The Role of Consumers in Deterring Settlement Agreements Based on Invalid Patents: The Case of Non-Practicing Entities

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INTRODUCTION

According to an often-cited study on the number of invalidated patents, nearly half of litigated patents were held invalid.1 Moreover, a new study published in March of 2011 has found that even the “most-litigated” patents, defined as patents that have been litigated eight or more times, fare very poorly in patent litigation.2 Perhaps not surprisingly, nearly 70% of merit-based losses in the most-litigated patent cases are due to findings of invalidity of the repeat plaintiffs’ patents.3 This data is particularly interesting in light of the current debate about non-practicing entities (NPEs) that simply hold patents they do not practice, because almost two-thirds of these most-litigated patents are owned by NPEs.4 Given that NPEs, even those that own heavily litigated patents, very rarely prevail in trial on the merits,5 but almost nine out of ten lawsuits involving NPEs end up in settlement,6 one must question whether a number of these settlements might be based on invalid patents.


2 John R. Allison, Mark A. Lemley & Joshua Walker, Patent Quality and Settlement Among Repeat Patent Litigants, 99 GEO. L.J. 677, 687 (2011) (“The most-litigated patent plaintiffs won only 10.7% of their cases on merits, compared with 26% across all lawsuits and 47.3% in the once-litigated set.”). The study emphasizes that being involved in eight or more lawsuits does not mean that these patents went to judgment eight or more times, as many cases settle. Id. at 680. The authors’ research included identifying every patent that was litigated eight or more times between 2000 and February 2009, including cases still pending. Id. at 682. They found 106 such patents, which have been litigated in a total of 2,987 different patent assertions in 478 different cases, often against multiple defendants. Id.

3 Id. at 706 (“Sixty of the eighty-six cases in the most-litigated set involved findings of invalidity.”).

4 Id. at 692 (stating that only 36.5% of the most-litigated patents were owned by product-producing companies).

5 Id. at 681, 694 (stating that NPEs win only 9.2% cases on merits and settle more that 89.6% of cases).

6 Id. at 694.
The importance of deterring patent settlements based on potentially invalid patents need not be particularly stressed, as scholars have repeatedly found that invalid patents have significant innovation-stifling/anticompetitive effects. As such, invalid patents can disturb the delicate balance between the patent system and antitrust laws. Although antitrust laws protect robust competition while the patent system enables patentees to suppress competition for extended periods of time, modern thinking has dismantled the concept that the patent system and antitrust laws are in conflict. The common view is that the two bodies of law are actually complementary, as both share the common goal of promoting innovation and enhancing consumer welfare. Consequently, the grant of a patent exempts the holder from the normal prohibition against monopolies, but nevertheless, such immunity might be stripped if the patent at issue is invalid.

This Article will examine the issue of deterring patent settlements involving NPEs based on potentially invalid patents. This Article focuses solely on NPEs, because NPEs appear to own a substantial number of the most-litigated patents, they are more likely to enforce them, and, as will be explained in Part II of this Article, NPEs are primarily interested in settling their patent disputes, because their business model is typically based on enforcing patents and extracting lucrative settlements. The Article asserts that although recent court decisions have made it more challenging for NPEs to obtain very lucrative settlements, the current legal framework is still ill-suited to deter patent settlements based on invalid patents. Moreover, the Article suggests that the fact that recent court decisions have ostensibly made it more difficult for NPEs to obtain lucrative settlements could actually be counter-productive, as sued entities might now find it even more cost-beneficial to settle the case rather than take it to trial. Consequently, the validity of a patent at issue might never be litigated, which is a very concerning fact, given that NPEs own almost two-thirds of the most-litigated patents. As a major part of the solution to the NPE problem, this Article argues in favor of expanding the role of consumer-led private litigation in deterring NPE patent settlements based on invalid patents, particularly those procured by defrauding the PTO.

To be sure, the Article does not suggest that patent settlements are undesirable, even though it is worth noting here that the generally favorable attitude towards settlements does not necessarily apply to the patent system because of its interaction with antitrust laws. Along the same lines, the Article does not suggest that all NPE patents are invalid, nor that just because a substantial number of litigated patents were found invalid, settled patents are also likely to be invalid. The Article merely argues that the available data and cases suggest that validity of patents in NPE settlements is a legitimate issue and, because of NPEs’ unique business model and the need to maintain the delicate balance between the patent system and antitrust laws, the role of consumers in addressing this issue ought to be expanded.

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11 See Allison, Lemley & Walker, supra note 2, at 692-93 (“It is not merely that NPEs are more likely to own the most-litigated patents; they also file more lawsuits on those patents than their product-producing counterparts in the most-litigated set.”).
12 Id.
The Article has seven parts and is divided as follows: Part II of this Article discusses in modest detail the business model of NPEs, and explains why they are so controversial and successful in obtaining lucrative settlements. Part III reviews recent court decisions, including three major Supreme Court decisions that directly affect settlements involving NPEs. Part IV points out that the “new environment” does not adequately solve the NPE problem and argues that it might actually be counter-productive in deterring NPE settlements based on invalid patents, particularly those procured by defrauding the PTO. Part V discusses the issue of consumer standing to bring antitrust claims based on invalid patents via Walker Process claims that, in certain circumstances, can subject the patent holder to punitive antitrust damages. Part V underlines that courts and commentators are currently split on the issue of consumer standing to bring antitrust claims based on invalid patents via Walker Process claims. Part VI discusses a very recent decision from the Second Circuit—the first appellate treatment of the underlying consumer standing issue—in which the Second Circuit has introduced a novel follow-on consumer litigation approach.

Part VII first addresses the criticism of the Second Circuit’s opinion. Part VII then points out that the Supreme Court has recently denied certiorari in the case decided by the Second Circuit, so the underlying consumer standing issue is destined to play out in lower courts. In fact, in two very recent 2011 decisions, lower courts reached opposite conclusions on the issue of consumer Walker Process standing. Furthermore, Part VII suggests that just as Justice Kennedy has taken into consideration NPEs’ unique business model and practices while analyzing policy justifications for granting injunctive relief, lower courts should do the same when analyzing policy justifications for limiting consumer Walker Process standing to follow-on litigation. Finally, the Article concludes that the Second Circuit’s policy considerations for limiting consumer standing to a follow-on litigation do not necessarily apply to NPEs, particularly to those NPEs that the Federal Trade Commission has labeled as patent-assertion entities (PAEs) in its new report released in March of 2011. Therefore, lower courts should lean towards allowing consumers unconditional Walker Process standing in NPE cases in order to deter NPE settlements based on invalid patents. Part VII ends by addressing possible criticism to arguments in favor of expanding the role of consumers in Walker Process litigation.

I. OVERVIEW OF THE CONTROVERSY SURROUNDING NON-PRACTICING ENTITIES’ BUSINESS MODEL AND PRACTICES

The term NPE refers to individuals or entities that simply hold patents they do not practice and, as such, do not make or sell any real product or service. The NPEs are very controversial because they do not make real products or services, so their source of revenue generally comes from enforcing their patents against alleged infringers. Some commentators argue that the NPEs should

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16 See In re Plavix Indirect Purchaser Antitrust Litig., No. 106-ev-226, 2011 WL 335034 (S.D. Ohio Jan. 31, 2011) (acknowledging that the issue of consumer Walker Process standing was not a settled question, but nonetheless holding that consumers did not have the standing to assert Walker Process claims); see also Ritz Camera & Image, LLC v. Sandisk Corp., 772 F. Supp. 2d 1100 (N.D. Cal. 2011) (holding that consumers had standing to raise Walker Process claims).

17 FTC, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition, ch. 2, at 8, n.5 (Mar. 2011), available at http://www.ftc.gov/opa/2011/03/patentreport.shtm (“This report uses the term “patent assertion entity” rather than the more common “non-practicing entity” (NPE) to refer to firms whose business model primarily focuses on purchasing and asserting patents. Taken literally, the term NPE encompasses patent owners that primarily seek to develop and transfer technology, such as universities and semiconductor design houses. Patent assertion entities do not include this latter group.”).
not be attacked on the basis of their business model because patents in the hands of NPEs can actually increase innovation, increase competition and enhance consumer welfare. It has also been suggested that large companies who “want IP to be immensely valuable when they own it, but worthless when a small company owns it”, have orchestrated the current war on NPEs. Nevertheless, some critics fundamentally oppose the business model of NPEs and argue that NPEs could abuse the patent system to an extent that could ultimately hurt incentives to innovate by “true” innovators that actually produce goods and services. There are two grounds for this argument.

First, the NPEs business model allows them to adopt “unusually tenacious litigation strategies.” Unlike true business competitors that make or sell products, the NPEs do not fear exposure to liability, counterclaims for infringement, or unfair trade practices. Furthermore, as explained in an Amicus Curie brief by Yahoo! Inc., the business model of NPEs provides little incentive to cross-license, so even companies with excellent defenses have a strong incentive to settle due to the high cost of patent infringement trials.

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23 See Brief for Yahoo! Inc. as Amicus Curie in Support of Petitioner at 2-3, 6-7, eBay Inc. v. MerenExchange, L.L.C., 547 U.S. 388 (2006) (No. 05-130) (commenting that, as non-practicing entities, trolls have little incentive to cross-license and, due to the cost of trial, even companies with excellent defenses have a strong incentive to settle).

Notably, NPEs are not as vulnerable as true competitors in absorbing the high cost of a patent infringement trial. Unlike true business competitors that pay legal fees by the billable hour, the NPEs can and often do operate on contingency fee agreements with law firms. Even more importantly, the NPEs can spread their costs by suing as many defendants as possible, and exacting a settlement from even a relatively small number of defendants can be very lucrative. In fact, there have been cases where NPEs sued over 20 defendants. In addition to direct litigation costs, the cost of business disruption for alleged infringers can be even greater due to distractions for the key technical staff and the management who have to assist lawyers in handling the case.

Finally, the alleged infringer faces huge risks. If an NPE asks and successfully argues for an injunction, “it is essentially a death sentence for a company’s product: a once-lucrative product becomes worthless and its revenue stream almost immediately ceases.” Even without injunctions, alleged infringers face the unpredictability of the jury verdict and “the threat of a ‘jackpot’ award.” It is important to note that prior to 1990, there had been only one patent damages award in history larger than $100 million. However, in the past seven years, there have been at least fifteen judgments and settlements in that category, with at least five topping $500 million. Given all the factors enumerated above, it is not surprising that nine out of ten lawsuits involving NPEs end in a settlement. The risks and the costs for alleged infringers are simply too high to take any chances, so

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even companies with excellent defenses have a strong incentive to settle. Therefore, due to their business model, the NPEs are well positioned to extort very high settlements from alleged infringers.

In addition to the argument regarding NPEs’ ability to implement “tenacious litigation strategies,” critics of NPEs argue that NPEs do not promote innovation and, at the same time, are overly aggressive against industry leaders in innovation, which could ultimately diminish their incentives to innovate. In fact, some reports suggest that certain NPEs acquire particular patents solely to use them in litigation against large companies. In 2010 alone, the number of companies that found themselves in litigation with an NPE was 48% higher than the average of the previous 3 years. The table below indeed shows that the largest and most well-known technology companies all appear at the top of the rankings of companies targeted by NPE lawsuits.

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Source: PatentFreedom (Data captured as of January 1, 2011)

Setting aside the theoretical discourse over NPEs, perhaps the best way to illustrate the NPE “problem” is a fairly recent and often cited case, NTP, Inc. v. Research in Motion, Ltd., wherein NTP
filed a patent infringement suit against Research in Motion ("RIM"). In that case, RIM and NTP settled their dispute for $612.5 million. Notably, the trial court awarded just over 50 million dollars in damages, and the validity of NTP’s patent was questionable. Interestingly enough, the Director of the USPTO had ordered a review of NTP’s questionable patents, and the PTO had invalidated some of NTP’s patents. However, prior to a final determination from the USPTO on the validity of NTP’s remaining patent claims, RIM and NTP settled their dispute for $612.5 million, partially due to the pressure from the investment community and from customers worried about RIM’s ability to continue to provide wireless messaging services given the uncertainty created by the litigation.

This case clearly illustrates the power of NPEs, as NPT was able to obtain a very lucrative settlement even though the validity of their patents and infringements claims were questionable. The following section will address recent cases that directly affect NPEs and their “tenacious litigation strategies.”

II. OVERVIEW OF RECENT COURT DECISIONS AFFECTING NPES

A. eBay, Inc. v. MercExchange LLC Impacts an NPE’s Ability to Obtain Injunctive Relief

Since patent law grants exclusionary rights to all patent holders, the NPEs are entitled to preliminary injunctions against alleged infringers to stop all alleged infringing activities. These injunctions, granted prior to a full adjudication on the merits of the case, can practically cause a complete shutdown of an alleged infringing company’s business activity. As such, preliminary injunctions are the NPEs’ most lethal weapon in a lawsuit against practicing companies. However, a fairly recent Supreme Court case, eBay Inc. v. MercExchange LLC, has affected the NPEs’ ability to obtain injunctions.

In eBay, MercExchange, the owner of a business method patent for conducting online sales on an electronic market, sought to license its patent to eBay, an operator of an online auction website. When the parties failed to reach an agreement, MercExchange filed a patent-infringement suit against the website operators in the United States District Court for the Eastern District of Virginia. A jury found that the operators had infringed the patent and that an award of damages was appropriate. Following the jury verdict, the District Court denied MercExchange’s motion for permanent injunctive relief, holding that “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. MercExchange appealed and the Court of

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*See Austen & Guernsey, supra note 39; see also Hughlett, supra note 39.

*Id.

*This patent holder’s right to exclude is recognized in the Constitution, included in the original Patent Act of 1790, and is still in place today. U.S. CONST. art. I, § 8, cl. 1; 1 Stat. 109 (1790); 35 U.S.C. § 154(a)(1) (2011).

*See, for example, the above discussion of NTP, Inc. v. Research in Motion. See also Polaroid Corp. v. Eastman Kodak Co., No. 76-1634-Z, 1985 U.S. Dist. LEXIS 15003, at *5 (D. Mass. Oct. 11, 1985). Polaroid sued Kodak for infringement on its instant camera patents and obtained an injunction. Kodak argued that the injunction would cause the loss of 4,500 jobs, $200 million in plant and equipment costs, and would injure Kodak’s customers and goodwill.


*Id. at 388, 390.

*Id. at 390-91.


*Id. at 712.

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Appeals for the Federal Circuit reversed, applying its general rule “that a permanent injunction will issue once infringement and validity have been adjudged,” except in the “unusual” case, under “exceptional circumstances,” and in order to “protect the public interest.” One example of such “exceptional circumstances” when it is acceptable to deny a permanent injunction is the case *City of Milwaukee v. Activated Sludge*. In the *City of Milwaukee* case, the Court of Appeals for the Seventh Circuit refused to grant an injunction against an infringing party for using a patented method of sewage treatment. Had the court granted the permanent injunction, the city would have had to dump raw sewage into Lake Michigan. The court recognized that “the health and the lives of more than half a million people were involved” in the case. Therefore, the court denied the request for an injunction due to public health interests and imposed a compulsory license on the city, forcing it to pay the patentee a fee for using the patented invention.

The Supreme Court granted certiorari to determine “whether this Court should reconsider its precedents…on when it is appropriate to grant an injunction against a patent infringer.” In an opinion delivered by Justice Thomas, the Supreme Court unanimously rejected the “general rule” articulated by the Federal Circuit and held that, when determining whether to grant injunctive relief, lower courts must look to the “well established principles of equity,” where a prevailing plaintiff seeking an injunction must demonstrate: “(1) that [the plaintiff] has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” The Court noted that these well-established principles of equity apply with equal force to disputes arising under the Patent Act. The Court went on to say that “a major departure from the long tradition of equity practice should not be lightly implied” because nothing in the Patent Act indicates that Congress intended such a departure, while “the Patent Act expressly provides that injunctions ‘may’ issue ‘in accordance with the principles of equity.’”

While the Court’s unanimous decision that the grant or denial of permanent injunctive relief is an act of equitable discretion by the district court is not a major policy change, the *eBay* decision is significant because of the concurring opinion written by Justice Kennedy, which provides:

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.

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50 401 F.3d at 1338-39.
51 *City of Milwaukee v. Activated Sludge*, Inc., 69 F.2d 577, 593 (7th Cir. 1934).
52 *Id.*
53 *Id.*
54 *Id.*
55 *Id.*
58 *Id.*
59 *Id.* (quoting Weinberger v. Romero-Barcelo, 456 U.S. 305, 320 (1982)).
60 *Id.* at 392 (quoting 35 U.S.C. § 283 (2000)).
61 *eBay*, 547 U.S. at 396. (Kennedy, J., concurring) (citations omitted).
Therefore, if lower courts decide to interpret eBay based on Justice Kennedy’s opinion, the NPEs’ ability to obtain injunctive relief will be impaired. In fact, shortly after the eBay case was decided, some researchers found that lower courts indeed tend to interpret eBay based on Justice Kennedy’s opinion, and direct competition in the marketplace has become an important factor for patentee’s entitlement to injunctive relief. Researchers have also found that an NPE’s chance of getting injunctive relief has significantly decreased after eBay, compared to the pre-eBay period and compared to practicing entities after eBay.

In sum, the eBay decision significantly impairs the NPEs’ ability to seek injunctive relief, which, as previously noted, is an NPE’s most lethal weapon in lawsuits against large companies.

B. In Re Seagate Impacts an NPE’s Ability to Allege Willful Infringement and Seek Enhanced Damages

In addition to injunctions, allegations of “willful” infringement are an extremely powerful weapon for NPEs, because the Patent Act and Federal Circuit case law give trial judges the discretion to award treble damages and attorney’s fees against willful infringers. Not surprisingly, an empirical study has found that willful infringement is alleged in over 90% of patent cases. Ever since 1983, the finding of willful infringement was based on a standard “akin to negligence” and the alleged infringer had an affirmative duty to exercise due care to determine whether or not he was infringing, if he had actual notice of another’s patent rights. The advice of the legal counsel in determining the validity, enforceability, and potential infringement of the patent at issue was necessary to satisfy the “affirmative duty” requirement. However, if an alleged infringer had used reliance on legal counsel as a defense to willful infringement, accused infringers had to waive attorney-client and work product privilege with respect to the opinions of pre-litigation counsel and often the trial counsel. The reason was “to prevent a party from using the advice he received as both a sword, by waiving privilege to favorable advice, and a shield, by asserting privilege to unfavorable advice.”

However, in a 2007 case, In re Seagate Technology L.L.C., the Federal Circuit drastically changed the legal framework for proving willful infringement. To begin with, the Federal Circuit increased

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the standard for proving willful patent infringement.\(^71\) As discussed above, the previous standard for proving willful infringement was something akin to mere negligence.\(^72\) In *In re Seagate*, the Federal Circuit held that a finding of willful infringement would now require a showing of at least “objective recklessness” that must be proven by clear and convincing evidence.\(^73\) While defining this new standard, the court stated:

> The term reckless is not self-defining. However, the civil law generally calls a person reckless who acts in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known. Accordingly, to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. The state of mind of the accused infringer is not relevant to this objective inquiry. If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.\(^74\)

\(^{22}\) In addition to increasing the standard for proving willful infringement, the Federal Circuit also limited attorney-client and work product privilege waivers.\(^75\) The Federal Circuit made clear that “there is no affirmative obligation [for a potential infringer] to obtain opinion of counsel.”\(^76\) Furthermore, the court held that, as a general proposition, “asserting the advice of counsel defense and disclosing opinions of opinion counsel [did] not constitute waiver of the attorney-client privilege for communications with trial counsel.”\(^77\) The court reasoned that willfulness is ordinarily based solely on the accused infringer’s pre-litigation conduct and trial counsel is usually not involved with a defendant’s pre-litigation conduct.\(^78\) Finally, the court held that, as a general proposition, “relying on opinion counsel’s work product [did] not waive work product immunity with respect to trial counsel.”\(^79\)

\(^{23}\) The *In re Seagate* decision can greatly impact the NPEs’ practices and bargaining power in settlement negotiations. To begin with, it is much harder to prove willful infringement under the new “objective recklessness” standard than the negligence-like standard. NPEs now must drop the willful infringement claim or expend much more effort in proving willful infringement, which increases their litigation costs.\(^80\) Moreover, by declining to extend attorney-client and work product privilege from opinion counsel to trial counsel, the Federal Circuit has made clear that willfulness will be evaluated based on pre-litigation actions.\(^81\) That is extremely important for alleged infringers, because they can now continue to produce their products during litigation without fear of increasing damages.\(^82\) The court has acknowledged this issue and stated that the patent holder must use injunctions for post-filing infringements,\(^83\) which will be more difficult in light of the decision in *eBay*.\(^84\) It is also worth mentioning that limiting attorney-client and work product privilege waivers

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\(^{71}\) Id. at 1371.

\(^{72}\) See *Underwater Devices*, 717 F.2d at 1389.

\(^{73}\) In *re Seagate*, 497 F.3d at 1371.

\(^{74}\) Id. at 1371 (internal quotation marks and citations omitted).

\(^{75}\) Id. at 1372-73.

\(^{76}\) Id. at 1371.

\(^{77}\) Id. at 1371.

\(^{78}\) Id. at 1374.

\(^{79}\) Id.

\(^{80}\) Id. at 1376.


\(^{82}\) See *In re Seagate*, 497 F.3d at 1374 (“[A] willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer’s pre-filing conduct. By contrast, when an accused infringer’s post-filing conduct is reckless, a patentee can move for a preliminary injunction, which generally provides an adequate remedy for combating post-filing willful infringement.”).

\(^{83}\) Id. See also Mayergoz, supra note 21, at 256.

\(^{84}\) Id. at 1374.

can also significantly reduce alleged infringers’ litigation costs because it limits their discovery obligations.

¶24 In sum, *In re Seagate* drastically impairs the NPEs’ ability to use the threat of willful infringement as a weapon in lawsuits against large companies and, ultimately, diminishes their bargaining power in settlement negotiations.

C. *MedImmune v. Genentech* Increases the Threat of a Declaratory Judgment Challenge of Patent Validity by a Licensee in Good Standing

¶25 The Supreme Court decision in *MedImmune v. Genentech* was another setback for NPEs. In this case, MedImmune entered into a patent license agreement with Genentech, whereby MedImmune took licenses under Genentech’s patent on “chimeric antibodies” and also on a then-pending Genentech patent application for “coexpression of immunoglobulin chains in recombinant host cells.” Subsequently, MedImmune successfully commercialized a drug known as “Synagis,” which ended up accounting for more than 80 percent of the sales revenue of MedImmune. When the Genentech “coexpression” application matured in a patent (“Cabilly II”), Genentech advised MedImmune that it expected MedImmune to pay royalties under this patent for Synagis. Even though MedImmune did not believe that Synagis infringed the Cabilly II patent and, moreover, that Cabilly II was invalid and unenforceable, MedImmune was reluctant to terminate the license agreement because of the potential risk to its Synagis business. Consequently, MedImmune unwillingly continued to pay the royalties to Genentech. However, MedImmune eventually brought a declaratory judgment action against Genentech that sought a declaration that the Cabilly II patent was invalid, unenforceable, or not infringed. The District Court dismissed the declaratory judgment claims for lack of subject-matter jurisdiction because, under United States Court of Appeals for the Federal Circuit precedent, a patent licensee in good standing could not establish a case or controversy under the Federal Constitution’s Article III with regard to the patent’s validity. The Court of Appeals, relying on its own precedent, affirmed the District Court’s judgment. Subsequently, the Supreme Court granted certiorari to “decide whether . . . the ‘actual controversy’ requirement of the Declaratory Judgment Act . . . requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.”

¶26 On certiorari, the United States Supreme Court reversed and remanded. The Supreme Court held that Article III’s case or controversy limitation did not require the licensee to break or terminate its license agreement before seeking a declaratory judgment in federal court that the underlying patent was invalid, unenforceable, or not infringed. The Supreme Court found that there was a basis for the declaratory judgment claim in the case at hand, notwithstanding that the royalties continued to be paid, as a licensee need not expose itself to a potential injunction or treble damages before it could seek a declaratory judgment. The Court asserted that “the requirements of [a] case

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86 Id. at 121.
87 Id. at 121-22.
88 Id.
89 Id.
90 Id. at 122.
91 Id.
94 Id. at 137.
95 Id.
96 Id. at 131.
or controversy are met where payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim.998

While the decision in MedImmune is not specifically directed at NPEs, this decision nonetheless significantly impacts NPEs. Prior to the decision in MedImmune, the threat of declaratory judgment by a licensee was very low because, as explained by the Supreme Court, a licensee had to expose itself to a potential injunction or treble damages before it could seek declaratory judgment.99 Clearly, the licensees were in a tough spot, so NPEs were well positioned to extort high licensing fees by capitalizing on the fear of facing tremendous damages if the declaratory judgment challenge failed. After MedImmune, however, a licensee can now seek declaratory judgment without fearing the consequences of an unfavorable ruling, which inherently decreases licensees’ willingness to pay high licensing fees instead of seeking a declaratory judgment. The increased likelihood of a declaratory judgment challenge gives licensees tremendous leverage in settlement negotiations because, in addition to the possibility that the court might declare the patent invalid or non-infringed, the threat of a declaratory judgment challenge greatly affects the licensor’s litigation costs. That is so because declaratory judgment actions are filed in a forum chosen by the party seeking the declaratory judgment, which might not be the licensor’s forum.100 Moreover, the licensor might not be able to use a contingent fee agreement to spread its costs because, unlike in patent infringement lawsuits, declaratory judgment challenges do not involve money damages.101

In sum, the increased likelihood of declaratory judgment challenges and the costs associated with this greatly diminish NPEs’ leverage in settlement negotiations. However, it is important to point out that shortly after the MedImmune decision saw the light of day, practitioners suggested that there were many potential workarounds to avoid a MedImmune-type problem.102 To begin with, most licensees are contractually blocked from attacking the validity of the licensed patent, as many patent licenses already include a covenant from the licensee not to challenge the validity of the licensed patent.103 (This typical covenant was not present in the patent license at issue in MedImmune.) Another effective way of neutralizing MedImmune could be use of a license provision stating that a challenge to the patent’s validity triggers an increase in the royalty rates or an automatic termination of the license agreement.104

Furthermore, even without covenants and clauses discouraging or preventing declaratory judgment challenges of patent validity, commentators have suggested that initiating a declaratory judgment action is a losing proposition, regardless of the outcome of the lawsuit:

[D]eclaratory judgment actions are plagued by collective action problems because each individual competitor may have insufficient incentive to initiate the litigation. Because such actions are essentially patent infringement litigation (with the parties reversed), declaratory judgment actions are extremely expensive and time consuming. If the plaintiff loses, it is out millions of dollars in litigation costs and has nothing to show for its troubles. If the plaintiff wins, the patent is invalidated, but the plaintiff is still out the litigation costs, and probably cannot recoup the costs by competing in a free market in which multiple competitors bid the market price down. The other competitors can free ride on the declaratory judgment suit.

998 Id. (quoting Altwater v. Freeman, 319 U.S. 359, 365 (1943)) (alteration in original).
99 Id.
103 Id.
104 Id.
entering the market with impunity once the challenge succeeds, but without having to bear the costs of invalidating the patent.\textsuperscript{105}

Similarly the FTC has recognized, “because the costs of a challenge are borne by the challenger, but the benefits of invalidation spill over to other potential licensees and to consumers, the private incentives to launch a challenge are less than would be warranted by the social return.”\textsuperscript{106} Therefore, while the increased threat of initiating a declaratory judgment challenge can affect the balance of power in patent dispute settlements, the impact of the \textit{MedImmune} decision is fairly limited, and it can be neutralized.

\textit{\textbf{D. KSR v. Teleflex Made It Easier for Alleged Infringers to Invalidate a Patent Based on Obviousness and Therefore Impairs an NPE\textquoteright s Ability to Enforce Weak Patents}}

\textbf{\textsection 30}

The Supreme Court first mentioned nonobviousness as a hurdle to patentability in 1850.\textsuperscript{107} However, the term “obvious” did not appear in the patent statute until 1952, when Congress codified the nonobviousness standard in the 1952 Patent Act.\textsuperscript{108} Section 103 of the Patent Act bars a patent when “the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.”\textsuperscript{109}

The Supreme Court first addressed the 1952 Act’s nonobviousness requirement fourteen years later in \textit{Graham v. John Deere Co.}\textsuperscript{110} In \textit{Graham}, the Court developed a three-part test designed to help lower courts achieve consistency in evaluating obviousness and nonobviousness.\textsuperscript{111} Under \textit{Graham}’s three-part test, a judge must first determine the scope and content of prior art and compare that with the claimed invention to determine how they differ.\textsuperscript{112} Next, the court must determine the level of ordinary skill in the pertinent art.\textsuperscript{113} Finally, the obviousness or nonobviousness of the subject matter is determined based on objective evidence from previous steps.\textsuperscript{114} In addition to the three-step inquiry, the Supreme Court instructed lower courts to look at a series of secondary factors such as “commercial success.”\textsuperscript{115}

The \textit{Graham} test remained unchanged until the creation of the Federal Circuit in 1982, which was established to promote “uniformity in federal appellate construction of the patent laws.”\textsuperscript{116} The Federal Circuit continued to rely on \textit{Graham}’s three-part test; however, seeking to resolve the obviousness question with more uniformity and consistency, the Federal Circuit developed a methodical approach to the question of obviousness, which became known as the “teaching,

\textsuperscript{105} Leslie, \textit{Antitrust and Patent Law}, supra note 8, at 1274 (footnotes omitted).
\textsuperscript{109} \textit{Id.}
\textsuperscript{110} 383 U.S. 1, 3 (1966).
\textsuperscript{111} \textit{Id.} The Court has interestingly suggested in the opinion: ”What is obvious is not a question upon which there is likely to be uniformity of thought in every given factual context.” \textit{Id.} at 18.
\textsuperscript{112} \textit{Id.} at 17.
\textsuperscript{113} \textit{Id.}
\textsuperscript{114} \textit{Id.}
\textsuperscript{115} \textit{Id.} at 17-18.
\textsuperscript{116} Title 28 U.S.C. § 1295(a)(1) grants the Federal Circuit appellate jurisdiction over final decisions of federal district courts in which the action “arose under . . . any Act of Congress relating to patents.” \textit{See also} 28 U.S.C. § 1295 (2006); 28 U.S.C. § 1338 (2006); Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 820 (1988) (Stevens, J., concurring) (“When Congress passed the Federal Courts Improvement Act in 1982 and vested exclusive jurisdiction in the Court of Appeals for the Federal Circuit to resolve appeals of claims that had arisen under the patent laws in the federal district courts, it was responding to concerns about both the lack of uniformity in federal appellate construction of the patent laws and the forum-shopping that such divergent appellate views had generated.”).
suggestion, or motivation” test (TSM test). Under the TSM test, a patent claim is proven obvious only if the prior art, the problem’s nature, or the knowledge of a person having ordinary skill in the art reveals some motivation or suggestion to combine the prior art teachings. The TSM test was criticized because it made it very difficult to invalidate patents based on obviousness due to the fact that showing a teaching, suggestion, or motivation is not always possible, despite the invention having been obvious to one with ordinary skills in the art.

The Supreme Court recently revisited the issue of obviousness in KSR v. Teleflex. While the Supreme Court did not invalidate the TSM test per se as many had hoped, the Supreme Court rejected a “too rigid” and formalistic application of the TSM test. The opinion states in part:

Helpful insights . . . need not become rigid and mandatory formulas; and when it is so applied, the TSM test is incompatible with our precedents. The obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents. The diversity of inventive pursuits and of modern technology counsels against limiting the analysis in this way. . . .

. . . There is no necessary inconsistency between the idea underlying the TSM test and the Graham analysis. But when a court transforms the general principle into a rigid rule that limits the obviousness inquiry, as the Court of Appeals did here, it errs.

While some commentators have suggested that the KSR decision did not actually create a new test, settle confusion, or provide any useful formula, “[t]he general thrust of the opinion can, and should, be interpreted to broaden the type of evidence that can be used to support a finding of obviousness, without discarding the decades of Federal Circuit precedent requiring rigorous evidence guarding against hindsight bias.” Clearly, the Supreme Court did not abolish the TSM test; it only rejected its “rigid” application and, consequently, made it easier to invalidate patents based on obviousness. In fact, an empirical study has found that:

While petition to the Supreme Court was pending, the Federal Circuit affirmed every single lower court's ruling which had invalidated a patent claim. Before cert., however, the Federal Circuit only affirmed obviousness findings 66.7% of time, while reversing to non-obvious on little more than 11% of occasions. After KSR, obviousness findings of lower courts were affirmed at 84.6% and vacated and remanded in 15.4% of the times. Twenty-two months after KSR, the Federal Circuit had yet to reverse an obviousness ruling to non-obvious.

In sum, the KSR decision makes it much easier to invalidate patents based on obviousness, which impacts all patent holders, including the NPEs.

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118 Id.
121 See Ashley Houston, Note, KSR International Co. v. Teleflex Inc.: The Supreme Court Declines the Opportunity to Finally Set the Record Straight and Articulate One Clear Standard for Determining Obviousness in Patent Cases, 4 J. BUS. & TECH. L. 219, 234 (2009) (arguing that the Court's ruling leaves room for inconsistency and non-uniformity).
122 KSR, 550 U.S. at 419.
123 See Lee, supra note 107, at 15.
III. HOW DOES THE NEW ENVIRONMENT IMPACT NPEs AND THEIR PRACTICES?

A. The New Environment Inherently Impairs NPEs’ “Tenacious Litigation Strategies” but It Does Not Necessarily Deter Settlements Based on Invalid Patents

The decisions in eBay, In Re Seagate, MedImmune and KSR undoubtedly impair NPEs’ “tenacious litigation strategies.” Some commentators have gone so far as to suggest that the NPEs are “buried.”125 The empirical evidence does suggest that the total number of NPE litigations significantly declined in 2010; however, the number of companies sued by an NPE has increased by 48% over the average of the previous three years.126 This discrepancy clearly indicates that the growth in the number of companies facing NPE litigation results from a substantial increase in the average number of defendants per litigation.127 In light of the fact that the above-discussed decisions are likely to increase NPEs’ litigation costs, this data could mean that NPEs are looking to spread their costs by suing as many defendants as possible, in hope that a settlement from multiple defendants will be very profitable.128 Therefore, although the balance of power in patent dispute negotiations has perhaps shifted and NPEs now have less “lethal” weapons in their arsenal, it appears NPEs are far from being “buried” and are adapting to the new environment.

Since it does not appear that NPEs are “buried,” it remains to be seen how the new environment will affect the issue of invalid patents in patent litigation. As mentioned earlier, recent studies on the number of invalidated patents have suggested that patents fare very poorly in patent litigation, as nearly half of litigated patents were held invalid.129 The findings of invalidity of the plaintiffs’ patents amount to 70% of merit-based losses even when it comes to the “most litigated” patents—that have been litigated eight or more times.130 Since almost two-thirds of these “most litigated” patents are owned by NPEs who settle nine out of ten patent disputes,131 one must question whether a number of NPE settlements might be based on invalid patents. At the time when NPEs were able to employ “tenacious litigation strategies,” it was not surprising that almost every patent dispute involving an NPE ended up with a settlement. However, it is questionable whether the new environment created by the four decisions discussed above132 will lead to fewer settlements and more challenges of patent validity. While the new environment inherently impairs NPEs “tenacious litigation strategies” and their ability to extort lucrative settlements, that can arguably make settlements more attractive to alleged infringers who now might find it even more cost-beneficial to opt for a less-burdensome settlement instead of pursuing an expensive and unpredictable challenge of patent validity.

One could argue that the decisions in MedImmune and KSR should encourage more declaratory judgment challenges of patent validity; nevertheless, such a scenario is unlikely because, as discussed above, the impact of the MedImmune decision can easily be neutralized, and initiating a declaratory judgment action is generally a losing proposition.133 Along the same lines, even though the KSR decision makes it easier to invalidate a patent based on obviousness, the KSR decision is also very limited because even if alleged infringers challenged the validity of a patent on obviousness grounds,

125 Jessica Holzer, Supreme Court Buries Patent Trolls, FORBES.COM (May 16, 2006, 6:00 AM), http://www.forbes.com/2006/05/15/ebay-scotus-patent-ruling-ex_fbi_0516scotus.html; see also Lateef & Stowell, supra note 100.
127 Id.
128 Along the same lines, a substantial increase in the average number of defendants per litigation can be interpreted as a response to the decision in MedImmune regarding declaratory judgments. Because of the increased threat of declaratory judgment, suing alleged infringers individually increases the risk that one successful declaratory judgment challenge could impact multiple previous and future settlements.
129 See Allison & Lemley, supra note 1, at 205.
130 See Allison, Lemley & Walker, supra note 2.
131 See id.; supra notes 4-6 and accompanying text.
132 Ebay, Seagate, MedImmune and KSR.
133 See Kesslen & Atlas, supra note 102; Leslie, Antitrust and Patent Law, supra note 8, at 1274.
obviousness is not a commonly used ground for invalidity. In fact, the 2011 study found that the invalidity-based “patentee losses in the most-litigated patents data set were overwhelmingly not based on findings of obviousness” but, instead, were more likely to be based on an on-sale bar or inadequate written description than findings of obviousness. Consequently, the following section will underline why there is still a big hole to fill in deterring patent settlements involving NPEs based on potentially invalid patents.

B. Big Hole to Fill—Deterring Patent Settlements Involving NPEs Based on Invalid Patents Procured by Defrauding the PTO

Since patents are extremely valuable assets, patentees may have strong motives to obtain them, which naturally increases the incentives for misconduct before the PTO. Not surprisingly, issues related to misconducts before the PTO have long been a fixture “in every major patent case.” For example, in Digital Control, Inc. v. Charles Machinery Works, the court found that there was “overwhelming evidence that [the patentee] had a motive to mislead the PTO, as he was under severe pressure from his largest customer . . . to acquire and enforce patent rights.” In another recent case, Dippin’ Dots, Inc. v. Morey, Dippin’ Dots did not disclose information in the patent application about certain prior sales that would render the patent invalid. Similarly, in Purdue Pharma L.P. v. Endo Pharmaceuticals, Inc. the patent holder claimed that the “surprising discovery” was effective in 90% of patients, but failed to disclose to the PTO that this “surprising discovery” was not based on any clinical data, but rather was based on an inventor’s insight. In a fairly recent case involving an NPE, the patent holder failed to disclose to the PTO that a person who submitted affidavits during examination and re-examination of a patent had a financial interest in the patent at issue, as well as personal and professional associations with the patent holder.

To be sure, the PTO rules impose the duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability. Nevertheless, the Manual of Patent Examining Procedure expressly states that the PTO does not even bother to police compliance with this rule. The PTO asserts that “[a] court, with subpoena power, is presently the best forum to consider duty of disclosure issues” in private litigation.

The main “weapons” against misconduct before the PTO in private litigation are the doctrine of inequitable conduct and the Walker Process claim, which both essentially operate as defenses in patent infringement lawsuits. The doctrine of inequitable conduct is the patent system’s response to invalid patents procured by deceptive conduct before the PTO and it is based on principles of equity, where those seeking equity must come with clean hands. The Walker Process claim, on the other hand, is

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134 Allison, Lemley & Walker, supra note 2, at 706-07.
135 Firms can profit from owning patents in several ways, not just by profiting directly from commercializing or licensing the invention. Among the prevailing reasons for patenting are “1) blocking rivals from patenting related inventions; 2) protecting against infringement suits; and 3) using patents as leverage in negotiations over technology rights.” Organization for Economic Co-operation and Development, Competition, Patents and Innovation (OECD, DAF/COMP (2007) 40), Background Note, at 26-28 (2007), available at www.oecd.org/dataoecd/26/10/39888099.pdf (last visited May 3, 2011).
136 Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223 (Fed. Cir. 2007). This was the first.
137 Under 35 U.S.C. § 102(b), sales made more than one year before the patent priority date trigger the on-sale bar. DDI included a sworn statement in its patent claim asserting that “the initial sales were in March of 1988;” id. at 1341, while it was undisputed that sales were made in 1987. The 1987 sales were not disclosed by Dippin’ Dots in its application to the PTO.
138 Purdue Pharma L.P. v Endo Pharm., 410 F.3d 690, 696-700 (Fed. Cir. 2005).
139 Dippin’ Dots, Inc. v. Mosey, 476 F.3d 1337, 1340-42 (Fed. Cir. 2007). Under 35 U.S.C. § 102(b), sales made more than one year before the patent priority date trigger the on-sale bar. DDI included a sworn statement in its patent claim asserting that “the initial sales were in March of 1988;” id. at 1341, while it was undisputed that sales were made in 1987. The 1987 sales were not disclosed by Dippin’ Dots in its application to the PTO.
140 See 37 C.F.R. § 1.56 (2011).
142 Id.
143 Id.
144 See Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 814-16 (1945). This was the first
antitrust’s equivalent to the inequitable conduct doctrine based on the Supreme Court’s holding that a claim under Section 2 of the Sherman Act, which prohibits monopolizing, attempts to monopolize, and combinations or conspiracies to monopolize in interstate commerce, could be maintained against the holder of a patent who obtained that patent through fraud on the Patent Office, assuming all other elements of a Section 2 monopolization claim are met.\footnote{146}

While both the inequitable conduct doctrine and the \textit{Walker Process} claim require a showing that a patent applicant failed to disclose material information or submitted materially false information to the PTO with intent to mislead or deceive the examiner.\footnote{147} The primary distinction between the affirmative defense of inequitable conduct and a claim for \textit{Walker Process} fraud is the heightened standards of materiality and intent for the latter.\footnote{148} Moreover, while the inequitable conduct defense merely denies the enforcement of a patent that was procured by unclean hands, a successful \textit{Walker Process} claim denies the enforcement of a patent procured by unclean hands and subjects the patentee to antitrust liability, including treble damages.\footnote{149} Although the courts and commentators have made clear that patents are not monopolies and, generally speaking, patent holders are immune from antitrust liability, engaging in fraud before the PTO is one of the exceptions to immunity from antitrust liability.\footnote{150} As explained in \textit{Walker Process}, the patent holder who enforces a patent obtained by fraud on the patent office “cannot enjoy the limited exception to the prohibitions of \textsection{2} of the Sherman Act, but must answer . . . in treble damages to those injured by any monopolistic action taken under the fraudulent patent claim.”\footnote{151}

\footnote{146} See \textit{Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.}, 382 U.S. 172 (1965). The United States Supreme Court held that a claim under Section 2 of the Sherman Act could be maintained against the holder of a patent who obtained that patent through fraud on the Patent Office, assuming all other elements of a Section 2 monopolization claim are met.

\footnote{147} What constitutes material information in the patent arena has been anything but clear. Prior to 1992, the Federal Circuit used a rule based on PTO Rule 56, known as a “reasonable examiner” rule. Under the “reasonable examiner” rule, the test was “whether there is a substantial likelihood that a reasonable examiner would have considered the omitted or false information important in deciding whether to allow the application to issue as a patent.” See \textit{Atlas Powder Co. v. E.I. Du Pont de Nemours & Co.}, 750 F.2d 1569, 1578 (Fed. Cir. 1984). In 1992, the PTO amended Rule 56 and took much narrower approach to materiality. Under the new rule, “information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and (1) it establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or (2) it refutes, or is inconsistent with, a position the applicant takes in: (i) opposing an argument of unpatentability relied on by the Office, or (ii) asserting an argument of patentability.” 37 C.F.R. \textsection{1.56}(b) (2004). Despite this change, courts continued to apply the “reasonable examiner” rule and the Federal Circuit held that the amended Rule 56, while narrower than the reasonable examiner standard, “merely provides an additional test of materiality” and does not supplant or replace the old tests. See \textit{Digital Control}, 437 F.3d at 1316. In fact, the PTO standard is only “an appropriate starting point for any discussion of materiality” as there are also other tests courts use to define materiality. Id. at 1315 (citing \textit{American Hoist & Derrick Co. v. Sowa & Sons, Inc.}, 725 F.2d 1350, 1362-63 (Fed. Cir. 1984). One such test is the objective “but for” standard, “where the misrepresentation was so material that the patent should not have issued.” Id. The courts also use the subjective “but for” test, “where the misrepresentation actually caused the examiner to approve the patent application when he would not otherwise have done so.” Id. Finally, there is also the “but it may have” test, “where the misrepresentation may have influenced the patent examiner in the course of prosecution.” Id. None of the standards of materiality are controlling as the Federal Circuit has clearly stated that there was no reason to be bound by any single materiality standard. Id. at 1315-16.

\footnote{148} Even if an omission is found to be material, the omission must also be found to have been made with the intent to deceive. See \textit{Manville Sales Corp. v. Paramount Sys., Inc.}, 917 F.2d 544, 552 (Fed. Cir. 1990). While there must be a factual basis for a finding of deceptive intent, deceptive intent can be established from the totality of circumstances and no direct evidence is necessary to find intent to deceive the PTO. See \textit{Digital Control}, 437 F.3d at 1319 (citing \textit{Molins PLC v. Tezxon, Inc.}, 48 F.3d 1172, 1180-81 (Fed. Cir. 1995)). The courts generally weigh evidence of deceptive intent with evidence of good faith in order to determine whether the applicant intended to deceive the PTO. \textit{Kingsdown Med. Consultants, Ltd. v. Hollister Inc.}, 863 F.2d 867, 876 (Fed. Cir. 1988). When the patentee does not provide a credible explanation for the nondisclosure or misrepresentation, an inference of deceptive intent may be drawn in the absence of such an explanation. \textit{Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd.}, 394 F.3d 1348 (Fed. Cir. 2005). The deceptive intent must be proven by clear and convincing evidence. See \textit{Medline}, 48 F.3d at 1178; see also \textit{J.P. Stevens & Co. v. Lex Tex, Ltd.}, 747 F.2d 1553, 1559 (Fed. Cir. 1984).

\footnote{149} \textit{Norian Corp. v. Stryker Corp.}, 363 F.3d 1321, 1330-31 (Fed. Cir. 2004).

\footnote{150} \textit{Dippin’ Dot}, 476 F.3d at 1346 (citing \textit{Noblespharma AB v. Implant Innovating, Inc.}, 141 F.3d 1059, 1069 (Fed. Cir. 1998)).

\footnote{151} See \textit{Walker Process}, 382 U.S. at 176-77; see also 35 U.S.C. \textsection{284} (2000) (“[T]he court may increase the damages up to three times the amount found.”); 35 U.S.C. \textsection{285} (2000) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

\footnote{152} \textit{Walker Process}, 382 U.S. at 176.
In spite of all the available weapons to challenge patent validity based on instances of misconduct before the PTO, if parties settle a dispute, as they do in almost nine out of ten patent disputes involving NPEs, the issue of patent validity based on instances of misconduct before the PTO never gets litigated. Subsequently, settlement agreements might come under intense antitrust fire if antitrust authorities deem that the settlement reached unreasonably constrains competition in violation of the Sherman Act. However, antitrust authorities commonly scrutinize terms of settlements agreements only in patent disputes between true business competitors. Therefore, it is very unlikely that antitrust authorities would even challenge settlement agreements involving NPEs, as NPEs are not business competitors. Nevertheless, even when antitrust authorities challenge settlement agreements, the courts need not “conduct an ‘after-the-fact’ validity inquiry in a settled case, and instead the only inquiry would be ‘whether the agreement constrained competition beyond the scope of the patent claims.’” The alleged justification for such a practice is that “there might be no advantage to settlement if resolving a potential antitrust challenge would require diving headlong into the patent litigation that the parties sought to avoid in the first place.”

In sum, while NPEs might no longer be able to employ “tenacious litigation strategies” in order to extort lucrative settlements, the current legal framework is still ill-suited to deter settlements based on invalid patents, particularly those procured by the fraud on the PTO. The alleged infringers might now find settlements even more attractive. Subsequently, the courts do not conduct an “after-the-fact” validity inquiry in a settled case even if antitrust authorities decide to challenge the settlement. This scenario raises the question whether consumers should have a role in deterring settlements based on patents procured by defrauding the PTO, which requires addressing an issue that has gathered a lot of attention lately: whether consumers should have standing to raise Walker Process claims.

IV. OVERVIEW OF THE DEBATE REGARDING CONSUMER STANDING TO RAISE WALKER PROCESS CLAIMS

While Walker Process claims serve as a powerful “deterrence whip” against patent holders who obtain patents by defrauding the PTO, courts and commentators are divided as to whether consumers should have standing to raise Walker Process claims. This is because Walker Process claims typically serve as counterclaims by defendants, traditionally competitors, in patent infringement lawsuits. Consequently, courts have long considered Walker Process claims as the exclusive domain of the excluded competitor against whom the defendant has enforced, or has sought to enforce, or has threatened to enforce its fraudulently obtained patent. The view that Walker Process claims are reserved only for competitors is based on the assumptions that patent fraud is targeted at competing manufacturers, that the enforcement of the fraudulently procured patent is the relevant injury in a Walker Process claim, and that consumers have no cause of action to invalidate the patent, which is exactly what Walker Process claims do. Clearly, under this view the patent cannot serve as the foundation for a monopolization case without some effort at enforcement.

154 See Allison, Lemley & Walker, supra note 2.
156 Id.
157 Id. at 299-300 (quoting In re Ciprofloxacin Hydrochloride Antitrust Litig., 363 F. Supp. 2d 514, 539-40 (E.D.N.Y. 2005)) (also stating that “[a]lthough those courts have come to different conclusions regarding the legality of [reverse] payments at issue in those cases, they have generally agreed that an antitrust court need not make an independent assessment of the underlying patent’s validity”) (alterations in original).
158 Id. at 300.
159 See infra notes 160-174.
161 In re Ciprofloxacin Hydrochloride Antitrust Litigation, 363 F. Supp. 2d 514, 547 (E.D.N.Y. 2005); see also Asahi Glass Co. v. Pentech Pharm., Inc., 289 F. Supp. 2d 986, 993 (N.D. Ill. 2003) (Posner, J.) (implying Walker Process claim limited to competitors: "The claim of fraud on the parent office fails for the reason just given: if patent 723 was obtained by fraud, it was a fraud aimed at competing manufacturers of drugs, not at the suppliers of those manufacturers, and so the fraud claim cannot be pressed as an
Nevertheless, in *Molecular Diagnostic Laboratories v. Hoffmann-La Roche Inc.*, a district court held that consumers have unconditional standing to pursue *Walker Process* claims. The court found the entire body of law denying consumers standing to raise *Walker Process* claims as unpersuasive. The court first stated that the harm is not the enforcement of the invalid patent, but rather the use of the invalid patent to establish a monopoly and, consequently, a *Walker Process* claim is not a fraud claim, but an antitrust violation. The court went on to say: “[T]here is little reason to think that standing requirements for *Walker Process* claims differ from standing requirements in more conventional antitrust actions.” The court concluded that direct purchasers are not only recognized to have standing to prosecute such conventional antitrust claims, but are generally preferred plaintiffs.

Nevertheless, the court in *Molecular* was cautious when it came to adopting a broad rule with respect to standing, recognizing that extending standing to raise *Walker Process* claims presents the risk of duplicative recovery, a flood of litigation, and diminishing incentives to innovate. Ultimately, the court suggested it was important to “examine other factors in addition to antitrust injury, such as the potential for duplicative recovery, the complexity of apportioning damages, and the existence of other parties that have been more directly harmed, to determine whether a party is a proper plaintiff under § 4.”

Commentators have also supported the notion that consumers should have standing to raise *Walker Process* claims on the basis that allowing consumers standing to raise *Walker Process* claims makes fraud on the PTO not cost-beneficial and buyers can be just as well-positioned as competitors to detect fraud.

Surprisingly enough, the individual who has made perhaps the strongest case for allowing consumers standing to raise *Walker Process* claims, Professor Leslie, has concluded that “the delicate balance between antitrust law and the patent system counsels against granting consumers unimpeded access to federal courts to pursue *Walker Process* claims.” At the heart of Professor Leslie’s argument is the notion that “*Walker Process* cases are different from garden variety Section Two litigation because they implicate another set of public policy concerns, namely the incentives of firms to engage in research and legitimate patenting activity.” As a plausible solution, Professor Leslie has offered a novel follow-on suit approach, in which consumers would have standing to raise *Walker Process* claims, but only after a competitor successfully proves the *Walker Process* fraud. Such an approach, according to Professor Leslie, screens out nuisance suits that could diminish incentives

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162 Cal. E. Labs., Inc. v. Gould, 896 F.2d 400, 403 (9th Cir. 1990). The view that *Walker Process* claims should be the exclusive domain of competitors was best summarized in *In re Remeron* where the court stated:

> *Walker Process and its progeny involve antitrust counterclaimants who were potential or actual competitors in patent infringement suits. In this case, Plaintiffs, as direct purchasers, neither produced mirtazapine nor would have done so; moreover, Plaintiffs were not party to the initial patent infringement suits. Plaintiffs may not now claim standing to bring a *Walker Process* claim by donning the cloak of a Clayton Act monopolization claim.*


164 Id. at 280.

165 Id. at 280-81.

166 Id. (citing 2 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 345 (2d ed. 2000) (“Because protecting consumers from monopoly prices is the central concern of antitrust, buyers have usually been preferred plaintiffs in private antitrust litigation. As a result, consumer standing to recover for an overcharge paid directly to an illegal cartel or monopoly is seldom doubted.”)).

167 Id. (quoting Cargill, Inc. v. Monfort of Colo., Inc., 479 U.S. 104, 111 n.6 (1986)).


169 Id. at 302-06.

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to innovate, but allows compensation and promotes disgorgement and deterrence in appropriate cases.\textsuperscript{173} 

The following section addresses the recent Second Circuit decision in \textit{Meijer v. Ferring BV} (known as \textit{In Re DDAVP Direct Purchaser Antitrust Litigation}), where the court introduced yet another novel follow-on suit approach to consumer standing to raise \textit{Walker Process} claims.\textsuperscript{174} The Second Circuit’s decision was the first appellate treatment of this particular issue and the Supreme Court did not grant certiorari to hear the case.\textsuperscript{175}

V. \textit{IN RE DDAVP DIRECT PURCHASER ANTITRUST LITIGATION: FIRST APPELLATE TREATMENT INTRODUCES NEW APPROACH TO CONSUMER \textit{WALKER PROCESS} STANDING}

\textit{A. Procedural History}

Shortly after the Federal Circuit affirmed the district court’s holding that Ferring’s patent for antidiuretic desmopressin acetate tablets (“DDAVP”) was unenforceable due to inequitable conduct,\textsuperscript{176} the direct purchaser plaintiffs filed an antitrust suit in district court against Ferring and his licensee Aventis. The plaintiffs argued that the defendants’ unlawfully maintained a monopoly in the relevant market by procuring the patent through fraud and/or inequitable conduct before the PTO.\textsuperscript{177} Ferring and Aventis jointly moved to dismiss the complaint on the basis that the consumer plaintiffs lacked standing to assert the \textit{Walker Process} claim and Aventis moved to dismiss on the basis that the plaintiffs failed to plead fraud on the PTO with sufficient particularity.\textsuperscript{178} The district court granted both motions and dismissed the antitrust action.\textsuperscript{179} While addressing the issue of “whether purchaser plaintiffs like those in this case have standing to assert a \textit{Walker Process} claim,” the district court found that the plaintiffs “lacked antitrust standing for their \textit{Walker Process} claim because the [patent at issue] had not been enforced against them, and they were not competitors of Ferring or Aventis.”\textsuperscript{180} After losing in the district court, plaintiffs appealed to the Court of Appeals for the Second Circuit.\textsuperscript{181}

\textit{B. The Second Circuit’s Decision}

As soon as plaintiffs appealed to the Court of Appeals for the Second Circuit, the defendants immediately disputed the Second Circuit’s jurisdiction and moved to transfer the case on the basis that the Federal Circuit has exclusive jurisdiction over this appeal because it involved issues of patent law.\textsuperscript{182} The Second Circuit acknowledged that the Federal Circuit has exclusive jurisdiction if a case “arises under” patent law, such that “a well-pleaded complaint establishes either (1) that federal patent law creates the cause of action or,” (2) “that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.”\textsuperscript{183} However, the court found that one of the plaintiffs’ claims, alleging that Ferring’s citizen petition was a sham because its sole purpose was “to delay the entry of

\begin{thebibliography}{99}
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\bibitem{173} Id.
\bibitem{174} \textit{Meijer, Inc. v. Ferring B.V. (In re DDAVP II)}, 585 F.3d 677 (2d Cir. 2009).
\bibitem{175} \textit{Ferring B.V. v. Meijer, Inc.}, 130 S. Ct. 3505 (2010).
\bibitem{176} \textit{See Ferring B.V. v. Barr Labs., Inc. (In re DDAVP I)}, 437 F.3d 1181 (Fed. Cir. 2006).
\bibitem{177} \textit{In re DDAVP Direct Purchaser Antitrust Litig.}, No. 05 Civ. 2237, 2006 U.S. Dist. LEXIS 96201, at *5 (S.D.N.Y. Nov. 2, 2006).
\bibitem{178} Id. at *8, *23.
\bibitem{179} Id. at *21, *26.
\bibitem{180} Id.
\bibitem{181} \textit{In re DDAVP II}, 585 F.3d at 683.
\bibitem{182} Id. at 684.
\bibitem{183} Id. at 685 (quoting Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 808-09 (1988)).
\end{thebibliography}
generic competitors into the market, was an issue independent of patent law. The court acknowledged that the sham petition claim was quite derivative and a minor part of the overall case but, nevertheless, the court stated that “as long as any one of the theories can support the Sherman Act claim without raising substantial questions of patent law” it could serve as a basis for jurisdiction outside of the Federal Circuit.

After retaining jurisdiction, the Second Circuit addressed the “novel” issue of whether direct purchaser consumers have antitrust standing to assert a Walker Process claim. The court first concluded that plaintiffs met all the traditional antitrust standing requirements, namely antitrust injury and efficient enforcer of antitrust laws. However, the court still had to face the “novel” issue of whether direct purchasers have antitrust standing to bring a Walker Process claim, when a court has yet to find that the patent at issue was fraudulently obtained. As explained above, Walker Process claims are brought as counterclaims in patent infringement suits where an alleged infringer seeks to avoid infringement liability by asserting that the patent was obtained by defrauding the PTO. Moreover, “[o]utside of an infringement suit counterclaim, a patent's validity can be challenged only by a party (1) producing or preparing to produce the patented product, and (2) being threatened or reasonably likely to be threatened with an infringement suit.”

The court carefully balanced concerns of an “avalanche of patent challenges” and expanding the “universe of patent challengers” with the concern of leaving “a significant antitrust violation undetected or unremedied.” The court found that relying on competitors and other potential patent challengers to lead the antitrust charge via the Walker Process claim “may ask too much of them” because they may not have the strategic interest or the resources to start or win such a battle. Since it is so much easier to prove inequitable conduct, a generic competitor interested simply in selling its product may not be interested in raising the much more complicated Walker Process claim. Similarly, the court posited that patent holders might try to induce competitors likely to invoke a Walker Process claim to settle in order to avoid severe penalties under antitrust laws. Ultimately, the court determined that prohibiting direct purchasers from raising the Walker Process claim could leave “a significant antitrust violation undetected or unremedied.” Nevertheless, the...
court did not discard the concern of expanding the universe of patent challengers, recognizing its impact on increasing the costs of defending and enforcing patents.\textsuperscript{196} Consequently, the court declined to decide whether direct purchasers per se have standing to raise *Walker Process* claims and held only that direct purchasers have standing to raise *Walker Process* claims for patents that are already unenforceable due to inequitable conduct.\textsuperscript{197}

In the end, the court found that purchasers had sufficiently stated all claims, including the claims for *Walker Process* fraud.\textsuperscript{198} Interestingly enough, the court also attached the antitrust liability to Aventis.\textsuperscript{199} The court rejected the district court’s finding, “that Aventis would pay to license a patent which it knew to be unenforceable flies in the face of reason.”\textsuperscript{200} The Second Circuit found that Aventis took affirmative steps to enforce the patent even though the validity of the patent was already in question since the patent was rejected twice, and the PTO had raised concerns of bias.\textsuperscript{201} In light of that, the lack of Aventis’s apparent effort to independently investigate and attest to the validity of the patent at issue was sufficient to infer knowledge and liability, and more so considering the long-standing relationship between Aventis and Ferring.\textsuperscript{202} The defendants appealed to the Supreme Court, but certiorari was denied on June 28, 2010.\textsuperscript{203}

VI. IMPLICATIONS AND APPLICATION TO NPES

Shortly after the Second Circuit decided the DDAVP case, commentators were quick to point out that “[t]his novel issue which lies ‘at the junction of antitrust and patent law,’ remains unresolved.”\textsuperscript{204} The essence of the criticism is that the basis of the court’s reasoning throughout its opinion is in tension with its holding, and it is still not clear why consumers should be denied having their injuries redressed just because the patent at issue had not already been tarnished.\textsuperscript{205} It was suggested:

The court’s holding explicitly gives *Walker Process* standing to direct purchasers to assert fraud in part because competitors may not be incentivized to litigate such issues to conclusion. A competitor may choose to settle for a license or some other relief that does not tarnish the patent. The court was concerned that granting standing to purchasers only after the patent holder loses on a fraudulent procurement claim, “asks too much of the generic competitors and other potential patent challengers.” Such entities “may not have the strategic interest or the other resources to start or win such a battle, or who may be presented with strong incentives to settle their challenge.” There is no reason to believe the incentives are any greater for competitors to make an inequitable conduct case. It is hard to see any principled support for the limitation in the court’s holding.\textsuperscript{206}

Other commentators have suggested that the Second Circuit’s decision makes collusive settlements even more attractive because it may affect the incentives of patent holders and exclusive licensees facing claims of inequitable conduct that could ultimately lead to consumer *Walker Process* claims.\textsuperscript{207} All in all, a strong case can be made that making consumer standing conditional on

\textsuperscript{196} Id.
\textsuperscript{197} Id. at 691-92.
\textsuperscript{198} Id. at 693-94.
\textsuperscript{199} Id.
\textsuperscript{200} In re DDAVP I, 2006 U.S. Dist. LEXIS 96201, at *25.
\textsuperscript{201} In re DDAVP II, 585 F.3d at 695.
\textsuperscript{202} Id.
\textsuperscript{203} In re DDAVP II, 585 F.3d 677, petition for cert. denied, 2010 U.S. LEXIS 5279 (2010).
\textsuperscript{204} Aidan Synnott and & Charlene Jones, *The Second Circuit Cautiously Expands Walker Process Standing in In re DDAVP, 11(2) The Antitrust Chronicle* 1, 6 (2009), available at http://www.paulweiss.com/files/Publication/9df3adb-bf40-4ea7-936d-14294f63fcd8/Presentation/PublicationAttachment/89ce0f3c-47f6-40e4-9ce2-14ed0c8bd293/Synnott%20GCP%20Article.Nov%202009.pdf.
\textsuperscript{205} Id.
\textsuperscript{206} Id.
\textsuperscript{207} Rick Duncan, Denise Kettelberger & Melina Williams, *Direct Purchasers’ Standing to Sue for Walker Process Fraud: In re*
successful inequitable conduct claims by competitors could leave “a significant antitrust violation undetected or unremedied” for years, or forever.  

The Second Circuit was careful to balance concerns over expanding the “universe of patent challengers” that could result in an “avalanche of patent challenges,” with the concern of leaving “a significant antitrust violation undetected or unremedied.” The court seemed to put a lot of weight on the argument that allowing direct purchasers standing to assert a Walker Process claim “could significantly increase the costs of defending and enforcing patents by greatly expanding the universe of potential challengers,” which could ultimately diminish the “economic incentives afforded by our patent system.” In falling one step short of allowing consumers unconditional standing to raise Walker Process claims, the court stated that “[t]he risk of disturbing the incentives for innovation dictates that we tread carefully.”

While scholars still disagree as to what incentivizes innovation, even if one assumes that, generally speaking, the Second Circuit’s reasoning is valid, it is questionable whether the enumerated public policy concern— incentives for innovation—equally applies to NPEs. As discussed earlier, NPEs do not produce any real product or service and their prosperity depends on obtaining lucrative settlements and licensing fees. Due to NPEs’ business model in general, it has been suggested that “the incentive to invent does not exist for [NPEs],” and it was pointed out that the exclusive rights granted by the federal patent system have not incentivized some of the largest NPEs to innovate beyond the patents held in their portfolios. Moreover, it has been argued that NPEs actually reduce the incentives to innovate by genuine inventors. One commentator has suggested:

Remember that the standard policy argument for patents is that they incentivize beneficial research and development. Yet [Intellectual Ventures’] business model is based on the opposite premise: produce no innovative products, spend minimal amounts on research and development, and make a profit by compelling firms that are producing products and investing in R&D to pay up. Not only does this enrich Myhrvold at everyone else’s expense, but it also reduces the incentive to innovate, because anyone who produces an innovative product is forced to share his profits with Intellectual Ventures.

Similarly, other commentators have suggested that NPEs’ practices amount to a “hidden tax on technology products, hampering innovation and preventing a large number of products from entering the market because the manufacturer could not afford the risk of patent litigation.” Along the same lines, it was argued that NPEs’ practices raise “the cost of manufacturing due to the cost of litigation, settlement, and extreme licensing fees.” Raising such costs makes patenting less attractive by encouraging trade secrets over public disclosure. This patenting cost may be passed on to...
consumers and may be a disincentive to innovate.” Other commentators have also concluded that NPE practices “can only serve to ultimately hurt innovation and consumers.”

In light of the above discussion, it appears that the main concerns for not allowing consumers unconditional Walker Process standing do not necessarily apply to NPEs. Given that the issue of consumer Walker Process standing “remains unresolved” and the Supreme Court did not grant certiorari in *DDAVP* case, this issue is destined to play out in lower courts. It is advisable that lower courts take into consideration NPEs’ business model and practices in evaluating whether consumers should have unconditional Walker Process standing. In *eBay*, Justice Kennedy essentially counseled against granting injunctive relief to NPEs because of their unique business model and practices that could render moot the policy justifications for granting injunctive relief. Along the same lines, lower courts should lean towards granting consumers unconditional Walker Process standing in NPE cases because their business model and practices could be antithetical to the policy justifications for denying consumers unconditional Walker Process standing.

My proposal does not come without possible criticism. To begin with, one might argue that NPEs should not be subjected to “special” rules because of their business model, as NPEs can also promote competition, innovation and consumer welfare. That is a fair point. Even the Federal Trade Commission, which is generally hostile to NPEs, has recognized in its 300-page report released in March of 2011 that not all NPEs are “bad” and should not be treated the same. It was suggested:

This report uses the term “patent assertion entity” (PAE) rather than the more common “non-practicing entity” (NPE) to refer to firms whose business model primarily focuses on purchasing and asserting patents. Taken literally, the term NPE encompasses patent owners that primarily seek to develop and transfer technology, such as universities and semiconductor design houses. Patent assertion entities do not include this latter group.

I assert it is safe to say that those commentators “attacking” NPEs from all angles have actually had PAEs in mind, as some have even named some well-known PAEs in their commentaries. My proposal merely suggests that lower courts should take into consideration NPEs’ business model and practices in evaluating the policy justifications for denying consumers unconditional Walker Process standing in NPE cases. Nevertheless, if the NPE at issue is an entity that is involved in developing and transferring technology, such as universities or semiconductor design houses, and is not a PAE, as defined by the FTC, then the policy justifications for denying consumers unconditional Walker Process standing—incentives for innovation—might apply. In essence, my proposal is not based solely on a business model, but rather on the policy justifications for denying consumers unconditional Walker Process standing. Those justifications clearly do not apply to PAEs as defined by the FTC. Therefore, my proposal is likely to apply to PAEs only and will not affect NPEs that also promote innovation.

Furthermore, one might question whether allowing consumers unconditional Walker Process standing will be effective in deterring NPE settlements based on invalid patents, given that the *Walker Process* claim has a low success rate and is difficult to prove. In fact some commentators have examined this issue, and it was argued:

The low number of successful *Walker Process* cases might suggest that *Walker Process* litigation is either not particularly important or effective. But if these cases actually involved collusive settlements, the lack of successful *Walker Process* claims may not be solely a function of

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218 *Id.*
219 Luizardo, *supra* note 20; see also Pomper, *supra* note 20.
223 *eBay*, 547 U.S. at 396 (Justice Kennedy, concurring, emphasized the “function of the patent holder” while discussing the development of the industry based on extorting settlements).
224 The collusive settlements occur when a patent holder who fears that its fraudulently procured patent could be exposed in
Walker Process litigation’s inherent difficulties. Rather, it is caused by relying exclusively on competitors to initiate and pursue antitrust actions against illegal monopolies based on invalid patents. If true, this provides another reason to bring additional actors into the Walker Process mix.\textsuperscript{225}

It suffices to revisit the Second Circuit’s decision in \textit{DDAVP} to appreciate why consumer \textit{Walker Process} litigation can be an effective tool in deterring settlements that involve potentially invalid patents. While allegations of fraud against Ferring’s licensee Aventis were fairly remote, the case provides that a licensee can also face large consumer antitrust damages if he knew or had reason to know that patent validity was at issue, but did not bother to independently investigate the patent’s validity.\textsuperscript{226} Exposing licensees to consumer antitrust damages if they fail to investigate and challenge patent validity inherently affects the incentives to engage in collusive settlements involving invalid patents. This is particularly important when it comes to NPEs, because, as explained earlier, the NPEs’ main source of income comes from obtaining settlements and licensing fees for their patents. One can safely assume that if the prospects of facing consumer antitrust damages were imminent, the parties in the NTP \textit{v. Research in Motion} case discussed earlier would not have had the same incentives to settle their dispute, given that validity of patents and the timing of the settlement were highly questionable.\textsuperscript{227} Nevertheless, in that case the questionable patents remained intact and, as a result, it is reasonable to assume that consumers ended up paying more for the technology at issue than would be the case if the questionable patents were invalidated.

In sum, allowing consumers unconditional \textit{Walker Process} standing could be very effective in deterring NPE settlements based on potentially invalid patents. To assume that just because \textit{Walker Process} claims are difficult to prove they might not be an effective deterrent is like assuming that harsh penalties for murder might not deter murders because it is difficult to prove \textit{mens rea}. To be sure, even though consumers were allowed \textit{Walker Process} standing in only a small number of cases, there is nevertheless a record of successful consumer \textit{Walker Process} claims, including a case as recent as February 2011.\textsuperscript{228} Such cases make the prospect of consumer damages a reality, rather than a mere theory.

Finally, one might argue that a better and more efficient way to address the underlying issue would be to expand the patent misuse doctrine, which has been narrowed in recent years,\textsuperscript{229} and some commentators have even called it “outdated.”\textsuperscript{230} In fact, some commentators have already explored this avenue.\textsuperscript{231} The patent misuse doctrine evolved from the “equitable doctrine of unclean hands whereby a court of equity will not lend its support to enforcement of a patent that has been misused.”\textsuperscript{232} Typically, the patent misuse doctrine is invoked in cases of unfair competition, wherein a patent holder did not necessarily violate the law, but attempted to use its patent in ways that resulted in anticompetitive practices that were “deemed contrary to public policy.”\textsuperscript{233} An example of typical patent misuse could be tying agreements, where the patent owner requires in the license agreement that the licensee of the patent also purchases a separable good.\textsuperscript{234}

\ \ \ \ \ \ \ \ \ 225 See Leslie, \textit{The Role of Consumers}, supra note 168, at 306.
\ \ \ \ \ \ \ \ \ 226 In re \textit{DDAVP II}, 585 F.3d 677, 695 (2d Cir. 2009).
\ \ \ \ \ \ \ \ \ 227 See supra notes 38-42.
\ \ \ \ \ \ \ \ \ 228 See, e.g., Ritz Camera & Image, LLC \textit{v. SanDisk Corp.}, 772 F. Supp. 2d 1100 (N.D. Cal. 2011); \textit{see also In re \textit{DDAVP II}}, 585 F.3d 677; \textit{Molecular Diagnostic Labs. v. Hoffmann-La Roche}, Inc., 402 F. Supp. 2d 276 (D.D.C. 2005).
\ \ \ \ \ \ \ \ \ 229 See 35 U.S.C. § 271(d).
\ \ \ \ \ \ \ \ \ 230 See Vincent Chiappetta, \textit{Living With Patents: Insights from Patent Misees}, 15 MARQ. INTELL. PROP. L. REV. 1, 6 (2011); Mark A. Lemley, \textit{The Economic Irationality of the Patent Miseus Doctrine}, 78 CALIF. L. REv. 1599, 1608-14 (1990).
\ \ \ \ \ \ \ \ \ 231 See McFedy, supra note 213, at 305.
\ \ \ \ \ \ \ \ \ 232 Id. at 311; \textit{see also B. Braun Med., Inc. v. Abbott Labs.}, 124 F.3d 1419, 1427 (Fed. Cir. 1997).
\ \ \ \ \ \ \ \ \ 233 Id. (quoting Mallinckrodt, Inc. \textit{v. Medipart}, Inc., 976 F.2d 700, 704 (Fed. Cir. 1992)).
\ \ \ \ \ \ \ \ \ 234 Motion Picture Patents Co. \textit{v. Universal Film Mfg. Co.}, 243 U.S. 502 (1917).
Even if one assumes that expanding the patent misuse doctrine could serve as an efficient tool to
derail NPEs’ practices, particularly licensing practices that many commentators despise, the focus of
this Article is not deterring NPE practices, but rather deterring settlements based on invalid patents.
To be sure, the patent misuse defense can be applicable to invalid patents but, still, this defense
merely serves as an affirmative defense to patent infringement that prevents the owner of the patent
from recovering for infringement for the duration of the misuse. Such a “mild” penalty is an
insufficient deterrent. This Article has argued in favor of expanding the role of consumers in
detering settlements based on invalid patents because consumer damages are where the real
deterrent lies.

CONCLUSION

Courts and commentators have recognized the threat to innovation that certain NPEs pose due
to their unique business model based on enforcing patents in order to obtain lucrative settlements
that, data shows, could even be based on invalid patents. While recent legal developments have made
it more challenging for NPEs to obtain very lucrative settlements, the current legal framework is still
inadequate to deter NPE patent settlements based on invalid patents, particularly those species of
invalid patents procured by defrauding the PTO. Deterring settlements based on invalid patents is
crucial for promoting innovation and maintaining the delicate balance between the patent system and
antitrust laws. As a part of the effort towards a solution to the issue of deterring settlements based on
invalid patents, this Article has argued in favor of expanding the role of consumers in Walker Process
litigation, because consumer damages are a powerful tool in deterrence.

Courts and commentators are currently divided on the issue of whether and when consumers
should have standing to raise Walker Process claims. In DDAVP, the first appellate treatment of the
underlying issue, the Second Circuit limited consumer standing to raise Walker Process claims to
situations of follow-on litigation. Since the Supreme Court has denied certiorari in DDAVP, the
issue of consumer standing to raise Walker Process claims is destined to play out in lower courts. The
lower courts should take into consideration NPEs’ unique business model and practices while
evaluating the policy justifications for limiting consumer standing to follow-on litigation, just as
Justice Kennedy has done while analyzing the policy justifications for granting injunctive relief.
Ultimately, lower courts should lean towards granting consumers unconditional Walker Process
standing in cases involving NPEs, because their business model and practices could be antithetical to
the policy justifications for denying consumers unconditional Walker Process standing, at least in cases
involving PAEs.

235 Id.

236 Leslie, The Role of Consumers, supra note 168.