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Comments: Antitrust Liability for Bad Faith Assertion of Trade Secrets

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COMMENTS

ANTITRUST LIABILITY FOR BAD FAITH ASSERTION OF TRADE SECRETS

I. INTRODUCTION

A trade secret is confidential business information, not known by others, that gives the owner an advantage over competitors who do not know or use the information.[1] The owner of a trade secret may sue to enjoin unlawful dissemination of the trade secret for a limited time and may recover damages for its unlawful "misappropriation."[2] Although a trade secret may be misappropriated by theft, industrial espionage or intrusive surveillance, the most common misappropriation occurs when an employee who had access to the information resigns and either joins a rival competitor or forms a new firm to compete with the former employer. Although an employer may have a justified interest in litigating to protect its trade secrets in either circumstance, the actual use or threat of litigation may be manipulated by predatory employers who, with knowledge that no trade secrets exist, assert trade secrets in bad faith in order to restrain competition or monopolize a market.[3]

For the established competitor, the threat of litigation is a recog-

1. *See infra* notes 12-32 and accompanying text.
2. *See infra* notes 33-38 and accompanying text. A trade secret misappropriation must be distinguished from the general misappropriation theory of unfair competition recognized in International News Serv. v. Associated Press, 248 U.S. 215 (1918). The latter claim has generally been held preempted under section 301 of the Copyright Act, 17 U.S.C. § 301 (1982). *See, e.g.*, Hartman v. Hallmark Cards, Inc., 833 F.2d 117, 121 (8th Cir. 1987); Del Madera Properties v. Rhodes & Gardner, Inc., 820 F.2d 973, 977 (9th Cir. 1987); Ehat v. Tanner, 780 F.2d 876, 878 (10th Cir.), *cert. denied*, 479 U.S. 820 (1986). *But see* Financial Information, Inc. v. Moody's Investors Serv., 808 F.2d 204, 208 (2d Cir. 1986) (noting in *dicta*, based on legislative history, that *INS* claims are not preempted), *cert. denied*, 484 U.S. 820 (1987).

   Conversely, trade secret misappropriation claims are not generally preempted under the copyright laws because they do not confer "equivalent rights" to those granted to copyright holders, and require different elements of proof. *See* Southern Mississippi Planning & Dev. Dist., Inc. v. Robertson, 660 F. Supp. 1057, 1061 (S.D. Miss. 1986); Vault Corp. v. Quaid Software Ltd., 655 F. Supp. 750, 763 (E.D. La. 1987), *aff'd*, 847 F.2d 255 (5th Cir. 1988); Brignoli v. Balch Hardy & Scheinmann, Inc., 645 F. Supp. 1201, 1204-05 (S.D.N.Y. 1986); *see also* H.R. REP. NO. 1476, 94th Cong., 2d Sess. 132, 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5748; Reece, *Trade Secret Misappropriation: A Review and Analysis of Massachusetts Law*, 71 MASS. L. REV. 171, 172-73 (1986). *But see* Avco Corp. v. Precision Air Parts, Inc., 210 U.S.P.Q. 894, 897-98 (M.D. Ala. 1980) (holding in *dicta* that a claim based on common law trade secret is preempted unless breach of confidentiality is an element of the action), *aff'd on other grounds*, 676 F.2d 494 (11th Cir.) (affirmed on limitations grounds only), *cert. denied*, 459 U.S. 1037 (1982). This comment uses the term misappropriation only in connection with unlawful use of trade secrets.
3. A claim against an employer for a bad faith assertion of a trade secret may be brought under the Sherman Act, section 1 or 2, 15 U.S.C. §§ 1, 2 (1982), or an equivalent state act. *See* CVD, Inc. v. Raytheon Co., 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986) (federal); Boeing Co. v. Sierracin Corp., 108 Wash. 2d 38, 738 P.2d 665 (1987) (state).

nized economic risk associated with acquiring the employee.[4] For the fledgling business, in contrast, defense of possibly unanticipated threatened or actual trade secret litigation can mean financial disaster.[5] In either case, if the suit brought by the former employer is resolved in favor of the former employee, the employee's new firm may recover damages in limited circumstances.

Under the general rule in the United States, if a case is brought negligently but the claimant is acting in good faith, both parties are responsible for their own attorneys fees.[6] On the other hand, if the case is brought in technical bad faith,[7] the prevailing party may recover all *or some* of its attorneys fees.[8] Finally, if the case is brought in actual bad faith,[9] the former employer may be liable not only for attorneys fees, but

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4. *See generally* Kolowrat & Staton, *Dramatization: Restraints on Technology Access*, 49 ANTITRUST L.J. 429 (1980) (hypothetical dialogue between counsel and management after former employer threatens to sue). The probability of a trade secret suit, the former employer's likelihood of success, the magnitude of harm to the competitor if the suit is successful, the cost of hiring the employee away, and the potential value the employee would add to the firm are relevant considerations when deciding whether to hire the employee.

5. *See* Smith, *Eliminating Predatory Litigation in the Context of Baseless Trade Secret Claims: The Need for a More Aggressive Counterattack*, 23 SANTA CLARA L. REV. 1095, 1099-1101 (1983).

6. *See* Alyeska Pipeline Service Co. v. Wilderness Soc'y, 421 U.S. 240, 247 (1975); Hall v. Cole, 412 U.S. 1, 4 (1973); Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 717 (1967); Dreiling v. Peugeot Motors of America, Inc., 850 F.2d 1373, 1384 (10th Cir. 1988) ("not even objectively frivolous claims advanced in subjective good faith justify [attorney] fee awards. . . ."). This is not a zero sum game; both the former employer and the competitor have paid attorneys for litigation that has not benefitted either party.

7. Technical bad faith is the subjective intent of the party bringing the case to assert *valid legal rights* for some unlawful purpose. *See In re* TCI Ltd., 769 F.2d 441, 445 (7th Cir. 1983); Grip-Pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466, 470-73 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983); *cf.* Roadway Express, Inc. v. Piper, 447 U.S. 752 (1980) (analysis under 28 U.S.C. § 1927 (1982)); *see also infra* notes 81-86, 128-30 and accompanying text.

8. The decision to award attorneys fees in such a situation rests in the discretion of the trial judge. *See Alyeska Pipeline*, 421 U.S. at 258-59; *Hall*, 412 U.S. at 5, 15; 28 U.S.C. § 1927 (1982) (liability for vexatiously multiplying proceedings); FED. R. CIV. P. 11 (liability for improper investigation of merits of pleadings filed in federal district court); FED. R. CIV. P. 41(d) (costs after previous dismissal of action); FED. R. APP. P. 38 (authority for the courts of appeals to award damages for filing frivolous appeals); *see also* Cady, *Curbing Litigation Abuse and Misuse: A Judicial Approach*, 36 DRAKE L. REV. 483, 489-507 (1987).

9. Actual bad faith is the subjective intent to accomplish an unlawful objective *coupled with* actual subjective knowledge that there was no legal basis on which to assert the claim. *See* CVD, Inc. v. Raytheon Co., 769 F.2d 842, 851 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986); Universal City Studios, Inc. v. Nintendo Co., Ltd., 797 F.2d 70, 77 (2d Cir.), *cert. denied*, 479 U.S. 987 (1986). Some courts allow antitrust liability to attach where improper motive to monopolize a market or restrain trade is present, regardless of the validity of the underlying claim. *See, e.g.*, *In re* Burlington Northern, Inc., 822 F.2d 518, 527-29 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988); Winterlands Concession Co. v. Trela, 735 F.2d 257, 263-64 (7th Cir. 1984); *Grip-Pak*, 694 F.2d at 473; *see also infra* notes 81-86 and accompa-

also under state and federal antitrust laws if the other elements of an antitrust violation are present.

This comment discusses the latter type of bad faith in the context of employer assertions of trade secrets.[10] First, the elements of a valid trade secret are examined, and compared to other forms of intellectual property rights to highlight the nature and characteristics of trade secret property. Next, antitrust liability for "patent fraud" and related theories are discussed as they pertain to the development of a cause of action for bad faith assertion of trade secrets. The holding of *CVD, Inc. v. Raytheon*[11] is then explored, including a brief discussion of other antitrust elements and significant limitations on the cause of action. Finally, other formulations of bad faith are discussed and practical considerations are reviewed in light of the cause of action for bad faith assertion of trade secrets.

II. TRADE SECRETS, PATENTS AND THEIR RELATIONSHIP

A. *Elements of a Trade Secret*

American courts have overwhelmingly adopted the Restatement of Torts definition of a trade secret:[12]

A trade secret may consist of any formula, pattern, device or

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nying text. This latter type of antitrust liability, however, is circumscribed by the *Noerr-Pennington* doctrine. *See infra* notes 120-30 and accompanying text.

10. This comment does not address employer assertions of antitrust violations, *see, e.g.*, Kolowrat, Stack & Lynch, *Restraints on Technology Access: Protection of Trade Secrets and Confidential Information*, 49 ANTITRUST L.J. 735, 750 (1980); Yoerg, *Should a Trade Secret Misappropriation Claim Lie in the Procrustean Antitrust Bed?*, 22 ANTITRUST BULL. 1 (1977); other substantive claims such as abuse of process, interference with economic relations, trade defamation, interference with contractual relations, interference with prospective economic advantage and malicious prosecution, *see* Smith, *supra* note 5, at 1105-08; procedural defenses, *see* Smith, *supra* note 5, at 1105-21; bad faith assertions of other types of intellectual property (patents, trademarks and copyrights), *see generally* Kolowrat, Stack & Lynch, *supra*, at 735-49; or misappropriation of customer lists, *see, e.g.*, Annotation, *Former Employee's Duty, In Absence of Express Contract, Not to Solicit Former Employer's Customers or Otherwise Use His Knowledge of Customer Lists Acquired in Earlier Employment*, 28 A.L.R.3D 7 (1969).
11. 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).
12. The following jurisdictions have adopted or referred to the Restatement of Torts section 757 comment b definition of a trade secret: Arizona, Arkansas, California, Connecticut, Delaware, Georgia, Illinois, Iowa, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah, West Virginia and Wisconsin. *See* 12 R. MILGRIM, MILGRIM ON TRADE SECRETS § 2.01, at 2-3 to -9 n.2 (1967 & Supp. 1989). Several jurisdictions have also adopted a uniform law with a substantially similar definition. *See* UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 372 (Supp. 1989) (24 jurisdictions, including some listed above, have adopted the uniform law in various forms). For an extensive discussion on the subject of what constitutes a trade secret, see Annotation, *What is "Trade Secret" so as to render actionable under State law its use or disclosure by former employee*, 59 A.L.R.4TH 641 (1988).

> compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.[13]

The breadth of this definition is sufficient to encompass almost any innovative technology developed by a business. Consequently, when deciding whether a trade secret exists, courts have focused on one or more elements of a trade secret,[14] or on the nature of the employee's conduct.[15] Specifically, courts will determine: (1) whether the formula, pattern or device is the proper subject of trade secret protection; (2) whether the formula, pattern or device is maintained in reasonable secrecy and confidence; (3) whether there is a misappropriation; and (4) if there is a misappropriation, whether the parties had an agreement that provides a remedy.

1. Information Not Subject to Protection

Any information, whether tangible[16] or intangible,[17] is subject to trade secret protection. Information that is in the public domain,[18] published,[19] patented,[20] otherwise disclosed,[21] obvious,[22] based on common

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13. RESTATEMENT OF TORTS § 757 comment b (1939). This section was intentionally omitted in the Restatement (Second) of Torts, because the American Law Institute determined that trade secret law had developed independently from tort law. *See* RESTATEMENT (SECOND) OF TORTS, Introductory Note to Division Nine (1979).
14. The elements of a trade secret are confidentiality and secrecy. RESTATEMENT OF TORTS § 757 comment b, at 6-7 (1939).
15. "[T]he protection [accorded under trade secret law] is against the tactics rather than against the use of the secret as such." 2 R. CALLMAN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14.01, at 3 (4th ed. 1982 & Supp. 1989); *see also* 12A R. MILGRIM, *supra* note 12, at § 7.03[2].
16. Tangible information consists of items such as customer lists, formulas and magnetic media. *See generally* 2 R. CALLMAN, *supra* note 15, § 14.10; 12 R. MILGRIM, *supra* note 12, §§ 2.09[6], [7].
17. Intangible information refers to subject matter such as a plan, combination of steps, an idea or general know-how. *See, e.g.*, Space Aero Prod. Co. v. R.E. Darling Co., 238 Md. 93, 208 A.2d 74 (thirty step process consisting of simple manual operations to construct oxygen breathing hose held to be a trade secret), *cert. denied*, 382 U.S. 843 (1965). *But see* McKay v. Communispond, Inc., 581 F. Supp. 801, 807 (S.D.N.Y. 1983) (teaching technique held not protectable because the "defendant cannot enjoin plaintiff from using 'intangible procedures and techniques that [plaintiff] learned while [he was] employed by [defendant].' ") (citation omitted). *See generally* 2 R. CALLMAN, *supra* note 15, § 14.06 ("Almost any subject matter may be claimed to be a trade secret.").
18. The "public domain" is a term of art which describes any information that the public has a right to use without paying compensation to the person who disclosed, developed or provided the information. *See generally* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 109 S.Ct. 971, 980 (1989) ("both the novelty and nonobviousness requirements of federal patent law are grounded in the notion that concepts within the public grasp, or those so obvious that they readily could be, are the tools of creation for all."); Cummings, *Some Aspects of Trade Secrets and Their Protection: The Public Domain and the "Unified Description" Requirement*, 54 KY. L.J. 190, 192-94 (1965).
19. *See, e.g.*, CVD, Inc. v. Raytheon Co., 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986) (disclosure of chemical process in government reports constituted

sense,[23] common knowledge,[24] or general knowledge,[25] however, is not the proper subject of trade secret protection.

Because there is no federal trade secret law, the determination of whether information is subject to protection is made according to the relevant state law in federal diversity and pendent/ancillary actions.[26] Some courts have decided that whether information is subject to protection is a question of law,[27] but in other jurisdictions it may be a question of fact.[28]

2. Secrecy and Confidence

Secrecy and confidence exist over information if the employer demonstrates an intention to keep information secret,[29] the employee is aware of the employer's intention[30] and some "confidential relationship"[31] is

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a publication). If part of the disclosure occurs in one medium (*e.g.*, written public reports), and other disclosures occur in another medium (*e.g.*, in a speech), an issue arises as to whether the "unified" disclosures constitute publication of the technology. *See generally* Cummings, *supra* note 18, at 197-201 (concluding that if the user of information has in good faith kept up to date in the relevant art and could construct the technology by aggregating disclosures, the acquisition of information should be considered "by fair means" — regardless of whether the user had actual knowledge of all of the disclosures).

20. *See* 2 R. CALLMAN, *supra* note 15, § 14.14, at 63; 12 R. MILGRIM, *supra* note 12, § 2.06.
21. Information that is otherwise disclosed includes information disclosed in a deposition or in litigation. *But cf.* Plastic & Metal Fabricators, Inc. v. Roy, 163 Conn. 257, 303 A.2d 725 (1972) (secret disclosed in exhibit to complaint but record sealed prior to general public access held not to be a publication).
22. A patent must be unobvious, but "a trade secret need not be essentially novel or unobvious." 2 R. CALLMAN, *supra* note 15, § 14.07; *accord* 12 R. MILGRIM, *supra* note 12, § 2.08[2]. Something so obvious as to be commonly known, however, is neither patentable nor protectable as a trade secret. *Bonito Boats*, 109 S.Ct. at 980. An invention that is patentable is *per se* protectable as a trade secret prior to disclosure. 12 R. MILGRIM, *supra* note 12, § 2.08[1].
23. Common sense information, for example, may consist of a procedure which maximizes profits and minimizes costs. *Cf.* Tabs Assoc. v. Brohawn, 59 Md. App. 330, 475 A.2d 1203 (1984) (defendants argued that mail sorting process selecting highest zip-code density was common sense).
24. 2 R. CALLMAN, *supra* note 15, § 14.07.
25. *Id.* § 14.24.
26. *Id.* § 14.01.
27. *See, e.g.*, Operations Research, Inc. v. Davidson & Talbird, Inc., 241 Md. 550, 556, 217 A.2d 375, 379 (1966).
28. *See, e.g.*, Sheets v. Yamaha Motors Corp., 849 F.2d 179, 183 (5th Cir. 1988) (determination of whether there was reasonable secrecy is a question of fact); Porter Indus., Inc. v. Higgins, 680 P.2d 1339, 1341 (Colo. App. 1984). The distinction is important because it affects trial strategy (*e.g.*, jury demand) as well as the standard of review on appeal.
29. *See* 2 R. CALLMAN, *supra* note 15, § 14.11. The intention may be express (*e.g.*, by agreement or designation—"SECRET") or implied by conduct of the employer.
30. "[T]he plaintiff in a trade secret case must prove that the defendant [whether discloser or user] . . . was aware of [the information's] confidential nature." *Id.* § 14.03, at 14-21.
31. *Id.* Examples of protected relationships include: employer-employee, manufacturer-

present. Although a cause of action lies for breach of confidence regarding information that is not subject to protection, it is not considered a trade secret misappropriation.[32]

3. Misappropriation

A "misappropriation" is the acquisition of a trade secret by improper means, or its disclosure or use by a person who knows or should know of the improper acquisition of the trade secret.[33] There is no technical misappropriation of a trade secret, however, if the discovery of information is by fair means,[34] or the employee's use of the information is derived from "general knowledge, skill and experience [obtained] in his former employment."[35] A misappropriation is nevertheless wrongful if it constitutes a breach of trust between the employer and employee.[36] A breach of trust may occur when the employee is acting for his own benefit, for the benefit of a competitor or simply out of spite.[37] The question of whether there is a misappropriation is one of mixed law and fact.[38]

4. Effect of a Written Agreement

Generally, no written agreement is necessary to enforce a trade se-

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independent contractor, licensor-licensee, manufacturer-sales agent, supplier-purchaser, vendor-vendee of a business, director-corporation, partner-partner, joint venturer-joint venturer. *See* 12 R. MILGRIM, *supra* note 12, §§ 5.01-.04.

32. *See* 2 R. CALLMAN, *supra* note 15, at 14-23 n.19 (an employee in a position of authority may breach a confidential relationship even if the information appropriated does not technically amount to a trade secret); Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 897 nn. 4-5 (Minn. 1983). An employer's mere expression that a disclosure is "confidential," however, may not be sufficient to intend confidence over the underlying information. 2 R. CALLMAN, *supra* note 15, § 14.03, at 21 ("[T]here must be an express or clearly *implied* understanding in respect of the confidential nature of the *information*") (emphasis supplied).
33. *See* UNIF. TRADE SECRETS ACT § 1(2) (Supp. 1989); RESTATEMENT OF TORTS § 759 (1939).
34. "Information revealed by chemical analysis, physical examination [and] reverse engineering . . . does not normally qualify for protection as a trade secret." 2 R. CALLMAN, *supra* note 15, § 14.13, at 14-58 to -59. Once a product is placed on the market it "announces to the world the secret of the invention embodied in it, unless the secret is not apparent from the article itself . . . ." *Id.* at 14-59.
35. *Id.* § 14.24; Van Prod. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769 (1965); *cf.* Padover v. Axelson, 268 Mass. 148, 167 N.E. 301 (1929).
36. "Anyone connected with a business . . . is 'under a legal obligation not to act adversely to its interests' . . . ." 2 R. CALLMAN, *supra* note 15, § 14.22, at 79. A breach of trust is a violation of any legal duty owed to the employer, typically the duty of loyalty. *But see* Allan M. Dworkin, D.D.S., P.A. v. Blumenthal, 77 Md. App. 774, 551 A.2d 947 (1989); Maryland Metals, Inc. v. Metzner, 282 Md. 31, 382 A.2d 564 (1978) (no breach of duty where officer-director of company makes plans to compete with his employer while still working).
37. *See* 2 R. CALLMAN, *supra* note 15, § 14.22, at 81.
38. Dependable Lists, Inc. v. Malek, 98 A.D.2d 679, 469 N.Y.S.2d 754 (1983); Chanay v. Chittenden, 115 Ariz. 32, 563 P.2d 287 (1977); *cf.* Space Aero Prod. Co. v. R.E. Darling Co., 238 Md 93, 115-17, 208 A.2d 74, 85-86, *cert. denied*, 382 U.S. 843 (1965).

cret misappropriation claim.[39] In the absence of an enforceable agreement, however, an employer's injunction restraining misuse is generally limited to the period of time that "competitors would require after public disclosure to develop a competing machine."[40] The most frequently litigated type of agreement is an employee agreement not to compete,[41] although licensing agreements[42] and general confidentiality agreements[43] also have been the subject of litigation.

In summary, a trade secret is any information which gives the employer an advantage over competitors, and which is held in reasonable secrecy within the business.[44]

B. Trade Secret and Patent Compared

A patent is the right granted by the federal government to a patentee to exclude others from manufacturing and using the product described in the letters patent.[45] To obtain a patent, the prospective patentee must file an application with the Patent and Trademark Office, disclose all rele-

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39. *See* 2 R. CALLMAN, *supra* note 15, § 14.04; *see also* Tabs Assoc. v. Brohawn, 59 Md. App. 330, 341, 475 A.2d 1203, 1209 (1984); Head Ski Co. v. Kam Ski Co., 158 F. Supp. 919, 923 (D. Md. 1958).
40. Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 142 (9th Cir. 1965). This period of time is generally referred to as the "reverse engineering period." *See* 12A R. MILGRIM, *supra* note 12, § 7.08[1], at 7-261 to -265 n. 12. Even in the absence of a written agreement, however, injunctive relief may extend beyond the reverse engineering period. *Compare Winston Research*, 350 F.2d at 142 ("A permanent injunction would subvert the public's interest in allowing technical employees to make full use of their knowledge and skill and in fostering research and development.") *with Head Ski*, 158 F. Supp. at 923-24 (former employees of plaintiff were permanently enjoined both as to time and place—worldwide—from manufacturing or advising "any person, firm or corporation as to the manufacture" of a competing ski). *See also* Comment, *Trade Secret Misappropriation: What is the Proper Length of an Injunction After Public Disclosure?*, 51 ALB. L. REV. 271 (1987) (discussing *Winston Research* and other cases and concluding that the *Winston Research* rule is proper, except in cases "of particularly egregious conduct").
41. *See* 12 R. MILGRIM, *supra* note 12, § 3.05[1], at 3-149; Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 625 (1960).
42. *E.g.* 12 R. MILGRIM, *supra* note 12, § 3.05[5].
43. *E.g.* 12B R. MILGRIM, *supra* note 12, app. C; *see also* Reece, *supra* note 2, at 172.
44. A commonly used "factor" test from the Restatement is helpful in determining whether a trade secret exists. The six factors one should consider are:
    (1) the extent to which the information is known outside of his business;
    (2) the extent to which it is known by employees and others involved in his business;
    (3) the extent of measures taken by him to guard the secrecy of the information;
    (4) the value of the information to him and to his competitors;
    (5) the amount of effort or money expended by him in developing the information; [and]
    (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

    RESTATEMENT OF TORTS § 757 comment b, at 6 (1939).
45. *See generally* P. ROSENBERG, PATENT LAW FUNDAMENTALS §§ 1-3, at 5-12 (1975).

vant prior art, and convince the examiner that the invention is novel, utilitarian and not obvious.[46] If the patent issues, the technology embodied in the product must be disclosed to the public and any trade secrets contained within the disclosures are lost.[47] The trade-off for the public disclosure and loss of trade secrets is the right to exclude others, including subsequent independent discoverers, from using, manufacturing or selling the product for 17 years.

Patents differ from trade secrets in several respects: a patent has a constitutional[48] and statutory[49] origin, is of limited existence,[50] requires complete disclosure of the technology,[51] and is expressly exempt from the antitrust laws.[52] Additionally, patent law protects only novel, unobvious and utilitarian *tangible* products.[53] In contrast, a trade secret is based on principles of equity[54] and the common law,[55] is of theoretically infinite duration,[56] requires secrecy as opposed to disclosure,[57] protects intangible as well as tangible ideas and expressions, and is not specifically exempt from the reach of antitrust laws.[58]

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46. *See id.* at 89-130, 183-89.
47. *Id.* at 7 ("The inventor makes a truly Faustian bargain with the sovereign, exchanging secrecy, of indefinite and of possibly perpetual duration, for ephemeral patent rights!").
48. U.S. CONST. art. I, § 8, cl. 8.
49. 35 U.S.C. §§ 1-376 (1982).
50. *Id.* § 154 (17 year duration).
51. 12 R. MILGRIM, *supra* note 12, § 6.05[4][a], at 6-200.
52. *Id.* § 6.05[4], at 6-198 n.44. "The patent system [however] . . . is not an 'exception' to the antitrust laws, and patent rights are not *legal monopolies* in the antitrust sense of the word." American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1367 (Fed. Cir. 1984).
53. 35 U.S.C. §§ 101-103 (1982).
54. "[E]quity will not permit one who has come to learn the trade secret in a confidential relationship to use or disclose it to the detriment of the owner." 12 R. MILGRIM, *supra* note 12, § 4.03, at 4-17.
55. *See supra* note 12 and accompanying text.
56. 12 R. MILGRIM, *supra* note 12, § 6.05[4][a], at 6-200.
57. *See supra* notes 29-32 and accompanying text.
58. 12 R. MILGRIM, *supra* note 12, § 6.05. Patent law can also be distinguished from trade secret law with respect to non-substantive matters. For example, a lawyer must pass a separate patent bar examination to practice before the Patent & Trademark Office, and patent lawyers are subject to a separate code of professional responsibility. 37 C.F.R. § 10.7(b) (1988) (bar exam, patent law only); *Id.* at §§ 10.20 - 10.112. (Code of Professional Responsibility). Additionally, to acquire patent protection complicated filing, review and disclosure procedures must be met, and ultimately, the Patent & Trademark Office must approve the application. *See* 35 U.S.C. §§ 112, 151-153 (1982 & Supp. IV 1986). A patent is also presumed valid (which shifts the burden of production); the holder of alleged trade secrets, however, enjoys no presumption of validity. *See also infra* note 79 and accompanying text.

II. DEVELOPMENT OF THE PATENT FRAUD AND TRADE SECRET BAD FAITH ANTITRUST CAUSES OF ACTION

A. *Patent Fraud*

In *Walker Process Equipment Inc. v. Food Machinery & Chemical Corp.*,[59] the Supreme Court first recognized that in certain circumstances assertion of an invalid patent in an infringement action could violate section 2 of the Sherman Act.[60] In *Walker Process*, Food Machinery & Chemical Corporation, the patentee, brought an action alleging that Walker Process infringed its patent. During the litigation, Food Machinery moved to dismiss its complaint because its patent had expired.[61] In response, Walker Process "amended its counterclaim to charge that Food Machinery had 'illegally monopolized interstate and foreign commerce by fraudulently and in bad faith obtaining and maintaining . . . its patent.' "[62] Specifically, Walker Process contended that Food Machinery knew that the invention it had patented had been in public use for more than one year prior to the filing of the patent application,[63] and therefore that Food Machinery knew its invention was not capable of being patented.[64]

The Supreme Court held that proof of bad faith procurement and assertion of a *known* unpatentable product could be a valid Sherman Act section 2 offense, as long as other elements of the antitrust claim were proven.[65] Justice Harlan concurred in the result, explaining that

> [A] private cause of action would *not* be made out if the plaintiff: (1) showed no more than invalidity of the patent arising, for example, from a judicial finding of "obviousness," or from other factors sometimes compendiously referred to as "technical fraud"; or (2) showed fraudulent procurement, but no

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59. 382 U.S. 172 (1965).
60. *Id.* at 177. *See generally* C. HAMBURG, PATENT FRAUD AND INEQUITABLE CONDUCT §§ 3.02[4], 4.01 (1981); Kayton, Lynch & Stern, *Fraud in Patent Procurement: Genuine and Sham Charges*, 43 GEO. WASH. L. REV. 1 (1974); Niro & Wigert, *Patents, Fraud and the Antitrust Laws*, 37 GEO. WASH. L. REV. 168 (1968); Stedman, *Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back*, 28 U. PITT. L. REV. 161, 172-77 (1966); Annotation, *Fraud in Patent Procurement As A Violation of § 2 of the Sherman Act*, 65 A.L.R. FED. 408 (1983). Lower courts have held that the *Walker Process* doctrine also supports a cause of action under section 1 of the Sherman Act. *See* Cataphote Corp. v. DeSoto Chem. Coatings, Inc., 450 F.2d 769, 772 n.9 (9th Cir. 1971), *cert. denied*, 408 U.S. 929 (1972); Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F.2d 555, 567 n.28 (5th Cir.), *cert. denied*, 400 U.S. 956 (1970).
61. *Walker Process*, 382 U.S. at 174.
62. *Id.*
63. *See* 35 U.S.C. § 102(b) (1982).
64. *Walker Process*, 382 U.S. at 174.
65. *Id.* at 177. The Court rejected the argument that such a rule would subject patentees to "innumerable vexatious suits." *Id.* at 176. *See infra* notes 107-15 for the other elements of actions under section 1 and 2 of the Sherman Act.

> knowledge thereof by the defendant; or (3) failed to prove the elements of a § 2 charge even though he has established actual fraud in the procurement of the patent and the defendant's knowledge of that fraud.[66]

The *Walker Process* decision opened a new field of patent litigation, and patent fraud has probably become one of the most often asserted counterclaims in patent infringement actions.[67]

Despite the popularity of raising a *Walker Process* defense, most federal circuit courts have allowed antitrust liability to attach only where the fraudulent misrepresentations or omissions are material, requiring the challenger to prove that "but for" the fraud the patent would not have issued. For example, in *E. I. duPont de Nemours & Co. v. Berkley & Co.*,[68] the Court of Appeals for the Eighth Circuit stated:

> A patent procured by fraud by definition would not have issued but for the misrepresentation or non-disclosure. The patent is invalid as improperly issued and the patentee has illegally received exclusionary rights he would not otherwise have. In those circumstances, as the Supreme Court held in *Walker Process*, the severe sanctions of the Sherman Act may be warranted.[69]

In *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*,[70] the Court of Appeals for the Ninth Circuit has similarly required clear proof of fraudulent activity, noting that:

> The road to the Patent Office is so tortuous and patent litigation is usually so complex, that "knowing and willful fraud" as

66. *Id.* at 179 (Harlan, J., concurring). The Federal Circuit denominates this "technical fraud" as inequitable conduct, something less than common law fraud. J.P. Stevens & Co. v. Lex Tex Ltd., 747 F.2d 1553, 1559 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985).
67. *See* Kayton, Lynch & Stern, *supra* note 60, at 6-10. Professor Kayton notes that the inequitable conduct/fraud defense in patent cases is almost always raised because raising it is "effortless and virtually costless," and often results in a confusion of issues, ultimately prejudicing the judge into at least awarding attorneys fees or declaring the patent invalid on some technical ground such as obviousness or novelty. *See also* Lear, Inc. v. Adkins, 395 U.S. 653 (1969). In *Lear*, the Supreme Court rejected the licensee estoppel doctrine. *Id.* at 670-71. The licensee estoppel doctrine held that a patent licensee is estopped from denying the validity of the underlying patent. *See generally* Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 678-79 (1986). As a result of the decisions in *Walker Process* and *Lear*, patent licensees that are sued for nonpayment of royalties are also able to claim that the patent was invalid and counterclaim for antitrust damages.
68. 620 F.2d 1247 (8th Cir. 1980).
69. *Id.* at 1274. *But see* Norton v. Curtiss, 433 F.2d 779, 795 (Ct. Cl. 1970) (requiring consideration of the subjective state of mind of the examiner in some cases, because even if the invention is objectively patentable, if the examiner would not have issued it but for the misrepresentation, the patent still might not have issued).
70. 450 F.2d 769 (9th Cir. 1971), *cert. denied*, 408 U.S. 929 (1972).

> the term is used in *Walker*, can mean no less than clear, convincing proof of intentional fraud involving affirmative dishonesty, "a deliberately planned and carefully executed scheme to defraud."[71]

Under this view of *Walker Process*, a patent can only be invalidated when the misrepresentation or omission to the Patent and Trademark Office examiner is a failure to disclose prior art that anticipates the patent technology,[72] or in cases where there has been a public disclosure, sale or use of the invention more than one year prior to the date of the patent application, providing that the patentee is aware of the invalidating acts prior to the filing of the patent application.[73]

Because the standard of proof is sufficiently onerous to protect almost all conduct except for flagrant knowing fraud, courts that require misstatements or omissions to be material in the objective "but for" sense rarely find violations of the antitrust laws. Courts that require this high standard of proof justify the result because the licensee or alleged infringer has other remedies that sufficiently encourage patentees to fully and fairly disclose all material facts to the Patent and Trademark Office,[74] and because recognition of the antitrust cause of action necessarily chills to some extent the desire to pursue a patent on a new invention.[75]

B. Beyond Patent Fraud — Bad Faith and Overall Scheme Theories

Despite the restrictive holding in *Cataphote*, most courts have held that antitrust liability may attach in two other closely analogous instances involving patents: bad faith assertion and "overall scheme" conduct. The cause of action for bad faith assertion of a patent was recognized in *Handgards, Inc v. Ethicon, Inc.*[76] In *Handgards*, Ethicon

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71. *Id.* at 772. There are several tests courts apply to determine whether omitted prior art is material, including objective and subjective "but for" tests, the "but it may have been" test, and the official Patent and Trademark Office test in 37 C.F.R. § 1.56(a) (1988). *See* J.P. Stevens & Co. v. Lex Tex Ltd., 747 F.2d 1553, 1559-60 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985); American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1362-64 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984).
72. *See, e.g.*, Acme Precision Prods., Inc. v. American Alloys Corp., 484 F.2d 1237 (8th Cir. 1973); Mayview Corp. v. Rodstein, 385 F. Supp. 1122 (C.D. Cal. 1974); *see also* Kayton, Lynch & Stern, *supra* note 60, at 50-53.
73. *See* 35 U.S.C. § 102(b) (1982); Colotronic Reinhard & Co. v. Plastic Controls, Inc., 496 F. Supp. 259 (D. Mass. 1980), *aff'd in part and remanded in part*, 668 F.2d 1 (1st Cir. 1981).
74. *See* 35 U.S.C. § 285 (1982) (prevailing party may recover attorneys fees in exceptional circumstances); Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806 (1945) (inequitable conduct or bad faith may warrant application of the "unclean hands" doctrine, which precludes enforcement of a *valid* patent); *see generally* Cantrell & Chwang, *Federal Circuit's Recent Views of Inequitable Conduct*, in 1987 PATENT LAW ANNUAL ch. 7 (J. Moss ed. 1988).
75. Encouraging registration is one of the primary objectives of the patent laws. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480-81 (1979).
76. 601 F.2d 986 (9th Cir.), *cert. denied*, 444 U.S. 1025 (1979). *See generally* Hoerner,

had acquired and asserted two patents against Handgards in patent infringement actions. Ethicon voluntarily dropped one of the infringement claims, and ultimately lost the other when the lower court found that there was a prior public use more than one year before the filing of the application.[77] After Ethicon had lost its infringement action, Handgards sued for antitrust violations, initially relying on *Walker Process*.

The *Walker Process* theory was not successful because Handgards could not prove Ethicon knew its patent was invalid when the patent application was filed. Handgards could prove, however, that Ethicon obtained knowledge of the prior public use sometime after acquiring the patent, but before instigation of the lawsuit. The Ninth Circuit held that prosecution of a patent infringement suit "in bad faith, that is, with knowledge that the patents, though lawfully obtained, were invalid" could constitute an antitrust violation if the plaintiff could prove the other elements of the action, and prove actual knowledge of invalidity by clear and convincing evidence.[78] The court also held that juries should be instructed that *infringement suits* are "presumptively in good faith."[79] These heightened obstacles in antitrust cases were imposed because the standard burden of proof in civil cases " 'might well chill' legitimate patent enforcement efforts 'because of fear of the vexations or punitive consequences of treble damage suits.' "[80]

Bad Faith Enforcement of Patents—Antitrust Considerations, 55 ANTITRUST L.J. 421 (1986). This cause of action probably had its genesis in Kellogg Co. v. Nat'l Biscuit Co., 71 F.2d 662 (2d Cir. 1934). In *Kellogg*, the court held that "[i]f a person having no substantial claim to a trade-mark . . . uses the claim in bad faith to threaten a competitor and his customers with lawsuits . . . they would seem to be steps in an attempt to obtain a monopoly." *Id.* at 665-66.

77. *See* Ethicon, Inc. v. Handgards, Inc., 432 F.2d 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971).

78. *Handgards*, 601 F.2d at 993-96.

79. *Id.* at 996. The code only explicitly provides a presumption of *patent validity*, not a presumption that *infringement* actions are in good faith. *See* 35 U.S.C. § 282 (1982); Dennison Mfg. Co. v. Panduit Corp., 475 U.S. 809, 810 (1986) (presumption of patent validity is only overcome by clear and convincing evidence). Because patentees may have to litigate to establish validity of their patents, however, it is consistent to require the higher standard in infringement actions to effectuate Congress' purposes in encouraging inventors to protect their property with a letter patent rather than by relying on trade secret protection.

80. *Handgards*, 601 F.2d at 996 (quoting *Walker Process*, 382 U.S. at 180 (Harlan, J., concurring)).

Handgards has been accepted by the Federal Circuit in a case where the court was applying the law of the Seventh Circuit. *See* Loctite Corp. v. Ultraseal Ltd., 781 F.2d 861, 875-78 (Fed. Cir. 1985). In *Loctite*, the cross-appellant argued that the clear and convincing burden of proof required by *Handgards* was a result of the statutory presumption of patent validity mandated by 35 U.S.C. § 282 (1982). The presumption of *validity* did not apply in *Loctite* because the antitrust claim was based on bad faith assertion of infringement, *i.e.* filing the infringement action with knowledge that *there was no infringement*.

The court held that the rule in *Handgards* was primarily based on the public policy "of erecting a barrier against thwarting patentees from asserting legitimate patent rights." *Id.* at 877. Therefore, with respect to assertion of patent rights in an

The "overall scheme" cause of action was recognized in *Kobe, Inc. v. Dempsey Pump Co.*[81] In *Kobe*, the defendants had acquired substantially all of the patents relating to a hydraulic oil pump, primarily by buying them up from inventors, corporations and patentees.[82] After Dempsey began selling a competing pump, the defendants filed suit and told their customers that they had begun an infringement action against Dempsey.[83] This latter action brought Dempsey sales to a standstill. Dempsey sued for damages claiming that the conduct of buying up all the patents in part of a line of commerce was an unlawful monopolistic practice.

Although noting "that Kobe did not institute the infringement action in bad faith but believed that some of its patents were infringed,"[84] the Tenth Circuit nonetheless affirmed the lower court's ruling that the defendants had monopolized a part of commerce by buying up and *filing suits* to protect all the patents relating to the hydraulic oil pump.[85] In discussing whether the bringing of the infringement action constituted an unlawful monopolistic practice, the court said:

> We have no doubt that if there was nothing more than the bringing of the infringement action, resulting damages could not be recovered, but that is not the case. The facts . . . 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 . . . may be considered as having been done to give effect to the unlawful scheme.[86]

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infringement action, there is a "presumption that the patentee has a good faith belief in infringement." *Id.*

81. 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952); *see also* Grip-Pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466, 470-73 (7th Cir. 1982) (rejecting the proposition that "a non-malicious lawsuit can never violate antitrust law"), *cert. denied*, 461 U.S. 958 (1983). *See generally* Hoerner, *Patent Misuse*, 53 ANTITRUST L.J. 641 (1984).
82. *Kobe*, 198 F.2d at 419-21. Ownership of the patents, including some that had expired, were advertised extensively in the trade.
83. *Id.* at 422.
84. *Id.* at 424.
85. *Id.* at 422-25.
86. *Id.* at 425 (emphasis added). The court met the contention that this rule would impede access to the courts with the following admonition:

> We fully recognize that free and unrestricted access to the courts should not be denied or imperiled in any manner. At the same time we must not permit the courts to be a vehicle for maintaining and carrying out an unlawful monopoly which has for its purpose the elimination and prevention of competition.

In summary, there are three distinct antitrust theories of recovery for improper prosecution of patent cases. First, if the patent is acquired by fraud on the Patent and Trademark Office, the patentee is liable for antitrust damages caused by the filing of an infringement action, because the patentee is asserting rights it should not have. This liability is limited to deliberate withholding of relevant and material prior art, or a knowing withholding of a prior public use or sale more than one year before the filing of the patent application. Liability does not attach, however, if the patent is declared invalid for obviousness or lack of sufficient novelty because it is impossible to "know" a patent is invalid for either of these reasons until a court so holds.

Secondly, if a patent was procured without fraud or other inequitable conduct, antitrust liability may attach if the patentee asserts the patent after obtaining knowledge that it is invalid (whether before or after filing suit). This liability attaches because assertion of known invalid rights with the purpose of destroying a competitor with litigation costs is a predatory act under the antitrust laws. Liability under this theory, however, has generally been limited to instances where the patentee discovers a prior public use/sale after obtaining the patent. In cases where, for example, the patentee has obtained a legally valid patent by "inequitable conduct," a court would not likely impose antitrust liability for assertion of the patent in an infringement action prior to the finding of inequitable conduct.[87]

Finally, antitrust liability may attach in cases where, even though the patent is validly procured and valid when asserted, the purpose in bringing the infringement action is not to enforce the patent but rather to destroy a competitor.[88] In this type of case, the imposition of liability is based on the subjective purpose of the litigation irrespective of the merits of the action.

Id. at 424.

87. *See* Argus Chem. Corp. v. Fibre Glass-Evercoat Co., 812 F.2d 1381, 1385-86 (Fed. Cir. 1987); Korody-Colyer Corp. v. General Motors Corp., 828 F.2d 1572, 1577-78 (Fed. Cir. 1987). *Argus* supports the view that the clear and convincing standard of proof coupled with the requirement of subjective "knowledge" of an invalidating fact or facts probably prohibits imposition of antitrust damages in instances where the "knowledge" required is *a question of law*, such as whether the patentee engaged in inequitable conduct.

88. Courts have not clearly decided whether the person asserting an antitrust claim must prove that the purpose of bringing the action had the "sole," "substantial," "primary," or "motivating" factor of destroying a competitor. *Cf.* Barton's Disposal Serv., Inc. v. Tiger Corp., 886 F.2d 1430, 1437 n.22 (5th Cir. 1989) ("substantially motivated by a genuine desire for government action"); Coastal States Marketing, Inc. v. Hunt, 694 F.2d 1358, 1372 (5th Cir. 1983) (intent to genuinely influence government action must be a significant motivating factor). *Kobe* supports the view that the unlawful purpose must at least be a motivating factor, but the court probably would have required proof that the unlawful purpose was a primary factor had the *Noerr-Pennington* doctrine been decided. *See infra* notes 120-30 and accompanying text.

III. BAD FAITH ASSERTION OF TRADE SECRETS

A. *The* Raytheon *Decision*

In *CVD, Inc. v. Raytheon*,[89] two engineers were employed by the Raytheon Company to help develop a chemical vapor deposition (CVD) process. The CVD process is used to develop optical lenses, primarily for the federal government.[90] The engineers had signed agreements not to disclose Raytheon's trade secrets when they were hired.[91]

Both engineers left Raytheon to form CVD, Inc. and compete in the CVD market. Raytheon, however, contended it had trade secrets in the CVD process. After the engineers had retained counsel, a settlement was reached where CVD, Inc. agreed to pay a royalty to Raytheon for the use of the alleged trade secrets.[92]

One year after the agreement had been consummated, CVD, Inc. sued Raytheon, seeking a declaratory judgment that the agreement was void, and requesting treble damages and attorneys fees for violation of sections 1 and 2 of the Sherman Act. CVD proved that Raytheon had published schematics in government reports, and that its employees had given speeches and seminars regarding the furnaces used in the CVD process. As a result of these disclosures, CVD, Inc. contended that the CVD process was in the public domain, and that Raytheon knew the CVD process was not protectable as a trade secret.[93]

Presented with no direct authority, the Court of Appeals for the First Circuit held that "the *threat* of unfounded trade secrets litigation in bad faith is sufficient to constitute a cause of action under the antitrust laws . . . ."[94] By analogizing cases in the bad faith patent assertion area, the court also required proof of knowledge that no trade secrets existed by clear and convincing evidence.[95] Damages were based solely on the legal fees incurred in the original settlement negotiation that resulted in the licensing agreement.[96]

Although accepting the jury's finding that Raytheon knew it had no trade secrets in the CVD process,[97] the court did not rely solely on Ray-

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89. 769 F.2d 842 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).
90. CVD, Inc. v. Raytheon Co., 769 F.2d 842, 848 (1st Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).
91. *Id.* at 847.
92. *Id.* at 848.
93. *Id.* at 852.
94. *Id.* at 851 (emphasis supplied). The court cited A. & E. Plastik Pak Co. v. Monsanto Co., 396 F.2d 710 (9th Cir. 1968) for the proposition that bad faith conduct in asserting a trade secret misappropriation constituted a cause of action under the antitrust laws. In *A. & E. Plastik Pak*, the issue before the court was whether the lower court abused its discretion in enforcing an arbitration clause with respect to whether trade secrets existed. *See A. & E. Plastik Pak*, 396 F.2d at 714. Therefore, *A. & E. Plastik Pak* does not directly support a cause of action for bad faith assertion of trade secrets.
95. *Raytheon*, 769 F.2d at 849. *See also supra* notes 76-80 and accompanying text.
96. *Id.* at 858.
97. *Id.* at 852. An expert testified that a competent engineer skilled in the art of chemi-

theon's public disclosures to accept the jury's finding that no trade secrets existed in the CVD technology. Rather, the fact that Raytheon failed to follow its policy of stamping confidential documents "SECRET," its failure to maintain the documents in a protected drawer, its flat insistence on high royalty percentages, and its attorneys' failure to investigate CVD, Inc.'s claim that the CVD process was not a trade secret were all held relevant to both Raytheon's bad faith and *the existence of trade secrets*.[98]

B. Elements of the Cause of Action

The *Raytheon* court's definition of bad faith is similar to that developed in *Walker Process*, *Handgards* and their progeny: "that the defendant asserted trade secrets with knowledge that no trade secrets existed."[99] Under this formulation of the cause of action, the plaintiff must prove:

1) that no trade secrets existed;
2) that the defendant subjectively knew no trade secrets existed;[100] and
3) that the other elements of an antitrust action are satisfied.

1. Proof that No Trade Secrets Existed

Finding that no trade secrets existed is the predicate finding to any further analysis in a *Raytheon*-type case. If trade secrets exist at the time they are asserted, the theory of relief would be based on the *Kobe* case and its progeny,[101] not *Raytheon*. As discussed above, in a *Kobe*-type case, the critical element of proof is the unlawful motive in asserting otherwise valid legal rights. Unless patent rights are involved, proof of unlawful intent in ordinary antitrust cases is only required by a preponderance of the evidence. Under *Raytheon*, however, the critical element is proof of *knowledge* that no trade secrets existed, and the burden of proof on that element is by clear and convincing evidence. Therefore, determination of whether trade secrets existed is important both to the type of evidence required and the burden of persuasion.

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cal vapor deposition could have constructed a furnace similar to Raytheon's based on the information that was publicly available.

98. *Id.* at 853-54.

99. *Id.* at 851. This is a subjective standard.

100. The *Raytheon* court held that this element of the cause of action must be proved by the heightened "clear and convincing" burden of persuasion. *Raytheon*, 769 F.2d at 851. The other elements — proof of non-existence of trade secrets and the elements required by the antitrust laws — must only be proven by a preponderance of the evidence.

101. *See supra* notes 81-86 and accompanying text.

2. Proof that the Defendant Subjectively Knew No Trade Secrets Existed

Once the predicate finding is made that the information is not capable of trade secret protection, the plaintiff must also prove that the defendant actually knew that no trade secrets existed by clear and convincing evidence.[102] This is a question of fact because it requires a finding that the defendant subjectively knew it had no trade secrets. The knowledge of non-existence may be proven at the time of the plaintiff's creation of the information, when the plaintiff asserts the cause of action, or after a judicial finding is made in the case that no trade secrets exist. Such a finding requires proof that the business' attorneys knew or should have known that there was no reasonable legal basis on which to assert a trade secret action.[103]

In *Raytheon*, the jury found that no trade secrets existed in the CVD technology *and* that Raytheon knew no trade secrets existed.[104] In some jurisdictions, however, the determination that no trade secrets existed is decided by the court.[105] Nevertheless, in those jurisdictions, the question of whether the business knew no trade secrets existed is a question of fact for the jury that must be proven by clear and convincing evidence.

This fact/law dichotomy is significant for two reasons. First, the *Raytheon* rule inhibits summary dispositions of a case in jurisdictions which hold that the determination of a trade secret is a question of fact, because credibility issues will typically arise when determining whether a trade secret exists. Therefore, time consuming and expensive litigation is wasted if, for instance, the jury determines that trade secrets did exist.[106]

Second, if the existence of a trade secret is a question of law, it will be difficult for the judge to determine that the defendant had actual knowledge that no trade secret existed. For example, the business can

102. *Raytheon*, 769 F.2d at 851. The court required proof of knowledge that no trade secrets existed by clear and convincing evidence based on analogy to the justifications asserted in the patent cases — *viz.* to "prevent a frustration of the patent laws" and to "ensure[ ] the free access to the courts." *Id.* at 850. In fact, trade secrets were once thought to be preempted by the patent laws. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 474 (1979). Therefore, merely because both patent and trade secret law "encourage invention . . . and provide innovators with protection for the fruits of their labors" is no justification for the heightened burden of persuasion in antitrust analysis vis-a-vis bad faith assertion of trade secrets. Furthermore, patent law expressly provides for presumption of patent validity, which courts rely on to require the clear and convincing burden in patent bad faith cases. *See supra* note 78 and accompanying text. The heightened burden of persuasion in bad faith trade secret cases, however, may nevertheless be compelled by the *Noerr-Pennington* doctrine. *See infra* note 130.

103. *Cf. In re* TCI Ltd., 769 F.2d 441, 445 (7th Cir. 1985).

104. *Raytheon*, 769 F.2d at 852-54.

105. *See supra* note 27 and accompanying text.

106. *See* Boeing Co. v. Sierracin Corp., 108 Wash. 2d 38, 738 P.2d 665 (1987) (court reversed a jury that awarded damages on a counterclaim for state antitrust law violations where the jury had also awarded damages to the plaintiff for misappropriation of confidential information).

argue that because the existence of a trade secret is a question of law, it cannot know by clear and convincing evidence that no trade secret existed absent a judicial finding. In these jurisdictions, *Raytheon*-type cases will be hard to prove and be less of a deterrent on monopolistic conduct. The question of law formulation, however, promotes judicial economy, because the issue of existence of trade secrets can be determined summarily prior to a lengthy trial.

3. Other Elements of an Antitrust Action

In addition to establishing that no trade secret existed and that the defendant had actual knowledge that no trade secret existed, under section 1 of the Sherman Act[107] the plaintiff must also prove a contract, combination or conspiracy,[108] specific intent to restrain competition,[109] and antitrust injury.[110] To prove a section 2[111] violation, the plaintiff must prove that the defendant had specific intent[112] to monopolize the

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107. Section 1 of the Sherman Act provides in pertinent part: "Every contract, combination . . . or conspiracy, in restraint of trade or commerce . . . is declared to be illegal." 15 U.S.C. § 1 (1982).
108. Conduct amounting to a contract, combination or conspiracy requires a plurality of actors and concerted action. *See* 2 VON KALINOWSKI, ANTITRUST LAWS AND TRADE REGULATION § 6.01[1], at 6-5 to -6 (1969 & Supp. 1989); *see generally* Pearl Brewing Co. v. Anheuser-Busch, Inc., 339 F. Supp. 945, 950-51 (S.D. Tex. 1972).
109. Proof of intent may be inferred from an anti-competitive effect or shown by proof of unlawful purpose. *See* McLain v. Real Estate Bd. of New Orleans, Inc., 444 U.S. 232, 243 (1980). The restraint on competition must also concern activities "in commerce" or that "affect" commerce. *Id.* at 242. Finally, the restraint on competition must be "unreasonable." *See* Arizona v. Maricopa County Medical Soc'y, 457 U.S. 332, 343 (1982). The Supreme Court has noted that it will use either a "rule of reason" or *per se* approach in determining the reasonableness of any contract, combination or conspiracy. *Id.* at 343-44. These two approaches of interpreting the Sherman Act are discussed *infra* at notes 149-53 and accompanying text.
110. Antitrust injury results when there is a violation, and the resulting injury is "of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws." Association of Gen. Contractors of Cal., Inc. v. California State Council of Carpenters, 459 U.S. 519, 538 (1983) (citing Blue Shield of Va. v. McCready, 457 U.S. 465 (1982)). The Court has found it useful to apply by analogy the common law proximate cause doctrine, which has made this determination complicated. *Id.* at 535-36. Some courts refer to this requirement as "standing." *See* Transource Int'l, Inc. v. Trinity Indus., Inc., 725 F.2d 274, 280-81 (5th Cir. 1984).
111. Section 2 of the Sherman Act provides in pertinent part: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states . . . shall be deemed guilty of a felony . . . ." 15 U.S.C. § 2 (1982).
112. There are two types of section 2 violations: monopolization and attempts to monopolize. In a monopolization claim, the plaintiff must prove that the defendant had market power in the relevant market and that the defendant willfully acquired or maintained that power. United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966); Supermarket of Homes v. San Fernando Valley Bd. of Realtors, 786 F.2d 1400, 1404-05 (9th Cir. 1986). The attempt claim requires "specific intent to control prices or to destroy competition, predatory or anticompetitive conduct directed to accomplishing that end, [and] a dangerous probability of success." *Supermarket of Homes*, 786 F.2d at 1405; *see also* Neumann v. Reinforced Earth Co., 786 F.2d

relevant market,[113] market power in the relevant market,[114] and in "attempt" cases, that the defendant had a "dangerous probability of success."[115] In a section 2 case there is no requirement to prove a "contract, combination or conspiracy."

In *Raytheon,* the licensing agreement was the contract, and the licensing agreement's extraction from CVD, Inc. was the act which constituted the violation.[116] Therefore, the court inferred a specific intent to monopolize and restrain trade from the presence of bad faith in claiming that the CVD technology was a trade secret.[117] The other elements of the antitrust violations were satisfied.[118] Although it is not clear from the opinion, Raytheon apparently violated both section 1 and 2 of the Sherman Act.[119]

IV. *NOERR-PENNINGTON* LIMITS ON LIABILITY

A. General Principles

The *Noerr-Pennington* doctrine developed in *Eastern Railroad Presi-*

424, 426-27 (D.C. Cir.), *cert. denied,* 479 U.S. 851 (1986). The question of intent is relevant to both offenses, although used for different purposes. *See* Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 602-03 (1985) (the attempt action requires "an intent which goes beyond the mere intent to do the act," but in the monopolization action intent is only relevant to characterizing conduct as "exclusionary," "anticompetitive," or "predatory").

113. "The relevant market is the market in which an entity's power is measured to determine whether the entity is a monopolist for antitrust law purposes. The relevant market is generally defined in both geographic and product terms." Southern Pac. Communications Co. v. AT&T, 740 F.2d 1011, 1014 n.3 (D.C. Cir. 1984) (citations omitted); *see also* Oltz v. St. Peters Community Hosp., 861 F.2d 1440, 1446 (9th Cir. 1988).

114. "Market power [sometimes referred to as monopoly power] is the ability to raise prices above those that would be charged in a competitive market." NCAA v. Board of Regents of the Univ. of Okla., 468 U.S. 85, 109 n.38 (1984) (holding that the NCAA has market power to control TV advertisers' access to college football game air times).

115. Swift & Co. v. United States, 196 U.S. 375, 396 (1905); 3 VON KALINOWSKI, *supra* note 107, § 9.01[2].

116. CVD, Inc. v. Raytheon Co., 769 F.2d 842, 851 (1st Cir. 1985), *cert. denied,* 475 U.S. 1016 (1986).

117. *Id.* Other courts have so held in the patent bad faith line of cases. *See, e.g.,* Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282, 1293 (9th Cir. 1984), *cert. denied,* 469 U.S. 1190 (1985). The court in *Raytheon* upheld both intent requirements under sections 1 and 2 of the Sherman Act, because Raytheon was monopolizing the relevant market, not merely making an "attempted" monopolization.

118. Raytheon was the only producer of ZnSe and Zns via the CVD process in the world. *Raytheon,* 769 F.2d at 851. Raytheon therefore had market power. The injury-causation element was no barrier to recovery because the licensing agreement had an adverse economic affect on CVD, Inc. *Id.* at 858. The court, however, went on to state that "[s]ince Raytheon asserted its claim in bad faith, with the intent to restrain competition, it is the type of offense the antitrust laws are designed to prevent." *Id.* Therefore, in bad faith cases, the "antitrust injury" requirement is met by proof of the unlawful intent.

119. *Raytheon,* 769 F.2d at 851, 860.

dents Conference v. Noerr Motor Freight, Inc.[120] and *United Mine Workers v. Pennington.*[121] The doctrine prohibits a court from imposing antitrust liability for certain activities that have an anticompetitive motive (or result), because the conduct is protected under the constitution. For example, in *Noerr*, the Supreme Court held that attempts to influence a legislative or executive body by lobbying would be protected by the first amendment right to petition.[122] In *Pennington*, the Court held that *Noerr* applied to administrative agencies, and expanded the scope of protection to encompass "a concerted effort to influence *public officials* regardless of intent or purpose."[123] In *California Motor Transportation Co. v. Trucking Unlimited,*[124] the doctrine was extended to include petitions to the judicial branch of government.[125]

The *Noerr-Pennington* doctrine, however, has an important exception — the so-called "sham" petition. A sham petition is a suit filed with the purpose of restraining trade or maintaining a monopoly, and consequently, is not protected from the reach of the antitrust laws.[126] The current formulation of a sham petition requires proof of either an unreasonable prospect of success on the merits, or a finding that the suit was "brought only because of the costs of litigation impose[d] on the other party."[127]

The *Noerr-Pennington* doctrine is applicable when a party asserts rights in court in "good faith."[128] Therefore, in *Walker Process* and

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120. 365 U.S. 127 (1961).

121. 381 U.S. 657 (1965). Neither opinion was mentioned in *Walker Process. See generally* Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr,* 74 GEORGETOWN L.J. 65 (1985); Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine,* 45 U. CHI. L. REV. 80 (1977).

122. *Noerr,* 365 U.S. at 137-38.

123. *Pennington,* 381 U.S. at 670 (emphasis added).

124. 404 U.S. 508 (1972).

125. *Id.* at 510.

126. *See California Motor,* 404 U.S. at 512-14. *See generally* Note, *Noerr-Pennington Immunity from Antitrust Liability under Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.: Replacing the Sham Exception with a Constitutional Analysis,* 69 CORNELL L. REV. 1305 (1984). *California Motor,* which more firmly established this exception, is somewhat at odds with the *Noerr-Pennington* doctrine in this respect. *See California Motor,* 404 U.S. at 516-18 (Stewart J., concurring) (arguing that in broadening the scope of the sham exception the court "in the process tramples upon important First Amendment values"). *See generally* Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc., 674 F.2d 1252, 1265 n.21 (9th Cir. 1982), *cert. denied,* 459 U.S. 1227 (1983); Potters Medical Center v. City Hosp. Ass'n, 800 F.2d 568, 577-78 (6th Cir. 1986) (basing a holding of no sham petition on the finding that the defendant's position prevailed).

127. Premier Elec. Constr. Co. v. National Elec. Contractors Ass'n, Inc., 814 F.2d 358, 372 (7th Cir. 1987).

128. *See* Barton's Disposal Serv., Inc. v. Tiger Corp., 886 F.2d 1430, 1432 (5th Cir. 1989) (interrogatory number 6); Rickards v. Canine Eye Registration Found., Inc., 783 F.2d 1329, 1334-35 (9th Cir.) (finding that costs of litigating a frivolous claim constituted antitrust injury), *cert. denied,* 479 U.S. 851 (1986); Winterland Concessions Co. v. Trela, 735 F.2d 257, 263 (7th Cir. 1984).

Handgards claims, most courts hold that *Noerr-Pennington* is not a bar to the antitrust action because a showing of bad faith is required.[129] In *Kobe*-type claims, however, the antitrust action is based on proof of unlawful intent, not on proof of assertion of known invalid rights. In these cases, therefore, *Noerr-Pennington* is a defense, unless it can be shown by the person claiming an antitrust violation that the "primary" purpose in bringing the suit was not to enforce substantive rights, but rather to destroy a competitor.[130]

B. *Application of* Noerr-Pennington *to* Raytheon-*type Claims*

Under the *Noerr-Pennington* doctrine, if knowledge that no trade secret exists is equated with bad faith, the sham exception is *prima facie* met.[131] Accordingly, a factual finding of actual knowledge that no trade secrets existed will generally vitiate the *Noerr-Pennington* defense to the antitrust action. The prerequisites of the sham exception to the *Noerr-Pennington* doctrine have, however, eluded the courts and commentators for some time. Thus, some courts have required multiple claims for relief before invoking the sham exception,[132] while other courts have defined the standard as litigation brought "without [a] reasonable prospect of success."[133]

As an example, the *Raytheon* court required proof of knowledge that no trade secrets existed and "some other evidence" of bad faith.[134] It is unclear, however, whether mere proof of knowledge that no trade secrets existed will constitute a "sham" within the meaning of the *Noerr-Pennington* doctrine. Similarly, under a *Kobe* theory, where *valid* trade secret rights are asserted primarily for the purpose of monopolizing a market, the *Noerr-Pennington* doctrine will apply and bar antitrust liability absent proof that the suit was brought only because of the costs of

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129. Columbia Pictures Indus. v. Redd Horne, Inc., 749 F.2d 154, 161 (3d Cir. 1984) (copyright); MCI Communications Corp. v. AT&T Co., 708 F.2d 1081 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983); Litton Systems, Inc. v. AT&T Co., 700 F.2d 785, 812-13 (2d Cir. 1983) (instructions on good faith/bad faith dichotomy upheld); Coastal States Mktg., Inc. v. Hunt, 694 F.2d 1358, 1372 (5th Cir. 1983).

130. Fischel, *supra* note 121, at 112-13 (*Kobe* doctrine is of "doubtful validity" in light of the *Noerr-Pennington* doctrine). *Noerr-Pennington* does not require proof that the monopolistic result be the "sole" purpose in bringing the suit, because it can always be proven that one purpose in bringing a bona-fide claim is to recover and execute on a judgment, even if the decision is uneconomical. *Cf.* Barton's Disposal Serv., Inc. v. Tiger Corp., 886 F.2d 1430, 1437 n.22 (5th Cir. 1989) ("substantially motivated by a genuine desire for government action").

131. *Raytheon*, 769 F.2d at 851.

132. *See* Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc., 674 F.2d 1252, 1266 n.24 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983); Huron Valley Hosp., Inc. v. City of Pontiac, 466 F. Supp. 1301, 1313-15 (E.D. Mich. 1979), *vacated on other grounds*, 666 F.2d 1029 (6th Cir. 1981).

133. Premier Elec. Constr. Co. v. National Elec. Contractors Ass'n, 814 F.2d 358, 372 (7th Cir. 1987); *see also* Village of Bolingbrook v. Citizens Util. Co. of Ill., 864 F.2d 481, 483 (7th Cir. 1988).

134. *See supra* note 98 and accompanying text.

litigation imposed on the other party.[135]

V. OTHER FORMULATIONS OF BAD FAITH

The *Raytheon* court established one formulation of bad faith: assertion of a trade secret misappropriation claim with knowledge that the information has been published and is in the public domain.[136] Several other formulations of bad faith, however, could exist and could provide a basis for an antitrust action. For example, bad faith could be established if the employer knew or should have known that one of the elements of a trade secret did not exist.[137] This formulation, however, is subject to substantial constitutional challenges.[138]

Another formulation of bad faith could be justified on conduct surrounding the efforts of the employer in asserting the misappropriation claim.[139] Even if this conduct tends to show bad faith, however, the underlying information must not otherwise meet the elements of a trade secret.[140]

Finally, bad faith could exist when an employer asserts a claim with

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135. *See* Central Telecommunications v. TCI Cablevision, Inc., 800 F.2d 711, 720-21 n.10 (8th Cir. 1986); Westmac, Inc. v. Smith, 797 F.2d 313, 315-17 (6th Cir. 1986), *cert. denied*, 479 U.S. 1035 (1987); Neumann v. Reinforced Earth Co., 786 F.2d 424, 426-27 (D.C. Cir.), *cert. denied*, 479 U.S. 851 (1986); *accord* Fischel, *supra* note 121, at 112-13.

136. A related basis would be a trade secret suit brought on the information or "claims" which are the subject of an invalid patent. As explained above, upon the grant of letters patent, the information embodied in the claims enters the public domain, regardless of whether the patent is invalid. *See supra* note 47. Therefore, if a patent is declared unenforceable for "inequitable conduct," a subsequent suit for trade secret misappropriation would violate the antitrust laws if the other elements of the action were proven.

137. The common law elements of a trade secret are secrecy and confidentiality. *See supra* note 14. If a person knows that the information asserted to be a trade secret was not maintained in reasonable secrecy, its assertion would constitute bad faith litigation. A claim for misappropriation of trade secret asserted with knowledge that the defendant did not use improper means (or obtained the information by fair means) would also constitute bad faith litigation.

138. Whether information was maintained in reasonable secrecy within the business, and whether "improper means" were used to obtain the information are mixed questions of fact and law. Therefore, it should be only a small burden for the employer to show that he or she had a good faith or genuine belief in the elements of the action sufficient to invoke the protections of the *Noerr-Pennington* doctrine. *Cf. supra* note 87 (inequitable conduct does not give rise to antitrust liability).

139. *See supra* note 98 and accompanying text.

140. If information is protectable, bad faith conduct in securing rights under law is not a defense for the employee in a trade secret misappropriation suit. *See supra* note 101 and accompanying text (establishing that no trade secrets exist is the predicate finding to a *Raytheon*-type case). If the bad faith conduct vexatiously multiplies the proceedings, the employee may obtain attorneys fees. *See supra* note 8. If the bad faith conduct, however, is coupled with an intent to drive the employee out of a potential market, and the employer is attempting to enforce an overbroad restrictive covenant, is a monopolist, or is attempting to monopolize a market, the employer may be liable under state or federal antitrust laws. The result depends on whether the employee can prove by clear and convincing evidence that the employer was not

knowledge of a prior judicial determination adverse to its position in the second suit.[141] This formulation would not run afoul of constitutional challenges.[142] The complex requirements of asserting collateral estoppel, however, might provide some practical problems.[143]

The employer will invariably have a *Noerr-Pennington* defense regardless of the theory used to prove bad faith. In fact, presence of the *Noerr-Pennington* defense led one commentator to conclude that an antitrust cause of action is an insufficient curb on anticompetitive practices.[144] That view, however, places undue weight on the first amendment's interplay with commercial ethics. Although the conflict between an employer's right to access the courts and the employee's right to freedom from vexatious litigation is not easily resolved,[145] in a true case of bad faith assertion of trade secret the balance is struck easily.[146]

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substantially motivated by a genuine good faith desire to enforce his trade secret rights, sufficient to invoke the sham exception to the *Noerr-Pennington* doctrine.

141. The employee would assert *res judicata* or collateral estoppel as to the new suit, contending that the prior judicial determination bars the employer from re-adjudicating the non-existence of a trade secret. *Res judicata* bars a second suit when there has been a judgment on the merits between the same parties or their privies on the same cause of action in a prior case. *E.g.*, Parklane Hosiery Co. v. Shore, 439 U.S. 322, 326 n.5 (1979). Collateral estoppel prevents relitigation in a subsequent suit of the same issues actually litigated and necessary to the outcome in the prior case. *Id.* Some jurisdictions require mutuality of parties in collateral estoppel cases, but due process only requires a "full and fair" opportunity to litigate. *Id.* at 332. (offensive use of collateral estoppel is permissible in some cases). *But see* United States v. Mendoza, 464 U.S. 154 (1984) (limiting offensive use of collateral estoppel to private litigants). Since it is unlikely that an employer would assert the same cause of action against the same employee after a final judgment, collateral estoppel is the most probable weapon in the employee's arsenal.
142. None of the policy reasons behind the *Noerr-Pennington* doctrine exist after a full and fair hearing on the merits. The *Noerr-Pennington* doctrine does not authorize collateral attacks on prior judgments.
143. For instance, after a prior determination, the employer may take steps to increase secrecy, improve the product or redraft its agreements with employees. If the facts underlying the previous suit are not substantially similar, a court might not invoke the collateral estoppel doctrine. Furthermore, an employer who is sued by employees at different times could argue that offensive use of collateral estoppel is inappropriate if in the prior suit there was little incentive to vigorously defend the prior claim. *See, e.g.*, Otherson v. I.N.S., 711 F.2d 267 (D.C. Cir. 1983) (lack of incentive to litigate may be raised in some cases even if the issue was raised in a prior suit).
144. *See* Smith, *supra* note 5, at 1118-21.
145. *Cf.* Premier Elec. Constr. Co. v. National Elec. Contractors Ass'n, Inc., 814 F.2d 358, 371-76 (7th Cir. 1987) (extensively reviewing the *Noerr-Pennington* "sham" exception doctrine). The current standard is "that a suit brought in bad faith for the purpose of obstruction, and without reasonable prospect of success, would be a 'sham' . . . ." *Id.* at 372 (Easterbrook, J.). Also "a suit brought only because of the costs litigation imposes on the other party also may fit the "sham" exception." *Id.* Proving "bad faith" will automatically equate to a "sham" exception to the *Noerr-Pennington* doctrine. However, this does not completely address the petition repetition dichotomy that some courts use as a touchstone to invocation of the exception. *See* Smith, *supra* note 5, at 1119 n.146.
146. *See, e.g.*, *Premier Elec.*, 814 F.2d at 372-73; CVD, Inc. v. Raytheon Co., 769 F.2d 842, 850-51 (1st Cir.), *cert. denied*, 469 U.S. 1190 (1985).

VI. PRACTICAL CONSIDERATIONS

If an employer does not impose a contract, covenant not to compete, or licensing agreement, a *Raytheon*-type case cannot be maintained under section 1 of the Sherman Act.[147] Furthermore, a *Raytheon* case cannot be maintained unless the employer and the former employee, or his new employer, are "in competition."[148] Therefore, an employer is more likely to be able to assert a trade secret misappropriation claim free of antitrust considerations if there is no "contract, combination or conspiracy," as long as the employer does not have monopoly power or sufficient market share to have a dangerous probability of obtaining monopoly power.

The most common agreements that fall within the purview of antitrust laws are covenants not to compete.[149] Federal courts have accepted a "rule of reason" analysis in this area.[150] The rule of reason was devel-

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147. Section 1 of the Sherman Act requires a "contract, combination or conspiracy" before a cause of action under the statute can be established. An at-will employee that leaves and begins competition with the employer could not counter-claim with a *Raytheon* argument based on section 1 if the employer subsequently brought a trade secret misappropriation suit. There would be no contract in restraint of trade, and the employer's unilateral act would not be a combination or conspiracy. Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 768 (1984). A possible counterclaim under section 2 of the Sherman Act, however, may exist because unilateral action can constitute an attempted monopolization. *Id.*

148. The requirement that plaintiff and defendant be "in competition" is implied under the antitrust laws. *See, e.g.*, Apex Hosiery Co. v. Leader, 310 U.S. 469, 500-01 (1940).

149. *See* Blake, *supra* note 41, at 628 n.6.

150. *See, e.g.*, National Soc'y of Professional Eng'rs v. United States, 435 U.S. 679, 689 (1978) (dictum) (citing Mitchel v. Reynolds, 1 P. Wms. 181, 24 Eng. Rep. 347 (1711)); Transource Int'l v. Trinity Indus., Inc., 725 F.2d 274, 280 (5th Cir. 1984); Lektro-Vend Corp. v. Vendo Co., 660 F.2d 255, 265 (7th Cir. 1981), *cert. denied*, 455 U.S. 921 (1982) (covenant upheld); Newburger Loeb & Co. v. Gross, 563 F.2d 1057, 1082 (2d Cir. 1977), *cert. denied*, 434 U.S. 1035 (1978) (covenant in partnership agreement upheld); United States Football League v. NFL, 634 F. Supp. 1155, 1187-88 (S.D.N.Y. 1986) (referee contract prohibiting off-season officiating upheld). If the alleged conduct involves boycotting, price-fixing, division of markets, resale price maintenance or tying arrangements, courts hold that the practice is "*per se*" unreasonable and therefore in restraint of trade in violation of the Sherman Act, because such practices are presumed to have a pernicious effect on competition. *See* Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958). The Supreme Court's recent analysis in this area has firmly established "that there is a presumption in favor of a rule-of-reason standard; [and] that departure from that standard must be justified by demonstrable economic effect . . . ." Business Elec. Corp. v. Sharp Elec. Corp., 108 S. Ct. 1515, 1520 (1988).

Some cases have held that ancillary covenants not to compete should be analyzed under state law, not under federal antitrust laws. *See* Water Services, Inc. v. Tesco Chem., Inc., 410 F.2d 163, 167 n.4 (5th Cir. 1969). An ancillary restraint is a covenant not to compete which is part of a valid underlying contract such as an employment agreement or a contract for the sale of a business. *Id.* Non-ancillary horizontal restraints are covenants not to compete which are typically entered into to divide a market, fix prices, or buy out potential competitors. *Id.* Non-ancillary horizontal restraints are *per se* illegal. *See* Schine Chain Theatres, Inc. v. United States, 334 U.S. 110, 119 (1948). Whether a covenant not to compete is ancillary or non-ancillary should be relevant to the determination of whether the *per se* rule oped by the Supreme Court to analyze antitrust cases where the conduct complained of does not constitute a *per se* violation of the antitrust laws.[151] Historically, only certain practices have been considered *per se* violations of the Sherman Act.[152] For example, horizontal price-fixing agreements, certain resale price maintenance agreements, group boycotts, tying arrangements and certain horizontal market division practices may be considered *per se* violations of the Sherman Act.[153]

There has been no holding, however, deciding whether a covenant not to compete that satisfies a state's common law requirements would automatically comport with the antitrust rule of reason requirements.[154] Furthermore, it is unclear whether a covenant not to compete that allegedly protects employer trade secrets could be used offensively by the former employee. The issue is whether when an employer asserts a breach of the covenant in a state proceeding, the employee could counterclaim for antitrust violations based on a bad faith assertion of the breach of the covenant itself.[155] Because enforcement of a known invalid covenant not to compete (based on knowledge that the underlying trade secrets are invalid) is a predatory act equivalent to asserting the underlying trade secret misappropriation with knowledge that no trade secret existed, such a claim should be favorably entertained by the courts.

VII. CONCLUSION

Trade secret law protects business investment in technology, and

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should be applied. Both types of contracts are nevertheless in restraint of trade, and therefore there is no justification for not applying the antitrust laws only to the non-ancillary covenants.

It should also be noted that vertical non-price covenants not to compete, such as a prohibition on manufacture of the product in a distribution chain, are analyzed under the rule of reason. *See* Transource Int'l v. Trinity Indus., Inc., 725 F.2d 274, 280 (5th Cir. 1984). Therefore, since covenants not to compete that protect trade secrets are only present in ancillary contracts, whether vertical or horizontal, the rule of reason should be applied, not the *per se* rule.

151. *See* E. KINTER, FEDERAL ANTITRUST LAW § 8.2 (1980 & Supp. 1989).
152. *Id.* at § 8.3.
153. *Id.* § 8.3, at 367-68.
154. Resolution of the issue depends on whether a jurisdiction that allows the blue-penciling of overbroad covenants not to compete would graft the "blue pencil theory" into a rule of reason analysis under the antitrust law. A state that applies blue pencil theory will fashion reasonable relief from any overbroad covenant either as to activity, time, or area restrictions. *See* Blake, *supra* note 41, at 674-84 (1960). The distinction between a common law reasonableness analysis and a rule of reason analysis under antitrust law is "unclear." *See* Kolowrat, Stack & Lynch, *supra* note 10, at 748-49.
155. This would not be a *Raytheon*-type case precisely. For example, assume the employer had published its trade secret after the employee had signed his covenant not to compete but before the employer sued him in court. The issue of when the trade secret must exist would then be directly in issue. The probable requirement would be that the trade secret exist at the time it is asserted in court, and not necessarily at the time the employee signed the contract. If this were not the rule, the employer could never claim trade secrets in after-acquired technology absent a written agreement providing expressly for such a contingency.

promotes ethics in the workplace. Antitrust laws, on the other hand, promote competition and are designed to protect the public from conduct that restrains free trade and artificially increases prices. By definition, these two sets of laws collide. The *Raytheon* decision harmonizes them by requiring an aggrieved employee to prove, by clear and convincing evidence, that the employer asserted its claim with actual knowledge that no trade secret existed and with the intent to restrain or monopolize trade. This harmonization properly strikes a balance between the competing interests of the employer and employee. The possibility of a defecting employee asserting an antitrust action, however, complicates the practitioner's considerations before filing suit.

The antitrust implications of the rule announced in *Raytheon* are a relative newcomer to the law of trade secrets. Because antitrust concerns are not usually contemplated when drafting the employee's contract, when considering restrictive covenant provisions, or when suing later after the employee has left and it is suspected that trade secrets have been disclosed to the new employer, it is important to understand and contemplate *Raytheon*-type concerns before giving advice on the possible ramifications of asserting trade secrets.

Between outright theft and pure predatory litigation there are many gradations. In this area, like many others, courts will have to strive to properly balance competing interests, and with proper standards, come to the right result. *Raytheon* was correctly decided and clearly supported by cases in other areas upholding predatory litigation as conduct amounting to antitrust violations. However, future cases will have to address other formulations of "bad faith," and strike some balance not only between the litigants, but also between the cause of action asserted by the employer and his first amendment rights of access to the courts.

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