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AN ANTITRUST SOLUTION TO THE NEW WAVE OF PREDATORY PATENT INFRINGEMENT LITIGATION

Throughout history, American inventors have sought patents as devices to shield their inventions from infringement.¹ More recently, however, patents have emerged as a means to frustrate the development of new technology and intimidate or hinder corporate competition.² Instead of shielding their own innovations with patents, several high-technology³ corporations are using their patents as swords to cut down their competitors.⁴ With the assistance of strong litigation teams, these corporations are exploiting the patent laws to turn a bigger profit.⁵

In a sobering example, Texas Instruments, Inc. (TI), a leader in computer memory chip production, sued nine Japanese and Korean corporations for infringement of TI patents for chip manufacturing processes.⁶ The parties agreed on a partial settlement in which the foreign corporations consented to payment of higher royalties: over \$191 million in 1987 alone.⁷ TI knew that patent litigation was an untapped resource, stating that it "had an asset that [it had] been underutilizing."⁸ Other corporations entering the profitable litigious fray include IBM, Motorola, Polaroid, and Apple

1. See ROBERT A. BUCKLES, *IDEAS, INVENTIONS, AND PATENTS: HOW TO DEVELOP AND PROTECT THEM* 6 (1957).

2. The newspapers have followed this developing trend in patent litigation. See, e.g., Lawrence M. Fisher, *Patents; Chip Makers Combine to Fight Suits*, N.Y. TIMES, Sept. 15, 1990, § 1, at 32; Thomas C. Hayes, *Texas Instruments Is Suing 5 Chip Makers Over a Patent*, N.Y. TIMES, July 10, 1990, at D1; Andrew Pollack, *The New High-Tech Battleground*, N.Y. TIMES, July 3, 1988, § 3, at 1 [hereinafter Pollack, *The New High-Tech Battleground*]; Andrew Pollack, *A Chip Maker's Profit on Patents*, N.Y. TIMES, Oct. 16, 1990, at D1 [hereinafter Pollack, *A Chip Maker's Profit on Patents*]; Evelyn Richards, *Firms Cash in on Patent Cases; Competitive Pressures Raise Stakes for Electronics Giants*, WASH. POST, Oct. 21, 1990, at H1; Christopher J. Steffen, *FORUM; Protecting Creativity in a Global Market*, N.Y. TIMES, Aug. 26, 1990, § 3, at 13.

3. This Note uses the term "high-technology" or "high-tech" to refer to manufacturing firms that spend a significant portion of their time and revenue on the development of new technology. These firms include manufacturers of computers, semiconductors, and consumer electronics. By their very nature, high-technology firms have a high stake in patents to protect their products.

4. See Pollack, *The New High-Tech Battleground*, *supra* note 2, at 1.

5. *Id.*

6. See *id.*

7. See *id.* According to Pollack, royalties from that settlement alone have exceeded \$600 million for TI since 1986. See Pollack, *A Chip Maker's Profit on Patents*, *supra* note 2, at D1.

8. Pollack, *The New High-Tech Battleground*, *supra* note 2, at 1 (quoting Richard J. Agnich, senior vice president and general counsel of Texas Instruments).

Computer.⁹ One particularly notorious corporation, Refac International, even attempted to buy a fraction of another corporation's patent for use as a "hunting license" for standing to sue others for infringement.¹⁰

This trend has outraged many defendant corporations. One commentator noted the general industry response to TI's actions:

[R]ival semiconductor and computer companies are rising up in anger, saying that Texas Instruments' demands have become excessive, threatening to stifle innovation and to entangle the industry in wasteful lawsuits. They see Texas Instruments' actions as part of a demoralizing trend in the United States in which companies are becoming more competitive in the courtroom as they become less competitive in the technological marketplace.¹¹

As Japan and other Pacific-rim countries overtake the American technological marketplace, many high-tech corporations are resorting to litigation as a new and bountiful source of revenue. Corporations are uncovering older patents to add new weapons to their litigation arsenal. Profit, rather than protection, is the primary motive behind such suits.

Corporate patent owners, however, have the right to enforce legally possessed property rights. Nonetheless, victims of the patent litigation voice their concern to the trend:

Other companies are reacting as a person would if he were told he would have to pay to use a lawn mower he had been borrowing from a neighbor for years. . . . The person would get angry, but no one would question the right of the lawn mower owner to ask for payments or to stop lending the mower.¹²

Although legitimate patent owners have exclusive rights to make, use, or sell their patents, the question arises whether the corporate use of patent litigation for pure profit and competitive advantage is fundamentally wrong.

This Note begins by reviewing the traditional framework of the patent system and by examining procedures and policies behind

9. *See id.*

10. *See infra* notes 145-52 and accompanying text.

11. Pollack, *A Chip Maker's Profit on Patents*, *supra* note 2, at D1.

12. *See id.*

the procurement and enforcement of patents. The examination follows the development of patent enforcement trends by the federal courts from early inconsistencies among the circuits to propatent unity in the Court of Appeals for the Federal Circuit (CAFC). In light of the newly established strength of patents, the Note explores the consequences of the increasing number of judgments and settlements from high-technology patent infringement suits and suggests that predatory patent litigation is contrary to patent law policies and should not be viewed as mere enforcement of valid patent rights. The Note compares the policies behind patents with the policies behind antitrust law and explains why imposing antitrust liability is the best measure for curbing the problem of predatory patent litigation. The Note concludes by proposing that courts closely scrutinize certain suspicious patent infringement suits by using a framework and model statute to impose antitrust liability for predatory litigation based on the *Handgards* cases¹³ and *Kobe, Inc. v. Dempsey Pump Co.*¹⁴

BACKGROUND: A PATENT PRIMER

The Primary Purpose of Patents: Public Welfare and the Reward of the Inventor (The Incentive Rationale)

The governments of ancient Greece and Rome granted patents to encourage and reward the creativity of citizens and craftsmen.¹⁵ This "incentive" rationale was the theory behind the development of the English common law patent system during the Middle Ages.¹⁶ Although the patents usually were very expensive, the "letters patent" or "monopolies" that the Crown granted often bestowed great wealth on the inventor.¹⁷ Various entitlements and privileges stimulated merchant guilds to be more productive as groups.¹⁸ Years later, the more modern British system carried on

13. *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985) (*Handgards II*); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) (*Handgards I*).

14. 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952).

15. See 1 ERNEST B. LIPSCOMB III, LIPSCOMB'S WALKER ON PATENTS § 1:1, at 7 (3d ed. 1984).

16. FRANK H. FOSTER & ROBERT L. SHOOK, PATENTS, COPYRIGHTS & TRADEMARKS 4-5 (1989); 1 LIPSCOMB, *supra* note 15, at §§ 1:1-1:9; FLOYD L. VAUGHAN, THE UNITED STATES PATENT SYSTEM; LEGAL AND ECONOMIC CONFLICTS IN AMERICAN PATENT HISTORY 13 (1956).

17. See FOSTER & SHOOK, *supra* note 16, at 5; VAUGHAN, *supra* note 16, at 13.

18. In order to establish new industries in the early 1300's, Edward III granted "letters of protection" to certain craft guilds, attracting them to a particular industry with special

this practice, which the infant government of the United States eventually imitated.¹⁹

Throughout the development of the patent system in the United States, an overwhelming theme has been to reward and encourage invention and innovation;²⁰ this theme is reminiscent of the most ancient origins of patents.²¹ In the early Colonial years, patents took root in New England, where the agrarian colonies took pride in creativity.²² Close to independence, the colonists were anxious to free themselves of even the most miniscule ties with England. They set forth designing and replacing English "technology" with their own, from printing presses to new methods of weaving cloth.²³

After achieving independence, the Framers gave Congress the power to issue patents: "The Congress shall have the power . . . to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."²⁴ Although this clause did not provide much literal direction, it became the touchstone for the patent system in the United States.²⁵ The groundwork

privileges. FOSTER & SHOOK, *supra* note 16, at 5. During the early developmental stages of this system, patents behaved as "protective tariffs"—not only stimulating innovation, but incubating it. The system, however, soon became subject to abuse when impropriety of the Crown subjected the production of everyday necessities to monopolies. VAUGHAN, *supra* note 16, at 14.

19. See VAUGHAN, *supra* note 16, at 15.

20. See 1 LIPSCOMB, *supra* note 15, § 1:6, at 40.

"What, it may be asked, can be more consistent, and, at the same time, more advantageous to the State, than to grant to the first inventor, or to the first introducer, of any valuable and new discovery, an exclusive privilege for a term of years, provided he lodge such a description of the invention as will enable the public at large to enjoy the invention more fully at the expiration of the patent right: Such is the nature of patent property. *It is a reward to the first inventor of any new means of producing a known material, or for producing a new manufacture which is useful in itself.*"

Id. (emphasis added) (quoting CARPMAEL'S LAW OF PATENTS FOR INVENTION 3-5 (1852)).

21. Patents fostered innovation even in earlier civilizations in which patent systems began. In his work, *Banquet of the Learned*, the Ancient Greek historian Phylarchus described how artisans in the city of Sybaris in 500 B.C. were granted exclusive rights to manufacture goods that were particularly appealing to the elite. The purpose was to stimulate others "to labour at excelling in such pursuits." FOSTER & SHOOK, *supra* note 16, at 3 (quoting Phylarchus).

22. See 1 LIPSCOMB, *supra* note 15, § 1:9, at 57; see also LAURENCE I. WOOD, PATENTS AND ANTITRUST LAW 12 (1942).

23. 1 LIPSCOMB, *supra* note 15, § 1:9, at 57.

24. U.S. CONST. art. I, § 8, cl. 8.

25. See Martin J. Adelman & Gary L. Francione, *The Doctrine of Equivalents in Patent Law: Questions That Pennwalt Did Not Answer*, 137 U. PA. L. REV. 673, 674-78 (1989) (discussing the evolution of the patent system).

laid in the constitutional mandate reflected the Framers' understanding of the necessity of rewarding inventors through an organized patent system.²⁶ After substantial encouragement from the most influential policymakers of that time,²⁷ Congress passed the Patent Act of 1790²⁸ which elicited generous praise from Thomas Jefferson:

"An Act of Congress authorizing the issue of patents for new discoveries has given a spring to invention beyond my conception. . . .

"Certainly an inventor ought to be allowed a right to the benefit of his invention for some certain time. Nobody wishes more than I do that ingenuity should receive liberal encouragement."²⁹

The driving force of the infant patent system was the unmistakable need to encourage and reward innovation.³⁰ The "incentive rationale" weaves together three different yet interdependent policies: (1) rewarding invention and innovation,³¹ which creates (2) the incentive to invent and innovate, which in turn (3) benefits

26. For a more complete history of the American patent system, see 1 LIPSCOMB, *supra* note 15, at 57.

27. George Washington urged Congress to create a patent system. He stressed "the advancement of agriculture, commerce and manufactures, by all proper means' and recommended 'the expedience of giving effectual encouragement as well to the introduction of new and useful inventions from abroad, as to the exertion of skill and genius in producing them at home.'" *Id.* at 57-58 (quoting George Washington).

28. Patent Act, 1 Stat. 109 (1790).

29. 1 LIPSCOMB, *supra* note 15, at 58 (quoting Thomas Jefferson).

30. *See, e.g.,* Bauer & Cie v. O'Donnell, 229 U.S. 1, 10 (1913):

[The Patent Act] was passed for the purpose of encouraging useful invention and promoting new and useful improvements by the protection and stimulation thereby given to inventive genius, and was intended to secure to the public, after the lapse of the exclusive privileges granted, the benefit of such inventions and improvements.

Id.

Former President Dwight D. Eisenhower stated:

"Soundly based on the principle of *protecting and rewarding inventors*, this system has for years encouraged the imaginative to dream and to experiment—in garages and sheds, in great universities and corporate laboratories. From such explorations on the frontiers of knowledge has welled a flood of innovations and discoveries which have created new industries and reactivated old, giving more and more Americans better jobs and adding greatly to the prosperity and well-being of all."

1 LIPSCOMB, *supra* note 15, at 58 (emphasis added) (quoting Dwight D. Eisenhower).

31. For a thorough treatment of the reward rationale for the patent system, see Robert P. Merges, *Commercial Success and Patent Standards: Economic Perspectives on Innovation*, 76 CAL. L. REV. 803 (1988).

the public welfare through increased exchange of useful goods and continually improving technology.³²

The Theory Behind the Development of Patent Rights

Patent rights developed generally under a contract theory in which both the public and the inventor benefit from a patented invention.³³ The inventor receives the right to control and profit from the first seventeen years of exploitation of this invention, and, in return, the public is informed of the invention and receives the unfettered right to exploit it after the statutory seventeen-year term has run.³⁴ This benefit or reward is part of the incentive for innovation. In enacting the original Patent Act, Congress

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32. Other commentators have expressed a similar view of the incentive rationale: The patent system stimulates invention in four ways. First, the system encourages inventors to spend time and risk capital in research and development by offering a reward to the successful inventor. Second, by giving inventors the exclusive right to exploit their inventions for a limited time, the patent system stimulates the additional investment necessary to market and further develop the invention. Third, by affording protection in exchange for disclosure, the system encourages early public disclosure of important technological information that might otherwise remain secret. Finally, the patent system promotes the beneficial exchange of products, services, and technological information among nations

Amber L. Hatfield, Note, *Life After Death for Assignor Estoppel: Per Se Application to Protect Incentives to Innovate*, 68 TEX. L. REV. 251, 258-59 (1989) (citations omitted).

33. See 1 LIPSCOMB, *supra* note 15, at 29-31; 1 WILLIAM C. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS §§ 15-24, at 23-38 (1890); see also WOOD, *supra* note 22, at 18-21. Some courts also explain the development of the patent system with a natural law theory. Under this theory, an inventor, like any worker, has an exclusive property right to the product of his own labor. The inventor therefore owns an implied property right in the invention. With this comes the right to exclude others from benefitting from it. See, e.g., *May v. Johnson City*, 16 F. Cas. 1218, 1218-19 (D. Ind. 1872) (No. 9334) (stating that "[b]y a natural law, the creations of a man's genius are as much his own property as the horse or land he may purchase with money which he has earned"). Experts adopting the natural law theory reach the same conclusion that the new technology should be shared with the public.

The natural right of the public to appropriate all new ideas that may be voluntarily disclosed is no less evident than that of the inventor to conceal them. It is a law of nature that men should profit by the discoveries and inventions of each other. This is the law which binds society together Every improvement he can make in his appearance, habits, manners, or affairs becomes a guide and stimulus to others This natural right and duty of the public come into existence where the natural right of the inventor ends, the same act which determines his exclusive possession and control delivering the invention to the universal knowledge and service of mankind.

WILLIAM C. ROBINSON, ROBINSON ON PATENTS § 25 (1890).

34. See 35 U.S.C. § 154 (1988).

realized that adequate disclosure of the invention gives the public the ability to develop or manufacture the product further after the patent term expires.³⁵ Disclosure also ensures that the public and other inventors can gauge the extent of the property right claimed by the patent holder.³⁶ Subsequent to the 1790 Act, Chief Justice Marshall stated that the disclosure principle "is necessary in order to give the public, after the privilege shall expire, the advantage for which the privilege is allowed, and is the foundation of the power to issue the patent."³⁷ The disclosure of the invention thus assures society of the inventor's end of the bargain.³⁸ The process benefits the public because revealing the invention should spark further creativity.³⁹ The increasing number of ideas in the

35. The Patent Act of 1790 required a patent-seeking inventor to file:

"a specification . . . containing a description . . . of the thing . . . by him . . . invented . . . which specification shall be so particular . . . as not only to distinguish the invention . . . from other things before known and used, but also to enable a workman or other person skilled in the art of manufacture, whereof it is a branch, or wherewith it may be nearest connected, to make, construct or use the same, to the end that the public may have the full benefit thereof, after the expiration of the patent term."

2 DONALD S. CHISUM, PATENTS § 7.02[1], at 7-4 (1991) (quoting Act of April 10, 1790, ch. 7, § 2, 1 Stat. 109).

36. The Supreme Court in *Schreiber-Schroth Co. v. Cleveland Trust Co.*, 305 U.S. 47 (1938) stated:

[t]he object of the statute is to require the patentee to describe his invention so that others may construct and use it after the expiration of the patent and "to inform the public during the life of the patent of the limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not."

Id. at 57 (quoting *Permutit Co. v. Graver Corp.*, 284 U.S. 52, 60 (1931)).

37. *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 246 (1832).

38. Early English law viewed a patent as a contract between the government and the inventor. See *Cartwright v. Arnott*, Easter Term, 1800, cited in *Harmer v. Playne*, (1809), 11 East. 101, 107 Lord Eldon ("That they were to be considered as bargains between the inventors and the public, to be judged of on the principle of keeping good faith, by making a fair disclosure of the invention, and to be construed as other bargains."). This view still holds true in a modern context:

In exchange for the inventor's disclosure of an invention previously unknown to the public, the government promises the inventor certain exclusive rights in the invention for a limited period of time. As a part of this contract, the inventor agrees to the government's publication of the invention upon expiration of the patent. During the time the patent contract is in force, the public has access to the published disclosure of the invention and can use its teachings in constructive thinking to forward the development of the art, whereby improvements are often promulgated. Members of the public may also approach the patent owner while the patent is in force seeking permission to practice the invention on terms suitable to the patent owner.

DAVID A. BURGE, PATENT AND TRADEMARK TACTICS AND PRACTICE 25 (2d ed. 1984).

39. "After the Patent Office grants a patent for the invention, the publication to the

marketplace promotes competition from other inventors and benefits society with easier access to lower-priced goods.⁴⁰ Because the government has no incentive to protect an invention if its workings are not disclosed to the public,⁴¹ the value is in the *disclosure*, not the invention alone.⁴² Under the contract theory, a patent system that includes this important element of disclosure is fundamental to the development of new technology.

The Patent Act

In 1952, Congress passed the Patent Act,⁴³ which remains largely unchanged today.⁴⁴ The Act sets forth requirements for patentability of an invention and the rights conferred on a patent holder.⁴⁵

Throughout the statutory protection period, the inventor has the exclusive right to use the patent or to sell, assign, or grant it to someone else.⁴⁶ Anyone who makes, uses, or sells an invention protected by the patent without authorization is liable in an infringement action brought by the patent owner in federal court.⁴⁷

Although the basic provisions of the Act have served effectively for decades, the Act has failed to adequately predict or protect against abuses of the patent system. The Framers and Congress surely did not anticipate the kind of abuse that is occurring today.

PATENT ENFORCEMENT TRENDS IN THE COURTS

Inconsistency and Disunity in the Courts

The federal courts of appeals traditionally lacked consistency in their holdings on patent appeals. This problem arose from the

world of the specification and any drawing adds to the fund of available knowledge and acts as a stimulus to other inventors to discover competitive products or processes or machines." 1 LIPSCOMB, *supra* note 15, § 1:7, at 54. This stimulus is reminiscent of the "incentive rationale." See *supra* notes 15-32 and accompanying text.

40. See 1 LIPSCOMB *supra* note 15, § 1:7, at 54.

41. This suggests that the free enterprise system is intertwined strongly with the contract theory for patents. See HARRY A. TOULMIN, JR., PATENTS AND THE ANTI-TRUST LAWS OF THE UNITED STATES 4 n.9 (1950).

42. See 1 ROBINSON, *supra* note 33, § 42, at 62. Section 112 of the Patent Act requires full disclosure of the invention before the Patent Office can issue the patent. 35 U.S.C. § 112 (1988); see also *id.* at §§ 111-122 (containing other requirements in a patent application).

43. Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792 (1952).

44. See 35 U.S.C. §§ 1-376 (1988).

45. See *id.* In the United States, a patent protects an invention from unauthorized use for 17 years. *Id.* § 154. To be eligible, the inventor must prove that he has developed a new, useful, and nonobvious product or process. *Id.* §§ 101-103. He must also provide full disclosure of the invention to the public in the issued patent. *Id.* §§ 111-122.

46. *Id.* § 261.

47. See *id.* §§ 271-281.

courts' general inability to deal with the complex technological subject matter often involved in patent cases.⁴⁸ Most of the judges did not possess technical backgrounds and approached patent cases with little enthusiasm.⁴⁹

In the mid-1970's, dissatisfaction with this predicament arose in Congress and in the Federal Judicial Center.⁵⁰ Furthermore, a crisis was emerging in the entire federal appellate system because of the sheer number of appeals that plaintiffs filed.⁵¹ Congress responded by appointing a special commission to investigate the problem.⁵² The commission found that the patent area needed special attention.⁵³ After noting the federal system's present inability to judge patent cases properly, the commission concluded that a new appellate forum with special expertise to hear patent appeals was needed.⁵⁴

48. "I cannot stop without calling attention to the extraordinary condition of the law which makes it possible for a man without any knowledge of even the rudiments of chemistry to pass upon such questions as these. . . . How long we shall continue to blunder along" *Parke-Davis & Co. v. H.K. Mulford Co.*, 189 F. 95, 115 (S.D.N.Y. 1911) (Although holding the patent for adrenalin valid, Judge Learned Hand commented that suits relating to patents and science would greatly benefit from technically educated adjudicators.). Others have stated that "[p]atent cases are the only cases argued by professionals and decided by amateurs." 1 PETER D. ROSENBERG, *PATENT LAW FUNDAMENTALS* § 2.05, at 2-8 (1990) (citing *Rohm & Haas Co. v. Dawson Chem. Co.*, 599 F.2d 685, 705 (5th Cir. 1979), *aff'd*, 448 U.S. 176 (1980)).

49. Courts often spent a considerable amount of time and money attempting to educate circuit judges with crash courses on the technical subject matter on trial. Apparently, this often did not work well; judges were known to interrupt oral arguments continually with confused inquiries. See, e.g., Pollack, *The New High-Tech Battleground*, *supra* note 2, at 1.

50. The Federal Judicial Center has the responsibility "to conduct research and study . . . the operation of the courts of the United States." Alfred P. Murrah, *Preface to REPORT OF THE STUDY GROUP ON THE CASELOAD OF THE SUPREME COURT*, reprinted in 57 F.R.D. 573 (1972).

51. The number of cases filed in district courts increased approximately 250% from 1960 to 1983. RICHARD A. POSNER, *THE FEDERAL COURTS* 63-64 (1985). The number of appeals to the federal courts of appeals increased by 686% during the same time period. *Id.* at 65. See Harold Leventhal, *A Modest Proposal for a Multi-Circuit Court of Appeals*, 24 AM. U. L. REV. 881 (1975) (arguing for a new court of appeals in light of the findings of government reports on the status of the federal judiciary).

52. See COMMISSION ON REVISION OF THE FEDERAL COURT APPELLATE SYSTEM, *STRUCTURE AND INTERNAL PROCEDURES: RECOMMENDATIONS FOR CHANGE*, reprinted in 67 F.R.D. 195 (1975) [hereinafter HRUSKA COMMISSION REPORT].

53. See Jack Q. Lever, Jr., *The New Court of Appeals for the Federal Circuit (Part I)*, 64 J. PAT. OFF. SOC'Y 178 (1982); Jack Q. Lever, Jr., *The New Court of Appeals for the Federal Circuit (Part II - Conclusion)*, 64 J. PAT. OFF. SOC'Y 243 (1982); Daniel J. Meador, *A Proposal for a New Federal Intermediate Appellate Court*, 60 J. PAT. OFF. SOC'Y 665 (1978).

54. For specific recommendations establishing the new National Court of Appeals and its operating procedures, see HRUSKA COMMISSION REPORT, *supra* note 52, at 199-204. Other congressional advisory committee reports reflected similar findings, suggesting that "appointment of more judges with technical backgrounds and adoption of a procedure that allows for assignment of technically qualified judges for those patent cases where a judge

The year 1982 was a landmark turning point in the history of the patent system.⁵⁵ Congress followed the advice of the judiciary committees and passed the Federal Courts Improvement Act of 1982,⁵⁶ which created the Court of Appeals for the Federal Circuit (CAFC).⁵⁷ The Federal Circuit's Chief Judge Markey later stated that the purpose of the new tribunal was "to create and maintain a uniform, reliable, predictable, nationally-applicable body of law in each of the many . . . fields of substantive law assigned exclusively to the court."⁵⁸ The new federal appellate court had exclusive jurisdiction over patent appeals.⁵⁹ The patent system was well on its way toward uniformity.⁶⁰

with a technical background would materially assist in expeditiously and correctly disposing of complex litigation." ADVISORY COMM. ON INDUS. INNOVATION, U.S. DEP'T OF COMMERCE, FINAL REPORT 164 (1979).

55. See Emmette F. Hale III, *The "Arising Under" Jurisdiction of the Federal Circuit: An Opportunity for Uniformity in Patent Law*, 14 FLA. ST. U. L. REV. 229, 229 (1986).

56. Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of Title 28).

57. See 28 U.S.C. § 1292(c), (d), 1295 (1988).

58. Howard T. Markey, *The Court of Appeals for the Federal Circuit: Challenge and Opportunity*, 34 AM. U. L. REV. 595, 595 (1985).

59. Section 1295 provides 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 . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights . . . or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title.

28 U.S.C. § 1295(a)(1).

Section 1338 provides:

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

Id. § 1338(a).

60. For a discussion of suggestions on how better to achieve the "uniformity" sought in the creation the Federal Circuit, see Hale, *supra* note 55, at 230. See also Charles A. Wendel, *Things You Must Know About the New Court of Appeals for the Federal Circuit*, 1983 PATENT LAW ANNUAL 177, 177 (1983).

[The court] is perceived . . . as a way of bringing a greater degree of certainty to the patent law and of eliminating the games associated with the forum shopping that is so often the case in patent litigation.

. . . Another nickname for the court is 'Kafka' and all that portends: Are we to see a metamorphosis; are we to see a Kafkaesque approach to the consideration of patent matters before this new court?

Id. At least one commentator, however, has been disappointed with the inconsistent holdings in appeals to the Federal Circuit:

[P]erhaps the most significant development in the law of patents since 1986 has been the confirmation in significant degree that there is no Federal Circuit law of Patents. Each case tends to be decided on its own facts in view of "the

Emerging Pro-Patent Enforcement Trends

In attempting to achieve consistency and uniformity, the courts, led by the CAFC,⁶¹ have given new strength to the patent system.⁶² The Federal Circuit is effectively the court of last resort for patent appeals because very few patent cases reach the Supreme Court.⁶³ The CAFC thus exercises a large degree of control over the patent system.

In assuming control, the court bolstered the validity of patents, forcing infringers and potential infringers to weigh their actions.⁶⁴ The CAFC treated frivolous conduct seriously and did not hesitate to impose damages or attorney's fees.⁶⁵

Originally, patents existed to shield inventors against infringing competition.⁶⁶ Unfortunately, the uniformity that the creators of the CAFC originally sought actually transformed the strongest

totality of the circumstances" whereby it does not have to be, and very often is not, consistent with prior Federal Circuit writings.

Tom Arnold, *Recent Developments in Patent Law*, 1988 PATENT LAW ANNUAL 1-1, 1-4. [N]othing the Federal Circuit writes seems binding upon the Court. . . . The only way to get a reliable answer is to litigate a case to the Federal Circuit so the court can pronounce its current interpretation of the "totality of the circumstances."

It's a tough problem for the court given the differences in personality, philosophy and perception of the judges and the complications of patent law issues. I am sympathetic with the judges who battle this problem.

Id. at 1-8.

61. "This court has been actively pro-patent; issued patents are treated as born valid, and infringement is a serious trespass. Lost profits, not lost royalty income, is now considered the true measure of damages, and when infringement is deemed willful, damages may be trebled. Big numbers are being seen." *Time to Take Patents Seriously*, INSIDE R & D, Oct. 10, 1990, at 3.

62. The CAFC decided 100 cases in its first 100 days of existence. The court's Chief Judge Markey became known for his "no-nonsense" philosophy in dealing with frivolous suits. See Wendel, *supra* note 60, at 185.

63. See *id.*

64. See Martin J. Adelman, *The New World of Patents Created by the Court of Appeals for the Federal Circuit*, 20 U. MICH. J.L. REF. 979, 987 (1987).

65. Wendel, *supra* note 60, at 185.

66. Some commentators have criticized the pro-patent trend because the wrong reasons may have prompted it:

Both government and private industry have expressed growing concern over increased competition from abroad and declining growth and productivity at home. . . . [I]t is no surprise that policymakers have become increasingly interested in strengthening the patent system.

. . . [T]he Federal Circuit . . . may actually be weakening it by rewarding inventions that are commercially successful but that represent relatively minor technological advances.

Merges, *supra* note 31, at 805-06.

protective aspects of the patent system into weapons for offensive use against legitimate corporate competition.

HIGH-TECH PREDATORY LITIGATION

Large high-tech corporations have increased efforts to enforce their patents, forcing their competitors into the courts. The resulting spate of litigation in federal court reveals more aggressive and anticompetitive reasons for bringing infringement actions.⁶⁷ The mere defense of a patent and challenge of an allegedly infringing device are no longer exclusive motivations. Corporations have always held on to their patents to yield a continuous supply of income; however, firms recently have realized that huge damage awards in patent infringement suits can conveniently boost the trickle of royalties.⁶⁸ Corporations have also discovered that patent infringement suits can attack and intimidate corporate competitors.⁶⁹ The litigation itself can force competitors to pay higher royalties or even drive them out of the market completely.

The Revenue Factor: The Newly Discovered Vein

Many large high-technology patent owners are bringing patent infringement suits with renewed vigor in order to cash in on a new source of revenue. A select few corporations set the precedent by successfully obtaining huge royalty awards—often totaling more than the corporation's entire annual market revenue.⁷⁰ The trend-setters returned to the federal courts repeatedly after realizing the economic value of their efforts. These companies discovered that patent infringement suits were an underutilized source of revenue. A frightening new rationale surfaced: "If you have good patents, litigation is a better way of making money than selling products."⁷¹ The blitz continues.⁷²

67. See, e.g., Jane Applegate, *Refac Chastised as Judge Rejects LCD Patent Suit*, L.A. TIMES, Oct. 11, 1990, at D2; Pollack, *The New High-Tech Battleground*, *supra* note 2, at 1; Martin Zimmerman, *High-Tech Firms Pull in Reins on Patents*, CHI. TRIB., Oct. 14, 1990, at 11B.

68. See Pollack, *The New High-Tech Battleground*, *supra* note 2, at 1.

69. See *id.*

70. See *id.*; see also Patricia A. Martone, *Damages in Patent Cases are Redefined as Courts Weigh Market Concepts*, NAT'L L.J., Oct. 7, 1991, at 26 (discussing the new strength of patents and the increase in successful litigation in the CAFC).

71. See Pollack, *The New High-Tech Battleground*, *supra* note 2, at 3 (quoting Ronald Laurie, a San Francisco computer attorney).

72. Some licensing and technology corporations could be called the "ambulance chasers"

Effects of the New Trend

The new infringement litigation takes improper advantage of the recently reinforced patent system. The policy motivations underlying the system indicate how critical it is to the future of the nation; the system's integrity simply cannot be compromised.⁷³ In light of the traditional rationales for patents,⁷⁴ a large quantity of litigation poses a serious threat to future innovation and the future dependability of the U.S. patent system. Although Congress designed the patent system to encourage competition as well as to encourage innovation,⁷⁵ using the courts as the primary battlefield for corporate aggression frustrates fair competition between commercial adversaries.

The most serious effect of patent infringement litigation is that the overriding threats of litigation and large damage awards seriously restrict research and innovation. The danger especially threatens smaller firms: forced payments of higher royalties or costly judgments to large corporations will seriously handicap the research efforts of smaller high-tech manufacturing and development corporations.⁷⁶ Time, funding, and brain power will unnecessarily be diverted to the litigation or prevention-of-litigation effort.⁷⁷

The problem of misdirecting resources toward litigation is equally harmful when viewed from the perspective of the corporate ag-

of the new trend. They purchase enough assets of a patent-owning company to meet the "substantial interest" requirement for standing to bring an infringement suit and claim royalty damages. See, e.g., Applegate, *supra* note 67, at D2; see also *infra* notes 145-52 and accompanying text.

73. In 1943, Congress' National Patent Planning Commission realized that danger: "The American patent system . . . is the only provision of the Government for the promotion of invention and discovery and is the basis upon which our entire industrial civilization rests." U.S. NATIONAL PATENT PLANNING COMM'N, THE AMERICAN PATENT SYSTEM, H.R. DOC. NO. 239, 78th Cong., 1st Sess. 1 (1943).

74. See *supra* notes 15-42 and accompanying text.

75. The intention of patent law is to invite inventors to compete against each other in a race for discovery. See *Potts v. Coe*, 145 F.2d 27, 31 (D.C. Cir. 1944). The system encourages employers, companies, and financial supporters to compete with individual inventors. Then and now, this competition stimulates the development of new and better products.

76. "While large companies can escape huge royalty payments or crippling lawsuits by offering their own patent portfolios in trade, smaller companies often have little choice but to pay up." Fisher, *supra* note 2, at 32 (describing how smaller companies are banding together to fight "predatory lawsuits" by larger corporations).

77. Inventors often get ideas from other inventions. The fear of imminent litigation will inevitably distract the inventor by requiring him to worry constantly about infringement suits. Although inventors should pay heed to the *possibility* of infringement, the new trend unreasonably accentuates this possibility. This accentuated possibility could extinguish certain "sparks" in the inventor's thought processes, thus discouraging the very innovation the patent system is intended to encourage.

gressor. As a larger corporation spends more of its time and money on litigation and harassment, it may make itself more vulnerable to stronger competition. The psychology of a large corporate entity may differ from a successful individual; the temptation to rest on its laurels might become dangerously convincing. Once the firm sees that it can earn substantial revenue from infringement suits, the firm may be tempted to devote more time to those efforts.

The high royalties, damage awards, and intimidation that result will promote monopolies consisting of those corporations with the most resources with which to litigate. Smaller firms with products that constitute questionable infringement cases will find it difficult to risk litigation against growing high-tech litigation powerhouses. They will in turn pay higher royalties. As one president of a high-tech plaintiff corporation wrote: "It only makes sense to use the cost of litigation as a bargaining leverage to force a settlement on terms favorable to the party that can litigate the matter to death without worrying about the cash flow."⁷⁸ In essence, these corporations engage in nothing less than legal extortion.

THE CONFLICTING RATIONALES BETWEEN ANTITRUST LAW AND THE PATENT SYSTEM

Corporate use of patents to hinder competition from other firms seemingly should trigger the federal antitrust laws.⁷⁹ The relationship between patent and antitrust law, however, is not so simple.

Recalling the Purpose of the Antitrust Laws

Congress originally enacted antitrust legislation nearly a century ago.⁸⁰ The laws targeted monopolies that then threatened the

78. *Refac Int'l, Inc. v. IBM*, 710 F. Supp. 569, 571 (D.N.J. 1989) (quoting Phillip Sperber, *Overlooked Negotiating Tools*, LES NOUVELLES, June, 1985, at 81).

79. See *infra* notes 96-141 and accompanying text (discussing applicability of antitrust statutes to predatory suits).

80. Congress passed the Sherman Act, 26 Stat. 209 (codified as amended at 15 U.S.C. §§ 1-7 (1988)), in 1890 using broad language to prevent "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States." 15 U.S.C. § 1. The Sherman Act focuses on acts or conspiracies that are actual restraints on free trade. See JERROLD G. VANCISE, *THE FEDERAL ANTITRUST LAWS*, 11 (4th ed. 1982). Congress subsequently passed the Clayton Act, 38 Stat. 730 (codified as amended at 15 U.S.C. §§ 12-14, 19-21, 22-27), which prohibited certain behavior that resulted in a restraint of trade or competition, and the Robinson-Patman Act, 49 Stat. 1526 (codified as amended at 15 U.S.C. §§ 13-13b, 21a), which specifically prohibited predatory pricing behavior. See generally, VANCISE, *supra*, at 5-18; HEINRICH KRONSTEIN ET AL., *MAJOR AMERICAN ANTITRUST LAWS* xv-xix (1965).

economy and were considered a major hindrance to the public's free access to consumer goods.⁸¹

The antitrust laws were premised on furthering Congress' ideal view of free competition.⁸² The courts confirmed this policy while delineating the proper standards of competitive conduct.⁸³ The emphasis that eventually emerged stressed a broader approach: Courts generally aim to further economic efficiency rather than focus specifically on a competitive market structure.⁸⁴ "Economic efficiency" notions in an antitrust law context are best defined as an absence of a net harm to society from anticompetitive behavior and other factors.⁸⁵ The resulting rationale is the same, however:

81. See FREDERICK M. SCHERER, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE* 441 (2d ed. 1980).

82. The legislative history and text of the major antitrust laws reflect this rationale. The 1890 bill that evolved into the Sherman Act stated that its purpose was to "declare unlawful trust and combinations . . . made with a view, or which tend to prevent full and free competition." 21 CONG. REC. 1765 (1890). The Robinson-Patman Act stated a similar rationale, prohibiting price discrimination to the extent that the "effect of such discrimination may be substantially to lessen competition or tend to create a monopoly . . . or to injure, destroy, or prevent competition." 15 U.S.C. § 13(a).

83. See, e.g., *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 428 (2d Cir. 1945) ("the vice of . . . monopoly . . . is the denial to commerce of the . . . protection of competition").

84. I PHILLIP AREEDA & DONALD F. TURNER, *ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION* 9-12 (1978). Some authors who promote this view and refuse to isolate competition as a single antitrust goal point out the dangers of focusing too narrowly on competition:

Even if perfect and all pervasive, competition cannot solve all economic and social problems, and may indeed exacerbate some of them. . . . It cannot solve the ills of depression and inflation. Moreover, competition is a harsh way of life and breeds insecurities. It punishes not only the inefficient but also the unlucky. New techniques and new products may sweep out of existence whole industries whose human and capital resources cannot readily move to other income-earning pursuits. For many, efficiency has come to be understood as minimizing costs in the "sweat-shop" sense, and as compelling competition even when "unsuitable."

Id. at 8.

85. For a thorough discussion of the traditional framework of patent and antitrust law coexistence, see Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1815 (1984). Professor Kaplow claimed this definition of economic efficiency is the basis for the harmonious existence of the patent and antitrust laws. Professor Kaplow analyzed anticompetitive behavior by balancing the harms caused to society by the antitrust defendant's behavior with the profit the defendant realized. "It is not surprising that this issue has been neglected, because antitrust intervention is predicated upon the mere existence of a net harm to society." *Id.* at 1821 (emphasis added). Judge Posner also noted this broad approach in *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 266 (7th Cir. 1984) ("The purpose of the antitrust laws as it is understood in the modern cases is to preserve the health of the competitive process—which means . . . to discourage practices that make it hard for consumers to buy at competitive prices—rather than to promote the welfare of particular competitors."), *cert. denied*, 472 U.S. 1018 (1985).

Any major restraints on competition that induce net harm must be alleviated to reach antitrust efficiency goals.

The Intersection Between Patent Law and Antitrust Law

In the past, courts have realized the apparent conflict between patent law and the antitrust statutes.⁸⁶ Although courts traditionally characterized patents as "legal monopolies,"⁸⁷ they presently interpret the patent and antitrust statutes as employing two different meanings of the term "monopoly."⁸⁸

A patentee may exercise only strictly limited rights related to his patents. These exclusive rights, delineated in a cursory fashion by the patent statute,⁸⁹ have not been expanded by the courts to include suppression of competition.⁹⁰ Because the object of both the patent statute and antitrust statutes is to promote healthy competition—especially among technological entrepreneurs—the tension between them is illusory.⁹¹

86. In an early case, the United States Supreme Court stated:

It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented. The patent law simply protects him in the monopoly of that which he has invented and has described in the claims of his patent.

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 510 (1917) (citations omitted). This demonstrates the Court's intention to allow patents to circumscribe the antitrust laws.

87. Modern courts have abandoned this characterization. *See, e.g.*, *Jamesbury Corp. v. Litton Indus. Prods., Inc.*, 756 F.2d 1556, 1559 (Fed. Cir. 1985) (stating that the term "monopoly" should be avoided when referring to patents); *Schenck v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983) (stating that it is an "obfuscation to . . . describe a patent as 'an exception to the general rule against monopolies'" (quoting brief for Nortron)).

88. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491 (1942) (stating that a patent grants only a monopoly for making, using, or selling the invention described in the patent; the inventor cannot extend the monopoly to suppress competition).

89. 35 U.S.C. § 271(a) (1988) states that a patentee has the exclusive right to "make, use or sell" the patented invention. *See Crown Co. v. Nye Tool Works*, 261 U.S. 24, 35 (1923) (explaining that the right to make, use, or vend is a common law right not dependent on statute, but the *exclusive* right is a statutory right).

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

91. "Because the underlying goal of the antitrust laws is to increase competition, the patent and antitrust laws are complementary." *See* 8 LIPSCOMB, *supra* note 15, at 194; *see also Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging . . . competition."); *cf. Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 266 (7th Cir. 1984), *cert. denied*, 472 U.S. 1018 (1985) (distinguishing between the monopoly granted by a valid patent and the antitrust liability incurred by a monopoly improperly created by an invalid patent).

Conflicts between patent and antitrust law occur when one reaches the nebulous fringes of the court-defined scope of statutory patent rights. Rights under a particular patent can become powerful enough economically to raise serious antitrust concerns as the demand for the patented product increases or the significance of its competition decreases.⁹² The difficulty lies in the formulation of the proper boundary between legitimate and illegitimate patentee behavior.⁹³

Of course, if a patent is not strong enough to dominate a market, certain uses of the patent still may clash with antitrust principles. These uses include procurement fraud⁹⁴ and patent misuse.⁹⁵

Defining Predatory Patent Infringement Litigation as Anticompetitive Behavior Under the Sherman Act

The rationale behind patent law was to encourage invention by promoting the "useful Arts" through a grant of a limited patent

92. See *Atari*, 897 F.2d at 1576. The court warned that dangerous antitrust situations may arise

when the patented product is so successful that it creates its own economic market or consumes a large section of an existing market. . . . [A] patent owner may not take the property right granted by a patent and use it to extend his power . . . beyond the limits of what Congress intended to give in the patent laws.

Id.

93. "There may on occasion exist, therefore, a fine line between actions protecting the legitimate interests of a patent owner and antitrust law violations." *Id.* Professor Kaplow analyzed the patent-antitrust problem in light of two extremes:

1. *Antitrust laws reign supreme*: A patentee's practice is deemed illegal if it violates any aspect of antitrust law; no privilege is accorded to patentees.
2. *Patent statute reigns supreme*: The antitrust laws cannot render the patentee's practice illegal; the patentee has an absolute privilege to violate the antitrust laws.

Kaplow, *supra* note 85, at 1818 (citations omitted). For purposes of this Note, the first extreme is the standard for all practices exceeding the bounds of the patent statute.

Other authors consider the antitrust problem to be the result of an ambiguous definition of "competition": "Antitrust aims at preserving competition as an instrument for creating economic efficiency. Yet . . . competition cannot be defined as the state of maximum rivalry, for that is a formula of disintegration. Today's cooperation creates both today's benefits and tomorrow's competition." Frank H. Easterbrook, *The Limits of Antitrust*, 63 TEX. L. REV. 1, 13 (1984).

94. Procurement fraud refers to any dishonesty, impropriety, or otherwise inequitable conduct during the patent application process for obtaining a patent. See, e.g., *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559-62 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985). A patent issued under these circumstances is invalid, and any subsequent monopoly power held by the patentee may violate the antitrust laws. Action may be taken under § 2 of the Sherman Act or under the FTC Act. See, e.g., *Litton Indus. Prods., Inc. v. Solid State Sys. Corp.*, 755 F.2d 158, 166-67 (Fed. Cir. 1985); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984).

95. See *infra* notes 156-59 and accompanying text for a brief discussion of the misuse doctrine.

monopoly.⁹⁶ Because the limited monopoly under the patent statute includes the right to make, use, or sell the patented invention, any additional monopoly rights not judicially allowed would fall outside of the patent grant and into the realm of antitrust. Patent infringement suits initiated for the purpose of eliminating competition or extending the patent monopoly are therefore perfect candidates for an antitrust counterclaim or defense by a wrongfully accused infringement defendant.

To prove an illegal attempt to monopolize under § 2 of the Sherman Act,⁹⁷ an antitrust plaintiff must show: "(1) a specific intent to monopolize and (2) a dangerous probability that the attempt would be successful in achieving a monopoly in the relevant market."⁹⁸ If a high-tech corporate patent holder initiates infringement suits simply to eliminate or hinder competition—regardless of the validity of his infringement claims—the first criterion is met. The relatively small number of major high-tech electronics manufacturers could easily entangle smaller firms in litigation and drive them to settle unreasonably or to retreat from the market.⁹⁹ A more specific application of these criteria follows in the next section.

DEFINING A SCHEME OF ANTITRUST-VIOLATIVE INFRINGEMENT SUITS

Handgards and Bad-Faith Litigation

In 1979, the Court of Appeals for the Ninth Circuit outlined a strong antitrust solution to predatory patent infringement litigation in *Handgards, Inc. v. Ethicon, Inc.*¹⁰⁰ In the *Handgards* cases, the plaintiff, a manufacturer of plastic gloves, filed an antitrust action against Ethicon for pursuing and maintaining bad-faith patent infringement suits against Handgards.¹⁰¹ Ethicon had filed

96. See *supra* notes 15-32, 43-47 and accompanying text.

97. 15 U.S.C. §§ 1-7 (1988).

98. *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985).

99. This litigious activity "contribute[s] nothing to the furtherance of the policies of either the patent law or the antitrust law." See *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993 (Fed. Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) (*Handgards I*), discussed *infra* notes 101-12 and accompanying text. "Subjecting a potential or actual rival to such burdens may weaken him or even dissuade him from beginning or continuing the rivalry with the monopolist patentee—and perhaps without regard to the merits of the infringement claim." III AREEDA & TURNER, *supra* note 84, at 145.

100. 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985) (*Handgards II*).

101. *Id.* at 1285.

patent infringement suits against Handgards for more than twenty years.¹⁰² Handgards answered Ethicon's attempt at eliminating them as competitors, threatening treble antitrust damages.¹⁰³

In *Handgards I*, the Ninth Circuit held that bringing "a series of ill-founded patent infringement actions, in bad faith, can constitute an antitrust violation in and of itself *if* such suits are initiated or pursued with an intent to monopolize a particular industry (and, of course, the other elements of a Section 2 violation are present)."¹⁰⁴ Most previous patent-antitrust suits involved patent infringement litigation of patents that were known by the patentee to be invalid.¹⁰⁵ In *Handgards I*, the court was faced with the question of whether an antitrust violation is possible in the absence of a fraudulently procured patent or some other "ill-founded" fraud.¹⁰⁶

First the court addressed troubling language in the Supreme Court's opinion in *Walker Process Equipment, Inc. v. Food Machine & Chemical Corp.*¹⁰⁷ In addition to designating a rigorous standard for finding patent fraud,¹⁰⁸ the Court in *Walker* strongly advised judicial caution.¹⁰⁹ Courts were required to exercise care to "prevent frustration of patent law by the long reach of antitrust law."¹¹⁰ Antitrust liability based on actions short of intentional fraud could chill legitimate enforcement efforts and would directly challenge *Walker*.¹¹¹ In *Handgards I*, the jury eventually found

102. *Id.*; see, e.g., *Handgards, Inc. v. Ethicon, Inc.*, 552 F. Supp. 820 (N.D. Cal. 1982) (*Handgards II* lower court opinion), *aff'd*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985); *Handgards I*, 601 F.2d 986; *Ethicon, Inc. v. Handgards, Inc.* 432 F.2d 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971).

103. *Handgards II*, 743 F.2d at 1285.

104. *Handgards I*, 601 F.2d at 990 (citing *Handgards, Inc. v. Johnson & Johnson*, 413 F. Supp. 921, 923-25 (N.D. Cal. 1975)).

105. The act of initiating a suit based on an invalid patent amounts to a monopoly of an invention that the alleged patent owner did not rightfully receive from the Patent Office. Antitrust liability follows for an attempted monopoly by fraudulent procurement. See *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1945).

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

107. 382 U.S. 172 (1965).

108. [T]he jury should be instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence. Such an instruction accords the patentee a presumption commensurate with the statutory presumption of patent validity set forth in the patent laws

Handgards I, 601 F.2d at 996 (citations omitted) (explaining the standard for patent fraud in *Walker*).

109. *Id.*

110. *Id.*

111. *Id.*

clear and convincing evidence that the prolonged infringement suits by Ethicon were indeed based on an invalid patent.¹¹²

The court in *Handgards II* held that to establish § 2 antitrust liability, the plaintiff had to prove "(1) by clear and convincing evidence that [the patentee] prosecuted the patent suit in bad faith; (2) that [the patentee] had a specific intent to monopolize the relevant market; and (3) that a dangerous probability of success existed."¹¹³ After a meticulous inquiry into the facts behind the procurement of the patent, the court found bad-faith prosecution of the infringement suit.¹¹⁴ In doing so, the appellate court was satisfied that the jury overcame the presumption that the plaintiff initiated suit in good faith.¹¹⁵

In *Handgards II*, the court stated that the second criteria in its test was necessary in order to define the scope of possible antitrust conduct.¹¹⁶ Although the court noted that "[t]he requisite intent to monopolize in this case could be inferred from the finding of bad faith,"¹¹⁷ it found damaging evidence of such intent in a letter to the accused infringer. The letter threatened infringement suits against any glove manufacturer manufacturing a similar product.¹¹⁸ The evidence of intent was clearly bolstered by the bad-faith claim,¹¹⁹ and the court left open the possibility that other evidence also could reveal intent to create a monopoly.

Finally, the Ninth Circuit emphasized that the third criteria does not require an actual exclusion from the market.¹²⁰ To find a dangerous probability of success, the jury may infer "either (1) from direct evidence of specific intent plus proof of conduct directed to accomplishing the unlawful design, or (2) from evidence of conduct alone, provided the conduct is also the sort from which specific intent can be inferred."¹²¹ Direct proof of market power is also indicative of intent.¹²² The court affirmed the jury's finding of a real danger because the evidence showed that Ethicon dom-

112. *Id.* at 991.

113. *Handgards II*, 743 F.2d at 1288 (citation omitted).

114. *Id.*

115. *Id.* at 1290-91.

116. *Id.* at 1293.

117. *Id.* (citing *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993 n.13 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980)).

118. *Id.* at 1293 n.14.

119. *Id.* at 1293.

120. *Id.* at 1293-94.

121. *Id.* at 1294 (citing *William Inglis & Sons Baking Co. v. ITT Continental Baking Co.*, 668 F.2d 1014, 1029 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982)).

122. *Id.*

inated at least ninety percent of the specific glove market.¹²³

Kobe and an Overall Scheme to Monopolize

*Kobe, Inc. v. Dempsey Pump Co.*¹²⁴ first applied antitrust principles to a patent infringement suit concerning a *valid* patent. The plaintiffs, Kobe, Inc. initially sued Dempsey Pump Co. for infringement of five of their patents.¹²⁵ Although the district court found one of the patents valid and infringed, the court found for the defendants on their antitrust counterclaim.¹²⁶ As a result, Kobe was denied recovery for the infringement of their patents and held liable for damages to Dempsey Pump for their anticompetitive behavior under the Sherman Act.¹²⁷

The court in *Kobe* first identified and chastised predatory litigation through a description of the plaintiff Kobe's monopolizing behavior. Several years before commencing their infringement suit against Dempsey Pump, Kobe, a manufacturer of an oil field pump,¹²⁸ began collecting and accumulating patents from competitors and explicitly kept an eye towards monopolizing the entire industry.¹²⁹ Kobe's patent counsel regularly monitored patents issuing from the Patent and Trademark office for inventions that could threaten their prospering business.¹³⁰ For twelve years, Kobe dominated the oil pump industry and collected over seventy patents.¹³¹ Kobe manufactured only a single type of pump during this time period.

The Dempsey Pump Company threatened Kobe's control of the pump market when it introduced its new hydraulic oil pump.¹³²

123. *Id.*

124. 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952).

125. *Id.* at 418.

126. *Id.*

127. *Id.*

128. The plaintiff Kobe was actually a newer corporation that acquired all of the assets of another pump manufacturer pursuant to a reorganization agreement. The case refers to the older company as "Old Kobe" and the newer corporation as "Kobe." *See id.* at 418-21. Because essentially the same personnel controlled the marketing and manufacture of the pumps in both corporations, both will be referred to simply as "Kobe" to simplify the present discussion.

129. Kobe entered into an agreement with a financially burdened competitor to consolidate their pump patents into a pool. *Id.* at 419. "The agreement provided that the purpose of the pool was to acquire patents relating to hydraulic pumps and to do everything reasonably within its power to 'build up and maintain its patent monopoly.'" *Id.* at 420 (quoting agreement). The two manufacturers created a corporation to hold the pool, and Kobe eventually became the sole licensee of the patents held by the corporation. *Id.*

130. *Id.*

131. In 1948, Kobe had annual sales of over \$4,000,000. *Id.*

132. *Id.* at 421.

The Dempsey pump was introduced at several trade shows, and many of Kobe's customers showed interest in the new pump. Kobe soon sent letters to its customers that the Dempsey pump was probably infringing some of Kobe's patents, and implied threats that buyers of the new Dempsey pump might be involved.¹³³ Kobe proceeded to file an infringement suit without concrete knowledge that Dempsey had actually infringed.

The court emphasized several factors indicating Kobe's intent to create a monopoly. The company hoarded patents—many of which had expired—and displayed them prominently in its customer catalogues.¹³⁴ Kobe also threatened both its customers and Dempsey with infringement suits if they did not remain loyal to the Kobe pump.¹³⁵ The court stated that

[t]he facts . . . are sufficient to support a finding that although Kobe believed some of its patents were infringed, the real purpose of the infringement action and the incidental activities of Kobe's representatives was to further the existing monopoly and to eliminate Dempsey as a competitor. The infringement action and the related activities, of course, in themselves were not unlawful, and standing alone would not be sufficient to sustain a claim for damages which they may have caused, but when considered with the entire monopolistic scheme which preceded them we think . . . that they may be considered as having been done to give effect to the unlawful scheme.¹³⁶

The court deemphasized the Sherman Act requirement of a serious threat or power to obtain a monopoly¹³⁷ because Kobe could not realistically acquire a true monopoly.¹³⁸ The decision focused on the plaintiff's domination of the market and its *intent* to continue to do so.

133. *Id.* at 424.

134. *Id.*

135. *Id.*

136. *Id.* at 425. The court continued:

"It is not the form of the combination or the particular means used but the result to be achieved that the statute condemns. It is not of importance whether the means used to accomplish the unlawful objective are in themselves lawful or unlawful. Acts done to give effect to the conspiracy may be in themselves wholly innocent acts. Yet, if they are part of the sum of the acts which are relied upon to effectuate the conspiracy which the statute forbids, they come within its prohibition."

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

137. See *supra* notes 120-23 and accompanying text.

138. Most of Kobe's foundational patents for its pump had expired. *Kobe*, 198 F.2d at 424. Kobe made this argument in its own defense.

The court in *Kobe* awarded antitrust damages to Dempsey Pump and denied the plaintiff's damages even though Dempsey had indeed infringed one of the disputed patents:

To hold that there was no liability for damages caused by this conduct, though 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.¹³⁹

These activities were indirect uses of predatory litigation and market-cornering similar to the alleged controversial practices of high-tech corporations such as Texas Instruments and Refac International today.¹⁴⁰

The infringement litigation problem that presently pervades the industry fits easily into the mold formed by the *Handgards* and *Kobe* cases.¹⁴¹

Indicators of an Antitrust-Violative Patent Infringement Suit

Courts obviously disfavor patent infringement suits designed to intimidate or reduce competition.¹⁴² The *Handgards-Kobe* doctrine

139. *Id.*

140. See *supra* notes 6-10, 67-78 and accompanying text.

141. The CAFC addressed the above principles in *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572 (Fed. Cir. 1990). The court eloquently described the problems facing corporate competitors:

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 use the patent to violate antitrust laws.

Id. at 1576-77 (citation omitted). The court declined to award a preliminary injunction based on this argument because it was concerned with "[t]he danger of disturbing the complementary balance struck by Congress . . . when a court is asked to preliminarily enjoin conduct affecting patent and antitrust rights." *Id.* at 1577. The court believed that a preliminary injunction was too extraordinary a judgment for this kind of case. *Id.*

142. See *supra* notes 100-41 and accompanying text (discussing the *Handgards* cases and *Kobe*). In fact, some courts have taken note of this trend and have sanctioned certain corporations that engage in predatory infringement suits heavily. A notorious corporation that was the recipient of such sanctions is Refac International. See, e.g., *Refac Int'l, Ltd. v. Hitachi Ltd.*, 921 F.2d 1247 (Fed. Cir. 1990). In 1990, Refac lost a suit it filed against 118 defendants for infringement of licensed liquid-crystal display (LCD) technology. The CAFC questioned the motives of the licensing and technology transfer company. After sanctioning

best summarizes the antitrust liability resulting from these actions: patent infringement suits used for the elimination of competition and the unlawful extension of the patent monopoly—regardless of whether the suit is brought in bad-faith—are subject to antitrust liability under the Sherman Act. If a good-faith infringement suit is brought to hinder competition, the surplus “bad-faith” requirement of basic § 2 analysis is unnecessary.¹⁴³ An antitrust plaintiff need only prove (1) specific intent to monopolize the relevant market and (2) dangerous probability of success within the relevant market.¹⁴⁴

The litigation history of the plaintiff is valuable in determining antitrust liability. A long list of former infringement suits for royalties against direct competitors or smaller competitors could reveal abuse of the patent system and the court system.

Intimidating suits are often filed by licensing firms seeking royalties on patents which they partly own but have little interest in protecting as innovators. Refac International again provides a superb example of this practice.¹⁴⁵ In *Refac International Ltd. v. Lotus Development Corp.*,¹⁴⁶ Refac sued several software development companies for infringement of a software process patent. In that case, FRS, a Canadian company, owned the patent.¹⁴⁷ In order for FRS to avoid being named in the suit, FRS entered into an agreement with Refac to litigate on its behalf.¹⁴⁸ FRS assigned Refac a five-percent interest in the patent in exchange for its obligation to litigate.¹⁴⁹ The district court found the agreement violated New York’s champerty statute, which prohibits assign-

Refac heavily, the court remanded the case for a frivolousness determination under FED. R. CIV. P. 11. *Id.* at 1257. On remand, the district court found Refac’s actions frivolous because Refac did not make any investigation into whether any of the defendants’ products actually violated one of its patents. *Refac Int’l, Ltd. v. Hitachi Ltd.*, 19 U.S.P.Q.2d 1855, 1858, 1991 U.S. Dist. LEXIS 15890, *3 (C.D. Cal. 1991). The corporation was too eager to earn from its newly acquired valuable patents. The *Refac* decision may provide the impetus for corporations to end frivolous litigation in the patent area.

143. See *Kobe v. Dempsey Pump Co.*, 198 F.2d 416, 424-25 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952).

144. See *supra* notes 113, 137-38 and accompanying text.

145. See *supra* note 142 and accompanying text for a discussion of other predatory litigation activity by Refac International.

146. 131 F.R.D. 56 (S.D.N.Y. 1990).

147. *Id.* at 57.

148. The agreement stated that its purpose was “[t]o facilitate suit in REFAC’s name as plaintiff and to avoid the need for having [FRS] named or brought into the suit as a co-plaintiff.” *Id.* at 58 (quoting agreement at § 16).

149. *Id.* at 57.

ments of interest solely for the purpose of litigation.¹⁵⁰ The court stated that "[b]ecause REFAC is a 5% owner of the patent in question simply for the purpose of pursuing litigation on FRS's behalf, REFAC's agreement with FRS is nothing but a hunting license."¹⁵¹ The district court ordered the suit dismissed with prejudice unless FRS agreed to join the suit voluntarily.¹⁵² The *Refac v. Lotus* decision may indicate a heightened judicial awareness of overlitigious corporations in the patent area.

Additional characteristics may be strongly indicative of intent to monopolize: A large number of defendants signals that the suit may have been brought haphazardly with profit and intimidation as a major motive; overbroad claims of infringement without specifying the infringing devices also indicate unacceptable motives. In general, any indication that an infringement suit plaintiff is less than sincere about his belief that the defendant is actually infringing should make a court take notice.¹⁵³ Both the *Handgards* cases and *Kobe* involved plaintiffs who filed suits without full knowledge of the defendant's allegedly infringing behavior. Courts may also rule such infringement suits frivolous under Rule 11 in similar situations.¹⁵⁴

The corporate nature of the plaintiff is strong evidence of the probability of a successful monopoly. High-tech corporations that own many patents or seem to hoard them are naturally more "suspect" than individual inventors because they have a larger arsenal of useful patents and the resources with which to litigate.¹⁵⁵ A surface inquiry into a company's major sources of revenue or a large litigation award record may uncover suspicious activity if a disproportionately large amount of revenue resulted from litigious behavior. Rather than prejudicing or biasing the plaintiff, these findings should simply trigger further inquiry into the motivation behind the suit.

150. The statute provides that

"no corporation or association, directly or indirectly, itself or by or through its officers, agents or employees, shall solicit, buy or take an assignment of, or be in any manner interested in buying or taking an assignment of . . . any claim or demand, with the intent and for the purpose of bringing an action or proceeding thereon"

Id. at 58 (quoting N.Y. JUD. LAW § 489 (Consol. 1983)).

151. *Id.*

152. *Id.*

153. See *supra* note 78 and accompanying text for an example of a nonsincere motive.

154. See *Refac Int'l, Ltd. v. Hitachi Ltd.*, 921 F.2d 1247, 1256-57 (Fed. Cir. 1990).

155. Individual inventors, however, might share the purpose of intimidation in filing a suit.

The Patent Misuse Doctrine and a Model Statutory Solution

If the plaintiff in a patent infringement action abuses his patent rights by extending them beyond their lawful scope, the patent misuse doctrine offers a defense to the infringement.¹⁵⁶ The doctrine is based on public policy and essentially prevents any party with "unclean hands" from recovering damages in a patent infringement suit, even when the patent is truly infringed.¹⁵⁷ Anti-trust violations, therefore, are usually deemed misuse when a patent is used unlawfully to suppress competition.¹⁵⁸

The only statutory reference to misuse appears in § 271(d) of the Patent Act. It limits the doctrine of misuse by excluding certain kinds of behavior. The relevant portion of the statute states:

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.¹⁵⁹

Subsection (d)(5) is a recent addition to the statute which outlines anticompetitive behavior more explicitly and recognizes that the

156. See *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648 (D.S.C. 1977), *aff'd in part and rev'd in part*, 594 F.2d 979 (4th Cir. 1979). See generally, 5 CHISUM, *supra* note 35, at 19-91 to 19-120.

157. [T]he public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which is contrary to public policy to grant. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942).

158. See, e.g., *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952); *Galion Metallic Vault Co. v. Edward G. Budd Mfg. Co.*, 169 F.2d 72 (3d Cir.), *cert. denied*, 335 U.S. 859 (1948).

159. 35 U.S.C.A. § 271(d) (1988 & West Supp. 1991). Subparts (4) and (5) were amended to this section as the Patent Misuse Reform Act of 1988, Pub. L. No. 100-73, 102 Stat. 4674 (codified as amended at 35 U.S.C.A. § 271(d) (1988 & West Supp. 1991)).

courts must delineate the degree of anticompetitive effect before finding misuse.¹⁶⁰

The remaining portion of § 271(d) does not expressly indicate factors to consider when a court is determining whether plaintiff activity circumscribes misuse. Predatory litigation under the *Kobe* doctrine appears to fall into the exception in subsection (d)(3) as an "enforce[ment of] patent rights against infringement."¹⁶¹ The few courts that have addressed this provision seem to dismiss it as an authorization for contributory infringement suits.¹⁶² Subsection (d)(3), enacted almost forty years ago,¹⁶³ should be updated and modified to meet the realities of the patent enforcement trend today.

Text similar to § 271(d)(5) should be added to § 271(d)(3) to expressly eliminate predatory patent infringement suits from the exception to misuse. Instead of broadly stating that any action to enforce patent rights is exempt, a model subsection would exempt only situations in which a plaintiff

(3) sought to enforce his patent rights against infringement or contributory infringement, unless, in view of the circumstances, the patent owner is enforcing his patent in bad faith, or he intends to unfairly control a portion of the relevant market for the patent and has the requisite power in the market to make this control possible.

The model subsection allows for court interpretation of "bad faith," "unfair," and "power" to match the factors involved in a Sherman Act antitrust analysis under the *Handgards-Kobe* doctrine.¹⁶⁴ The subsection, therefore, explicitly clears the way for misuse violations and antitrust damages for predatory suits.

160. The legislative history of the statute also refers explicitly to the antitrust laws: The term "market power" is used in this context in order to permit the courts to reasonably assess the potential for anti-competitive effect of a particular practice. We have chosen not to explicitly guide the courts as to the level of "market power" required for a finding of misuse. We do expect, however, that the courts will be guided—though not bound—by the . . . decisions of the Supreme Court in the context of antitrust analysis of unlawful tie-ins.

134 CONG. REC. 10,648 (daily ed. Oct. 20, 1988) (statement of Rep. Kastenmeier) (citations omitted).

161. 35 U.S.C. § 271(d)(3) (1988).

162. See, e.g., *Stearns v. Tinker & Razor*, 252 F.2d 589, 602 (9th Cir. 1958) (stating that "Section 271(d)(3) authorizes a patentee to enforce his patent right against contributory infringers and is a clear expression of public policy approving such action.").

163. Act of July 19, 1952, ch. 950, 66 Stat. 811 (Infringement of Patent).

164. See *supra* notes 142-143 and accompanying text.

CONCLUSION

In creating the Court of Appeals for the Federal Circuit, Congress and the judiciary moved toward a stronger and more unified patent system.¹⁶⁵ The resulting level of judicial competence has both increased confidence in fair adjudications of patent disputes and decreased the public's distrust of the inherent monopolizing power of patent ownership.¹⁶⁶ A strong patent system is, however, beneficial only when it furthers the true goals of the patent system: nurturing and inviting innovation for the public welfare.¹⁶⁷

The new confidence in fair adjudications of patent disputes has produced money-hungry corporations eager to cash in on the reinforced patent system. Antitrust liability under the *Handgards-Kobe* doctrine and perhaps the model statute—in addition to judicial recognition of the trend—can restore integrity and good faith to the patent system. The courts, however, must apply the doctrine to predatory infringement suits with caution. They must strive to enforce legitimate suits and prevent misdirected suits. Only by doing so will courts be able to avoid discouraging innovation.

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165. See *supra* notes 61-66 and accompanying text.

166. See *supra* notes 62-65 and accompanying text.

167. See *supra* notes 15-42 and accompanying text.