Franchise Participants as Proper Patent Opponents: Walker Process Claims

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ABSTRACT

Franchise parties may be sued for patent infringement, or they may seek to sue others for an antitrust injury as the result of a fraudulently obtained patent. Indeed, franchisors and franchisees may simultaneously fall under both categories—sued for infringement but aggrieved because the very basis of that suit is illegitimate in their eyes. These franchise parties may turn for relief to a patent-validity challenge authorized in the seminal case Walker Process Equipment, Inc. v. Food Machine & Chemical Corp. Franchise participants—franchisees and franchisors alike—may be the ideal Walker Process claimants. When these types of cases occur, the damages within the franchise system are fairly uniform, as the harm often relates to a core element of franchising: licenses, shared by all parties to a franchise network.

One of the hallmarks of Walker Process claims is how loose the standing requirements are. Both direct purchasers and indirect purchasers of a patented device or process may bring a challenge based on the patent holder’s alleged fraud in obtaining the patent and the resulting antitrust injuries. In the franchising context, Ritz Camera & Image, LLC v. SanDisk Corp. and its progeny provide franchisors, franchise associations, and franchisees with procedures to protect themselves and those they represent from patent trolling and sham litigation. The Walker Process claim and its resulting principles and practices may also have benefits beyond patent-law regimes for use in other areas of value to licensors and licensees.

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I. INTRODUCTION

Defendants in patent-infringement actions may feel doubly aggrieved. They declare their innocence of any infringing activities and assert that it is, in fact, the plaintiff who has broken the law. If the plaintiff is not directly contravening the defendants' own intellectual property rights, then the theory is that, at the very least, the plaintiff is violating antitrust law. Thus, when franchise relationships are involved, both the franchisors and the franchisees may find themselves aligned on the same side: sued by a third party for infringement, challenging not only the suit's legitimacy but also the plaintiff's anticompetitive actions supported by a fraudulently obtained patent. Franchisor and franchisee alike may thus turn for relief to a patent-validity challenge. Such a challenge, and its ramifications for franchising and beyond, is the focus of this Article.
In the United States, patent protection is only afforded to inventors of new and useful articles of manufacture, processes, machinery, or other such subject matter.1 Certainly, many persons who consider themselves deserving of a patent will be denied.2 Even if something is patentable, a patent may still be unenforceable based on improprieties that occurred in the procurement of that patent. So, imagine the surprise of a business owner who, while selling products that are ineligible for patent protection, is served with a summons and complaint or receives a cease and desist letter from a competitor alleging patent infringement. If the business owner could not procure a patent on the product, certainly the competitor should not have been able to do so either. Defending an infringement suit can be costly. Defending a patent in the inter partes review process can also be incredibly burdensome.3 Both of these legal concerns may actually constitute distractions resulting in loss of sales, premature exit from the market, and precluded entry.4 As is often the case in such a scenario, the competitor is seeking to enforce a patent that has been procured by

1. 35 U.S.C. § 101 (2018) ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.").

2. There are three common categories of patents: utility, design, and plant patents. The invention patent, also known as a product patent, protects only the product. United States v. Gen. Elec. Co., 82 F. Supp. 753, 814 (D.N.J. 1949) (quoting In re Amtorg Trading Corp., 75 F.2d 826, 832 (C.C.P.A. 1935)). The utility patent, sometimes termed a process patent, protects only the process. Id. Patents will not be refused solely because an invention can be characterized as a method of doing business. State St. Bank & Tr. Co. v. Signature Fin. Grp., Inc., 149 F.3d 1368, 1370, 1376 (Fed. Cir. 1998), abrogated by In re Bilski, 545 F.3d 943 (Fed. Cir. 2008) (considering a patent for a "Data Processing System for Hub and Spoke Financial Services Configuration"). For other examples of courts considering business-method patents, see DDR Holdings, LLC v. Hotels.com, L.P., 773 F.3d 1245, 1257-58 (Fed. Cir. 2014) (discussing patent for method of providing a host website with transparent, context-sensitive, e-commerce-supported advertisements); Ultramercial, Inc. v. Hula, LLC, 772 F.3d 709, 712 (Fed. Cir. 2014) (involving a patent for monetizing and distributing copyrighted products on the internet). For instance, in Bilski v. Kappos, the Supreme Court refused to invalidate a method of hedging risk in a commodities-trading patent simply because it involved a business method. 561 U.S. 593, 606-07 (2010) (holding that the application of the machine-or-transformation test as the sole test for deciding the patent eligibility of a "process" violated statutory principles).

3. Any person other than the patent owner can request an inter partes review. 35 U.S.C. § 311(a) (2018). The petition can request cancellation of one or multiple patents on the grounds that the patented claim fails the novelty or nonobviousness standards for patentability, but the challenges must be made "only on the basis of prior art consisting of patents or printed publications." Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC, 138 S. Ct. 1365, 1371 (2018).

fraud against the US Patent and Trademark Office (USPTO). That is
the subject of this Article, as alleged patent frauds are considered in
the franchise context.

Fortunately, there is a remedy for the business owner in the
above example: a Walker Process claim. This claim can be used either
offensively or defensively against the competitor for engaging in
monopolizing conduct violative of the Sherman Antitrust Act. The
Walker Process claim is typically used as a counterclaim to
a patent-infringement suit, in which the alleged patent infringer
(1) invokes antitrust law to allege that the patent holder wrongly
attempted to monopolize a market, and (2) “seek[s] a declaratory
judgment that the patent is invalid because its owner defrauded the
[USPTO].” Although this antitrust lawsuit typically arises as a
counterclaim to an infringement lawsuit, a Walker Process claim can
also be brought in declaratory judgment actions or in primary lawsuits
filed under the Sherman Act.

When a Walker Process claim is pursued defensively as a
counterclaim, the patentee is usually asserting its rights under a patent
based on certain identified activities of the defendant, where that
defendant contends that it has the right to engage in the accused
activity without a license. When a Walker Process claim is brought
offensively, the plaintiff claims that it lost customers because the patent
holder threatened patent litigation on the basis of fraudulently
procured patents.

Whether utilizing a Walker Process claim offensively or
defensively, a litigant can choose to engage in a traditional lawsuit or
the inter partes review process, whereby the USPTO reviews the
validity of the already-issued patent. If the litigant petitions for inter

9. See Dippin’ Dots, Inc. v. Mosey, 476 F.3d 1337, 1341 (Fed. Cir. 2007); Nobelpharma
   AB v. Implant Innovations, Inc., 141 F.3d 1059, 1067 (Fed. Cir. 1998); Cabinet Vision v.
   Cabinetware, 129 F.3d 595, 597 (Fed. Cir. 1997).
10. See Hydril Co. v. Grant Prideco LP, 474 F.3d 1344, 1350 (Fed. Cir. 2007) (holding that
    a plaintiff may bring a claim without waiting to be sued on the patent if there are “[t]hreats of
    patent litigation against customers, based on a fraudulently-issued patent, with a reasonable
    likelihood that such threats will cause the customers to cease dealing with their supplier”);
    Walker Process claim based on threats of litigation by manufacturer to retailers of bladeless fans).
    (2018); supra note 3.
partes review, it can move the court to stay litigation until the USPTO issues a ruling on the patent’s validity. Indeed, this review process has been dubbed the patent “death squad” for its role in aiding businesses, particularly large tech companies such as Apple Inc. and Alphabet Inc. (the parent company of Google and several former Google subsidiaries), to invalidate hundreds of issued patents. If a party believes the USPTO has exceeded its statutory bounds or incompetently reviewed a petition, judicial review remains available for the aggrieved party and allows courts to set aside USPTO actions that are “not in accordance with law” or are “in excess of statutory jurisdiction, authority, or limitations.”

B. This Article’s Scope

This Article commences, in Part II, by reviewing the scope of the Walker Process claim and its antitrust injury requirements, while also detailing the common barriers and obstacles in consumers’ and competitors’ ability to bring Walker Process claims. This Part also distinguishes Walker Process claims from “sham litigation.” Next, Part III discusses the standing requirements of Walker Process claims. Part IV then evaluates how patent-infringement challenges may arise in the franchising context and thereby imperil franchise systems. After establishing this context, Part V next examines the consequences of the Ritz Camera decision and argues that franchisors and franchisees should be considered “proper plaintiffs” for Walker Process claims. Part VI then demonstrates how many of the obstacles and barriers facing other Walker Process litigants are not issues for franchisors. Indeed, one could argue that Walker Process claims are better suited for franchisors

12. 35 U.S.C. § 315(a)(2) (2018). The Supreme Court recently strengthened, in effect, the government’s power to annul or set aside a patent. In Oil States Energy Services, the Court stated, the public-rights doctrine, which permits adjudication of public rights by entities other than Article III courts, “applies to matters ‘arising between the government and others, which from their nature do not require judicial determination and yet are susceptible of it.’” 138 S. Ct. at 1373 (quoting Crowell v. Benson, 285 U.S. 222 (1932)). The Court held that the inter partes review of a patent by the Patent Trial and Appeal Board falls squarely within the public-rights doctrine, and thus the USPTO can conduct inter partes review without violating Article III. Id.


and franchisees than for the other types of patent infringers with whom it is more commonly associated. Finally, Part VII, the Conclusion, reviews how franchise participants—particularly franchisors—are ideal plaintiffs for Walker Process claims. Franchise participants can best protect the franchise system and, indeed, should be empowered to help combat patent trolling.

II. WALKER PROCESS CLAIMS

A Walker Process claim can be a counterclaim to a patent-infringement suit. However, given the expansive case law since the concept was first coined, it also encompasses any other claim—by any party (e.g., a defendant or a plaintiff) alleging that an opposing party fraudulently procured its patent. The claim gets its name from the 1965 US Supreme Court case, *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*

Food Machinery filed suit against Walker Process for infringement of Food Machinery’s patent that covered knee-action swing diffusers used in aeration equipment for sewage treatment systems. Walker Process denied the infringement and eventually counterclaimed that Food Machinery “illegally monopolized interstate and foreign commerce by fraudulently and in bad faith obtaining and maintaining . . . its patent.” The district court dismissed the infringement complaint along with the counterclaim, finding that Walker Process attempted to use the issue of fraud to procure indirectly a cancellation of the patent via the lawsuit. The court reasoned that “only the government may ‘annul or set aside’ a patent.”

The US Court of Appeals for the Seventh Circuit affirmed the district court’s decision. Both courts concluded that proof of fraudulent procurement may be used to bar recovery based on infringement, but not to establish patent invalidity. On appeal, however, the US Supreme Court held that Walker Process’s action was “not barred by the rule that only the United States may sue to cancel or annul a patent.” The Supreme Court instead acknowledged that “a person

17. *Id.* at 173.
18. *Id.* at 173–74.
23. *Id.*
sued for infringement may challenge the validity of the patent on various grounds, including fraudulent procurement,\textsuperscript{24} the Declaratory Judgment Act,\textsuperscript{25} and the misuse of patent rights.\textsuperscript{26} The Court concluded that enforcement of a patent procured by fraud against the USPTO may violate section 2 of the Sherman Act if the other elements needed for a case under that section are present.\textsuperscript{27} In that instance, the treble damages provisions of section 4 of the Clayton Act would be available to an injured party.\textsuperscript{28}

Whether a \textit{Walker Process} claim is a permissive counterclaim or a compulsive counterclaim, which would bar an alleged patent infringer from raising the \textit{Walker Process} claim in a subsequent suit, is highly debatable. In \textit{Mercoid Corp. v. Mid-Continent Investment Co.},\textsuperscript{29} the US Supreme Court held that the plaintiff was not barred from bringing a subsequent suit based on misuse of a patent despite the fact that the plaintiff failed to raise this as a counterclaim in the previous infringement suit.\textsuperscript{30} However, a subsequent case has muddied the waters on this topic by interpreting this holding as narrowly applying solely to claims of patent misuse. The Second Circuit has held that counterclaims based on patent invalidity are, in contrast, compulsory counterclaims.\textsuperscript{31} Therefore, case law on the topic does not provide a clear answer.

\begin{itemize}
\item \textsuperscript{24} \textit{id.} at 176. “Fraudulent procurement,” also termed “fraud in the inducement,” occurs “when a misrepresentation leads another to enter into a transaction with a false impression of the risks, duties, or obligations involved.” \textit{Fraud in the Inducement}, BLACK’S LAW DICTIONARY (10th ed. 2014). It is “an intentional misrepresentation of a material risk or duty.” \textit{id.}
\item \textsuperscript{25} \textit{Walker Process}, 382 U.S. at 176.
\item \textsuperscript{26} Section 2 of the Sherman Act prohibits monopolization, attempts to monopolize, and conspiracies to monopolize. 15 U.S.C. § 2 (2018); \textit{Walker Process}, 382 U.S. at 174.
\item \textsuperscript{27} Except as provided in subsection (b), any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney’s fee.
\item \textsuperscript{28} \textit{Mercoid Corp. v. Mid-Continent Inv. Co.}, 320 U.S. 661 (1944).
\item \textsuperscript{30} \textit{Id.} at 671.
\item \textsuperscript{31} See \textit{Critical-Vac Filtration Corp. v. Minuteman Int’l, Inc.}, 233 F.3d 697, 704 (2d Cir. 2000); \textit{Eon Labs., Inc. v. SmithKline Beecham Corp.}, 298 F. Supp. 2d 175, 181 (D. Mass. 2003) (adopting the distinction between patent misuse and invalidity articulated in \textit{Critical-Val for antitrust claims}). \textit{But see} \textit{Tank Insulation Int’l, Inc. v. Insultherm, Inc.}, 104 F.3d 83, 88 (5th Cir. 1997) (holding that antitrust claims were permissive counterclaims in an infringement action); \textit{Hydramatics v. Filmtec Corp.}, 70 F.3d 533, 536 (9th Cir. 1995) (holding that antitrust claims were permissive counterclaims in an infringement action); \textit{P&M Servs. v. Gubb}, No. 07–12816, 2008
A. The Elements of Walker Process Claims

In order to bring a Walker Process claim, a purported patent infringer must prove two elements: (1) the patent was obtained through fraud upon the USPTO, and (2) the fraudulently obtained patent was used to restrain competition.\(^{32}\)

1. The First Element of Walker Process Claims: Fraud

The first element for a Walker Process claim is fraud. This is, of course, a basic common law concept hard to prove in court.\(^{33}\) Giuliano v. SanDisk LLC is an example of courts interpreting the fraud element,\(^{34}\) with the hardest component of fraud to establish being intent. The battle is not over, however, until a claimant proves all components—falsity, intent, justifiable reliance, and that without “the misrepresentation or deliberate omission the patent would not have been granted.”\(^{35}\) So, much of what parties need to show before pursuing a Walker Process claim is what the presumed patent infringer would later need to introduce in court to defeat a Walker Process claim.\(^{36}\)

The first element of the Walker Process claim is controlled by federal law\(^{37}\) and requires proof of the elements of fraud as developed in the common law.\(^{38}\) Today, fraud in patent procurement is usually in the form of inequitable conduct in the application process for the

\(^{32}\) Walker Process, 382 U.S. at 179 (Harlan, J., concurring).

\(^{33}\) The common-law elements of fraud are “(1) that a false representation of a material fact was made, (2) with the intent to deceive, (3) which induced the deceived party to act in justifiable reliance on the misrepresentation, and (4) which caused injury that would not otherwise have occurred.” C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1364 (Fed. Cir. 1998) (citing Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1069–70 (Fed. Cir. 1998)).

\(^{34}\) Giuliano v. SanDisk LLC, 705 F. App’x 957, 960 (Fed. Cir. 2017). A Walker Process claimant must present evidence sufficient to establish “clear and convincing evidence” that a patentee obtained a patent through “actual fraud upon the [USPTO].” Id. This must evidence a “clear intent to deceive the examiner and thereby cause the [USPTO] to grant an invalid patent.” Id.

\(^{35}\) In re DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 685 (2d Cir. 2009); C.R. Bard, 157 F.3d at 1364.


\(^{37}\) Dippin Dots, Inc. v. Mosey, 476 F.3d 1337, 1346 (Fed. Cir. 2007) (citing Nobelpharma AB, 141 F.3d at 1068; Nobelpharma AB, 141 F.3d at 1068 (holding that whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law).

\(^{38}\) C.R. Bard, 157 F.3d at 1364.
The defense of inequitable conduct has been described as "the primary doctrinal safeguard against patentee dishonesty." However, the Federal Circuit has set a particularly high standard for proving fraud by requiring both intent and materiality. Applied to the context of a party’s pursuit of a patent, fraud requires:

1. a false representation or deliberate omission of a fact material to patentability,
2. made with the intent to deceive the patent examiner,
3. on which the examiner justifiably relied [when] granting the patent, [and]
4. but for [the] misrepresentation or deliberate omission the patent would not have been granted.

Given the high burden placed on plaintiffs, it is perhaps unsurprising that in the vast majority of cases, summary judgment is granted to Walker Process defendants.

The second prong of the fraud element—the intent requirement—is the most difficult to prove in a Walker Process claim. While there is no requirement that the intent to deceive must be shown by direct evidence, in the absence of such direct evidence, an intent to deceive must be proven by clear and convincing evidence to be the "single most reasonable inference able to be drawn from the circumstantial evidence." Examples of such fraud include omitting prior art known to the patent applicant as shown in the applicant’s numerous, personal demonstrations of that art; deleting the

42. In re DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 685 (2d Cir. 2009); C.R. Bard, 157 F.3d at 1364.
44. Therasense, 649 F.3d at 1290-91. This legal standard was followed in other cases as well. Star Sci., Inc. v. R.J. Reynolds Tobacco Co., 537 F.3d 1357, 1366 (Fed. Cir. 2008); Scanner Techs. Corp. v. ICOS Vision Sys. Corp. N.V., 528 F.3d 1365, 1374-77 (Fed. Cir. 2008).
references to on-point prior art from its patent application without any adequate explanation; and failing to provide the full translation of a foreign patent that “was the only document in the initial application that, if fully understood by the patent examiner, would have resulted in a denial of that application.” These and other case holdings show that only a false or clearly misleading statement or omission can permit an inference of deceptive intent.

Without the intent to deceive, a Walker Process claim will not survive, and it can be extremely difficult to prove in hindsight that a party intentionally tried to deceive the USPTO. Illustratively, SanDisk, the patent holder in *Ritz Camera*, had a Walker Process claim against it regarding the NAND flash memory, but the US District Court for the Northern District of California granted summary judgment for SanDisk because the plaintiff could not show SanDisk had misrepresented material facts to the USPTO with an intent to deceive. The court reached this conclusion despite the fact that the plaintiff offered strong evidence that SanDisk had some knowledge of prior art that would preclude patentability. The plaintiff demonstrated that SanDisk had entered the prior art specifically into a prior art database and had cited this prior art during the prosecution of a relevant patent.

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47. *Kaiser Found. Health Plan, Inc. v. Abbott Labs., Inc.*, 552 F.3d 1033, 1051 (9th Cir. 2009).

48. See, e.g., *Brasseler, U.S.A. I., L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1383-85 (Fed. Cir. 2001) (holding that knowingly failing to disclose prior art to the USPTO demonstrated an intent to mislead); *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1181-82 (Fed. Cir. 1995) (holding that knowingly failing to disclose prior art allowed for an inference of an intent to deceive the USPTO); *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1192 (Fed. Cir. 1993) (upholding the trial court’s finding that the patentee knowingly submitting deceptive affidavits to the USPTO in order to procure the patent constituted intentionally inequitable conduct).

49. See, e.g., *Leviton Mfg. Co. v. Universal Sec. Instruments, Inc.*, 606 F.3d 1353, 1364 (Fed. Cir. 2010) (vacating summary judgment because material issues of facts remained regarding intent); *Sentex Sys., Inc. v. Elite Access Sys., Inc.*, Nos. 98-1462, 98-1572, 2000 U.S. App. LEXIS 13560, at *5 (Fed. Cir. June 9, 2000) (stating that intent to mislead the USPTO cannot be solely inferred from a failure to disclose material prior art when the patentee did not know of it); *Nordberg, Inc. v. Telsmith, Inc.*, 82 F.3d 394, 396-97 (Fed. Cir. 1996) (finding that the patent holder did not conceal prior art references with intent to deceive the USPTO because there was no evidence that the patent holder actually knew of the prior art).

50. *Giuliano v. SanDisk Corp.*, 224 F. Supp. 3d 851, 871 (N.D. Cal. 2016), *aff'd sub nom.* *Giuliano v. SanDisk LLC*, 705 F. App’x 957, 960 (Fed. Cir. 2017). Without the intent to deceive, a Walker Process claim simply will not survive. See, e.g., *Nordberg*, 82 F.3d at 396-97 (finding that the patent holder did not conceal prior art references with intent to deceive the USPTO because there was no evidence that the patent holder actually knew of the prior art).

51. *Giuliano*, 705 F. App’x at 959-60.
If this evidence is insufficient to survive summary judgment, then the burden to establish intent to deceive must be extremely high. In fact, the above case indirectly supports the notions that a misrepresentation in the form of an omission is more likely to be considered innocent and that an omission alone cannot support *Walker Process* fraud without "evidence of intent separable from the simple fact of the omission." But is not an omission itself often formidable evidence of an intent to deceive? Patent challengers will likely be hard-pressed to discover clearer evidence of such an intent.

The fourth prong of the fraud element—the causal connection between the misrepresentation and the issuance of the patent—is also especially confounding. It would be hard to prove that the USPTO would have denied the patent but for the misrepresentation. As the last element, causation serves as the core component in proving fraud upon the USPTO and, ultimately, the invalidity of a disputed patent. It is a crucial step for every *Walker Process* claim. If instead a patent is found to be valid even after finding that it was procured by deceit or omission, then the patent clearly is not deemed harmful for society. That is because the outcome—the initial determination to grant the patent—is the same regardless of whether deceit was involved. Thus, if a claimant cannot prove the direct causal connection between the misrepresentation and the issuance of the patent, the claim becomes moot.

54. *See Hovenkamp*, * supra* note 4, at 22. While a grave omission, by itself, ordinarily should be evidence of an intent to deceive, certainly internal memoranda or statements directly referring to, or even indirectly alluding to, the company's intent to deceive the USPTO with omissions during the patent prosecution process would be even stronger evidence.
55. *See supra* notes 41–43 and accompanying text (discussing the elements of fraud and the *Walker Process* claim).
56. *See In re DAVP Direct Purchaser Antitrust Litig.*, 585 F.3d 677, 690 (2d Cir. 2009) ("If a patent is valid, a *Walker Process* claim cannot stand."); *King Drug Co. of Florence v. Cephalon, Inc.*, Nos. 2:06-cv-1797, 2:06-cv-1833, 2:06-cv-2768, 2:08-cv-2141, 2014 WL 982848, at *60 (E.D. Pa. Mar. 13, 2014) ("The reason that invalidity is necessary for a *Walker Process* claim is that a valid patent, even if procured by outright lies or thievery, does not harm consumers, because they face the same circumstances that they would have even if the misconduct had not occurred."); *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 363 F. Supp. 2d 514, 546 n.28 (E.D.N.Y. 2005) (stating that a patent must be invalid before it can be a candidate for *Walker Process* fraud).
57. Of course, proving the fourth prong (that but for the misrepresentation or omission the patent would not have been issued) may not be as difficult as proving the second prong (intent). One may just look at whether the misrepresentation or omission was a material fact that the USPTO looked at when granting patentability; this should be on the record. *See SanDisk Corp. v. STMmicroelectronics, Inc.*, No. C 04-4379-JF (RS), 2008 WL 4615605, at *6 (N.D. Cal. Oct. 17, 2008); *supra* notes 44–48 and accompanying text.
Proving this connection becomes even more complicated if a court requires that the same facts both establish the factual predicate for patent invalidity and provide the basis for a presumed patent infringer's Walker Process claim. This means that a suspected infringer, before bringing the claim, must dedicate resources investigating and matching facts for patent invalidity and materiality in order to bring a successful suit. With this seemingly higher burden on the purported patent infringer—that he or she must, in effect, prove all the elements of fraud to initiate a claim—the supposed infringer certainly may be deterred from even initiating a Walker Process claim. The requirements place a large burden on challenging parties, such as franchisees, who likely do not have the resources to wage such a tough uphill battle. Moreover, a Walker Process claim can arise several years after a patent application is filed, further complicating the search for clear and convincing evidence.


The second element of a Walker Process claim is the antitrust portion, which requires proof of monopolization, and it is controlled by the case law of the circuit where the claim is brought. This element bleeds into the standing requirements for bringing a Walker Process claim, which involve proving that an antitrust injury occurred and

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59. Herbert Hovenkamp, *Competition for Innovation*, 2012 COLUM. BUS. L. REV. 799, 828 (2012). The US Supreme Court has broadly declared that patent invalidity defenses must be proven by "clear and convincing evidence." *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 95 (2011). However, it is far from clear whether challenges not on the law but as to the facts—i.e., in a postgrant challenge to the factual basis for that patent—must be proven by "clear and convincing" evidence. See *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. 898, 901, 912 n.10 (2014) (noting—while holding that a patent application had failed to meet the statutory definiteness standard and ruling to invalidate the patent—that the Court was not deciding "whether factual findings subsidiary to the ultimate issue of definiteness trigger the clear-and-convincing-evidence standard and, relatedly, whether deference is due to the PTO's resolution of disputed issues of fact").
60. *Supra* note 32 and accompanying text (explaining that the first of the two elements is "fraud upon the USPTO").
62. An antitrust injury is an "injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful." *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 477, 489 (1977).
that the injury reflects the anticompetitive effect. That effect is manifested in either the violation itself or the anticompetitive acts made possible by the violation.63

**B. Pursuing Walker Process Claims and Battling Sham Litigation**

Walker Process claims and sham litigation both contain antitrust causes of action, but only sham litigation involves a baseless suit. Sham litigation is about the enforcement of a patent that the patentee knows is invalid or that the defendant has not infringed upon.64 A patent holder can use manipulative licensing, settlements, and threats of litigation to get its way against competitors while taking care not to sign away too many rights.

Since the Sherman Act evaluates whether conduct unreasonably harms competition and whether conduct monopolizes the market, often Walker Process claims can be confused with simple sham litigation claims inasmuch as both claims require similar proof.65 Nonetheless, these two types of claims are distinct. A Walker Process action involves first proving that the challenged patent was obtained through fraud on the USPTO and, second, meeting the requirements for bringing a claim under section 2 of the Sherman Act—more often than not on an “attempt-to-monopolize” theory.66 On the other hand, sham litigation claims focus on the enforcement rather than the procurement of the patent, such as where the patentee seeks to enforce in bad faith a patent it knows to be invalid or not infringed upon by the plaintiff.67 Sham litigation claims require proof that the infringement suit was objectively baseless at the time of filing.68 When this is satisfied, the

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63. *Id.* at 489; see Atl. Richfield Co. v. USA Petrol. Co., 495 U.S. 328, 334, 344 (1990) (“[An] injury, although causally related to an antitrust violation, nevertheless will not qualify as an ‘antitrust injury’ unless it is attributable to . . . a competition-reducing aspect or effect of the defendant’s behavior.”); Cargill, Inc. v. Monfort of Colo., Inc., 479 U.S. 104, 122 (1986) (holding that loss or damage caused solely by increased competition is not an antitrust injury). As shown in Part VI, the second element for Walker Process claims and the standing requirement for antitrust injury overlap one another and certainly influence each other.

64. See Prof’l Real Estate Inv’rs, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60 (1993) (examining the issues in the patent enforcement context, including those related to sham litigation).


67. *See Prof’l Real Estate Inv’rs*, 508 U.S. at 60.

68. *Id.* To prove an “attempt to monopolize,” a party must demonstrate “the patentee’s possession of exclusionary power within the relevant market”—that is, it is “necessary to appraise
court will require proof that the suit was motivated by a subjective intent to abuse the litigation process in order to interfere with the business of a competitor.69

Similarities in Walker Process and sham litigation actions arise. Once an antitrust plaintiff has satisfied the first element of its claim—either fraud on the USPTO (a Walker Process claim) or the patent holder's filing of an objectively baseless suit (sham litigation)—it must next prove an antitrust violation under either cause of action.70 Conversely, the inequitable conduct that is actionable in a sham litigation claim does not always, or even usually, rise to the unlawful and knowingly fraudulent behavior required to support a Walker Process claim. For example, a patent holder who uses an invalid patent (i.e., the patent is expired, too broadly interpreted, indefinitely stated, etc.) to demand unreasonable patent licensing agreements and who brings an action in bad faith for enforcement of such a patent may be engaged in sham litigation, but this patent holder will not be liable on a Walker Process claim unless the subject patent was fraudulently procured from the USPTO.71

With both Walker Process and sham litigation claims available, one would assume that competitors charged with patent infringement or otherwise facing a patent holder’s anticompetitive conduct would readily be able to use the legal system and protect their interests. However, patent holders often resort to two specific devices to prevent a declaration of invalidity with respect to their patent: manipulative licensing and settlements. Manipulative licensing occurs when a patent holder forces its competitors into an unfavorable licensing arrangement with merely the threat of a patent-infringement suit. These arrangements commonly entail “unfair royalty rates, double-charging of customers and manufacturers, mandatory cross-licenses, and reservation of the right to condition licenses on the resolution of litigation.”72 The legality of these licensing arrangements is governed

the exclusionary power of the illegal patent claim of the relevant market for the product involved.” See Handgards, 601 F.2d at 993 n.13.

69. See Steinman & Fitzpatrick, supra note 65, at 100. This requires a consideration of the litigant's motivations behind filing suit and a showing of other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are anticompetitive themselves. See In re Burlington N., Inc., 822 F.2d 518, 528 (9th Cir. 1987).


71. Id. at 332.

by contract law principles, and, therefore, these arrangements are largely evaluated by state courts, unless raised in the context of patent infringement or validity.\textsuperscript{73} Even when evaluated by federal courts, these unfavorable conditions may not be deemed anticompetitive conduct if the licensee was fully aware of the licensing terms prior to acceptance of the arrangement.\textsuperscript{74}

Often, a patent holder threatens litigation for the sole purpose of extracting licensing payments rather than out of any interest in protecting patent rights.\textsuperscript{75} In other words, many patent disputes arise through “legalized licensing extortion” rather than through attempts by legitimate licensors to protect their technology, intellectual property, or know-how.\textsuperscript{76} Indeed, patent holders must take care not to license away too many rights to their patents because courts may deem the patent holders to have transferred away their own interest in their patents. The Federal Circuit has concluded, “there is no single, exhaustive list of rights a court must consider ‘to determine whether a licensor has transferred away sufficient rights to render an exclusive licensee the owner of a patent.’”\textsuperscript{77} So, the legitimate patent holder–licensor must tread carefully, asserting a significant residue of ownership interests while still licensing rights to others. Trolls would appear to have fewer such concerns, as their need to maintain a patent is mainly, if not exclusively, to collect licensing fees, not necessarily to plan long-term retention of and development of that patent in actual commerce, let alone to use the patent for their own manufacturing, design, or other productive purposes.


\textsuperscript{74} See Townshend, 2000 WL 433505, at *9 (dismissing, for failure to prove anticompetitive conduct, the claim that a patent holder’s licensing tactics rise to the level of patent misuse and antitrust violation).

\textsuperscript{75} See generally Zeljko Tekic & Dragan Kukolj, Threat of Litigation and Patent Value: What Technology Managers Should Know, RES.-TECH. MGMT., Mar.-Apr. 2013, at 18 (discussing the enormous value of patents utilized by patent trolls or sharks in the growing high-technology industry to acquire license payments).


This extortion arises through entities that are in the business of purchasing highly questionable patents, not for the purpose of expanding the patented technology or for operational purposes but for the purpose of obtaining payouts through protecting patent rights via licensing.\textsuperscript{78} Potential infringers are likely to pursue licenses to avoid costly infringement litigation and to prevent remedies, such as injunctions, from shutting down production, which can be even more costly for large manufacturing companies.\textsuperscript{79}

Even when a competitor does pursue legal action, the patent holder is often able to exploit its patent rights and avoid exposure of its fraudulent patent by negotiating a settlement with its competitor in exchange for a voluntary dismissal of the competitor's \textit{Walker Process} claims.\textsuperscript{80} This potential for abuse of the settlement process is especially concerning in light of courts' strong preference for the settlement of patent-infringement suits and refusal to evaluate the fairness of a settlement even where monopolistic conduct is present.\textsuperscript{81} However, a Second Circuit decision in 2009 held that a licensee can be liable for consumer antitrust damages if it knew or had reason to know that a patent's validity was at issue but did not perform an independent investigation into the issue.\textsuperscript{82} Hopefully, this potential liability will reduce competitor acceptance of settlements that turn a blind eye to invalid patents. Nevertheless, it is clear that granting consumers, as well as franchise participants, \textit{Walker Process} standing will reduce the patent holder's ability to escape patent invalidity claims through settlement.

The benefits of expanding consumers' \textit{Walker Process} standing may be negated by the fact that competitors will feel incentivized to avoid litigation and instead settle. However, expanding \textit{Walker Process} standing for franchise participants also ensures that patent trolls cannot weasel their way out of having their paltry, or even nonexistent,

\textsuperscript{78} Quinn, \textit{supra} note 76, at 985-986 & 985 n.121. 


\textsuperscript{81} Herbert Hovenkamp, \textit{Patents, Property, and Competition Policy}, 34 J. CORP. L. 1243, 1251 (2009) (evaluating the uncertain boundaries of patent lawsuit settlements).

\textsuperscript{82} \textit{In re DDAVP Direct Purchaser Antitrust Litig.}, 585 F.3d 677, 685 (2d Cir. 2009). The patent holder's duty toward licensees is primarily, if not purely, contractual. The policy ramifications could include placing a potentially large burden on licensees to conduct an investigation, as in \textit{DDAVP Direct Purchaser}, overly discouraging settlements; and placing additional checks on monopolistic conduct.
patent rights exposed. Indeed, even if patent holders try to avoid the invalidation of their patents through settlement, franchise participants still have the option of pursuing Walker Process claims. In this manner, Walker Process claims and sham litigation claims can pack a powerful one-two punch.

III. RITZ CAMERA AND THE ISSUE OF STANDING

To understand Walker Process claims in their current state, one must first understand who has standing to bring such claims. For licensing and distribution arrangements, such as franchising, the Ninth Circuit in Ritz Camera & Image, LLC v. SanDisk Corp. has broadened the standing to bring Walker Process claims. The potential reach of claims has shifted from longstanding jurisprudence (over fifty years old) to more expansive, innovative case law. This new notion of enlarged standing is at the heart of the Ritz Camera holding, and the profound implications of Ritz Camera on franchise participants is at the heart of this Article.

In Ritz Camera, the Ninth Circuit held that direct purchasers have standing to bring Walker Process claims against patent holders in the same manner as competitors injured by anticompetitive conduct. The plaintiffs, direct purchasers of the patented NAND flash memory product, brought a Walker Process claim against the patent holder, 

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83. Evidence abounds that patent assertion firms, sometimes termed “non-practicing entities” (NPEs) rather than the unabashedly negative term “troll,” frequently hold patents not for productive use but just to threaten litigation and acquire license payments (i.e., to troll). In 2013, patent trolls cost the US economy about $30 billion annually. Mark A. Lemley & A. Douglas Melamed, Missing the Forest for the Trolls, 113 Colum. L. Rev. 2117, 2119 (2013). NPEs also tend to succeed at litigation much more than entities that actually use their own patents; between 2013 and 2017, NPEs had a patent litigation median damage award of $14.8 million compared to $4.2 million for practicing entities. LANDAN ANSELL ET AL., PRICEWATERHOUSECOOPERS, 2018 PATENT LITIGATION STUDY 9 (2018), https://www.ipwatchdog.com/wp-content/uploads/2018/09/2018-pwc-patent-litigation-study.pdf [https://perma.cc/6C5W-AQEH]. Also, note that there are hybrids of both use and trolling, where the latter is effectively licensed to another entity. See Lemley & Melamed, supra, at 2121 (describing a patent troll offshoot, the patent privateer, which is a business that makes products, presumably under its own patent(s), but also transfers one or more patents to a troll to pursue litigation against the privateer’s competitors).
85. Id. at 508.
86. A NAND flash stores data in a large array of cells where each cell holds one or more bits of data. In a typical, [NAND] Flash device, a high voltage of 1.8V is applied to the control gate to draw electrons from the substrate to tunnel through the gate oxide into a polysilicon floating gate layer. To store one bit, two charge levels in the floating gate layer can be stored to distinguish between a '1' and a '0'.

SanDisk, in the Northern District of California. The plaintiffs alleged that SanDisk violated section 2 of the Sherman Act when it conspired to monopolize and actually monopolized the market for NAND flash memory products by fraudulently obtaining patents from the USPTO, and then by using these patents to threaten competitors and competitors’ customers. SanDisk moved to have the claim dismissed, arguing that direct purchasers did not have standing to pursue Walker Process claims. However, the district court found that the direct purchasers did have standing to bring a Walker Process claim and noted that “[t]he Supreme Court’s decision in Walker Process places no limitation on the class of plaintiffs eligible to bring a Walker Process claim.” On appeal, the Ninth Circuit affirmed the district court’s decision.

The Ninth Circuit in Ritz Camera declined to restrict Walker Process patent invalidity suits to antitrust actions. Ritz Camera suggests that Walker Process claims may serve as a bulwark to counter “patent trolling”; these claims provide an effective mechanism for use by those “downstream” from a patent-infringement claim but nevertheless injured by the enforcement of fraudulently obtained patents.

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88. Id.
89. Id. at 1102-03. Prior to this ruling, “[n]either the Supreme Court nor the Ninth Circuit [had] determined whether direct purchasers, such as Ritz, have standing to assert a Walker Process claim.” Id. at 1103.
90. Id. at 1105.
91. Ritz Camera & Image, 700 F.3d at 508.
92. Id. at 507-08 (“Nothing in Walker Process supports SanDisk’s argument that the rules governing standing to bring patent validity challenges should be imported into an antitrust case simply because one element of the antitrust cause of action requires proof of improper procurement of a patent.”). While the action seeks relief under the antitrust laws, it does not directly seek to invalidate the patent. Id. at 508.
93. Nonpracticing entities are often referred to as “patent trolls”—somebody who tries to make money from a patent they are not using and have no intention of using in the future. Stijepko Tokic, The Role of Consumers in Deterring Settlement Agreements Based on Invalid Patents: The Case of Non-Practicing Entities, 2012 STAN. TECH. L. REV. 1, 3.
94. James E. Abell III, Comment, Setting the Standard: A Fraud-Based Approach to Antitrust Pleading in Standard Development Organization Cases, 75 U. CHI. L. REV. 1601, 1629 (2008) (“In cases where a downstream manufacturer brings suit against a patent holder, the claims could be used as leverage to extract favorable licensing terms.”); see generally Christopher A. Cotropia & James Gibson, The Upside of Intellectual Property’s Downsides, 57 UCLA L. REV. 921, 948 (2010) (“Each new patent becomes a barrier to any downstream innovation that wishes to build upon the patented method.”).
This decision naturally implies that those injured by the fraudulent enforcement of patents have broad standing to bring Walker Process claims. Many courts have held in this manner, though others have disagreed. It is worth briefly noting that broad standing is not limitless. For example, courts have denied standing for Walker Process claims when the challenged patent was found valid in a separate infringement proceeding or when the USPTO reviewed the patent and determined its validity. Additionally, direct purchasers do not have

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95. See In re DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 691–92 (2d Cir. 2009) (holding that direct purchasers had standing to pursue their Walker Process claim despite the fact that, as purchasers, they could not directly challenge the patent’s validity); see also In re Lipitor Antitrust Litig., No. 3:12-cv-2389, 2013 WL 4780496, at *17 (D.N.J. Sept. 5, 2013), rev’d, 868 F.3d 231 (3d Cir. 2017) (denying to categorically exclude direct purchasers from having Walker Process standing); Hydril Co. v. Grant Pridero LP, 474 F.3d 1344, 1352 (Fed. Cir. 2007) (refusing to apply the standing limitation on declaratory judgment actions challenging a patent’s validity to the context of a Walker Process claim); Oetiker v. Jurid Werke, G.m.b.H., 556 F.2d 1, 2–6 (D.C. Cir. 1977) (holding that a plaintiff could bring a Walker Process claim even after the patent holder disclaimed his patent and thus mooted the patent invalidity issue).

96. See In re Remeron Antitrust Litig., 335 F. Supp. 2d 522, 528–29 (D.N.J. 2004) (finding that direct purchasers did not have standing to bring a Walker Process fraud claim because the plaintiffs never had the patent enforced against them, were never threatened with such enforcement, and were not in a position to manufacture a competing product); Indium Corp. of Am. v. Semi-Alloys, Inc., 566 F. Supp. 1344, 1352–53 (N.D.N.Y. 1983) (“In this court’s view, in order to establish antitrust standing to assert a Walker Process claim, the plaintiff must at least be able to allege facts that indicate that the patent holder has enforced, or has sought to enforce, or has threatened to enforce its fraudulently obtained patent against the plaintiff itself.”). However, the DC district court, in ruling that direct purchasers could have Walker Process standing, expressly rejected this ruling as unpersuasive, stating, “The court in In re Remeron, by comparison, did find that a direct purchaser lacked standing to bring a Walker Process claim. However, the court offered little justification for its holding.” Molecular Diagnostics Labs. v. Hoffmann-La Roche Inc., 402 F. Supp. 2d 276, 280 (D.D.C. 2005). Molecular Diagnostics likewise distinguished Carrot Components Corp. v. Thomas & Betts Corp., which rejected a Walker Process claim because the plaintiff could not show that the patent holder sought to enforce the patent against the plaintiff. No. 85-5133, 1986 WL 84373, at *5 (D.N.J. Feb. 3, 1986).

97. See In re DDAVP, 585 F.3d at 691–92 (holding that purchaser plaintiffs may only “raise Walker Process claims for patents that are already unenforceable due to inequitable conduct”); In re Tamoxifen Citrate Antitrust Litig., 466 F.3d 187, 204 (2d Cir. 2005), abrogated by FTC v. Actavis, Inc., 570 U.S. 136 (2013) (giving great deference to previous findings of validity regardless of potential success of settled infringement claims); Kroger Co. v. Sanofi-Aventis, 701 F. Supp. 2d 938, 962–63 (S.D. Ohio 2010) (holding that purchasers of a patented drug did not have standing to raise a Walker Process claim because the patent was successfully enforced against an infringer). However, the reissuance of a patent by USPTO “does not bar a later finding that the patent was originally procured by fraud.” See In re Lipitor Antitrust Litig., 808 F.3d 231, 270 (3d Cir. 2017) (citing Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1291, 1288 (Fed. Cir. 2011)).

standing if the claim is based on a patent that the patent holder chose not to enforce against the party bringing the claims.\textsuperscript{99}

The wide availability of a \textit{Walker Process} claim to fight patent trolling makes that claim particularly suitable to the franchise context. Franchisees or franchisors may be patent-infringement defendants, be direct purchasers from a patent holder, or have similar antitrust injuries to that of the plaintiff in \textit{Ritz Camera}. For example, in \textit{Dippin’ Dots, Inc. v. Mosey}, the patent holder and franchisor, Dippin’ Dots, sued for patent infringement a group of former franchisees that sold similar ice cream products called “Frosty Bites.”\textsuperscript{100} The former franchisees in turn brought a \textit{Walker Process} antitrust claim against Dippin’ Dots, contesting the validity of the Dippin’ Dots patent by arguing that the patent was procured through fraud on the USPTO.\textsuperscript{101} The jury ultimately found for the franchisees; however, the court of appeals, although finding the patent invalid by virtue of inequitable conduct, determined that Dippin’ Dots’ intent to deceive the USPTO was not sufficiently established under the Sherman Act.\textsuperscript{102}

As was perhaps the case in \textit{Dippin’ Dots}, franchise participants can be named as patent-infringement defendants for merely competing in the marketplace.\textsuperscript{103} Additionally, franchisees may be licensees of intellectual property accused of patent infringement without themselves being named as defendants.\textsuperscript{104} It is likely that \textit{Ritz Camera}’s extension of the \textit{Walker Process} claim to direct purchasers extended access to the claim to all franchise participants.


\textsuperscript{101} Dippin’ Dots, Inc. v. Mosey, 476 F.3d 1337, 1346 (Fed. Cir. 2007).

\textsuperscript{102} Id. at 1346-47 (“To demonstrate \textit{Walker Process} fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct.”).

\textsuperscript{103} Id. at 1340. This point is debatable with respect to the facts in \textit{Dippin’ Dots}. Not enough facts are provided in the court opinion to verify the plaintiff’s motive. Another plausible reading is that the franchisees were named as defendants because Dippin’ Dots genuinely believed that franchisees were infringing on its patent.

\textsuperscript{104} Cf. MedImmune, 549 U.S. at 137 (holding that licensees are not required to break or terminate a license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed upon, as far as Article III is concerned); see, e.g., Transitron Elec. Corp. v. Hughes Aircraft Co., 649 F.2d 871 (1st Cir. 1981) (evaluating a claim by a licensee seeking to escape payment of future royalties, or disgorgement of previously paid royalties, as a breach of contract claim premised on fraudulent procurement of a patent). For more on this point—how franchisee-licensees are likely to be affected by infringement suits against their franchisor—see \textit{infra} Part IV.
IV. INTELLECTUAL PROPERTY IN THE FRANCHISE SETTING

Franchisors create a relationship with franchisees to license the use of intellectual property. Intellectual property protection is a crucial aspect of franchise network planning, as it comports with the franchisors' desire to attract consumers and exclude competitors. Franchisees must be careful when creating something while in a franchisor-franchisee relationship because the franchisor may have a right to that creation.105

Franchising is an arrangement between a franchisor, a developer of a system for conducting a particular business, and a franchisee, another entity that uses that system in exchange for compensation.106 Typically, the franchise relationship is a long-term contractual relationship in which the franchisor grants the franchisee a right to use the franchisor's name and trademark and to sell the franchisor's products or adopt its overall business plan in exchange for royalties and other fees.107 This arrangement is usually intended to be elaborate, long-term, and, most importantly, governed by a comprehensive franchise agreement.108 In return for their money and

106. Franchising is "a business relationship based on contract law in which a franchised business grants a franchisee the rights to use its trademarks and proprietary information in exchange for royalties." Robert W. Emerson, Franchise Territories: A Community Standard, 45 WAKE FOREST L. REV. 779, 780 (2010). It has long been considered an elaborate, relational contract which, for many franchise networks, centers around the franchised enterprise's overall business format rather than simply a single product or service.

[Franchises are] a business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor.

108. Franchise Contract Interpretations, supra note 107, at 646; see also Robert W. Emerson, Franchise Terminations: "Good Cause" Decoded, 51 WAKE FOREST L. REV. 103, 106 (2016) (explaining that a predominant approach under franchise law is to treat the franchise relationship "the same as any other contractual relationship").
hard work, business-format franchisees rightfully expect much from the franchisor.  

Franchisees looking to argue violations of federal or state antitrust laws, whether by their franchisor, fellow franchisees, or third parties, will likely point to the importance of antitrust law in this nation as spelled out by the Court in *United States v. Topco Associates*. The Court in that case stated:

> Antitrust laws in general, and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms. And the freedom guaranteed each and every business, no matter how small, is the freedom to compete—to assert with vigor, imagination, devotion, and ingenuity whatever economic muscle it can muster.

Under antitrust law, franchise relationships are analyzed mostly in the same way as nonfranchise relationships. Certain collaborative activities involved in franchising have been successfully challenged as unreasonable restraints of trade in violation of section 1 of the Sherman Act. Likewise, similar to nonfranchise relationships,

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109. Robert W. Emerson & Uri Benoliel, *Are Franchisees Well-Informed? Revisiting the Debate over Franchise Relationship Laws*, 76 ALB. L. REV. 193, 203 (2013) (citing numerous sources for the conclusion that "[i]ndividuals with no prior business ownership experience are attracted to the franchise business format because it provides the franchisee with the following: 1) an opportunity to join an already established business system; 2) site selection assistance; 3) initial training; 4) ongoing training; and 5) detailed operational manuals."). As to franchisees' receiving the franchisor's name and trademark, the right to sell a franchisor's products, and the right to adopt the franchisor's business plan, see supra note 107 and accompanying text.

110. See, e.g., *Standard Oil Co. v. Fed. Trade Comm'n*, 340 U.S. 231, 233–34, 248 (1951) ("The heart of our national economic policy long has been faith in the value of competition."); *Midwestern Waffles, Inc. v. Waffle House, Inc.*, 734 F.2d 705, 721 (11th Cir. 1984) ("The antitrust laws are designed to protect the consumer interest in competition and courts recognize that giving wide latitude to businesses in choosing methods of distribution and particular distributors promotes competition."). But see *Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 513, 518 n.2 (E.D. Mich. 1998) (concluding that if franchisor approval is required of any distributor of products to the franchisee other than the franchisor itself, and if the franchisor has legitimate business reasons for rejecting a proposed alternate distributor, then there is no antitrust violation, even if the franchisor has a secondary desire not to face competition).


112. *Id.* at 610.

113. *Id.* at 609–10 (describing the problems that arise when courts interpret franchise agreements in accordance with general contract-law principles).

114. Barry M. Block & Matthew D. Ridings, *Antitrust Conspiracies in Franchise Systems After American Needle*, 30 FRANCHISE L.J. 216 (2011); see *United States v. Gen. Motors Corp.*, 384 U.S. 127, 144–45 (1966) (holding that a franchisor and franchisees' agreement to not sell cars to discount sellers was a conspiracy that violated section 1 of the Sherman Act); see also *Quality Mercury, Inc. v. Ford Motor Co.*, 542 F.2d 466, 472 (8th Cir. 1976) (holding that an agreement between a franchisor and competing franchisee that gave the franchisee veto power over all applications for other franchisees in the area was a sufficient cause of action under section 1 of the Sherman Act); *Am. Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230, 1242 (3d Cir. 1975)
franchises are subject to claims of illegal tying arrangements.\textsuperscript{115} Such arrangements are agreements to sell a product on the condition that the buyer buys a tied product or, at the very least, agrees not to purchase that product from any other supplier.\textsuperscript{116} The seller can then “leverage this market power to exclude other sellers of the tied product.”\textsuperscript{117} However, individual franchisees do not have large market power and usually are not considered to be at risk of committing antitrust violations.\textsuperscript{118} Conversely, franchisors often have large market power over both franchisees and prospective competitors.\textsuperscript{119} How this power is exercised frequently relates to the intellectual property licensing and use arrangement.

Franchisors license to franchisees intellectual property, such as rights to trademarks, trade names, patents, and know-how to use for the sale of goods or services.\textsuperscript{120} Patents are not the most important intellectual property concern for most franchisors and their franchisees; at law and in practice, the key intellectual property concern in franchise relationships is usually the system’s trademark.\textsuperscript{121} However, as

\begin{itemize}
\item \textsuperscript{115} See Highland Capital, Inc. v. Franklin Nat’l Bank, 350 F.3d 558, 564–65 (6th Cir. 2003) (stating that while the Sherman Act does not explicitly prohibit tying arrangements, such arrangements do violate the Sherman Act if they produce anticompetitive behavior).
\item \textsuperscript{116} See Rick-Mik Enters., Inc. v. Equilon Enters., LLC, 532 F.3d 963, 971 (9th Cir. 2008); Unijax, Inc. v. Champion Int’l, Inc., 683 F.2d 678, 684 (2d Cir. 1982).
\item \textsuperscript{117} Cascade Health Sols., v. PeaceHealth, 515 F.3d 883, 912 (9th Cir. 2008).
\item \textsuperscript{118} Block & Ridings, supra note 114, at 216. In fact, franchisees only seem to face accusations of antitrust violations when acting jointly with other franchisees in a franchise system. See, e.g., Big Apple BMW, Inc. v. BMW of N. Am., Inc., 974 F.2d 1358, 1364–65 (3d Cir. 1992) (discussing an alleged conspiracy between BMW franchisee dealers to preclude a new potential franchisee from joining the franchise); Am. Motor Inns, 521 F.2d at 1254 (holding that the combined effect of franchisee action amounted to an anticompetitive conspiracy to preclude a new potential franchisee application).
\item \textsuperscript{120} 3 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 10.02 (2019); WORLD INTELLECTUAL PROP. ORG., WIPO INTELLECTUAL PROPERTY HANDBOOK 99 (2d ed. 2004), www.wipo.int/edocs/pubdocs/en/intproperty/489/wipo_pub_489.pdf [https://perma.cc/5KRJ-6A32] [hereinafter WIPO Handbook].
\item \textsuperscript{121} At law, the franchise is defined to include a trademark license. Robert W. Emerson & Steven A. Hollis, Bound by Bias? Franchisees’ Cognitive Biases, 13 OHIO ST. BUS. L.J. 1, 5–6 (2019) (surveying the Federal Trade Commission rule on franchising and the statutory or judicially adopted definitions of franchising found in the fifty states and finding that “[t]wo of the three elements [of franchising]—the trademark and the mandatory fee—. . . appear in all state law definitions as well as the FTC definition”). Under the Lanham Act, the franchisor’s “statutory duty
intellectual property evolves, patent protection within the franchise market has become increasingly important as franchisors seek to monopolize certain processes and machines to exclude competitors. For example, McDonald’s currently owns a number of utility patents for various inventions, such as an automated beverage system, a conveyor belt assembly, and an automated grill. A large McDonald’s competitor, Burger King, owns patents on an electric broiler, a steam-generating assembly, a food-holding cabinet assembly, a wall surface, an apparatus and method for blocking flame and spreading heated gas from a broiler flue, and a method for providing wide-area wireless communication coverage. Outside of the food service industry, Bandag Incorporated, a tire retreading franchisor, owns numerous patents, including different tire-tread designs and methods for bonding treads to tires. These examples illustrate that franchisors in virtually any type of franchise system may own patents.

In the franchisor-franchisee relationship, patents can also be useful in situations where an implied license may arise. This situation occurs when a franchisee develops an idea or system for use in the network; presumably, such an invention would be patentable, triggering the issue of whether the franchisor has an implied right to enforce quality control underlies the existence and enforcement of quality and uniformity standards in a franchise system, with a corollary of this duty being that the trademark owner has a legal obligation to prevent the sale of unauthorized products under the trademark.” Lanham Act, 15 U.S.C. §§ 1051-1141 (2018); 1 W. Michael Garner, Franchise and Distribution Law and Practice § 7:5 (2019).

As for practice, the raison d’être of the franchise is the trademark:

At the heart of every franchise agreement is a trademark license. In fact, the right to use the trademarks—the brand name, logos, and designs—of the franchisor is often the key reason why a person decides to enter into a franchise agreement with a large national chain rather than build up his or her own business. The person is relying on the already existing marketing success of the franchisor to increase the chance of success of his or her new business.


use the invention patented by its franchisee.\textsuperscript{126} Further issues may arise because many franchise agreements provide to franchisees not just the authority to use the franchisor’s name and trademark but also the right to use or otherwise make the most of the franchisor’s patents.\textsuperscript{127} When a franchisor or franchisee applies for a patent, the patent could be challenged for allegedly having been in actual use prior to the filing of the patent application, especially if the franchise program has been operating for a while.\textsuperscript{128} A valid patent cannot be obtained for an invention already in public use or sold over a year before the filing of a patent application.\textsuperscript{129}

Inherent in the franchise structure is a grant of a license from the franchisor to the franchisee.\textsuperscript{130} A trademark licensee may not sue the owner of the mark for infringement, as the trademark owner itself has specifically granted the licensee a right to utilize the trademark.\textsuperscript{131} Moreover, similar to how a franchisor may impliedly grant a trademark license to a franchisee, the same is true for patents as well. A patent confers upon the patentee a “bundle of rights,” and a patentee may choose to transfer any number of those rights to a licensee or assignee, such as a franchisee.\textsuperscript{132} Additionally, although franchisees may have an implied license to use a franchisor’s patents, this license would probably terminate with the franchise agreement. Such is the case in trademark law, where termination of a franchise agreement effectively ends the

\textsuperscript{126} Note that for goodwill, trademarks, and other such property interests, the franchisor tends to own whatever emanates therefrom, even if the franchisee contributed to the development of those property interests. See Emerson, supra note 105, at 357, 357 nn.36–37 (noting that, in almost all franchise agreements, “the franchisor sets forth for itself an ownership stake extending to all emanations from the original goodwill, even though the new franchisee may have developed a new idea or interest”). For example, “The Big Mac®, Filet-O-Fish®, and Bacon & Egg McMuffin® have all been developed from ideas generated by [McDonald’s] franchisees around the world.” Id. Other local McDonald’s products, such as the kiwi burger in New Zealand, also originated from franchisee efforts. See id. Patents and copyrights are specifically not mentioned. See id.
\textsuperscript{127} Madson, supra note 122, at 109.
\textsuperscript{128} Gurnick, supra note 125, at 369.
\textsuperscript{129} This “on-sale bar” prohibits a patent if the matter sought to be patented was sold, or at least offered for sale, more than one year before a patent application was filed. 35 U.S.C § 102(a) (2018). In other words, there is a one-year grace period to file for a patent after a sale or offer for sale of that which was invented. An offer’s or sale’s earliest date is the critical date for starting the year and is often referred to as the “statutory bar date.”
\textsuperscript{130} See Gurnick, supra note 125, at 370–71.
\textsuperscript{131} Westowne Shoes, Inc. v. Brown Grp., Inc., 104 F.3d 994, 997 (7th Cir. 1997).
\textsuperscript{132} Abate & Morten, supra note 77, at 488.
right of the franchisee to use the franchisor's trademarks.133 A licensee, however, is not estopped from challenging the validity of a patent.134

V. THE FRANCHISEE AS DIRECT OR INDIRECT PURCHASER

The standing requirements for Walker Process claims do not differ much from standing requirements in more conventional antitrust actions.135 However, direct purchasers filing Walker Process claims can still have standing even if they would not have had standing for challenging the validity of the patent in the first place. In 2012, the Ninth Circuit in Ritz Camera was the first to decide that direct purchasers have standing to bring Walker Process claims.136 Three years earlier, the Second Circuit in In re DDAVP expressly declined to rule on the issue of standing but recognized the "lack of binding precedent" with regard to the specific issue of whether purchaser plaintiffs have standing to assert a Walker Process claim.137 In other contexts, if the parties do not have any form of Walker Process claim (e.g., an infringement suit counterclaim), then a patent's validity can be challenged only by a party (1) that is producing or preparing to produce the patented product, and (2) is being threatened or is reasonably likely to be threatened with an infringement suit.138

A. Conventional Antitrust Actions: Illinois Brick

In conventional antitrust actions, the commonly used test for antitrust standing is whether the plaintiff is "within the area of the economy which is endangered by a breakdown of competitive conditions

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133. See McDonald's Corp. v. Robertson, 147 F.3d 1301, 1308 (11th Cir. 1998) (stating that a franchisee's unauthorized use of the franchisor's trademark requires the proper termination of the franchise agreement); 7-Eleven, Inc. v. Dhalwal, No. 12-CV-02276-KJM-GGH, 2012 WL 5880462, at *6-7 (E.D. Cal. Nov. 21, 2012); Wetzel's Pretzels, LLC v. Johnson, 797 F. Supp. 2d 1020, 1025, 1028 (C.D. Cal. 2011) (finding that defendant's use of plaintiff's trademark was unauthorized since the franchise agreement terminated).

134. Lear, Inc. v. Adkins, 395 U.S. 653, 674 (1969). More recent cases have teased out the ambiguities left by Lear and no decision has yet settled these issues. See Span-Deck, Inc. v. Fab-Con, Inc., 677 F.2d 1237, 1240 (8th Cir. 1982); Mayo Clinic Jacksonville v. Alzheimer's Inst. of Am., Inc., 683 F. Supp. 2d 1292, 1298 (M.D. Fla. 2009).


136. See supra Part III.

137. In re DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 684 (2d Cir. 2009); see also supra text accompanying notes 82, 95, 97.

138. See, e.g., In re DDAVP, 585 F.3d at 680; Cordis Corp. v. Medtronic, Inc., 835 F.2d 859, 862 (Fed. Cir. 1987).
in a particular industry.” The federal antitrust statutes do not explicitly make a distinction between direct and indirect purchasers.\textsuperscript{139} It was the Supreme Court that created the bar against indirect purchasers in two cases: \textit{Hanover Shoe, Inc. v. United Shoe Machinery Corp.} and \textit{Illinois Brick Co. v. Illinois}.\textsuperscript{141} Because of these cases, the antitrust suits are limited to those who first purchased from the patent holder.\textsuperscript{142} The reasoning behind barring other claimants is that consumers and others further down the line suffer damages that are less easily quantifiable and therefore introduce even more uncertainty in terms of their pursuing potential treble damages awards in federal court.\textsuperscript{143} The decision in \textit{Illinois Brick} means that not only are individual indirect consumers barred from recovery but also that larger indirect purchasers (i.e., small businesses) are unable to recover for the significant harm suffered from ordering in bulk.\textsuperscript{144} However, the Supreme Court held that \textit{Illinois Brick} does not preempt state laws that specifically grant indirect purchasers the right to sue, and, in fact, state courts have largely chosen not to follow the rule of \textit{Illinois Brick}.\textsuperscript{145} As a result, many indirect purchasers file suit in state courts while direct purchasers file suit in federal court.\textsuperscript{146}

Still, given the federal availability of treble damages and the ability of direct purchasers to pass on overcharges to indirect purchasers, federal standing is highly valuable.\textsuperscript{147} On the other hand,
most state “Illinois Brick repealer” statutes cap damage awards to indirect purchasers in some manner.\textsuperscript{148} Other states only allow the state attorney general to bring antitrust claims on behalf of the indirect purchaser, and some of these states can funnel the damage awards into state funds rather than awarding them to the injured parties.\textsuperscript{149} Finally, some states still do not recognize the standing of indirect purchasers to bring claims, or these states limit the standing in some other way.\textsuperscript{150} Thus, the distinction between direct and indirect purchasers is exceedingly important.

\textbf{B. The Clayton Act, “Efficient Enforcer” Factors, and Antitrust Injuries}

To pursue a conventional antitrust claim, the purported patent infringer must be a proper plaintiff within the meaning of section 4 of the Clayton Act and in light of four “efficient enforcer” factors. The four factors are

(1) the directness or indirectness of the plaintiff’s asserted injury;

(2) the plaintiff’s membership in an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest in antitrust enforcement;

(3) the speculative nature of the plaintiff’s alleged injury; and

(4) the difficulty of identifying damages and apportioning them among direct and indirect victims so as to avoid duplicative recoveries.\textsuperscript{151}

The purpose of this test is to narrow the scope of the statute so that suits cannot simply be brought by “any person who has been harmed by

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\item \textsuperscript{148} See, e.g., ALA. CODE § 6-5-60(a) (2014) (allowing recovery of actual damages plus a sum of $500); IOWA CODE § 553.12(2)–(3) (2015) (allowing recovery of actual damages plus exemplary damages at the court’s discretion upon a finding of willful or flagrant conduct); MISS. CODE ANN. § 75-21-9 (2016) (allowing recovery of actual damages plus a sum of $500). \textit{But see} CAL. BUS. & PROF. CODE § 16750(a) (West 2018) (allowing treble damages).
\item \textsuperscript{149} See, e.g., ALASKA STAT. § 45.50.577(a) (2017) (allowing the attorney general to bring a claim on behalf of an injured party and allowing for damages to be deposited in the general fund at court’s discretion); ARK. CODE ANN. § 4-75-315(a) (2011) (allowing attorney general to recover up to $1,000 in damages on behalf of injured party).
\item \textsuperscript{150} See, e.g., N.Y. GEN. BUS. LAW § 340(6) (McKinney 2018) (allowing indirect purchaser claims but requiring courts to take necessary steps to “avoid duplicate liability”).
\item \textsuperscript{151} Gatt Commc’ns, Inc. v. PMC Assocs., L.L.C., 711 F.3d 68, 78 (2d Cir. 2013); see Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519, 540–45 (1983) (discussing the four elements).
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anti-competitive conduct, however remotely or indirectly.” The test, however, does not require finding “the ideal plaintiff, nor the most altruistic one, nor the one most grievously injured by the anti-competitive conduct.” The “efficient enforcer” factors are nonexclusive, and no particular factor is more important than the others.

Although the Clayton Act does not restrict its protections to consumers or purchasers, it is evident that direct purchasers, when they have paid higher prices to the patentee because of the illegal monopoly, may be the preferred plaintiffs for such claims. This preference arises “because protecting consumers from monopoly prices is the central concern of antitrust,” and, “[a]s a result, consumer[s] standing to recover for an overcharge paid directly to an illegal cartel or monopoly is seldom doubted.” In fact, in Molecular Diagnostic Labs. v. Hoffman-La Roche, a doctrinal case granting direct purchaser standing, the court stated that “because direct purchasers have frequent interactions with the [monopolizing] defendants, they have a strong incentive to discover and litigate the offense.” In Molecular Diagnostic Labs., a direct purchaser of a patented drug filed a Walker Process claim on the grounds that, due to the patent holders’ enforcement of a fraudulently obtained patent, the purchaser had to pay an artificially inflated price for the patented drug. The patent holders moved to dismiss the action on the grounds that the direct purchasers lack standing. However, the court denied the patent holders’

152. Daniel v. Am. Bd. of Emergency Med., 428 F.3d 408, 450 (2d Cir. 2005) (stating that Associated General Contractors of California, Inc. v. California State Council of Carpenters offers no guidance as to how many factors must weigh against a plaintiff in order to find that a Clayton Act remedy is precluded or as to which factors are most important).

153. Id.


155. In re Netflix Antitrust Litig., 506 F. Supp. 2d 308, 316 (N.D. Cal. 2007) (recognizing that harm accrues directly to consumers and concluding that consumers have standing only if they can plead all other elements of a Walker Process claim). Courts have been reluctant to find that direct purchasers have standing to bring Walker Process claims unless a patent had “already been held unenforceable due to inequitable conduct.” In re DDAVP Direct Purchaser Antitrust Litig., 585 F.3d 677, 691–92 (2d Cir. 2009).

156. 2 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 345, at 356 (2d ed. 2000); see also Ill. Brick Co. v. Illinois, 431 U.S. 720, 734–35 (1977) (recognizing that antitrust laws will be effectively enforced by “concentrating the full recovery for the overcharge in the direct purchasers”).

157. Molecular Diagnostics Labs. v. Hoffmann-La Roche Inc., 402 F. Supp. 2d 276, 281 (D.D.C. 2005) (recognizing that competitor plaintiffs will generally have limited contact with defendants unless there is some suspicion of infringement by the defendant against the competitor).

158. Id. at 278.
motion and found that "there is little reason to think that standing requirements for Walker Process claims differ from standing requirements in more conventional antitrust action." In fact, the Federal Trade Commission and the Department of Justice have taken the position that broad consumer standing for Walker Process claims is appropriate.

C. Antitrust Injuries and Franchising

Antitrust injuries that have an effect on franchisees can be recognized as an antitrust injury to the franchisor. A prime example is found in *Mytee Products, Inc. v. Harris Research, Inc.*

There, Harris Research moved for a permanent injunction against Mytee after the court found that Mytee’s products had infringed on Harris’s patents for liquid extraction nozzles used in carpet cleaning. The court granted a permanent injunction against Mytee because Harris provided the extraction nozzles to its franchisees and the franchisees relied on the nozzles for a competitive advantage in the market. Since the nozzles enhanced liquid extraction from carpets, they were undoubtedly very valuable to franchisees operating carpet-cleaning businesses. Thus, taking away the patent protection would cause irreparable harm to franchisees from the resulting indirect competition. Further, not only did the infringement affect Harris’s franchisees but the court also held that it caused irreparable damage to Harris as the franchisor, because the “patented technology was almost exclusively used by its franchisee” and its franchisees used the nozzles as the primary tools for their businesses. Similarly, in *U.S. Horticultural Supply, Inc. v. Scotts Co.*, distributor US Horticultural sufficiently alleged an antitrust violation by the manufacturer, Scotts, when Scotts refused to renew US Horticultural’s distributorship for Scotts’s fertilizer product. Scotts’s decision came after US Horticultural rebuffed Scotts’s demand that US

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159. *Id.* at 281, 289.
160. *See* Brief for the United States & the FTC as Amici Curiae in Support of Appellee at 6, *Ritz Camera & Image, LLC v. SanDisk Corp.*, 700 F.3d 503 (Fed. Cir. 2012) (No. 12-1180). However, it is important to recognize that this may no longer hold true under the current administration.
162. *Id.* at 885.
163. *Id.* at 884-85.
164. *Id.* at 885.
165. *Id.* at 888.
Horticultural cease selling a fertilizer product of J.R. Peters Company, a competitor of Scotts.\textsuperscript{167}

Thus, while patents are typically an exception to the general antitrust rule prohibiting monopolization, suits to counter anticompetitive and arguably invalid patents can proceed on behalf of franchisees. A lawfully obtained patent allows the patentee to preclude others in the market from using the patented product regardless of the monopolization effects thereof.\textsuperscript{168} The antitrust injuries arise when the patent is illegally procured or illegally used to restrain other competitors in the market. Such injuries include, \textit{inter alia}, a monopolist’s use of licensing to increase a rival’s costs, a monopolist’s attempted enforcement of its fraudulently procured and invalid patent against would-be competitors, and communications to customers threatening infringement suits.\textsuperscript{169} After proving that an injury occurred, the claimant-infringer must prove that the claimed injury is sufficiently direct. To assess the directness of the injury, the court “look[s] to the chain of causation between [the patent infringer’s] injury and the alleged restraint in the market.”\textsuperscript{170}

In conventional antitrust claims, whether a person has standing as a direct or indirect purchaser depends on the state and the court where the suit has been filed. After getting past standing, courts have four factors to consider for whether someone is a proper plaintiff within the meaning of section 4 of the Clayton Act (and thus is able to pursue a conventional antitrust claim). Antitrust injuries to franchisees may also be considered injuries to the franchisor, and, as such, a franchisor can bring a suit on behalf of its franchisees.


\textsuperscript{169} Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 714 (9th Cir. 2003) (Pregerson, J., concurring in part and dissenting in part); see Christopher R. Leslie, \textit{The Anticompetitive Effects of Unenforced Invalid Patents}, 91 MINN. L. REV. 101, 103–04, 112, 125 (2006) (“The fear of infringement litigation can deter entry into the monopolist’s market, even if the potential competitor strongly believes that the patent at issue is invalid. Invalid patents can also increase entry costs by compelling rivals to research the patent’s validity, to attempt to design around the patent, or to pay (unnecessary) licensing fees.”).

\textsuperscript{170} Am. Ad Mgmt., Inc. v. Gen. Tel. Co. of Cal., 190 F.3d 1051, 1058 (9th Cir. 1999).
VI. MOVING TOWARD ENHANCED FRANCHISEE, NOT JUST FRANCHISOR, STANDING

This Article recommends an approach wherein both the franchisee and the franchisor may pursue Walker Process claims. The franchisee or, at the very least, the franchisee association acting on the franchisee's behalf should be granted the authority to pursue these claims upon suffering an antitrust injury under the Clayton Act. In addition, franchisors, besides having the right to sue for their own injuries, should also be able to file suit on behalf of their franchise network. In the general antitrust context, it appears the franchisor can file a representative suit or class action on behalf of its franchisees as long as it has not engaged in conduct similar to the defendant's alleged behavior. If the franchisor has engaged in similar conduct, it could serve as the basis for franchisee grievances against the franchisor.

A. Standing in Representative Suits

A representative suit may be brought under the Federal Rules of Civil Procedure where “the claims or defenses of the representative parties are typical of the claims or defenses of the class; and the representative parties fairly and adequately protect the interests of the class.” As expected, a key issue in franchisor-franchisee representative actions is whether the franchisor and its claims or defenses satisfy this test—that is, whether the franchisor fairly represents the franchisees' interests with claims or defenses typical of

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171. See Robert W. Emerson, Franchising and the Collective Rights of Franchisees, 43 VAND. L. REV. 1503, 1556 (1990). There have been proposals to accord franchisee associations more power, such as for negotiating with the franchisor. However, the law remains weak. See Robert W. Emerson & Uri Benoliel, Can Franchisee Associations Serve as a Substitute for Franchisee Protection Laws?, 118 PENN ST. L. REV. 99, 128 (2013) (concluding that “policymaker reliance on independent franchisee associations as a control against franchisor opportunism should be reassessed,” and instead legislatures should strongly consider enactment of franchisee protection laws); Emerson, supra, at 1556–57 (“[F]ranchisee association protection statutes only ban franchise agreements that prohibit franchisees from joining franchise associations; they accord no affirmative powers to those associations, nor do they make it explicitly unlawful for a franchisor to retaliate against franchisees who establish such an association.”). Franchisee association-to-franchisor collective bargaining remains unusual, with the franchisor holding the power as a matter of law and practice. Emerson & Benoliel, supra, at 112–13; see Rupert M. Barkoff, Collective Bargaining in Franchise Environments, N.Y. L.J., Nov. 17, 2010, at 3.

172. Franchise participants have a number of chances to claim antitrust injury to satisfy that element for each type of claim. Suits could be filed on behalf of the franchisor, its franchisees, or, perhaps, the franchise system itself. See supra notes 62–63, 169–170 and accompanying text (discussing antitrust injury).


the entire class. For example, in the antitrust context, in *Billy Baxter, Inc. v. Coca-Cola, Inc.*, the franchisor sued on behalf of its franchisees under the Sherman Act, the Clayton Act, and the Robinson-Patman Act, alleging that defendants Coca-Cola and Canada Dry restrained competition by agreeing not to engage in legitimate competition with each other.\textsuperscript{175} The franchisor’s supposedly representative suit ultimately failed because the franchisor’s business was not within the “target area” of the alleged wrongdoing and only suffered indirect damage, unlike the franchisees’ businesses.\textsuperscript{176} These standing challenges have been analogized to those faced by a nonoperating lessor alleging antitrust injuries on behalf of its lessee or by a patent holder bringing claims for antitrust violations directed toward its licensees.\textsuperscript{177}

However, the standing issues faced by franchisors in general antitrust representative suits may be more easily overcome by franchisors bringing *Walker Process* violations. Underlying every *Walker Process* claim against a fraudulently procured patent is the patent holder’s allegation that the *Walker Process* claimant is engaged in patent infringement and therefore requires an extraordinarily priced license to engage in continued business operations. When a patent holder brings such a claim against a franchisee or franchisees, the purported patent infringement is directed toward the very heart of the franchise system and attacks the legality of the franchisor’s franchise network directly. In other words, it calls into question whether the franchisor may grant certain franchise rights.\textsuperscript{178} This is because a

\textsuperscript{175} Billy Baxter, Inc. v. Coca-Cola Co., 431 F.2d 183, 185–86, 189 (2d Cir. 1970) (affirming district court’s grant of summary judgment where the franchisor-plaintiff lacked standing to represent a class of franchisees).

\textsuperscript{176} Id. at 187.

\textsuperscript{177} SCM Corp. v. Radio Corp. of Am., 407 F.2d 166 (2d Cir. 1969); *Plum Tree*, 58 F.R.D. at 376 (citing Calderone Enters. Corp. v. United Artists Theatre Circuit, Inc., 454 F.2d 1292 (2d Cir. 1971)).

franchised network of businesses allows a franchisor to acquire local expertise and rapidly penetrate local markets by granting franchisees a “license” of sorts to utilize the franchise system’s goodwill, including the know-how and intellectual property rights developed by the franchisor.  

**B. Franchisors Prosecuting Walker Process Claims for Franchise Network Protection**

The franchisor should be able to prosecute Walker Process claims as a means of network protection. It is likely that franchisors and franchisees have standing to bring such claims since they are treated similarly to those businesses with nonfranchise relationships. However, one hurdle to overcome will be the separate standards under which franchisors and franchisees are reviewed. Antitrust law often involves satisfying the rule of reason. Without more than a 25 percent market share, it will be difficult for a franchisor to establish a violation of this rule under section 1 of the Sherman Act (unreasonable restraints on trade).

This is important because vertical restraints, such as relationships between franchisors and franchisees, are generally judged under the rule of reason. For standing purposes, the franchisor—being harmed directly, rather than just indirectly—will have the same injury as its franchisee. The franchisor’s interests in defending against patent infringement or preventing enforcement of a fraudulently obtained patent will likewise align with its franchisee(s). Moreover, a franchisee’s—or multiple franchisees’—involvement in patent-infringement litigation threatens the goodwill of the franchise system, which the franchisor, as the ultimate owner of such goodwill, has a right to protect.

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181. The rule of reason requires the plaintiff to prove that a challenged practice has or is likely to have a substantial adverse effect on competition in a relevant market. *Id.* at 238.

182. *See Assam Drug Co. v. Miller Brewing Co.*, 798 F.2d 311, 318 n.18 (8th Cir. 1986).

183. *See generally* Emerson, *supra* note 105 (discussing the interactions of franchise goodwill and terminations of the franchise relationship).
A franchisor, acting on behalf of its franchisees and franchise system, may also be a proper plaintiff within the meaning of section 4 of the Clayton Act and in light of the four "efficient enforcer" factors discussed above. As already identified, a franchisor's asserted injury will be direct, rather than indirect, and will not be speculative. Additionally, duplicative recovery and litigation can be avoided if a franchisor is required to represent the rights of its franchisees, improving judicial efficiency. Lastly, franchisor self-interest in protecting the franchise system is greater than consumer self-interest and will be a sufficient motivating factor to pursue Walker Process claims, thereby vindicating public interest in antitrust enforcement.

Due to the amount at stake for the franchise system, franchisor-plaintiffs are less likely to be deterred from pursuing legitimate patent-validity challenges by accepting licensing arrangements or settlement agreements. By way of a hypothetical scenario, a franchisor could stunt a patent holder's ability to extort individual franchisees through repetitious threats and litigation by defending the franchise system's rights in a single Walker Process action. A franchisor with its deeper pockets is more likely to defend the franchise system's rights than a franchisee, as a patent lawsuit, which on average results in legal fees ranging between $700,000 and $5 million, is likely to bankrupt the franchisee's operations. At the very least, a franchise may be less likely to settle simply because of the enormous amount it can gain from patent invalidation and the numerous options it potentially has for claims and standing.

Additionally, many of the standing issues faced by consumers in maintaining Walker Process claims will not arise for franchise participants bringing such claims. In cases brought by consumer plaintiffs, often an issue critical to ascertaining standing is whether a consumer paid a monopoly overcharge to the monopolist. However,

186. See Christopher R. Leslie, New Possibilities for Asserting Walker Process Claims, 21 ANTITRUST 48, 50 n. 24 (2007) (discussing the lack of clarity with respect to consumer standing to bring Walker Process litigation). An example of such overcharges would be, in the Walker Process case itself, the monopolist charge of $150 per unit of the patent holder's sewage treatment aeration equipment while the patent was in effect, but only $50 after the patent expired. Leslie, supra note 169, at 119. This is distinguishable from a question of the business's profits or losses. After accounting for a presumed markup of 10 percent on the price of the items, the monopoly profits realized would amount to $105 per unit, as opposed to the nonmonopoly losses of $5 per unit. Christopher R. Leslie, The Role of Consumers in Walker Process Litigation, 13 SW. J.L. & TRADE AM. 281, 293 (2008).
franchise participant claims will be more akin to those of competitors who are charged with allegedly infringing upon the patent holder’s rights, which is an easier bar to meet.

C. Fighting Trolling and Sham Litigation

A franchisor’s challenge of an invalid patent will avoid disputes within the franchise system should a franchisee seek indemnification from the franchisor for licensing payments or royalties. In that case, it may actually be less expensive for a franchise to go ahead and challenge the patent at issue rather than having to purchase licensing rights for every potentially infringing franchisee. Even if the franchise’s case is looking bleak, it likely could still fall back on a settlement with the patent holder to protect the interests of franchisees. Therefore, the franchisee will either acquire a license to use the patent, or it will be free from any patent infringement due to invalidation.

There are, of course, concerns that a grant of broad Walker Process claim rights, as proposed in this Article, would lead to an outbreak of “reverse” sham litigation, whereby Walker Process plaintiffs (i.e., franchisors and franchisees) “cry wolf” that a patent has been obtained by virtue of fraud on the USPTO at heightened rates, despite lacking a sufficient basis for a belief that such fraud occurred. However, the barriers presently surrounding Walker Process claims ensure that “reverse” sham litigation cannot thrive. With difficult-to-satisfy requirements of intent and causation, there exists a robust balance of barriers and broad standing, impediments to successful fraud allegations combined with encouragement to file Walker Process claims.187 As an initial matter, Walker Process claims are extremely difficult to plead and to prove due to the heightened level of inequitable conduct and proof of intent required. Scholars have concluded that successful Walker Process claims are “few and far between”—most claims are dismissed on summary judgment due to an inability to prove that the patent holder’s inequitable conduct amounted to fraud on the USPTO.188 This is often due to the statutory presumption of validity afforded patent holders, which a challenger must rebut by clear and

187. See supra Section II.A; see also supra notes 48, 57.
188. See supra Section II.A; see also Giuliano v. SanDisk Corp., 224 F. Supp. 3d 851 (N.D. Cal. 2016), aff’d sub nom. Giuliano v. SanDisk LLC, 705 F. App’x 957, 960 (Fed. Cir. 2017) (denying a Walker Process claim where the alleged patent infringer could not show intent on behalf of the patent holder to deceive the USPTO); Dippin’ Dots, Inc. v. Mosey, 476 F.3d 1337, 1346 (Fed. Cir. 2007) (reversing a successful Walker Process claim where the patent holder’s inequitable conduct did not amount to fraudulent behavior).
convincing evidence in order to shift the burden. Moreover, a patent holder’s “good faith” or “honest mistake” during the patent application process will provide a complete defense to Walker Process claims. With the high litigation costs and attorneys’ fees associated with antitrust litigation, plaintiffs have little incentive to pursue frivolous litigation.

Additionally, the potential for abuse is lessened in view of federal courts’ authority to sanction frivolous or baseless lawsuits under the Federal Rules of Civil Procedure. Under Rule 11, the signature of an attorney or party constitutes a certificate by the signer that to the best of the signer’s knowledge, information, and belief, formed after reasonable inquiry, the suit is well grounded in fact and is warranted by existing law or a good-faith argument for the extension, modification, or reversal of existing law. An attorney’s or party’s failure to first conduct this reasonable inquiry may serve as a basis for the court’s imposition of sanctions against the culpable party, attorney, or law firm, or all of the above, to deter baseless filings by the parties in the

191. Where meritless claims are a real concern—such as in the emotional-distress context—the pleading standards and burdens of proof often favor the party bringing the claims, at least at the early stages of litigation. Compare Eagle-Picher Indus., Inc. v. Cox, 481 So. 2d 517, 528 (Fla. Dist. Ct. App. 1985) (refusing to allow a claim for emotional distress where the distress was caused by the plaintiff’s fear of contracting cancer after contact with asbestos, because allowing such claims would open the floodgates to meritless claims and would have a deceptive impact on the industry), with Molien v. Kaiser Found. Hosps., 616 P.2d 813, 923 (Cal. 1980) (allowing a husband to bring an emotional-distress claim against a hospital that misdiagnosed his wife’s disease). In California, an emotional distress plaintiff can defeat a motion to dismiss and then force a settlement with a party who would rather avoid a costly trial; this could incentivize meritless claims. Florida courts chose to avoid this dilemma by barring certain types of emotional-distress claims altogether. In contrast to emotional-distress claims, the incentive structure for Walker Process claims is flipped. As mentioned above, the procedural bar to Walker Process claims is extremely high due to the fraud requirement. Therefore, a Walker Process plaintiff would not be able to recoup its litigation costs unless it had a meritorious claim. Meritless claims are dismissed, not settled. See Eagle-Picher Indus., 481 So. 2d at 528.
192. Georgene Vairo, Rule 11 and the Profession, 67 FORDHAM L. REV. 589, 590 (1998). Rule 11 targets unprofessional and incompetent conduct that the bar’s disciplinary processes had previously ignored. See id.

More precisely, it created a vehicle for punishing certain kinds of conduct that were largely unreachable or untouched before. The open judicial punishment of such attorney conduct ultimately may help restore confidence in the profession in ways that the generally still very private disciplinary enforcement of ethical codes do not. Id. This raised judicial consciousness of the need to deal with abuses in the civil legal system. See id.

193. FED. R. CIV. P. 11(b).
future or by similarly situated litigants.\textsuperscript{194} Although \textit{Walker Process} frivolous litigation is unlikely, should this abuse occur, the federal courts would easily be able to deter such conduct.\textsuperscript{195} Certainly, Rule 11 seems intended to combat this exact sort of abuse in the litigation process.\textsuperscript{196} Given the amendments to the rule, the sanctions could logically follow the outcome of any sham litigation cases, acting as a sort of double deterrent against frivolous suits.

The likelihood of sanctions under Rule 11 is best understood by separating the various types of attorney misconduct into four broad categories: (1) nonviolation (where the pleading is reasonable under the circumstances); (2) a nonwillful, good-faith violation (where the reasonableness standard is not met because of factors such as incompetence, lack of experience, case complexity, and oversight); (3) a willful, good-faith violation (where the reasonableness standard is not met because of personally controllable factors, such as neglect or laziness); and (4) a willful, bad-faith violation (where the reasonableness standard is not met because of intentional disregard or misrepresentation of the facts or law or is not met for an improper purpose).\textsuperscript{197} According to the 1985 publication of a Federal Judicial

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\item \textsuperscript{194} Bas. Guides, Inc. v. Chromatic Commun's Enters., Inc., 498 U.S. 533 (1991) (affirming the lower court's imposition of sanctions against a party who signed a pleading without first conducting a reasonable inquiry into its factual basis).
\item \textsuperscript{195} DAVID RAUMA & THOMAS E. WILLING, REPORT OF A SURVEY OF UNITED STATES DISTRICT JUDGES' EXPERIENCES AND VIEWS CONCERNING RULE 11, FEDERAL RULES OF CIVIL PROCEDURE 2 (2005), https://www.uscourts.gov/sites/default/files/rule1105_1.pdf [https://perma.cc/N44U-EWBV].
\item \textsuperscript{196} FED. R. CIV. P. 11 advisory committee's notes to the 1983 amendments (attempting to expand the rule's application to litigants whose opponents act "in bad faith in instituting or conducting litigation").
\item \textsuperscript{197} SAUL M. KASSIN, AN EMPIRICAL STUDY OF RULE 11 SANCTIONS 27–28, 28 tbl.11 (1985), https://www.fjc.gov/sites/default/files/2012/Rule11Study.pdf [https://perma.cc/TG5C-EEXW].
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Center empirical study on Rule 11 sanctions, sanctions were awarded in 2 percent of cases falling under the first category of misconduct, 61 percent of cases falling under the second category, 85 percent of cases falling under the third category, and 98 percent of cases falling under the fourth category. Following the amendment of Rule 11 in 1993, providing for a safe harbor from sanctions if a challenged content or other alleged 11(b) violation is quickly corrected (typically, within twenty-one days), the rule had broad support from both judges and attorneys.

Having defeated existing patent troll threats surely can make a franchise system more appealing to a prospective franchisee that is worried about the peril of patent litigation. Alternatively, simply the reassurance that the franchisee will be protected by the franchisor in some form can further increase the value of the franchise system. While patent holders may comfortably bully unorganized, smaller companies that are unwilling to fight a patent-infringement case, a franchisor suing on behalf of a coalition of franchisees is a lot more daunting. The looming danger of franchises that will fight back on infringement claims may also make patent trolls less likely to engage in the business of utilizing patents to acquire license payments, as the monetary gain could be too risky. Thus, the franchise system can turn the threat of litigation back onto patent trolls themselves.

VII. CONCLUSION

Both Walker Process and sham litigation claims can have a robust application in the franchise context. Both avenues require a

198. Id.
199. FED. R. CIV. P. 11(c)(2) (A motion for sanctions... [for Rule 11(b) violations]. . . must not be filed or be presented to the court if the challenged paper, claim, defense, contention, or denial is withdrawn or appropriately corrected within 21 days after service of the motion or within another time the court sets").

200. JOHN SHAPARD ET AL., REPORT OF A SURVEY CONCERNING RULE 11, FEDERAL RULES OF CIVIL PROCEDURE 4–5, 4 tbl.3 (1995), https://www.fjc.gov/sites/default/files/2012/rule11.pdf. Over 70 percent of judges and 80 percent of plaintiffs' attorneys supported the inclusion of a safe harbor provision in Rule 11 allowing for the cure of defective or deficient pleadings, while 61 percent of defense attorneys supported the same. See id. With respect to the standard delineated in Rule 11(b)(3), that an attorney certifies to the best of his knowledge that "factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery," judges were almost evenly split, with 40 percent advocating for keeping Rule 11 as it is and 38 percent supporting a higher standard requiring that all factual contentions have evidentiary support at the time of filing. See id. Plaintiffs' attorneys overwhelmingly (79 percent) supported keeping Rule 11 as it is (only 12 percent for the heightened standard), while defense attorneys' preferences were in line with the judges—45 percent supporting keeping Rule 11 as it is and 40 percent supported the heightened standard. See id.
showing of antitrust violation and may complement each other to create a potent sword-and-shield arsenal for franchisees and franchisors.\textsuperscript{201} Walker Process claims give both franchisors and franchisees the opportunity to protect themselves and their franchise system from patents procured by fraud. If franchise parties cannot meet the high standards required to show that a patent holder defrauded the USPTO, the franchisees or franchisor could fall back on a sham litigation claim, which requires proof that infringement claims were objectively baseless when the suit was filed.\textsuperscript{202}

In the wake of the \textit{Ritz Camera} holding, franchise participants have broad standing to bring Walker Process claims against offending patent holders. Indeed, these franchisors or franchisees may make ideal Walker Process claimants. Any conduct that arises to the level of triggering such a claim is likely to be felt uniformly throughout the entire franchise system. Thus, while an individual franchisee may be unable to vigorously defend or pursue its rights, the uniformity of injury allows for multiple franchisees to band together and to pool their resources, or those of the franchisor, in the face of patent trolls or other patent abuses.

Finally, franchisors typically have the resources to potentially combat patent trolls. Franchisors are in a good position to challenge anticompetitive restraints on competition—a tantalizing prospect for small business owners and consumers—which would undoubtedly increase the value of the franchise system. Franchise participants, both franchisors and franchisees, could defend their networks by proving that the troll is acting in bad faith by trying to enforce an invalid patent or a patent that is not actually being infringed but would be very costly to defend against in an infringement action. Additionally, the advent of franchise Walker Process claims could be very beneficial to the business environment and society as a whole. It would counter the almost mandatory practice of pursuing licenses for patented technology when that actually is not needed for, related to, or legally justified under patent law, nor in furtherance of franchisees' or franchisors' business activities. This new approach could foster much innovation as well as cost savings for consumers.

\textsuperscript{201} See supra Section II.B.
\textsuperscript{202} See supra Section II.B.