GODZILLA vs MECHAGODZILLA

Antitrust and Intellectual Property Rights—the Ultimate Counterweapon?

By Frederick Juckniess and Suzanne Larimore Wahl

In the profound character of Godzilla, humankind is faced with a force of nature that brings balance and causes destruction but in the end frequently protects humankind from doom (be it from space monsters, invaders from space, or legendary creatures). However unlikely it may seem, Godzilla provides the near-perfect analogy for the power of antitrust law and its economic underpinnings.

A Force of Nature

Antitrust law is rooted in the powerful idea that, when markets operate correctly, the "invisible hand" of economic forces drives scarce resources into an efficient and beneficial distribution. Like Godzilla, antitrust law is a force of nature bringing balance to markets and, like Godzilla, it protects humankind from those who would interfere with that balance. Antitrust law acts to protect competition—though not necessarily competitors or even consumers—that may be trampled. Competition and antitrust enforcement may leave a Godzilla-like trail of destruction, crushing both the deserving and undeserving in the service of the market.

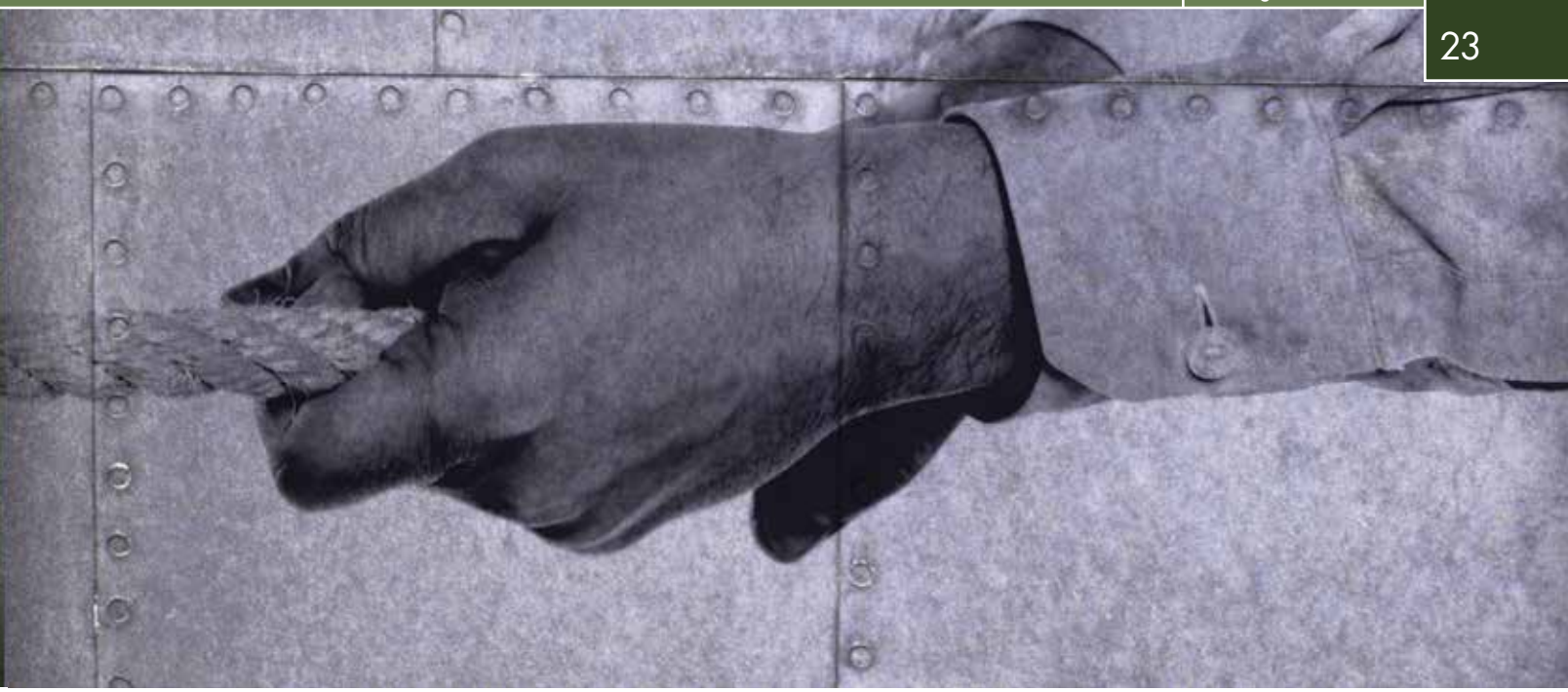
In the theatrical masterpiece *Godzilla Against Mechagodzilla* (2002), humankind creates artificial Mechagodzilla to counteract natural Godzilla. In the legal world, humankind has created intellectual property (IP) law to limit antitrust law and protect innovation. As many a Japanese fisherman or pedestrian in the street can attest, Godzilla might be saving the earth as a whole, but individuals (or cities) may suffer in the process. When the laws of economics apply the pressures of perfect competition to competitors, the result might not leave sufficient incentive for individuals to invest, invent, and build. Monopolies and rights of exclusion granted by IP law are anticompetitive, but humankind needed a system to protect the good of human innovation.

So just as Godzilla and Mechagodzilla share a skeleton (Mechagodzilla was built on the bones of the Godzilla defeated in 1954), IP law is built on economic laws to create a mechanism to benefit human society by protecting the incentives that drive investment, innovation, and growth.

What happens when Godzilla arrives to do battle with Mechagodzilla? In the 2002 classic, Mechagodzilla initially short-circuits because he won't battle himself—he has Godzilla in his bones, literally. But in the legal world, IP rights routinely face off against antitrust counterclaims. The importance of IP rights and the power of the antitrust counterattack mean everyone in business needs to be familiar with how these titans clash.

IP Owners Get the Keys to Mechagodzilla

IP rights holders have a powerful weapon protecting them from competition and the antitrust laws just as Mechagodzilla protects humankind from Godzilla. We give IP rights holders this protection to foster human growth by allowing them to protect



their legitimate interests. We do this even knowing that IP law allows anticompetitive behavior, barring competitors from infringing on patents, trademarks, and copyrights. We do this because IP rights provide economic incentives for investment, innovation, and growth. But misuse those rights and Godzilla may still rise up to crush you in the form of an antitrust counterclaim.

But to properly understand the likely success of an antitrust counterclaim, one must first understand the *Noerr-Pennington* doctrine. Based on the First Amendment,[1] the doctrine allows IP rights to be asserted in a civil action without fear of provoking an antitrust counterattack, provided the action is not a mere "sham" to cover up an interference with another's ability to compete. The doctrine was created in *Eastern R Presidents Conference v Noerr Motor Freight, Inc,*[2] in which the Supreme Court held that "no violation of [the antitrust laws] can be predicated upon mere attempts to influence the passage or enforcement of laws."[3] Later, in *United Mine Workers of America v Pennington,*[4] the Court extended antitrust immunity to actions before administrative agencies. Subsequent Supreme Court decisions further extended the exemption.

The Supreme Court has identified a type of sham litigation specific to the IP world: enforcement of an invalid patent obtained by fraud. In *Walker Process Equip, Inc v Food Machinery & Chemical Corp,*[5] the Court focused on the antitrust counterclaim brought by Walker Process in response to the patent infringement claims asserted by Food Machinery. In its counterclaim, Walker Process alleged that Food Machinery's patent was invalid because it withheld information regarding prior use of the invention and thus the attempt to enforce the invalid patent against Walker Process violated Section 2 of the Sherman Act.[6] Food Machinery responded that a patent monopoly and Sherman Act monopolization could not be equated.

The Supreme Court held that the counterclaim could be stated as long as the elements were sufficiently alleged. In concurring, Justice Harlan restated and clarified that an antitrust counterclaim would succeed if:

> (1) the relevant patent is shown to have been procured by knowing and willful fraud practiced by the defendant on the Patent Office or, if the defendant was not the original patent applicant, he had been enforcing the patent with knowledge of the fraudulent manner in which it was obtained; and (2) all the elements otherwise necessary to establish a § 2 monopolization charge are proved.[7]

Justice Harlan went on to state that if the patent was fraudulently procured but there is no knowledge of it by the counterclaim defendant or if knowledge of fraudulent procurement is shown

FAST FACTS

- Antitrust counterclaims require precision and specific pleading to overcome presumptions protecting plaintiffs that bring intellectual property lawsuits.
- When IP lawsuits are objectively unreasonable and based on anticompetitive motivations or they are based on fraudulently obtained IP, an antitrust counterclaim can be a powerful counterpunch.
- IP defendants who fight back with antitrust counterclaims must plead and prove all the same elements that are required for an antitrust claim in addition to passing the threshold requirements to overcome the presumptions protecting IP plaintiffs.

but the other requirements of Section 2 are not met, an antitrust counterclaim will lose the battle with patent law.

In explaining how the economic underpinnings of both patent and antitrust law support this holding, the Court in *Walker Process* said:

> "A patent by its very nature is affected with a public interest. * * * (It) is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope."[8]

The Court acknowledged that a patentee may have committed inequitable conduct but still not be subject to an antitrust counterclaim. The economic bones underlying both areas of law are thus recognized and given effect in this balanced approach to their conflict.

In 1998, the federal circuit court explained the relationship between *Walker Process* and *Noerr-Pennington*. Its opinion in *Nobelpharma AB v Implant Innovations, Inc*[9] explained that either doctrine (or both) may be used to strip a patentee of immunity from the antitrust laws.[10] The difference, it noted, was the timing of the wrongful conduct: *Walker Process* focuses on the fraudulent conduct in the U.S. Patent and Trademark Office and during the patent application process. *Noerr-Pennington* focuses on the objective baselessness and subjective motivation of the asserted claims. The court further reserved to itself the exclusive jurisdiction to decide appeals after a patentee has been stripped of its immunity from the antitrust laws under either theory, reversing earlier precedent.[11]

The court in *Nobelpharma* also distinguished between mere inequitable conduct and the type of fraud that would support a *Walker Process* claim, noting that "[a] finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct."[12] Since inequitable conduct is so frequently used as a defense by alleged infringers, the court understandably wished to prevent every such case from including an antitrust claim as well.

In *Professional Real Estate Investors, Inc v Columbia Pictures Industries, Inc*[13] (*PRE*), the Supreme Court identified the two factors necessary to establish a sham petition and overcome *Noerr-Pennington*. First, the claim must be "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits."[14] It is perhaps the most important piece of the *PRE* decision that the threshold question is judged by an objective standard. A court typically will not consider alleged bad intent unless it first determines the suit is objectively baseless.[15] Second, if that objective threshold is satisfied, the analysis turns to the subjective motivation—whether "the baseless lawsuit conceals an attempt to interfere *directly* with the business relationships of a competitor."[16] The subjective, anticompetitive purpose combined with the objective lack of merit would together strip a litigant of protection from antitrust counterclaims.

Noerr-Pennington protection has been extended to cases in which counterclaims for violation of state unfair-competition law are brought in response to allegedly "sham litigation." Where the state statutes were modeled on the federal antitrust law, courts have concluded that the immunity from antitrust claims derived from federal law should apply at the state level as well.[17]

Calling Godzilla: The Real Battle Begins

If a counterclaim plaintiff survives a *Noerr-Pennington* challenge, the real battle begins, pitting antitrust-Godzilla against IP-Mechagodzilla. The possibility of an antitrust counterclaim might even convince an IP litigant to think twice about filing suit. After all, successful antitrust plaintiffs get three times their damages plus attorney's fees.

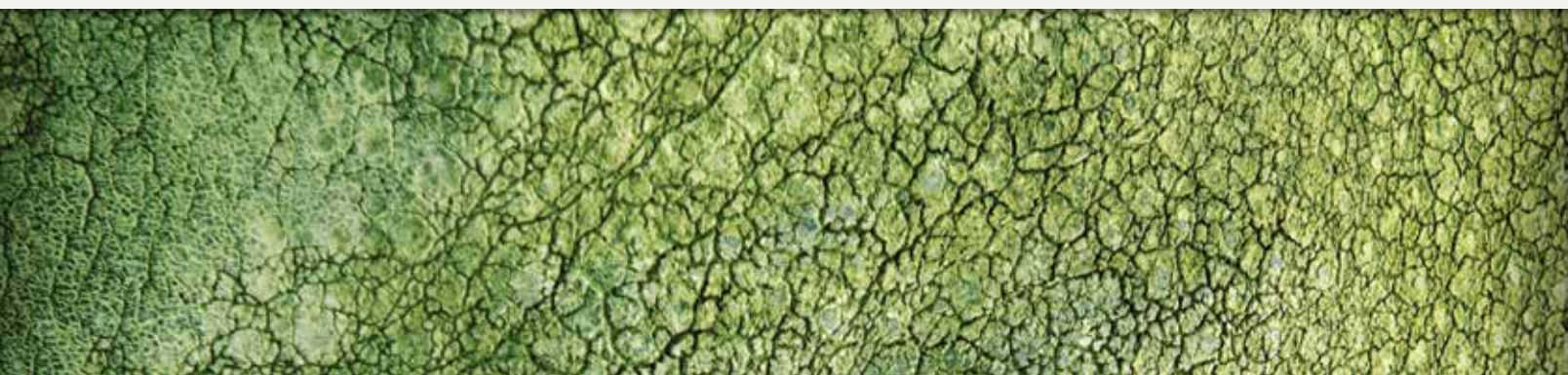
The typical antitrust counterclaim asserted against IP claims—including those in patent, trade secret, or trademark—is brought under Section 2 of the Sherman Act, which is directed at monopolies or attempts to monopolize:

> 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, or with foreign nations, shall be deemed guilty of a felony….[18]

It is important to remember that even under the antitrust laws, being a monopolist alone is not a violation of the law. The Sherman Act does not prohibit a monopoly developed "as a consequence of a superior product, business acumen, or historic accident."[19] Only anticompetitive conduct with the intent of achieving monopoly power is prohibited.

Therefore, to successfully counterattack, the counterclaim plaintiff must deliver a one-two punch.

One: The counterclaim plaintiff needs to plead (and ultimately prove) that the counterclaim defendant has either an



amount of power in the market approaching a monopoly, or sufficient power and circumstances that there is a "dangerous probability" the defendant will achieve monopoly power in that market. The counterclaim plaintiff must define the relevant product market and geographic market.

Two: The counterclaim plaintiff will then need to plead (and ultimately prove) either that the power was willfully acquired not as a result of superior competition or that the defendant undertook the anticompetitive conduct with a specific intent to monopolize. Such intent to monopolize will likely include, or perhaps consist primarily of, initiating the IP litigation.[20]

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Relevant product markets are defined based on what consumers would find to be reasonable substitutes.[21] Defining a relevant market for the antitrust counterclaim generally requires identification of all reasonably acceptable substitutes in the geographic area to which a consumer might reasonably turn. Despite a patent's uniqueness, it is rare indeed that even a patented product has no reasonable substitutes. As a result, while an IP owner may have the right to exclude all others from making the unique patented product—an effective monopoly—this does not translate into monopoly power in the sense of economic analysis. This idea, though long recognized by many courts, was finally articulated by the Supreme Court in 2006 when it held:

> Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion.[22]

In other words, patent does not equal monopoly. It is somewhat surprising that the Supreme Court found it necessary to make this declaration, since it had clarified 40 years before in the *Walker Process* case that a patent need not define a market.[23]

A counterclaim plaintiff must also define a relevant geographic market. Just as with product markets, it can be difficult to determine the scope of a geographic market. In some cases, the nature of the product will limit the scope of the market; for example, the geographic competitive area for milk, which is generally purchased locally, is likely smaller than the market for socks, which can be purchased online from sources around the country.

Classic Matchups

Antitrust counterclaims may be brought based on sham litigation when any types of IP rights are at stake. Trade secrets, trademarks, trade dress, and even copyright may support the type of antitrust counterclaim that results in this battle of titans. As with Godzilla's battles against Megalon or Rodan, these matches show how difficult it can be to bring and maintain a valid antitrust counterclaim, but how powerful such a claim can be when well-grounded. The claims and the arguments can be as imaginative and creative as the Godzilla series itself:

- **Patent:** In *Apple, Inc v Motorola Mobility, Inc,*[24] Apple brought an antitrust counterclaim in response to Motorola's patent infringement claim, asserting it had been harmed by Motorola's demand for royalties and subsequent patent litigation. The counterclaim was dismissed, as Apple failed to prove that the patent litigation was objectively baseless under *PRE*.
- **Trade Dress:** In *Mktg Displays, Inc v Traffix Devices, Inc,*[25] in response to trademark and trade dress infringement claims, the counterplaintiff argued that the claims violated the antitrust laws because the trade dress claims were covered by an expired design patent. After the district court dismissed the antitrust counterclaim for failure to identify a relevant market, the Sixth Circuit found that a trade dress claim is not automatically baseless merely because the underlying patent has expired.
- **Trademark:** In trademark litigation over "The Scooter Store," the antitrust counterplaintiff survived *Noerr-Pennington*

under the sham litigation exception by alleging that the trademark suit was objectively baseless because the counterdefendant knew the trademark was unenforceable in connection with retail sales and that the counterdefendant intended to drive the counterplaintiff from the market. The counterplaintiff also alleged the elements of attempted monopolization under Section 2 of the Sherman Act.[26]

- **Trade Secret:** In *CVD, Inc v Raytheon Co,*[27] CVD claimed that Raytheon demanded royalties from CVD to avoid a trade secret lawsuit after several Raytheon employees went to CVD. CVD claimed that these threats violated Sections 1 and 2 of the Sherman Act. After CVD's victory in the trial court, the First Circuit treated the claim like a *Walker Process* claim, but acknowledged that trade secrets are "far broader than the scope of patentable technology" and potentially more subject to abuse.[28] As a result, the court set the "proper balance between the antitrust laws and trade secrets law" by requiring "clear and convincing evidence" that the trade secrets were asserted "with the knowledge that no trade secrets existed"—in other words, asserted in bad faith. Likewise, the court required proof of a specific anticompetitive intent, noting that this intent "can often be inferred from a finding of bad faith."[29]

- **Copyright:** In *Fonar Corp v Domenick,*[30] a copyright infringement case, the antitrust counterplaintiff survived a motion to dismiss by showing that the copyright had previously been found not sufficiently specific to support an injunction.

- **Don't Wait!:** Recently, in *MGA Entertainment, Inc v Mattel, Inc,*[31] the court considered the question of whether an antitrust counterclaim for anticompetitive litigation is compulsory or whether a claimant may bring the antitrust counterclaim after obtaining a judgment in its favor on the IP claim. In finding it was compulsory, the court observed that the great weight of cases treat it as such and to hold otherwise would "create a new element to an antitrust claim that requires the victim of sham litigation to obtain a judgment in her favor in the sham litigation before bringing an antitrust claim."

Survive to the Conclusion

It is a highly dramatic scene in *Godzilla Against Mechagodzilla:* the Japan Defense Ministry reveals the recovered bones of Godzilla to a group of assembled scientists and inventors along with the plan to create the greatest weapon known to man. They think they will destroy Godzilla, but they are sorely mistaken—both Godzilla and Mechagodzilla (spoiler alert) live to fight another day. The contest between antitrust and IP rights is similarly ongoing and, like Godzilla and Mechagodzilla, will continue to provide many more classic battles. ■

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FOOTNOTES

1. US Const, Am I.
2. *Eastern R Presidents Conference v Noerr Motor Freight, Inc,* 365 US 127; 81 S Ct 523; 5 L Ed 2d 464 (1961).
3. *Id.* at 135.
4. *United Mine Workers of America v Pennington,* 381 US 657; 85 S Ct 1585; 14 L Ed 2d 626 (1965).
5. *Walker Process Equip, Inc v Food Machinery & Chemical Corp,* 382 US 172; 86 S Ct 347; 15 L Ed 2d 247 (1965).
6. *Id.* at 177; 15 USC 2.
7. *Walker Process,* n 5 *supra* at 179.
8. *Id.* at 177, quoting *Precision Instrument Mfg Co v Automotive Maintenance Machinery Co,* 324 US 806, 816; 65 S Ct 993; 89 L Ed 1381 (1945).
9. *Nobelpharma AB v Implant Innovations, Inc,* 141 F3d 1059, 1067–1068 (Fed, 1998).
10. *Id.* at 1067–1068.
11. *Id.*
12. *Id.* at 1070–1071.
13. *Professional Real Estate Investors, Inc v Columbia Pictures Industries, Inc,* 508 US 49; 113 S Ct 1920; 123 L Ed 2d 611 (1993).
14. *Id.* at 60.
15. See, e.g., *White v Lee,* 227 F3d 1214, 1232 (CA 9, 2000).
16. *Id.* at 61.
17. See, e.g., *Lorillard Tobacco Co, LLC v RJ Reynolds Tobacco Co,* unpublished opinion of the Superior Court of North Carolina, issued August 8, 2011 (Docket No. 10 CVS 11471), 2011 WL 3477155.
18. 15 USC 2.
19. *United States v Grinnell Corp,* 384 US 563, 571; 86 S Ct 1698; 16 L Ed 2d 778 (1966).
20. See, e.g., *The Scooter Store, Inc v SpinLife.com LLC, 777* F Supp 2d 1102, 1115–1117 (SD Ohio, 2011).
21. *Id.*
22. *Illinois Tool Works Inc v Independent Ink, Inc,* 547 US 28, 45–46; 126 S Ct 1281; 164 L Ed 2d 26 (2006).
23. *Walker Process,* n 5 *supra.*
24. *Apple, Inc v Motorola Mobility, Inc,* ___ F Supp 2d ___ (WD Wis, 2012).
25. *Mktg Displays, Inc v Traffix Devices, Inc,* 967 F Supp 953 (ED Mich, 1997), aff'd in part, rev'd in part, 200 F3d 929, rev'd, 532 US 23 (2001).
26. *The Scooter Store, Inc,* n 20 *supra.*
27. *CVD, Inc v Raytheon Co,* 769 F2d 842 (CA 1, 1985).
28. *Id.* at 850.
29. *Id.* at 851.
30. *Fonar Corp v Domenick,* 105 F3d 99, 101 (CA 2, 1997).
31. *MGA Entertainment, Inc v Mattel, Inc,* unpublished opinion of the Central District of California, issued February 21, 2012 (Docket No. SACV 11-01063), 2012 WL 569389.