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ANTITRUST COUNTERCLAIMS IN PATENT AND COPYRIGHT INFRINGEMENT CASES

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Antitrust counterclaims are a significant part of intellectual property litigation. Many, perhaps most, patent infringement suits involve counterclaims by defendants alleging that the patentee has violated the antitrust laws, either by fraudulently obtaining and enforcing the patent, or by bringing the infringement action for anticompetitive purposes. The legal rules governing antitrust counterclaims in intellectual property litigation were changed dramatically by the Supreme Court’s 1993 decision in *Professional Real Estate Investors v. Columbia Pictures*.¹ This Article summarizes the new rule established by *PREI*, and addresses some of the unresolved issues with which lower courts have been grappling since this decision.

I. Antitrust Counterclaims are Generally Unlikely to Succeed After *PREI*

There are a number of substantive prerequisites to a successful antitrust suit. Before considering the merits of an antitrust counterclaim, however, courts must first decide whether the patentee is immune from antitrust liability under the “*Noerr-Pennington* doctrine.”² That doctrine *2 protects antitrust defendants from liability for “petitioning the government.” The Supreme Court has consistently held that filing a lawsuit or an action before an administrative agency is “” and therefore, a defendant is presumptively entitled to immunity from antitrust suit.³ There is an exception to antitrust immunity, however, for “sham litigation.” If a lawsuit is a sham, rather than a “genuine effort . . . to influence” the decisionmaker, it is not entitled to antitrust immunity, and the counterclaim will be evaluated on the merits.⁴ Not surprisingly, there has been heated debate over the precise scope of the “sham exception.”⁵

The Supreme Court addressed the sham issue in the 1993 case of *PREI*. In that case, Columbia Pictures had brought a copyright infringement suit against *PREI* based on *PREI*’s performance of copyrighted movies in guests’ hotel rooms, and

PREI counterclaimed on the grounds that Columbia had conspired to monopolize the market and restrain trade.⁶ Columbia lost its copyright case on summary judgment. But the district court held that PREI was not entitled to pursue its antitrust claim because Columbia's copyright suit, though unsuccessful, was not a sham.⁷

The Supreme Court affirmed the application of antitrust immunity to PREI's counterclaim.⁸ In doing so, the Court set out a new, two-part test to determine whether a lawsuit is a sham. "First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits."⁹ Second, "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 governmental *process*--as opposed to the *outcome* of that process--as an anticompetitive weapon."¹⁰ These are commonly referred to as the "objectively baseless" and "subjectively baseless" tests, respectively. Only if the suit is a sham under this two-part definition will the court proceed to consider the substantive elements of an antitrust violation.¹¹

This new, two-part test is substantially more restrictive than previous interpretations of the sham exception. Before *PREI*, district and appellate courts had focused on whether "sham" meant objectively *or* subjectively baseless; few courts had even considered applying both tests.¹² The general effect of *PREI* on intellectual property litigation is clear: because most infringement suits are not shams, most defendants are likely to be immune from antitrust suits.

3 II. Current Issues in Applying *PREI

Antitrust immunity is a creature of uncertain origin. It was first created by the courts in the 1961 case of *Eastern Railroad Presidents' Conference v. Noerr Motor Freight*.¹³ That case conferred immunity on a private entity's attempts to petition the state legislature, citing as its bases the First Amendment right to petition, the representative nature of our democratic government, and the "essential dissimilarity" between petitioning and "traditional" antitrust violations.¹⁴ The Supreme Court extended *Noerr* immunity to include "petitioning" courts and administrative agencies in 1972.¹⁵

Antitrust immunity has broad applicability to antitrust counterclaims in intellectual property infringement cases. However, it is important to understand what it does *not* protect. Because the basis of antitrust immunity is an effort to petition the government, the defendant is immune only from antitrust claims predicated on some form of petitioning, such as the filing of a lawsuit or an effort to pass or defeat legislation. Thus, antitrust immunity applies to an antitrust claim that the patentee has attempted to monopolize the market by suing its rivals for patent infringement, but it does not apply to a claim that a patentee has attempted to monopolize by other means, such as through predatory pricing or other exclusionary conduct.

While *PREI* established a new general rule for applying the sham exception, it left several questions unanswered. In the wake of the *PREI* decision, district and appellate courts have been grappling with these issues. The unanswered issues fall into two basic categories: when to apply *PREI*, and how to apply *PREI*.

A. How to Apply *PREI*

1. "Objectively Baseless"

Defining the term "objectively baseless" is fundamental to understanding *PREI*. The case itself gives us some (indeed, perhaps too much) guidance. The Supreme Court concluded as a matter of law that Columbia's suit was not "objectively baseless," even though Columbia Pictures lost its copyright suit on summary judgment in the Ninth Circuit.¹⁶ Clearly, then, the standard for objective baselessness is something less than the standard for summary judgment.¹⁷

In *PREI*, the Supreme Court articulated two different standards for defining "objectively baseless" litigation. In setting the first standard, the Supreme Court relied extensively on the existence of "probable cause" to bring the lawsuit, a standard established and defined in the context *4 of the tort of malicious prosecution.¹⁸ In the words of the Court, "a proper probable cause determination irrefutably demonstrates that an antitrust plaintiff has not proved the objective prong of the sham exception and that the defendant is accordingly entitled to *Noerr* immunity."¹⁹

The Court also articulated a second, even stricter test for objective baselessness. The Court referred to the fact that "Columbia's copyright action was arguably 'warranted by existing law' or at the very least was based on an objectively 'good faith argument for the extension, modification or reversal of existing law.'"²⁰ Under this rule, "[e]ven in the absence of supporting authority, Columbia would have been entitled to press a novel copyright claim as long as a similarly situated reasonable litigant could have perceived some likelihood of success."²¹ This second test is analogous to--but even easier to meet than--the standard set forth in Rule 11 of the Federal Rules of Civil Procedure.²²

The Court offers no explicit guidance as to how these two different standards should be reconciled. However, the Court's language suggests one possible reading. Under the first standard, the existence of probable cause is described by the Court as "irrefutably demonstrating" that the antitrust defendant is entitled to immunity.²³ In other words, the existence of probable cause to institute a lawsuit can be considered a "safe harbor" for antitrust defendants. However, under the second standard, even if infringement actions lack probable cause, the intellectual property owner may still be entitled to antitrust immunity if she can demonstrate that her claims, though incorrect, were nonfrivolous under the objective prong of Rule 11.²⁴

2. The Role of Subjective Intent

PREI makes it clear that evaluating antitrust immunity is a two-step process. An infringement action must be *both* objectively baseless and improperly motivated in order for the defendant to lose antitrust immunity. But the *way* in which this two-step inquiry is conducted may be as significant to litigants as the standards applied.

*5 The Supreme Court is relatively clear on how to conduct the two-part inquiry. The two steps are to be taken in order. The court must first evaluate the objective merits of an infringement suit using the guidelines set forth above. "Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation."²⁵ What this means is that courts need not--and indeed should not--consider evidence of subjective intent until after the determination of objective baselessness has been made. Only if the antitrust defendant loses on the first prong is such information relevant.²⁶ Indeed, the Supreme Court in *PREI* upheld the district court's refusal to allow discovery on the issue of subjective intent.²⁷

The bifurcated nature of the antitrust immunity inquiry may be critical for litigants. In many cases, litigants who are entitled to antitrust immunity under the objective prong may wish to exclude damning evidence that they subjectively intended to drive their competitor out of the market. The Court's segmented approach gives those litigants powerful authority for limiting or delaying discovery requests, excluding evidence, and even bifurcating the decision of the immunity question by the trier of fact.

B. When to Apply *PREI*

1. Multiple Lawsuits

In *PREI* itself, each of the plaintiffs filed only a single lawsuit against *PREI*. In the wake of the Supreme Court decision, the Ninth Circuit has held open the possibility that an antitrust defendant may lose the cloak of immunity if it files *multiple* lawsuits for an "improper purpose." In *USS-POSCO Industries v. Contra Costa County Building & Construction Trades Council*,²⁸ the Ninth Circuit held that *PREI* did not apply to "the case where the defendant is accused of bringing a whole series of legal proceedings."²⁹ Where multiple suits were involved, the Ninth Circuit relied on the Supreme Court's earlier decision in *California Motor Transp.*³⁰ for the proposition that only "improper purpose" the subjectively baseless position of the *PREI* test - need be proven in order to overcome the sham exception.³¹ Nonetheless, the court concluded in the case before it that the suits could not have been filed for an improper purpose, since fifteen of the twenty-nine suits filed were in fact successful.³²

*6 It remains to be seen whether the Ninth Circuit's attempt to limit *PREI* will be successful. Certainly, the *POSCO* decision raises more questions than it answers, and thus, litigants in the Ninth Circuit will have to face a number of perplexing questions in interpreting that decision. Among them: Is there any objective component to the Ninth Circuit's test for multiple sham litigation?³³ Can artful pleading by an antitrust plaintiff avoid this objective component?³⁴ Must all the challenged suits be brought by the same party?³⁵ Must all the challenged suits be brought against the same party?³⁶ If the Ninth Circuit adheres to *POSCO*,³⁷ antitrust defendants will face significant uncertainty until these issues are resolved.

2. The Continued Vitality of *Walker Process*

An antitrust claim alleging fraud on the Patent Office is called a *Walker Process* claim, after the case which first allowed such an antitrust claim.³⁸ In that case, the Supreme Court held that the antitrust plaintiff stated a cause of action for monopolization under section 2 of the Sherman Act by alleging that the defendant had obtained through fraud a patent covering the primary products in an industry.³⁹

Walker Process claims are closely related to, but conceptually distinct from, claims alleging that an infringement lawsuit is

an antitrust violation. In a *Walker Process* claim, the alleged antitrust injury flows from obtaining a patent, whether or not the patentee actually files an *7 infringement action.⁴⁰ Because antitrust immunity hinges on the act of “petitioning” the government, there is some question as to its applicability to *Walker Process* claims. The Supreme Court in *PREI* expressly reserved the question of whether “*Noerr* permits the imposition of antitrust liability for a litigant’s fraud or other misrepresentations,” citing *Walker Process*.⁴¹

At least one court has suggested in dictum that *PREI*’s two-part test might not apply to a *Walker Process* claim.⁴² The Ninth Circuit, however, came to the opposite conclusion, holding that “footnote 6 [of *PREI*] does not obviate application of the Court’s two-part test for determining sham litigation in the absence of proof that a party’s knowing fraud upon, or its intentional misrepresentations to, the court deprive the litigation of its legitimacy.”⁴³

The Ninth Circuit’s approach seems the better view. Both the filing of a patent application and any subsequent litigation of an issued patent are “petitioning” within the broad definition the Supreme Court gave that term in *California Motor Transp.*⁴⁴ Because a *Walker Process* claim is necessarily based on the content of a patentee’s “petition” before the PTO, the reasoning of *PREI* would seem to apply with full force to such claims as well.⁴⁵ Of course, in the context of fraud on the Patent Office, it may well be that even the stringent two-part test for “sham” petitioning set out in *PREI* will be met. Knowingly withholding material information from the Patent Office, for example, may suggest both that the patent application is “objectively baseless” and that the patentee was improperly motivated.

3. Non-Antitrust Cases

Noerr, *California Motor Transp.*, and *PREI* were all antitrust cases. So too have been almost all other cases applying the “antitrust immunity” doctrine.⁴⁶ But it is an open question after *PREI* whether the doctrine is in fact limited to antitrust cases, or whether it immunizes petitioning activity from other sorts of claims as well.

In *Computer Assocs. Int’l, Inc. v. American Fundware, Inc.*,⁴⁷ the court addressed the applicability of the “antitrust immunity” doctrine to a non-antitrust case. There, the defendant in a trade secrets case counterclaimed for state-law unfair competition. The court noted that several decisions before *PREI* had applied *Noerr* immunity to non-antitrust cases, but also acknowledged *8 that other courts had limited the doctrine to antitrust cases.⁴⁸ The court concluded that petitioning immunity was constitutionally based in the First Amendment right to petition, and that it therefore, could not be limited to antitrust cases.⁴⁹

The court’s conclusion in *Computer Assocs.* is bolstered by certain language in *PREI*. In discussing its prior cases on the issue of subjective intent, the Court stated: “Whether applying *Noerr* as an antitrust doctrine or invoking it in other contexts, we have repeatedly reaffirmed that evidence of anticompetitive intent or purpose alone cannot transform otherwise legitimate activity into a sham.”⁵⁰ The *Computer Assocs.* Court reasoned that “[t]his statement indicates the Court’s view that *Noerr-Pennington* is not limited to the antitrust arena,” and noted the Supreme Court’s prior reliance on *Noerr* immunity in a political boycott case.⁵¹

The implications of this broader reading of *PREI* for intellectual property litigation are significant. Under *Computer Associates*, infringement plaintiffs can rely on petitioning immunity to dispose not only of antitrust counterclaims, but also of a host of “satellite” claims, such as unfair competition, abuse of process, civil conspiracy, and tortious interference with business, to the extent that such claims are based on the filing of the infringement action.⁵²

III. Conclusion

The Supreme Court’s recent decision in *PREI* has placed significant limits on the ability of defendants in infringement cases to successfully assert antitrust counterclaims. In spite of attempts by some courts to limit the scope of the decision, *PREI* establishes an almost insurmountable hurdle for infringement defendants asserting a wide range of counterclaims. While the precise contours of this new rule are still being drawn, I expect that the result will be to favor large intellectual property owners--the ones most likely to be sued for monopolizing a market--at the expense of generally smaller infringement defendants.

Footnotes

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1 Professional Real Estate Investors v. Columbia Pictures, 113 S.Ct. 1920 (1993) (hereafter “PREI”).

2 *PREI*, 113 S.Ct. at 1923, *citing* Eastern R.Rs. President’s Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 144 (1961) (“Under the sham exception, activity ‘ostensibly directed toward influencing governmental action’ does not qualify for *Noerr* immunity if it ‘is a mere sham to cover . . . an attempt to interfere with the business relationships of a competitor.’”).

3 *PREI*, 113 S.Ct. at 1926; *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

4 *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988).

5 *See PREI*, 113 S.Ct. at 1925 (collecting cases).

6 *Id.* at 1923-24.

7 *Id.* at 1924.

8 *Id.* at 1923.

9 *Id.* at 1928.

10 *Id.* (emphasis in original).

11 *Id.*

12 *See Id.* at 1925.

13 365 U.S. 127 (1961).

14 *Noerr*, 365 U.S. at 136.

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

16 *PREI*, 113 S. Ct. at 1930.

17 *Accord Harris Custom Builders, Inc. v. Hoffmeyer*, 834 F. Supp. 256, 261-2 (N.D. Ill. 1993) (under *PREI*, “[a]n action that is well enough grounded, factually and legally, to survive a motion for summary judgment is sufficiently meritorious to lead a reasonable litigant to conclude that they had some chance of success on the merits. Consequently, [it] is not a sham . . .”).

18 *See PREI*, 113 S. Ct. at 1929-30.

19 *Id.* at 1930. It is worth noting that an antitrust defendant apparently need have probable cause only to initiate the suit. *See PREI*, 113 S.Ct. at 1929 (“The existence of probable cause to *institute* legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation.” (emphasis added)). Read literally, this language forecloses the possibility that a suit filed with

probable cause could later become objectively baseless, for example because of a change in the governing law or the discovery of new factual evidence.

20 *Id.* at 1930-31 (citing pre-1993 version of Fed. R. Civ. P. 11).

21 *Id.* at 1931.

22 Fed. R. Civ. P. 11(b)(2) sets forth a standard very similar to that quoted by the Court. [In fact, the language the Court used is identical to that of Rule 11 before it was revised by Congress in 1993.] But Rule 11 requires that a litigant's pleading be both objectively grounded (according to the standard set out by the Court), *and* that it not be "presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation." Fed. R. Civ. P. 11(b)(1). Thus, Rule 11 requires that a pleading be both objectively and subjectively nonfrivolous, while under *PREI* either an objective *or* a subjective basis will suffice to confer antitrust immunity. Thus, it is reasonable to assume that some infringement lawsuits which are sanctionable under Rule 11 will nonetheless receive antitrust immunity under *PREI*.

23 *PREI*, 113 S.Ct. at 1930.

24 *See Liberty Lake*, 12 F.3d at 158 (antitrust immunity protects defendant's actions unless they were frivolous).

25 *PREI*, 113 S. Ct. at 1928.

26 *Accord Computer Assocs.*, 831 F. Supp. at 1523-24; *see also Liberty Lake*, 12 F.3d at 158.

27 *PREI*, 113 S. Ct. at 1931. The Court cited with evident disapproval the Seventh Circuit's contrary result in *Grip-Pak, Inc. v. Illinois Tool Works*, 694 F.2d 466, 472 (7th Cir. 1982).

28 31 F.3d 800 (9th Cir. 1994).

29 *POSCO*, 31 F.3d at 810.

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

31 *POSCO*, 31 F.3d at 810. The Court relied on the fact that while *PREI* on its face appears to be flatly inconsistent with *California Motor Transp.*, it did not overrule *California Motor Transp.* and in fact cited it with approval. *See Id.* at 810 (citing *PREI*, 113 S. Ct. at 1926-27).

32 *Id.* at 811. The court's conclusion is a non sequitur. It does not follow from the fact that a lawsuit was successful that it was filed for a proper purpose, rather than to harass a competitor or raise its costs. Rather, the Ninth Circuit seems to have adopted some sort of objective component in addition to the "improper purpose" test established in *California Motor Transp.*. As an aside, it is worth noting that the defendants in *California Motor Transp.* were charged with filing forty lawsuits, of which twenty-one were successful. Despite having "a batting average exceeding .500," *POSCO*, at 811, the Supreme Court in *California Motor Transp.* concluded that the defendants were not entitled to antitrust immunity.

33 As indicated above, the holding in *POSCO* indicates the presence of such an objective component, although the language of the case does not. *See supra* note 32.

34 For example, if the antitrust plaintiff alleges a "pattern of baseless suits" which does not include any of the successful suits, should it be entitled to prevail on the immunity issue? Is it an affirmative defense that an antitrust defendant also brought and won other suits?

35 Strictly construed, *POSCO* can be read to impose such a requirement. The Ninth Circuit held that *PREI* does not apply “where the defendant is accused of bringing a whole series of legal proceedings.” *POSCO*, at 811 (emphasis added). On the other hand, it is possible to read this language as not applying to suits brought by multiple defendants, even if they acted in concert. The latter construction appears to be required if *POSCO* is not to conflict with *PREI* itself. In *PREI*, the copyright infringement suits at issue were filed by eight different copyright owners against the same defendant, and were part of a pattern of suits brought by these copyright owners against multiple defendants. See *Columbia Pictures Indus., Inc. v. Professional Real Estate Investors*, 944 F.2d 1525, 1526 n.1 (9th Cir. 1991); see also *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986); *Columbia Pictures Indus., Inc. v. Redd Horne*, 749 F.2d 154 (3d Cir. 1984).

36 A “no” answer to this question would put the licensing programs of major intellectual property owners in jeopardy, since an infringement defendant who had only been sued once could point to a “pattern” of infringement suits against other defendants in order to invoke the more generous *POSCO* rule. It may also conflict with *PREI*, since the suits at issue in that case were part of a larger pattern of litigation by Columbia Pictures and others against multiple defendants. See *supra* note 35.

37 *POSCO* is arguably inconsistent with the Ninth Circuit’s earlier decision in *Liberty Lake Investments, Inc. v. Magnumson*, 12 F.3d 155, 156 (9th Cir. 1993) (*PREI* applied to bar an antitrust suit based on a series of environmental lawsuits and regulatory filings).

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

39 *Id.* at 176-77.

40 *Walker Process*, 382 U.S. at 176.

41 *PREI*, 113 S. Ct. at 1929 n.6.

42 *TRW Fin. Sys. v. Unisys Corp.*, 835 F. Supp. 994, 1013-14 (E.D. Mich. 1993).

43 *Liberty Lake*, 12 F.3d at 159.

44 *California Motor Transp.*, 404 U.S. at 510-11 (concluding that the right of petition extends to “petitioning” courts and administrative agencies.). The Patent and Trademark Office certainly constitutes an “administrative agency” for petitioning purposes.

45 See also James B. Kobak, Jr., *Professional Real Estate Investors and the Future of Patent-Antitrust Litigation: Walker Process and Handgards Meet Noerr-Pennington*, 63 ANTITRUST L.J. 185 (1994) (arguing that antitrust immunity is likely to apply to *Walker Process* claims, at least in some form).

46 See e.g., *Hartford Fire Ins. Co. v. California*, 113 S.Ct. 2891 (1993); *Allied Tube & Conduit v. Indian Head, Inc.*, 486 U.S. 492 (1988).

47 831 F. Supp. 1516, 1521-23 (D. Colo. 1993).

48 *Computer Assocs.*, 831 F. Supp. at 1522 (collecting cases).

49 *Id.* at 1523. The constitutional basis for petitioning immunity finds significant support both in the caselaw and among commentators. For a detailed discussion of this issue, see David McGowan and Mark A. Lemley, *Antitrust Immunity: State Action and Federalism, Petitioning and the First Amendment*, 17 HARV. J. L. & PUB. POL’Y 293, 360-70 (1994) and sources cited therein.

50 *PREI*, 113 S. Ct. at 1927 (emphasis added).

⁵¹ *Computer Assocs.*, 831 F. Supp. at 1522-23 (citing *NAACP v. Claiborne Hardware Co.*, 458 U.S. 886 (1982)).

⁵² Because the immunity doctrine is based on acts of petitioning, such as filing a lawsuit, it does not apply to unrelated acts that are not based on litigation. Thus, counterclaims based on defamatory statements or tortious actions outside the litigation context will not be tested under the standards set out in *PREL*.