1989

Comments: Antitrust Liability for Bad Faith Assertion of Trade Secrets

Michael D. Oliver

University of Baltimore School of Law

Follow this and additional works at: http://scholarworks.law.ubalt.edu/ublr

Part of the Antitrust and Trade Regulation Commons

Recommended Citation


Available at: http://scholarworks.law.ubalt.edu/ublr/vol18/iss3/5

This Article is brought to you for free and open access by ScholarWorks@University of Baltimore School of Law. It has been accepted for inclusion in University of Baltimore Law Review by an authorized administrator of ScholarWorks@University of Baltimore School of Law. For more information, please contact snolan@ubalt.edu.
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. 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." 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.

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

1. See infra notes 12-32 and accompanying text.


nized economic risk associated with acquiring the employee. For the fledgling business, in contrast, defense of possibly unanticipated threatened or actual trade secret litigation can mean financial disaster. 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. On the other hand, if the case is brought in technical bad faith, the prevailing party may recover all or some of its attorneys fees. Finally, if the case is brought in actual bad faith, the former employer may be liable not only for attorneys fees, but

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.


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.


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. 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 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:

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

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).


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.\textsuperscript{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.\textsuperscript{14} or on the nature of the employee's conduct.\textsuperscript{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\textsuperscript{16} or intangible,\textsuperscript{17} is subject to trade secret protection. Information that is in the public domain,\textsuperscript{18} published,\textsuperscript{19} patented,\textsuperscript{20} otherwise disclosed,\textsuperscript{21} obvious,\textsuperscript{22} based on common

\begin{enumerate}
\item Information Not Subject to Protection

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

\begin{enumerate}
\item Tangible information consists of items such as customer lists, formulas and magnetic media. \textit{See generally} 2 R. \textsc{Callman}, \textsc{supra} note 15, § 14.10; 12 R. \textsc{Milgrim}, \textit{supra} note 12, §§ 2.09[6], [7].

\item Intangible information refers to subject matter such as a plan, combination of steps, an idea or general know-how. \textit{See, e.g.}, Space \textsc{Aero Prod. Co.} v. R.E. \textsc{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), \textit{cert. denied}, 382 U.S. 843 (1965). \textit{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). \textit{See generally} 2 R. \textsc{Callman}, \textit{supra} note 15, § 14.06 ("Almost any subject matter may be claimed to be a trade secret.").

\item 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. \textit{See generally} Bonito Boats, Inc. v. \textsc{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, \textit{Some Aspects of Trade Secrets and Their Protection: The Public Domain and the "Unified Description" Requirement}, 54 \textsc{Ky. L.J.} 190, 192-94 (1965).

\item \textit{See, e.g.}, \textsc{CVD}, \textit{Inc. v. Raytheon Co.}, 769 F.2d 842 (1st Cir. 1985), \textit{cert. denied}, 475 U.S. 1016 (1986) (disclosure of chemical process in government reports constituted
sense, common knowledge, or general knowledge, 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. Some courts have decided that whether information is subject to protection is a question of law, but in other jurisdictions it may be a question of fact.

2. Secrecy and Confidence

Secrecy and confidence exist over information if the employer demonstrates an intention to keep information secret, the employee is aware of the employer’s intention and some "confidential relationship" is 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).


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).


25. Id. § 14.24.

26. Id. § 14.01.


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 disclose 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.\(^\text{32}\)

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.\(^\text{33}\) There is no technical misappropriation of a trade secret, however, if the discovery of information is by fair means,\(^\text{34}\) or the employee's use of the information is derived from "general knowledge, skill and experience [obtained] in his former employment."\(^\text{35}\) A misappropriation is nevertheless wrongful if it constitutes a breach of trust between the employer and employee.\(^\text{36}\) 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.\(^\text{37}\) The question of whether there is a misappropriation is one of mixed law and fact.\(^\text{38}\)

4. Effect of a Written Agreement

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

\(^\text{32}\) 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).

\(^\text{33}\) See Unif. Trade Secrets Act § 1(2) (Supp. 1989); Restatement of Torts § 759 (1939).

\(^\text{34}\) "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.


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." The most frequently litigated type of agreement is an employee agreement not to compete, although licensing agreements and general confidentiality agreements 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.

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. To obtain a patent, the prospective patentee must file an application with the Patent and Trademark Office, disclose all rele-


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[3].

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).

vant prior art, and convince the examiner that the invention is novel, utilitarian and not obvious.\textsuperscript{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.\textsuperscript{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\textsuperscript{48} and statutory\textsuperscript{49} origin, is of limited existence,\textsuperscript{50} requires complete disclosure of the technology,\textsuperscript{51} and is expressly exempt from the antitrust laws.\textsuperscript{52} Additionally, patent law protects only novel, unobvious and utilitarian tangible products.\textsuperscript{53} In contrast, a trade secret is based on principles of equity\textsuperscript{54} and the common law,\textsuperscript{55} is of theoretically infinite duration,\textsuperscript{56} requires secrecy as opposed to disclosure,\textsuperscript{57} protects intangible as well as tangible ideas and expressions, and is not specifically exempt from the reach of antitrust laws.\textsuperscript{58}

\textsuperscript{46} See id. at 89-130, 183-89.
\textsuperscript{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!").
\textsuperscript{48} U.S. Const. art. I, § 8, cl. 8.
\textsuperscript{50} Id. § 154 (17 year duration).
\textsuperscript{51} 12 R. Milgrim, supra note 12, § 6.05[4][a], at 6-200.
\textsuperscript{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).
\textsuperscript{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.
\textsuperscript{55} See supra note 12 and accompanying text.
\textsuperscript{56} 12 R. Milgrim, supra note 12, § 6.05[4][a], at 6-200.
\textsuperscript{57} See supra notes 29-32 and accompanying text.
\textsuperscript{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., 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. 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. 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.'" 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, and therefore that Food Machinery knew its invention was not capable of being patented.

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. 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

62. Id.
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 counter-claims 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


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.”

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, 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.

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, and because recognition of the antitrust cause of action necessarily chills to some extent the desire to pursue a patent on a new invention.

### 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.* In *Handgards*, Ethicon

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).


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.\textsuperscript{77} After Ethicon had lost its infringement action, Handgards sued for antitrust violations, initially relying on \textit{Walker Process}.

The \textit{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.\textsuperscript{78} The court also held that juries should be instructed that infringement suits are "presumptively in good faith."\textsuperscript{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.'"\textsuperscript{80}

\begin{footnotesize}
\begin{enumerate}
\item Bad Faith Enforcement of Patents—Antitrust Considerations, 55 \textit{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 \textit{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." \textit{Id.} at 665-66.
\item \textit{Handgards}, 601 F.2d at 993-96.
\item \textit{Id.} at 996. The code only explicitly provides a presumption of \textit{patent validity}, not a presumption that \textit{infringement} actions are in good faith. See 35 U.S.C. \textsection 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.
\item \textit{Handgards}, 601 F.2d at 996 (quoting \textit{Walker Process}, 382 U.S. at 180 (Harlan, J., concurring)).
\end{enumerate}
\end{footnotesize}
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.\(^{86}\)

---


\(^{82}\) *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.

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, 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. The engineers had signed agreements not to disclose Raytheon’s trade secrets when they were hired.

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.

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.

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 . . . .” 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. Damages were based solely on the legal fees incurred in the original settlement negotiation that resulted in the licensing agreement.

Although accepting the jury’s finding that Raytheon knew it had no trade secrets in the CVD process, the court did not rely solely on Ray-
bad faith assertion of trade secrets. 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.

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\textsuperscript{107} the plaintiff must also prove a contract, combination or conspiracy,\textsuperscript{108} specific intent to restrain competition,\textsuperscript{109} and antitrust injury.\textsuperscript{110} To prove a section 2\textsuperscript{111} violation, the plaintiff must prove that the defendant had specific intent\textsuperscript{112} to monopolize the

\textsuperscript{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).

\textsuperscript{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).

\textsuperscript{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.

\textsuperscript{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).

\textsuperscript{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).

\textsuperscript{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, market power in the relevant market, and in "attempt" cases, that the defendant had a "dangerous probability of success." 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. 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. The other elements of the antitrust violations were satisfied. Although it is not clear from the opinion, Raytheon apparently violated both section 1 and 2 of the Sherman Act.

IV. NOERR-PENNINGTON LIMITS ON LIABILITY

A. General Principles

The Noerr-Pennington doctrine developed in Eastern Railroad Presi-
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. In Pennington, the Court held that Noerr applied to administrative agencies, and expanded the scope of protection “a concerted effort to influence public officials regardless of intent or purpose.” In California Motor Transportation Co. v. Trucking Unlimited, the doctrine was extended to include petitions to the judicial branch of government.

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. 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.”

The Noerr-Pennington doctrine is applicable when a party asserts rights in court in “good faith.” Therefore, in Walker Process and

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


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.


134. See supra note 98 and accompanying text.
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. 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. This formulation, however, is subject to substantial constitutional challenges.

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

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


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

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.

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 deve-
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. Historically, only certain practices have been considered *per se* violations of the Sherman Act. 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.

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. 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. 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 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.

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-pencil 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.

Michael D. Oliver