in applying for the patent.[21]

The roots of the inequitable conduct doctrine date back to the 1930s and 1940s, when the Supreme Court held inequitable conduct to be an equitable defense against an infringement claim as part of the "unclean hands" doctrine.[22] Later the doctrine evolved to include not only affirmative acts intended to deceive the U.S. Patent and Trademark Office (USPTO) and the courts, but also other types of inadequate disclosure to the USPTO.[23] The remedy for inequitable conduct is a declaration that the patent is invalid as a whole.[24]

Today, the threshold for showing inequitable conduct is extremely high.[25] In the early days of the doctrine, the standard for proving inequitable conduct was similar to that of a negligence claim. In other words, the party asserting inequitable conduct only needed to show that the patentee knew, or should have known, that their faulty or inadequate disclosure would be material to acquiring the patent.[26] Furthermore, the

significant profits from their fraud).

[20] *See* John M. Golden, *Patent Law's Falstaff: Inequitable Conduct, the Federal Circuit, and* Therasense, 7 WASH. J.L. TECH. & ARTS 353, 359-60 (2012), https://digitalcommons.law.uw.edu/cgi/viewcontent.cgi?article=1145&context=wjlta [https://perma.cc/5EJX-DYKG].

[21] *See id.*

[22] *See* Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240, 244 (1933); *see also* Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1944); *see also* Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 819 (1945); *see also* Gen. Electro Music Corp. v. Samick Music Corp., 19 F.3d 1405, 1408 (Fed. Cir. 1994) ("The concept of inequitable conduct in patent procurement derives from the equitable doctrine of unclean hands: that a person who obtains a patent by intentionally misleading the PTO can not [sic] enforce the patent." (quoting Demaco Corp. v. F. Von Langsdorff Licensing Ltd., 851 F.2d 1387, 1394 (Fed. Cir. 1988)); *see also* Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1285 (Fed. Cir. 2011).

[23] For a more elaborate review of the development of the inequitable conduct doctrine, see Gideon Mark & T. Leigh Anenson, *Inequitable Conduct and* Walker Process *Claims After* Therasense *and the America Invents Act*, 16 U. PA. J. BUS. L. 361, 362-69 (2014), https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1465&context=jbl [https://perma.cc/4DSE-X7KK].

[24] *See Therasense, Inc.*, 649 F.3d at 1287.

[25] *See id.* at 1290-92.

[26] *See* Driscoll v. Cebalo, 731 F.2d 878 (Fed. Cir. 1984). Alternatively, in other inequitable conduct cases, the Federal Circuit has applied a standard more akin to "gross" negligence, rather than "regular" negligence. *See, e.g.*, Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc., 707 F.2d 1376, 1383-84 (Fed. Cir. 1983).

materiality requirement was construed broadly, as it was enough to show that there was "[1] a *substantial likelihood* that [2] a *reasonable examiner* [3] would consider it *important* [4] in deciding *whether to allow the application to issue* as a patent."[27] The application of these rather lenient and flexible standards was criticized as turning the doctrine into a litigation strategy tool used to portray the patentee as a bad actor, to discourage settlements, and to increase the cost of patent litigation.[28] Indeed, inequitable conduct has become a common defense in patent cases.[29] It has been argued that the doctrine "attracts more passionate loathing, and stronger criticism, than any other doctrine in patent law."[30] Similarly, it has been argued that the doctrine has affected patent prosecutors in a manner that undermines the doctrine's purpose: Instead of making the examiners' work as simple as possible by providing the minimally required disclosures, patent prosecutors over-disclose information, sometimes even when it bears little relevance to the patent application, to avoid later allegations of inequitable conduct.[31]

Following these criticisms, the U.S. Court of Appeals for the Federal Circuit adopted a higher, more rigid threshold for proving inequitable conduct in its 2011 decision in *Therasense, Inc. v. Becton, Dickinson & Co.*, requiring a showing of actual intent.[32] Thus, under current law, an accused infringer asserting inequitable conduct must show by clear and convincing evidence both that the patentee had the specific intent to deceive the USPTO when omitting or misrepresenting information and that the faulty or inadequate disclosure was material to procuring the patent.[33] In other words, inequitable conduct requires proof of both specific intent and but-for materiality.[34] With respect to the latter, where

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27 Am. Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1362 (Fed. Cir. 1984) (alteration in original) (quoting 37 C.F.R. § 1.56(a) (1983)).

28 *See Therasense, Inc.*, 649 F.3d at 1288; *see also* Ad Hoc Comm. on Rule 56 & Inequitable Conduct Am. Intellectual Prop. Law Ass'n, Position Paper, *The Doctrine of Inequitable Conduct and the Duty of Candor in Patent Prosecution: Its Current Adverse Impact on the Operation of the United States Patent System*, 16 AIPLA Q.J. 74 (1988). However, assertions, by the opposition, that the inequitable conduct argument increases the cost of patent litigation and is used only as a litigation strategy have also been subject to criticism. *See* Mark & Anenson, *supra* note 23, at 370-71.

29 *See* Christian E. Mammen, *Controlling the "Plague": Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1329, 1358 (2009), https://www.btlj.org/data/articles2015/vol24/24_4/24-berkeley-tech-l-j-1329-1398.pdf [https://perma.cc/9RE2-9LGL]. At the time of this Article's publication, there were no more recent studies considering this argument of which the authors were aware.

30 Tun-Jen Chiang, *The Upside-Down Inequitable Conduct Defense*, 107 NW. U. L. REV. 1243, 1244 (2013), https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1052&context=nulr [https://perma.cc/736M-E2XG].

31 *See Therasense, Inc.*, 649 F.3d at 1289.

32 *See id.* at 1288.

33 *See id.* at 1287; *see also* Star Sci., Inc. v. R.J. Reynolds Tobacco Co., 537 F.3d 1357 (Fed. Cir. 2008).

34 *See Therasense, Inc.*, 649 F.3d at 1287; *see also Star Sci., Inc.*, 537 F.3d 1357.

the defense rests on alleged nondisclosure of prior art, for example, the accused infringer must show that "the [US]PTO would not have allowed a claim had it been aware of the undisclosed prior art."[35] Furthermore, courts must assess intent and materiality separately and may not infer intent to deceive from the mere fact that the omission or misrepresentation was material to securing the patent.[36]

As some scholars have observed, concerns that the pre-*Therasense* standard would produce a barrage of inequitable conduct allegations have not been borne out by the empirical evidence. For example, one empirical study showed that between the years 1983 and 2010, the Federal Circuit held patents invalid for inequitable conduct only about 2.5 times a year.[37] Another empirical study found that between the years 1983 and 2008, inequitable conduct claims succeeded on appeal no more than five times a year.[38] A third empirical study found that between the years 2005 and 2010, out of 13,786 patent cases adjudicated in federal courts, inequitable conduct was found in only forty-one instances, or 0.0029% of all cases.[39] Importantly, all of these studies discuss data from the pre-*Therasense* era, before the Federal Circuit adopted a heightened standard for inequitable conduct. This suggests that the more relaxed and flexible standard did not, in fact, yield a "flood" of inequitable conduct cases.

Similarly, the argument that more lenient standards encourage counterproductive "over-disclosure" of information to the U.S. Patent and Trademark Office has been criticized on several grounds. To begin, research suggests that any increase in the number of prior art references in patent applications may be unrelated to patentees' fear of being accused of inequitable conduct.[40] In other words, there is ample incentive for patentees to include numerous prior art references regardless of the inequitable conduct doctrine. Moreover, the evidence does not reveal any significant rise in the number of prior art references cited by patent applicants over the time inequitable conduct claims have grown in popularity.[41] Finally, scholars have argued that even if an excessive number of prior art references are cited out of fear of an inequitable

35 *Therasense, Inc.*, 649 F.3d at 1291.
36 *See* Hoffmann-La Roche, Inc. v. Promega Corp., 323 F.3d 1354, 1359 (Fed. Cir. 2003); *see also Star Sci., Inc.*, 537 F.3d at 1366; *see also Therasense, Inc.*, 649 F.3d at 1290.
37 Lee Petherbridge et al., *The Federal Circuit and Inequitable Conduct: An Empirical Assessment*, 84 S. CAL. L. REV 1293, 1340 (2011), https://southerncalifornialawreview.com/wp-content/uploads/2018/01/84_1293.pdf [https://perma.cc/2KQ5-MV4E].
38 Mammen, *supra* note 29, at 1358-60.
39 LEX MACHINA, INEQUITABLE CONDUCT: 2005-2010 (2011), https://web.archive.org/web/20150604133412/https://lexmachina.com/wp-content/uploads/2011/01/Inequitable-Conduct-Study.pdf.
40 *See* Mark & Anenson, *supra* note 23, at 373-74.
41 *Id.*

conduct finding, additional disclosures do not necessarily have any effect on the examination process.[42] The reason is that examiners tend to rely on their own searches rather than on references cited by the applicant.[43]

Notably, while one might expect that the main hurdle for succeeding in an inequitable conduct argument after *Therasense* is establishing but-for materiality, the intent requirement may prove to be the more challenging obstacle. Because *Therasense* requires a showing of specific intent to deceive the USPTO,[44] direct evidence of the patentee's intent is generally necessary. But a patentee's decision to deceive the USPTO is unlikely to be documented anywhere; and even if such documentation exists, it may be subject to the attorney-client privilege.[45] For example, in *Hospira, Inc. v. Sandoz Inc.*, a table in the patent specification contained erroneous data that was material to the issuance of the patent.[46] Nevertheless, because the inventor was not able to recall whether the correct data had been submitted to his patent department, the court found that the applicant did not have specific intent to deceive the USPTO and rejected the inequitable conduct argument.[47] This is not to say that it is impossible to establish inequitable conduct post-*Therasense*, and indeed, several courts have ruled in favor of parties asserting inequitable conduct post-*Therasense*.[48] Still, it is the rare case in which specific intent to commit fraud on the patent office can be shown.

Because inequitable conduct is so difficult to prove under *Therasense* (and under the virtually identical standard that governs antitrust fraud claims under *Walker Process*, discussed below), the incentive for patentees to withhold information is great. Indeed, the probability of being found liable for defrauding the patent office is exceedingly low. Together with the huge benefits patentees can secure through fraud, the *Therasense* rule effectively incentivizes patent fraud.

Of course, one could imagine a legal regime with a less exacting fraud standard. In a regime requiring mere negligence, gross negligence, or even recklessness regarding the accuracy and adequacy of a patent applicant's disclosures, the likelihood of a patentee being held liable for fraud would be significantly higher. The same is true for the materiality

42 *Id.*
43 *See id.*; *see also* Christopher A. Cotropia et al., *Do Applicant Patent Citations Matter?*, 42 RES. POL'Y 844, 844 (2013).
44 *See* Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1290 (Fed. Cir. 2011).
45 For a more comprehensive discussion of this issue, see Mark & Anenson, *supra* note 23, at 383-85.
46 Hospira, Inc. v. Sandoz Inc., No. 09-4591 (MLC), 2012 U.S. Dist. LEXIS 63227 (D.N.J. May 4, 2012).
47 *Id.* at *93-94.
48 *See* Apotex Inc. v. UCB, Inc., 763 F.3d 1354, 1362 (Fed. Cir. 2014); *see also* TransWeb, LLC v. 3M Innovative Properties Co., 812 F.3d 1295, 1306 (Fed. Cir. 2016).

requirement: Under a standard less stringent than but-for materiality, the likelihood of liability is greater. Even a minimal doctrinal change, such as allowing an intent to commit fraud to be inferred from the materiality of the disclosure (an inference now prohibited by *Therasense*), could significantly increase the success rate of patent fraud claims.

Resetting the bar established in *Therasense* and creating a more lenient and flexible approach to inequitable conduct claims would reduce the incentive to provide faulty or inadequate disclosure to the patent office. However, doing so would arguably introduce additional prosecution and litigation costs. Indeed, the pre-*Therasense* standard generated its own costs, and it is unclear whether they were outweighed by the benefits in terms of patent fraud deterrence. Accordingly, this Article does not argue that the inequitable conduct doctrine should be restored to its pre-*Therasense* standard. It does argue, however, that the current legal regime generates increased incentives to commit fraud—an undesirable result. While one way to address these distorted incentives is to change the inequitable conduct standard, this Article suggests that there are other ways to achieve this goal.

Naturally, the severity of the sanction a patentee will face if found liable for patent fraud is another important variable in the incentive structure. Indeed, even if patent fraud is sanctioned more frequently, fraud will nevertheless be profitable for the patentee if the sanction is low enough to leave the patentee with a meaningful portion of their ill-gotten profits.

B. Walker Process *Claims*

1. Inadequate Disclosure Under *Walker Process* Claims

Because a patent is a type of legal monopoly,[49] a patentee who secures a patent through fraud potentially violates antitrust law.[50] Similarly, a patentee who seeks to enforce an invalid patent or who concludes an agreement aimed at postponing the introduction of competing products into the market[51] may be liable for violations of the Sherman Act.[52]

An antitrust claim under the Sherman Act consists of two elements: (1) the possession of monopoly power in the relevant market; and (2) the

49 *See* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964) ("The grant of a patent is the grant of a statutory monopoly . . . ."). However, even if the patent provides a legal monopoly, that does not necessarily mean that the legal monopoly will translate into a business monopoly.
50 *See* 15 U.S.C. § 2 (2018), https://www.govinfo.gov/content/pkg/USCODE-2018-title15/pdf/USCODE-2018-title15-chap1-sec2.pdf [https://perma.cc/5LXE-GS9W].
51 *See* FTC v. Actavis, Inc., 570 U.S. 136 (2013).
52 *See* discussion *infra*.

willful acquisition or maintenance of that power, as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.[53] The Supreme Court has held that this kind of violation can occur in the context of patent law. In *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, the Supreme Court held that a patentee violates the Sherman Act if they (a) procure a patent by knowingly and willfully misrepresenting facts to the USPTO, or maintain and enforce a patent they know to have been fraudulently procured; and (b) monopolize (or attempt to monopolize) a relevant market through the use of the patent.[54] Upon a successful showing of these two elements, a plaintiff can receive either equitable relief or compensation in the form of treble damages (and attorneys' fees) pursuant to the Clayton Act.[55]

To show that a patentee defrauded the USPTO in the framework of a *Walker Process* claim, a party claiming fraud must show that: (1) the patentee obtained a patent by knowingly and willfully misrepresenting or omitting material facts to the USPTO; (2) the patentee acted with intent to deceive the USPTO; (3) the USPTO justifiably relied on the misrepresentation or omission; and (4) the patent would not have been issued but for the misrepresentation or omission.[56] This four-pronged test is essentially identical to the inequitable conduct test the Federal Circuit adopted in *Therasense*. In fact, the Federal Circuit itself has observed that "[a]fter *Therasense*, the showing required for proving inequitable conduct and the showing required for proving the fraud component of *Walker Process* liability may be nearly identical."[57]

In the pre-*Therasense* era, the threshold for proving a *Walker Process* claim was substantially higher than the threshold for showing inequitable conduct in patent law.[58] While inequitable conduct did not require the claimant to prove but-for materiality or actual intent, *Walker Process* claims have always required proof of these two elements. Pre-*Therasense*, the Federal Circuit justified this distinction based on the nature of the two claims: While inequitable conduct is used as a "shield" against infringement claims, *Walker Process* claims are used as a "sword" for seeking antitrust damages and, as such, warrant a higher bar

53 *See* United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966).
54 *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 176-77 (1965).
55 *See* 15 U.S.C. § 15, https://www.govinfo.gov/content/pkg/USCODE-2018-title15/pdf/USCODE-2018-title15-chap1-sec15.pdf [https://perma.cc/CEH8-7ZPT].
56 *See* Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1069-70 (Fed. Cir. 1998).
57 TransWeb, LLC v. 3M Innovative Properties Co., 812 F.3d 1295, 1307 (Fed. Cir. 2016) (citing Mark & Anenson, *supra* note 23, at 402 n.258).
58 *See, e.g.*, Dippin' Dots, Inc. v. Mosey, 476 F.3d 1337, 1346 (Fed. Cir. 2007).

for the party asserting them.[59] However, post-*Therasense,* the threshold for proving inequitable conduct and *Walker Process* claims is virtually identical.

It is important to note that a few differences remain between the two types of claims. First, courts are allowed to separate the trial of different patent issues and consider a *Walker Process* claim only after resolving the issue of inequitable conduct.[60] This means that fewer *Walker Process* claims are likely to reach the court, and even when they do, they are more likely to settle prior to trial.[61] Second, while inequitable conduct examines the patentee's conduct only *during the prosecution phase*, *Walker Process* claims examine the conduct of the patent holder *at the time the antitrust action is filed*. This distinction is significant in some cases. As Herbert Hovenkamp explains,

> [T]here could be inequitable conduct under *Therasense* but relative innocence at the time of an infringement suit if (a) the patent has been assigned to an innocent recipient; or (b) the persons within the firm who were guilty of the inequitable conduct are no longer available, and the persons who file the infringement suit are unsuspecting.[62]

Alternatively, there may be situations in which there was no inequitable conduct at the time of patent prosecution, but invalidating factors (such as prior art or pre-filing sales) that were unknown to the prosecuting agent are later uncovered, yet the patentee continues to enforce the patent. According to Hovenkamp, *Walker Process* claims should be allowed in these situations, despite the fact that there was no inequitable conduct.[63] Third, while the affirmative defense of inequitable conduct does not carry with it the right to a jury trial because it is grounded in equity,[64] *Walker Process* claimants have the right to a jury trial under the Seventh Amendment.[65]

59 *See* FMC Corp. v. Manitowoc Co., Inc., 835 F.2d 1411, 1418 (Fed. Cir. 1987).
60 *See* FED. R. CIV. P. 42(b).
61 This kind of potential result led scholars like Hovenkamp to argue that *Walker Process* claims should be allowed even if no inequitable conduct was found during prosecution but evidence of prior art was introduced later on. *See* Herbert Hovenkamp, *Patent Exclusions and Antitrust After Therasense* 29 (Univ. of Iowa Legal Studies, Research Paper No. 11-39, 2011), https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=2871&context=faculty_scholarship [https://perma.cc/C9LW-VM65].
62 Herbert Hovenkamp, *Competition for Innovation*, 2012 COLUM. BUS. L. REV. 799, 828-29 (2012).
63 *Id.* at 829.
64 *See* Duhn Oil Tool, Inc. v. Cooper Cameron Corp., 818 F. Supp. 2d 1193, 1204 (E.D. Cal. 2011).
65 *See* Beacon Theatres, Inc. v. Westover, 359 U.S. 500, 509-10 (1959).

2. Standing in *Walker Process* Claims

In their most common form, *Walker Process* claims are asserted by competitors as counterclaims in infringement actions filed against them by patent owners.[66] For a competitor to have standing to assert a *Walker Process* claim, they must show that they satisfy two conditions: First, as in all federal cases, that they have Article III standing, i.e., that they suffered an injury-in-fact.[67] Additionally, the competitor must show antitrust standing, i.e., that they suffered a competitive harm. To establish Article III standing, the competitor must show that the patentee either enforced the patent or threatened to initiate litigation against the competitor.[68] An alternative way for a competitor to initiate a *Walker Process* claim is to first seek a declaratory judgment of patent invalidity based on inequitable conduct, then assert an antitrust claim.[69] This approach has its roots in patent law: To initiate a declaratory action seeking a judgment of patent invalidity, a claimant must show that an actual controversy exists in the form of

> (1) an explicit threat or other action by the patentee which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit, and (2) present activity by the declaratory judgment plaintiff which could constitute infringement, or concrete steps taken by the declaratory judgment plaintiff with the intent to conduct such activity.[70]

Under current case law, this standard is essentially the same with respect to initiating a *Walker Process* claim.[71] However, the cause of action is an independent one under antitrust law. Thus, a district court's decision on a "pure" *Walker Process* claim is not necessarily reviewed

66 *See* Christopher R. Leslie, *The Role of Consumers in* Walker Process *Litigation*, 13 SW. J.L. & TRADE AM. 281, 284 (2007).

67 More specifically, "[t]o see injunctive relief, a plaintiff must show that . . . [they are (1)] under threat of suffering 'injury in fact' that is concrete and particularized; [(2)] the threat must be actual and imminent, not conjectural or hypothetical; [(3)] it must be fairly traceable to the challenged action of the defendant; and [(4)] it must be likely that a favorable judicial decision will prevent or redress the injury." Summers v. Earth Island Inst., 555 U.S. 488, 493 (2009) (citing Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc., 528 U.S. 167, 180-81 (2000)); *see* Michael J. Burstein, *Rethinking Standing in Patent Challenges*, 83 GEO. WASH. L. REV. 498, 516 (2015), https://www.gwlr.org/wp-content/uploads/2015/05/83-Geo-Wash-L-Rev-498.pdf [https://perma.cc/3J6L-DKRM].

68 *See* Leslie, *supra* note 66, at 284.

69 *See id.*

70 *Id.* at 285 (quoting Teva Pharm. USA, Inc. v. Pfizer, Inc., 395 F.3d 1324, 1330 (Fed. Cir. 2005)); *see In re* Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 541 (E.D.N.Y. 2005). However, this standard has been criticized as creating special rules that depart from the Supreme Court's general principles of standing without proper justification. *See* Burstein, *supra* note 67, at 553.

71 *See* Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc., 375 F.3d 1341, 1358 (Fed. Cir. 2004).

by the Court of Appeals for the Federal Circuit, but may instead be heard by the appellate court for the relevant circuit.[72]

While lower courts have consistently held patent enforcement to be a necessary element of a *Walker Process* claim, this view has been criticized by scholars, who argue that the *Walker Process* Court never suggested that enforcement was a prerequisite to filing an antitrust claim against the patentee.[73] Nevertheless, courts generally construe the patent enforcement requirement narrowly, meaning that the patentee must have either actually filed an infringement lawsuit against the competitor or explicitly threatened to do so.[74] Application of this standard is straightforward where it is the competitor who asserts the *Walker Process* claim. Things become more complicated, however, when the *Walker Process* plaintiff is not a direct competitor but a consumer. In fact, courts are split on whether non-competitors have standing under *Walker Process*.[75]

Several courts have dismissed *Walker Process* claims brought by consumers based on lack of standing. In *In re Remeron Antitrust Litigation*, a New Jersey district court ruled that direct purchasers of the antidepressant drug mirtazapine did not have standing to assert *Walker Process* claims because the patent in question was not enforced against them.[76] Another court in the same district also declined to recognize consumer standing.[77] In *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, the District Court for the Eastern District of New York held that purchasers did not have standing to assert *Walker Process* claims for similar reasons.[78] The court opined that the question of consumer standing in *Walker Process* claims is one that should be left to the legislature, not the courts.[79]

In *Kaiser Foundation v. Abbot Laboratories*, which also addressed supracompetitive pricing of mirtazapine, the District Court for the Central District of California held that a health insurer did not have standing to

72 *See* Xitronix Corp. v. KLA-Tencor Corp., 882 F.3d 1075 (Fed. Cir. 2018) (holding that where, there is no dispute over the validity of a patent claim, the *Walker Process* appeal can be heard before a regional court without undermining the Federal Circuit's uniform body of patent law).
73 *See* Stijepko Tokic, *Enforcing the Duty of Disclosure After* Therasense*: Antitrust Implications*, 40 AIPLA Q.J. 221, 237 (2012); *see also* B.D. Daniel, Walker Process *Proof: The Proper Prescription*, 41 RUTGERS L.J. 105, 158 (2009).
74 *See* Tokic, *supra* note 73, at 238.
75 *See* Walgreen Co. v. Organon, Inc. (*In re* Remeron Antitrust Litig.), 335 F. Supp. 2d 522, 529 (D.N.J. 2004); *see also* Molecular Diagnostics Laboratories v. Hoffmann-La Roche Inc., 402 F. Supp. 2d 276, 279-82 (D.D.C. 2005).
76 *See Walgreen Co.*, 335 F. Supp. 2d at 529.
77 *See In re* K-Dur Antitrust Litig., No. 01-1652 (JAG), 2007 U.S. Dist. LEXIS 100238, at *66 (D.N.J. Mar. 1, 2007).
78 *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 542 (E.D.N.Y. 2005).
79 *Id.*

assert *Walker Process* claims because it was not a party to the infringement action and did not produce mirtazapine.[80] The court further held that the insurer's claim was "not the type of 'direct' or 'proximate' injury that results in antitrust standing."[81] The court concluded that "[b]ecause there [was] no infringing product yet on the market and the act of infringement and the specified consequences [were] artificial, it would be impossible for Plaintiff to suffer the sort of 'direct' injury necessary for antitrust standing."[82] The District Court for the Southern District of Ohio has also held that direct purchasers lack standing.[83]

However, other courts have held that direct consumers do have standing to assert *Walker* Process claims. The first court to do so was the District Court for the District of Columbia. In *Molecular Diagnostics Laboratories v. Hoffmann-La Roche Inc.*, the plaintiff purchased a thermostable enzyme from the defendant, who was one of two players in the relevant market.[84] The court held that because direct consumers generally have standing to bring antitrust claims for overcharges they paid, there is no reason to deviate from that rule for *Walker Process* claims.[85] The *Molecular Diagnostics* court further explained that "[i]f one believes that one of the primary purposes of a treble damages action is deterrence, then increasing the number of parties scrutinizing the actions of potential monopolists will further that goal."[86]

In *In re DDAVP Direct Purchaser Antitrust Litigation*, the Court of Appeals for the Second Circuit held that paying a supracompetitive price for drugs is "an injury plainly . . . 'of the type the antitrust laws were intended to prevent.'"[87] The court further observed that consumers may be "efficient enforcer[s]" of *Walker Process* claims.[88] However, the

[80] Kaiser Found. v. Abbott Laboratories, No. CV 02-2443-JFW (FMOx), 2009 U.S. Dist. LEXIS 107512, at *9 (C.D. Cal. Oct. 8, 2009).
[81] *Id.* at *10.
[82] *Id.* at *11.
[83] *See* Kroger Co. v. Sanofi-Aventis, 701 F. Supp. 2d 938, 963 (S.D. Ohio 2010).
[84] Molecular Diagnostics Laboratories v. Hoffmann-La Roche Inc., 402 F. Supp. 2d 276, 279 (D.D.C. 2005).
[85] *Id.* at 282.
[86] *Id.* at 281.
[87] Meijer, Inc. v. Ferring B.V. (*In re* DDAVP Direct Purchaser Antitrust Litig.), 585 F.3d 677, 688 (2d Cir. 2009) (quoting Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1977)).
[88] *Id.* at 688-89. To establish standing for an antitrust claim, a plaintiff must show, *inter alia*, that they are an "efficient enforcer." *See id.* The court in *Volvo North America Corp. v. Men's International Professional Tennis Council* delineated four "efficient enforcer" factors for determining whether a plaintiff constitutes a "proper" antitrust plaintiff. *See* Volvo N. Am. Corp. v. Men's Int'l Prof'l Tennis Council, 857 F.2d 55, 66 (2d Cir. 1988). Under the four-factor test established in *Volvo*, a court must examine "(1) 'the directness or indirectness of the asserted injury'; (2) 'the existence of an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest in antitrust enforcement'; (3) the speculativeness of the alleged injury; and (4) the difficulty of identifying damages and apportioning them among direct and indirect victims so as to avoid duplicative recoveries." *Id.* (quoting Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519, 540-42 (1983)). In *DDVAP*, the

Second Circuit limited its holding—namely, it held that the standing requirement in *Walker Process* claims filed by consumers will only be met if the patent in question has already been found to be acquired fraudulently.[89] And even in those circumstances, the court declined to conclude that consumers have per se standing to assert their claims.[90]

Finally, in *Ritz Camera & Image, LLC v. SanDisk Corp.*, the Court of Appeals for the Federal Circuit held that a consumer had *Walker Process* standing.[91] In *Ritz*, the plaintiff brought a lawsuit against one of the largest manufacturers of flash memory products, alleging that its faulty disclosure led to the unlawful procurement of a patent.[92] In affirming the decision of the Northern District of California, the Federal Circuit explained that "[a] *Walker Process* antitrust claim is a separate cause of action from a patent declaratory judgment action."[93] Based on this view and the fact that direct purchasers are generally permitted to bring antitrust actions, the court asserted that "Ritz's status as a direct purchaser [gave] it standing to pursue its *Walker Process* claim . . . ."[94] Notably, even after the *Ritz*, courts have been very cautious in recognizing consumers' standing to bring *Walker Process* claims. For example, the District Court for the Northern District of Illinois held that consumers had no *Walker Process* standing where the drug in dispute was not bought directly by them, but rather by a healthcare insurer, reasoning that the consumers were not "direct" consumers.[95]

As in all antitrust claims, the party asserting the claim must also show an antitrust injury.[96] This requirement is additional to and independent of the Article III standing required in all federal cases.[97] In essence, the plaintiff must show that their injury is an "injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful."[98] While some courts, such as the

Second Circuit, after applying this test, ultimately held that the "efficient enforcer" factors favored a grant of antitrust standing to purchasers of drugs. *In re DDAVP Direct Purchaser Antitrust Litig.*, 585 F.3d at 688.

89 *In re DDAVP Direct Purchaser Antitrust Litig.*, 585 F.3d at 691-92.

90 *Id.* at 691.

91 Ritz Camera & Image, LLC v. SanDisk Corp., 700 F.3d 503, 508 (Fed. Cir. 2012).

92 *Id.* at 505.

93 *Id.* at 508.

94 *Id.*

95 Farag v. Health Care Serv. Corp., No. 17 C 2547, 2017 U.S. Dist. LEXIS 103302, at *12 (N.D. Ill. July 5, 2017).

96 *See, e.g.*, Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1977) ("[F]or plaintiffs to recover treble damages on account of § 7 violations, they must prove more than injury causally linked to an illegal presence in the market. Plaintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful.").

97 *See, e.g.*, Spokeo, Inc. v. Robins, 136 S. Ct. 1540, 1547 (2016).

98 *Brunswick Corp.*, 429 U.S. at 489.

Kaiser court, have viewed this requirement as problematic for direct consumers, others, such as the *DDVAP* court, as well as some legal scholars, have not found this requirement to be of substantial difficulty because supracompetitive pricing is one of the classic anti-competitive antitrust injuries.[99]

3. Damages Under *Walker Process* Claims

The damages available to a competitor asserting a *Walker Process* claim are different from the damages that may be available to consumers. An excluded competitor can sue for damages in a rather limited manner, seeking only the lost sales and profits it would have made had it been able to enter the market,[100] as well as attorneys' fees.[101] Consumers' damages, on the other hand, are meant to compensate them for the supracompetitive prices they paid to the patent owner that fraudulently procured its patent.[102] As in any antitrust claim under the Sherman Act, the plaintiff must establish the relevant market and show that the fraudulently procured patent indeed helped the patentee to acquire or maintain a monopolistic power in that market.[103]

This difference has several important implications: First, while a competitor can sue for damages incurred during only the period in which the patentee enforced their patent, a consumer can recover damages from the moment the patentee began charging supracompetitive prices.[104] Second, and more importantly, the measure of damages is different for competitors and consumers. For competitors, damages are measured by lost profits, i.e., the profits they would have made if they had been able to sell their product.[105] This means that the competitor is entitled to damages for their putative profits from selling the product at a competitive price.[106] On the other hand, consumers are compensated for paying supracompetitive prices as a result of the fraudulent patent.[107] This means that damages to the consumer are measured based on the difference between the competitive price the consumer would have paid

99 *See* Leslie, *supra* note 66, at 295.
100 *See id.* at 289.
101 For example, in *TransWeb, LLC*, the Federal Circuit affirmed a decision that allowed an award of more than $23 million as trebled damages for attorneys' fees. *See* TransWeb, LLC v. 3M Innovation Properties Co., 812 F.3d 1295 (Fed. Cir. 2016).
102 *See* Leslie, *supra* note 66, at 289.
103 *See* Tokic, *supra* note 73, at 244; *see also* Kearney & Trecker Corp. v. Cincinnati Milacron Inc., 562 F.2d 365, 373 (6th Cir. 1977) ("*Walker Process* requires an appraisal of the exclusionary power of an illegal patent claim in terms of the relevant market.").
104 *See* Leslie, *supra* note 66, at 291.
105 *See, e.g.*, *id.* at 289.
106 *See id.*
107 *See id.* at 291.

absent the fraudulent patent in a competitive market, and the supracompetitive price they actually paid.[108]

The consequences of this difference are immense. As Christopher Leslie explains, the original *Walker Process* case provides a good illustration.[109] In *Walker Process*, the patentee sold its product for $150 per unit during the term the patent was presumed valid but only $50 per unit after the patent expired.[110] In a suit brought by consumers, the patentee would be liable for $100 per unit in damages, i.e., the amount consumers overpaid as a result of supracompetitive, patent-sponsored, monopoly prices. However, in a suit brought by a competitor, the damages would be much lower and would equal the profits the competitor was able to obtain from selling the product at a competitive price of $50. Assuming a ten percent profit margin, this means the competitor will be entitled to damages of $5 per unit.[111] Even if trebled, the damages for the competitor would be only $15 per unit, much lower than the $100 per unit consumers could seek. This illustrates that even after paying damages to its competitors, the patentee still retains a monopolistic profit of $85 per product unit. Furthermore, for each product the competitor could not show it would have been able to sell absent the fraudulent patent, the patentee retains the full monopolistic profit, regardless of its fraud.[112] Thus, in many cases, if only the competitor brings a *Walker Process* claim, it is likely that the patentee will still profit from its period of exclusivity, even if its fraud is eventually uncovered and the patent invalidated.[113] Moreover, the competitor may not recover damages for any period prior to the patent's enforcement, despite the deterring effect the patent had on competitors during that time.[114]

C. *Patentee Incentives Under the Current Regime*

When the benefits a patentee can obtain through fraud are greater than the expected costs and risks, the patentee is incentivized to defraud the patent office at the application stage. Unfortunately, this seems always to be the case under current law. Specifically, in a world with limited consumer standing to assert *Walker Process* claims, it is almost always true that the patentee will benefit from its fraud. First, the probability of being found liable is always less than one hundred percent. Second, as explained above, even when liability is established, in most

108 *See id.*
109 *Id*. at 293.
110 *Id.*
111 *Id.* at 293.
112 *See id.*
113 *See id.* at 292.
114 *See id.* at 289.

cases it is in an action brought by a competitor, whose damages are less than the full benefit the patentee extracted from the fraudulent patent. While allowing consumer suits under *Walker Process* remedies this situation to some degree, the specter of such suits might not be sufficient to negate the patentee's incentive to commit fraud. Indeed, the narrowness of the circumstances in which courts tend to allow *Walker Process* suits (for example, when the patentee has already been found to have engaged in inequitable conduct, as the *DDVAP* court held)[115] mitigates their potential as a deterrent.

Moreover, even under the Federal Circuit's decision in *Ritz*, which recognizes consumer standing under *Walker Process* even absent a prior finding of inequitable conduct,[116] the probability of sanctions still appears to be low. The reason for this, of course, is that patent fraud is extremely difficult to discover and prove, especially by consumers, who are unlikely even to suspect that fraud has occurred. Competitors, on the other hand, typically have deep and broad knowledge of both the relevant market and the relevant technology, and thus are best situated to uncover patent fraud. However, even these extremely sophisticated players are rarely able to uncover inequitable conduct in the prosecution of a patent, let alone prove it.

This means that under current law, no efficient remedy against patent fraud exists. On the one hand, even in jurisdictions where consumers have legal standing to file *Walker Process* claims and seek damages to strip patentees of the full measure of their ill-gotten gains, they likely lack the knowledge and expertise to discover and litigate patent fraud. On the other hand, competitors are ideally suited to litigate patent fraud, but they have no legal remedy that is commensurate with the extent of the patentee's fraudulent profits. Accordingly, there is virtually no possibility that a patentee will be forced to give up all the profits they obtained through their fraud. The proposal recommended by this Article, described below,[117] is tailored to solve this problem by coupling competitors' ability to uncover patent fraud with consumers' legal right to recover damages that will compensate them for the harm of paying supracompetitive prices for products protected by fraudulently obtained patents.[118]

115 Meijer, Inc. v. Ferring B.V. (*In re* DDAVP Direct Purchaser Antitrust Litig.), 585 F.3d 677, 691-92 (2d Cir. 2009).
116 Ritz Camera & Image, LLC v. SanDisk Corp., 700 F.3d 503, 508 (Fed. Cir. 2012).
117 *See* discussion *infra* Part III.
118 Notably, it has been suggested that *parens patriae* legal actions by states' attorneys general should be allowed in order to deal with this problem. *See* Leslie, *supra* note 66, at 307. However, it seems that this solution also suffers from the same drawbacks: While attorneys general may sometimes have more resources than consumers, they still lack the unique knowledge and

III. DISGORGEMENT FOR PATENT FRAUD

This Article offers a proposal to improve deterrence against patent fraud by utilizing the disgorgement remedy, which is designed to strip offenders of their illegitimate profits. It starts by discussing the doctrinal details of the disgorgement remedy, then moves on to suggest a procedural framework for the advanced proposal's successful deployment as a deterrent against patent fraud.

A. *Disgorgement of Profits as a Gains-Based Remedy*

The disgorgement remedy strips a wrongdoer of all benefits obtained through their wrong.[119] The rationale for this remedy is that a wrongdoer should not be allowed to benefit from violating the law.[120] The historical roots of the remedy can be traced back to Lord Mansfield's classic decision in *Moses v. Macferlan*, where it was described as flowing from principles of natural justice.[121] Modern iterations often adopt a more pragmatic approach, highlighting the crucial role of the disgorgement remedy in creating effective deterrence schemes.[122]

Importantly, the disgorgement remedy allows a plaintiff to recover the entire benefit derived from the defendant's wrongdoing, even if the benefit is higher than the plaintiff's actual injury.[123] To illustrate, disgorgement of profits may be ordered where the defendant steals an asset from the plaintiff, then uses the asset to make a profit. In such a case, the plaintiff can elect to "waive the tort," meaning they can forgo

specialization competitors possess. Like consumers, attorneys general are not in the best position to uncover patent fraud. Thus, the problems identified for consumers are also applicable here: If a competitor has already discovered and litigated patent fraud, there is no need for *parens patriae* actions because the consumers can then file a claim. If, however, the competitor has not initiated an invalidity or *Walker Process* claim, the attorney general's office is not likely to uncover patent fraud on its own.

119 *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51(4) (AM. LAW INST. 2011) (defining disgorgement as a restitutionary remedy designed to strip a wrongdoer of all ill-gotten gains and characterizing it as typically being available in cases where the defendant was enriched, at the expense of another, by their intentional wrong).

120 *See* Caprice L. Roberts, *The Case for Restitution and Unjust Enrichment Remedies in Patent Law*, 14 LEWIS & CLARK L. REV. 653, 672 (2010), https://www.lclark.edu/live/files/4812 [https://perma.cc/D5SU-V8SB]; *see also* L. L. Fuller & William R. Perdue, Jr., *The Reliance Interest in Contract Damages: 1*, 46 YALE L.J. 52, 56 (1936), https://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=3828&context=ylj [https://perma.cc/MDC7-HTTW].

121 Moses v. Macferlan, (1760) 97 Eng. Rep. 676, 681 (KB) ("In one word, the gist of this kind of action is, that the defendant, upon the circumstances of the case, is obliged by the ties of natural justice and equity to refund the money.").

122 *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 3 cmt. c (AM. LAW INST. 2011) ("Restitution requires full disgorgement of profit by a *conscious wrongdoer*, not just because of the moral judgment implicit in the rule of this section, but because any lesser liability would provide an inadequate incentive to lawful behavior." (emphasis added)); *see also* Ofer Grosskopf, *Protection of Competition Rules via the Law of Restitution*, 79 TEX. L. REV. 1981, 1997-98 (2001) (highlighting the role of restitutionary regimes in deterring wrongful behavior).

123 *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 3 cmt. c (AM. LAW INST. 2011).

their claim for damages and instead make a claim for the benefits the defendant obtained through the unauthorized use of their asset.[124] This result is considered both morally just and pragmatically necessary to provide appropriate deterrence.[125]

Similarly, disgorgement has been considered an appropriate remedy against a defendant who secured a government-sponsored benefit through fraud.[126] In *Iconco v. Jensen Construction Co.*, a government agency solicited bids for a construction project to be performed by a contractor meeting the definition of a "small business" (the goal being to support such businesses).[127] However, the winning contractor that performed the work was eventually discovered to have misrepresented its status as a "small business."[128] Following this revelation, the court ordered the contractor to disgorge all profits obtained from the work and turn them over to the plaintiff, the contractor with the second lowest bid, which would have been selected were it not for the defendant's misrepresentation.[129]

This Article proposes to adopt a similar remedial structure in cases of patent fraud. A patent applicant's misrepresentations to the patent office in the form of faulty or inadequate disclosures amount to inequitable conduct that may be actionable under either patent law or antitrust law, as a *Walker Process* claim.[130] Because the patentee's profits were wrongfully obtained, a disgorgement remedy is justified. In such cases, disgorgement can offer competitors a reward higher than their actual damages.[131] Specifically, the disgorgement remedy can be used to

124 *See* Daniel Friedmann, *Restitution of Benefits Obtained Through an Appropriation of Property or the Commission of a Wrong*, 80 COLUM. L. REV. 504, 505 (1980), http://danielfriedmann.com/wp-content/uploads/2010/11/1980-Columbia-Law-Review-Restitution-of-Benefits-Obtained-through-the-Appropriation-of-Property-or-the-Commission-of-a-Wrong.pdf [https://perma.cc/HJ2J-ADF8].

125 *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 3 cmt. c (AM. LAW INST. 2011).

126 *See id.* § 44 ("(1) A person who obtains a benefit by conscious interference with a claimant's legally protected interests (or in consequence of such interference by another) is liable in restitution as necessary to prevent unjust enrichment, unless competing legal objectives make such liability inappropriate. (2) For purposes of subsection (1), interference with legally protected interests includes conduct that is tortious, or that violates another legal duty or prohibition (other than a duty imposed by contract), if the conduct constitutes an actionable wrong to the claimant. (3) Restitution by the rule of this section will be limited or denied (a) if the court would refuse to enjoin the interference, assuming timely application and an absence of procedural or administrative obstacles; (b) to the extent it would result in an inappropriate windfall to the claimant, or would otherwise be inequitable in a particular case; (c) if the benefit derived from the interference cannot be adequately measured; or (d) if allowance of the claim would conflict with liabilities or penalties for the interference provided by other law.").

127 Iconco v. Jensen Constr. Co., 622 F.2d 1291, 1293 (8th Cir. 1980).

128 *Id.* at 1293-94.

129 *Id.*

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

131 *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 3 cmt. c (AM. LAW INST. 2011).

strip the patentee of all profits obtained through the fraud, i.e., the full measure of profits derived from the sale of patent-protected products to consumers at supracompetitive prices. This will assure that the patentee retains no benefit from their fraud, generating efficient deterrence.

It is important to note that the proposal established herein calls for a novel use of existing legal mechanisms and is not completely without precedent. Indeed, a recent Israeli court decision implemented the disgorgement remedy as a means of deterring patent fraud.[132] In *Unipharm Inc. v. Sanofi*, Sanofi, one of the world's largest pharmaceutical companies,[133] secured a patent for its highly profitable drug Plavix® through inaccurate disclosure to the patent office.[134] Following a finding of fraud, the court ordered Sanofi to disgorge a portion of its profits to its competitor, Unipharm, the plaintiff in the case.[135] Importantly, the disgorgement remedy was measured, as this Article suggests, by the monopolistic gains the patentee made under the patent and not by Unipharm's lost profits.[136]

B. *Disgorgement: The Proposed Procedure*

While the simple disgorgement remedy described above will assure optimal deterrence by negating the patent applicant's incentive to commit fraud ex ante, disgorgement of the fraudster's ill-gotten gains to the *competitors* fails to compensate *consumers* for the injury they sustain as a result of the fraud. Indeed, instead of being compensated for the harm of paying supracompetitive prices for products that should have been sold in a competitive market, consumers have their losses paid over to the patentee's competitor while remaining out of pocket themselves. To solve this problem, this Article proposes procedural mechanisms for sharing the disgorgement remedy between the competitor and consumers. This sharing mechanism is designed to achieve three goals: (1) stripping the patentee of all ill-gotten gains to generate deterrence; (2) providing the competitor, the party best situated to identify and litigate patent fraud, an incentive to do so; and (3) offering consumers as much compensation for their harm as possible.

132 File No. 33666-07-11 CC (CT), Unipharm Inc. v. Sanofi (Oct. 8, 2015), Nevo Legal Database (by subscription, in Hebrew) (Isr.).
133 *See* Monique Ellis, *Who are the top 10 pharmaceutical companies in the world? (2019)*, PROCLINICAL (Mar. 20, 2019), https://www.proclinical.com/blogs/2019-3/the-top-10-pharmaceutical-companies-in-the-world-2019 [https://perma.cc/F3TX-P9XK].
134 File No. 33666-07-11 CC (CT), Unipharm Inc. v. Sanofi (Oct. 8, 2015), Nevo Legal Database (by subscription, in Hebrew) (Isr.).
135 *Id.*
136 *Id.*

Under the framework proposed herein, competitors will have *sui generis* standing to assert *Walker Process* claims in class actions and will be allowed to serve as representatives of consumer classes.[137] As such, competitors will be entitled to a portion of the disgorgement as a reward for filing the antitrust claims on behalf of the class. As explained below, these incentive awards will have to be higher than the common rewards granted in class action litigation.

This Article's procedural proposal is consistent with similar mechanisms available in other doctrinal contexts. For example, the Hatch-Waxman Act provides a mechanism for granting a right of quasi-exclusivity for a period of 180 days to the first generic competitor to win a challenge against a patented drug, during which time no other competitors may enter the market.[138] This mechanism aims to incentivize competitors to challenge weak patents in order to introduce generic drugs and generate competition before those patents expire.[139] While the mechanism established by the Hatch-Waxman Act has been criticized as ineffective in practice and more likely to produce anticompetitive settlements than to encourage early introduction of generic drugs,[140] these

137 *Cf.* Microsoft Corp. v. DataTern, Inc., 755 F.3d 899, 903-04 (Fed. Cir. 2014) (holding that where a competitor's customers, and not the competitor itself, are sued for infringement, the competitor does not automatically have standing to commence an invalidity declaratory judgment action; thus, to indemnify its customers in an action to invalidate a patent, the competitor must establish standing independent of its allegedly infringing customers—e.g., when a competitor can be sued for indirect infringement or has an obligation to indemnify its customers, it may stand in the shoes of said customers). It could be argued that in light of the court's holding in *Microsoft Corp. v. DataTern, Inc.*, *sui generis* standing for competitors in customer lawsuits seems to be problematic. However, there are several responses to this concern: First, in the case of a lawsuit filed by the competitor, the competitor suffers their own independent harm. While this harm is different from the harm caused to consumers, it nevertheless serves as an independent basis for standing. Thus, when a competitor files the lawsuit, both parties have standing to sue, albeit not for the same harm. Second, because this claim arises out of antitrust and/or unjust enrichment law, it is arguably not subject to the rule established in *DataTern*, which is limited to standing in cases of patent invalidation. Third, given the unique circumstances surrounding patent fraud cases, it may be argued that recognition of these legal proceedings as an exception to the *DataTern* rule is justified.

138 *See* Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended at 21 U.S.C. § 355 (2018), https://www.govinfo.gov/content/pkg/USCODE-2018-title21/pdf/USCODE-2018-title21-chap9-subchapV-partA-sec355.pdf [https://perma.cc/JX9B-YYS5]), https://www.govinfo.gov/content/pkg/STATUTE-98/pdf/STATUTE-98-Pg1585.pdf#page=1 [https://perma.cc/T9KP-R4ZV].

139 *See* Caraco Pharm. Laboratories, Ltd. v. Forest Laboratories, Inc., 527 F.3d 1278, 1283 (Fed. Cir. 2008) ("[T]o incentivize ANDA filers to challenge the validity of listed patents or design around those patents as early as possible, the Hatch-Waxman Act provides that the first ANDA applicant to file a Paragraph IV certification . . . shall enjoy a 180-day period of generic marketing exclusivity."); *see also* 149 CONG. REC. S16,104 (daily ed. Dec. 9, 2003) (statement of Sen. Hatch), https://www.govinfo.gov/content/pkg/CREC-2003-12-09/pdf/CREC-2003-12-09-pt1-PgS16104.pdf [https://perma.cc/9YDX-8C7W] ("The 180-day marketing exclusivity rules were first enacted as part of the Waxman-Hatch Act. The policy behind these provisions is to benefit the public by creating an atmosphere that ensure vigorous challenges of the patents held by innovator drug firms.").

140 *See* C. Scott Hemphill & Mark A. Lemley, *Earning Exclusivity: Generic Drug Incentives and the Hatch-Waxman Act*, 77 ANTITRUST L.J. 947 (2011).

critiques do not undermine the basic principle that procedural mechanisms can be created to incentivize competitors to challenge vulnerable patents.

Another example of procedural adjustments designed to ensure that the parties best situated to protect the public interest are authorized to do so is the doctrine established in *Lear, Inc. v. Adkins*.[141] In *Lear*, the Supreme Court held that a licensee was not estopped from contesting the validity of the patent they licensed.[142] That is, even while exercising rights under the patent in reliance on its legality, the licensee could nevertheless challenge the patent to try to bring the patented invention into the public domain.[143] The Supreme Court discussed the special role of licensees in the patent ecosystem and recognized that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification."[144]

The classic justification for incentive awards to class representatives is based on the costs they incur in their capacity as named plaintiffs.[145] These costs include, *inter alia*, the time invested in learning the case, discovery proceedings, testifying in court, and the risk of being sanctioned if they fail.[146] Incentive awards have also been justified as necessary to induce plaintiffs to step forward and lead a class of plaintiffs whose individual claims may not be worth pursuing.[147] These awards are considered necessary to ensure adequate enforcement and acknowledge the benefits that class representatives confer on others.[148] However, nonpecuniary costs class representatives may incur, such as opportunity costs of the time they dedicate to the case, the anxiety and stress involved in acting as a class representative, and the risk of retaliation or harm to reputation as a result of their involvement in the case, are generally not recognized as costs for which named plaintiffs can be compensated.[149]

The results of a study that examined how often class representatives received incentive awards between 1993 and 2002 showed that the

141 Lear, Inc. v. Adkins, 395 U.S. 653 (1969).
142 *Id.* at 673-74.
143 *See id.* at 670.
144 *Id.*
145 *See* Steinlauf v. Cont'l Ill. Corp. (*In re* Cont'l Ill. Sec. Litig.), 962 F.2d 566, 572 (7th Cir. 1992).
146 *Id.*; *see* Theodore Eisenberg & Geoffrey P. Miller, *Incentive Awards to Class Action Plaintiffs: An Empirical Study*, 53 UCLA L. REV. 1303, 1305 (2006), https://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=1326&context=facpub [https://perma.cc/3Q6H-CBRJ].
147 *See* Eisenberg & Miller, *supra* note 146, at 1313.
148 *Id.*
149 *See id.* at 1305-06.

frequency of such awards varied by legal field.[150] Incentive awards were most prevalent in the field of consumer credit, where they were granted in approximately fifty-nine percent of the cases.[151] On average, named plaintiffs received incentive awards in about twenty-eight percent of all cases.[152] Among antitrust class actions, incentive awards for the named plaintiffs were granted in about one-third of all cases.[153] The mean incentive award to class representatives was about 0.16 percent of the total class recovery.[154] As this empirical survey reveals, although low sums are generally awarded to class action plaintiffs, incentive awards for class representatives, at least at the turn of the century, were not uncommon.[155]

While incentive awards are an appropriate tool for encouraging competitors to uncover and litigate patent fraud, this Article argues that the complexity of this area of law, coupled with the difficulty and expense of proving patent fraud, warrants enhanced awards to incentivize competitors adequately. The exact amount required to encourage actions of the kind envisioned here is, naturally, fact-dependent and difficult to calculate in advance. However, as a rule of thumb, the incentive award should take into account the difficulty and cost of uncovering patent fraud in the relevant scientific field, the costs of litigating and proving the patent fraud, and the likelihood of success on the asserted claims.

To correct the perverse incentives inherent in the current patent system, this Article proposes making enhanced awards available to competitors through a novel, indirect application of the disgorgement remedy. Under this proposed framework, competitors would be empowered to file class actions under *Walker Process* on behalf of consumers and to seek disgorgement of the patentee's profits derived from the sale of products protected by fraudulently procured patents. If the competitors prevail in those claims, they will be entitled to a portion of class damages as a reward. The recognition of *sui generis* standing for competitors in class actions of this sort would correct the market failure that currently exists in the patent system. Indeed, the proposal advanced herein addresses both of the current regime's major shortcomings by making it both more likely that patent fraud will be exposed and more costly to patentees when it is.

150 *Id.*
151 *Id.* at 1307.
152 *Id.* The dataset examined in this study was comprised of "a sample of 374 opinions in class action settlements published from 1993 to 2002." *Id.* At the time of this Article's publication, there appeared to be no other empirical studies exploring this same question.
153 *Id.* at 1307-08.
154 *Id.* at 1338-39.
155 *Id.* at 1307.

C. *Possible Challenges*

While allowing competitors to act as class representatives may provide a solution to the problem of patent fraud, this move could be challenged on several grounds. First, because class representatives are named plaintiffs, the competitor must have personal standing to pursue the proceeding. Second, it could be argued that competitors are not necessarily in the best position to represent the interests of the entire class and, therefore, should not be allowed to serve as class representatives. While both arguments have some merit, this Article argues that they should be rejected.

Because competitors can have standing under patent and antitrust law, they can serve as both named plaintiffs and class representatives. It is true that competitors' damages and consumers' damages are distinct. Yet, the cause of action for both competitors and consumers is identical—violation of the Sherman Act—it is only the remedy that is different: While the competitor's remedy in their *Walker Process* proceeding is based on their lost profits, the consumers' remedy is based on overpayment for the fraudulently patented products. This Article argues that this distinction is an insufficient basis for concluding that competitors lack standing to file *Walker Process* claims on behalf of a class of consumers. Finally, from a normative perspective, competitors should be allowed to have *sui generis* standing in these kinds of cases to alter the current incentive structure, under which patent fraud is privately profitable for patentees. Therefore, even if *sui generis* standing for competitors as class representatives is not available under current law, amendments to the relevant statutes should be made to grant it.

Another possible concern is that competitors will not adequately represent the class of consumers. This concern can be easily addressed. First, in the specific type of claims this Article discusses, the interests of competitors and consumers are aligned: both are interested in the maximum remedy possible. Unlike those class actions in which some members of the class (or its lawyers) may prefer to settle the case early rather than engage in a lengthy (and costly) discovery process, even when settlement is not in the interest of all class members, in the type of action envisioned here, the main evidentiary stage has already taken place in preceding infringement or invalidity proceedings or in a "classic" *Walker Process* proceeding that the competitor previously pursued.[156] Thus, the

[156] Theoretically, independent antitrust claims, or *Walker Process* claims relating to *both* consumers and competitors, could be filed as well. In this situation, the incentive can indeed be different for the competitor and the class of consumers. However, the employment of a relatively simple mechanism can easily resolve these differences. For example, under the Second Circuit's decision in *In re DDVAP*, *Walker Process* claims can be filed for consumers only after establishing

competitor does not seem to have an incentive to settle the claim prematurely, which would be contrary to the interests of some or all of the consumer class. Moreover, to the extent such a concern may exist, it is possible to name a direct consumer as an additional class representative to eliminate the potential problem with the adequacy of the competitor's representation.

Furthermore, there is little concern in these types of cases that the competitor will settle for a "quick" *Cy Pres* remedy rather than seek to achieve full compensation.[157] *Cy Pres* remedies are common in situations where:

> [(1)] a significant number of absent class members' identities are not known and it is impossible to provide them with individual notice of the opportunity to file a claim[;] . . . . [(2)] the class members' identities are known, [but] their claims may be so small that it is not economically feasible to calculate individual damages or to cut individual checks[;] . . . . [(3)] direct payments are economically feasible, [but, due to illness or the like,] absent class members may decline to submit claim forms[;] . . . [and (4)] class members submit claims and the claims administrator mails them checks, [but] some (or many) of the checks are returned as undeliverable or are never cashed.[158]

Many of these situations warranting *Cy Pres* remedies are not often applicable to patent fraud cases. The damages awarded to consumers who bought overpriced patented products are usually not negligible, and can sometimes—especially in the context of pharmaceutical patents—amount to hundreds or even thousands of dollars per class member. Furthermore, in the rather common scenario of pharmaceutical patents, it is usually not difficult to identify the members of the class or the exact damages suffered by each class member. Prescription drugs are personally prescribed to every patient and specifically mention the dosages to be taken by the patient. In addition, health insurance companies maintain precise data regarding prescriptions and prices paid by them and by consumers.

proof of actual fraud, thereby eliminating the possibility of unaligned interests in this context.

157 A *Cy Pres* remedy is a relatively common tool in class action lawsuits. *See* Rhonda Wasserman, *Cy Pres in Class Action Settlements*, 88 S. CAL. L. REV. 97, 100 (2014), https://southerncalifornialawreview.com/wp-content/uploads/2018/01/88_97.pdf [https://perma.cc/LF96-RNG9]. The phrase "*Cy Pres*" derives from a French expression, "cy près comme possible," meaning "as near as possible." *Id.* at 114. This kind of remedy is generally employed by courts when it would be difficult to award an actual remedy to the members of a class. *Id.* For example, *Cy Pres* remedies commonly include alternative solutions such as donations to non-profit organizations. *Id.* at 101. For a more elaborate explanation of the *Cy Pres* doctrine and the problems it raises, see *id.*

158 *Id.* at 103-05 (internal footnotes omitted).

In any event, even in situations where one of the aforementioned difficulties is present and there is no possibility of efficiently distributing the remedy awarded, the same occurs in "regular" class actions. In some situations, *Cy Pres* remedies for class actions are indeed required, and there is nothing inherently wrong with providing them when necessary. Indeed, *Cy Pres* remedies in class actions are available precisely to ensure that the wrongdoer pays the price for their wrongdoing, even when there are no identifiable class members to be compensated. Moreover, some tools exist to mitigate the problems associated with such compensation schemes, such as judicial review of *Cy Pres* settlements or reduction in attorneys' fees and incentive awards to the class representatives in *Cy Pres* cases.[159]

Another possible critique is that the proposed mechanism might result in an increase of meritless litigation of patent fraud due to the large prizes a successful class representative can expect to receive. This concern is unfounded, however, because inherent checks and balances already significantly limit the ability to pursue patent fraud claims. First, it is still extremely difficult to prove patent fraud. Under both *Therasense* and *Walker Process*, the bar for proving patent fraud is very high, requiring proof of both but-for materiality and actual intent to mislead the patent office. Second, uncovering and challenging patent fraud is an expensive endeavor. Exposing patent fraud commonly requires actual involvement in and understanding of the field of the patented invention, including attempts to design around the invention. Finally, litigation of patent fraud cases requires the expenditure of substantial costs and, in some cases, exposes the competitor to liability for patent infringement if they do not prevail. The combination of these features makes it highly unlikely that competitors would pursue meritless patent fraud claims. Additionally, as part of the proposed mechanism, a patentee can recover attorneys' fees when a competitor does not prevail, further deterring frivolous patent fraud litigation.

CONCLUSION

This Article demonstrates that existing patent law doctrines incentivize patentees to commit fraud by misleading the USPTO and introduces a scheme to minimize or eliminate this perverse incentive. The proposal articulated herein combines existing antitrust doctrines with a disgorgement of profits remedy and class action procedures to generate effective deterrence against patent fraud. This Article identifies

[159] For a discussion of additional mechanisms for coping with the problems of *Cy Pres* remedies in class action suits, see *id.*

competitors as key players in detecting patent fraud and argues that competitors should be provided with monetary incentives sufficient to induce them to challenge patent fraud through litigation. To this end, it recommends allowing competitors to lead class action suits on behalf of consumers against patentees who have engaged in patent fraud and to recover a meaningful portion of the patentee's ill-gotten gains. This proposed scheme provides adequate incentives for competitors to take actions to ensure that patent fraud is no longer an economically advantageous choice.