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MISREPRESENTATIONS BEFORE THE PATENT OFFICE: ANTITRUST AND OTHER LEGAL EFFECTS

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The Supreme Court has recently acknowledged the heavy administrative burden facing the Patent Office. "[T]he Patent Office is confronted with a most difficult task. Almost 100,000 applications for patents are filed each year. Of these, about 50,000 are granted and the backlog now runs well over 200,000."¹ Since it reaches its decision as to patentability on each of these applications in an ex parte proceeding,² without the benefit of full research facilities of its own, the Patent Office must rely almost exclusively upon the information furnished by applicants and their attorneys.³ The heightened judicial awareness of this heavy administrative burden has led many courts to conclude that "[a]bsolute honesty and good faith disclosure is necessary"⁴ by those who have applications pending before the Patent Office.

Furthermore, the issue of honesty in patent procurement has assumed greater significance in patent litigation. For example, in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*,⁵ the Supreme Court reaffirmed its holding that one sued for patent infringement can either challenge the validity of the patent on the grounds of

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¹ *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966). See also, *Monsanto Co. v. Rohm & Haas Co.*, 312 F. Supp. 778, 793 n.14 (E.D. Pa. 1970).

² *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

³ *Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949); *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555 (5th Cir.), cert. denied, 400 U.S. 956 (1970); *Charles Pfizer v. FTC*, 401 F.2d 574, 579 (6th Cir. 1968), cert. denied, 394 U.S. 920 (1969).

⁴ *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461, 470 (D. Del. 1966), rev'd on other grounds, 374 F.2d 473 (3d Cir.), cert. denied, 389 U.S. 826 (1967); *Charles Pfizer v. FTC*, 401 F.2d 574 (6th Cir. 1968), cert. denied, 394 U.S. 920 (1969); *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 818 (1945).

⁵ 382 U.S. 172 (1965).

fraudulent procurement or may raise the issue in a declaratory judgment action.⁶ The Court further held that a patent obtained as a result of a knowing and willful misrepresentation might serve as a basis for an antitrust action.⁷

Where patent invalidity or unenforceability, or an antitrust claim predicated upon a misrepresentation before the Patent Office is asserted, the vagaries of the common law form of action for deceit continue to play a pervasive role. Historically, the action for deceit required a high degree of proof of each of the six elements of the cause of action: representation, falsity, scienter, materiality, reliance and injury.⁸ Of these six elements, reliance, materiality and scienter have provided the most formidable obstacles to success in cases based upon alleged misrepresentations before the Patent Office.

Reliance refers to the requirement that the party defrauded was misled by the misrepresentation and that it was a substantial inducement in influencing his action.⁹ This same concept is sometimes referred to as "materiality," although materiality is more appropriately confined to the question of whether a reasonable man would have been influenced by the misrepresentation. Scienter has been described as involving "the intent that a representation shall be made, that it shall be directed to a particular person or class of persons, that it shall convey a certain meaning, that it shall be believed and that it shall be acted upon in a certain way."¹⁰ But most importantly, scienter also requires proof that the party making the representation knew it to be false, yet nevertheless made it to mislead the recipient.

At early common law, remedies for misrepresentations were narrowly confined because they were generally made in the course of arm's-length bargaining transactions between distrustful adversaries. In such a context, the doctrine of caveat emptor required the recipient of the representation to be wary of his adversary. More recent decisions, however, reflect a complete shift away from such an attitude and toward a "recognition of a new standard of business ethics, demanding that statements of fact be at least honestly and carefully made. . . ."¹¹

This article considers the propriety of incorporating in their pristine rigor the elements of common law deceit into actions predicated upon misrepresentations before the Patent Office. Further, it suggests modifications in accord with the realities of proceedings before the

⁶ *Id.* at 175-76.

⁷ *Id.* at 177-78.

⁸ See e.g., *Hanlon v. MacFadden Publications, Inc.*, 302 N.Y. 502, 509, 99 N.E.2d 546, 549 (1951); W. Prosser, *Law of Torts* 700 (1964 ed.) [hereinafter cited as Prosser].

⁹ Prosser, *supra* note 8, at 729.

¹⁰ *Id.* at 715.

¹¹ *Id.* at 733.

Patent Office, and in harmony with the development of other remedies for misrepresentation, in order to implement more effectively the public policy goals implicit in the patent and antitrust laws.

I. OPERATING PROCEDURES BEFORE THE PATENT OFFICE
AND THE OPPORTUNITY FOR MISREPRESENTATION

A party believing that he has a patentable invention must file before the Patent Office an application which includes a written description of the invention known as a specification.¹² The specification must "conclude with a claim particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention or discovery."¹³ Further, it "must set forth the precise invention for which a patent is solicited, in such manner as to distinguish it from other inventions and from what is old. . . ."¹⁴

The patent examiner studies the application and makes an investigation of the prior art. After this investigation is completed, the application is either approved and a patent granted, or disapproved and the applicant notified of the adverse decision. If the examiner's determination is adverse, he must state his reasons for rejection and refer to the information or references underlying this decision.¹⁵ In *Lear, Inc. v. Adkins*,¹⁶ the Supreme Court well summarized the proceedings before the Patent Office:

The regulations do not require the Office to make a final judgment on an invention's patentability on the basis of the inventor's original application. While it sometimes happens that a patent is granted at this early stage, it is far more common for the Office to find that although certain of the applicant's claims may be patentable, certain others have been fully anticipated by the earlier developments in the art. In such a situation, the Patent Office does not attempt to separate the wheat from the chaff on its own initiative. Instead, it rejects the application giving the inventor the right to make an amendment which narrows his claim to cover only those aspects of the invention which are truly novel. It often happens, however, that even after an application is amended, the Patent Office finds that some of the remaining claims are unpatentable. When this occurs, the agency again issues a rejection which is subject to further amendment. And so the

¹² 37 C.F.R. § 1.71 (1970).

¹³ 37 C.F.R. § 1.75(a) (1970).

¹⁴ 37 C.F.R. § 1.71(b) (1970).

¹⁵ 37 C.F.R. § 1.104(b) (1970).

¹⁶ 395 U.S. 653 (1969).

process of rejection and amendment continues until the Patent Office Examiner either grants a patent or concludes that none of the inventor's claims could possibly be patentable, at which time a final rejection is entered on the Office's records.¹⁷

This dialogue between the Patent Office and the applicant results in a series of written statements¹⁸ indicating the examiner's objections to the issuance of the patent and the applicant's efforts to overcome them. These papers are kept on file in the Patent Office and are collectively known as the "file wrapper."

In addition to amending the application to overcome the Patent Office's objections, an applicant is permitted to file affidavits designed to overcome the references cited by the patent examiner, to point out that the applicant's invention was discovered prior to the existence of the cited reference, or to distinguish the claimed invention from the cited reference.¹⁹ This procedure and the opportunities it presents for misleading the Patent Office are well illustrated in *Monsanto Co. v. Rohm & Haas Co.*²⁰ In *Monsanto*, the application was for a patent on a compound possessing "unusual and valuable herbicidal activity."²¹ This application was initially rejected by the patent examiner. In an effort to overcome the rejection, an affidavit was filed to demonstrate that the compound in question possessed much greater herbicidal activity than related compounds. This affidavit reported the results of a series of tests which compared the compound in question, propanil, with related compounds. In these tests, the comparison compounds were proven much less effective herbicides than the compound sought to be patented. The District Court for the Eastern District of Pennsylvania found that the affidavit was misleading because in addition to the tests reported, the applicant had performed other unreported tests indicating that other related compounds had greater herbicidal activity than those reported.²² In addition, the court found that the applicant was aware of an article indicating that a certain related compound had higher herbicidal activity for a related compound, but that this article

¹⁷ Id. at 658.

¹⁸ Even if the applicant orally makes his arguments to the examiner in an interview, the regulations require that "[i]n every instance where reconsideration is requested in view of an interview with an examiner, a complete written statement of the reasons stated at the interview as warranting favorable action must be filed by the applicant." 37 C.F.R. § 1.33(b) (1970).

¹⁹ 37 C.F.R. §§ 1.131, 1.132 (1970).

²⁰ 312 F. Supp. 778 (E.D. Pa. 1970).

²¹ Id. at 785.

²² Id. at 792-94.

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was not brought to the attention of the Patent Office. In reaching its decision the court stated:

Although the affidavit contains no affirmative misrepresentation and is accurate so far as it goes, it is misleading, and was intended to be misleading, in that it fails to state facts known to the applicant which were inconsistent with its position that propanil is a superior herbicide. It is, in short, composed of half-truths. The facts not stated would tend to show that closely related compounds do have more than just slight herbicidal value depending on the rate of application and the plant species to which the compounds are applied.²³

Considering this very same patent, however, a federal district court in Texas ruled that failure to present this information before the Patent Office was permissible since the applicants, "did nothing more than put their best foot forward."²⁴ In *Monsanto*, the Pennsylvania district court responded to the holding in the Texas opinion by saying quite clearly:

We specifically disapprove of any concept which permits patent applicants to "put their best foot forward" before the Patent Office . . . This kind of concept is only workable in adversary proceedings where the other side can be relied upon to bring out all of the facts adverse to the granting of the patent. In view of the realities of the patent office backlog, a standard of disclosure appropriate to adversary proceedings would defeat the public interest in not having patents improvidently issued.²⁵

The Pennsylvania court's rejection, in proceedings before the Patent Office, of the ethics appropriate to an adversary proceeding, reflects the prevailing judicial viewpoint. The Court of Appeals for the Sixth Circuit has described the patent applicant as standing before the Patent Office in a "confidential relationship" wherein he has the obligation of making frank and truthful statements.²⁶ Even more strongly, a recent decision in the Fifth Circuit declares that "our patent system could not function successfully if applicants were allowed to approach the Patent Office as an arm's length adversary."²⁷

²³ *Id.* at 791.

²⁴ *Monsanto Co. v. Dawson Chemical Co.*, 312 F. Supp. 452, 463 (S.D. Tex. 1970).

²⁵ *Monsanto Co. v. Rohm & Haas Co.*, 312 F. Supp. 778, 799-800 (E.D. Pa. 1970).

²⁶ *Charles Pfizer & Co. v. FTC*, 401 F.2d 574, 479 (6th Cir. 1968), cert. denied, 394 U.S. 920 (1969). See *Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949).

²⁷ *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 565 (5th Cir.), cert. denied, 400 U.S. 956 (1970).

II. MISREPRESENTATION BEFORE THE PATENT OFFICE:

SCIENTER, RELIANCE AND MATERIALITY

Ever since *Pasley v. Freeman*²⁸ it has become settled that a false statement of a material fact, known to be such and made by the speaker to induce action, provides a basis for liability for the damage caused by action in reliance on the statement. A century later, in *Derry v. Peek*,²⁹ the English House of Lords narrowly limited this rule to situations in which the misrepresentation was knowingly made without belief in its truth. The *Derry* case involved a prospectus for a Tramway company in which appeared the statement that "the company has the right to use steam, or mechanical motive power, instead of horses . . ."³⁰ The company had no such right, and, after it became bankrupt, a disgruntled stockholder sued the directors, basing his cause of action upon the misrepresentation. The House of Lords concluded that the defendants honestly believed that the statements were true, although they had no reasonable grounds for their belief. The court emphasized that "it is essential . . . that *moral fraud* should be established. . ."³¹ (Emphasis added.) According to Lord Bramwell, any other rule would have rendered "all character precarious."³²

This moral obloquy associated with the labeling of conduct as fraudulent continues to exert its influence in rendering judges reluctant to fix liability for misrepresentation in cases involving patents unless the actors can be proven morally blameworthy.³³ This concern of *Derry v. Peek* is plainly echoed in *Ransburg Electro-Coating Corp. v. Nordson Corp.*³⁴ Upon finding that the defendants had not satisfied the heavy burden of proving that the patent holder acted "fraudulently, intentionally or willfully,"³⁵ the court in *Ransburg* held that the patent was not unenforceable and declared: "To hold otherwise would work a forfeiture of the patentees' property in the absence of unconscionable or morally reprehensible conduct, something which equity is always reluctant to do."³⁶

This result contrasts sharply with the results reached in actions

²⁸ 100 Eng. Rep. 450 (K.B. 1789).

²⁹ 14 App. Cas. 337 (1889).

³⁰ Id. at 338.

³¹ Id. at 356.

³² Id. at 345.

³³ The unwillingness of the House of Lords in *Derry* to find the defendants, who were respected in the business community, guilty of deceit, is paralleled by the Seventh Circuit's unwillingness to uphold a lower court decision of fraud where to do so "would mean there was a conspiracy among several competent and highly regarded scientific men. . . ." *Armour & Co. v. Wilson & Co.*, 274 F.2d 143, 148 (7th Cir. 1960).

³⁴ 293 F. Supp. 448 (N.D. Ill. 1968).

³⁵ Id. at 483.

³⁶ Id.

for misrepresentations not involving patents, for, in situations where the party making the misrepresentation was in a position of superior knowledge, or made a representation in a form so positive as to convey personal knowledge, damages have commonly been awarded regardless of a showing of intentional deceit.³⁷ Requiring the higher burden of proof of intentional deceit in patent cases is questionable since it is generally necessary for the Patent Office to rely upon the truth of the representations of the patentee. Additionally, the Supreme Court has made clear that the public has a "paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct."³⁸ Since "both public and private standards of equity"³⁹ are involved in the patent monopoly, a breach of the patentee's duty of full and frank disclosure should be an adequate basis for holding a patent unenforceable.⁴⁰

In *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*,⁴¹ the Supreme Court made it clear that proof of a wilful and knowing misrepresentation of a material fact before the Patent Office is a sufficient predicate for an antitrust action for damages for injury suffered by virtue of the fraudulently procured patent. The Supreme Court's dictum that defendant's "good faith would furnish a complete defense"⁴² is susceptible of the interpretation that the Court was incorporating the requirement of "moral fraud," found essential in *Derry v. Peek*.⁴³ The Court in *Walker Process*, however, left open the question of what constitutes "good faith."

American courts have recognized that the elements of proof developed at early common law in suits between parties to arm's-length transactions involving lands and ordinary chattels, may not be appropriate to situations where the exigencies require the recipient of the information to rely upon the good faith of the other party to the transaction. As Justice Goldberg aptly noted in *SEC v. Capital Gains Research Bureau, Inc.*,⁴⁴ "[t]he content of common-law fraud has not

³⁷ Harper & McNeely, A Synthesis of the Law of Misrepresentation, 22 Minn. L. Rev. 939, 955-57 (1938).

³⁸ Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 816 (1945).

³⁹ Id.

⁴⁰ A.H. Emery Co. v. Marcan Prods. Corp., 389 F.2d 11, 17-18 (2d Cir.), cert. denied, 393 U.S. 835 (1968); Ritter v. Rohm & Haas Co., 271 F. Supp. 313, 342 n.73 (S.D.N.Y. 1967); Abington Textile Mach. Works v. Carding Specialists (Canada) Ltd., 249 F. Supp. 823 (D.D.C. 1965).

⁴¹ 382 U.S. 172 (1965).

⁴² Id. at 177.

⁴³ Justice Harlan's concurring opinion in *Walker Process* strongly supports this view. He suggests that one of the conditions is that "the relevant patent is shown to have been procured by knowing and wilful fraud. . . ." (Emphasis added.) Id. at 179.

⁴⁴ 375 U.S. 180 (1963).

remained static as the courts below seem to have assumed. It has varied, for example, with the nature of the relief sought, the relationship between the parties, and the merchandise in issue."⁴⁵ Most courts have acknowledged that the patent applicant stands before the Patent Office in a fiduciary relationship, and thus has a duty to make a full and fair disclosure of all facts which may affect the patentability of his invention.⁴⁶ With regard to one in such a fiduciary relationship, the Supreme Court has stated that there is "an affirmative duty of 'utmost good faith and full and fair disclosure of all material facts,' as well as an affirmative obligation 'to employ reasonable care to avoid misleading his clients.'"⁴⁷

Since the patent applicant has a duty to disclose fully and truthfully all facts which might reasonably bear on the issuance of the patent, there are strong arguments that a breach of that duty⁴⁸ should serve as an adequate predicate for an antitrust treble damage action where there has been a misrepresentation as to a legally material fact. If a patent obtained as a result of misrepresentation has had the effects of an antitrust violation, such as excluding the claimant from entering a particular market, it would seem that the damaged party should be compensated. Although it may be contended that the treble damage sanction of the antitrust laws is too harsh a remedy for conduct not intentionally wrongful, other violations of the antitrust laws do not require proof of conscious wrongdoing. Indeed, it is quite clear that good faith, good intentions, and even admitted social benefits do not afford a defense to most antitrust suits.⁴⁹ The justification for awarding treble damages is that there is a public interest in the preservation of free competition, which public interest is served by private antitrust suits. The treble damage remedy serves as an inducement to private individuals to initiate such suits. Given the far-reaching social and economic effects of improvidently issued patents, it would seem that the reasons for the treble damage action should apply a fortiori where a patent has been acquired through breach of the duty of full and

⁴⁵ *Id.* at 193.

⁴⁶ *Kingsland v. Dorsey*, 338 U.S. 318 (1949); *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555 (5th Cir.), cert. denied, 400 U.S. 956 (1970); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co.*, 407 F.2d 288, 294 (9th Cir. 1969); *Charles Pfizer & Co. v. FTC*, 401 F.2d 574, 579 (6th Cir. 1968), cert. denied, 394 U.S. 920 (1969).

⁴⁷ 375 U.S. 180, 194 (1963).

⁴⁸ The Ninth Circuit has stated that "conduct short of fraud and in excess of simple negligence is also an adequate foundation for deciding a patent application is exceptional [for purposes of awarding attorney fees to the prevailing party]." *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co.*, 407 F.2d 288, 294 (9th Cir. 1969).

⁴⁹ Report of the Attorney General's National Committee to Study the Antitrust Laws, 379 (1955).

fair disclosure. Even conceding that good faith⁵⁰ requires the fact finder to make some judgment concerning the moral qualities of the parties before the Patent Office, there is a theory of liability suggested by Professor Williston which may be applicable to the situation:

Now one who asserts as a fact something of which he has no positive knowledge, not only asserts that the fact is as he states—something which he may well believe—but also impliedly that he knows it is so or that he has an adequate basis of information. If this is not true he is asserting a falsehood as much as if he did not believe the truth of his express statement.

....

[I]n the American cases cited above the court proceeded upon the theory that the plaintiff must recover if the defendant asserted as a matter of his own knowledge something which in fact he did not know, or for which he had no reasonable basis of belief.⁵¹

Thus, in the patent situation, the applicant who makes a false statement impliedly represents that he has personal knowledge of the fact asserted, and since it can be inferred that he knew that he did not have such knowledge, it can be found that he had the intent to deceive as to the extent of his knowledge.⁵² Similarly, if pertinent facts are readily available, and the applicant fails to bring them to the attention of the Patent Office so that the statements made are misleading, it may be inferred that the statements were made with reckless disregard of their truth or falsity, which is tantamount to an intent to deceive.⁵³

Although not suggested by the Supreme Court in *Walker Process*, it would not be inconsistent with that decision to require that the party asserting good faith as a defense to prove that he had reasonable grounds to believe in the truth of the representation, or that he believed that the facts withheld were not such as might affect the patentability of the invention. In other words, if the applicant seeks to

⁵⁰ On the other hand, it might be argued that "good faith" requires proof that the applicant has met his obligations of full disclosure. One court of appeals has declared: "We agree with the Supreme Court of Michigan that 'Good faith includes, not only personal upright mental attitude and clear conscience, but also' intention to observe legal duties.'" *Kiyochi Fujikama v. Sunrise Soda Water Works Co.*, 158 F.2d 490, 494 (5th Cir. 1946), cert. denied, 331 U.S. 832 (1947).

⁵¹ Williston, *Liability for Honest Misrepresentation*, 24 Harv. L. Rev. 415, 432 (1911).

⁵² See Prosser, *supra* note 8, at 716.

⁵³ This implies that the party asserting the fraud must prove that these facts were readily available.

assert good faith as a defense, it might be appropriate to place on him the burden of proving that in spite of his failure to bring the pertinent available information to the attention of the Patent Office, he nevertheless made a good faith effort to fulfill his "uncompromising duty of disclosure." Such a requirement is consistent with the rule that the entire patent is invalid if there is "overclaiming" as to one claim unless the applicant shows that the overclaiming was due to inadvertence and files a prompt disclaimer.⁵⁴ It will be noted that the duty of disclosure articulated by the Ninth Circuit includes not only legally material facts, but "all facts which may affect . . . patentability. . . ."⁵⁵ The patentee would be able to meet the burden of proving his good faith where he had no knowledge of the facts withheld or where he was confident that the facts withheld were not pertinent to the application. However, a showing of a belief that the facts withheld or misrepresented were not legally material would not be sufficient where the patentee or his representatives recognized the pertinency of the facts to the application.

In summary, it is suggested that in a situation where one has been damaged as a result of another's misrepresentation before the Patent Office, the judicial reluctance to impose liability except on the conscious wrongdoer should be tempered, at least to the extent of casting on the party making a misrepresentation as to material facts—where the pertinent facts were available to him—the burden of persuasion as to his innocent intentions.

In the recent case of *SCM v. Radio Corporation of America*,⁵⁶ Judge McLean concluded that while a misrepresentation before the Patent Office must be material in order to base an antitrust claim on fraudulent procurement, nevertheless, an intentional misrepresentation need not be material to bar enforcement of the patent. In reaching this result, the court relied upon the district court opinion in *Corning Glass Works v. Anchor Hocking Glass Corp.*,⁵⁷ and on a series of Supreme Court decisions stressing the public policy reasons for encouraging complete candor by applicants before the Patent Office.

The decisions are in accord that materiality is not requisite to find the patent unenforceable, but is requisite for an antitrust claim based upon the fraudulent procurement of the patent. Despite this verbal agreement, however, their judicial concepts of materiality ap-

⁵⁴ *Marconi Wireless Telegraph Co. of America v. United States*, 320 U.S. 1, 57-58 (1943).

⁵⁵ *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co.*, 407 F.2d 288, 294 (9th Cir. 1969).

⁵⁶ 318 F. Supp. 433 (S.D.N.Y. 1970).

⁵⁷ 253 F. Supp. 461 (D. Del. 1966), rev'd on other grounds, 374 F.2d 473 (3d Cir.), cert. denied, 389 U.S. 826 (1967).

parently differ. In *Corning Glass*, the court defined materiality in the following terms:

Having found the plaintiff had an invention which was patentable over the prior art, as a legal proposition, defendant's allegations of fraud must fail. Not only must the defendant establish that an intentional misrepresentation was made to the patent examiner, but also defendant must show that the misrepresentation was material, i.e., that the patent would not have issued but for the fraud. Since the patentee was legally entitled to the patent, any misrepresentation directed to overcoming the prior art, assuming *arguendo* there were some, could not be material.⁵⁸

This concept of materiality, referred to as *legal materiality*, focuses upon whether, as a matter of law, the truth of the facts belied by the misrepresentation renders the patent invalid.

However, materiality may also embrace a consideration of the subjective question of whether there was actual reliance by the patent examiner upon the misrepresentation. In considering the question of whether the alleged misrepresentation would be an adequate predicate for an antitrust action, Judge McLean stated in the *SCM* case:

The party asserting invalidity of a patent on the ground of fraud has the burden of proving, not only the fraud, but also the fact that the fraud was material, i.e., that if the examiner had known the true facts he would not have authorized the issuance of the patent⁵⁹

That the court in *SCM* was searching the record for proof of *actual reliance* by the patent examiner is apparent from its conclusion based upon an examination of the file wrapper. After a thorough review of the patent examiner's report, the court found no convincing evidence, one way or the other "as to what the examiner would have done had he been informed in September 1956 that photoconductivity measurements by the DeVore method were somewhat inexact"⁶⁰ Finally, the court stated that "[i]n the final analysis, what position the examiner would have taken had RCA been candid with him remains a matter of speculation."⁶¹ Significantly, Judge McLean did not address himself to the question of legal materiality, but found that failure to prove actual reliance barred antitrust relief predicated upon an invalid patent.

⁵⁸ 253 F. Supp. at 469-70.

⁵⁹ 318 F. Supp. 433, 448 (S.D.N.Y. 1970).

⁶⁰ *Id.*

⁶¹ *Id.* at 449.

III. UNENFORCEABILITY AND THE PRESUMPTION OF PATENT VALIDITY

The cases involving misrepresentation before the Patent Office tend to blur the distinction between actual reliance and legal materiality. If the issue before the court is the enforceability of the patent or the destruction of the presumption of validity which every patent enjoys, it would serve no purpose to require a finding of legal materiality as that term is defined in *Corning Glass*, because that definition assumes that the patent is invalid. Consequently, it would be superfluous to hold an invalid and hence unenforceable patent unenforceable on the further ground of fraud in its procurement.

On the other hand, in situations where the misrepresentation is not legally material, actual reliance by the examiner might be considered necessary to render the patent unenforceable. This is apparently the position taken by the court in *Monsanto Co. v. Dawson Chemical Co.*,⁶² where the court declared: "There is also a further requirement that defendant must prove that the information was material in the sense that if the patent examiner had known of the additional facts . . . he would not have issued the patent."⁶³ In *SCM*, however, the court rejected the necessity for a finding of actual reliance to hold the patent unenforceable. This latter decision is consistent with the Supreme Court's statement in *Precision Instrument*: "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. . . ."⁶⁴ Similarly, in *Corning Glass* the court noted that even if the misrepresentations are not legally material, nevertheless, it, being a court of equity, "can and should refuse to enforce the patent if the Court finds the patentee made intentional misrepresentations to the patent examiner. . . ."⁶⁵

Other cases considering this issue have concluded that neither proof of actual reliance nor of legal materiality is essential to render the patent unenforceable. For example, in *Diamond International Corp. v. Waltherhoefer*,⁶⁶ the court stated:

Defendants' approach, probably correct, is that if in the prosecution of the patent application, plaintiff intentionally made deliberate misstatements of fact, intended to influence

⁶² 312 F. Supp. 452 (S.D. Tex. 1970).

⁶³ *Id.* at 463.

⁶⁴ 324 U.S. at 816. See also *A.H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11, 17-18 (2d Cir.), cert. denied, 393 U.S. 835 (1968).

⁶⁵ 253 F. Supp. at 470.

⁶⁶ 289 F. Supp. 550 (D. Md. 1968).

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the conduct of the Patent Office, this would bar enforcement whether or not the Patent Office was influenced by the alleged misrepresentations, and whether or not the patent in suit issued as a result thereof.⁶⁷

Similarly, the court in *Abington Textile Machine Works v. Carding Specialists, Canada Ltd.*,⁶⁸ stated that a patent may be declared invalid on the sole ground that the patentee made a deliberate, intentional misrepresentation to the Patent Office even though the patent might otherwise be valid in every respect.⁶⁹ In further agreement is *Ritter v. Rohm & Haas Co.*,⁷⁰ where the court stated:

The maxim that he who comes into equity must come with clean hands demands that those who deal with the Patent Office must have acted fairly and without fraud or deceit in obtaining a patent. A court will, therefore, refuse to enforce a patent if it finds that the patentee made intentional misrepresentations to the Patent Examiner.⁷¹

Thus, there is ample authority in support of the proposition that neither actual reliance nor legal materiality is necessary to render a patent unenforceable where deliberate misrepresentations have been made to the Patent Office. In view of the strong policy underlying the applicant's "uncompromising duty of disclosure," the doctrine that tends to discourage a breach of that duty by rendering the patent unenforceable is sound.⁷²

There is some authority, however, which tends to support a contrary conclusion. In *Corona Cord Tire Co. v. Dovan Chemical Co.*,⁷³ the Supreme Court considered the question of whether certain misrepresentations concerning the use and sale of products made by the patented process affected the statutory presumption of validity.⁷⁴ The Court found that a commercial sale or use was not necessary to constitute a reduction to practice, but that a laboratory or test experiment demonstrated discovery constituting a reduction to practice. It was undisputed that there was not the commercial use referred to in

⁶⁷ Id. at 570.

⁶⁸ 249 F. Supp. 823 (D.D.C. 1965).

⁶⁹ Id. at 839.

⁷⁰ *Ritter v. Rohm & Haas Co.*, 271 F. Supp. 313 (S.D.N.Y. 1967). See also *A.H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11, 17-18 (2d Cir.), cert. denied, 393 U.S. 835 (1968).

⁷¹ 271 F. Supp. at 342.

⁷² See *SCM v. Radio Corporation of America*, 318 F. Supp. 433, 449 (S.D.N.Y. 1970); *Monsanto v. Rohm & Haas Co.*, 312 F. Supp. 778, 793-94 (E.D. Pa. 1970); *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966). Contra, *Monsanto Co. v. Dawson Chemical Co.*, 312 F. Supp. 425 (S.D. Tex. 1970).

⁷³ 276 U.S. 358 (1928).

⁷⁴ Id. at 374.

certain affidavits which were successful in overcoming the examiner's third rejection. The Court declared:

Production of rubber-goods for use or sale was not indispensable to the granting of the patent. Hence the affidavits, though perhaps reckless, were not the basis for it or essentially material to its issue. The reasonable presumption of validity furnished by the grant of the patent therefore would not seem to be destroyed.⁷⁵

Relying upon the decision in *Corona Cord*, the court in *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co.*⁷⁶ concluded that a false and reckless statement will not destroy the presumption of patent validity unless the statement was "essentially material" to the issuance of the patent.⁷⁷

If these decisions refer to situations where there has been an intentional misrepresentation, their continuing vitality is doubtful. Since a finding of legal materiality would be tantamount to a finding of invalidity, the only reasonable construction to be given to the words "essential materiality" is that they refer to "actual reliance." Indeed, the court in *Baldwin-Lima-Hamilton* apparently focused upon the question of actual reliance and concluded that since there was a rejection subsequent to the alleged misrepresentation, a finding of materiality "must rest at best upon a dubious and tenuous inference."⁷⁸

In *Hazel-Atlas Glass Co. v. Hartford Empire Co.*,⁷⁹ the Supreme Court declared that having made an intentional misrepresentation the patentees "are in no position now to dispute its effectiveness."⁸⁰ This statement can be read as creating a presumption of actual reliance and/or legal materiality.⁸¹ If this presumption of materiality were viewed as irrebuttable, there is difficulty in reconciling the decision in *Hazel-Atlas* with the statement in *Corona Cord* which upheld the presumption of validity notwithstanding the fact that the Court considered the false affidavits to be reckless.

The apparent requirement in *Corona Cord* that the misleading statements provide the basis for the issuance of the patent or be "essentially material" to its issuance might be reconciled with current

⁷⁵ Id.

⁷⁶ 169 F. Supp. 1 (E.D. Pa. 1958), aff'd, 268 F.2d 395 (3d Cir.), cert. denied, 361 U.S. 894 (1959).

⁷⁷ 169 F. Supp. at 24-25. Accord, *Ransburg Electro Coating Corp. v. Nordson Corp.*, 293 F. Supp. 448, 484 (N.D. Ill. 1968).

⁷⁸ 169 F. Supp. at 25.

⁷⁹ 322 U.S. 238 (1944).

⁸⁰ Id. at 247.

⁸¹ The court in *SCM v. Radio Corporation of America*, 318 F. Supp. 433, 449 (S.D.N.Y. 1970), recognized that *Hazel-Atlas* lent itself to such an interpretation, but rejected the quoted statement "as establishing a rule for all cases."

doctrine on the ground that although the Court considered the misstatements "reckless," it did not use this term in the sense of the reckless disregard for the truth of the statements, that is, tantamount to an intentional misrepresentation,⁸² but was considering the effect of a negligent or inadvertent misrepresentation. Alternatively, the presumption of materiality, that is, actual reliance, might be viewed as rebuttable, and the decision in *Corona Cord* viewed as an instance where the burden of proving non-reliance was met. But in *Baldwin-Lima-Hamilton*, the court squarely placed the burden of proving reliance upon the party asserting fraud.⁸³

Of course, if a court were to find actual reliance by the patent examiner, it is quite clear that the reason underlying the statutory presumption of validity, that is, deference to the expertise of the Patent Office, has vanished, and there should be little question that the presumption is destroyed. However, it is questionable whether such actual reliance should be requisite to vitiate the presumption of validity because even in certain situations where there was no evidence of wrongful conduct, the failure of the Patent Office to be apprised of certain pertinent art has been held to weaken greatly the presumption of the validity.⁸⁴ Finally, the wisdom of requiring proof of actual reliance must be examined in light of the practicalities of achieving such proof.

Since the patent examiner need not, and generally does not, give his reasons for granting a patent, and since the policy of the Patent Office is against permitting its examiners to testify in private litigation,⁸⁵ a court is faced with the burden of examining the file wrapper to determine what the examiner would have done if the applicant had been truthful. The most that this examination will reveal in the ordinary course of events is that there has been a rejection that has been overcome. If the rejection was based upon one specific ground, and the misrepresentation specifically traversed this objection, this

⁸² W. Prosser, *Law of Torts* 715-33 (1964 ed.).

⁸³ 169 F. Supp. at 25.

⁸⁴ See, e.g., *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 560-61 (5th Cir.), cert. denied, 400 U.S. 956 (1970).

⁸⁵ The Chief Solicitor of the Patent Office has recently stated that "[a]s pointed out in § 1701 of the Manual of Patent Examining Procedure, the Office has followed the policy which is almost 100 years old, of forbidding its employees to testify in patent suits, upon penalty of discharge, except upon court order, and more recently has instructed examiners to refrain from expressing any opinion to persons outside of the Office (including employees of other Government agencies) whether an issued patent is valid, or whether they would have issued a certain patent if they had knowledge of certain prior art at the time of examinations." Cochran, *Historical Review of Fraud in Patent Procurement: The Standards and Procedures for Doing Business Before the Patent Office*, 52 J. Pat. Off. Soc'y 69, 75-76 (1970). He also stated that the Patent Office will continue to move to quash subpoenas directed to patent examiners. *Id.* at 79.

might serve as an adequate predicate for a finding of actual reliance. Such a result, however, is far from certain if the court must base its finding upon something other than the normal standard of the preponderance of evidence, but rather, must base such a finding of fraud on "clear and convincing proof."⁸⁶ If the application is issued without a rejection, or if the patent has been amended in some other respect, this burden becomes even more onerous. Moreover, if there is a rejection subsequent to the misrepresentation followed by eventual issuance, meeting the burden of proving actual reliance is almost impossible.⁸⁷

The difficulties in proving actual reliance are attested to by the Supreme Court's opinion in *Hazel-Atlas*:

Doubtless it is wholly impossible accurately to appraise the influence that the article exerted on the judges. But we do not think the circumstances call for such an attempted appraisal. Hartford's officials and lawyers thought the article material. They conceived it in an effort to persuade a hostile Patent Office to grant their patent application, and went to considerable trouble and expense to get it published. Having lost their infringement suit based on the patent in the District Court wherein they did not specifically emphasize the article, they urged the article upon the Circuit Court and prevailed. They are in no position now to dispute its effectiveness. . . .⁸⁸

Where problems of proof present great burdens, there is ample precedent for placing the burden upon the wrongdoer for the uncertainties caused by his own wrongdoing. As the Supreme Court so cogently phrased it: "The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong has created."⁸⁹

In apparent recognition of the fact that no one can tell with certainty what would have happened if the patent applicant had dealt fairly with the Patent Office, the court in *SCM* refused to enforce the patent.⁹⁰ There is no reason why these same factors should not result

⁸⁶ *Armour & Co. v. Wilson & Co.*, 274 F.2d 143, 149 (7th Cir. 1960).

⁸⁷ This was the factual situation presented in *Baldwin-Lima-Hamilton v. Tatnall Systems, Inc.*, 169 F. Supp. 1 (E.D. Pa. 1958), aff'd, 268 F.2d 395 (3d Cir.), cert. denied, 361 U.S. 894 (1959).

⁸⁸ 322 U.S. at 247.

⁸⁹ *Bigelow v. RKO Radio Pictures Inc.*, 327 U.S. 251, 265 (1946); *SCM v. Radio Corp. of America*, 318 F. Supp. 433, 449 (S.D.N.Y. 1970).

⁹⁰ This result of eliminating the requirement of proving actual reliance is consistent with, if not compelled by, the logic of the doctrine that "overclaiming" as to one of several claims of a patent results in the invalidity of the entire patent unless the patentee shows that the overclaiming was due to inadvertence or mistake and that

MISREPRESENTATIONS BEFORE THE PATENT OFFICE

in the patentee suffering the lesser disability of the destruction of the presumption of validity. This is apparently the tack taken by the Fifth Circuit in *Beckman Instruments, Inc. v. Chemtronics, Inc.*⁹¹ There the court stated:

A presumption of validity ordinarily attaches to patents that have survived the scrutiny of the Patent Office. . . . But the presumption of validity rests on the fact that patent approval is a species of "administrative determination supported by evidence." Consequently, when the defendants in an infringement suit attack the validity of a patent on the ground that it included prior art that has not been presented to the patent office, the basis for the presumption vanishes, the presumption is significantly weakened, and the Court is required to scrutinize the patent more closely. In this case, appellants, for whatever reason, did not present the Stow device to the Patent Office and hence we must compare that invention against the patent at suit without the usual strong presumption in favor of validity.⁹²

Finally, the court explained that the reason for its de novo inspection of the patent against the Stow device was that the latter invention was never brought to the attention of the Patent Office. The court observed that there was no indication that this omission was caused by oversight, "rather all the evidence tends to show that Beckman made the omission deliberately."⁹³

A recognition of the difficulties of proof of reliance by the patent examiner, especially since he is generally not available to testify, and the societal interest in encouraging the utmost candor and truthfulness in Patent Office proceedings justifies the conclusion that intentional misrepresentations should not only bar enforcement of the patent but also destroy the presumption of validity, regardless of legal materiality or actual reliance.

IV. MISREPRESENTATIONS BEFORE THE PATENT OFFICE AS A PREDICATE FOR AN ANTITRUST ACTION

As discussed earlier, the court in *SCM* found no antitrust liability arising from a misrepresentation before the Patent Office because there was insufficient proof of actual reliance. If such reliance were requisite to a finding that the presumption of validity is destroyed,

a prompt disclaimer was filed. *Marconi Wireless Co. v. United States*, 320 U.S. 1, 57-58 (1943).

⁹¹ 428 F.2d 555 (5th Cir. 1970).

⁹² *Id.* at 560-61.

⁹³ *Id.* at 564.

logic dictates that it be requisite to a finding of fraud sufficient to support an antitrust claim. On the other hand, if the conclusion of the preceding analysis is correct in that neither legal materiality nor actual reliance is requisite to a destruction of the presumption of validity, no such result is required. On the contrary, the same arguments regarding the difficulties of proving actual reliance, and the public policy requiring that a wrongdoer bear the risk of uncertainty which his own wrong has created, urge that proof of actual reliance not be considered requisite to an antitrust action predicated upon misrepresentations before the Patent Office. Moreover, if the misrepresentations are legally material, it is not entirely unrealistic to assume that if the examiner knew the true facts he would have applied the proper legal standard and refused to have issued the patent.

Although a requirement of less than actual reliance is a deviation from the normal tort standard of proof, the unavailable patent examiner must be contrasted with the plaintiff in the ordinary tort action who will readily testify on his own behalf that he would have acted differently had he been aware of the facts. Normally, in the case where there has been non-disclosure of a material fact, there will be no recorded proof of what the examiner would have done if he had known the facts not disclosed. Even in the case of an affirmative misrepresentation the wrongdoer can point to the Supreme Court's statement in *Hazel-Atlas* regarding the ghost-written article: "Doubtless it is wholly impossible accurately to appraise the influence that the article asserted on the judges."⁹⁴ Requiring that the antitrust claimant prove actual reliance will, in most instances, create a rule of evidence that has the effect of being a rule of law barring recovery. A conscious wrongdoer with knowledge that his invention is not patentable runs virtually no practical risk by misleading the Patent Office since, if he does not, in all probability no patent will issue, and unless the examiner should somehow indicate his reliance, the only real disability he faces is that his invalid patent is unenforceable. In short, at least where the misrepresentation is legally material, there should be no requirement to prove actual reliance as a requisite to an antitrust action.

Also at issue in this area is the question of whether proof of legal materiality should be required for an antitrust action predicated upon a fraudulently procured patent. In *Corning Glass*, the court made it quite clear that it considered the legal materiality necessary for a finding of fraud insufficient for the finding of an antitrust violation.

A recent Supreme Court case, *Walker Process Equip-*

⁹⁴ 322 U.S. at 247.

ment, Inc. v. Food Machinery and Chemical Corp., which conclusively settled the issue that obtaining a patent by means of fraud upon the Patent Office can be the basis for an anti-trust suit, necessarily assumed that the intentional misrepresentations were a material factor in obtaining the patent. If one were entitled to a patent under the legal tests of patentability, there is no illegal monopoly resulting from the statements on which to base an anti-trust action. Consequently, the counterclaim based on fraud obtaining the patent in contravention of § 2 of the Sherman Act fails. The common law fraud counterclaim fails for the same reason.⁹⁵

In the common law action of fraud, the party asserting fraud must prove not only actual reliance, but also that he was justified in acting upon the misrepresentation. This requirement, often called materiality, refers to the objective standard of whether a reasonable man would have been misled by the misrepresentation.⁹⁶ This is analogous to the concept of legal materiality in cases involving misrepresentations before the Patent Office. The reason for this requirement in the common law fraud action was to provide "some assurance that the representee is not merely using the misrepresentation as a pretext for escaping a bargain that he is dissatisfied with on other grounds."⁹⁷ In other words, it supports the conclusion that the representation has caused or induced the action which resulted in damage to the party asserting fraud.

In the common law action for fraud, the question of causation should be adequately disposed of by the representee's testimony that he actually relied upon the misrepresentation; indeed, "where the misrepresentation is intended to deceive, it will be regarded as material if the maker knows that the recipient is peculiarly disposed to regard it as important even though the standard reasonable man would not do so."⁹⁸

As has been shown, however, in the usual patent fraud situation, there will be no proof of actual reliance. Moreover, with regard to a misrepresentation that is not legally material, there is force to the argument that there is not a sufficient predicate for an antitrust violation on the ground that the antitrust claimant cannot prove he has been damaged by the conduct of the applicant since it may be presumed

⁹⁵ 253 F. Supp. at 470. But see *Diamond International Corp. v. Waltherhoefer*, 289 F. Supp. 550, 573 n.114 (D. Md. 1968).

⁹⁶ Prosser, *supra* note 82, at 734-46.

⁹⁷ Keeton, *Actionable Misrepresentation: Legal Fault as a Requirement*, 2 Okla. L. Rev. 56, 59 (1949).

⁹⁸ Prosser, *supra* note 82, at 735.

that even if there were no misrepresentation, a patent would have issued. In other words, if the true facts were known, the Patent Office would have applied the correct legal standard and granted the patent, and, therefore, the misrepresentation had no effect. This argument has even more force if the court considers the question of legal materiality without the benefit of any statutory presumption of validity, and the patentee has borne the burden of proving that a patent should have issued notwithstanding the facts belied by the misrepresentations.

If an intentional misrepresentation bars the enforcement of the patent regardless of legal materiality, there would be little detriment to the policy of encouraging full disclosure before the Patent Office by not allowing the antitrust claim. The conscious wrongdoer will be aware that he is liable under the antitrust laws if he fraudulently secures a patent through intentional and material misrepresentations.

In conclusion, if the issue before the court is the enforceability of a patent, a deliberate misrepresentation should be sufficient to bar enforcement of the patent, regardless of legal materiality or actual reliance. If the question is whether there is an adequate predicate for a damage action, proof of legal materiality may be considered requisite, but this issue should be decided without any presumption of materiality favoring the patentee. And finally, there should be no requirement for proof of actual reliance by the examiner.

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