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# PATENTLY UNFAIR: STATE UNFAIR COMPETITION LAWS AND PATENT ENFORCEMENT

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## I. INTRODUCTION

Intellectual property plays an increasingly important role in the modern economy. In 1998, over 150,000 patents were issued, an increase of thirty-three percent from the year before.[1] As corporations have become more aware of the value of their intellectual property, they have moved to exploit it more effectively. More and more frequently, businesses are confronted with demands to license a patent or face an infringement suit. The consequence has been an upswing in patent licensing and litigation.[2]

Although patent licenses, like other contracts, are governed by state law, federal law has traditionally determined the limits on a patent holder's ability to exploit a patent. Courts have used antitrust law and judicially created doctrines such as patent misuse to prevent the extension of a patent holder's monopoly power beyond the limited grant intended by the patent statute. Recent years have seen the narrowing of these doctrines, which had restrained the power of patent holders.

As often happens when one area of the law is closed off, another has taken its place. In the case of patent licensing, as antitrust avenues are closed off, litigants are exploring routes through state unfair competition law. Although unfair competition claims have been made in patent cases for some time,[3] only recently have they begun to distinguish themselves from federal antitrust claims.[4] The broad scope of most state unfair

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1. *See* Rodney Ho, *Patents Hit Record in '98 as Tech Firms Rushed to Protect Intellectual Property*, WALL ST. J., Jan. 15, 1999, at A2.

2. The number of new patent lawsuits filed annually grew from 1500 in 1992 to over 2100 in 1997. *See* Richard Korman, *Lo! Here Come the Technology Patents. Lo! Here Come the Lawsuits*, N.Y. TIMES, Dec. 27, 1998, § 3, at 4.

3. *See, e.g.*, Litton Indus. Prods., Inc. v. Solid State Sys. Corp., 755 F.2d 158 (Fed. Cir. 1985); *see also* Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318, 1331 n.1 (Fed. Cir. 1998) (listing patent infringement cases involving state tort claims), *cert. denied*, 119 S. Ct. 1037 (1999).

4. *See, e.g.*, Dow Chem. Co. v. Exxon Corp., 139 F.3d 1470, 1473 (Fed. Cir. 1998),

competition laws offers immense potential for a dramatic shift from traditional antitrust analysis in patent cases.

This Note demonstrates the potential of state unfair competition laws in cases involving the assertion of patent rights. Part II summarizes current antitrust concerns in patent licensing, including antitrust claims and equitable defenses to infringement. Part III describes the current jurisprudence concerning preemption of state laws — particularly unfair competition laws — by federal patent law. Part IV outlines the unfair competition laws[5] of four states: California, Texas, New York, and Massachusetts. While any selection of states is arbitrary to some degree, consideration of these states is justified because they contain high concentrations of emerging technology companies and therefore are more likely to be involved in the developing interplay between patent law and unfair competition law. Part V demonstrates how a claim could be framed under these state laws and describes circumstances under which pursuit of such claims would be most advantageous.

## II. CURRENT DOCTRINES

### *A. Antitrust Claims*

Section 2 of the Sherman Act provides that "[e]very person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty" of antitrust violations.[6] Courts have recognized that this seemingly absolute condemnation of monopolies is in tension with, if not contradictory to, rights granted to patent holders.[7] While it has not been suggested that either patent law or antitrust law be disregarded, the Sherman Act makes clear that the activities of a patent holder are not unfettered.[8]

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*cert. denied*, 119 S. Ct. 1026 (1999).

5. This Note focuses only upon statutory unfair competition laws, sometimes known as "little FTC" acts, enacted by the states. Common law business torts, such as interference with contract, also have the potential to affect patent litigation and licensing in the future. *See infra* Part III (discussing Dow v. Exxon).

6. 15 U.S.C. § 2 (1994).

7. "The power to exclude, which is the essence of every patent, is monopoly power," Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986, 992 n.10 (9th Cir. 1979).

8. "It therefore is necessary to reach an accommodation between the patent and the antitrust laws whenever antitrust liability is premised on a finding regarding a patentee's intent to monopolize or its exercise of exclusionary power." *Id.*

The reconciliation of these two areas of law has come through the use of so-called "Walker Process claims" and "Handgards claims." Walker Process claims impose antitrust liability for enforcement of patents secured through fraud upon the Patent and Trademark Office ("PTO").[9] Similarly, Handgards claims are based upon enforcement of patents known to be invalid.[10] In either case, the claimant must prove four underlying elements of a section 2 claim.[11] First, he must prove that the patent holder had specific intent to monopolize or destroy competition.[12] Second, the patent holder must have performed an anticompetitive act toward that end.[13] Third, the patent holder must have a "dangerous probability of success" in achieving the forbidden monopoly power.[14] This in turn requires an examination of the relevant market and the power of the patent in question within that market.[15] Finally, the injury claimed must be "of the type the antitrust laws were intended to prevent."[16] Generally, these elements must be shown by a preponderance of the evidence,[17] although the standard may be higher for some requirements of Walker Process and Handgards claims.

Monopolistic intent on the part of the patent holder normally may be inferred upon proof of the bad faith inherent in Walker Process and Handgards claims.[18] In a Walker Process claim, the patent holder must have committed fraud upon the PTO "knowingly and willfully."[19] Good

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

10. *See Handgards*, 601 F.2d 986 (9th Cir. 1979) [hereinafter *Handgards I*], *cert. denied*, 444 U.S. 1025 (1980), *on remand*, 552 F. Supp. 820 (N.D. Cal. 1982), *aff'd*, 743 F.2d 1282 (9th Cir. 1984) [hereinafter *Handgards II*], *and cert. denied*, 469 U.S. 1190 (1985).

11. *See Walker Process*, 382 U.S. at 179 (Harlan, J., concurring); *Handgards I*, 601 F.2d at 993 n.13.

12. *See, e.g.*, Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc., 616 F.2d 1133, 1141 (9th Cir. 1980).

13. *See id.*

14. Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 455 (1993).

15. *See id.* Patents are monopolistic in nature. *See supra* note 7. But the existence of a patent does not always imply market power on the part of the patent holder. *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 37 n.7 (1984) (O'Connor, J., concurring) ("[F]or example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.").

16. Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1977).

17. *See* Pacific Express, Inc. v. United Airlines, Inc., 959 F.2d 814, 816 (9th Cir. 1992).

18. *See Handgards I*, 601 F.2d at 993 n.13. The presence of licensing negotiations does not preclude a finding of intent to monopolize. *See Handgards II*, 743 F.2d at 1293 n.15.

19. *Walker Process*, 382 U.S. at 177. The court notes that an assignee of a patent

faith and honest mistake are complete defenses to this prong of the antitrust analysis. Even gross negligence or recklessness are inadequate to meet this requirement — "a specific intent . . . is an indispensable element."[20] This level of intent goes beyond that necessary for inequitable conduct[21] and must be established by clear and convincing evidence.[22] Furthermore, while federal rules allow intent and knowledge to be averred generally,[23] sufficient facts must be pled to allow for the inference of scienter to arise.[24]

As with common law fraud, the misrepresentation must be shown to be material. In determining whether a patent is unenforceable due to inequitable conduct, the Federal Circuit has adopted the PTO standard of materiality, set out in 37 C.F.R. § 1.56.[25] Other courts of appeals, in applying the materiality requirement to Walker Process claims, have used an objective "but for" test, which is a higher standard than the PTO standard.[26] This fact is consistent with the Federal Circuit's imposition of more stringent requirements for antitrust claims than for inequitable conduct defenses.[27] Recently, the Federal Circuit adopted the "but for"

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may be liable for the fraud of the original patent holder, but only if it attempts to enforce the patent "with knowledge of [the patent's] infirmity." *Id.* at 177 n.5.

20. American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1368 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984).

21. *See* Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1070–71 (Fed. Cir.) ("A finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct."), *cert. denied*, 119 S. Ct. 178 (1998).

22. *See id.* at 1071 (requiring "independent and clear evidence of deceptive intent"); *see also* Litton Indus. Prods., Inc. v. Solid State Sys. Corp., 755 F.2d 158, 166 (Fed. Cir. 1985).

23. *See* FED. R. CIV. P. 9(b) ("In all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity. Malice, intent, knowledge, and other condition of mind of a person may be averred generally.").

24. *See* Kash 'N Gold, Ltd. v. Samhill Corp., No. 90 Civ. 1097, 1990 WL 196089, at *3 (S.D.N.Y. Nov. 29, 1990); Papst Motoren GMbH & Co. KG v. Kanematsu-Goshu (U.S.A.) Inc., 629 F. Supp. 864, 870–71 (S.D.N.Y. 1986).

25. *See* Baxter Int'l, Inc. v. McGaw, Inc., 149 F.3d 1321, 1327 (Fed. Cir. 1998). The relevant standard is that which was in effect when the patent in question was prosecuted before the PTO. *See id.* at 1328 n.3.

26. *See Litton*, 755 F.2d at 166 n.19; *see also* Brunswick Corp. v. Riegel Textile Corp., 752 F.2d 261, 265 (7th Cir. 1984) (holding that the misrepresentation must be "material in the sense that the patent would not have been issued but for the misconduct"), *cert. denied*, 472 U.S. 1018 (1985).

27. [O]ur cases reflect three standards for judging the misconduct by a patentee dependent upon the extent of relief which the opposing litigant seeks: (1) misconduct which makes a patent unenforceable (which we have termed "inequitable conduct"); (2) misconduct

test as a uniform standard, requiring "a clear showing of reliance, i.e., that the patent would not have issued but for the misrepresentation or omission."[28]

A Handgards counterclaim is based upon the patent holder's bad faith, not before the PTO, but in bringing the infringement suit. Antitrust liability is premised upon the fact that the plaintiff had "knowledge that the patents, though lawfully-obtained, were invalid."[29] Conversely, a claim may be brought where a patent holder brings suit with knowledge that a valid patent has not been infringed.[30] In both cases, there is a presumption that the patent holder acted in good faith. This presumption is premised upon the need to avoid chilling the assertion of legitimate patent rights.[31] As with the scienter requirement for Walker Process claims, this knowledge must be proven by clear and convincing evidence.[32] Once that level has been achieved, the specific intent required for section 2 claims under the Sherman Act is satisfied.[33]

Handgards claims may be viewed as a subset of the "sham litigation" doctrine, or *Noerr-Pennington* exception. In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*

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> which is sufficient to make a case "exceptional" under 35 U.S.C. [§] 285 so as to warrant, in the discretion of the trial judge, an award of attorney fees, and (3) misconduct which rises to the level of common law fraud and which will support an antitrust claim. As a litigant moves from a purely defensive position, to a recoupment request, to an affirmative claim for damages, it is reasonable to impose more stringent requirements.

Argus Chem. Corp. v. Fibre Glass-Evercoat Co., 812 F.2d 1381, 1387 (Fed. Cir. 1987) (Nies, J., filing additional views). *See also Nobelpharma*, 141 F.3d at 1070–71; Hewlett-Packard Co. v. Bausch & Lomb Inc., 882 F.2d 1556, 1563 (Fed. Cir. 1989).

28. *Nobelpharma*, 141 F.3d at 1071. Until recently, the Federal Circuit followed regional circuit precedent in federal antitrust law cases. It has now decided that the conduct required to bring an antitrust claim for patent enforcement is to be decided as a question of Federal Circuit law. *See id.* at 1068.

29. *Handgards I*, 601 F.2d at 994.

30. *See* Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 877 (Fed. Cir. 1985).

31. *See Handgards I*, 601 F.2d at 993 ("Patentees must be permitted to test the validity of their patents in court through actions against alleged infringers. Their status as alleged possessors of a legal monopoly does not cause them to be pariahs before the law."); *Loctite*, 781 F.2d at 877 ("Because that policy applies to a good faith belief in infringement as well as validity, there is no persuasive reason to apply the presumption to one but not the other.").

32. *See Handgards I*, 601 F.2d at 996.

33. *See supra* note 18. The remaining elements of a section 2 claim must still be shown to obtain relief. *See Walker Process*, 382 U.S. at 179 (Harlan, J., concurring); *Handgards I*, 601 F.2d at 993 n.13.

("*PRE*")[34], the Supreme Court has laid out the two-prong standard to remove a litigant from the *Noerr-Pennington* antitrust immunity.

> First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals "an attempt to interfere *directly* with the business relationships of a competitor," through the "use [of] the governmental *process* — as opposed to the *outcome* of that process — as an anticompetitive weapon." . . . Of course, even a plaintiff who defeats the defendant's claim to *Noerr* immunity by demonstrating both the objective and the subjective components of a sham must still prove a substantive antitrust violation. Proof of a sham merely deprives the defendant of immunity; it does not relieve the plaintiff of the obligation to establish all other elements of his claim.[35]

As with the *Handgards* formulation, *PRE* includes a subjective scienter requirement that satisfies the Sherman Act requirements. Although the Court specifically did not resolve how this test applied in non-adjudicatory contexts,[36] the Federal Circuit has held a violation of the *PRE* standard sufficient to strip a patent holder of its immunity from antitrust claims.[37] Suits that are "both subjectively brought in bad faith and based on a theory of either infringement or validity that is objectively baseless" are therefore subject to antitrust liability.[38]

34. 508 U.S. 49 (1993).

35. *Id.* at 60–61 (footnotes and internal citations omitted).

36. *See id.* at 61 n.6.

37. *See* Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1071 (Fed. Cir.) ("*PRE* and *Walker Process* provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws . . . ."), *cert. denied*, 119 S. Ct. 178 (1998).

38. *Id.* at 1072.

In either type of claim, the overt act requirement can be satisfied only by the attempted enforcement of the patent. "Mere procurement of a patent, whatever the conduct of the applicant in the procurement, cannot without more affect the welfare of the consumer and cannot in itself violate the antitrust laws."[39] Although most antitrust claims arise as counterclaims by a defendant in a patent infringement suit,[40] a claim also may be asserted affirmatively as part of a declaratory judgment action since any case satisfying the "reasonable apprehension" standard for declaratory judgment jurisdiction should demonstrate the attempted enforcement required to bring an antitrust claim.[41]

Defining the relevant market is critical to establishing the patent holder's probability of success in obtaining monopoly power.[42] The market is defined geographically and by product, taking into account the availability of substitutes.[43] Since the possession of a patent does not create market power per se,[44] courts will look primarily to the market share of the patent holder.[45] One commentator has noted the "Catch 22" in which this may place antitrust counterclaimants since a narrow market definition denies the existence of alternatives to the patented device, thereby increasing potential infringement damages, while a broad market definition decreases the market share of the patent holder, thereby decreasing the probability of an antitrust violation.[46] Other factors that

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39. FMC Corp. v. Manitowoc Co., 835 F.2d 1411, 1418 n.16 (Fed. Cir. 1987).

40. *See Nobelpharma*, 141 F.3d at 1067. Note that there is not a consensus on whether antitrust counterclaims are compulsory or may be raised in a later suit. *See id.* at 1067 n.4 (listing cases holding both positions).

41. *See, e.g.*, Cygnus Therapeutics Sys. v. Alza Corp., 92 F.3d 1153, 1159 (Fed. Cir. 1996).

42. *See* Walker Process Equip. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177 (1965) ("Without a definition of that market there is no way to measure [the patent holder's] ability to lessen or destroy competition.").

43. *See* United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 380–81 (1956).

44. *See supra* note 15; *see also* Brunswick Corp. v. Riegel Textile Corp., 752 F.2d 261, 265 (7th Cir. 1984) ("If a patent has no significant impact in the marketplace, the circumstances of its issuance cannot have any antitrust significance."), *cert. denied*, 472 U.S. 1018 (1985).

45. *See* Valley Liquors, Inc. v. Renfeld Importers, Ltd., 678 F.2d 742, 745 (7th Cir. 1982) ("[Market power] is normally inferred from possession of a substantial percentage of the sales in a market carefully defined in terms of both product and geography."); *see also* Twin Lab., Inc. v. Weider Health & Fitness, 900 F.2d 566, 570 (2d Cir. 1990); Colorado Interstate Gas Co. v. Natural Gas Pipeline Co. of Am., 885 F.2d 683, 694 (10th Cir. 1989). Both the definition of the relevant market and the analysis of the patent holder's power therein is performed under regional circuit law. *See Nobelpharma*, 141 F.3d at 1068.

46. David T. Pritikin & Bruce M. Zessar, *Antitrust Claims Based on Patent*

courts examine include barriers to entry, existing and potential competitors, market trends, and the elasticity of consumer demand.[47]

Finally, an antitrust claimant must establish an antitrust injury. In part, standing is established by proving the claimant is "ready, willing, *and* able" to produce the patented item on a commercial level.[48] This proof is not sufficient, however, as "[i]t is injury to the market or to competition in general, not merely injury to individuals or individual firms that is significant."[49] A defendant in an infringement action consequently may need to show that other competitors were restrained in order to establish the broader impact on the market.[50]

Given these stringent requirements for antitrust claims based on patent enforcement, it is not surprising that such claims would be both infrequent and largely unsuccessful.[51] One analysis found only thirty-one cases between 1985 and mid-1993 in which courts decided antitrust claims based on the bad faith prosecution of patent infringement cases; in only two of those cases was antitrust liability found.[52] Although the Federal Circuit recently affirmed a jury's finding of antitrust liability on both Walker Process and Handgards grounds in a third case, it emphasized the extreme nature of such claims and developed a uniform standard that is likely to be more, rather than less, strict.[53]

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*Enforcement:* Walker Process, Handgards, *and the Sham Litigation Doctrine, in* INTELLECTUAL PROPERTY/ANTITRUST 1996, Vol. 2, at 457, 490–98 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. G-449, 1996).

47. *See, e.g.*, American Academic Suppliers, Inc. v. Beckley-Cardy, Inc., 922 F.2d 1317, 1320–21 (7th Cir. 1991) (entry barriers); Reazin v. Blue Cross and Blue Shield of Kan., Inc., 899 F.2d 951, 967 (10th Cir. 1990) (entry barriers, elasticity of supply and demand, market trends, and number of firms in the market).

48. Indium Corp. of Am. v. Semi-Alloys, Inc., 611 F. Supp. 379, 385 n.14 (N.D.N.Y.), *aff'd*, 781 F.2d 879 (Fed. Cir. 1985), *and cert. denied*, 479 U.S. 820 (1986).

49. McGlinchy v. Shell Chem. Co., 845 F.2d 802, 812 (9th Cir. 1988).

50. *See Handgards II*, 743 F.2d 1282, 1296 (9th Cir. 1984).

51. Because of the difficulty of proving bad faith by clear and convincing evidence, a successful Walker Process or Handgards claim raises serious questions as to the ethical conduct of the attorneys involved in bringing the patent infringement suit. *See* 37 C.F.R. § 10.23 (1998) (PTO CODE OF PROFESSIONAL RESPONSIBILITY); MODEL RULES OF PROFESSIONAL CONDUCT Rule 3.1 (1995) (prohibiting frivolous litigation).

52. Edward J. FitzPatrick et al., Walker Process *and* Handgards *Claims: The Necessary Elements and Track Records of Antitrust Claims Predicated on Fraudulent Prosecution of Infringement Actions, in* INTELLECTUAL PROPERTY/ANTITRUST 1993, at 403 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. G4-365, 1993).

53. *See* Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059 (Fed. Cir.), *cert. denied*, 119 S. Ct. 178 (1998). Note that the previous affirmations of successful antitrust claims were both unpublished opinions. *See* Arcade, Inc. v. Minnesota Mining

### B. Patent Misuse

Related to antitrust counterclaims, but analytically distinct, is the doctrine of patent misuse. Misuse is an affirmative defense to infringement[54] and does not constitute an independent cause of action. The patent misuse defense, a judicially created doctrine, has its roots in the equitable doctrine of unclean hands and the public policy behind the patent laws.[55] It is, broadly speaking, a means to prevent a patent holder from improperly extending the statutorily granted patent monopoly. While it is thus related to antitrust, the exact relationship between the doctrines has been muddled.[56] An antitrust violation involving use of a patent will constitute misuse.[57] Conduct need not, however, rise to the level of an antitrust violation to be deemed misuse.[58]

A successful defense of patent misuse renders the patent "unenforceable until the misuse is purged."[59] Purging requires both termination of the practice constituting misuse and dissipation of the effects of the previous misuse.[60] The misuse conduct need not be directed at the accused infringer.[61] Indeed, the party raising a patent misuse defense does not need to be directly injured by the alleged misuse as in an antitrust claim; the harm to the public interest from the misuse is sufficient to state a claim.[62] The misuse conduct must, however, relate to the patent that is alleged to be infringed.[63]

The defense of patent misuse originally arose in the context of licenses tying patented and unpatented products, thereby extending the

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and Mfg. Co., 1 F.3d 1253 (Fed. Cir. 1993); Conceptual Eng'g Assocs., Inc. v. Aelectronic Bonding, Inc., 835 F.2d 871 (Fed. Cir. 1989).

54. *See* Congoleum Indus., Inc. v. Armstrong Cork Co., 366 F. Supp. 220, 227 (E.D. Pa. 1973), *aff'd*, 510 F.2d 334 (3d Cir.), *and cert. denied*, 421 U.S. 988 (1975).

55. *See* Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 492–93 (1942).

56. "Ever since the King's Bench considered a patent-antitrust conflict in 1602 in the first reported case on the subject, the issues arising in this field have yielded few clear or satisfying answers." SCM Corp. v. Xerox Corp., 463 F. Supp. 983, 996 (D. Conn. 1978) (footnote omitted), *aff'd*, 645 F.2d 1195 (2d Cir. 1981); *see also* Alan J. Weinschel & Robert P. Stefanski, *Antitrust and Patent Misuse in Licensing*: Part I, J. PROPRIETARY RTS., Nov. 1995, at 18, 18.

57. *See* DONALD S. CHISUM, CHISUM ON PATENTS § 19.04 [2], at 19–298 (1992).

58. *See* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140 (1969).

59. Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 668 n.10 (Fed. Cir. 1986).

60. *See Morton Salt*, 314 U.S. at 493; B.B. Chem. Co. v. Ellis, 314 U.S. 495, 498 (1942).

61. *See Morton Salt*, 314 U.S. at 494.

62. *See id.*

63. *See* Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77, 85 (6th Cir. 1971).

patent's monopoly to the unpatented product.[64] The Federal Circuit initially developed a three-step analysis for determining whether a tying arrangement constituted misuse:

> *First:* Determine whether there are two things tied, i.e., whether there are separable or inseparable items; if so
> *Second:* Determine whether the "thing" which is assertedly tied to the patented item is a staple or non-staple item in commerce; if staple
> *Third:* Determine whether in fact they are tied.[65]

This formulation was legislatively altered in the Patent Misuse Reform Act of 1988[66] which provides:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.[67]

Thus, a fourth step must be added to the analysis to determine whether the patent holder has "market power in the relevant market." Although courts have not spoken clearly on the issue, the level of market power for patent misuse is presumably the same as for antitrust.[68]

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64. *See* Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).
65. Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 664 (Fed. Cir. 1986).
66. Pub. L. No. 100–703, § 201, 102 Stat. 4674, 4676 (1988).
67. 35 U.S.C. § 271(d) (1994).
68. *See* Undersea Breathing Sys., Inc. v. Nitrox Techs., Inc., 985 F. Supp. 752, 781 (N.D. Ill. 1997) ("Generally, claims of patent misuse are measured by conventional antitrust principles . . . ."); Morgan Chu et al., *Patent Misuse 1993*, *in* INTELLECTUAL PROPERTY/ANTITRUST 1993, at 557, 569 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. G-365, 1993) ("It appears from the legislative history, however, that Congress intended that the question be similar, if not identical, to a market power inquiry in antitrust cases.").

The related practice of package licensing, or conferring rights under more than one patent in a license, has been found to be patent misuse under some circumstances. While licensing a portfolio of patents is not misuse per se, "conditioning the granting of a license under one patent upon the acceptance of another and different license" is not permitted under the misuse doctrine.[69] The courts have also required the existence of some coercion; namely, the licensee must request a license for fewer than all of the patents and be refused.[70] As with tying arrangements, this doctrine was modified by Congress to require a showing of "market power in the relevant market." Courts have also recognized an exception where one patent cannot be practiced without infringing another; in such cases, there is no harm from the practice because "the prospective licensee is being compelled to accept no more than he would, in any event, have to obtain in order to make worthwhile a license under any of the patents."[71]

## III. PREEMPTION

There is no doubt that patents were intended to fall within the sphere of federal powers. The Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[72] This was a reflection of the Founders' belief that "the States 'cannot separately make effectual provision' for either patents or copyrights."[73] This express constitutional grant of authority, combined with the Supremacy Clause,[74] creates a strong deference to federal action in this field; it does not, however, mean that all state laws with any relation to inventions are preempted. Rather, state

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69. Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827, 831 (1950) (footnote omitted).

70. *See, e.g.*, McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381, 408 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966).

71. International Mfg. Co. v. Landon, Inc., 336 F.2d 723, 730 (9th Cir. 1964).

72. U.S. CONST. art. I, § 8, cl. 8.

73. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 228 (1964) (quoting THE FEDERALIST NO. 43, at 288 (James Madison) (Cooke ed., 1961)).

74. This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

U.S. CONST. art. VI, cl. 2.

laws are preempted by federal action only if they pose "an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[75]

The Supreme Court addressed the encroachment of state unfair competition laws on federal patent law in *Sears, Roebuck & Co. v. Stiffel Co.*[76] "Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws."[77] In that case, a state law prohibiting the copying of an unpatented article clashed with federal law by "block[ing] off from the public something which federal law has said belongs to the public."[78] Congressional decisions regarding the level of invention necessary to obtain patent protection could not be altered through state protections.

The Court was careful to note that state laws were not automatically precluded.

> Doubtless a State may, in appropriate circumstances, require that goods, whether patented or unpatented, be labeled or that other precautionary steps be taken to prevent customers from being misled as to the source, just as it may protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods.[79]

Thus the state law failed because it sought to prohibit the copying of the article, rather than prevent confusion between two goods.[80] States remained free to offer protection in traditional areas such as trademark and trade dress.

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75. Hines v. Davidowitz, 312 U.S. 52, 67 (1941). The Court also noted use of the expressions "conflicting; contrary to; occupying the field; repugnance; difference; irreconcilability; inconsistency; violation; curtailment; and interference" in describing state laws which were preempted. *Id.*

76. 376 U.S. 225 (1964).

77. *Id.* at 231.

78. *Id.* at 232.

79. *Id.*

80. "[A] State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying." *Id.* at 232–33. Of course, the state may not impose additional prohibitions on copying when the article *is* protected by patent or copyright.

The Court clarified the scope of the *Sears* decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*[81] Despite the "absolutist terms" of *Sears*, the Court found "an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* pre-empted by the federal patent laws."[82] Noting the "ultimate goal of public disclosure and use which is the centerpiece of federal patent policy," the Court focused on whether the state statute impeded those goals.[83] Because the statute was "aimed directly at the promotion of intellectual creation by substantially restricting the public's ability to exploit ideas that the patent system mandates shall be free for all to use," it upset the balance set by Congress between incentives for creation and exploitation of designs.[84]

The Court also noted that the statute did not "operate to prohibit 'unfair competition' in the usual sense that the term is understood."[85] Prohibitions on unfair competition traditionally focused on protecting consumers from confusion as to source; permissible state regulation was thus limited to situations in which confusion was likely to result.[86]

The Court made a similar historical observation while holding in *Kewanee Oil Co. v. Bicron Corp.*[87] that state laws protecting trade secrets were not preempted by federal patent law. "Trade secret law and patent law have co-existed in this country for over one hundred years. . . . Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection."[88] In the absence of explicit federal preemption, the Court found it "helpful to examine the objectives of both the patent and trade secret laws."[89]

The Court found the purpose of the patent statute to be threefold: to provide "an incentive to inventors"; "[t]o insure adequate and full disclosure"; and to ensure "that which is in the public domain cannot be removed therefrom by action of the States."[90] The first objective was not

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81. 489 U.S. 141 (1989).
82. *Id.* at 154.
83. *Id.* at 157.
84. *Id.* at 167.
85. *Id.* at 157.
86. *Id.* at 157–58.
87. 416 U.S. 470 (1974).
88. *Id.* at 493.
89. *Id.* at 480.
90. *Id.* at 480–81. This analysis was affirmed by the Court in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

> First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent

thwarted by state protection of trade secrets; to the contrary, "[t]rade secret law [encourages] invention in areas where patent law does not reach."[91] Although the law did not promote (and actually limited) disclosure of inventions to the public, in the balance "[a]bolition of trade secret protection would, therefore, not result in increased disclosure to the public" of nonpatentable discoveries.[92] Although patentable discoveries could be maintained as trade secrets and therefore kept from the public, the Court found this result unlikely because of the weaker protection provided by trade secret law in comparison to patent protection.[93] The third objective, maintaining the public domain, was not violated since "[b]y definition a trade secret has not been placed in the public domain."[94]

Even though the trade secret law in *Kewanee* provided patent-like protection, similar to the protection afforded by unfair competition laws in *Sears* and *Bonito Boats*, it was not inconsistent with the purposes of the patent law. Instead of being aimed strictly at the act of copying, the protection of trade secrets promoted "[t]he maintenance of standards of commercial ethics."[95] This assertion is consonant with the statements in *Sears* and *Bonito Boats* that the unfair competition laws would be permissible if aimed at avoiding consumer confusion rather than the copying itself.[96]

The Federal Circuit summarized the Supreme Court's discussion of federal supremacy jurisprudence, noting three separate grounds for preemption:

> (1) *Explicit pre-emption*, whereby Congress explicitly provided for pre-emption of state law in the federal statute; (2) *Field pre-emption*, wherein "the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it"; and (3) *Conflict pre-emption*, "where 'compliance with both federal

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> expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.

*Id.* at 262.

91. *Kewanee*, 416 U.S. at 485.

92. *Id.* at 483.

93. *Id.* at 487–90.

94. *Id.* at 484.

95. *Id.* at 481.

96. *See* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232 (1964); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 157–58 (1989).

> and state regulations is a physical impossibility,' . . . or where state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'"[97]

Although the Constitution grants Congress the power to issue patents, that grant is not exclusive.[98] Given the absence of an explicit preemption provision in the patent statute, state laws need to be analyzed for the latter two forms of preemption. The Federal Circuit, however, recently held "there is no field preemption of state unfair competition claims that rely on a substantial question of federal patent law" because of "the lack of such congressional intent, in conjunction with the underlying presumption disfavoring preemption."[99] Thus, the state claim is preempted only if, as applied, it conflicts with the purposes of federal patent law.[100]

The Federal Circuit in *Dow Chemical Co. v. Exxon Corp.*[101] used such an analysis to find that a state law claim for tortious interference with contract was not preempted by federal concerns. The *Dow* case was initiated when Dow filed an action against Exxon in the U.S. District Court for Delaware.[102] The complaint contained two counts: first, a request for a declaratory judgment that certain Dow products did not infringe Patent No. 5,246,783 ("'783 patent") owned by an Exxon subsidiary; and second, a state unfair competition claim based upon "alleged threats by Exxon, made in meetings and by letter, to sue prospective and actual Dow . . . customers for infringement of the '783 patent."[103] The second count was later amended to allege that Exxon had obtained the '783 patent by inequitable conduct before the PTO and that Exxon had no good faith belief that Dow infringed the '783 patent when it made the alleged threats.[104] Exxon eventually filed a "Statement of Non-Liability" with the court which gave Dow and its customers immunity from suit for infringement of the '783 patent; consequently,

97. Cover v. Hydramatic Packing Co., 83 F.3d 1390, 1393 (Fed. Cir. 1996) (citations omitted).

98. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 478 (1974) (citing Goldstein v. California, 412 U.S. 546 (1973)).

99. Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318, 1333 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1037 (1999).

100. *See id.* at 1335.

101. 139 F.3d 1470 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999).

102. *See id.* at 1471.

103. *Id.* at 1472.

104. *See id.* at 1472.

the court dismissed the declaratory judgment count of the complaint as moot.[105]

As to the second count, the district court saw the question as "whether issues of patent validity, and specifically of Exxon's alleged inequitable conduct, may be decided in the context of a business tort claim where all claims arising directly under the patent laws have been dismissed."[106] Citing the principle that a court should not reach beyond the scope of a given controversy to invalidate a patent, the court held that evidence of Exxon's alleged inequitable conduct could not be presented in connection with the claim for tortious interference with contract.[107] In doing so, the district court stated that it "decline[d] to allow what in essence is a patent trial to proceed in the guise of a business tort trial."[108]

The court went on to discuss the theory underlying Dow's unfair competition claim. Because patents are presumptively valid, the court declared that "a patent owner who exercises the right to exclude others from using the invention is presumed to be acting in good faith, even if the patent is later deemed invalid or unenforceable."[109] Since the court found no distinction in this presumption, even when the patent was allegedly obtained by inequitable conduct, it concluded that "an unfair competition claim based solely on the defendant's assertion of patent rights allegedly obtained through inequitable conduct could not, as a matter of law, succeed."[110] Based upon that ruling, the court later dismissed the entire case because Dow "conceded that inequitable conduct before the PTO is the sole basis for its [unfair competition] claim."[111]

The Federal Circuit disagreed with the district court's analysis on both points, holding:

> [S]uch a state law tort claim is not preempted by the federal patent law, even if it requires the state court to adjudicate a question of federal patent law, provided the state law cause of action includes additional

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105. *See id.*

106. Dow Chem. Co. v. Exxon Corp., No. 94-572-SLR, slip op. at 3–4 (D. Del. Nov. 26, 1996), *rev'd*, 139 F.3d 1470 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999).

107. *See id.* at 5–7.

108. *Id.* at 6.

109. *Id.*

110. *Id.*

111. Dow Chem. Co. v. Exxon Corp., No. 94-572-SLR, 1997 U.S. Dist. LEXIS 22389, at *2 (D. Del. Mar. 19, 1997), *rev'd*, 139 F.3d 1470 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999).

> elements not found in the federal patent law cause of action and is not an impermissible attempt to offer patent-like protection to subject matter addressed by federal law.[112]

Regarding the admission of evidence of Exxon's inequitable conduct before the PTO to support the state unfair competition claim, the court observed "it is well established that a state court has authority to adjudicate patent questions so long as the action itself does not arise under the patent laws."[113] Although previous cases had arisen in the context of patent licenses, the court found no distinction between contract and tort claims.[114] Thus, the court was not prohibited from addressing the inequitable conduct issue in connection with the state law claim.

The Federal Circuit, while affirming that state law could not provide an alternative or additional remedy for inequitable conduct before the PTO, distinguished the facts of the case from previous cases with holdings to that effect.[115] Unlike *Concrete Unlimited, Inc. v. Cementcraft, Inc.*,[116] cited in the district court opinion, the case in *Dow* involved bad faith enforcement of a patent obtained through inequitable conduct.[117] Likewise, the court in *Concrete Unlimited* found that the patent holder had not engaged in inequitable conduct; thus, that case did not preclude a successful unfair competition claim based in part on inequitable conduct.[118]

The district court's characterization of the state law cause of action turning "solely" on inequitable conduct was also rejected.[119] The Federal Circuit found that the claim in *Dow* "requires elements entirely different to those required for inequitable conduct before the PTO. . . .

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112. Dow Chem. Co. v. Exxon Corp., 139 F.3d 1470, 1473 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999).

113. *Id.* at 1475. Note that state court authority is limited by the Federal Circuit's expansion of what constitutes "arising under" the patent laws in Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1037 (1999).

114. *See Dow*, 139 F.3d at 1476.

115. *See id.* at 1477; *see also* Abbott Lab. v. Brennan, 952 F.2d 1346 (Fed. Cir. 1991).

116. 776 F.2d 1537 (Fed. Cir. 1985).

117. *See Dow*, 139 F.3d at 1476 ("Unlike *Concrete Unlimited*, the tortfeasor here allegedly knew that its patent was unenforceable when it engaged in market misconduct. Indeed, without such knowledge there would be no actionable wrong.").

118. *See id.*

119. *Id.*

Indeed, the tort can be made out without there being any misconduct whatsoever in the PTO."[120] The existence of additional elements to the unfair competition claim, even if one element fell within the realm of patent law, was the factor that determined whether federal law preempted.[121] These additional requirements to make a state claim showed that "the state tort and the federal defense address entirely different wrongs and also provide different forms of relief."[122]

The Federal Circuit affirmed and clarified the holding of *Dow* several months later in *Hunter Douglas, Inc. v. Harmonic Design, Inc.*[123] As in *Dow*, the plaintiff in *Hunter Douglas* brought claims for both a declaratory judgment of noninfringement and for several state law business torts. In applying the required conflict-preemption analysis, the court in *Hunter Douglas* focused upon the defendant's conduct in question.

> If a plaintiff bases its tort action on conduct that is protected or governed by federal patent law, then the plaintiff may not invoke the state law remedy, which must be preempted for conflict with federal patent law. Conversely, if the conduct is not so protected or governed, then the remedy is not preempted.[124]

The court identified two types of conduct as protected in that case. First, conduct before the PTO is protected unless it "amounted to fraud or rendered the patent application process a sham."[125] Second, publicizing a patent in the marketplace, including notifying alleged infringers and threatening them with suit, is protected unless the patent holder acts in bad faith.[126] Because the court utilized a preemption analysis based upon the claim as applied, the state law itself need not contain these requirements of fraud and bad faith as a necessary element; however, they must ultimately be alleged and proven if the underlying behavior is one of these protected types of conduct. Thus, a state claim must still

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120. *Id.* at 1477.

121. "[T]hat the source of proof of bad faith, just one element of the tort, was purported inequitable conduct before the PTO, does not make this tort a patent issue preempted by federal law." *Id.* at 1478.

122. *Id.*

123. 153 F.3d 1318 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1037 (1999).

124. *Id.* at 1335.

125. *Id.* at 1336. This is the standard for Walker Process claims. *See supra* Part II.A.

126. *Hunter Douglas*, 153 F.3d at 1336; *see also* Mikohn Gaming Corp. v. Acres Gaming, Inc., Nos. 98-1216, 98-1217, 1998 WL 907905 (Fed. Cir. Dec. 30, 1998). This is the standard for Handgards claims. *See supra* Part II.A.

contain elements additional to those under the federal patent laws, but to the extent conduct governed by patent law remains an element, the standard for imposition of federal liability must be met.

## IV. STATE UNFAIR COMPETITION LAWS

### *A. California*

California Business & Professions Code section 17200 defines unfair competition to include "any unlawful, unfair or fraudulent business act or practice."[127] Each of these types of conduct is a separate form of unfair competition: "In other words, a practice is prohibited as 'unfair' or 'deceptive' even if not 'unlawful' and vice versa."[128]

The standard for "unfair" under section 17200 is "intentionally broad, thus allowing courts maximum discretion to prohibit new schemes to defraud."[129] Because of the standard's open-ended nature, courts have not defined a clear test for what constitutes an unfair business practice.

> [T]he determination of whether a particular business practice is unfair necessarily involves an examination of its impact on its alleged victim, balanced against the reasons, justifications and motives of the alleged wrongdoer. In brief, the court must weigh the utility of the defendant's conduct against the gravity of the harm to the alleged victim — a weighing process quite similar to the one enjoined on us by the law of nuisance.[130]

This weighing process, which in its simplest form defines unfair practice as "any practice whose harm to the victim outweighs its benefits,"[131] cannot be taken to its extreme, even given the liberal construction that the statute allows. Doing so would prohibit all but the most balanced transactions, since most commercial interactions benefit one participant more than another; the party profiting more from the transaction could be seen as "harming" the other by denying the other a greater share of

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127. CAL. BUS. & PROF. CODE § 17200 (West 1997).

128. State Farm Fire & Cas. Co. v. Superior Court, 53 Cal. Rptr. 2d 229, 234 (Ct. App. 1996).

129. *Id.*

130. Motors, Inc. v. Times-Mirror Co., 162 Cal. Rptr. 543, 546 (Ct. App. 1980).

131. Olsen v. Breeze, Inc., 55 Cal. Rptr. 2d 818, 822 (Cal. Ct. App. 1996).

the benefits.[132] A closer statement of the analysis used by courts might be that "an 'unfair' business practice occurs when that practice 'offends an established public policy or when the practice is immoral, unethical, oppressive, unscrupulous or substantially injurious to consumers.'"[133] Behavior which has been found to violate the "unfair" standard has ranged from cigarette advertising targeting minors[134] to systematic underrating of the quality of grapes by a buyer to lower the purchase price.[135]

The standard for "unlawful" business conduct is equally broad. In interpreting the predecessor statute to section 17200, the California Supreme Court found that the purpose of the term was "to extend the meaning of unfair competition to anything that can properly be called a business practice and that at the same time is forbidden by law."[136] This same interpretation has been applied to the current statute.[137]

The California Supreme Court noted that section 17200 "'borrows' violations of other laws and treats these violations, when committed pursuant to business activity, as unlawful practices independently actionable."[138] The violations may be of virtually any law, "be it civil or criminal, federal, state, or municipal, statutory, regulatory or court-made."[139] It is not necessary that the law whose violation underlies the section 17200 claim provide for a private cause of action.[140] Nevertheless, section 17200 cannot be used to create a cause of action when the express legislative intent of a statute was to bar private actions.[141]

Although the legal violation that underlies a claim for an unlawful business practice need not provide for a private cause of action, it is

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132. No cases have advanced this argument, perhaps recognizing the limits to the more extreme formulations of the "unfair" standard.

133. *State Farm*, 53 Cal. Rptr. 2d at 234–35 (quoting People v. Casa Blanca Convalescent Homes, Inc., 206 Cal. Rptr. 164, 177 (Ct. App. 1984)).

134. *See* Mangini v. R.J. Reynolds Tobacco Co., 21 Cal. Rptr. 2d 232, 241 (Ct. App. 1993), *aff'd*, 875 P.2d 73 (Cal. 1994).

135. *See* Allied Grape Growers v. Bronco Wine Co., 249 Cal. Rptr. 872 (Ct. App. 1988).

136. Barquis v. Merchants Collection Ass'n of Oakland, Inc., 496 P.2d 817, 830 (Cal. 1972) (quoting Philip L. Judson, Note, *Unlawful Agricultural Working Conditions as Nuisance or Unfair Competition*, 19 HASTINGS L.J. 398, 408–09 (1968)).

137. *See* Farmers Ins. Exch. v. Superior Court, 826 P.2d 730, 734 (Cal. 1992).

138. *Id.*

139. Saunders v. Superior Court, 33 Cal. Rptr. 2d 438, 441 (Ct. App. 1994); *see also* State Farm Fire & Cas. Co. v. Superior Court, 53 Cal. Rptr. 2d 229, 234 (Ct. App. 1996).

140. *See* Committee on Children's Television, Inc. v. General Foods Corp., 673 P.2d 660, 668 (Cal. 1983).

141. *See* Moradi-Shalal v. Fireman's Fund Ins. Cos., 758 P.2d 58, 68 (Cal. 1988).

unclear whether behavior which only gives rise to a legal defense is proscribed. In *Barquis v. Merchants Collection Ass'n of Oakland, Inc.*,[142] the court found that repeated violations of the venue statutes, which would not independently provide a cause of action, constituted "unlawful" conduct. While this suggests that an affirmative defense may serve as the predicate for an "unlawful" business practice, the court also found that the pleadings supported a claim of tortious abuse of process.[143] The court framed "unlawful business practice" and "abuse of process" as alternative claims, suggesting that the tort claim was not necessary to the section 17200 claim for unlawful business practices, given the specific statutory violations.[144]

In *People v. McKale*[145] the practice in question was the inclusion of unlawful provisions in a set of rules that tenants were required to sign. The court noted that requiring tenants to sign copies of the regulations did not expressly violate any statutory provisions; only enforcement of the provisions was prohibited.[146] Nonetheless, the court found the practice to be "unfair and deceptive" and established a test of unfair competition as being "whether the public is likely to be deceived."[147] The statute making the contract provisions invalid did not provide for further penalties, but this degree of legal prohibition was sufficient to provide a claim for unfair competition even without an attempt to enforce the provisions. The court did note the need to plead supporting facts to demonstrate the illegality of the provisions.[148]

*Samura v. Kaiser Foundation Health Plan, Inc.*[149] distinguished *McKale* in a case involving the enforceability of third party liability provisions. The court found the provisions in question to be enforceable generally but subject to the defense of unconscionability. The court recognized that "it is an unfair or fraudulent business practice 'to assert a contractual right that one does not have.'"[150] However, since the provision was "entirely lawful on its face but, like many contract provisions, . . . subject to certain defenses and exceptions in application," the court considered whether the practice was deceptive.[151] Finding no

142. 496 P.2d 817 (Cal. 1972).
143. *See id.* at 824.
144. *See id.* at 827–28.
145. 602 P.2d 731 (Cal. 1979).
146. *See id.* at 735.
147. *Id.* at 736.
148. *See id.*
149. 22 Cal. Rptr. 2d 20 (Ct. App. 1993).
150. *Id.* at 28.
151. *Id.*

significant tendency to mislead, the court held that treating the enforceability of the provisions on a case-by-case basis did not constitute unlawful behavior.

The issue of unconscionability was raised again in *California Growers Ass'n v. Bank of America, National Trust & Savings Ass'n.*[152] The court first noted that "[t]he doctrine of unconscionability has historically provided only a defense to enforcement of a contract, and normally cannot be used offensively to obtain mandatory injunctive relief."[153] However, it specifically reserved decision on whether section 17200, combined with the doctrine of unconscionability, can create an affirmative cause of action. Indeed, the court also indicated that the broad remedial power granted by the legislature suggested that it did.[154]

At least one court has held that "the mere failure to perform an act required by law [is not] the commission of an 'unlawful' act within the meaning of section 17200."[155] This case conflicts, however, with *Reese v. Payless Drug Stores Northwest, Inc.*,[156] which held that selling products without posting signs required by the Food, Drug, and Cosmetics Act is an unlawful business activity.[157] While the statute in *Reese* provided a cause of action for failure to comply, this fact cannot be a requirement for section 17200 action based on failure to perform a legal duty, since an affirmative private cause of action is not necessary for positive acts to be considered unlawful.[158]

The standard for "fraudulent" business practices is as broad as the standards for "unfair" and "unlawful" practices. Unlike an actual fraud claim, which requires a showing of reasonable reliance, a "fraudulent" business practices claim requires only a showing that "members of the public are likely to be deceived."[159] It is not even necessary to show that anyone "was actually deceived, relied upon the fraudulent practice, or

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152. 27 Cal. Rptr. 2d 396 (Ct. App. 1994).

153. *Id.* at 403.

154. *Id.* at 404.

155. Bank of Am. v. Lallana, 64 Cal. Rptr. 2d 168, 176 (Ct. App. 1997), *aff'd*, 960 P.2d 1133 (Cal. 1998).

156. 40 Cal. Rptr. 2d 75 (Ct. App. 1995).

157. *See id.* at 77.

158. *See* Committee on Children's Television, Inc. v. General Foods Corp., 673 P.2d 660, 668 (Cal. 1983).

159. Chern v. Bank of Am., 544 P.2d 1310, 1316 (Cal. 1976); *see also* Bank of the West v. Superior Court, 833 P.2d 545, 558 (Cal. 1992); *Committee on Children's Television*, 673 P.2d at 668.

sustained any damage."[160] A court may also order restitution "without individualized proof of deception, reliance, and injury."[161]

A broad standing provision, included in section 17204,[162] allows anyone to sue on behalf of the public, even if the person bringing suit has not been personally harmed or aggrieved.[163] Of course, a party injured by the unfair business practice may bring suit on its own behalf.[164] In cases where a private party brings suit on behalf of the general public, notice to the attorney general and the district attorney is required to allow for intervention by the state.[165]

Damages are not available for statutory unfair competition claims.[166] Section 17203 provides for injuctive relief and restitution, including the appointment of a receiver.[167] Restitution is available whether or not the court also awards injunctive relief.[168] The statute also authorizes specific and preventive relief.[169]

The remedies available may be limited when the injured persons are not parties to the suit. The absence of parties does not allow an unfair competitor to escape disgorgement of profits,[170] as the court in *Dean*

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160. State Farm Fire & Cas. Co. v. Superior Court, 53 Cal. Rptr. 2d 229, 235 (Ct. App. 1996).

161. *Committee on Children's Television*, 673 P.2d at 668.

162. "Actions for any relief pursuant to this chapter shall be prosecuted exclusively in a court of competent jurisdiction by the Attorney General or any district attorney or . . . by any person acting for the interests of itself, its members or the general public." CAL. BUS. & PROF. CODE § 17204 (West 1997).

163. *See* Saunders v. Superior Court, 33 Cal. Rptr. 2d 438 (Ct. App. 1994); Consumers Union of the United States, Inc. v. Fisher Dev., Inc., 257 Cal. Rptr. 151 (Ct. App. 1989).

164. *See* Southwest Marine, Inc. v. Triple A Mach. Shop, Inc., 720 F. Supp. 805 (N.D. Cal.1989).

165. *See* CAL. BUS. & PROF. CODE § 17209 (West 1997 & Supp. 1999).

166. *See* Heller v. Norcal Mut. Ins. Co., 876 P. 2d 999, 1007 (Cal. 1994).

167.

> Any person who engages, has engaged, or proposes to engage in unfair competition may be enjoined in any court of competent jurisdiction. The court may make such orders or judgments, including the appointment of a receiver, as may be necessary to prevent the use or employment by any person of any practice which constitutes unfair competition, as defined in this chapter, or as may be necessary to restore to any person in interest any money or property, real or personal, which may have been acquired by means of such unfair competition.

CAL. BUS. & PROF. CODE § 17203 (West 1997).

168. *See* ABC Int'l Traders v. Matsushita Elec. Corp. of Am., 931 P.2d 290 (Cal. 1997).

169. *See* CAL. BUS. & PROF. CODE § 17202 (West 1997).

170. *See* People v. Thomas Shelton Powers, M.D., Inc., 3 Cal. Rptr. 2d 34 (Ct. App.

*Witter Reynolds, Inc. v. Superior Court*[171] suggested in dicta that restitution in favor of absent parties is permitted.[172] Another court, without expressly rejecting the dicta in *Dean Witter Reynolds*, questioned the utility of allowing such judgments, which are not binding on non-parties and raise due process issues.[173] The court also went on to distinguish the case before it from *Dean Witter Reynolds* because it involved far greater restitution amounts and a more complex factual issue regarding whether the business practice was unfair for each party.[174]

### *B. Texas*

The Texas Deceptive Trade Practices-Consumer Protection Act[175] ("DTPA") prohibits "[f]alse, misleading, or deceptive acts or practices in the conduct of any trade or commerce . . . ."[176] Trade and commerce are defined to include:

> the advertising, offering for sale, sale, lease, or distribution of any good or service, of any property, tangible or intangible, real, personal, or mixed, and any other article, commodity, or thing of value, wherever situated, and shall include any trade or commerce directly or indirectly affecting the people of this state.[177]

Thus almost every economic activity is included within the definition of trade. The statute's purpose is "to protect consumers against false, misleading, and deceptive business practices, unconscionable actions, and breaches of warranty" and is construed liberally to promote that purpose.[178]

"[A] false, misleading or deceptive act or practice means any conduct which is either false or which has the capacity or tendency to

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1992).

171. 259 Cal. Rptr. 789 (Ct. App. 1989).

172. *See id.* at 799.

173. *See* Bronco Wine Co. v. Frank A. Logoluso Farms, 262 Cal. Rptr. 899, 909 (Ct. App. 1989).

174. *See id.* at 912.

175. TEX. BUS. & COM. CODE ANN. §§ 17.41–.63 (West 1987 & Supp. 1998–1999).

176. *Id.* § 17.46(a).

177. *Id.* § 17.45(6).

178. *Id.* § 17.44.

mislead or deceive the ignorant, the unthinking and the credulous."[179] These misrepresentations need not rise to the level of common law fraud to be prohibited under the DTPA.[180] This is in accord with the purpose of the DTPA "to provide consumers a cause of action for deceptive trade practices without the burden of proof and numerous defenses encountered in a common law fraud or breach of warranty suit."[181] There is no requirement to prove either intent to deceive or reliance on the misrepresentation, so long as it is the "producing cause" of the injury.[182]

Failure to disclose information may be a deceptive act if "intended to induce the consumer into a transaction into which the consumer would not have entered had the information been disclosed."[183] The law does distinguish, however, between failure to disclose information and affirmative misrepresentations. "[W]hen a seller makes an affirmative representation, the law imposes a duty to know whether that statement is true."[184] However, "one cannot be held liable under the DTPA for failure to disclose facts about which he does not know."[185] The DTPA does not impose any additional duties to know the existence of undisclosed facts, so long as no representations are made.[186] Such a duty may, of course, exist due to fiduciary or other legal relationships.

The statute also provides a non-exclusive list of acts which are considered "false, misleading, or deceptive acts or practices" for the purposes of the DTPA.[187] Among the enumerated acts is "representing that an agreement confers or involves rights, remedies, or obligations which it does not have or involve, or which are prohibited by law."[188] Nonperformance or breach of a contract is not sufficient on its own to fall within this definition.[189] Courts have used a "totality of the

179. Chrysler-Plymouth City, Inc. v. Guerrero, 620 S.W.2d 700, 705 (Tex. Civ. App. 1981).

180. *See* Eagle Properties, Ltd. v. Scharbauer, 807 S.W.2d 714, 724 (Tex. 1991).

181. Smith v. Baldwin, 611 S.W.2d 611, 616 (Tex. 1980).

182. Weitzel v. Barnes, 691 S.W.2d 598, 600 (Tex. 1985). *But see* American Commercial Colleges, Inc. v. Davis, 821 S.W.2d 450 (Tex. Ct. App. 1992) (questioning whether a misrepresentation can be actionable without reliance).

183. TEX. BUS. & COM. CODE ANN. § 17.46(b)(23) (West 1987 & Supp. 1998–1999).

184. First Title Co. of Waco v. Garrett, 860 S.W.2d 74, 76 (Tex. 1993).

185. Robinson v. Preston Chrysler-Plymouth, Inc., 633 S.W.2d 500, 502 (Tex. 1982).

186. *See* Sergeant Oil & Gas, Inc. v. National Maintenance & Repair, Inc., 861 F. Supp. 1351, 1358 (S.D. Tex. 1994).

187. TEX. BUS. & COM. CODE ANN. § 17.46(b) (West 1987 & Supp. 1998–1999).

188. *Id.* § 17.46(b)(12).

189. *See* Bass v. Hendrix, 931 F. Supp. 523, 534–35 (S.D. Tex. 1996).

circumstances" approach for such claims, identifying the following factors as relevant:

1. Whether the representation was clearly factual, clearly interpretive, or some less clear combination of the two;
2. Whether the relevant contractual language was ambiguous or unambiguous;
3. Whether the parties were in a substantially equal position of knowledge and information;
4. Whether there was evidence of overreaching or victimizing;
5. Whether there was evidence of unconscionable conduct; and
6. Whether there was a confidential or fiduciary relationship between the parties.[190]

An unconscionable action is grounds for a consumer to seek relief under the DTPA.[191] This is defined as "an act or practice which, to a consumer's detriment, takes advantage of the lack of knowledge, ability, experience, or capacity of the consumer to a grossly unfair degree."[192] Breach of an express or implied warranty may also create a cause of action where the breach is "a producing cause of economic damages or damages for mental anguish."[193] Because the provision establishing private actions by the consumer is written in the disjunctive,[194] it would

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190. Adler Paper Stock, Inc. v. Houston Refuse Disposal, Inc., 930 S.W.2d 761, 765 (Tex. Ct. App. 1996) (citing West Anderson Plaza v. Feyznia, 876 S.W.2d 528, 533 (Tex. Ct. App. 1994)).

191. *See* TEX. BUS. & COM. CODE ANN. § 17.50(a)(3) (West 1987 & Supp. 1998–1999).

192. *Id.* § 17.45(5).

193. *Id.* § 17.50(a).

194. This provision reads as follows:

> (a) A consumer may maintain an action where any of the following constitute a producing cause of economic damages or damages for mental anguish:
>
> (1) the use or employment by any person of a false, misleading, or deceptive act or practice that is:
>
> (A) specifically enumerated in a subdivision of Subsection (b) of Section 17.46 of this subchapter; and
>
> (B) relied on by a consumer to the consumer's detriment;
>
> (2) breach of an express or implied warranty;
>
> (3) any unconscionable action or course of action by any

appear that unconscionable acts do not necessarily represent false, misleading, or deceptive acts; likewise, a breach of warranty may not be considered deceptive without more. This accords with courts' treatment of the three possibilities as separate bases for liability.[195]

The DTPA is less useful in addressing patent licensing issues because of its narrow standing provisions. Causes of action for unconscionability and breach of warranty are available only to consumers; the state may only redress false, misleading, or deceptive business practices.[196] Private actions may also only be brought by consumers.[197]

> "Consumer" means an individual, partnership, corporation, this state, or a subdivision or agency of this state who seeks or acquires by purchase or lease, any goods or services, except that the term does not include a business consumer that has assets of $25 million or more, or that is owned or controlled by a corporation or entity with assets of $25 million or more.[198]

Thus, only businesses within the size limitation are considered consumers for purposes of the act.

Claims in connection with written contracts are also limited as to the size of the transaction. If a party is represented by counsel in negotiating a contract, a claim from that contract may not be brought if the consideration was more than $100,000.[199] That limit rises to $500,000 if the party is not represented.[200] Claims brought by a licensee, assuming a written license agreement, will therefore be limited to transactions below these limits.

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person[.]

*Id.* § 17.50(a).

195. *See, e.g.*, Chilton Ins. Co. v. Pate & Pate Enters., Inc., 930 S.W.2d 877, 889 (Tex. Ct. App. 1996).

196. *See* TEX. BUS. & COM. CODE ANN. § 17.46(a) (West 1987 & Supp. 1998–1999).

197. *See* Eckman v. Centennial Savings Bank, 784 S.W.2d 672, 674 (Tex. 1990) ("A plaintiff must be a 'consumer' to maintain a private action under the DTPA."); *accord* Bass v. Hendrix, 931 F. Supp. 523, 534 (S.D. Tex. 1996); Meineke Discount Muffler v. Jaynes, 999 F.2d 120, 125 (5th Cir. 1993); McClung v. Wal-Mart, 866 F. Supp. 306, 308 (N.D. Tex. 1994).

198. TEX. BUS. & COM. CODE ANN. §17.45(4) (West 1987 & Supp. 1998–1999).

199. *See id.* § 17.49(f).

200. *See id.* § 17.49(g).

Even more problematic is the definition of "goods" and "services" in the DTPA. "Services" has its usual meaning of "work, labor, or service,"[201] but "goods" are limited to "tangible chattels or real property."[202] Intellectual property is therefore not within the scope of the statute. Given the requirement that a consumer be seeking goods or services, the parties to a patent license would not be considered consumers for that transaction and would be unable to bring suit under the DTPA.

The consumer protection division of the attorney general's office is still authorized to take action because of the broad definition of commerce.[203] One must question, however, the likelihood of state intervention in a private transaction except in the most extraordinary of circumstances. Although there is no clear limitation on the meaning of "deceptive practices" for state purposes, many of the enumerated provisions make reference to "consumers" or "goods," preventing patent licensing from falling within otherwise clear violations. Without standing as consumers, it is unclear whether parties would even be entitled to the liberal construction of the statute normally afforded.[204]

Despite the limitations of the standing requirements, the DTPA provides a broad range of remedies. The attorney general has broad authority to investigate violations, including the power to examine individuals under oath and to examine or impound merchandise in question.[205] If a violation is found, the consumer protection division may seek a temporary restraining order, temporary injunction, or permanent injunction of the practice.[206] A district attorney may also institute an action under the DTPA after first notifying the attorney general.[207] In addition to seeking an injunction, the state may seek civil penalties[208]

201. *Id.* § 17.45(2).

202. *Id.* § 17.45(1).

203. *See supra* note 177 and accompanying text.

204. If the purpose of the statute is to protect consumers from deceptive business practices, that purpose is not necessarily furthered by protecting non-consumers. *See supra* note 178 and accompanying text.

205. *See* TEX. BUS. & COM. CODE ANN. § 17.60 (West 1987 & Supp. 1998–1999).

206. *See id.* § 17.47. The attorney general's office must inform the individual of the alleged unlawful practice at least seven days prior to any court action, but need not inform the target of the action considered. *See id.*

207. *See id.* § 17.48. The district attorney is subject to the same requirements as the attorney general and must issue a full report of the disposition of the action if the attorney general's office does not intervene. *See id.*

208. Not more than $2,000 per violation, not to exceed a total of $10,000. *See id.* § 17.47(c).

and actual damages or restitution for any identifiable persons damaged by the unlawful act.[209]

### *C. New York*

New York's consumer protection statute reads: "Deceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service in this state are hereby declared unlawful."[210] To show a deceptive practice, the plaintiff must establish "(1) that the practice alleged was misleading in a material respect; and (2) that the plaintiff was injured."[211] The deceptive act, while material, need not rise to the level of a common law fraud.[212] The standard applied is "an objective definition of deceptive acts and practices, whether representations or omissions, limited to those likely to mislead a reasonable consumer acting reasonably under the circumstances."[213] There is not, however, "any requirement under [New York General Business Law ("GBL")] § 349 that plaintiff prove that he relied upon defendants' misrepresentations and deceptive practices."[214] The plaintiff also need not show the intent or recklessness required for common law fraud; however, a showing of scienter allows the court to award treble damages.[215]

"The gravamen of the [deceptive trade practices] complaint must be consumer injury or harm to the public interest."[216] This is a result of the statute's history, which is aimed at fraud against consumers.[217] Contrary to the holdings of some courts,[218] "[c]onsumer-oriented conduct does not require a repetition or pattern of deceptive behavior. The statute itself

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209. *See id.* § 17.47(d). Damages are limited to those incurred during the period commencing two years prior to instituting the action. *See id.*

210. N.Y. GEN. BUS. LAW § 349(a) (McKinney 1988).

211. Steinmetz v. Toyota Motor Credit Corp., 963 F. Supp. 1294, 1306 (E.D.N.Y. 1997).

212. *See* Jones v. Wide World of Cars, Inc., 820 F. Supp. 132, 138 (S.D.N.Y. 1993).

213. Oswego Laborers' Local 214 Pension Fund v. Marine Midland Bank, 647 N.E.2d 741, 744 (N.Y. 1995).

214. Pellegrini v. Landmark Travel Group, 628 N.Y.S.2d 1003, 1008 (City Ct. 1995).

215. *See Oswego*, 647 N.E.2d at 744.

216. Procter & Gamble Co. v. Quality King Distribs., Inc., 974 F. Supp. 190, 201 (E.D.N.Y. 1997) (quoting Securitron Magnalock Corp. v. Schnabolk, 65 F.3d 256, 264 (2d Cir. 1995)).

217. *See* Memorandum of June 19, 1980, 1980 N.Y. Laws 1867 (memorandum of Gov. Carey). *See also Oswego*, 647 N.E.2d at 744.

218. *See, e.g.*, Quail Ridge Assoc. v. Chemical Bank, 558 N.Y.S.2d 655, 658 (App. Div. 1990) (citing Genesco Entertainment v. Koch, 593 F. Supp. 743 (S.D.N.Y. 1984)).

does not require recurring conduct."[219] Recurring conduct may, however, be an indicator of the impact on the consumer required to state a claim under the statute.[220] Even if deceptive, a single act may not fall within the confines of section 349 of the GBL unless it is shown to have an impact on the larger public.[221]

As a result of the consumer-oriented conduct requirement, "single-shot, '[p]rivate contract disputes, unique to the parties, for example, would not fall within the ambit of the statute.'"[222] The courts have not formulated a clear test for when a single contractual dispute may be considered to affect the public at large. The size of the transaction is relevant, as "General Business Law § 349 was primarily intended to apply to more modest transactions . . . ."[223] The frequency of such transactions (as distinguished from the recurrence of the alleged deceptive behavior) is also a consideration. Thus, a one-time rental of Shea Stadium was clearly not within the scope of the statute,[224] while a bank's provision of misleading information when opening a deposit account did have a consumer impact since numerous similarly-situated consumers would be provided with that same information.[225] Patent licensing arrangements are unlikely to fall within the statute because they usually involve only two parties and a patent holder does not license its patents to a broad number of consumers. The case law has not established whether the secondary impact on the general public — being deprived of access to the licensed product — is sufficient to meet the requirements of the statute.

The New York statute is based upon section 5 of the Federal Trade Commission ("FTC") Act[226] and is to be interpreted in that light.[227] Therefore, the omission of unfair acts from section 349 of the GBL implies that such acts were not intended to be covered by the statute

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219. *Oswego*, 647 N.E.2d at 744.

220. *See* People by Koppell v. Empyre Inground Pools, Inc., 642 N.Y.S.2d 344 (App. Div. 1996).

221. *See* United Knitwear, Inc. v. North Sea Ins. Co., 612 N.Y.S.2d 596 (App. Div. 1994).

222. Teller v. Bill Hayes, Ltd., 630 N.Y.S.2d 769, 773 (App. Div. 1995) (quoting *Oswego*, 647 N.E.2d at 744).

223. *Id.*.

224. *See* Genesco Entertainment v. Koch, 593 F. Supp. 743, 752 (S.D.N.Y. 1984).

225. *See Oswego*, 647 N.E.2d at 745.

226. Federal Trade Commission Act § 5, 15 U.S.C. § 45(a)(1) (1994). "Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful." *Id.*

227. *See* State *ex rel.* Lefkowitz v. Colorado State Christian College of the Church of the Inner Power, Inc., 346 N.Y.S.2d 482, 487–89 (Sup. Ct. 1973).

unless they were also deceptive.[228] This accords with the limitation of enforcement actions for unfair practices under the FTC Act to the Federal Trade Commission; no private cause of action exists under the FTC Act.[229]

Under the New York law, a cause of action is granted to "any person who has been injured by reason of any violation" of the law.[230] A party need not be a consumer to seek relief: "[h]ad the Legislature intended the statute to apply strictly to consumers, the word 'consumer' could have been used and 'consumer' could have been defined as the Legislature saw fit."[231] Thus a competitor may bring suit under the statute, provided the requirement of consumer-oriented conduct is met.[232] A plaintiff may recover actual damages and seek to enjoin the unlawful behavior.[233] When it is established that the defendant engaged in the deceptive practice knowingly or willfully, the court may award treble damages up to three thousand dollars.[234] If a plaintiff is successful in his claim, reasonable attorneys' fees may also be awarded.[235]

Although consumers have brought most actions under the statute, the attorney general is authorized to bring actions against deceptive practices.[236] In addition to injunctive relief, the state may seek disgorgement of any money obtained through the unlawful acts, even without establishing the specific injuries.[237] Similar to the Texas statute, the New York statute provides that the attorney general must notify the target prior to instituting the proceeding and allow an opportunity for the defendant to respond to the charges in writing.[238] Of course, the attorney general's office is authorized to investigate allegations of unlawful trade practices.[239]

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228. *See* N.Y. GEN. BUS. LAW § 349 (McKinney 1988) (practice commentaries).

229. *See* Holloway v. Bristol-Myers Corp., 485 F.2d 986 (D.C. Cir. 1973). While this may explain the differences between the New York and federal statutes, it is unlikely to have been the New York legislators' motive. A private cause of action was not added to GBL § 349 until 1980.

230. N.Y. GEN. BUS. LAW § 349(h) (McKinney 1988).

231. Hart v. Moore, 587 N.Y.S.2d 477, 479 (Sup. Ct. 1992).

232. *See supra* notes 216–25 and accompanying text.

233. *See* N.Y. GEN. BUS. LAW § 349(h) (McKinney 1988).

234. *See id.*; *see also* Oswego Laborers' Local 214 Pension Fund v. Marine Midland Bank, 647 N.E.2d 741, 744 (N.Y. 1995).

235. *See* N.Y. GEN. BUS. LAW § 349(h) (McKinney 1988).

236. *See id.* § 349(b).

237. *See* State *ex rel.* Lefkowitz v. Colorado State Christian College of the Church of the Inner Power, Inc., 346 N.Y.S.2d 482 (Sup. Ct. 1973).

238. *See* N.Y. GEN. BUS. LAW § 349(c) (McKinney 1988).

239. *See id.* § 349(f).

### *D. Massachusetts*

The Massachusetts unfair competition law — "Unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce are hereby declared unlawful"[240] — is closely modeled on the FTC Act. The statute calls for its construction "[to] be guided by the interpretations given by the Federal Trade Commission and the Federal Courts" to the FTC Act.[241] Similar to the FTC's authority, the Massachusetts statute authorizes the attorney general to promulgate interpretive regulations, provided those rules are not inconsistent with decisions of the FTC.[242]

The statute does not define what constitutes an unfair or deceptive act, and the courts have deliberately avoided establishing a clear definition of what behavior violates the law.[243] The existence of an unfair practice must be determined on a case-by-case basis depending upon the circumstances.[244] "The circumstances of each case must be analyzed, and unfairness is to be measured not simply by determining whether particular conduct is lawful (or unlawful, we now add) apart from [General Laws of the Commonwealth of Massachusetts ("G. L.")] c. 93A but also by analyzing the effect of the conduct on the public (or the consumer)."[245] The attorney general's regulations interpreting the statute offer little more specific guidance:

> Without limiting the scope of any other rule, regulation or statute, an act or practice is a violation of M.G.L. c.93A, § 2 if:
> (1) It is oppressive or otherwise unconscionable in any respect; or
> (2) Any person or other legal entity subject to this act fails to disclose to a buyer or prospective buyer any fact, the disclosure of which may have influenced the buyer or prospective buyer not to enter into the transaction; or
> (3) It fails to comply with existing statutes, rules, regulations or laws, meant for the protection of the

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240. MASS. GEN. LAWS ch. 93A, § 2(a) (1996).
241. *Id.* § 2(b).
242. *See id.* § 2(c).
243. *See* Spence v. Boston Edison Co., 459 N.E.2d 80, 88 (Mass. 1983).
244. *See* Fraser Eng'g Co. v. Desmond, 524 N.E.2d 110, 112 (Mass. App. Ct. 1988).
245. Mechanics Nat'l Bank v. Killeen, 384 N.E.2d 1231, 1237 (Mass. 1979) (quoting Schubach v. Household Fin. Corp., 376 N.E.2d 140 (Mass. 1978)).

> public's health, safety, or welfare promulgated by the Commonwealth or any political subdivision thereof intended to provide the consumers of this Commonwealth protection; or
>
> (4) It violates the Federal Trade Commission Act, the Federal Consumer Credit Protection Act or other Federal consumer protection statutes within the purview of M.G.L. c. 93A, § 2.[246]

In determining unfairness, whether the practice is permitted by law may be considered but is not determinative. Likewise, the fact that an act is authorized by contract does not allow it to avoid scrutiny.[247] "Just as every lawful act is not thereby automatically free from scrutiny as to its unfairness under c. 93A, so not every unlawful act is automatically an unfair (or deceptive) one under G. L. c. 93A."[248] A court may, however, look to both statutory and common law for established notions of unfairness:

> We have stated that a practice or act will be unfair under G. L. c. 93A, § 2, if it is (1) within the penumbra of a common law, statutory, or other established concept of unfairness; (2) immoral, unethical, oppressive, or unscrupulous; or (3) causes substantial injury to competitors or other business people.[249]

This standard is largely consistent with the attorney general's interpretive regulation.[250] It is also somewhat larger, however, as the regulation requires that the practice actually violate the law, while the judicial standard merely looks to the law as an expression of public notions of fairness.

Given the emphasis placed upon examining the circumstances in determining the existence of unfairness, the relative position and sophistication of the parties is relevant. "One can easily imagine cases where an act might be unfair if practiced upon a commercial innocent yet would be common practice between two people engaged in business."[251]

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246. MASS. REGS. CODE tit. 940, § 3.16 (1993).

247. *See* Penney v. First Nat'l Bank, 433 N.E.2d 901, 905 (Mass. 1982) (quoting Schubach v. Household Fin. Corp., 376 N.E.2d 140 (Mass. 1978)).

248. *Mechanics Nat'l*, 384 N.E.2d at 1237.

249. Heller Fin. v. Insurance Co. of North Am., 573 N.E.2d 8, 12 (Mass. 1991).

250. *See* MASS. REGS. CODE tit. 940, § 3.16 (1993).

251. Spence v. Boston Edison Co., 459 N.E.2d 80, 88 (Mass. 1983).

In determining whether a practice is unfair, one must evaluate "the equities between the parties. What a defendant knew or should have known may be relevant in determining unfairness. Similarly, a plaintiff's conduct, his knowledge, and what he reasonably should have known may be factors in determining whether an act or practice is unfair."[252] In an arms-length transaction between two business entities, the plaintiff must show a greater degree of "rascality" to establish an act is unfair within the meaning of G. L. c. 93A.[253] While "rascality" has not been defined by the courts, "[t]he statute 'does not contemplate an overly precious standard of ethical or moral behavior. It is the standard of the commercial market place.'"[254] The fairness of an act in a commercial transaction is therefore judged by the standards of a businessman rather than those of an average individual.[255] This heightened standard remains fairly liberal: "[P]ractices involving even worldly-wise business people do not have to attain the antiheroic proportions of immoral, unethical, oppressive, or unscrupulous conduct, but need only be within any recognized or established common law or statutory concept of unfairness."[256] An unfair commercial practice must also result in "substantial injury . . . to competitors or other businessmen."[257]

The question of whether a practice is deceptive is separate from that of fairness.[258] Both the courts and the attorney general have defined deceptive acts as those which "could reasonably be found to have caused a person to act differently from the way he otherwise would have acted."[259] The standard applied is an objective test of whether the

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252. Swanson v. Bankers Life Co., 450 N.E.2d 577, 580 (Mass. 1983) (citations omitted).

253. *See* Anthony's Pier Four, Inc. v. HBC Assocs., 583 N.E.2d 806, 822 (Mass. 1991).

254. USM Corp. v. Arthur D. Little Sys., Inc., 546 N.E.2d 888, 897 (Mass. App. Ct. 1989) (quoting Wasserman v. Agnastopoulos, 497 N.E.2d 19, 23 (Mass. App. Ct. 1986)).

255. "A section 11 claimant must show that the objectionable conduct attained 'a level of rascality that would raise an eyebrow of someone inured to the rough and tumble of the world of commerce.'" Den Norske Bank AS v. First Nat'l Bank of Boston, N.A., 838 F. Supp. 19, 28 (D. Mass. 1993) (quoting Quaker State Oil Ref. v. Garrity Oil Co., 884 F.2d 1510, 1513 (1st Cir. 1989)), *vacated on other grounds*, 75 F.3d 49 (1st Cir. 1996).

256. Vmark Software, Inc. v. EMC Corp., 642 N.E.2d 587, 595 (Mass. App. Ct. 1994).

257. *Quaker State*, 884 F.2d at 1513 (quoting PMP Assocs., Inc. v. Globe Newspaper Co., 321 N.E.2d 915, 917 (Mass. 1975)).

258. *See* Massachusetts Farm Bureau Fed'n, Inc. v. Blue Cross of Mass., Inc., 532 N.E.2d 660, 664 (Mass. 1989) ("An act or practice may be 'unfair' within the statutory meaning without being deceptive or fraudulent.").

259. Tagliente v. Himmer, 949 F.2d 1, 7 (1st Cir. 1991) (quoting Lowell Gas Co. v.

general public would be deceived,[260] but the plaintiff must at least allege that he would have behaved differently but for the deceptive act.[261] It should be noted that reliance is not a prerequisite for recovery under the statute;[262] however, it may be necessary to prove the required causal link between the deception and the injury.[263] While the need to show reasonable reliance is uncertain, it is well established that "[n]o intention to deceive need be shown."[264] Similarly, the plaintiff need not show the unfair or deceptive practice is intentional or willful.[265]

The Massachusetts statute contains separate standing provisions for consumers[266] and for businesses.[267] The latter provision applies to "[a]ny person who engages in the conduct of any trade or commerce and who suffers any loss" due to a prohibited practice.[268] Even if the plaintiff has not suffered an injury, it may bring a suit to obtain an injunction upon

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Attorney General, 385 N.E.2d 240, 249 (Mass. 1979)); *see also* MASS. REGS. CODE tit. 940, § 3.16 (1993).

260. *See* Leardi v. Brown, 474 N.E.2d 1094, 1099 (Mass. 1985) (quoting P. Lorillard Co. v. FTC, 186 F.2d 52, 58 (4th Cir. 1950)) ("In determining whether an act or practice is deceptive, 'regard must be had, not to fine spun distinctions and arguments that may be made in excuse, but to the effect which it might reasonably be expected to have upon the general public.'").

261. *See* Herring v. Vadala, 670 F. Supp. 1082, 1087 (D. Mass. 1987).

262. *See* Zayre Corp. v. Computer Sys. of Am., Inc., 511 N.E.2d 23, 30 (Mass. Ct. App. 1987).

263. *See* Trifiro v. New York Life Ins. Co., 845 F.2d 30, 33 n.1 (1st Cir. 1988).

> Strictly speaking, the Supreme Judicial Court of Massachusetts has held that to recover under Mass. G. L. c. 93A plaintiff must demonstrate only "a causal connection between the deception and the loss and that the loss was foreseeable as a result of the deception." Nonetheless, we note that two different kinds of causal nexus are possible. Although there are some causal chains, which exist apart from any reliance, there are other causal chains in which reliance forms an essential link. In this latter type of nexus, the reliance must be reasonable. Thus, while reasonable reliance is not absolutely necessary under c. 93A because some causal chains exist in which actual reliance plays no part, this statute is not so radical that it derogates from the traditional principles of tort and contract law that when actual reliance is present, it must be a reasonable reliance.

*Id.* (internal citation omitted).

264. Fraser Eng'g Co. v. Desmond, 524 N.E.2d 110, 113 (Mass. App. Ct. 1988).

265. *See* Giannasca v. Everett Aluminum, Inc., 431 N.E.2d 596, 599 (Mass. App. Ct. 1982).

266. *See* Mass. Gen. Laws ch. 93A, § 9 (1996).

267. *See id.* § 11.

268. *Id.*

showing that the unfair business practice may cause such a loss.[269] In addition to equitable relief, an injured plaintiff may seek actual damages[270] and is entitled to attorneys' fees and costs if a violation is found, whether or not other relief is awarded.[271] Damages must be causally linked to and a foreseeable result of the unlawful practice.[272]

The court may award up to treble damages, but no less than double damages, if it finds the violation was "knowing or willful."[273] A defendant may avoid multiple damages by tendering, along with its answer to the complaint, a written offer of settlement. If the offer is rejected by the plaintiff and later found to be "reasonable in relation to the injury actually suffered," the court will only award actual damages.[274]

## V. UNFAIR COMPETITION CLAIMS

### *A. Formulation of Claim*

Having established the outlines of state unfair competition law, this Note will next address the question of its application. Although, as the case law demonstrates, unfair competition claims are highly context-specific, there are two broad categories of situations in which such claims are likely to arise. First, an accused infringer may make use of such claims, either as counterclaims to an infringement suit, as additional claims in a declaratory judgment action or as distinct causes of action. Second, a licensee may be able to bring an unfair competition claim in connection with its existing license to either modify or negate its terms.

In the first scenario, imagine a manufacturer who receives notice that its product is believed to be infringing a patent. The notice, which may be from a well-known competitor or an unknown individual, will undoubtedly contain a request to "cease and desist" the infringing activity and may include an invitation to negotiate a license for the allegedly infringed patent. The patent holder may also contact customers of the manufacturer to inform them of the alleged infringement or may threaten to do so.

269. *See id.*

270. Actual damages do not include purely economic harm. *See* Canal Elec. Co. v. Westinghouse Elec. Corp., 756 F. Supp. 620 (D. Mass. 1990), *aff'd*, 973 F.2d 988 (1st Cir. 1992).

271. *See* MASS. GEN. LAWS. ch. 93A, § 11 (1996).

272. *See* Bertassi v. Allstate Ins. Co., 522 N.E.2d 949, 953 (Mass. 1988).

273. MASS. GEN. LAWS. ch. 93A, § 11 (1996).

274. *Id.*

After receiving the letter, the manufacturer faces essentially three options: (1) continue producing the item and prepare for litigation (either in the form of an infringement suit or a declaratory judgment action); (2) continue producing the item and negotiate a license; or (3) stop producing the item (although this option would seldom be used unless negotiations to obtain a license proved fruitless and the manufacturer considered the infringement issue clear). In each case, a state law claim may exist based on the patent holder's behavior.

To the extent the patent may be invalid and the patent holder is asserting a right it may not have, it is likely to deceive the public as to the existence of its patent rights and thus fall within the California definition for "fraudulent" business practices.[275] A stronger argument may lie, not simply in the patent holder's allegation of infringement or offer to license, but in the failure to disclose grounds for challenging the patent's validity, as such grounds clearly would be material to the patent's strength and failure to disclose them would deceive the public as to the patent's enforceability. This is in accord with both the Texas requirement that a party cannot fail to disclose information in order to induce a consumer into a transaction[276] and the Massachusetts standard of judging misrepresentations by whether information would have influenced the consumer not to enter into a transaction.[277] Even the strictest requirement, New York's objective standard of a reasonable consumer,[278] may be met.

Such an argument would not run afoul of the established presumption of a patent's validity; rather, it would simply require a patent holder to furnish any information which might affect that presumption when making allegations of infringement. Indeed, the existence of the presumption of validity may make the disclosure of adverse information more important as consumers are likely to follow that presumption in the absence of evidence to the contrary. Given the wide range of grounds for challenging validity — from obviousness to inequitable conduct before the PTO — a patent holder would likely need

275. *See supra* notes 159–61 and accompanying text.

276. *See supra* notes 183–86 and accompanying text. The patent holder would not be able to argue that it was unaware of the fact, *see supra* notes 186–87, since it must have knowledge of events surrounding the acquisition of the patent, even if it interprets those events differently.

277. *See supra* notes 259–61 and accompanying text. Since the manufacturer is able (and willing) to contest the validity of the patent, it presumably will be able to plead that it would not enter into a license for an invalid patent.

278. *See supra* note 213 and accompanying text.

to supply the complete prosecution history and all relevant prior art when attempting to enforce or license a patent.

Depending upon the argument against the patent's validity, a claim may be fashioned that enforcement or licensing of the patent is unlawful and therefore unfair. Several grounds for invalidity, such as fraud upon the PTO, are based upon failure to comply with the requirements of the patent statute and PTO regulations. These violations, even if not sufficient to invalidate the patent, may constitute the illegal behavior necessary for a California unfair competition claim.[279] Likewise, arguments of misuse or anticompetitive behavior may be sufficient breaches of law for purposes of the California statute, even if all the requirements are not met for imposing antitrust liability. The Massachusetts statute, while not making all illegal practices unfair,[280] as does the California statute,[281] looks to existing law for guidance as to established notions of fairness. Thus, violations of the patent laws, PTO procedures, or antitrust doctrines may indicate a violation of the bounds of fairness, making the conduct prohibited by the statute.[282] If the acquisition of the patent violates the state statute it follows a fortiori that the enforcement of the patent would also be unfair competition.

Arguments that the attempted enforcement of the patent is an "unfair" practice are available only under California and Massachusetts laws.[283] Both states offer largely amorphous standards that will turn upon the equities of the situation.[284] Such claims are most likely to be appropriate where the patent holder has committed behavior that, though not meeting the requirements for other legal liability, may be seen as pushing the boundaries of legality. Considerations beyond the validity of the patents involved, such as the manner in which the patent holder has enforced them,[285] may be relevant to claims brought under this standard. Such claims also allow the focus to be shifted from the behavior of the alleged infringer to that of the patent holder.[286]

In the second scenario, a licensee may choose to make unfair competition claims against the patent holder for a number of reasons, the

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279. *See supra* notes 136–58 and accompanying text.

280. *See supra* note 248 and accompanying text.

281. *See supra* notes 136–37 and accompanying text.

282. *See supra* note 249 and accompanying text.

283. *See supra* note 176 and accompanying text; *supra* note 228 and accompanying text.

284. *See supra* Parts IV.A., IV.D.

285. *See supra* Part III (discussing Dow v. Exxon).

286. *See* Hodosh v. Block Drug Co., 833 F.2d 1575, 1577–78 (Fed. Cir. 1987), *cert. denied*, 485 U.S. 1007 (1988).

most likely of which is to void the license and recoup royalties paid under it. To the extent that the licensee can challenge the validity of the patent, it may make many of the same arguments as the accused infringer. In some cases the cause of action would be stronger, as both California[287] and Texas[288] have recognized that asserting that a contract contains rights — in this case, that the license agreement contains rights to practice a valid patent — which it does not, is presumptively unfair. The New York statute, which has been interpreted to minimize interference in commercial relations,[289] may view the circumstances less as a breach of contract and more as a breach of an implied warranty in the patent's validity, falling within the statute's protections. The position of the licensee differs from that of the accused infringer with respect to remedies. While the manufacturer may seek only an injunction on the patent holder's assertion of its infringement claim, the licensee may be entitled to restitution for the royalties paid under the license, which was secured unfairly.

The licensee may also have causes of action not based on the validity of the licensed patents. For example, if the patent holder fails to license all of the patents necessary to produce and commercially utilize the invention, the licensee may have a claim. In the event of parent and improvement patents, licensing either without the other may be deceptive: an ordinary consumer would presume that a license allowed commercial use of the patented item.[290] In the course of its licensing, the patent holder may have committed any number of other similar practices which a licensee may later challenge as unfair.

When framing these state law claims, in order to avoid preemption under the Federal Circuit's analysis, it is important that the cause of action have additional or independent elements from causes of action under the patent laws. Since the state statutes impose liability without proof of intent or reliance, there is a potential for the state claim to become a repetition of existing federal claims. Thus, an unfair competition claim under California's section 17200 based solely upon

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287. *See supra* note 150 and accompanying text. Although the patent holder is asserting a patent right rather than a contractual one, there is little basis for distinction in this case.

288. *See supra* note 188 and accompanying text. A license for an invalid patent may violate both aspects of the Texas standard as the license purports to convey rights it does not (to the patent) and that are prohibited by law (for inequitable conduct, etc.).

289. *See supra* note 222 and accompanying text.

290. The patent holder must, of course, walk the line between deception regarding potentially blocking patents and the restrictions on tying. The line becomes narrower as the patents move from being an improvement on a particular patent to merely related. *See supra* notes 69–71 and accompanying text.

inequitable conduct before the PTO may be preempted as an alternative remedy to those provided under the patent laws.[291] If, however, the claim contains the added requirement of an impact on the general public — as with the New York, Texas, and Massachusetts statutes — the claim is likely to withstand the preemption argument. Other requirements of the state statutes, such as the conduct occurring as part of a business practice, could be emphasized to highlight distinctions from federal causes of action. Furthermore, the potential for action by the state attorneys general[292] should demonstrate that such claims are addressed to a different set of concerns than the federal law — an important factor in the *Kewanee* decision, which found no preemption.[293]

The greater preemption limitation is the need to meet the standards for imposition of federal antitrust liability when the allegedly tortious conduct is "protected or governed" by federal patent law.[294] Although the Federal Circuit has not defined the full extent of such conduct, some areas — such as licensing agreements — are clearly not within federal patent law. Nonetheless, the line between such unprotected conduct and the protected conduct of "publicizing a patent in the marketplace" is unclear, leading the preemption analysis to turn upon how the claim is framed and what the tortious conduct is perceived to be.

### *B. Advantages*

Given the resemblance of the state law claims to remedies available under patent law and other doctrines, one may question the need or desirability for state law claims. First, resemblance is not identity; state claims can be used to cover behavior not within the scope of federal law. Second, unfair competition law may provide advantages in the timing of claims and the remedies available thereunder. Finally, and perhaps most important in practice, the availability of state claims may allow a choice of forums for litigation and provides an additional bargaining chip in license negotiations.

State unfair competition laws are written broadly to protect consumers and are construed liberally to serve that purpose.[295] As a consequence, most state statutes do not require a showing of knowledge

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291. *Cf.* Abbott Lab. v. Brennan, 952 F.2d 1346, 1357 (Fed. Cir. 1991), *cert. denied*, 505 U.S. 1205 (1992).

292. Under the Texas DTPA, the action *must* be initiated by the state. *See supra* notes 196–204 and accompanying text.

293. *See supra* Part III.

294. *See supra* note 124 and accompanying text.

295. *See supra* Part IV.

or intent for an act to be deceptive; this contrasts with federal claims for antitrust violations or inequitable conduct, which require a strong showing of intent on the part of the patent holder.[296] In particular, given the Federal Circuit's requirement that a party show specific intent in an antitrust claim[297] and the difficulty in producing such evidence, a claim under state law stands a greater chance of success. Even when federal antitrust standards are incorporated because the conduct is governed by federal patent law, the remaining elements of the state claim are likely to be less restrictive than for an antitrust claim.

One constraint on the more expansive reading of state unfair competition law is the influence of the FTC Act[298] in interpreting state laws. Massachusetts, New York, and Texas all call for interpretations of their statutes to be guided by decisions under the FTC Act.[299] Although states may afford broader protections than federal antitrust law, these provisions may be seen as an implied incorporation of federal antitrust doctrine in the absence of clear state authority to the contrary. The Federal Circuit, addressing claims under Washington's unfair competition statute, interpreted "guidance" by the FTC Act to mean that the state court would follow the federal doctrine developed for *Walker Process* claims.[300] As a consequence, a bad faith requirement was imputed in making an unfair competition claim.[301] Incorporating the bad faith intent requirement into state statutes significantly narrows their reach and eliminates their main advantage over the traditionally-available antitrust claims. State claims would retain the advantage of not requiring a showing of market power; however, proving the bad faith intent of the patent holder poses a greater problem.

Timing is another potential benefit. Antitrust claims can only be asserted once the patent holder has attempted to enforce its patent[302] and patent misuse can only be asserted as a defense to an infringement

296. *See supra* note 12 and accompanying text.

297. *See supra* notes 20–22 and accompanying text.

298. 15 U.S.C. §§ 41–58 (1994 & Supp. III 1997).

299. *See* MASS. GEN. LAWS ch. 93A, § 2(b) (1996); State *ex rel.* Lefkowitz v. Colorado State Christian College of the Church of the Inner Power, Inc., 346 N.Y.S.2d 482, 487–89 (Sup. Ct. 1973); TEX. BUS. & COM. CODE ANN. § 17.46(c) (West 1987 & Supp. 1998–1999).

300. *See* Litton Indus. Prods., Inc. v. Solid State Sys., Corp., 755 F.2d 158 (Fed. Cir. 1985).

301. *See id*; *see also* Mirafi, Inc. v. Murphy, No. 90-1074, 1991 WL 10623 (Fed. Cir. Mar. 4, 1991) (unpublished disposition holding same under North Carolina unfair competition law).

302. *See supra* note 39 and accompanying text.

suit.[303] Waiting for the patent holder to file an infringement may be undesirable because delay will increase the amount of damages that ultimately may be awarded for infringement. Additionally, the patent holder is able to shape the litigation.

Prior to the filing of an infringement suit, an accused infringer may seek a declaratory judgment of a patent's invalidity. A federal court will exercise jurisdiction over a declaratory judgment action only if an "actual controversy" is present. This is determined by a two-part test: "First, the plaintiff must actually produce or be prepared to produce an allegedly infringing product. Second, the patentee's conduct must have created an objectively reasonable apprehension on the part of the plaintiff that the patentee will initiate suit if the activity in question continues."[304] Even if an actual controversy exists, the court still has discretion to decline jurisdiction.[305] In exercising that discretion, "a court may take into account the pendency of serious negotiations."[306] Thus, the existence of serious licensing offers from the patent holder may leave the alleged infringer without a case.[307]

State law claims, on the contrary, generally do not have such constraints. Although a party may be required to show proof of injury, injunctive relief usually may be obtained prior to the actual injury if the party shows that harm is likely.[308] If a patent holder's method of asserting its patent is causing harm, an action may be brought without inquiry into the patent holder's intent to bring suit. Time may be of the essence when the patent holder is contacting customers of the alleged infringer. An unfair competition claim may allow the alleged infringer to seek relief more quickly and prevent further injury.[309]

The remedies available under state unfair competition law may be most desirable to licensees seeking to obtain restitution of royalties paid under a license that is now being challenged by the licensee. State law clearly would allow a court to award such a remedy.[310] It is less clear

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303. *See supra* Part II.B.

304. EMC Corp. v. Norand Corp., 89 F.3d 807, 811 (Fed. Cir. 1996), *cert. denied*, 519 U.S. 1101 (1997).

305. *See id.* at 813.

306. *Id.* at 814.

307. *But cf.* Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282, 1293 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985) (holding that the existence of licensing offers does not preclude a finding of bad faith patent enforcement).

308. *See, e.g.*, MASS. GEN. LAWS ch. 93A § 11 (1996).

309. *But see* Mikohn Gaming Corp. v. Acres Gaming, Inc., Nos. 98-1216, 98-1217, 1998 WL 907905 (Fed. Cir. Dec. 30, 1998).

310. *See, e.g.*, CAL. BUS. & PROF. CODE § 17203 (West 1997) (authorizing restitution of any money or property obtained through unfair competition).

that such royalty payments would constitute the type of "antitrust injury" intended to be redressed by the antitrust laws.[311]

The existence of a state cause of action for unfair competition may also give a party flexibility in determining where to bring suit. The presence of patent issues as part of a state law claim does not preclude state court jurisdiction, unless a "substantial question of federal patent law" is a "necessary element" of the state claim.[312] While a broad range of issues — including validity, enforceability, and infringement[313] — are considered substantial questions, a question is considered a necessary element only if there are no alternative formulations of the claim. The court in *Hunter Douglas* did not find claims of unfair competition under California law to "arise under" the federal patent laws, and thus state jurisdiction was not precluded. So long as a state claim is not formulated to require resolution of one of these substantial questions of federal law, such claims may be brought in state court.

Alternatively, state claims may be asserted in federal court via supplemental jurisdiction.[314] In almost all circumstances it should be possible to formulate a claim invoking federal question jurisdiction from the same set of facts. For example, if the requirement of an actual controversy is met,[315] a declaratory judgment action of invalidity or noninfringement would fall within federal question jurisdiction. Once the district court's jurisdiction over one such claim is established, the Federal Circuit has suggested it would be an abuse of discretion to fail to exercise supplemental jurisdiction over the additional state claims.[316]

In addition to multiple forums, state claims may allow for choice of law. Obviously, some relation between the events and the state must exist for a case to be brought there. New York requires a showing of

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311. *See* Dow Chem. Co. v. Exxon Corp., 139 F.3d 1470, 1473 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999).

312. Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318, 1337 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1037 (1999).

313. *See id.* at 1329. The Federal Circuit has also held issues of inventorship under 35 U.S.C. §§ 116, 256; attorneys' fees under 35 U.S.C. § 285; revival of an unintentionally abandoned application under 35 U.S.C. §§ 41, 133; and the right to file a continuation application under 35 U.S.C. § 120 to involve substantial questions of federal law for the purpose of conveying exclusive federal jurisdiction. *See Hunter Douglas*, 153 F.3d at 1330.

314. State claims for unfair competition are expressly within federal jurisdiction when joined with a patent claim under 28 U.S.C. § 1338(b); other state business tort claims must fall within the supplemental jurisdiction provision of 28 U.S.C. § 1367.

315. *See supra* note 304 and accompanying text.

316. *See Hunter Douglas*, 153 F.3d at 1328.

impact on its consumers,[317] while Massachusetts requires that the unfair conduct occurred "primarily and substantially" within the state.[318] Nonetheless, an accused infringer should not be constrained from bringing suit within its home state and possibly that of the patent holder.

Finally, the existence of another possible set of defenses or claims for use by the accused infringer may serve to balance the positions of both sides in negotiations. As federal courts make antitrust claims more difficult to maintain, potential licensees can threaten to assert state law claims instead. The fact that the party asserting the unfair competition claims has choices as to the forum in which to file may provide additional incentives for the patent holder to reach a workable compromise. In some circumstances, the prospect of defending patent rights in a state court may be an undesirable one indeed.

## VI. CONCLUSION

In light of the arguments above discussing the possibility and desirability of raising claims under state unfair competition laws, it will not be surprising if more of these claims are brought in future litigation. The Federal Circuit's decisions in *Dow* and *Hunter Douglas* leave the door open for such claims. Texas and New York, which are more restrictive in the situations under which such claims may be brought, will see claims develop more slowly, while the more liberal statutes of California and Massachusetts will encourage parties to make claims under their laws.

It is not inconceivable that, as unfair competition claims expand to fill the area once occupied by antitrust claims, the courts will find ways to cut back on them. The current jurisprudence of these statutes, developed outside of the field of intellectual property, could severely undermine the rights of patent holders if extended to their extreme with respect to patents. Such a weakening in patent rights would no doubt provoke a response from many quarters, leaving the final equilibrium between state unfair competition law and federal patent law unclear.

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317. *See supra* notes 216–17 and accompanying text.

318. MASS. GEN. LAWS ch. 93A § 11 (1996).