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Heads I Win, Tails You Lose: A Study Of Antitrust Jurisprudence In The Federal Circuit

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HEADS I WIN, TAILS YOU LOSE: A STUDY OF ANTITRUST JURISPRUDENCE IN THE FEDERAL CIRCUIT

The United States Court of Appeals for the Federal Circuit (hereinafter "the Federal Circuit") was established in 1982 through the Federal Courts Improvement Act.[1] The Federal Circuit was created to achieve uniformity and stability in the application of patent laws[2] and prevent forum shopping abuses in patent litigation.[3] In addition, proponents hoped the new court would help alleviate the overburdened regional circuit courts, "where the technical nature of patent disputes required a disproportionate amount of time from the generalist judges . . ."[4]

To accomplish this, the Federal Circuit has been granted the exclusive, nationwide jurisdiction over all appeals involving patent issues from both the federal district courts and the Patent and Trademark Office.[5] However, Congress did not make the Federal Circuit's patent jurisdiction specialized in the literal sense of possessing jurisdiction in only a single area of law. Instead, Congress supplemented the court's adjudicatory authority by granting jurisdiction in several specified fields.[6] More importantly, pendent jurisdiction allows this patent court to hear appeals over such diverse issues as tort claims, unfair competition and antitrust regulation.[7]

This note will analyze the history and jurisprudence of the Federal Circuit in antitrust enforcement. First, the natural starting point for such an analysis must be the grant and application of the jurisdiction of the Federal Circuit to hear antitrust issues. Second, this note dis-

1. Pub. L. No. 97-164, 96 Stat. 25 (Codified as amended in various sections of 28 U.S.C. (1988)).

2. *See* Hale, *The "Arising Under" Jurisdiction of the Federal Circuit: An Opportunity for Uniformity in Patent Law*, 14 FLA. STATE L.REV. 229, 238 (1986).

3. *See Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change*, 67 F.R.D. 195, 219-20 (1975) (discussing problems of forum shopping in patent cases).

4. Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U.L.REV. 1, 7 (1989) [hereinafter; Dreyfuss, *The Federal Circuit*] (an excellent case study in which Professor Dreyfuss compliments and criticizes both the Federal Circuit Court and specialized courts in general).

5. 28 U.S.C. § 1295(a)(1),(4) (1988).

6. 28 U.S.C. § 1295(a)(1)-(7) (1988). Including, but not limited to, certain trademark appeals (28 U.S.C. § 1295(a)(4)), specified claims involving the government (28 U.S.C. § 1295(a)(2)), international trade appeals (28 U.S.C. § 1295(a)(5),(6)), and technology transfer regulations (28 U.S.C. § 1295(a)(7)) (1988).

7. While these areas are not specified in the grant of jurisdiction, 28 U.S.C. § 1295(a), interpretation of this statute and the well-pleaded complaint rule has enabled the court to adjudicate pendent claims. Explained *infra* notes 8-48 and accompanying text.

cusses forum shopping and the choice of law requirements for an appellate court with multi-regional jurisdiction. The third section surveys the Federal Circuit jurisprudence with respect to several prominent substantive antitrust issues and then explains the one-sided result. Despite the Federal Circuit's consistent findings that no antitrust violation has occurred, this note concludes that the jurisprudence of the Federal Circuit parallels antitrust enforcement throughout the government. Also, this note shows that the aims of the intellectual property laws are actually in accord with the goals of the antitrust laws—each promoting innovation, development of industry and improved consumer welfare.

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I. FEDERAL CIRCUIT JURISDICTION OVER ANTITRUST ISSUES

The Federal Circuit derives its specialized jurisdiction from 28 U.S.C. § 1295. This jurisdictional grant allows the court to hear appeals from any case where the district court jurisdiction was based, "in whole or in part", on a patent claim.[8] Because of the vague terminology, "in whole or in part" and "arising under" in the statutes, the court's jurisdiction and its corresponding ability to rule on non-patent issues, such as antitrust claims, is often litigated. Case law has been inconsistent, sometimes ruling for an expansive interpretation and other times finding a narrow interpretation.

A. *Expansive Interpretation*

On the expansive side, it has been argued that a broad interpretation of this statute would grant subject matter jurisdiction for every issue, in any case, that may have any patent questions, no matter how indirect or insubstantial that question may be.[9] Under this interpretation, the Federal Circuit uses legislative intent to reject specific issue jurisdiction and rule on all collateral issues in a case. The "based in part" language has even been interpreted to grant jurisdiction to actions brought by a plaintiff in federal district court under the antitrust laws where the defendant counterclaimed with a patent infringement claim.[10]

In *Xeta, Inc. v. Atex, Inc.*,[11] the court addressed the jurisdiction issue in affirming the First Circuit Court of Appeals holding that "jurisdiction lies with the Federal Circuit because defendant Atex by counterclaim [to antitrust charges,] charged Xeta with infringement of [a] United States patent . . ."[12] Similarly, in *In re Innotron Diagnostics*,[13] plaintiff Innotron Diagnostics ("Innotron") sued Abbott Laboratories ("Abbott") in a California district court alleging that Abbott's marketing activities violated §§ 1 and 2 of the Sherman Antitrust Act (the "Sherman Act").[14]

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8. Section 1295 reads, in pertinent part: "The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction . . . of an appeal from a final decision of a district court of the United States,. . . . if the jurisdiction of that court was based, in whole or in part, on section 1338." 28 U.S.C. § 1295(a)(1).

In turn, Section 1338 reads, in pertinent part, "(a) The district courts shall have original jurisdiction over any civil action arising under any Act of Congress relating to patents. . . ." 28 U.S.C. § 1338(a).

9. *See* Dreyfuss, *The Federal Circuit, supra* note 4 at 31 (1989).

10. *See, e.g., In re* Innotron Diagnostics, 800 F.2d 1077 (Fed. Cir. 1986); Xeta, Inc., v. Atex, Inc., 852 F.2d 1280 (Fed. Cir. 1988).

11. 852 F.2d 1280.

12. *Id.*, 852 F.2d at 1281.

13. 800 F.2d 1077.

14. *Id.* at 1078. Plaintiff alleged, *inter alia*, Abbott's sales contracts required purchase of additional products (tying and bundling) and Abbott intentionally

As a separate action and then consolidated as a compulsory counterclaim, Abbott sued Innotron for infringement of a patented product which tested for substances in a patient's blood.[15] Despite later severance of the patent and antitrust issues before appeal, the Federal Circuit determined that it had jurisdiction over *all* of the issues. The Court stated that the district court jurisdiction over the original patent infringement claim was based in whole on 28 U.S.C. § 1338(a) and that "consolidat[ion] . . . was entirely procedural . . . and in no way ousted the district court of jurisdiction over that complaint under § 1338(a)."[16] The Federal Circuit must therefore exercise its exclusive appellate jurisdiction over the entire case.[17]

As *Innotron* illustrates, the Federal Circuit uses a broad definition of the term case to refer to proceedings at the complaint stage. Likewise, in *Atari, Inc. v. J S & A Group, Inc.*,[18] plaintiff filed a single case with one patent claim and six non-patent claims. J S & A Group, Inc. answered with seven affirmative defenses including an attempt to monopolize. Despite later separation orders, the Federal Circuit determined it had jurisdiction over appeals from decisions in cases in which the district court's jurisdiction was based in part on § 1338, and rejected the argument that the Federal Circuit has jurisdiction only over judgments on the separated patent claims.[19] By analogizing the Federal Circuit's jurisdiction to federal "arising under" jurisdiction,[20] the "court's potential appellate jurisdiction over a *case* . . . should initially attach at the complaint stage of the

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manipulated its software to exclude plaintiff's products, both in violation of the Sherman Antitrust Act, 15 U.S.C. §§ 1, 2 (1982).

15. *Innotron*, 800 F.2d at 1078-79.

16. *Id.* at 1080. The Federal Circuit went on to state that the consolidation would have the same jurisdictional status if Abbott's patent claim were filed as a compulsory counterclaim. "Thus, whether allegations of patent infringement be filed and maintained as a viable, non-frivolous counterclaim in a non-patent case, or as a separate complaint which is then consolidated with the nonpatent case, the district court's jurisdiction is [still] 'based in part' on § 1338(a). . . ." *Id.*

17. *Innotron*, 800 F.2d at 1080; 28 U.S.C. § 1295(2)(1).

18. 747 F.2d 1422 (Fed. Cir. 1984).

19. *Id.* at 1430-31.

20. The phrase appears in the United States Constitution which provides that "[t]he judicial power shall extend to all cases . . . arising under this Constitution, [or] the laws of the United States . . ."(U.S. Const. art. III, § 2, cl.1.). Though there is no clear definition of "arising under", the Supreme Court has used the well-pleaded complaint rule, which requires that a question of federal law appear on the face of the complaint, to determine federal "arising under" jurisdiction. As Justice Holmes stated, "a suit arises under the law that creates the cause of action." American Well Works Co. v. Layne Bowler Co., 241 U.S. 257 (1916)(cited in *Atari*, 747 F.2d at 1429, "A claim arises under the particular statute which creates the cause of action . . ."). *See also* Christianson v. Colt, 822 F.2d 1544, 1553 (Fed. Cir. 1987), *aff'd in part, vacated in part*, 486 U.S. 800 (1988).

district court proceeding."[21]

More recently, the Federal Circuit found it had jurisdiction to review final determinations of an antitrust counterclaim to patent infringement claims, despite the fact that the patent phase of the case had been dismissed and the determination was final.[22] The Federal Circuit determined it had jurisdiction because the district court case was based in part on § 1338 and "if the district court had decided the antitrust question before deciding the patent question, [the Federal Circuit] would have had jurisdiction of an appeal challenging the antitrust ruling."[23] The Court concluded that its jurisdiction should not depend on the order in which the district court decided the patent and antitrust issues.[24]

B. *Restrictive Interpretation*

On the other hand, in a somewhat irreconcilable manner, the Federal Circuit has also taken a restrictive approach toward its own jurisdiction. This is due in part to prevent forum manipulation by adding or severing patent claims, and in part to accomplish the Federal Circuit's legislative purpose of administering patent law.

It is easy to see how a simple contract case regarding the proper ownership of a patent should not be appealable to the Federal Circuit. In the lower court case of *Beghin-Say Int'l, Inc. v. Ole-Bendt Rasmussen*,[25] plaintiff's claim was not based in whole or in part on § 1338 but rather was a case involving state contract law.[26] The Federal Circuit cannot be used as another avenue for a preferable forum for state law claims.

Other cases that have been retransferred from the Federal Circuit for lack of jurisdiction involved patent claims that have been dismissed or concluded before appeal to the Federal Circuit Court.[27]

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21. *Atari*, 747 F.2d at 1436. In applying the well-pleaded complaint rule, jurisdiction is determined by the allegations in the complaint.

22. Technicon Instruments Corp. v. Alpkem Corp., 866 F.2d 417 (Fed. Cir. 1989).

23. *Id.* at 420. The parties stipulated that if the patent was invalid, then the defendant was entitled to recover on its antitrust counterclaim. The lower court determination of patent invalidity was not appealed. However, the invalidity of a patent does not in and of itself, establish an antitrust violation. The Federal Circuit therefore vacated the district court's finding of an antitrust violation and remanded for further factual development.

24. *Id. But see infra* notes 27-28 and accompanying text.

25. 733 F.2d 1568 (Fed. Cir. 1984).

26. Plaintiff's action sounded exclusively in contract since the sole question raised by the complaint was whether certain contracts should be interpreted as having conveyed title to two U.S. patents. No questions under the patent laws were present in the complaint. Thus, the action did not "arise under" any act of Congress relating to patents within the meaning of the applicable jurisdictional statute. *Id.* at 1570-71.

27. *See* Schwarzkopf Dev. Corp. v. Ti-Coating, Inc., 800 F.2d 240 (Fed. Cir.

In *Schwarzkopf Dev. Corp. v. Ti-Coating, Inc.*,[28] the Federal Circuit noted that where patent counterclaims have been dismissed at the pleading stage, dismissal being final and not appealable, appeal from judgment on the non-patent issues did not lie in the Federal Circuit. That case focused on a Senate report which used antitrust issues as an example of the Federal Circuit jurisdiction:

> Thus, for example, mere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal Circuit. . . . Federal district judges are encouraged to use their authority under the Federal Rules of Civil Procedure. . . to insure the integrity of the jurisdiction of the Federal Court of Appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, [or] counterclaims. . . raised to manipulate appellate jurisdiction.[29]

The Senate report continued:

> The committee intends for the jurisdictional language to be construed in accordance with the objectives of the [Federal Courts Improvement] Act and these concerns. If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal of the antitrust claim should not be changed by this Act but should rest with the regional court of appeals.[30]

It is difficult to reconcile this logic with the determinations that the Federal Circuit had jurisdiction over those cases where the antitrust issues were separated or severed from the patent issues,[31] or the patent phase of the case had been finally determined.[32] However, the latter all involved, at least initially, nonfrivolous viable patent claims. On the other hand, voluntary dismissal of the patent claims by a party could be viewed as an amended complaint and therefore no patent issues existed during the complaint stage.

This restrictive view of Federal Circuit jurisdiction in non-patent cases is most noted in the antitrust action of *Christianson v. Colt Indus. Operating Corp.*[33] In that case, the jurisdictional issue was

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1986); Gronholz v. Sears, Roebuck and Co., 836 F.2d 515 (Fed. Cir. 1987); USM Corp. v. SPS Technologies, Inc., 770 F.2d 1035 (Fed. Cir. 1985).

28. 800 F.2d 240.

29. S. Rep. No. 180, 97th Cong., 2d Sess. 1, 19-20, *reprinted in* 1982 U.S. Code Cong. & Admin. News, 29-30.

30. *Id.* at 20, 1982 U.S. Code Cong. & Admin. News at 30.

31. *See In re* Innotron, 800 F.2d 1077, *supra* note 14 and accompanying text; Atari, 747 F.2d 1422, *supra* note 16 and accompanying text.

32. *See* Technicon Instruments Corp. v. Alpkem Corp., 866 F.2d 417, *supra* note 17 and accompanying text.

33. 822 F.2d 1544 (Fed. Cir. 1987), *aff'd in part, vacated in part*, 486 U.S. 800 (1988), *on remand*, 870 F.2d 1292 (7th Cir. 1989), *cert. denied*, 110 S.Ct. 81 (1989).

whether a judgment could be appealed to the Federal Circuit when the complaint alleged only antitrust and tort violations, but where resolution focused exclusively on a single question of patent law. The Federal Circuit ruled on the jurisdiction issue twice before the case went on to the Supreme Court.[34] Initially, the Federal Circuit, using a traditional "arising under" jurisdiction analysis refused the appeal based on the well-pleaded complaint rule.[35] The plaintiff's complaint sought recovery because Colt Industry ("Colt") put Christianson's company out of business by organizing a group boycott,[36] and illegally extending their monopoly position by using a questionable trade secrets claim to conceal technology. The complaint alleged only antitrust violations as its cause of action despite legitimate questions of patent law and trade secrets interpretation.[37]

The Court explained, "[i]n sum, what counts is not the mere presence or absence of 'patent issues'; what counts is whether the district court's jurisdiction was based in whole or in part on section 1338."[38] The Federal Circuit concluded it did not have appellate jurisdiction despite a motion for summary judgment on a patent law "question", since the cause of action and the claim for relief arose under antitrust laws and not patent laws.[39]

After transfer to the proper appellate court and retransfer back to the Federal Circuit, the court reiterated their lack of jurisdiction, but decided to hear the appeal "in the interest of justice."[40] Upon the

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34. 484 U.S. 985 (1987)(*cert. granted*).

35. *Christianson*, 822 F.2d at 1549. Christianson's antitrust action was not one "arising under" the patent laws. 28 U.S.C. § 1338. *See supra* notes 19-21.

36. *Id.* at 1557.

37. *Id.* The validity of the trade secret in question was to be determined by patent law requirements. If production advances need not have been disclosed at the time of the patent application, the trade secrets were valid, and accordingly, any anti-competitive conduct with respect to those secrets was permissible. However, if U.S. patent law required disclosure (35 U.S.C. § 3112), then the trade secrets in question lose state law protection and Colt could be found liable for antitrust violations.

38. *Christianson*, 822 F.2d at 1553. Using a traditional "arising under" jurisdiction analysis, the court stated that whether an action arises under federal law "must be determined from what necessarily appears in the *plaintiff's statement . . . unaided* by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose." *Id.* at 1553 (emphasis supplied).

39. *Id.* at 1554.

40. *Id.* at 1559. Pursuant to the "interest of justice" provision in 28 U.S.C. § 1631, the court balanced the needs of the parties against the institutional costs of deciding the case. Re-re-transfer would subject the parties to a continuation of the back-and-forth battering with nothing to preclude further transfers and greater delay. Alternatively, dismissal of the case would risk leaving the parties with no avenue of appellate review (unless the Supreme Court were to grant a petition for certiorari). Consequently, despite a strong sense of discomfort, the court determined that a rule of necessity and the interest of justice due the parties compels resolving the merits of the appeal.

Federal Circuit appellate ruling on the merits in favor of the monopolist,[41] certiorari was granted to the Supreme Court.[42]

First, the Supreme Court rejected hearing of appeals "in the interest of justice," on the grounds that a court can never extend its own subject matter jurisdiction.[43] Also, the Supreme Court affirmed the Federal Circuit on the jurisdictional issue.[44] The Supreme Court went further. In an attempt to add consistency to Federal Circuit jurisprudence and reduce unpredictable and burdensome litigation to the parties, the Supreme Court held *in dicta* that the decision of the transferor court is the law of the case.[45] Based on this, the Federal Circuit is now foreclosed from reconsidering another court's pronouncement of its own jurisdiction.

C. *Summation of Jurisdiction*

In summation, whether or not the Federal Circuit will entertain appeals on antitrust issues in cases which began or continue with viable patent issues is far from clear. The court will look into the specific complaints for relief and counterclaims, but under *Christianson*, may be required to defer to the transferring courts. However, it is likely that the Federal Circuit will continue to determine jurisdiction for themselves despite the opinion of the transferor court.[46]

In a recent appeal of a denial of a preliminary injunction in an antitrust action,[47] the Federal Circuit ruled on the merits, despite the fact that patent counterclaims had not yet been pursued. While the court stated it was following *Christianson*, and jurisdiction was the decision of the transferor court, the Federal Circuit would have reached the same decision following its own jurisprudence. In that case, the district court action of *Xeta, Inc. v. Atex, Inc.* was based in part on § 1338 due to a nonfrivolous, viable counterclaim, an affirmative claim for relief at the complaint stage, which had not yet been dismissed.[48]

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41. Holding mass production technology need not be disclosed in a patent's claim section and thereby validating the trade secrets—a ruling in favor of the monopolist. *Id.*

42. 484 U.S. 985 (1987) (*cert. granted*).

43. *Christianson*, 486 U.S. at 818.

44. *Id.* Reiterating that jurisdiction is determined by the claims in the plaintiff's complaint and not based on theories, support or defenses. *Id.* at 811.

45. *Id.* at 819. "Under the law-of-the-case principles, if the transferee court can find the transfer decision plausible, its jurisdictional inquiry is at an end. . . ." However, the Supreme Court acknowledged that the law-of-the-case may be disregarded, when the transferee court has a clear conviction of error. *Id.*

46. *See supra* note 45.

47. Xeta, Inc. v. Atex, Inc., 852 F.2d 1280 (Fed. Cir. 1988).

48. *Cf. In re* Innotron Diagnostics, 800 F.2d 1077.

II. FORUM SHOPPING/CHOICE OF LAW REQUIREMENTS

Whether due to *Christianson*, or an expansive or restrictive interpretation of the jurisdictional grant, it is clear that the Federal Circuit has been, and will continue to be, a forum for substantive antitrust claims. In the few years of its existence,[49] the Federal Circuit has already decided such issues as: denial of a preliminary injunction against an alleged monopolist;[50] when patent misuse, fraud on the Patent Office, and wrongful patent enforcement will support violations of the antitrust laws;[51] when tying arrangements and other forms of patent misuse are antitrust infractions;[52] and what types of pricing policies will be considered predatory pricing.[53]

It seems therefore that this grant of jurisdiction to hear pendent antitrust issues opens up another avenue for forum shopping. Where the Federal Circuit's substantive non-patent law differs from that of the regional circuits, parties may be motivated to omit valid patent claims or join frivolous ones to take advantage of the forum with the most favorable law.[54]

However, as a court of appellate jurisdiction, the Federal Circuit must apply the law of the regional circuit where the district court sits.[55] Therefore, a litigant seeking to avoid the antitrust jurisprudence of their regional circuit would not be advantaged by appeal to the Federal Circuit. They would be subject to the same law and interpretation. This eliminates many forum shopping abuses and reduces the lure of manipulating patent and antitrust claims.

Problems arise, however, with such a choice of law principle

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49. Established in 1982 by the Federal Courts Improvement Act, Pub. L. No. 97-164, 96 Stat. 25.

50. *Xeta*, 852 F.2d 1280; Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572 (Fed. Cir. 1990).

51. *See infra* notes 60-77 and accompanying text: "Walker Process Claims."

52. *See infra* notes 78-96 and accompanying text: "Tying Arrangements."

53. *See infra* notes 97-106 and accompanying text: "Predatory Pricing."

The Federal Circuit has also entertained such issues as: standing, *see* Indium Corp. v. Semi-Alloys, Inc., 781 F.2d 879, 882 (Fed. Cir. 1985), *infra* note 49; anti-competitive settlements, *see* CTS Corp. v. Piher Int'l Corp., 727 F.2d 1550 (Fed. Cir. 1984); end pricing, *see* Akzo N.V. v. U.S. Int'l Trade Comm'n, 808 F.2d 1471 (Fed. Cir. 1986) *cert. denied*, 482 U.S. 909 (1987); and technology disclosure to competitors, *see* Christianson v. Colt, 822 F.2d 1544, *supra* note 37. However, those issues are not expanded in this note.

54. Dreyfuss, *The Federal Circuit, supra* note 4, at 38 (discussing the problem of forum shopping when the Federal Circuit adjudicates non-patent issues).

55. Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 875 (Fed. Cir. 1985). "We must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review." *Id. See also infra* notes 63, 67 and accompanying text. *But see* Indium Corp. v. Semi-Alloys, Inc., 781 F.2d 879, 882 (Fed. Cir. 1985), *cert. denied*, 479 U.S. 820 (1986) (applying Federal Circuit law to antitrust standing question without considering choice of law issue).

when the litigation involves multi-regional circuit laws[56] or when the appropriate regional circuit has not entertained the same, or even similar issues. When the regional circuit has not spoken, the Federal Circuit must predict how that regional circuit would have decided the issue in light of the decisions of that circuit's various district courts, public policy, etc.[57]

Also, the choice of law requirement is a significant restraint when legal theories are rapidly changing. Cases involving patent and antitrust issues provide a good example of how difficult it might be to incorporate theoretical changes into the law. During the 1980's, competition policy has undergone substantial revision which should affect both antitrust and patent enforcement.[58] Consequently, if the regional circuit has not had an opportunity to revise its position, then the Federal Circuit is paralyzed—it cannot apply new theories to antitrust claims, despite the fact that its own analysis, in a different case, yields a different result.[59] Despite these dangers, in each of the following substantive analyses, the Federal Circuit has used the interpretation and precedents of the regional circuit when forced to decide antitrust issues.

III. SUBSTANTIVE ANTITRUST SURVEY

A. *Walker Process Claims (patent fraud context)*

In the landmark case of *Walker Process*,[60] the Supreme Court held that the procurement of a patent by fraud on the Patent Office, and the intentional enforcement of such a fraudulent patent or any other patent known to be invalid may violate § 2 of the Sherman Act

56. The Federal Circuit may be faced with choosing between two or more bodies of law. *See, e.g.*, Heat & Control, Inc. v. Hester Indus., 785 F.2d 1017 (Fed. Cir. 1986) (choice of Fourth Circuit law, as opposed to Sixth Circuit law made with little discussion). This case began in Ohio (Sixth Circuit), however, the order being appealed (quashing of subpoena) was issued by a district court in the Fourth Circuit.

57. Dreyfuss, *The Federal Circuit*, *supra* note 4, at 42. "In such cases, the [Court of Appeals for the Federal Circuit] is left with the arduous (if not pointless) task of reading the other circuit's opinions on related matters and guessing how the judges would decide the open question." *Id.* at 42. *See also Heat & Control*, 785 F.2d at 1022 n.4, "With respect to the issues on which the Fourth Circuit has not spoken, we must predict how it would decide those questions were they before that court."

58. *See* Dreyfuss, *The Federal Circuit*, *supra* note 4, at 43.

59. For example, similar factual disputes appealed from two different circuits, one of which has recently adopted modern changes in antitrust or patent law, might yield different results. *Cf.* Titanium Metals Corp. v. Banner, 778 F.2d 775, 779 (Fed. Cir. 1985) (noting the strange situation where a district court judge will not be bound by the precedents of his own Court of Appeals. "That is the situation created by Congress in the Federal Courts Improvement Act of 1982, § 402 of Pub. L. 97-164, Apr. 2, 1982, 96 Stat. 37, effective Oct. 1, 1982.").

60. Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965).

provided that all other elements needed to establish a § 2 monopolization charge are proven.[61] (Hereinafter referred to as "Walker Process Claims.") Proof of intentional fraud in obtaining or enforcing a patent would deprive a legally granted monopoly of its exemption from the antitrust laws. Therefore, those and other acts by a party with requisite monopoly power (in the relevant market) could be found to be guilty of attempted monopolization in violation of § 2 of the Sherman Act. However, good faith efforts by a patentee would furnish a complete defense.[62]

This issue has repeatedly gone to the Federal Circuit due to the continuing viability of both the claim for validity (or invalidity) of the patent, and the pendent antitrust violation claim.[63] Often the patent holder claims infringement and the competitor counterclaims with invalidity and antitrust violations. Remarkably, despite often finding the necessary intentional fraud on the patent office or fraudulent prosecution of an invalid patent to hold the patent unenforceable, the Federal Circuit has never held such action in violation of the Sherman Act.

In *Argus Chemical*,[64] the Federal Circuit declined to extend the Walker Process claim for antitrust violations. In that case, Argus Chemical ("Argus") sued Fibre Glass-Evercoat Co., ("Fibre-Glass") for patent infringement and Fibre-Glass defended with claims for patent invalidity and attempted monopolization due to the *procuring* and *enforcing* of an invalid patent. Despite finding the patent invalid for failure to disclose material information, the Federal Circuit held that this was not the level of inequitable conduct required for antitrust violations.[65]

1. Fraudulent Procurement of a Patent

The Federal Circuit, in *Argus Chemical*, stated that failure to disclose any material information that should have been disclosed to the Patent Office renders a patent unenforceable despite the fact that such nondisclosure was made in good faith. Since Argus failed to disclose the material fact of sales made before the filing the pat-

61. *Id.* at 176. The offense of monopoly under § 2 of the Sherman Act has two elements: (1) The possession of monopoly power in the relevant market, and (2) the willful acquisition or maintenance of that power. United States v. Grinnel Corp., 236 F. Supp. 244 (D.R.I. 1964).

62. *Walker Process*, 382 U.S. at 177. For example, an honest mistake, *see* Argus Chemical Corp. v. Fibre Glass-Evercoat Co., 812 F.2d 1381 (Fed. Cir. 1987), *infra* notes 64-72 and accompanying text; *cf.* Allen Archery, Inc. v. Browning Mfg. Co., 819 F.2d 1087 (Fed. Cir. 1987), *infra* notes 88-92 and accompanying text (honest mistake in patent misuse context).

63. Since both claims stem from a common nucleus of operative facts, they are heard together in the same case.

64. 812 F.2d 1381.

65. *Id.* at 1384, 1386.

ent application, the patent was invalid.[66] However, the court then stated that a higher level of inequitable conduct was required to find antitrust violations in either the procurement or enforcement of a patent.[67] The Federal Circuit likened claims for invalidity and unenforceability to "raising a shield"; as opposed to claims for antitrust damages which they likened to "unsheathing a sword".[68]

Using the Ninth Circuit interpretation,[69] the level of fraud necessary to find antitrust violations is knowing and willful fraud on the patent office.[70] This standard is far more stringent than that required to find a patent invalid. In applying *Walker Process*, the Ninth Circuit had stated that inadvertent errors or honest mistakes do not constitute fraud under *Walker*. " '[K]nowing and willful fraud' as the term is used in *Walker* can be no less than clear, convincing proof of intentional fraud involving affirmative dishonesty, a deliberately planned and carefully executed scheme to defraud . . . the Patent Office."[71]

This distinction between inequitable conduct that can lead to a declaration of patent unenforceability, and fraud that is required for antitrust damages under *Walker Process*, resulted in a series of cases holding that an invalid patent monopoly does not rise to the level of an antitrust violation.[72]

2. Fraudulent Enforcement of a Patent

Next the Federal Circuit addressed the alternative theory advanced by Fibre-Glass that Argus monopolized or attempted to monopolize commerce by bringing the present suit in bad faith. Based on *Walker Process*, and the Ninth circuit case of *Handgards*,[73] the Federal Circuit acknowledged that prosecution of patent infringement suits in bad faith could constitute an attempt to monopolize. However, like fraudulent procurement of a patent, an antitrust viola-

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66. *Id.* at 1382.

67. *Id.*

68. FMC Corp. v. Manitowac Co., 835 F.2d 1411, 1418 (Fed. Cir. 1987), *quoted in* Korody-Colyer Corp. v. General Motors Corp., 828 F.2d 1572, 1578 (Fed. Cir. 1987).

69. "In deciding whether we should thus extend *Walker Process*, we look to the law of the regional circuit in which this case was brought, here the Ninth Circuit." *Argus*, 812 F.2d at 1384. *See also supra* note 55 and accompanying text: "Forum Shopping/Choice of Law Requirements."

70. *Argus*, 812 F.2d at 1383.

71. *Id.* at 1384-85 (quoting Cataphone Corp. v. DeSoto Chemical Coatings, Inc., 450 F.2d 769, 772 (9th Cir. 1971)).

72. *See Argus* 812 F.2d 1381; Loctite Corp. v. Ultraseal Ltd., 781 F.2d 861 (Fed. Cir. 1985); Litton Indus. Prods., Inc. v. Solid State Syss. Corp., 755 F.2d 158 (Fed. Cir. 1985); Karody-Colyer Corp. v. General Motors Corp., 825 F.2d 1572 (Fed. Cir. 1987); *FMC Corp.*, 835 F.2d 1411.

73. Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980).

tion occurs only when there is knowing and willful wrongdoing in the enforcement of an invalid patent. Antitrust liability is premised upon a party's prosecution of a patent infringement suit with the knowledge that its patent was invalid.[74] Consequently, no antitrust violation was found since Fibre-Glass could not prove that Argus pursued its infringement action in bad faith.[75]

Moreover, the Federal Circuit stated that "to prevail in an antitrust claim based upon enforcement of an invalid or unenforceable patent . . . the litigant must [overcome the presumption of patent validity and] establish that the patentee acted in bad faith in enforcing the patent because he *knew* that the patent was invalid."[76] A patentee's infringement suit is presumed to be brought in good faith and this presumption can be rebutted only by clear and convincing evidence.[77]

B. *Tying Arrangements (patent misuse)*

The grant of a patent creates a lawful monopoly extending only to the claimed subject matter and the scope of the patent. A patentee may misuse the patent by attempting to extend its monopoly beyond the scope of the patent or beyond the claims stated. For example, licensing beyond the term of the patent, or bundling[78] of patented and unpatented products, are two forms of patent misuse. Like the conduct required for fraudulent enforcement (Walker Process Claim), patent misuse may rise to the level of an antitrust violation, or, conduct which does not rise to such level may be sufficient to invoke the doctrine as an affirmative defense to a charge of patent infringement and render the patent unenforceable.[79]

A tying arrangement, or tie in, is one form of patent misuse where the sale or lease of one product (the "tying" product) is made on the condition that the buyer or lessee take a second product (the "tied" product) as well. The law against tying arrangements covers any combination of sales or leases. Tying arrangements can be illegal

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74. *Id.* at 990, 993.

75. *Argus*, 812 F.2d at 1386. The only evidence Fibre-Glass offered to support its assertion that Argus brought the suit in bad faith is a letter from another competitor stating the patent is invalid. "The allegation by an accused infringer that the patent is invalid—an assertion frequently made by those charged with infringement—cannot be turned into evidence that the patentee knew the patent was invalid when it instituted an infringement suit." *Id.*

76. *Id.* (emphasis added). *See also* Loctite Corp. v. Ultraseal Ltd., 781 F.2d 861 (Fed. Cir. 1985).

77. *Loctite*, 781 F.2d at 876 (quoting Handgards, 601 F.2d at 996).

78. Bundling is a type of tying arrangement involving multiple patented and unpatented products, where the seller or lessor requires purchase of all of the products.

79. *See* Xeta, Inc. v. Atex, Inc., 852 F.2d 1280. *See also* Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 668 (Fed. Cir. 1986).

under the antitrust laws either as contracts in restraint of trade under § 1 of the Sherman Act[80] or sometimes under the more explicit provisions of § 3 of the Clayton Act.[81]

1. Elements Articulated by the Federal Circuit

The Federal Circuit has recently restated the proposition that tying unpatented products to the purchase of patented products may be an antitrust violation.[82] When a patent owner uses his patent rights not only as a shield to protect his invention, but also as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for an antitrust violation when sufficient power in the relevant market is present.[83] Therefore, a patent owner "may incur antitrust liability . . . . where a license of a patent compels the purchase of unpatented goods. . . ."[84]

In *Xeta*, the Federal Circuit affirmed the denial of a preliminary injunction on a claim of illegal tying,[85] holding in favor of the monopolist. The Federal Circuit articulated the three elements that must be demonstrated to prove anti-competitive tying. "First, the purchase of one product . . . must be conditioned on the purchase of another product . . . second, the defendant must have sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product; and third, the amount of commerce affected must be 'not insubstantial'."[86] In this case plaintiff Xeta had not shown a likelihood to prevail on these issues. Because antitrust injunctions against a patent holder is an extreme remedy, the injunction was denied by the lower court and the Federal Circuit.[87]

2. Required Level of Intent

In two other cases where the Federal Circuit considered the tying arrangement issue, the court held no illegal tying existed, and there-

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80. 15 U.S.C. § 1 (1982) ("[e]very contract, combination . . . or conspiracy, in restraint of trade or commerce . . . [is] illegal").

81. 15 U.S.C. § 14 (1982). This section of the Clayton Act prohibits the making of a lease, sale or contract for sale of goods or other commodities, whether patented or unpatented, where the effect may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

82. *Xeta*, 852 F.2d at 1282-83.

83. *Id.*

84. Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990), *reh. den.*, No. 5205 (U.S. App. Apr. 4, 1990)(LEXIS, Genfed library).

85. While other claims were also included, the court stated that this was the "principal claim." *Xeta*, 852 F.2d at 1283.

86. *Xeta*, 852 F.2d at 1282-83 (citing Northern Pacific Ry. Co. v. United States, 356 U.S. 1, 5-6 (1958)).

87. *Xeta*, 852 F.2d at 1284-85.

fore, conduct was neither patent misuse nor an antitrust violation.[88] In *Allen Archery* the licensing of the Allen bow patent required the licensee/distributor to pay royalties on "each and every replacement part sold by licensee for the reconstruction of said bows."[89] The district court rejected the argument that Allen Archery misused its patent because it collected royalties on parts that were used to repair and not to reconstruct Allen bows, thereby exceeding the proper scope of its patent rights. The lower court found the acceptance of royalties on repair parts was "the result of a mistake . . . and not the result of an intent to extend the patent monopoly to the unpatented repair parts."[90] The Federal Circuit affirmed, noting that "[t]here [was] no allegation that Allen [Archery] *intended* to collect royalty payments for [unpatented] replacement parts . . . ."[91] Therefore, the collection of such royalties did not constitute misuse of the patent.[92]

Similarly in *Senza-Gel*, the Federal Circuit affirmed the district court finding that no tying arrangement existed since the lessees voluntarily leased machines from the process patent holder.[93] This implies that the lessees could have leased the machine from others and still acquired the license to use the process from the patent holder and thus the tie-in was not required.[94]

3. Legislative Considerations

The Federal Circuit, as well as other courts, are less likely to find tying to be a patent misuse and an antitrust violation in the future as this interpretation of the requirements has been affirmed by Congress. In a 1988 amendment to the Patent Act[95] concerning the doctrine of patent misuse, Congress enumerated certain business practices that are permissible by a patent holder. According to the amendment, conditioning arrangements and tying agreements are no longer *per se* instances of patent misuse. Moreover, conduct involving conditioning of the patent rights constitutes patent misuse only when "in view of the circumstances, the patent owner has market power in the relevant market for the patent or the patented prod-

88. *See* Allen Archery, Inc. v. Browning Mfg. Co., 819 F.2d 1087 (Fed. Cir. 1987); Senza-Gel Corp. v. Seiffhart, 803 F.2d 661 (Fed. Cir. 1986).

89. *Allen Archery*, 819 F.2d at 1097.

90. *Id.* at 1097. The acceptance of royalties was, as to repair parts, the result of mistake and an inability to differentiate between repair and reconstruction parts.

91. *Id.* at 1097 (emphasis added).

92. *Id.* at 1098. However, the Federal Circuit conceded that such conduct, if intentional, may be an antitrust violation. "[W]e intimate no view on whether a license that covered repair parts would be illegal as involving patent misuse." *Id.*

93. *Senza-Gel*, 803 F.2d at 668.

94. *Id.*

95. Pub. L. No. 100-703, Title II, Section 201, 102 Stat. 4676, (enacted on Nov. 19, 1988 amends 35 U.S.C. § 271(d)).

uct on which the license or sale is conditioned."[96]

C. *Predatory Pricing*

Another antitrust issue that the Federal Circuit has been confronted with is predatory pricing. Predatory pricing refers to a firm's attempt to drive a competitor out of business, or to discourage a potential competitor from entering the market by selling its output at an artificially low price. Once the rival has been dispatched from the market, the predator will be able to reap a profit from his monopoly which will more than pay for the losses incurred during the predatory period.

The *Xeta* case included a claim for predatory pricing.[97] In support of a denial of a preliminary injunction against the alleged predator, the Federal Circuit emphasized that the predatory intent must be proven[98] and stated that without such monopolistic intent a competitor must be allowed to compete in the market place.[99] Therefore, it seems that the Federal Circuit would allow deference toward a company's pricing decisions.

However, in the case of *U.S. Phillips Corp. v. Windmere Corp.*,[100] the Federal Circuit overruled a directed verdict in favor of the alleged monopolist and held that there was sufficient evidence to submit predatory pricing claims to a jury. This is one of the rare cases when the Federal Circuit has ruled that there was, or may be, an antitrust violation.

U.S. Phillips Corp. ("Phillips") sued Windmere ("Windmere") and others for infringement of its electric razor patent and Windmere counterclaimed alleging attempted monopolization in violation of § 2 of the Sherman Act. The district court submitted the patent (and unfair competition) issues to the jury but directed a verdict in favor of the alleged monopolist (Phillips) on the antitrust counterclaim.[101]

Upon appeal, the Federal Circuit reexamined the evidence proffered by Windmere to support its antitrust claims stating that in directing a verdict, "[t]he evidence must be considered in the light and with all reasonable inferences most favorable to the party op-

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96. *Id.*

97. *Xeta*, 852 F.2d 1280. Discussed *supra* notes 82-87 in relation to plaintiff's tying claim.

98. *Following* Barry Wright Corp. v. ITT Grinnell Corp., 724 F.2d 277 (1st Cir. 1983).

99. *Xeta*, 852 F.2d at 1283. "Price competition is not itself an antitrust violation. . . . The law that prohibits predatory pricing practices does not routinely bar a seller from lowering its prices to compete with a competitor's lower prices." *Id.* at 1283-84.

100. U.S. Phillips Corp. v. Windmere Corp., 861 F.2d 695 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989).

101. *Id.* at 703.

pos[ing] the motion."[102] After defining the relevant market as the electric razor market, Windmere's expert estimated that Phillips/Norelco razors' share of the rotary razor market was approximately ninety percent. Windmere showed barriers to entry into the market since the public demanded a recognized brand name. Windmere also offered evidence that Phillips changed its policies in direct response to Windmere's entry stating "let's pound them into the sand" and "kill this stone dead by introducing old models at very low prices."[103] Within two years Windmere was forced to withdraw from the rotary shaver market.

The district court had directed a verdict in favor of the alleged monopolist, stating that willful acquisition and maintenance of monopoly power was not proven because Windmere was not able to show that Phillips was charging a price below its average variable cost.[104]

The Federal Circuit concluded, however, that the district court took too narrow a view of the kind of evidence that will support this "intent" element of monopolization. Citing *Aspen Skiing*[105] to support its proposition, the Federal Circuit stated "[e]vidence that a firm holding ninety percent of a market that has substantial entry barriers, drastically slashing its prices in response to the competition of a new entrant, is sufficient to show monopolization, including a violation of section 2 of the Sherman Act."[106] Therefore, a directed verdict is improper and legitimate questions of fact as to advertising allocation and average fixed and variable costs must go to a jury. This case stands out as one of the rare times that the Federal Circuit has vigorously applied the antitrust laws and held that there was, or may be, an antitrust violation.

IV. CONCLUSION

It is clear from this substantive analysis that the Federal Circuit has been asked to rule on a variety of antitrust claims and the court has consistently, with rare exceptions, ruled in favor of the alleged monopolist.[107] Earlier this year in the case of *Atari v. Nintendo*,[108]

102. *Id.* at 702 (quoting Gregory v. Massachusetts Mut. Life Ins. Co., 764 F.2d 1437, 1440 (11th Cir. 1985)).

103. *Id.* at 703.

104. *Id.* at 701 (quoting International Air Indus., Inc. v. American Excelsior Co., 517 F.2d 714, 724 (5th Cir. 1975), *cert. denied*, 424 U.S. 943 (1976)).

105. Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 610 (1985) (monopoly act is illegal if its sole motivation was to harm a competitor with no efficiency justification). *See also* American Tobacco Co. v. United States, 328 U.S. 781 (1946).

106. *Phillips*, 861 F.2d at 704.

107. *But see Phillips*, 861 F.2d 695, *supra* notes 100-106. The Federal Circuit reversed a directed verdict in favor of the monopolist and remanded the case for a jury to determine whether or not an antitrust violation occurred. Even in this case,

the Federal Circuit stated that "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 violate the antitrust laws."[109] However, while the court may reiterate the applicable law and cite antitrust precedents, the Federal Circuit does not normally find violations of the antitrust laws.

While this may be due to the inherent bias of patent judges, or even a remarkable coincidence, one must consider that, due to the jurisdictional grant, the Federal Circuit will only hear antitrust claims that are pendent to patent claims.[110] These two bodies of law must be carefully balanced together and their goals reconciled. In light of the current trends in antitrust enforcement, such a one sided result could be expected.

During the 1980's, antitrust enforcement was significantly relaxed and intellectual property protections were expanded. Throughout the existence of the Federal Circuit, all branches of government have become more lenient toward antitrust violations. First, the principal antitrust enforcer, the Antitrust Division of the Department of Justice, has reevaluated important antitrust policies—especially regarding intellectual property.[111] In addition, Congress has adopted new and stronger intellectual property protections, including permitting some monopolistic behavior.[112] Finally, even the courts, including the Supreme Court, have been careful to respect the balance between antitrust laws and the intellectual property laws.[113]

During this decade there was a change in the focus of antitrust enforcement and the methods used to achieve it. Moreover, experts have realized that the antitrust goals and the intellectual property discipline are not opposites, but are actually complements, both aimed at encouraging innovation, industry and competition.[114] The

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the Federal Circuit did not find an antitrust violation, but rather, found only that enough evidence existed to submit this claim to a jury.

108. Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572 (Fed. Cir. 1990), *reh. den*, No. 5205 (U.S. App. Apr. 4, 1990)(LEXIS, Genfed library).

109. *Id.* at 1576-77.

110. *See supra* note 8 and accompanying text.

111. During the 1980's, a series of important statutes were adopted which strengthened or expanded existing intellectual property protections (*see supra* note 95 and accompanying text). "In each instance, rather than assuming its typical role as leader of the opposition, The [Antitrust] Division was one of the primary proponents." R. Andewelt, *Antitrust Perspective on Intellectual Property Protections*, 30 Pat., Trademark, & Copyright J. (BNA) 319 (1985).

112. *See supra* notes 95-96 and accompanying text.

113. *See* Walker Process Equip., Inc. v. Food Mach. and Chem. Corp., 382 U.S. 172 (1965); Atari v. Nintendo, 897 F.2d 1572. *See also* Handguards, Inc. v. Ethicon, Inc., 601 F.2d 986, *cert. den.*, 444 U.S. 1025 (1980).

114. *Atari*, 897 F.2d at 1576. *See also Loctite*, 781 F.2d at 876-77.

Antitrust Division recognized that a different approach was necessary to maximize the benefits in a dynamic market economy for U.S. consumers. Global competition has caused an increased awareness of the benefits of high technology on the U.S. economy. Stronger intellectual property protections are therefore necessary to foster technological growth and industrial innovation.[115] Since the intended goal of intellectual property protection is to encourage competition by rewarding innovation, even the Antitrust Division has been supportive of stronger intellectual property protection.

The Federal Circuit in *Atari* also stated, "the [sole] fact that a patent has been obtained does not wholly insulate the patent owner from the antitrust laws."[116] However, based on the history and jurisprudence of the Federal Circuit, and the current focus of antitrust and intellectual property laws, it is unlikely that the Federal Circuit will find an antitrust violation on a claim against an industry innovator holding a valid U.S. patent. The outcome of similar cases in the future is almost as assured as a "heads I win, tails you lose," proposition.

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115. *See* Ninth Annual Judicial Conference of the Court of Customs and Patent Appeals, 94 F.R.D. 350, 359 (1982). *See also* Dreyfuss, *The Federal Circuit, supra* note 4, at 27.

116. *Atari*, 897 F.2d at 1576.