

4-1-1996

Antitrust Liability Premised

Edward D. Cavanagh

Follow this and additional works at: <http://repository.law.miami.edu/umblr>



Part of the [Law Commons](#)

Recommended Citation

Edward D. Cavanagh, *Antitrust Liability Premised*, 6 U. Miami Bus. L. Rev. 119 (1996)

Available at: <http://repository.law.miami.edu/umblr/vol6/iss1/6>

This Article is brought to you for free and open access by Institutional Repository. It has been accepted for inclusion in University of Miami Business Law Review by an authorized administrator of Institutional Repository. For more information, please contact library@law.miami.edu.

ANTITRUST LIABILITY PREMISED

Edward D. Cavanagh*

On Enforcement of Invalid Intellectual Property Rights

This article will explore potential antitrust liability arising from attempted enforcement of invalid patents or trade secrets known to be invalid. A fundamental tension exists between the law of intellectual property and antitrust law. Federal patent¹ laws and the state law doctrines of trade secrets² confer on the holder exclusive rights to exploit an invention or creation and to exclude others from its use. The rationale of the patent laws and state intellectual property laws is to foster innovation and to provide inventors with protection for the fruits of their labor.³ By contrast, antitrust laws⁴ embody a public policy favoring free competition and generally discourage exclusionary behavior by an entity. Antitrust laws rest upon the premise that the “unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our political and social institutions.”⁵ An uneasy equilibrium exists between intellectual property law and antitrust law. As long as the intellectual property laws are used as a shield to protect the holder’s property rights, antitrust concerns must yield. However, when intellectual property rights are used as a sword to destroy competition, antitrust concerns prevail and the holders may face antitrust liability if they have accumulated sufficient presence in the particular market.⁶

Courts have recognized the following two theories of antitrust liability arising from the assertion of invalid intellectual property rights: (1) enforcement of a patent obtained by committing fraud on the patent office⁷

* Professor of Law, St. John’s University School of Law.

¹ 35 U.S.C. § 1 (1996).

² See generally, Roger M. Milgram, *TRADE SECRETS* (1997).

³ See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 486 (1974); *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 850 (1st Cir. 1985), *cert denied*, 474 U.S. 1016 (1986).

⁴ 15 U.S.C. § 1(1995).

⁵ *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 4-5 (1958).

⁶ *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576-77 (Fed. Cir. 1990).

⁷ *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

and (2) knowing enforcement or threats of enforcement of invalid patents⁸ or trade secrets.⁹ The first category, acquisition of the patent monopoly by fraudulent means, is unquestionably a serious matter but, as discussed below,¹⁰ there have been relatively few antitrust prosecutions premised on this theory. The second category, attempted enforcement of invalid patents or trade secrets known to be invalid, is equally antithetical to competition but may prove even more insidious than fraud on the patent office. Whereas one who fraudulently obtains a patent is acting unlawfully *ab initio*, those enforcing invalid patents have frequently acted lawfully in obtaining patent rights and enforcing those rights. Liability in the second category may be based upon either bad faith enforcement of invalid intellectual property rights or upon enforcement of invalid intellectual property rights as part of an overall scheme to monopolize. In examining "bad faith" intellectual property claims, the courts have attempted to balance the public interest in free competition with the inventor's interest in enforcing its intellectual property rights and the First Amendment interest in free access to the courts to protect those rights.¹¹ The problems arise when the patent holder, whose market position has become entrenched by virtue of the patent, seeks to extend the patent monopoly beyond its lawful period by using the courts to enforce expired or unfounded intellectual property claims. These issues have recently arisen in the flat glass industry, dominated by the British giant, Pilkington, which has spawned a government enforcement action¹² and several private suits.¹³

Although the "bad faith theory" may nominally increase the number of antitrust prosecutions, plaintiffs generally have not fared well. Moreover, the Supreme Court has recently made it more difficult for plaintiffs to prevail on this theory of recovery.¹⁴ This article will analyze the legal theories applicable to antitrust liability and explore the practical problems that must be overcome in order to have a successful prosecution of an antitrust case premised on enforcement of invalid intellectual property rights.

⁸ *Handgards, Inc. v. Ethicon, Inc.* 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1026 (1980); *Kobe Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.1952), *cert. denied*, 347 U.S. 837 (1952).

⁹ *CVD, Inc.*, 769 F.2d at 850-51.

¹⁰ See *infra* notes 11-15 and accompanying text.

¹¹ See, e.g., *Walker Process Equip. Inc.*, 382 U.S. at 177-78; *CVD, Inc.*, 769 F.2d at 849; *Handgards, Inc.*, 601 F.2d at 993-96; *Kobe, Inc.*, 198 F.2d at 424-25.

¹² *United States v. Pilkington, CIV. A. No. CV 94-345*, 1994 WL 750645 (D. Ariz. Dec. 22, 1994).

¹³ See, e.g., *PPG Industries, Inc. v. Pilkington*, 825 F.Supp. 1465 (D. Ariz. 1993).

¹⁴ *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus. Inc.*, 508 U.S. 49 (1993).

I. Fraud on the Patent Office

A. Walker Process Theory

In *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*,¹⁵ the Supreme Court held that “the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present.”¹⁶

In *Walker Process*, the patentee, Food Machinery, commenced an infringement action against defendant Walker Process, which not only denied infringement but also interposed a counterclaim in seeking a declaratory judgment stating that Walker Process’ patent was invalid.¹⁷ Thereafter, the patentee sought voluntarily to dismiss its action because the patent had expired, but Walker Process amended its counterclaim to allege that Food Machinery had violated § 2 of the Sherman Act because it had knowingly and willfully misrepresented facts material to its patent application to the patent office and had subsequently attempted to enforce the fraudulently procured patent.¹⁸ The trial court dismissed the antitrust counterclaim and the Seventh Circuit affirmed.¹⁹ The Supreme Court, however, reversed and reinstated the antitrust claim, noting that its recognition of antitrust liability premised on fraudulent procurement of a patent was consistent with a prior cases allowing alleged infringers to challenge the validity of a patent based on patent misuse.

The Court stated:

To permit recovery of treble damages for the fraudulent procurement of the patent coupled with violations of § 2 accords with these long-recognized procedures. It would also promote the purposes so well expressed in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Corp.*, 324 U.S. 806, 816, 65 S. Ct. 993, 999, 89 L. Ed. 1381, 1387 (1945)], 324 U.S. at 816, 89 L. Ed. at 1387 (*full citation added*).

¹⁵ *Walker Process Equip. Inc.*, 382 U.S. at 179.

¹⁶ *Id.* at 174.

¹⁷ *Id.* at 173-74.

¹⁸ *Id.* at 174.

¹⁹ *Id.*

A patent by its very nature is affected with a public interest.... 'It' is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.²⁰

The court emphasized that antitrust liability would attach only to those patents "procured by *intentional* fraud."²¹ (emphasis added).

Walker's counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws. By the same token, Food Machinery's good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability—so called "technical fraud."²²

In his concurrence, Justice Harlan elaborated on the legal standard for determining fraudulent procurement:

We hold today that a treble-damage action for monopolization which, but for the existence of a patent, would be violative of § 2 of the Sherman Act may be maintained under § 4 of the Clayton Act if two conditions are satisfied: (1) the relevant patent is shown to have been procured by knowing and willful fraud practiced by the defendant on the Patent Office, or, if the defendant was not the original patent applicant, he had been enforcing the patent with knowledge of the fraudulent manner in which it was obtained; and (2) all the elements otherwise necessary to establish a § 2 monopolization charges are proved. Conversely, such a private cause of action would not be made out if the plaintiff: (1) showed no more than invalidity of the patent arising, for example, from a judicial finding of "obviousness," or from other factors sometimes compendiously referred to as

²⁰ *Id.* at 176-77.

²¹ *Id.* at 176

²² *Id.* At 177.

“technical fraud”; or (2) showed fraudulent procurement, but no knowledge thereof by the defendant; or (3) failed to prove the elements of a § 2 charge....²³

Proof of knowing and willful fraud is essential to establishing antitrust liability. Inadvertent or honest mistakes will not suffice to establish the requisite *mens rea*. Moreover, neither recklessness nor gross negligence will meet the knowing and willful standard.²⁴ The mere withholding from the patent office, without more, of sufficient information to sustain an antitrust claim will not meet the standard but this conduct may be sufficiently inequitable to render the patent unenforceable.²⁵ The antitrust plaintiff must present clear and convincing proof of actual deception perpetrated against the patent office.

In addition, plaintiff must also establish the elements of an offense under section 2 of the Sherman Act.²⁶ To prove a monopoly, plaintiff must show:

1. The existence of monopoly power, that is, the power to control price or to exclude competition, and
2. The wilful acquisition and maintenance of that market power as distinguished from growth or development as a consequence of a superior product, business acumen or historic accident.²⁷

Alternatively, plaintiff could prove the offense of attempted monopolization by establishing the following elements:

1. specific intent to monopolize, *i.e.*, to control price and to destroy competition in a relevant market;

²³ *Id.* at 179.

²⁴ *Argus Chem. Corp. v. FibreGlass - Evercoat Co.*, 812 F.2d 1381, 1384 (Fed. Cir. 1987), (citing *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1368 (Fed. Cir. 1984) (with respect to the attempt-to-monopolize counterclaim based on fraud, the court emphasized that specific intent, greater than an intent evidenced by gross negligence or recklessness, is an indispensable element).

²⁵ *Korody-Colyer Corp. v. General Motors Corp.*, 828 F.2d 1572, 1578 (Fed. Cir. 1987) (the quantum of proof required to establish inequitable conduct sufficient to render a patent unenforceable is less than the level of proof necessary to establish intentional fraud as required under *Walker Process* because “in the former instance a party raises a shield and in the latter instance a party unsheathes a sword”).

²⁶ *Walker Process Equip. Inc.*, 382 U.S. at 177.

²⁷ *United States v. Grinnell Corp.* 384 U.S. 563, 570-71 (1966).

2. predatory or anticompetitive acts designed to achieve an unlawful objective; and
3. a dangerous probability of achieving success in a relevant market.²⁸

B. *Walker Process in the Courts*

Walker Process represents a significant step in the evolutionary development of patent/antitrust law. Courts had always recognized that fraud on the patent office would constitute inequitable conduct that would foreclose enforcement of the patent. *Walker Process* takes this doctrine one step further and raises the stakes for the holder of a fraudulently procured patent who attempts to enforce that patent by exposing the holder to potential treble damage liability. Whereas the inequitable conduct doctrine allows fraud to be used as a shield to prevent enforcement, *Walker Process* provides the sword of treble damages liability to be used against the holder.

One might have expected that *Walker Process* would fuel a growth industry in patent/antitrust litigation but it has not. Surprisingly, there have been relatively few *Walker Process* cases²⁹ and even fewer successful *Walker Process* prosecutions.³⁰ This is largely because proof of fraud on the patent office is itself a formidable undertaking. As discussed, plaintiff must prove intentional fraud involving affirmative dishonesty by clear and convincing evidence. That is, plaintiff must prove a well-hatched plot specifically intended to defraud the United States patent office. Added to that burden is the onus of establishing monopolization or attempted monopolization, and as a result, a successful *Walker Process* prosecution becomes a Herculean task.

The difficulties in proving a *Walker Process* case are perhaps best illustrated by the *Tetracycline Cases*.³¹ These cases arose out of a series of

²⁸ *Spectrum Sports Inc. v. McQuillan*, 506 U.S. 447, 456 (1993).

²⁹ *See, e.g., Al-Site Corp v. Opti-Ray, Inc.*, 28 USPQ (BNA) 1058 (E.D.N.Y. May 28, 1993); *Import Sys. Int'l Inc. v. Lee*, No. 90 CIV 6896, 1992 U.S. Dist. LEXIS 3439, (S.D. N.Y. Mar. 20, 1992); *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1039-40 (N.D. Cal. 1991); *Argus Chem. Corp. v. Fibre Glass Evercoat Co.*, 812 F.2d 1381 (Fed. Cir. 1987); *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261 (7th Cir. 1984), *cert. denied*, 472 U.S. 1018 (1975); *Mayview Corp. v. Rodstein*, 620 F.2d 1347 (9th Cir. 1980); *Kearney & Trecker Corp. v. Cincinnati Milacoon Inc.*, 562 F.2d 365 (6th Cir. 1977); *In re Coordinated Pretrial Proceedings In Antibiotics Antitrust Litigation*, 498 F. Supp. 28 (E.D. Pa. 1980), *aff'd*, 676 F.2d 50, 54 (3d Cir. 1982).

³⁰ *See, e.g., Arcade Inc. v. Minnesota Mining & Mfg. Co.*, 24 U.S.P.Q.2d (BNA) 1578 (July 2, 1991).

³¹ *In re Antibiotics Antitrust Litigation*, 448 F. Supp. at 35.

congressional hearings³² in 1959 and 1960 into pricing behavior in the prescription drug industry and focused specifically on the manufacturers of broad spectrum antibiotics. Penicillin, discovered in 1929 and tested in the 1930's, was introduced commercially during World War II as the first antibiotic. It became known as the "wonder drug" because its antibacterial properties and potential life-saving qualities. Penicillin, however, was effective against only a narrow range of bacterial infections.³³ Researchers quickly realized the potential financial rewards for developing similar drugs with broader spectra of antibacterial activity, which led to a post-war race to discover additional "wonder drugs." Lederle Laboratories, a division of American Cyanamid, Company developed the first broad spectrum antibiotic, chlortetracycline, known universally by its brand-name, Aureomycin.³⁴ Aureomycin was an instant success and its success fueled additional efforts by Lederle and its rivals to develop similar drugs.³⁵ Researchers were especially interested in finding a drug with Aureomycin's antibacterial properties but without the undesirable side effects.³⁶

At about the same time, scientists from Lederle and rival Pfizer removed chlortetracycline's chlorine atom and replaced it with a hydrogen atom—a process known as "dechlorination." Both companies filed a patent application for the new drug, tetracycline. The patent office declared an interference, and both sides exchanged proof of priority.³⁷ Lederle and Pfizer also agreed that the party who obtained the patent would grant a license to the other party. Subsequently, Lederle conceded priority to Pfizer.³⁸

The patent examiner initially rejected the patent claims on the tetracycline for lack of novelty because he concluded that tetracycline was inherently a co-produced with Aureomycin and required additional experiments to prove or disprove the basis of his rejection.³⁹ Pfizer's attorneys thereafter prepared a memorandum which concluded that the patent examiner's rejection was based on the erroneous presumption that substantial portions of tetracycline had

³² Senator Kefauver's Subcommittee on Antitrust and Monopoly issued a comprehensive report on May 8, 1961. SUBCOMM. ON ANTITRUST AND MONOPOLY OF THE SENATE COMM. ON THE JUDICIARY. STUDY OF ADMINISTERED PRICES IN THE DRUG INDUSTRY, S. REP. NO. 448, 87TH, 1ST SESS. (1961).

³³ *In re Antibiotics Antitrust Litigation*, 498 F. Supp. at 30.

³⁴ *Id.*

³⁵ *Id.* (Pfizer Inc. introduced oxytetracycline under the brand name Terramycin).

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.* at 31.

³⁹ *Id.*

been produced by the Aureomycin process when, in fact, "mere unrecognized trace amounts serving no useful purpose" were all that resulted.⁴⁰ The Pfizer memorandum served as the basis of a subsequent presentation to the patent examiner.⁴¹ After that meeting, Pfizer amended its patent application to reflect its view of the results of that meeting.⁴² Thereafter, the patent examiner withdrew his prior rejection, and issued the patent to Pfizer.⁴³ Subsequently, Pfizer licensed Lederle to make, use and sell tetracycline.⁴⁴

In 1969, some 14 years after the patent on tetracycline issued and following an FTC enforcement⁴⁵ action and a failed criminal antitrust prosecution,⁴⁶ the United States commenced a civil action seeking: (1) cancellation of the patent on the grounds of fraudulent procurement; (2) money damages for common law deceit; and (3) treble damages on *Walker Process* and price-fixing theories.⁴⁷ The government claimed that tetracycline was not patentable because it lacked novelty. The government argued that tetracycline was co-produced⁴⁸ by the process that produced chlortetracycline and that representatives of Pfizer had knowingly misled the patent examiner with respect to co-production.⁴⁹ Defendants acknowledged that in test batches some tetracycline had appeared in the process of making chlortetracycline but that tetracycline appeared in trace amounts not recoverable by standard techniques and hence was insignificant and not a bar to patentability.⁵⁰

When the case finally came to trial in 1978, the government attempted to focus the trial judge on the question of what the patent examiner wanted to know and what he was told by the defendants. The government claimed that: (1) the patent examiner would have been interested in knowing about "any amount" of tetracycline produced by prior processes for making chlortetracycline and not simply in "'substantial'" amounts; (2) Pfizer knew that the patent examiner was interested in whether any amounts of tetracycline had been produced by prior processes for making chlortetracycline; and

⁴⁰ *Id.*

⁴¹ *Id.* at 33-34.

⁴² *Id.* at 34.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Charles Pfizer & Co. Inc. v. Federal Trade Comm'n*, 401 F.2d 574 (6th Cir. 1968).

⁴⁶ *United States v. Charles Pfizer & Co. Inc.*, 426 F.2d 32 (2d Cir. 1970), *aff'd per curiam*, 404 U.S. 548 (1972).

⁴⁷ *In re Coordinated Pretrial Proceedings In Antibiotic Antitrust Action*, 448 F. Supp. at 29-30.

⁴⁸ *Id.* at 31-32.

⁴⁹ *Id.*

⁵⁰ *Id.* at 35.

(3) Pfizer had acted fraudulently in not telling the patent examiner that its affidavit tests and prior research had indicated tetracycline co-production under the prior processes. Pfizer countered that its representatives had responded to the patent examiner candidly and furnished the requested data.⁵¹

Stressing that the government had failed to carry its heavy burden of “specific fraudulent intent and not mere “technical fraud,”” the court rejected the fraud on the patent office theory.

The law is clear that to establish fraud on the Patent Office a specific fraudulent intent must be shown; good faith is a complete defense and a mere “technical fraud” or honest mistake will not suffice. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177, 88 S. Ct. 347, 350, 15 L. Ed.2d 247 (1965); *Bendix Corp. v. Balax, Inc.*, 421 F.2d 809, 810 (7th Cir. 1970), *cert. denied*, 399 U.S. 911, 90 S. Ct. 2203, 26 L. Ed.2d 562 (1970). The government had the burden to prove that Murphy and Hutz not only withheld or misstated material information, but that they did so with the specific intent to defraud the Patent Office. The government has failed to prove the fraudulent intent.⁵²

While fraud on the Patent Office is an appealing theory of antitrust liability in the abstract, the reality is that *Walker Process* cases are inherently complex, costly to litigate and thus are risky ventures. Not surprisingly, antitrust plaintiffs have found success elusive.

II. ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS KNOWN TO BE INVALID

The federal courts in general and the Ninth Circuit in particular have held that antitrust liability may be premised on (1) bad faith lawsuits or threats of lawsuits to enforce invalid intellectual property rights pursued with the intent to monopolize a certain industry,⁵³ and (2) commencement of infringement

⁵¹ *Id.* at 31-34.

⁵² *Id.* at 35.

⁵³ *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 990 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980); *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576-77 (Fed. Cir. 1990); *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1041 (N.D. Cal. 1991); *Conceptual Eng'g Assoc., Inc. v. Aelectronic Bonding, Inc.*, 714 F. Supp. 1262, 1267 (D.R.I. 1989).

suits and trade secret actions as part of an overall scheme to monopolize.⁵⁴ This conduct constitutes an antitrust violation only if the other elements of a monopolization or attempted monopolization offense are demonstrated.⁵⁵

The courts have had little difficulty recognizing attempted enforcement of invalid intellectual property as a basis of antitrust liability. However, the courts have had some difficulty in identifying the criteria for determining when an enforcement action is sufficiently lacking in merit so as to trigger antitrust concerns.⁵⁶ This difficulty is rooted in the basic tension between patent law and antitrust law. Congress, by enacting the patent laws gave the patentee the right to exclude others from exploiting the invention for a period of seventeen years.⁵⁷ The antitrust laws, on the other hand, are concerned with proscribing various kinds of market power.⁵⁸ When the patented product is only one of many products that actively competes, there is little conflict between the patent owner's property rights and antitrust laws. However, when the patented product is so successful as to create its own economic market or consumes a large section of an existing market, the aims of the patent laws and the antitrust laws may seem at odds.⁵⁹ A fine line exists between protecting a patent holder's legitimate interests and promoting free and unfettered competition under the antitrust laws.⁶⁰ The fact that a patent is obtained does not wholly insulate the patentee from potential antitrust liability in attempted exploitation and enforcement of asserted patent rights.⁶¹

⁵⁴ *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 425 (10th Cir. 1952), *cert. denied*, 344 U.S. 837 (1952); *Handgards*, 601 F.2d at 990; *Rex Chainbelt Inc. v. Harco Products Inc.*, 512 F.2d 993, 1000 (9th Cir. 1975), *cert. denied*, 423 U.S. 831 (1975); *A. & E. Plastik Pak Co., Inc. v. Monsanto Co.*, 396 F.2d 710, 715 (9th Cir. 1968); *Mach-Tronics, Inc. v. Zirpoli*, 316 F.2d 820 (9th Cir. 1963); *see generally*, *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951).

⁵⁵ *Grid Sys. Corp.*, 771 F. Supp. at 1041; PHILLIP E. AREEDA & DONALD F. TURNER, *ANTITRUST LAW*, ¶ 708' n.1 (1994 Supp.).

⁵⁶ AREEDA & TURNER, *supra* note 55 at ¶ 708; Stephen A. Stack Jr., *Recent and Impending Developments in Copyright and Antitrust*, 61 *ANTITRUST L. J.* 331, 342 (1993).

⁵⁷ 35 U.S.C. § 154 (1996); *Atari Games Corp.*, 897 F.2d at 1576.

⁵⁸ *Handgards Inc.*, 601 F.2d at 992.

⁵⁹ *Atari Games Corp.*, 897 F.2d at 1576.

⁶⁰ *Id.*

⁶¹ The Court stated:

When a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations when sufficient power in the relevant market is present. Therefore, patent owners may incur antitrust liability for enforcement of a patent known to be obtained through fraud or *known to be invalid*, where license of a patent compels the purchase of unpatented goods, or *where there is an overall scheme to*

At the same time, mere commencement of an infringement suit, even if ultimately unsuccessful, cannot solely give rise to an antitrust violation. Congress specifically granted patentees the right to sue to protect their inventions.⁶² As the Ninth Circuit pointed out in *Handgards*, “[p]atentees must be permitted to test the validity of their patents in court through actions against alleged infringers.”⁶³ Moreover, the Supreme Court in *Eastern Railroad Presidents Conference v. Noerr Motor Freight Inc.*⁶⁴ and its progeny⁶⁵ has held that the use of the courts to enforce legal rights cannot violate the antitrust laws, unless the court action is a sham disguised as an anticompetitive scheme to restrain trade.⁶⁶

A. *Bad Faith Infringement Suits*

Attempts to enforce patents known to be invalid or to protect trade secrets known to be in the public domain may violate section 2 of the Sherman Act.⁶⁷ In *Handgards*, the plaintiff alleged that the defendant, Ethicon, had attempted to monopolize the market for heat-sealed plastic gloves.⁶⁸ *Handgards* contended that Ethicon had violated the antitrust laws by commencing and prosecuting a series of patent infringement actions in bad faith because of its knowledge that the underlying patent was invalid.⁶⁹ Specifically, *Handgards* alleged, and the jury found, that (1) the patent was invalid based on prior invention; (2) the patent was invalid because the gloves had been “on sale” or “in prior use” for more than a year prior to the filing of the patent application; and (3) the patent was invalid because of prior public use by an earlier inventor.⁷⁰ *Handgards* argued that Ethicon had generated adverse publicity regarding its infringement actions, threatening potential *Handgards*’ customers and forcing vital corporate resources to be diverted to the defense of

use the patent to violate antitrust laws. [footnotes omitted]. (emphasis added). *Id.* at 1576-77.

⁶² 35 U.S.C. § 15 (1996).

⁶³ *Handgards Inc.*, 601 F.2d at 993.

⁶⁴ *Eastern R.R. Presidents Conference v. Noerr Motor Freight Inc.*, 365 U.S. 127 (1961).

⁶⁵ *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

⁶⁶ *Id.* at 510-11.

⁶⁷ *Handgards, Inc.*, 601 F.2d at 990 (patents); *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986) (trade secrets).

⁶⁸ *Handgards, Inc.*, 601 F.2d at 989.

⁶⁹ *Id.* at 989-90.

⁷⁰ *Handgards Inc. I*, 601 F.2d at 990-91; *Handgards Inc. II*, 743 F.2d at 1290-92.

infringement actions.⁷¹ As a result, Handgards' relations with potential customers were impaired, a proposed joint venture was aborted, and the company was unable to obtain outside financing necessary to remain competitive in the field.⁷²

Most recently, the Antitrust Division utilized a *Handgards* theory to prosecute Pilkington, the giant British glassmaker. The Division filed a complaint and competitive impact statement that stated the following: in the late 1950's, Pilkington pioneered a successful commercial float process for manufacturing flat glass⁷³; Pilkington secured hundreds of patents throughout the world on its float process which replaced both the sheet and plate processes as the technology of choice⁷⁴; in the early 1960's, Pilkington began to enter into patent and know-how licensing arrangements with its major rivals⁷⁵; and over 90% of the world's flat glass is manufactured pursuant to Pilkington licenses.⁷⁶

The Pilkington licenses allegedly imposed restraints on exports, and imposed territorial and other use restrictions which limited the countries where the licensed patents and know-how could be used.⁷⁷ The licensees also allegedly imposed confidentiality and non-disclosure obligations covering all disclosed know-how, unless the information had become public knowledge.⁷⁸

The Antitrust Division alleged that Pilkington continued to enforce these restrictive agreements, even though: (1) the underlying patents have expired; (2) the know-how is now largely in the public domain; (3) the original float licenses have terminated; and (4) the royalty obligations were fully paid.⁷⁹ According to the Antitrust Division, the result of the restrictions, which Pilkington has continued to enforce, is that existing licensees cannot design and build new float plants or sublicense others to do so without Pilkington's permission.⁸⁰ The Antitrust Division also cited evidence that Pilkington made efforts to coordinate activities of various licensees pursuant to a common goal to limit entry of competing technologies.⁸¹ The Consent Decree entered on

⁷¹ *Handgards, Inc.*, 601 F.2d at 991.

⁷² *Id.*

⁷³ 59 Fed. Reg. 30604, 30608 (June 14, 1994).

⁷⁴ *Id.* at 30609.

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ *Id.*

⁷⁸ *Id.*

⁷⁹ *Id.* at 30604.

⁸⁰ *Id.* at 30609-10.

⁸¹ *Id.* at 30610.

December 22, 1994 ended these alleged anticompetitive practices by enjoining enforcement of restrictive licensing agreements with respect to expired patents and know-how in the public domain.⁸² In addition, the Consent Decree should clarify the rights of any private parties who may allege that any attempts to enforce expired patents and know-how that are part of the public domain are unlawful and exclusionary.⁸³

Handgards, by its terms, does not involve trade secrets; and, in theory, "trade secrets need not enjoy the same solicitude as patent infringement suits."⁸⁴ Nevertheless, courts have generally applied the same principles in trade secret cases as in patent cases.⁸⁵ In *CVD, Inc. v. Raytheon Co.*, Raytheon, a company specializing in commercial and military electronics, alleged that former employees had misappropriated Raytheon trade secrets.⁸⁶ Both companies manufactured zinc compounds by various processes, and Raytheon claimed that the compounds could not be manufactured by these processes without misappropriation of trade secrets.⁸⁷ Raytheon threatened suit unless substantial royalties were paid. The former employees agreed but paid no royalties. Applying the *Handgards* standards to trade secrets, the court concluded that Raytheon, by prosecuting the trade secret actions, acted in bad faith and violated the antitrust laws.⁸⁸ The record demonstrated that Raytheon was not acting in good faith for the following reasons:

- (1) Raytheon's processes were well-known in the scientific community and had been published by Raytheon and its employees.
- (2) A competent engineer, relying on published materials alone, could have duplicated the processes.
- (3) Raytheon's internal procedures for maintaining confidentiality, such as by stamping documents, had not been applied in this case.
- (4) Prior to threats of litigation, CVD had informed Raytheon that the alleged secrets had been published in government reports.

⁸² United States v. Pilkington PLC, Civ. A. No. CV 94-345, 1994 WL 750645 *2-5 (D.Ariz. Dec. 22, 1994)

⁸³ *Id.*

⁸⁴ AREEDA & TURNER, *supra* note 55 at ¶ 708.1.

⁸⁵ CVD, Inc. v. Raytheon Co., 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).

⁸⁶ *Id.* at 847-48.

⁸⁷ *Id.*

⁸⁸ *Id.* at 851.

(5) Raytheon had threatened litigation "after only a cursory investigation without thoroughly examining the majority of the government reports or the extent of public disclosure."⁸⁹

Thus, the standards for antitrust claims based on intentional enforcement of invalid trade secrets are the same as the standards for parallel liability in patent cases.

Elements of Bad Faith Infringement Claim

To establish an antitrust claim under section two of the Sherman Act based on use of the courts to enforce an invalid patent under *Handgards*, plaintiffs must prove:

(1) Clear and convincing evidence of actual knowledge that the patent in question is invalid;

(2) Specific intent to monopolize the relevant market;

(3) Dangerous probability of success; and

(4) Antitrust damages clearly attributable to the patentee's enforcement action.⁹⁰

Proof that a patentee knowingly attempted to enforce an invalid patent is not sufficient to establish antitrust liability. Plaintiff must, in addition, prove the elements of a monopolization or attempted monopolization.⁹¹

1. Actual Knowledge of Invalidity.

a. Clear and convincing evidence.

The first element of a *Handgards* claim requires the plaintiff to prove defendant's bad faith in attempting to enforce a government granted monopoly to which the holder knows it has no rights.⁹² In establishing bad faith, it is not enough for plaintiff to show that the patent is invalid but the plaintiff must

⁸⁹ *Id.* at 853-54.

⁹⁰ *Conceptual Eng'g Assoc. v. Aelectronic Bonding Co.*, 714 F. Supp. 1262, 1266 (D.R.I. 1989); *see also Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1288 (9th Cir. 1984), *cert denied*, 469 U.S. 1190 (1985) *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1041 (D. N. Cal. 1991); DONALD S. CHISUM, *PATENT LAW*, § 17.05[3] (Supp.).

⁹¹ *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus. Inc.*, 508 U.S. 49, 61 (1993); *Conceptual Eng'g Assoc. Inc.*, 714 F. Supp. at 1266.

⁹² *Handgards Inc. II*, 743 F.2d at 1288-89.

show *ex ante* that the patentee knew the patent was invalid and attempted nonetheless to enforce it.⁹³

Mere attempts to enforce patents that ultimately are shown to be invalid are not sufficient to trigger antitrust liability. As discussed above,⁹⁴ the patent laws entitle patentees to test the validity of their patents in court. The court in *Handgards* recognized the serious dilemma faced by courts in determining invalidity actions:

patentees must be permitted to test the validity of their patents in court through actions against alleged infringers.... On the other hand, infringement actions initiated and conducted in bad faith contribute nothing to the furtherance of the policies of either the patent law or the antitrust law.⁹⁵

The solution recognized by *Handgards* “is to provide the means whereby the bad faith infringement action can be identified post hoc with a sufficiently high degree of certainty to make it highly improbable that the action was brought in good faith.”⁹⁶ The court concluded that the proper course would be “to erect barriers to antitrust suits as are necessary to provide reasonable protection for the honest patentee who brings an infringement action.”⁹⁷ The barrier erected by *Handgards* is “that a patentee’s infringement suit is presumptively in good faith and that this presumption can be rebutted only by *clear and convincing* evidence.”⁹⁸ (emphasis added).

The Ninth Circuit has attempted to balance the patent laws and the antitrust laws by requiring an enhanced showing of wrongdoing in invalidity cases. The court in *Handgards* considered and rejected a preponderance standard in favor of a clear and convincing standard because it feared that a mere preponderance standard might chill legitimate patent enforcement.⁹⁹

⁹³ *Id.* at 1289.

⁹⁴ See *supra* notes and accompanying text.

⁹⁵ *Handgards Inc. v. Ethicon Inc.*, 601 F.2d 986, 993 (9th Cir. 1979).

⁹⁶ *Id.* at 993.

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

b. Noerr protection

Patent enforcement suits enjoy protection from a second, unrelated legal doctrine enunciated by the Supreme Court in *Noerr* and its progeny. As will be discussed below,¹⁰⁰ *Noerr* confers antitrust immunity on efforts to obtain government action, even if those efforts spring from anticompetitive motivations. In *California Motor Transport Co.*,¹⁰¹ the Supreme Court made clear that *Noerr* immunity extended to the litigation process, except where the litigation is a mere sham to cover an attempt to interfere directly with the business relationships of a competitor.¹⁰² Sham litigation has been defined in various ways by courts subsequent to *California Motor Transport*,¹⁰³ and, unfortunately, the attempts to define sham litigation have led to inconsistent and confusing results.¹⁰⁴

The Supreme Court attempted to clarify this confusion in *Professional Real Estate Investors, Inc.*¹⁰⁵ The Court enunciated a two-part test for determining whether a lawsuit constitutes sham litigation and thereby forfeits *Noerr* immunity.

First, to fall within the sham exception, a lawsuit must be "objectively baseless", *i.e.*, not commenced with a reasonable expectation of success on the merits.¹⁰⁶ Second, the court must focus on the litigant's subjective motivation, specifically whether the baseless lawsuit is a smoke screen concealing efforts to interfere directly with a competitor's business relationships. The Court elaborated:

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

¹⁰⁰ See *infra* notes 100-124 and accompanying text.

¹⁰¹ 404 U.S. 508.

¹⁰² *Id.* at 510-11.

¹⁰³ Compare, *City of Columbia v. Omni Outdoor Adver. Inc.*, 499 U.S. 365, 380 (1991) (defining sham litigation as a lawsuit that attempts to use "the government process — as opposed to the outcome of that process — as an anticompetitive weapon") with *Handgards Inc. II v. Ethicon Inc.*, 743 F.2d 1282, 1294 (9th Cir. 1984) (sham proceedings are proceedings instituted without probable cause and in complete disregard of the law to interfere with the business relationships of a competitor).

¹⁰⁴ Compare *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1982) (a successful suit may serve as a basis for antitrust liability) with *Coca Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 (9th Cir. 1982) (no support for the claim that a meritorious suit can be sham).

¹⁰⁵ *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus. Inc.*, 508 U.S. 49 (1993).

¹⁰⁶ *Id.* at 60.

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,' *Noerr* through the 'use [of] the government process—as opposed to the outcome of that process—as an anticompetitive weapon'¹⁰⁷

Unquestionably, *Professional Real Estate Investors* makes it more difficult for litigants to meet the prongs of the sham exception.¹⁰⁸ The reported post-*Professional Real Estate Investors* decisions in the intellectual property realm have generally rejected arguments that the litigation in question were shams and upheld *Noerr* immunity.¹⁰⁹

This is not to say that *Professional Real Estate Investors, Inc.* has shut the door on the sham exceptions. The decision in *CVD Inc. v. Raytheon Co.*,¹¹⁰ discussed *supra*, shows how baselessness might be established today in the context of trade secrets. In that case, the secrets were clearly in the public domain and Raytheon had made only a cursory investigation without thoroughly examining government reports nor the extent of public disclosure. That evidence would clearly have supported a finding that a reasonable litigant in Raytheon's shoes would have investigated the extent to which disclosures were in the public domain prior to threatening litigation.¹¹¹

Moreover, the fact that the patentee or the holder of a trade secret successfully obtains a temporary restraining order does not vitiate antitrust

¹⁰⁷ *Id.*

¹⁰⁸ See *Carroll Touch Inc. v. Electro-Mech. Sys. Inc.*, 15 F.3d 1573, 1582 (Fed. Cir. 1993); see also *TRW Fin. Sys. Inc. v. Unisys Corp.*, 835 F. Supp. 994, 1012 (E.D. Mich. 1993) (discussing the Supreme Court's caution to the lower courts not to jump to the conclusion that the losing of an underlying action *ipso facto* "means the action was a 'sham'." *Professional Real Estate Investors Inc.*, *supra* note 105).

¹⁰⁹ See *Johnson v. Con-Vey Keystone, Inc.*, 856 F. Supp. 1443, 1448 (D. Ore. 1994); *THK Am. Inc. v. NSK*, 157 F.R.D. 660, 663 (N.D. Ill. 1994); *TRW Fin. Sys. Inc.*, 835 F. Supp. at 1014; *Harris Custom Builders, Inc. v. Hoffmeyer*, 834 F. Supp. 256, 261-62 (N.D. Ill. 1993); see also *Al-Site Corp. v. Opti-Ray, Inc.*, 28 U.S.P.Q.2d (BNA) 1958 (May 28, 1993) (sham litigation claim dropped in the wake of *Professional Real Estate Investors*).

¹¹⁰ *CVD Inc. v. Raytheon Inc.*, 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).

¹¹¹ Cf. *Skinder Strauss Assoc. v. Massachusetts Continuing Legal Educ. Inc.*, 914 F. Supp. 665 (D. Mass. 1995) (one suit is sufficient to invoke the sham exception).

claims based on knowing enforcement of invalid intellectual property rights.¹¹² Temporary restraining orders are non-final orders and can be obtained *ex parte* and hence are not dispositive.¹¹³

c. *Noerr and threats of suit*

Noerr itself protects the right to sue the government but it does not address threats to sue. However, it would be anomalous to protect the right to sue without also protecting threats to sue.¹¹⁴ Most lawsuits are preceded by communications between the parties, and these pre-litigation communications may facilitate settlement of controversies.¹¹⁵ Therefore, the law protects acts which are "reasonably and normally attendant upon effective litigation."¹¹⁶

However, just as *Noerr* protects legitimate pre-litigation communications premised on the right to sue the government, the sham exception should apply when those threats are baseless.¹¹⁷ In *United States v. Besser Manufacturing Co.*,¹¹⁸ the court concluded that defendant had monopolized the sale of concrete blocks because, it (1) entered into semi-exclusive licensing arrangements for key patents with a rival and agreed not to license others; (2) acquired control of two rivals; and (3) recklessly threatened infringement suits. With respect to the threats to file an infringement suit, the court stated:

it further appears that there were two or three instances where suit was threatened involving machines that agents of defendants had never even seen. The threat of a law suit for infringement should be bona fide and one asserting the exclusive right granted by the United States should not indiscriminately abuse the right.¹¹⁹

The status of communications to customers or suppliers of persons being sued or threatened with suit is less clear. Areeda and Turner argue that a

¹¹² *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 n.4 (7th Cir. 1984).

¹¹³ *Id.* (citing to Areeda & Turner)

¹¹⁴ Phillip E. Areeda & Donald F. Turner, ANTITRUST LAW, ¶ 203.5 (1994 Supp.).

¹¹⁵ *Id.*

¹¹⁶ *See Coastal Mktg. Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983).

¹¹⁷ *See CVD Inc. v. Raytheon Co.*, 769 F.2d 842, 850-51 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986) (the bad faith threat of unfounded litigation may constitute an antitrust action so long as the other essentials of the antitrust violation are proven).

¹¹⁸ *United States v. Besser Mfg. Co.*, 96 F. Supp. 304 (E.D. Mich 1951), *aff'd*, 343 U.S. 444 (1952).

¹¹⁹ *Id.* at 312.

pattern of making false or exaggerated claims to the media regarding a pending lawsuit might not receive *Noerr* protection.¹²⁰ Furthermore, Areeda and Turner argue that the *Noerr* status of publicity or indirect threats aimed at customers depends on the existence of a non-sham claim against the customer.¹²¹ If the antitrust defendant has no claims against the customers themselves, then publicity or threats are a direct interference with a rival's business that are not necessitated by or related to the suit against the rival.¹²² On the other hand, where the customer of a rival may face liability as a contributory infringer, then information about a non-sham suit may be properly communicated as an indirect threat of suit.¹²³ Accordingly, the sham issue must be resolved separately in regard to both rivals and customers.¹²⁴

Thus, to succeed on an antitrust claim premised on a *Handgards* theory in light of the holding in *Professional Real Estate Investors*, a plaintiff must establish by clear and convincing evidence that infringement suits and threats of infringement are (1) objectively baseless and (2) merely a disguised attempt to interfere directly in plaintiff's business relations. In addition, the other elements of a monopolization or attempted monopolization scheme must be proven.

2. *Specific Intent to Monopolize*

The second element of a *Handgards*-type claim is to prove specific intent to attempt monopolization of the relevant market.¹²⁵ Specific intent may be shown either by direct evidence or by evidence of anticompetitive conduct.¹²⁶ Proof of intent alone, without supporting proof of anticompetitive conduct, will not sustain an attempted monopolization action.¹²⁷ Predatory conduct

¹²⁰ Areeda & Turner, ¶ 203.5; cf. *Alexander v. National Farmers Org.*, 687 F.2d 1173, 1200-03 (8th Cir. 1982), cert. denied, 461 U.S. 937 (1983) (threats to, and harassment of, customers concerning pending litigation not protected).

¹²¹ AREEDA & TURNER, *supra* note 55 at ¶ 203.5.

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*

¹²⁵ *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 626 (1953) (stating that specific intent must be demonstrated to prevail on theory of attempted monopolization).

¹²⁶ *Volvo N. Am. Corp. v. Men's Int'l Prof'l Tennis Council*, 857 F.2d 55, 74 (2d Cir.1988).

¹²⁷ *William Inglis & Sons Baking Co. v. ITT Continental Baking Co. Inc.*, 668 F.2d 1014, 1028 (9th Cir. 1981), cert. denied, 459 U.S. 825 (1982).

must also be shown.¹²⁸ Evidence of conduct, thus indispensable, rests on the fact that direct evidence of intent alone can be ambiguous and misleading.

3. *Dangerous Probability of Success*

Pursuant to *Spectrum Sports v. McQuillan*,¹²⁹ it is clear that in order to establish the offense of attempted monopolization, the plaintiff must prove both the relevant market and the plaintiff's powers within that market.¹³⁰ Relevant factors include defendant's market share, barriers to entry, the strength and capacity of existing rivals, the nature of the anticompetitive conduct and the elasticity of demand.¹³¹

4. *Damages*

The plaintiff must prove both the fact of damage, that is, a causal nexus between the anticompetitive conduct and injury suffered, and the amount of damages.¹³² Any damages that plaintiff suffered must be established with reasonable certainty.¹³³ However, once the fact of damages has been established, a more relaxed standard of proof applies to the amount of those damages.¹³⁴ Proof of damages may be based on "a just and reasonable estimate based on relevant data" but not on "speculation or guesswork".¹³⁵ Where a seller is excluded from the market, lost profits are generally the measure of damages.¹³⁶ However, where the plaintiff has never actually entered a market, it is open to allegations that its damages are speculative.

¹²⁸ *Transamerica Computer Co. v. IBM Corp.*, 698 F.2d 1377, 1382 (9th Cir. 1983), *cert. denied*, 464 U.S. 955 (1983).

¹²⁹ *Spectrum Sports Inc. v. McQuillan*, 506 U.S. 447 (1993).

¹³⁰ *Id.* at 456. (resolving the conflict among the circuits that an analysis of the relevant market and the defendant's ability to lessen or destroy competition is necessary).

¹³¹ *Twin Lab. Inc. v. Weider Health & Fitness*, 900 F.2d 566 (2d Cir. 1990).

¹³² *J. Truett Payne Co. Inc. v. Chrysler Motor Corp.*, 451 U.S. 557, 562-63 (1981).

¹³³ *Id.* at 567.

¹³⁴ *Bigelow v. RKO Radio Pictures Inc.*, 327 U.S. 251, 264 (1946); *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563 (1931).

¹³⁵ *Bigelow*, 327 U.S. at 264.

¹³⁶ ANTITRUST LEG. DEV. (3d ed.) at 669-70.

B. Overall Scheme to Monopolize

A second prong of antitrust liability may be premised on the defendant's use and threatened use of the court system to enforce invalid claims as part of an overall scheme to violate the antitrust laws. The leading case on this theory is *Kobe, Inc. v. Dempsey Pump Co.*¹³⁷ *Kobe* was an action by a patentee claiming infringement of five patents relating to hydraulic oil pumps. The defendant, Dempsey, interposed an antitrust counterclaim, alleging that the infringement action was part and parcel of a monopolistic scheme.¹³⁸ The Tenth Circuit upheld the trial court's finding of antitrust liability based on the following record.¹³⁹

1. *Kobe* and its rival, Rodless, formed a patent pool. Every patent related to hydraulic oil pumps, even if it was never used became part of the pool. *Kobe* was the only one who manufactured hydraulic pumps until Dempsey placed one on the market.¹⁴⁰

2. The Dempsey pump, when shown at a trade show, generated much interest among customers, including *Kobe* customers. Memos from *Kobe* sales personnel indicated that the Dempsey pump, which was selling for less and outperforming the *Kobe* product, was a competitive threat.¹⁴¹

3. Before *Kobe* had even received drawings of the Dempsey pump, it served written notice of infringement and demanded that Dempsey discontinue its manufacturing and sales.¹⁴²

4. After the suit against Dempsey had been commenced, *Kobe* sent a letter to the purchasing agents of forty major buyers of hydraulic pumping equipment notifying them of *Kobe's* infringement suit against Dempsey. As a result of the suit and the letters, Dempsey's business substantially slowed to a near standstill.¹⁴³ The notices were thinly veiled threats that purchasers of Dempsey equipment might be involved in the suit and were informed that litigation may last for two years.¹⁴⁴ *Kobe's* president expressed his view that

¹³⁷ *Kobe Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), *cert. denied*, 344 U.S. 837 (1952).

¹³⁸ *Id.* at 418.

¹³⁹ *Id.* at 418-425.

¹⁴⁰ *Id.* at 418-421.

¹⁴¹ *Id.* at 421.

¹⁴² *Id.*

¹⁴³ *Id.* at 422.

¹⁴⁴ *Id.* at 424.

it was impossible to manufacture a hydraulic pump without infringing the Kobe patent.¹⁴⁵

5. Kobe widely publicized to the number of patents which it owned. Its patent listing was placed conspicuously in its catalogs and included some patents that had already expired.¹⁴⁶

6. Four of the five patents which Kobe had sued on were found invalid. One was found valid and infringed. Nevertheless, antitrust liability against Kobe was upheld. The real purpose of the actions against Dempsey was not to protect patents but to maintain its monopolistic control of the field.¹⁴⁷

The Court in *Kobe* concluded:

The result of Kobe's infringement action, its verbal and written statements to the trade, was disastrous to the defendants. There was almost a complete boycott of their products. To hold that there was no liability for damages caused by this conduct, through lawful in itself, would permit a monopolizer to smother every potential competitor with litigation before it had an opportunity to be otherwise caught in its tentacles and leave the competitor without a remedy.¹⁴⁸

The fact that Kobe's acts may have been lawful is not exculpatory. The *American Tobacco* court stated, "It is not the form of the combination or the particular means used but the result to be achieved that the statute condemns."¹⁴⁹ Lawful acts which are relied upon to effectuate a conspiracy are within the scope of the Sherman Act.¹⁵⁰ Even a good faith prosecution of a valid patent, when it is shown that the infringement suit "was brought in furtherance and as an integral part of a plan to violate the antitrust laws" may result in antitrust liability.¹⁵¹

In addition, under *Kobe*, plaintiffs must establish more than a series of baseless infringement actions to prove the existence of an overall monopolization scheme:

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 424-25.

¹⁴⁸ *Id.* at 425. See also *Mach-Tronics, Inc. v. Zirpoli*, 316 F.2d 820 (9th Cir. 1963).

¹⁴⁹ *American Tobacco Co. v. United States*, 328 U.S. 781, 809 (1946).

¹⁵⁰ *Id.* at 809-10.

¹⁵¹ *Rex Chainbelt Inc. v. Harco Prod. Inc.*, 512 F.2d 993, 1006 (9th Cir. 1975), *cert denied*, 423 U.S. 831 (1975).

In overall scheme cases such as *Kobe*, courts require proof of an overall scheme to monopolize independent of the mere commencement of an infringement suit before permitting the imposition of antitrust liability based on patent enforcement conduct. This requirement diminishes the specter of antitrust liability encountered by an ordinary patentee who brings an infringement action.¹⁵²

For example, use of bogus lawsuits or threats of lawsuits to further an unlawfully restrictive licensing policy might furnish evidence of a scheme to annihilate competition. Courts have not hesitated to strike down licensing schemes used to control competition.¹⁵³ As the court in *A&E Plastik Pak Co.* observed:

The critical question in an antitrust context is whether the restriction may fairly be said to be ancillary to a commercially supportable licensing arrangement, or whether the licensing scheme is a sham set up for the purpose of controlling competition while avoiding the consequences of the antitrust laws.¹⁵⁴

This is especially true where one does not have restrictions ancillary to a lawful license but instead has an unlawful arrangement with ancillary licensing. In addition, courts have held that a horizontal conspiracy to commit a business tort violates section one of the Sherman Act.¹⁵⁵ Recent cases favor a rule of reasonableness in this area.¹⁵⁶

Prosecution under a *Kobe* theory is a more ambitious undertaking than either a *Handgards* or *Walker Process* theory where invalidity is the key component of the action. Under *Kobe*, however, the plaintiff is permitted to argue that even successful patent infringement prosecutions are evidence of an antitrust violation. Hence, under *Kobe*, proof of invalidity, which would

¹⁵² *Handgards Inc. v. Ethicon Inc.*, 601 F.2d 986, 996 (9th Cir. 1979).

¹⁵³ See *A. & E. Plastik Pak Co., Inc. v. Monsanto Co.*, 396 F.2d 710, 715 (9th Cir. 1968); *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284 (N.D. Ohio 1949), *aff'd*, 341 U.S. 595 (1951); *United States v. General Elec. Co.*, 82 F. Supp. 753 (D.N.J. 1949).

¹⁵⁴ *A. & E. Plastik Pak Co., Inc.*, 396 F.2d at 715.

¹⁵⁵ *Perrytown Wholesale Inc. v. Pioneering Distrib. Co.*, 353 F.2d 618 (10th Cir. 1965), *cert. denied*, 383 U.S. 945 (1966) (per se unlawful); *cf. Military Svc. Realty, Inc. v. Realty Consultants of Va. Ltd.*, 823 F.2d 829 (4th Cir. 1987) (rule of reason treatment).

¹⁵⁶ *Military Svc. Realty Inc.*, 823 F.2d at 831.

in many cases require expensive and time-consuming expert testimony, is not essential. As under *Handgards* and *Walker Process*, plaintiffs under *Kobe* have also found success to be elusive.

CONCLUSION

Attempts to enforce fraudulently obtained or invalid intellectual property rights may give rise to antitrust liability. However, pursuit of these liability theories is not for the faint-hearted. The costs and complexity of these types of antitrust cases are daunting, and plaintiffs have only met with limited success. Nevertheless, the potential financial rewards will continue to serve as an incentive for the victims of fraud or bad faith lawsuits to prosecute claims under *Walker Process* or *Handgards*.