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## Fraud on the Patent Office: A Source of Antitrust Litigation

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# Comments

## Fraud on the Patent Office: A Source of Antitrust Litigation

Recent decisions of the Supreme Court of the United States in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*,<sup>1</sup> and the Court of Appeals for the Sixth Circuit in *American Cyanamid Co. v. Federal Trade Commission*,<sup>2</sup> holding that fraud on the Patent Office may give rise to a hazard of liability under Section 2 of the Sherman Act<sup>3</sup> and Section 5 of the Federal Trade Commission Act,<sup>4</sup> raise several questions. It is the function of this paper to inquire into Patent Office procedure as it relates to possibilities for fraudulent conduct, and then to consider the nature of fraud as it relates to the Patent Office and the evidentiary standards under both antitrust acts. Finally, the antitrust aspects of these decisions and possible actions that can be brought thereunder will be explored. At the outset a brief review of the development of fraud on the Patent Office will provide a basis for the more specific discussion which follows.

### DEVELOPMENT

In 1872, the Supreme Court stated in *Mowry v. Whitney*<sup>5</sup> that only the United States could sue for cancellation of a patent procured by fraud. This position was reiterated in *United States v. American Bell Tel. Co.*<sup>6</sup> in 1897. Earlier, in 1869, the Court held that the defendant could not raise fraud in the procurement of a patent as a defense to an infringement suit.<sup>7</sup> However, in 1933, in *Keystone Driller Co. v. General Excavator Co.*,<sup>8</sup> the patentee's active suppression of prior use, which clouded the validity of his patent, was held sufficient to deny relief from

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1. 382 U.S. 172 (1965).

2. 363 F.2d 757 (6th Cir. 1966).

3. 15 U.S.C. § 2 (1964). For text see *infra* note 49.

4. 15 U.S.C. § 45 (1964).

5. 81 U.S. 434 (1872).

6. 167 U.S. 224 (1897).

7. *The Providence Rubber Co. v. Goodyear*, 76 U.S. 828 (1870).

8. 290 U.S. 240 (1933).

infringement under the equitable doctrine of "unclean hands." *Hazel-Atlas Glass Co. v. Hartford Empire Co.*,<sup>9</sup> decided in 1944, denied relief against infringement on grounds of fraud where the patentee used an article written by his attorney and published in a trade journal, purportedly authored by an expert, to overcome objections of the Patent Office. In *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*,<sup>10</sup> another infringement action, relief was denied due to the false character of statements presented to the Patent Office pertaining to the conception of the invention and its reduction to practice. An interference was subsequently settled and the patents issued. The Court held that plaintiff had unclean hands and could not recover. The Court stated:

A patent by its very nature is affected with a public interest. . . [A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.<sup>11</sup>

The most recent Supreme Court case considering fraud on the Patent Office is *Walker Process Equipment Co. v. Food Machinery and Chemical Corp.*<sup>12</sup> FMC brought suit for infringement of its patent on swing-action diffusers used in sewage treatment systems. Denying the infringement, Walker counterclaimed for a declaratory judgment that the patent was invalid and further counterclaimed that FMC had violated Section 2 of the Sherman Act by obtaining the patent through fraud; Walker prayed for treble damages under Section 4 of the Clayton Act. Walker alleged that FMC had falsely sworn that its invention had not been in prior use for more than one year prior to filing the patent application<sup>13</sup> when in fact FMC knew that it had. The District Court dismissed the counterclaim. The Court of Appeals affirmed<sup>14</sup> on the

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9. 322 U.S. 238 (1944).

10. 324 U.S. 806 (1945). For a general discussion fraud on the Patent Office see, Joel, *Fraud in the Procurement of a Patent*, 49 J.P.O.S. 596 (1967); Keaveney, *Fraud in the Procurement of a Patent as a Defense to Infringement*, 33 J.P.O.S. 482 (1951).

11. 324 U.S. at 816.

12. 382 U.S. 172 (1965). Walker Process Equipment Co. hereinafter referred to as Walker. Food Machinery and Chemical Corp. hereinafter referred to as FMC.

13. This oath is required by the Patent office Rules of Practice. 37 C.F.R. § 1.65 (1967).

14. *Walker Process Equipment Co. v. Food Machinery and Chemical Corp.*, 335 F.2d 315 (7th Cir. 1964).

theory that while fraud on the Patent Office could be used as an equitable defense to infringement, it could not be used affirmatively, because only the United States can sue for cancellation of a patent<sup>15</sup> and since fraud cannot be the basis for a declaratory judgment action to have a patent declared invalid.<sup>16</sup>

The Supreme Court reversed, holding that fraud on the Patent Office may violate Section 2 of the Sherman Act provided that the other elements of a Section 2 case are present. Conceding that only the United States can sue to cancel a patent, the Court reasoned that Walker's counterclaim did not seek cancellation of the patent since Walker's theory was that a fraudulently procured patent should not enjoy immunity from the antitrust laws. The Court asserted that allowing Walker's counterclaim was consonant with the long recognized practices of: allowing the defendant in an infringement action to assert the patent's invalidity;<sup>17</sup> allowing the validity of a patent to be tested under the Declaratory Judgment Act;<sup>18</sup> and that patent misuse subjects the patentee to civil antitrust suits.<sup>19</sup> The Court also noted that such a rule would be in keeping with the public interest of insuring that patents spring from backgrounds free from fraud.<sup>20</sup>

In 1958 the Federal Trade Commission<sup>21</sup> charged Charles Pfizer and Co.<sup>22</sup> and American Cyanamid Co.<sup>23</sup> with an unlawful combination in restraint of trade in violation of Section 5 of the Federal Trade Commission Act. The complaint stated that Pfizer had made misleading and inaccurate statements to the Patent Office and had withheld material information with the intent to induce issuance of a patent on the antibiotic tetracycline. The patent examiner made an initial rejection of the Cyanamid application on the ground that there was a possibility that tetracycline had been produced in the process used for the production of Aureomycin under patents then held by Cyanamid. Cyanamid then filed a statement with the Patent Office stating that it was not

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15. *Mowry v. Whitney*, 81 U.S. 434 (1872).

16. *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F.2d 105 (6th Cir. 1939).

17. *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945).

18. 28 U.S.C. § 2201-2 (1964). See *Kerotest Mfg. Co. v. C-O Two Fire Equipment Co.*, 342 U.S. 180 (1952). Apparently an action cannot be maintained for a declaratory judgment of patent invalidity on grounds of fraud, *E. W. Bliss Co. v. Cold Metal Process Co.*, *supra* note 16; Anderson, *Antitrust Law Violations Possible From Application of the Doctrine of Unclean Hands to Conduct During the Procurement of a Patent*, 49 J.P.O.S. 117 (1967).

19. See, e.g., *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

20. 324 U.S. 806 (1945).

21. Hereinafter referred to as the FTC.

22. Hereinafter referred to as Pfizer.

23. Hereinafter referred to as Cyanamid.

possible that tetracycline was produced in the Aureomycin process. When Pfizer filed its application for tetracycline the examiner declared an interference for the purpose of determining priority. The interference was discontinued, Cyanamid conceding priority to Pfizer, pursuant to an unpublicized private settlement agreement between the parties.<sup>24</sup> The agreement provided that the parties would cross license each other regardless of priority determination. Subsequently, adhering to his former position, the patent examiner rejected the product claims for tetracycline. However, the examiner stated he would withdraw his rejection if Pfizer could show that tetracycline was not produced in recoverable amounts from the Aureomycin process. Pfizer had conducted experiments attempting to recover tetracycline and found that from two to five per cent of the product of the Aureomycin process was tetracycline. Pfizer then submitted affidavits to the Patent Office stating that less than ten per cent of the product of the Aureomycin process was tetracycline. The examiner withdrew his rejection and the patent for tetracycline was issued. Pfizer and Cyanamid used the product patent and threats of suit to develop a market for the antibiotic which grossed approximately \$100 million per year.

The FTC hearing examiner rejected all counts of the FTC's complaint. The Commission reversed the hearing examiner and found that Pfizer and Cyanamid were guilty of inequitable conduct before the Patent Office and ordered compulsory licensing of Pfizer's tetracycline patent at a two and one-half per cent royalty.<sup>25</sup> The Court of Appeals, having jurisdiction under Section 5 of the FTC Act,<sup>26</sup> held that the FTC had jurisdiction to inquire into possible Section 5 violations where restraints of trade may have resulted from improper conduct before the Patent Office and the subsequent use of the patent, and, that, where such violations existed, the FTC had power to order compulsory licensing at a fixed royalty. The decision below was reversed on the ground that the Commission's findings were not supported by substantial evidence.<sup>27</sup>

The reasoning of Circuit Judge Phillips closely paralleled that of the Supreme Court in *Walker Process*. In arriving at the decision he stated

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24. 35 U.S.C. § 135(c) (1964), was added in 1962, to require filing of any agreement between the parties to an interference proceeding with the Patent Office. Failure to file renders the agreement and any patent subsequently issued invalid.

25. See, Comment, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505 (1964).

26. *American Cyanamid Co. v. Federal Trade Commission*, 363 F.2d 757 (6th Cir. 1966).

27. *Id.* at 771, 772. An additional ground for reversal, not herein relevant, was the disqualification of a Commissioner.

that Section 5 of the Federal Trade Commission Act vests in the Commission broad jurisdiction over unfair methods of competition<sup>28</sup> and noted that public interest demands that patents spring from origins free from fraud.<sup>29</sup> Since it is established that fraudulent conduct in Patent Office proceedings can give rise to antitrust and FTC action, an examination of possibilities for fraudulent conduct in Patent Office procedure follows.

#### OPPORTUNITIES FOR FRAUD IN PATENT PROCEDURE

Since proceedings before the Patent Office are *ex parte* and the Patent Office maintains no investigatory staff, the examiner must rely in the main on the representations made by the applicant in deciding the patentability of an invention. This may make possible fraudulent misrepresentations to the examiner which could take the form of false statements in affidavits and applications. The following is a brief summary of the statements required of an applicant.

A person filing an application for the grant of a patent is statutorily required to swear that he believes himself to be the original and first inventor.<sup>30</sup> The Rules of Practice of the Patent Office further require the applicant to state that he does not know and does not believe that the invention was ever known or used before his invention or discovery. In every original application the applicant must state that, to the best of his knowledge and belief, the invention has not been in public use or on sale in the United States more than one year prior to his application. He must further swear that the invention has not been patented or described in any publication before his invention for more than one year prior to his application.<sup>31</sup> The allegation of falsity with respect to the oath was the source of the *Walker Process* controversy. The Rules also provide for change of inventorship by amending the application.<sup>32</sup> This requires an oath or declaration. When applying for a reissue patent based upon the invalidity of the original patent the applicant must by oath or declaration assert that the defects of the original patent arose without any deceptive intention.<sup>33</sup>

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28. *Atlantic Refining Co. v. Federal Trade Commission*, 344 F.2d 599 (6th Cir. 1965), *cert. denied*, 382 U.S. 939 (1966).

29. 324 U.S. 806 (1945).

30. 35 U.S.C. § 115 (1964).

31. 37 C.F.R. § 1.65 (1967). For alternative to oath see, 37 C.F.R. § 1.68 (1967), and for supplemental oath see, 37 C.F.R. § 1.67 (1967).

32. 37 C.F.R. § 1.45 (1967).

33. 37 C.F.R. § 1.175 (1967).

Once the examiner has rejected a claim of an application, the applicant is permitted to file an affidavit showing facts overcoming the basis for rejection or distinguishing the objections of the examiner.<sup>34</sup> The Rules of Practice allow similar procedures for the filing of affidavits in conjunction with interference proceedings.<sup>35</sup> False statements submitted with respect to this procedure were at issue in the FTC's action against Pfizer and Cyanamid.

The foregoing briefly summarizes the duties of the applicant prescribed by rule and statute, but the courts have imposed other duties. In the *Precision Instrument* case the Court stated:

Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. . . . Public interest demands that all facts relevant to such matters be submitted to the Patent Office, . . .<sup>36</sup>

Somewhat unclear is whether the applicant must disclose to the Patent Office all prior art or publications related to his claimed invention. The present state of the law appears to be set forth in *United States v. Standard Electric Time Co.*<sup>37</sup> where Judge Wyzanski said that an applicant has an affirmative duty to disclose any publication which describes his invention so closely that every reasonable man would say that his invention was not original but anticipated, regardless of the applicant's personal judgement. However, an applicant is not required to cite every publication relevant to his claimed invention.<sup>38</sup>

#### SUBSTANTIVE FRAUD AND STANDARD OF PROOF

It appears to be well settled that fraud in patent litigation is composed of the same elements and is subject to the same degree of proof as in an equitable action for rescission of contract. The party asserting fraud must show by clear and convincing proof that the other party, knowingly and with intent to deceive, made a false representation of material fact which was acted upon by the other party who reasonably

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34. 37 C.F.R. §§ 1.131 & 1.132 (1967).

35. 37 C.F.R. § 1.201 et. seq., (1967).

36. 324 U.S. at 818.

37. 155 F. Supp. 949 (D. Mass. 1957), *appeal dismissed*, 254 F.2d 598 (1st Cir. 1958).

38. *Id.* at 952; *accord*, *Wen Products v. Portable Electric Tools, Inc.*, 367 F.2d 764 (7th Cir. 1966); *Dubuque Products, Inc. v. Lemco Corp.*, 227 F. Supp. 108 (D. Utah 1963).

believed that it was true.<sup>39</sup> These standards have been uniformly applied in cases where the United States has sued for cancellation of a patent<sup>40</sup> and in cases where fraud has been alleged as a defense to infringement.<sup>41</sup>

In *Walker Process*, Mr. Justice Clark stated that proof of Walker's assertion that the patent had been granted because FMC had "knowingly and willfully" misrepresented facts to the Patent Office would make FMC subject to the antitrust laws, but that good faith or honest mistake would be a complete defense.<sup>42</sup> Whether by design or inadvertence omitted from the Court's opinion was the requirement that the facts misrepresented be "material." Concurring, Mr. Justice Harlan attempted to clarify the holding of the Court using the language "knowing and willful fraud" and "deliberate fraud."<sup>43</sup> A District Court has interpreted the Court's opinion to include the requirement that the misrepresentation must be of a *material* fact to sustain a counterclaim for treble damages under the Sherman Act.<sup>44</sup> It is submitted that the District Court's inference was correct first because it establishes a uniform standard for assertions of fraud in patent suits and further it would be anomalous and confusing to apply a different standard to suits brought by the United States for cancellation of a patent and those brought by a private claimant under the anti-trust laws.

Of greater interest is the decision of the Court of Appeals for the Sixth Circuit in *American Cyanamid*. There the Court felt constrained by the statutory requirement that the Commission's findings must be upheld if supported by *substantial* evidence.<sup>45</sup> The Commission was reversed on the ground that its findings were not supported by substantial evidence, because there was no showing that the patent examiner had been misled by Pfizer's or Cyanamid's statements.

This raises the interesting possibility of the application of different evidentiary standards in actions involving fraud on the Patent Office.

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39. *Southern Development Co. v. Silva*, 125 U.S. 247 (1888); *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897); *United States v. Cold Metal Process Co.*, 62 F. Supp. 127 (N.D. Ohio 1945), *aff'd*, 164 F.2d 754 (6th Cir. 1947), *cert. denied*, 344 U.S. 811 (1948).

40. 167 U.S. 224 (1897); 62 F. Supp. 127 (N.D. Ohio 1945), *aff'd*, 164 F.2d 754 (6th Cir. 1947), *cert. denied*, 344 U.S. 811 (1948).

41. *National Dairy Products Corp. v. Borden Co.*, 261 F. Supp. 771 (D. Wis. 1966); *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co.*, 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd per curiam*, 268 F.2d 395 (3d Cir. 1959), *cert. denied*, 361 U.S. 894 (1959).

42. 382 U.S. at 177.

43. *Id.* at 179, 180.

44. *Corning Glass Works v. Anchor-Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966), *rev'd on other grounds*, 374 F.2d 473 (3d Cir. 1967); *accord*, *Waterman-Bic Pen Corp. v. W. A. Shaeffer Pen Co.*, 267 F. Supp. 849 (D. Del. 1967).

45. 15 U.S.C. § 45(c) (1964); 344 F.2d 599 (6th Cir. 1965), *cert. denied*, 382 U.S. 939 (1966).



In actions outside the FTC the standard of proof for fraud is said to be *clear and convincing*. Section 5 of the FTC Act states that a Court of Appeals must uphold the Commission's decision if its findings are supported by *substantial evidence* which indicates that this standard is the one to be applied by the Federal Trade Commission. Thus the FTC by using what appears to be a lesser standard of proof could use its remedial powers to proscribe conduct where the evidence might not support an action for common law fraud. Realizing that the distinction could be said to be largely semantical, the application of different evidentiary standards remains a possibility. The Commission apparently recognized this possibility, but was unwilling to test the point. For, in its decision subsequent to remand from the Court of Appeals, based upon the patent examiner's testimony that he would have rejected the patent application had he known of the facts suppressed, the Commission enunciated a dual basis for its holding.<sup>46</sup> First, it affirmed its original decision which had characterized Pfizer's conduct as inequitable,<sup>47</sup> but it held in the alternative that the evidence is clear and convincing that Pfizer had obtained its patent through fraud.<sup>48</sup>

#### ANTITRUST ASPECTS

Sections 1 and 2 of the Sherman Act<sup>49</sup> generally declare as illegal, conspiracies in restraint of trade, monopolization and attempts to monopolize. While the criminal sanctions are set forth in the text of

46. American Cyanamid Co., 3 CCH Trade Reg. Rep. ¶ 18,077, 20,504 at 20,512 (FTC 1967).

47. *Id.* at 20:505, 20,519.

48. *Id.* at 20:519. In its latest appeal to the Court of Appeals for the Sixth Circuit, Pfizer contended that the evidentiary standard to be utilized should be that the findings must be supported by evidence that is clear, unequivocal and convincing and not the substantial evidence test. Although the Court stated that it could conclude that the findings of the Commission were supported by clear, unequivocal and convincing evidence, it adhered to its prior holding that the findings need only be supported by substantial evidence. *Chas. Pfizer & Co., Inc. v. FTC*, 5 CCH Trade Reg. Rep. ¶ 72,580, 86,008 at 86,015 (6th Cir. 1968).

49. 15 U.S.C. § 1 (1964):

Every contract, combination, . . . or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations is hereby declared to be illegal. . . . Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or both. . . .

15 U.S.C. § 2 (1964):

Every person who shall monopolize, or attempt to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both. . . .

the acts, Section 4 of the Clayton Act<sup>50</sup> and Section 16 of the Clayton Act<sup>51</sup> allow private parties who are injured because of violations of the antitrust laws to sue for treble damages and injunctive relief. Because the language of the Sherman Act is broad and general, the conduct proscribed by it has been developed judicially.

Since *Walker Process* exposed fraud on the Patent Office as a possible violation of Section 2 of the Sherman Act, that section will be considered first. The Court stated that a Section 2 violation may result provided the other elements of a Section 2 violation are present.<sup>52</sup> Section 2 is concerned with monopolization and attempts to monopolize. A monopoly has been defined as the power to exclude competition coupled with an intent and purpose to exclude<sup>53</sup> within the relevant market. It follows then that the court's definition of relevant market is the critical element. No single definition could suffice.<sup>54</sup> Since the Court characterized Walker's claim against the FTC as based upon a *per se* violation,<sup>55</sup> and since the grant of a monopoly is the grant of the "power to exclude,"<sup>56</sup> it is clear that the Court had the opportunity to define a single patent as the relevant market and hence a monopoly, the fraudulent procurement of which would supply the intent and purpose to exclude, and thus violate Section 2. The court did not take this opportunity to so define the patent grant, but recognized that there may be effective substitute products<sup>57</sup> outside of the patent, and that without a definition of relevant market FMC's competitive power could not be assessed. The court also noted that it was reluctant to extend the area of *per se* illegality without examination of market and economic considerations.<sup>58</sup> It is submitted that the Court's approach should continue

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50. 15 U.S.C. § 15 (1964).

51. 15 U.S.C. § 26 (1964).

52. 382 U.S. at 174.

53. *United States v. Griffith*, 334 U.S. 100 (1948). See also, *United States v. United Shoe Machinery Corp.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954). Intent and purpose to exclude is generally inferred from some predatory trade practice. See, e.g., *United States v. Aluminum Co. of America*, 148 F.2d 416 (2nd Cir. 1945); Siegel, *Patent Monopoly and Sherman Act Monopolization*, 49 J.P.O.S. 67, 79 (1967).

54. The definition of relevant market appears to be largely a matter for judicial determination based upon such factors as the geographic area of product distribution, the number of competitors and competing products, the economic structure of the industry, etc. See *United States v. E. I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956); *United States v. Aluminum Co. of America*, *supra* note 51.

55. 382 U.S. at 178.

56. 35 U.S.C. § 154 (1964).

57. See *supra* note 54. Inclusion of substitute products relates directly to the definition of the relevant market.

58. 382 U.S. at 178, *White Motor Co. v. United States* 372 U.S. 253 (1963). But see, *United States v. Arnold Schwinn & Co.*, 388 U.S. 365 (1967), where the Court did extend the *per se* violations to include those alleged in *White Motor*.

to be used in this class of cases.<sup>59</sup> While it can be argued that the grant of a patent is the grant of a monopoly, certainly very few of the patents issued ever become so commercially successful as to be able to foreclose competition from related products. For those few that do achieve such commercial success the required proof of power to exclude competition within relevant market should not be too difficult to establish.

It is important to distinguish between monopolizations and attempt to monopolize under Section 2. Where monopoly is alleged a *general intent* to exclude competition must be proved.<sup>60</sup> Where attempt to monopolize is at issue it is necessary to show *specific intent* to monopolize *coupled with* a dangerous probability that monopolization will result.<sup>61</sup> In *Walker Process* the Court indicated that an examination of the economic consequences within the relevant market was also needed.<sup>62</sup> In the case of fraud on the Patent Office an interesting possibility presents itself. If a competitor knows that a fraudulent application for a patent has been filed, the granting of which will have a serious economic impact on the market, it appears that under the holding of *Walker Process*, the applicant could be enjoined from prosecuting his patent under Section 16 of the Clayton Act for a violation of Section 2 of the Sherman Act as an attempt to monopolize.<sup>63</sup>

Section 1 of the Sherman Act declares contracts, combinations and conspiracies in restraint of trade unlawful. Although the Court in *Walker Process* had no occasion to reach the question whether a conspiracy to obtain a patent through fraud would violate Section 1 of the Sherman Act, its rationale for allowing the bringing of suit under Section 2 would apply equally well to Section 1.

Under Section 1 the law of conspiracy is the same as common law conspiracy.<sup>64</sup> Certain kinds of activity are absolutely proscribed as *per se* violations, *e.g.*, price-fixing.<sup>65</sup> For those violations which fall outside the *per se* category the "rule of reason" applies. This involves a judicial determination of all relevant factors to determine the reasonableness

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59. Wood, *Antitrusts v. Patents*, 21 RECORD 625 (1966); Note *Considerations in Patent Litigation*, 9 SO. TEX. L.J. 9 (1967); 34 GEO. WASH. L. REV. 540 (1965); 44 TEX. L. REV. 1024 (1965).

60. United States v. Griffith, *supra* note 53.

61. Lorain Journal Co. v. United States, 342 U.S. 143 (1951). Specific intent was shown where a publisher forced advertisers to boycott a radio station in an attempt to regain its former monopoly position.

62. 382 U.S. at 177.

63. Similar injunctive action would be available to the government. 15 U.S.C. § 4 (1964).

64. United States v. Socony-Vacuum Oil Co., 310 U.S. 150, n.59 at 224 (1940).

65. *Id.* at 228.

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of the alleged restraint of trade.<sup>66</sup> Because the Court has indicated reluctance to extend the area of *per se* illegality,<sup>67</sup> it seems likely that at least initially the Court will apply the "rule of reason" to conspiracies to obtain patents by fraud. However, because a patent procured through fraud is a fraud on the public and does carry with it, at least until the fraud is exposed, the power to exclude, a determination that a conspiracy to obtain a patent through fraud is a *per se* violation of Section 1 would not be unsupported in reason.

Assuming that such conspiracies are violative of Section 1, in what types of situations would they arise? Under the antitrust laws, subsidiaries of a common parent can conspire<sup>68</sup> and a parent corporation can conspire with a subsidiary.<sup>69</sup> The District Court of Hawaii has held that unincorporated divisions of a corporation are capable of conspiring.<sup>70</sup> Given these possibilities then similar conspiracies to commit fraud on the Patent Office would violate Section 1. In addition to and notwithstanding the statute declaring invalid patents granted pursuant to private interference settlements not filed with the Patent Office,<sup>71</sup> conspiracies or agreements conceding priority of invention not filed would likewise appear to come within Section 1.

Both Sections 1 and 2 of the Sherman Act provide criminal penalties of one year imprisonment and for a \$50,000 fine for every person found guilty of violating the act.<sup>72</sup> The Supreme Court in *United States v. Wise*<sup>73</sup> stated that a corporate officer is subject to prosecution under

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66. *Standard Oil Co. of New Jersey v. United States*, 221 U.S. 1 (1911); *Wood, ANTI-TRUSTS v. PATENTS*, *supra* note 59.

67. See *supra* note 58.

68. *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951). In this case the subsidiaries held themselves out as competitors to the public.

69. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Yellow Cab Co.*, 332 U.S. 218 (1947).

70. *Hawaiian Oke & Liquors, Ltd. v. Joseph E. Seagram & Sons, Inc.*, 272 F. Supp. 915 (D. Hawaii 1967), *noted in* 6 *DUQUESNE U. L. REV.* 157 (1967), 36 *FORDHAM L. REV.* 607 (1968), 43 *NOTRE DAME LAWYER* 786 (1968), 43 *N.Y.U.L. REV.* 172 (1968), 21 *VAND. L. REV.* 375 (1968), *and* 37 *U. CIN. L. REV.* 223 (1968).

71. 35 U.S.C. § 135 (1964).

72. 15 U.S.C. §§ 1, 2 (1964). In addition the antitrust law imposes similar liability on corporate officers or directors who participate in a violation of the antitrust laws by the corporation, although the fine imposed is only \$5,000, 15 U.S.C. § 24 (1964). Other criminal sanctions are imposed for false swearing before administrative agencies of the United States, 18 U.S.C. § 1001 (1964); *Mas v. United States*, 151 F.2d 32 (D.C. Cir. 1945), was a prosecution for filing a false deposition and for uttering false documents before the Patent Office.

For a criminal action which arose with respect to the tetracycline patent see, *United States v. Charles Pfizer & Co.*, 5 CCH Trade Reg. Rep. ¶ 45,061 (case 1622) (1967), in which Pfizer and Cyanamid *et al.*, were convicted of violating the Sherman Act. Charges were also brought against the chief executives of the corporations, but they were later withdrawn.

73. 370 U.S. 405 (1962).

Section 1 whenever he knowingly participates in effecting an illegal contract "regardless of whether he is acting in a representative capacity."<sup>74</sup>

Section 5 of the Federal Trade Commission Act<sup>75</sup> broadly empowers the Commission to issue cease and desist orders to halt unfair methods of competition and deceptive acts in commerce. This section has been judicially interpreted to include the Sherman Act as well as the other antitrust laws,<sup>76</sup> and also encompasses conduct which amounts to less than a violation of the antitrust laws but which is unfair competition.<sup>77</sup>

With the *American Cyanamid* decision, the FTC has extended its area of activity.<sup>78</sup> The Court of Appeals was careful to provide that two elements must be found before the FTC can take action. The Commission can explore the means and methods employed in obtaining patents and the subsequent use of the patents.<sup>79</sup> Because the FTC can condemn conduct which amounts to less than violations of the antitrust laws it could be argued that the mere existence of a fraudulent patent with its power to exclude would violate Section 5. The Commission's latest decision<sup>80</sup> does not reach this question because of the alternative nature of the findings. It found that Pfizer had "failed to abide by the standards of candor and good faith in procuring its patent," thus affirming its original holding that Pfizer's conduct was inequitable. It held that Pfizer's conduct during prosecution of the application and the subsequent use of the patent to forestall competition amounted to a violation of Section 5.<sup>81</sup> As an alternative holding it found Pfizer's conduct to be clearly fraudulent and that Pfizer's subsequent use of the patent was an attempt to monopolize in violation of Section 2 of the Sherman Act.<sup>82</sup> It remains to be seen if the FTC will generate any significant

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74. *Id.* at 416.

75. 15 U.S.C. § 45 (1964).

76. *See, e.g.,* *Atlantic Refining Co. v. Federal Trade Commission*, 344 F.2d 599 (6th Cir. 1965), *cert. denied*, 382 U.S. 939 (1966).

77. *See, e.g.,* *Federal Trade Commission v. Motion Picture Advertising Service Co.*, 344 U.S. 392, 394-5 (1953).

78. *See* Comment, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505, 1511-15 (1964), for a discussion of the role of the Commission in such cases.

79. 363 F.2d at 772.

80. 3 CCH Trade Reg. ¶ 18,077, 20,504 (FTC 1967).

81. *Id.* at 20,519.

82. *Id.* The Commission reinstated its original order that Pfizer's patent must be compulsorily licensed at a fixed royalty. Although it felt that Pfizer's conduct was such that royalty-free licensing would not be unwarranted and that it had the authority to order royalty-free licensing, the Commission stated that it did not want to inject such a controversial point. This was because the Court of Appeals specifically said that it did not hold that the Commission had the power to order royalty-free licensing, 363 F.2d at 772.

activity in the area of improperly procured patents, but its jurisdiction in this area gives it a powerful deterrent force if it chooses to use it.

### LIABILITY UNDER THE ANTITRUST LAWS

Perhaps the most awesome aspect of the antitrust laws is the multiplicity of suits to which a violator may be subjected. Given a violation of the antitrust laws the violator faces: (1) criminal sanctions providing for fine, imprisonment or both against the corporation, the individuals involved and possibly the officers and directors of the corporation;<sup>83</sup> (2) civil remedial action by the United States;<sup>84</sup> (3) private treble damage suits by injured parties in which the record of the United States action may be introduced by plaintiff to establish his *prima facie* case;<sup>85</sup> and, (4) remedial action by the Federal Trade Commission.

Though not an antitrust violation, a patentee's fraudulent conduct before the Patent Office does give rise to the application of the patent misuse doctrine. This gives an infringer a defense to an infringement suit. The defense is based upon the equitable "clean hands doctrine" and precludes the patentee from enforcing his patent.<sup>86</sup> In the situation where the misuse arises out of fraudulent conduct during Patent Office proceedings it could render the patent completely unenforceable, because the patent might not have issued otherwise. It is both a deterrent to questionable conduct by a patentee and an effective remedial weapon against a patentee who has engaged in such conduct.

Normal corporate patent procedure involves a contractual relation providing that an employee-inventor must assign his interest in an invention to the corporation and assist in the preparation of the patent application and related documents. Assuming that an employee-inventor and an employee-patent agent conspire to perpetrate a fraud on the Patent Office as a result of which a patent is granted, what liability, if any, is incurred by the actors under the antitrust laws?

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83. 15 U.S.C. §§ 1, 2, & 24 (1964).

84. 15 U.S.C. § 4 (1964).

85. 15 U.S.C. § 16 (1964).

86. See, e.g., *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945); *Hazel-Atlas Glass Co. v. Hartford Empire Co.*, 322 U.S. 238 (1944). For extended discussions, see, Greenberg, *Unclean Hands As a Defense to Patent Infringement*, 50 J.P.O.S. 12 (1968); Nicoson, *Misuse of Misuse Doctrine in Infringement Suits*, 9 U.C.L.A.L. Rev. 76 (1962); Keaveney, *Fraud in the Procurement As a Defense to Infringement*, 33 J.P.O.S. 482 (1951).

*Section 1 of the Sherman Act*

The Court of Appeals for the Fifth Circuit in *Nelson Radio and Supply Co., Inc. v. Motorola, Inc.*<sup>87</sup> held that a corporation cannot conspire with its officers or agents to violate Section 1, assuming that the agents were acting within the normal scope of their activities. The rationale for this holding is that an entity cannot conspire with itself and a corporation can act only through its agents. This case has been interpreted to preclude the existence of conspiracies between agents or officers of the same corporation.<sup>88</sup> The justification for this interpretation is that were it otherwise, corporate officers could be in violation of Section 1 for making everyday management decisions, *e.g.*, agreeing to establish the price of a new product. In terms of the hypothetical posed then, there would be *no liability* imposed upon the corporation or its employees under Section 1.<sup>89</sup>

While the position taken against the existence of conspiracies between employees of a corporation correctly precludes liability in *ordinary* business situations, it is submitted that it goes too far in that it covers *extraordinary* situations as well. A position could be taken which would recognize the existence of such conspiracies but which would define "restraint of trade" in such a way as to exclude those activities normally incident to the conduct of business. Given a conspiracy or combination between officers of the same corporation, the inquiry would turn to the reasonableness of the activity in which they were engaged to determine if the policy of the Sherman Act would be furthered by including this activity within the definition of restraint of trade. Essentially, this is a rule of reason approach.

Considering the hypothetical, the inquiry would be whether the perpetration of a fraud on the Patent Office as a result of which a patent grant was obtained was a restraint of trade which should be proscribed by Sherman Act policy. The grant of a patent is the grant of the power to exclude. It forecloses the area of activity covered by the patent claims

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87. 200 F.2d 911, 914 (5th Cir. 1952), *cert. denied*, 345 U.S. 925 (1953); *but cf.*, *Patterson v. United States*, 222 F. 599 (6th Cir. 1915), *cert. denied*, 238 U.S. 635 (1915); *White Bear Theatre Corp. v. State Theatre Corp.*, 129 F.2d 600 (8th Cir. 1942).

88. U.S. ATT'Y GEN., REPORT OF THE NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, 31 (1955); Stengel, *Intra-Enterprise Conspiracy Under Section 1 of the Sherman Act*, 35 Miss. L.J., 5, 8 (1963).

89. A similar result would not necessarily follow if, an independent patent agent was used by the corporation to prosecute patent applications. The patent agent could be considered an independent third party and therefore capable of conspiring with the corporation or its agents. The actors in both situations would still be subject to prosecution for falsely swearing before an agency of the United States. 18 U.S.C. § 1001 (1964).

to all except the patentee. Even though a patent issued through fraud is void and unenforceable, until the fraud is exposed the existence of the patent has the effect of stifling competitive activity. It is clear that Sherman Act policy of fostering competition has been subverted and that the act of obtaining a patent through fraud is a restraint of trade within the meaning of the Act.

A source of difficulty with the proposed position is whether agents of a corporation can conspire with each other. While it is true that the acts of the agent are the acts of the principal, are they not individual acts as well? If not, then a corporate officer or employee could never be individually liable. But this is contrary to basic agency principles. The tortious act of the agent subjects him to individual liability.<sup>90</sup> His principal is liable if the agent was acting within the normal scope of his activity. Thus the conduct of an agent has a duality of aspect; the authority to bind his principal and the ability to bind himself. Because the act of an agent is his act, it would be possible to find that agents of the same corporation can conspire with each other.

Using the foregoing approach within the terms of the hypothetical, the patent agent and the inventor would be liable for a violation of Section 1. While it is true that such a rule would lack clear definition and be difficult to apply, it would better serve to effectuate both patent policy and Sherman Act policy where extraordinary activities are concerned. Such an approach with the consequent possibility of liability would certainly serve as a deterrent without impairing the normal function of business.

### *Section 2 of the Sherman Act*

Given the hypothetical fact situation would there be any liability under Section 2 for an attempt to monopolize? In *Walker Process* the Court stated:

To establish monopolization or attempt to monopolize a part of trade . . . it would . . . be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved.<sup>91</sup>

From this language it would appear that the fraudulent procurement of

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90. See, e.g., *United States v. Dotterweich*, 320 U.S. 277 (1943); RESTATEMENT (SECOND) OF AGENCY § 343 (1958).

91. 382 U.S. 172 at 177.



a single patent would not be an attempt to monopolize. The inclusion of attempt by the Court is unfortunate because Walker asserted that FMC had illegally *monopolized*. Monopolization and attempt to monopolize are separate offenses under Section 2 and while monopoly power may be used to infer an intent and purpose to achieve it for an attempt to monopolize,<sup>92</sup> it is not a prerequisite to a finding of attempt.<sup>93</sup>

An examination of the elements of "attempt to monopolize" as applied to the hypothetical indicates that the fraudulent application for a patent could be a violation of Section 2. As previously stated, an attempt to monopolize requires a showing of specific intent, *i.e.*, that the actors involved intended to accomplish the result of monopolization.<sup>94</sup> In *American Tobacco Co. v. United States*,<sup>95</sup> the Supreme Court indicated that a monopoly need not result, but only that a dangerous probability that monopolization will result. Since the patent agent and the inventor, in the hypothetical, intended the result that the Patent Office issue a patent in reliance on the fraudulent application, the question remains whether the issuance of a patent creates a sufficiently dangerous probability of monopolization to violate Section 2.

In *Walker Process*, the Court declined to equate a patent with a monopoly in the Section 2 sense but did not consider the probability question. Since a patent is the grant of the power to exclude competition, it may properly be called a limited monopoly. A patent even though fraudulent and unenforceable, nevertheless stands as a bar to competition until the fraud is exposed. The actors are attempting to carve out a sector of competitive activity and secure it through the vehicle of a patent. Whether such activity creates a dangerous probability of monopolization resolves into a question of policy. Since both Sherman Act and patent policy seek to foster competition it would appear that proscribing such conduct under attempt to monopolize would better effectuate this policy because the attempt to secure a patent through fraud is clearly anti-competitive.

This approach would find an attempt to monopolize for the filing of a fraudulent application. Thus the agent, the inventor, and the corporation would be subject to the criminal provisions of Section 2 and

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92. *Lorain Journal Co. v. United States*, 342 U.S. 143, 154 (1951).

93. U.S. ATTY GEN., REPORT OF THE NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, 61 (1955).

94. *United States v. Griffith*, 334 U.S. 100, 105 (1948); *Swift & Co. v. United States*, 196 U.S. 375, 396 (1905).

95. 328 U.S. 781, 785 (1946).

civil remedial action by the United States or an injured party.<sup>96</sup> It would also serve as an added deterrent to such applications.<sup>97</sup>

Should a court feel constrained to inquire into economic considerations and reject the foregoing approach, it is submitted that the claims of some applications carry with them such economic potential as to create a sufficiently dangerous probability of monopolization that they violate Section 2. An excellent example is the tetracycline patent with which the FTC was concerned in *American Cyanamid*. Tetracycline's characteristics at the time of the application indicated superiority to existing "wonder drugs." It later developed into an annual 100 million dollar market.<sup>98</sup> If fraud in the application were exposed, this coupled with its market potential would support a finding of a sufficiently dangerous probability that monopolization would result to bring it within attempt to monopolize.

Another approach would be to deny antitrust relief until the market power of the patent could be assessed. This would require waiting until a market was established and would enable the patentee to benefit from his invalid patent, but it would conform to the literal language of the Supreme Court in *Walker Process*.

The focus of inquiry has been a determination of what point in time during the prosecution of a fraudulent patent application should antitrust liability attach. The alternatives are essentially three: (1) upon the filing of an application; (2) upon issuance of a patent, or; (3) after the patent has established itself in the market. Although, the second alternative, the issuance of a patent, has not been treated separately, what has been developed concerning the first applies to it as well. The last, waiting until a patent has become established in the market, would seem the least satisfactory for it would allow the foreclosure of competition by an invalid patent. While an injured competitor could recover treble damages, assuming proof of the violation, he would be required to wait thus denying him injunctive relief against potential injury. Either of the former approaches would tend to halt anticompetitive activity at its inception and promote both the Sherman Act and patent policy. A competitor could get injunctive relief and eliminate potential injury and would prevent a patentee from deriving any benefit from an invalid patent.

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96. 15 U.S.C. § 16 (1964).

97. This would supplement existing criminal provisions, 18 U.S.C. § 1001 (1964).

98. *American Cyanamid v. Federal Trade Commission*, 363 F.2d 757, 760-762 (1966).

## CONCLUSION

Activities which come within the scope of the antitrust laws and Federal Trade Commission Act arouse a formidable array of legal tools which have the capability to criminally punish and civilly remedy. Individual practitioners and corporate enterprises are well advised to undertake to minimize activities which could lead to violations. Maintenance and improvement of existing high standards of patent practice; periodic review of corporate policies and procedures with respect to preparation and prosecution of patent applications, and; education of personnel, reinforced through repetition, of the state of the law and of the possible sanctions which could be imposed on individuals and corporations are some preventive measures which can and should be undertaken.

The thrust of the antitrust laws into the conduct of parties before the Patent Office should give applicants and competitors alike pause for consideration. While the questions raised the and hypotheticals posed must await judicial determination, the potential impact of treble damages, criminal prosecution, and the patent misuse doctrine should certainly act as a serious impediment to even questionable conduct.

It deserves restating that what we have been considering is fraud. Fraud by its very nature is intentional and wilful conduct. It does *not* include good faith misrepresentations or those made through honest mistake which would furnish a complete defense to an action of fraud related to a violation of the antitrust laws.<sup>99</sup>

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99. 382 U.S. 172 at 177. The Court stated:  
Good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability—so-called "technical fraud."