

## Walker Process Antitrust Claims Clarified

*Thursday, March 08, 2007* --- The U.S. Court of Appeals for the Federal Circuit recently decided two cases involving Walker Process antitrust claims.

In one case the court clarified the types of threats that could subject a fraudulent patent holder to Walker Process antitrust liability, holding that a patent obtained by fraud could lead to an antitrust violation in which the patent holder threatened to enforce the patent against the plaintiff's customers, but made no enforcement threats directly against the plaintiff. *Hydril Co. v. Grant Prideco LP*, Case No. 2006-1188 (Fed. Cir., Jan. 25, 2007) (Friedman, Sr. J.; Mayer, J., dissenting).

In the other case, the Federal Circuit shed light on what conduct constitutes the fraud necessary to form the basis for a Walker Process claim.

The Federal Circuit dismissed a Walker Process antitrust claim in which the patent holder's omission to the Patent Office, while material and resulting in an unenforceable patent, did not rise to the level of fraud necessary to support a Walker Process claim. *Dippin' Dots Inc. v. Mosey*, Case Nos. 2005-1330, -1582 (Fed. Cir., Feb. 9, 2007) (Gajarsa, J.).

Walker Process refers to the 1965 Supreme Court decision, *Walker Process v. Food Machinery*, which held that enforcement of a fraudulently obtained patent may violate Section 2 of the Sherman Act, which prohibits monopolization or attempted monopolization. Sherman Act violators are subject to civil suits for treble damages.

**\* Threats Against Customers Constitute "Enforcement" For Purposes of Walker Process Claims \***

The Hydril case involved two competitors that manufacture the pipes used in drilling oil and gas wells and the connections for interlocking these pipes. Hydril alleged that Grant Prideco had fraudulently obtained a patent for such drill pipes by intentionally failing to disclose certain material prior art during the patent application process.

Hydril further alleged that Grant Prideco then used threats to enforce this fraudulently procured patent by writing letters to distributors, customers and others in the industry that suggested that Grant Prideco "would act aggressively to challenge activities that it saw as potentially infringing."

Hydril's complaint did not allege that Grant Prideco had threatened enforcement against Hydril directly.

The district court dismissed the resulting Walker Process antitrust claim because Hydril had "failed to allege enforcement activity by Grant Prideco which would create a reasonable apprehension that Grant Prideco intended to enforce the...patent against Hydril."

The Federal Circuit reversed, allowing Hydril to proceed with the antitrust claim. The court reasoned that "a valid Walker Process claim may be based upon enforcement activity directed against the plaintiff's customers. Threats of patent litigation against customers, based on a fraudulently procured patent, with a reasonable likelihood that such threats will cause the customers to cease dealing with their supplier, is the kind of economic coercion that the antitrust laws are intended to prevent."

The court emphasized that the threat necessary for such an antitrust claim should be distinguished from the threat required to bring a declaratory judgment action for patent validity. As explained by the Federal Circuit in *Microchip Technology Inc. v. The Chamberlain Group*, in a patent validity declaratory judgment action, enforcement threats against the plaintiff's customers alone would not be enough to avoid dismissal.

\* Even Omissions in the Patent Prosecution Process that Result in Unenforceability May Be Insufficient to Support Walker Process Claims for Fraud \*

In the *Dippin' Dots* case, *Dippin' Dots* held an exclusive license to a patent for the process of making, preserving and distributing ice cream "beads." However, the applicant for the ice cream bead patent had failed to disclose certain sales of beaded ice cream that occurred before the critical date.

When *Dippin' Dots* subsequently brought patent infringement actions against *Mosey* (and others) who had started to manufacture and sell essentially the same product, *Mosey* claimed that the patent was unenforceable because it had been obtained by fraud. In addition, *Mosey* made Walker Process antitrust counterclaims.

The district court determined that *Dippin' Dots*'s exclusively licensed patent was unenforceable and that the plaintiffs had established a Walker Process claim. The district court also required *Dippin' Dots* to pay *Mosey*'s attorneys fees.

The Federal Circuit agreed that the patent applicant had committed "inequitable conduct" in failing to inform the USPTO of the on-sale prior art and that this was a sufficient basis to render the patent unenforceable.

However, the court concluded that there was insufficient evidence of the required "deceptive intent" to establish the fraud necessary to sustain a Walker Process antitrust claim. "To demonstrate Walker Process fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct."

Although the Court found the patent applicant's omission to be sufficiently material to render the patent unenforceable, it ruled that the omission, by itself, was insufficient to establish the necessary level of fraudulent intent required to sustain a Walker Process claim.

Practice Note: The Hydril and Dippin' Dots decisions underscore the close relationship between patent and antitrust law and help explain the parameters of that relationship.

Those seeking to enforce a patent that was allegedly procured through fraud or inequitable conduct face potential treble damage antitrust liability. Those seeking to challenge a patent would be wise to consider if circumstances exist for a possible antitrust claim. For either, the Federal Circuit's recent rulings provide significant guidance.

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