UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of	)	
UNION OIL COMPANY OF CALIFORNIA,	)	Docket No. 9305
a corporation.	)	

COMPLAINT COUNSEL'S MEMORANDUM IN OPPOSITION TO UNION OIL COMPANY OF CALIFORNIA'S ("UNOCAL") MOTION FOR DISMISSAL OF THE COMPLAINT BASED UPON IMMUNITY UNDER *NOERR-PENNINGTON*

INTRODUCTION

The First Amendment's right to "petition government" for "redress of grievances" does not give companies a free ticket to mislead government.[1] Shockingly, Unocal wants this Tribunal to make novel law and grant immunity to Unocal at a motion to dismiss stage without any review of the facts. This would require this Tribunal to reverse a unanimous Commission vote in favor of this Complaint that expressly states that *Noerr* immunity does not apply here as a "matter of fact." Administrative Complaint ("Cmplt."), ¶ 96.

Historically, courts and this Commission have not allowed patent monopolies achieved through fraud. Indeed, the Supreme Court has held that the "public" has "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." *Walker Process Equip. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965) (citation omitted). The Commission itself has also held in a monopoly by patent case: "Ironic indeed would be the result if this Commission--with power against partial, incipient and various other hybrid monopolies--could not arrest the continuance of an absolute monopoly procured by unfair methods." *American Cyanamid Co.*, 1967 FTC LEXIS 43, 71 (1967), *aff'd sub nom. Charles Pfizer & Co. v. F.T.C.*, 401 F.2d 574 (6th Cir. 1968). As explained below, no case has changed this fundamental law.

The only narrow immunity ("*Noerr*" immunity) that courts have allowed in monopoly cases is one that protects petitioning to legislative policymakers in Sherman Act cases, and only

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[1] To "petition" means to specifically ask for "the redress of some wrong, or grant of some favor, privilege or license." *Black's Law Dictionary* (5th ed. 1979), at 1031. Unocal never asked for the monopoly – it took it by fraudulent, inequitable and bad faith business conduct.

under specific circumstances. Unocal wants this Tribunal for the first time to extend this immunity to a FTC Act Section 5 case where the government agency, the California Air Resources Board ("CARB") had no clue that Unocal was asking for a monopoly or even any right to seek money for its ideas. Rather, Unocal said the exact opposite: Unocal's way of making gasoline was "non-proprietary." No court or Commission has granted *Noerr* immunity under these circumstances. Morever, as the Complaint alleges, much of the harm here was caused directly by Unocal's fraudulent, inequitable and bad-faith business conduct towards the oil industry, which could have avoided significant harm if Unocal had been truthful to them -- even if Unocal had not done anything wrong before CARB.

Unocal's motion to dismiss based on *Noerr* immunity suffers from fatal procedural and substantive infirmities and should be denied for several independent reasons.

First, Unocal seeks to invade the province of this Tribunal by making factual determinations that only this Tribunal is authorized to make after a full adjudication. For purposes of deciding a motion to dismiss, the allegations set forth in the Complaint must be accepted as true. Paragraph 96 of the Administrative Complaint ("Cmplt."), the filing of which the Commission voted unanimously to approve, specifically alleges the following:

> Unocal is not shielded from antitrust liability pursuant to the Noerr-Pennington doctrine for numerous reasons as a matter of law ***and as a matter of fact*** including, but not limited to, the following: (i) Unocal's misrepresentations were made in the course of quasi-adjudicative rulemaking proceedings; (ii) Unocal's conduct did not constitute petitioning behavior; and (iii) Unocal's misrepresentations and materially false and misleading statements to Auto/Oil and WSPA, two non-governmental industry groups, were not covered by any petitioning privilege. (Emphasis added)

Whether *Noerr* immunity applies here is a mixed question of law and fact and, as such, cannot be resolved at this stage. Nonetheless, Unocal turns a blind eye to the express allegations of the

Complaint and seeks, in numerous instances, to recast the allegations and interject its version of the facts into this Tribunal's determination of the scope and application of *Noerr* immunity. This is inappropriate. *See, e.g., Moore U.S.A., Inc. v. Standards Register Co.,* 139 F. Supp.2d 348, 358-9 (W.D.N.Y. 2001) (denying defendant's motion to dismiss on *Noerr* grounds because of factual allegations supporting "sham" litigation claims and "reject[ing] [the plaintiff's] attempt to interject evidence and arguments of fact" into the motion to dismiss); *Morrone Co. v. Barbour*, 241 F. Supp.2d 683, 690 (S.D. Miss. 2002) (consideration of the applicability of *Noerr-Pennington* doctrine that required an analysis of evidence outside the pleadings and exhibits attached not appropriately considered in a motion to dismiss).[2] The express allegations of the Complaint compels the conclusion that Unocal's motion to dismiss is ill-founded.

Second, taking the allegations of the Complaint as true, Unocal cannot prevail because the *Noerr-Pennington* doctrine simply does not shield it from liability for the knowing and willful misconduct detailed in the Complaint. As much as Unocal may wish it were the case, neither this statutory doctrine nor the First Amendment right to petition shields Unocal's misrepresentations from antitrust scrutiny. In large measure, *Noerr* is designed to protect a party's right to participate

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[2] *See also Jarrow Formulas, Inc. v. Int'l Nutrition Co.*, 175 F. Supp.2d 296, 310-311 (D.Conn. 2001) (All that is needed to survive a motion to dismiss "is that the complaint allege facts, which, if proven, show that the defendant is not entitled to *Noerr-Pennington* immunity."); *Open LCR.com, Inc. v. Rates Tech., Inc.*, 112 F. Supp.2d 1223, 1233 (D.Colo. 2000) ("Should Plaintiffs ultimately prove either set of allegations [set out in the complaint], RTI would not be entitled to immunity from antitrust liability under *Noerr-Pennington*. Accordingly, RTI's motion to dismiss Plaintiffs' antitrust claim must be denied."); *Hoffman-La Roche, Inc. v. Genpharm, Inc.*, 50 F. Supp.2d 367, 380 (D.N.J. 1999) (Court denied motion to dismiss on *Noerr-Pennington* immunity grounds because it could not make factual determinations with the information in the motion to dismiss.); *Fox News Network, LLC v. Time Warner, Inc.*, 962 F. Supp. 339, 346 (E.D.N.Y. 1997) ("The decision about whether the *Noerr-Pennington* doctrine applies should be left until after discovery, so as to 'more fully develop the underlying acts and possibly establish an exception.") (citations omitted).

in the political process; for example, it protects a party's right to petition the government for the imposition of trade restraints, even anticompetitive ones. In this case, however, we are presented with a very different situation.

As detailed in the Complaint, Unocal violated Section 5 of the FTC Act by purposefully engaging in fraudulent and misleading conduct to ensnare a state government agency and private industry groups as unwitting pawns in its carefully devised anticompetitive scheme (Cmplt., ¶¶ 1-3, 57-59). The state administrative agency duped by Unocal had been charged with the development of environmental regulations and embarked on a meticulous and well-documented rulemaking process that necessarily required reliance on the accuracy of facts provided to it by outside parties (Cmplt., ¶¶ 16-17). Moreover, these environmental regulations were not intended to restrain competition, let alone provide Unocal, one private party, with undue market power and competitive advantage (Cmplt., ¶¶ 79-80). Because of Unocal's deceptive conduct, the administrative agency did not, until it was too late, comprehend that these regulations overlapped with Unocal's patent claims which, in turn, permitted Unocal to exercise market power (Cmplt., ¶ 49, 92-94). Consequently, the anticompetitive harm at issue here flows from Unocal's private business conduct in enforcing its patent rights and not a conscious governmental decision to restrain trade (Cmplt., ¶¶ 42-43, 48-49).

Third, Unocal's conduct cannot be deemed to be constitutionally protected, as there is no blanket constitutional protection for lies and misrepresentations made to a government agency. Further, to the extent that a statutory construction of the Sherman Act confers greater protection than that afforded by the First Amendment right to petition, *Noerr* immunity still does not apply. The Complaint's express factual allegations that Unocal's actions, and not those of the state,

directly inflicted the competitive harm takes Unocal's misconduct beyond the reach of *Noerr*. The competitive harm in this case is analogous to the harm alleged in *Walker Process– i.e.,* the private enforcement of monopoly power established by fraud. Thus, while Unocal inexplicably devotes much of its brief to arguing that *Noerr* immunity does not apply where competitive harm is caused directly by state action these arguments are rendered irrelevant by the allegations of privately caused competitive injury.

Fourth, even assuming that this were a case in which competitive harm flowed directly from state action, Unocal's fraud is not immunized by *Noerr* because its was perpetrated during a formalized rulemaking process that was more "adjudicatory" than "political" in nature. Accordingly, Unocal's misconduct falls within the well-established misrepresentation exception to the *Noerr-Pennington* doctrine.

Unocal asserts that, for some purposes under California state law, CARB is considered a "quasi-legislative" body. But determining whether CARB's rulemaking is considered "quasi-legislative" or "quasi-adjudicative" under California state law ***does not*** determine whether such rulemaking is sufficiently "political" for *Noerr* purposes such that antitrust immunity should attach. The nature of the government process at issue is but one of many independent factors considered in determining the scope or applicability of *Noerr* immunity. *See, e.g., Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982) (holding ratemaking, which is considered "quasi-legislative" under California law, to be "adjudicatory" for *Noerr* purposes). Among other factors are whether the proceedings are formalized; whether the misrepresentations went to the core of the proceedings; and whether the government agency was dependent on the information provided to it by wrongdoer. An assessment of the relevant factors

compels the conclusion that, for *Noerr* purposes, the administrative rulemaking at issue here falls on the "adjudicatory" side of the ledger. *See Kottle v. Northwest Kidney Centers*, 146 F.3d 1056, 1062-63 (9th Cir. 1998) (setting forth "totality of circumstances" test as determining whether the body was political or adjudicatory by setting forth a non-exhaustive list of relevant factors). Unocal may disagree about the proper application of these *Kottle* factors to CARB rulemaking; however, this again is a factual dispute not appropriately resolved here at this stage in the proceedings.

Fifth, that this action is brought under Section 5 of the FTC Act, and not under the Sherman Act, further supports denial of *Noerr* immunity. In light of the significant remedial and organizational differences between the two acts, the reach of *Noerr* in this case should not extend beyond constitutional limits. Accordingly, given that the First Amendment right to petition does not protect the type of fraudulent conduct alleged in the Complaint, there is no reason that this Tribunal should protect such conduct here.

Sixth, Unocal's motion should further be denied because the Complaint alleges fraudulent conduct that, in part, was directed to private industry groups and not a government agency (Cmplt., ¶¶ 50-59). Specifically, the Complaint alleges wrongful conduct before private industry groups that inflicted harm to competition independent of any government action by preventing other refiners from incorporating knowledge of Unocal's patent rights in making capital investments and refinery configuration decisions. (Cmplt., ¶ 90 (c)). Thus, these particular allegations do not implicate any government petitioning conduct whatsoever. These allegations therefore clearly raise disputed issues of fact that cannot, regardless of the resolution of *Noerr* immunity issue, be resolved by a motion to dismiss.

Finally, Unocal cannot secure dismissal of the Complaint by invoking its success in the private patent litigation. The Commission's enforcement action does not seek to overturn any court judgment. The relief sought by Complaint Counsel consists of a prospective cease and desist order that is narrowly tailored to remedy Unocal's misrepresentations to CARB and the oil industry in California. As such, Unocal's assertion of *Noerr* immunity in this regard is misplaced.

For the reasons set forth more fully below, this Tribunal should deny Unocal's motion to dismiss and allow the Commission and the public their day in court.

I. Unocal's Motion to Dismiss On Grounds of *Noerr* Immunity Is Inappropriate Given the Express Allegations of the Complaint That This Is A Matter of Fact.

For purposes of a motion to dismiss filed under Commission Rule 3.22(e), 16 C.F.R. § 3.22(e), "the factual allegations of the complaint are presumed to be true and all reasonable inferences are to be made in favor of complaint counsel." *In the Matter of Schering-Plough Corporation, et. al.*, Docket No. 9297, Order Denying Motions of Respondents Schering-Plough and Upsher-Smith to Dismiss the Complaint (October 31, 2001), 2001 WL 34039130 at 6, *citing TK-7 Corp.*, 1989 FTC Lexis 32, *3 (May 3, 1989) (*citing Miree v. DeKalb County*, 433 U.S. 25, 27 n.2 (1977); *Jenkins v. McKeitchen*, 395 U.S. 411, 421-22 (1969)); *see also Scheuer v. Rhodes*, 416 U.S. 232, 236 (1974); *Coca-Cola Company*, 1988 FTC Lexis 164, *2 (October 25, 1988). If the motion to dismiss raises factual issues which are in dispute, dismissal of the complaint is not appropriate. *Herbert R. Gibson*, 1976 FTC Lexis 378, *1 (April 23, 1976); *Jewell Companies, Inc.*, 81 F.T.C. 1034, 1972 FTC Lexis 277, *4 (Nov. 10, 1972) (denying motion to dismiss where there was a substantial dispute on questions of fact); *see also College Football Assoc.*, 1990 FTC Lexis 485, *2 (Dec. 27, 1990) (motion to dismiss will be denied when facts are needed to make

determination on a "close question").

Moreover, the Supreme Court has held that it "is axiomatic that a complaint should not be dismissed unless 'it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.'" *McClain v. Real Estate Board of New Orleans, Inc.*, 444 U.S. 232, 246 (1980) (*quoting Conley v. Gibson*, 355 U.S. 41, 45-46 (1957)). Additionally, in *Hospital Building Company*, the Supreme Court stated: "[I]n antitrust cases . . . dismissals prior to giving the plaintiff ample opportunity for discovery should be granted very sparingly." *Hospital Building Co. v. Trustees of Rex Hospital*, 425 U.S. 738, 746 (1976) (*quoting Poller v. Columbia Broadcasting*, 368 U.S. 464, 473 (1962)).

The Complaint in this case unquestionably alleges fraudulent conduct that justifies the imposition of antitrust liability under Section 5 of the FTC Act. Unocal cannot shoulder its heavy burden to show beyond doubt that Complaint Counsel cannot, under any circumstances, prove a set of facts that support the claim for relief. In recognition of this fact, Unocal's motion to dismiss refers to facts and evidence outside of the pleadings, mischaracterizes the allegations of the Complaint, and disputes the significance and import of relevant facts. Unocal's unwillingness to take the facts alleged in the Complaint as true (as it must) simply proves the point that Unocal itself believes that a determination of *Noerr* immunity in this case turns on factual issues that are obviously disputed – *e.g.*, (i) Was Unocal genuinely petitioning for a monopoly?; and (ii) Was Unocal's strategy of seeking money for its proprietary ideas the proximate cause of the alleged harm to consumers?; and (iii) Was CARB's decision to incorporate Unocal's way of making gasoline quasi-adjudicative?

Indeed, several courts have held that the issue of whether alleged bad acts violate the

antitrust laws or merit *Noerr* protection necessarily turns on questions of fact, and have allowed juries to make such determinations. *See United States v. AT&T*, 524 F. Supp. 1336, 1342 (D.D.C. 1981) (court allowed the government to put on its case-in-chief before ruling on *Noerr* issues); *see also MCI Communications Corp. v. AT&T*, 708 F.2d 1081, 1139-40 (7th Cir. 1983) (court enabled the jury to determine whether the defendant had engaged in bad faith negotiations and "sham litigation" despite the *Noerr* doctrine). While, of course, there is no jury in Part 3 Adjudicative Proceedings, these cases militate that this Tribunal – at the very least – defer any ruling on the applicability of *Noerr-Pennington* immunity until after a full airing of the facts and evidence. Accordingly, Unocal's motion to dismiss should be denied.

II. Unocal's Violations of the Antitrust Laws Are Not Immunized By the *Noerr-Pennington* Doctrine.

Unocal asserts that its misconduct cannot give rise to antitrust liability under Section 5 of the FTC Act because the *Noerr-Pennington* doctrine protects its "petitioning" rights. Distilled to its essence, Unocal's argument is as follows: CARB is a quasi-legislative body under state law and, as such, Unocal's presumed fraudulent conduct during the rulemaking process clearly constitutes protected "petitioning" conduct. *See* Resp. Mot. at 2. But Unocal's arguments amount to nothing more than a talismanic invocation of *Noerr* immunity. In its motion to dismiss, Unocal does not address whether its claim to such immunity can be reconciled with the policy justifications and constitutional concerns underlying the *Noerr* doctrine. It cannot.

At its heart, the *Noerr-Pennington* doctrine is founded on a recognition that genuine and bona fide efforts to influence the government should be protected even though the parties seek the

passage of laws that restrain or exclude competition. But this case does not implicate such *Noerr*-protected political "petitioning." The hallmark of such political petitioning is a genuine and transparent effort to induce governmental action. "In general, a prerequisite for *Noerr* immunity is that the government ***actually know about the restraint being imposed.***" 1 Areeda & Hovenkamp, *Antitrust Law* ¶ 209a (2d ed. 2000) (hereinafter "Areeda & Hovenkamp") (emphasis added). This case, however, involves a deliberate and intentional abuse of a state administrative agency's process and unknowing governmental action that resulted in unintended market consequences. CARB neither knew nor intended its administrative actions to displace or restrain competition. As such, the direct cause of the anticompetitive harm in this case is not state action, but private business conduct. Now Unocal believes it can shield its actions from scrutiny by invoking *Noerr*. But neither law nor policy allows Unocal to victimize a state agency, collect monopoly profits from consumers, and then thumb its nose at the antitrust laws.

A. Imposition of Antitrust Liability for Unocal's Conduct Does Not Impinge Any of the Constitutional Concerns That Are at the Heart of the *Noerr* Doctrine.

The *Noerr* doctrine has been characterized as both the direct offspring of constitutional principles and a creature of Sherman Act statutory construction. As such, it is unclear whether the bounds of *Noerr* protection extend *beyond* those conferred by the Constitution. What *is* clear, however, is that to the extent that constitutional concerns govern the scope and applicability of the *Noerr* doctrine, Unocal's fraudulent conduct is not constitutionally protected.

Noerr generally shields from antitrust liability actions by a party taken in connection with petitioning for governmental action that imposes restraints upon trade. In *Eastern R.R. President's Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), the U.S. Supreme

Court held that a party was immune from antitrust liability for attempting to influence the passage of law restraining trade, regardless of the party's anticompetitive intent or motive. The Court based its holding, in large part, on the sanctity of the right of citizens to petition the government for action. In this regard, the Court stated: "In a representative democracy such as this, these [legislative and executive] branches of government act on behalf of the people and, to a very large extent, the whole concept of representation depends upon the ability of the people to make their wishes known to their representatives." *Id.* at 137. Accordingly, the Court held that "where a restraint upon trade or monopolization is the result of valid governmental action, as opposed to private action, no violation of the [Sherman] Act can be made out." *Id.* at 136.

But the imposition of antitrust liability in this case does not encroach upon the right to petition. The Supreme Court has held that, under the First Amendment, "the knowingly false statement, and the false statement made with reckless disregard of the truth, do not enjoy constitutional protection." *Garrison v. Louisiana*, 379 U.S. 64, 75 (1964). Just as deliberately false statements are not immunized from suit by the right to freedom of speech, so likewise they are not immunized under the petition clause. *See McDonald v. Smith*, 472 U.S. 479, 484-85 (1985) (citing *Garrison* for the proposition that "petitions to the President that contain intentional and reckless falsehoods do not enjoy constitutional protection;" there is "no sound basis for granting greater constitutional protection to statements made in a petition to the President than other First Amendment expressions.").[3]

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[3] *See also New York Times v. Sullivan*, 376 U.S. 254, 279-80 (1964) ("Even criticism of public officials in their official duties is actionable if made "with knowledge that it was false or with reckless disregard of whether it was false or not."); *BE&K Constr. Co. v. NLRB*, 536 U.S. 516, 530-31 (2002) ("Just as false statements are not immunized by the First Amendment right to freedom of speech, baseless litigation is not immunized by the First Amendment right to

Consequently, "[t]here is no first amendment protection for furnishing with predatory intent false information to an administrative or adjudicatory body. The first amendment has not been interpreted to preclude liability for false statements." *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1261-62 (9th Cir. 1982); *see also Walker Process*, 382 U.S. 172, 174 (1965) ("[T]he enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act."). Accordingly, Unocal cannot validly equate its claim to *Noerr* immunity with any effort to vindicate important First Amendment principles.

Nor do any federalism concerns support Unocal's claim to *Noerr* immunity. Courts have applied *Noerr* immunity to prevent antitrust litigation from being used as a means of prosecuting collateral attacks on the manner in which government agencies decide to take on anticompetitive action. *See City of Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 377-78 (1991) (hereafter *Omni)* (court expressed great reluctance to "look behind" the actions of state sovereigns). Here, however, no onerous deconstruction of the governmental process is required since the formalized rulemaking process followed by CARB permits a determination as to the causal effects of Unocal's misconduct. In addition, the injunctive relief proposed in the Complaint does not require any interference in the functioning of state governmental processes. In *Omni*, the anticompetitive effect was brought about by an ordinance passed by the city council, and the optimal remedy would have been to rescind or overturn this ordinance. By contrast, the remedy proposed here will leave the state regulations intact and unimpaired.

Moreover, the state of California supports the Commission's enforcement action in this

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petition.") (quoting *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731, 743 (1983)); *Whelan v. Abell*, 48 F.3d 1247, 1255 (D.C. Cir. 1995) ("However broad the First Amendment right to petition may be, it cannot be stretched to cover petitions based on known falsehoods").

case. In its amicus brief to the United States Supreme Court in opposition to the petition for certiorari, the state of California denounced Unocal's efforts to "hijack and distort the regulatory process." *Amici Curiae* Brief on Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit, 2000, at 9.[4] And more recently, the state of California announced its support of the FTC's enforcement action in this case. *See Los Angeles Times*, "Unocal Accused of Monopolizing Clean Gasoline," March 5, 2003; *San Jose Mercury News*, "Unocal Sued Over Gas Patents," March 5, 2003.[5] Such support further alleviates any federalism concerns, as federal scrutiny of state decision-making processes should raise no constitutional difficulty where the state knowingly gives its consent.

In sum then, no constitutional principles bar the imposition of antitrust liability in this case for Unocal's fraudulent conduct.

B. Even Assuming That the Sherman Act Provides Greater Protection For Petitioning Conduct Than Constitutionally Required, *Noerr* Does Not Immunize Unocal's Fraudulent Conduct.

To the extent the Sherman Act extends *Noerr* immunity to protect conduct beyond core

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[4] Attached hereto as Appendix A.

[5] Attached hereto as Appendix B. Complaint Counsel request that official notice be taken of the State of California's expressed support of this Tribunal sitting in judgment of Unocal in this matter. Official notice in an FTC proceeding may be taken of "a material fact not appearing in evidence of record." *In the Matter of Schering-Plough Corp.*, Docket No. 9297, Order dated Jan. 6, 2003. *See also Government of Rwanda v. Rwanda Working Group*, 227 F.Supp.2d 45, 60 n.6 (D.D.C. 2002) ("A court may take judicial notice of matters of a general public nature."); *Ritter v. Hughes Aircraft Co.*, 58 F.3d 454, 458-9 (9th Cir. 1995) (Not abuse of discretion for court to take judicial notice under FRE 201 of a fact reported in newspaper where it "is a fact which would be generally known in [the locality] and which would be capable of sufficiently accurate and ready determination").

constitutional concerns, such greater protection does not inure to Unocal's benefit in this case for two principal reasons.

First, Unocal's fraudulent conduct falls ***outside*** the reach of *Noerr* immunity because it does not constitute ***genuine*** political petitioning and, as such, the competitive harm flows from private conduct, not government action.

Second, even assuming (without conceding) that this were a case in which governmental action directly caused competitive harm, Unocal's fraudulent conduct brings this case within the misrepresentation exception to *Noerr* immunity.

1. Unocal's Fraudulent Conduct Falls Outside of the Reach of the *Noerr* Doctrine Because, As Alleged in the Complaint, Such Misconduct Does Not Constitute Protected, Genuine Political Petitioning.

The Supreme Court in *Omni* made clear that one of the Court's principal concerns in *Noerr* is that States must be left the "freedom to engage in anticompetitive regulation," and private individuals accordingly likewise must be free to "seek anticompetitive action from the government." *Omni*, 499 U.S. at 379-80. Claims that challenge governmental action as anticompetitive strike close to this concern. Indeed, the *Noerr* doctrine is a corollary to the state action immunity doctrine set forth in *Parker v. Brown*, 317 U.S. 341 (1943), which immunizes states from Sherman Act liability for anticompetitive restraints that are deliberately imposed by them. *Omni*, 499 U.S. at 370. Thus, it would be manifestly unfair for a private party who urges a state to take a patently anticompetitive action to be liable under the Sherman Act while the state actor itself is immune.[6] *Noerr* and its progeny stand for the proposition that protected political

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[6] Areeda and Hovenkamp state in this regard as follows:

> The main issue concerning the relationship of the Noerr and Parker immunities is

"petitioning" occurs when the government is, at the end of the day, ***actually aware*** of the anticompetitive restraint it is imposing and takes state action nonetheless.[7] This case, however, does not implicate a knowing and deliberate decision by the state to grant Unocal a monopoly. Indeed, Unocal's fraudulent conduct was intended to ensure that CARB had no clue what Unocal was doing.

No challenge to governmental action exists here because, as alleged in the Complaint, the anticompetitive harm flows directly from *Unocal's* ***private business conduct*** rather than directly from governmental action. Paragraph 95 of the Complaint alleges, in pertinent part, that: ***"Unocal's enforcement of its patent rights is the proximate cause of substantial competitive harm and consumer injury."*** Consistent with this allegation, Paragraph 98 further alleges:

> ***Unocal's enforcement of its patent portfolio has caused, and will cause, substantial consumer injury.*** Unocal's own economic expert has testified under oath that 90 percent of any royalty costs associated with the patents will be passed through to consumers in the form of higher retail gasoline prices. (emphasis added.)

Accordingly, the Complaint makes clear that the significant competitive injury did not result from a deliberate governmental decision to displace competition or otherwise restrain trade.

> the following. Assuming non-sham activity by a private party, is the private party always immunized by Noerr on the ground that its petitioning or proposing is privileged and/or that the restraint results from government action and not from action by the petitioner? The answer is that the private party is immune where the government is the key deciding force and either approves with intent to displace antitrust law or compels the challenged action. The private party is not immune where the operative restraint results from its own private action inadequately supervised. Areeda & Hovenkamp ¶ 229.

[7] *See FTC v. Superior Court Trial Lawyers Ass'n*, 493 U.S. 411, 424-425 (1990) ("But in the *Noerr* case the alleged restraint of trade was the intended *consequence* of public action; in this case the boycott was the *means* by which respondents sought to obtain favorable legislation.") (emphasis in original); Areeda & Hovenkamp ¶ 209a (general prerequisite for *Noerr* immunity is that the government "actually know about the restraint being imposed").

In light of the express allegations of the Complaint, Unocal's contention that this case involves the direct infliction of competitive harm by state action and its corresponding reliance on the Commission's amicus brief in *Armstrong* are misplaced.[8] Contrary to Unocal's suggestion, the Commission's amicus brief in *Armstrong* is entirely consistent with Complaint Counsel's position in this case.[9] In *Armstrong Surgical Center, Inc. v. Armstrong Cty. Mem'l Hospital*, 185 F.3d 154 (3d Cir. 1999), the plaintiff alleged that a competitor's misrepresentations during a certificate of need ("CON") proceeding resulted in a government decision that wrongly denied a CON certificate and imposed corresponding competitive harm – that is, the exclusion of a competing health care facility from the market.[10] The Third Circuit declined what would have amounted to collateral review of the agency's decision to bar the entry of another market participant. While it is unclear why Unocal relies on the Commission's *Armstrong* amicus – or

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[8] Unocal plainly misconstrues the Complaint allegations. Unocal inexplicably claims that, "[i]t is plain from the face of the Complaint that the alleged harm to competition asserted by Complaint Counsel arises solely from the outcome of the governmental process and not its use... [and that] the enactment of regulations - the outcome of the process- is the sole cause of the competitive harm alleged by the Complaint." Resp. Mot. at 2. As shown, examination of the plain language of the Complaint reveals that this is simply *not* the case.

[9] Consistent with the positions taken in the *Armstrong* amicus brief, the Commission has taken recent actions that elaborate upon its position on the scope of *Noerr* immunity. These actions are the voting out of an administrative complaint in this action and the Commission's amicus brief in *In re Buspirone*. In both these instances, the Commission has taken the position that misrepresentations to administrative agencies are not immunized by *Noerr*. *See, e.g.*, Cmplt., ¶ 96; *Buspirone* amicus brief at 21-23. The *Busprirone* amicus brief is attached hereto as Appendix C.

[10] Significantly, however, the *Armstrong* court distinguished the case from *Walker Process* and *Woods Exploration* on the grounds that, in those cases, the defrauded governmental agencies were necessarily dependent on the information provided to them in taking its governmental action. *See Armstrong,* 185 F.3d at 164 n.8. As in *Walker Process* and *Woods Exploration* that is exactly the case here.

even what precedential value Unocal believes it has – it is clear that the Commission's brief there highlights the reasons why Unocal's fraudulent conduct falls outside of *Noerr* protection.

In its amicus brief, the Commission noted that in *Armstrong*, the theory of liability sought to "recover damages for competitive injuries *that were directly caused by government action* – the State's denial of a CON – on the theory that the action was procured through factual misrepresentations and threats of unlawful anticompetitive conduct made by respondents to the relevant state decision makers." Brief for the United States and the Federal Trade Commission as Amici Curiae, *Armstrong Surgical Center, Inc. v. Armstrong County Memorial Hospital*, Sup. Ct. No. 99-905 ("*Armstrong* Amicus Brief") at 13-14 (emphasis added).[11] The Commission observed that "while this Court's cases do not foreclose the possibility of such a claim, the Court itself has never gone so far." *Id.* at 14.[12] The Court's decision in *Walker Process*, by contrast, alleged competitive harm that flowed from private conduct – the defendant's efforts to enforce the patent – rather than from the governmental action itself. The Commission explained: "And although *Walker Process*, like this case, involved misrepresentations to a government agency (the Patent Office) that allegedly resulted in competitive harm, it was the antitrust defendant's attempt to

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[11] The Commission joined the Solicitor General in opposing plaintiff's petition for writ of certiorari to the United States Supreme Court. Plaintiff in *Armstrong* filed its petition after the Third Circuit's decision granting *Noerr* immunity to resolve a claimed split in the Circuits. When faced with similar allegations, the Ninth Circuit in *Kottle v. Northwest Kidney Centers*, 146 F.3d 1056 (9th Cir. 1998), and the Eleventh Circuit in *St. Joseph's Hosp. v. Hospital Corp. of America*, 795 F.2d 948 (11th Cir. 1986), had held that the *Noerr* did not apply.

[12] Indeed, the Commission in its *Armstrong* Amicus Brief did not reject such a claim. The Commission stated in its brief: "Despite these reservations, we are not presently prepared to conclude that relief should never be available in a case alleging that competitive damages caused directly by some state action were procured by private parties, in violation of antitrust laws, through abuse of the State's administrative or judicial process." *Armstrong* Amicus Brief at 18.

enforce a fraudulently procured patent directly against a would-be competitor that the Court held could support an antitrust counterclaim." *Id.* at 13 (emphasis in original).

The distinction drawn by the Commission in its *Armstrong* brief is a critical one. Here, as expressly alleged, the alleged competitive harm does not flow directly from CARB's Phase 2 regulations. There is nothing "anticompetitive" about the regulations in and of themselves. The competitive harm flows from Unocal's efforts to enforce and charge royalties for its patents. Unocal is not under a state compulsion or mandate to do so. In fact, Unocal could have opted to dedicate its patent rights to the public or told CARB about these proprietary rights so that their value, if any, could be fairly considered.

Unocal instead made a conscious, deliberate, and self-interested decision to enforce its patent rights. Accordingly, the relief sought in this case is tailored to address the source of the competitive harm. The Complaint does not propose suspension of the CARB's regulations as the means to remedy Unocal's anticompetitive conduct. Rather, it contemplates a cease and desist order barring Unocal from enforcing its patents against those harmed by its fraud. (Cmplt., Notice of Contemplated Relief, ¶¶ 1-3). Put simply, it is not CARB's Phase 2 regulations that are the problem, the problem is Unocal's collecting money from the oil industry and thus consumers for patented ideas that were supposedly "non-proprietary."

Like *Walker Process* then, this case does not challenge CARB's regulations. As such, this case resembles two other sets of cases that do not implicate *genuine* political petitioning and thus lie outside the reach of *Noerr*: (1) "sham" cases; and (2) cases such as *FTC v. Superior Court Trial Lawyers Ass'n*, 493 U.S. 411 (1990) (hereafter *"SCTLA"*).

In sham cases, for example, the allegations are directed at alleged misuse of the processes

of government: for example, "delay is sought to be achieved . . . by the lobbying process itself, and not by the governmental action that the lobbying seeks." *Omni*, 499 U.S. at 381. Put another way, "sham" cases are concerned with a competitor's use of "the governmental *process* – as opposed to the *outcome* of that process – as an anticompetitive weapon." *Professional Real Estate Investors Inc., v. Columbia Pictures Industries,* 508 U.S. 49, 60-61 (1993) (hereafter "*PREI*"). Because the governmental action itself is not at issue, *Omni* and *PREI* hold that this procedural abuse may be challenged without implicating the concerns underlying *Noerr*.

Procedural abuse of government processes, however, is not the only way in which private parties can engage in anticompetitive practices relating to achieving government actions, without coming within the protections of *Noerr*. In *SCTLA*, for example, lawyers in private practice who served as court-appointed counsel in the District of Columbia organized a boycott in connection with their effort to force the city government to increase fees for court-appointed services. Although this boycott otherwise constituted a classic restraint of trade, the lawyers argued that their conduct was protected under *Noerr* because the objective of the boycott was to obtain favorable legislation. The Supreme Court in *SCTLA* rejected this argument because governmental action itself was not being challenged.

In *SCTLA*, the fact that governmental action was not being challenged could be highlighted by asking the question: Would the anticompetitive consequences be the same if the government had never acted? The answer is *yes*. In this case, it is possible to ask a similar question: If CARB's regulation remains unchanged, can injunctive relief against the private party alone remedy the alleged anticompetitive consequences? Again, the answer here – even more so than *Walker Process* – is *yes*. The Phase 2 regulations do not need to change one iota in order to

remedy the anticompetitive conduct at issue. Indeed, given lock-in by the parties, changing the regulations clearly is *not* an effective means of lessening the anticompetitive consequences of Unocal's conduct. Like the "sham" cases and *SCTLA*, this case does not challenge any governmental action, as the competitive harm results from private and not governmental conduct. For that reason, and consistent with the Court's holding in *Walker Process*, this case properly should be found to lie outside the protections of *Noerr*.

2. Unocal's Conduct Also Falls Under the Misrepresentation Exception to *Noerr*.

Even were this case like *Armstrong*, where the competitive harm flowed directly from government action, Unocal's fraudulent conduct would still not be immunized by *Noerr*. To be sure, allegations of direct governmental harm to competition would bring a case within the reach of *Noerr*, as such allegations would suggest that the petitioning party *genuinely* sought the imposition of an anticompetitive restraint by the state. But where, as here, a party makes material misrepresentations in the course of "adjudicatory" proceedings, such misconduct brings the case within the independent misrepresentation exception to *Noerr*.

As noted above, while the facts in *Walker Process* itself involved facts (like this case) that take it outside the reach of *Noerr* altogether, courts have subsequently concluded that the rationale of *Walker Process* supports recognition of an ***exception*** to *Noerr* where a party makes material misrepresentations to a government agency. Subsequent pronouncements of the United States Supreme Court, as well as the decisions of lower courts, have recognized the viability of a misrepresentation exception to *Noerr* in administrative and adjudicative proceedings. For example, in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the

Supreme Court specifically cited *Walker Process* and stated:

> There are many other forms of illegal and reprehensible practices which may corrupt the administrative or judicial processes and which may result in antitrust violations. Misrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process. . . . Insofar as the administrative or judicial processes are involved, actions of that kind cannot acquire immunity by seeking refuge under the umbrella of 'political expression.' 404 U.S. at 513.

Subsequently, in *Allied Tube*, 486 U.S. 492 (1988), the Court reaffirmed that petitioning conduct outside of the political sphere – in that case in connection with a private standard-setting body's proceedings – could not lay claim to *Noerr* immunity. The Court stated that the scope of *Noerr* protection depends on the "source, context, and nature of the anticompetitive restraint at issue." 486 U.S. at 499 (emphasis added). According to the Court, conduct which is immunized in one area of government may not be protected in the less political areas of government:

> A publicity campaign directed at the general public, seeking legislative or executive action, enjoys antitrust immunity even when the campaign employs unethical and deceptive methods. ***But in less political arenas, unethical and deceptive practices can constitute abuses of administrative or judicial processes that may result in antitrust violations.*** *Id.* at 499-500 (internal cites omitted) (emphasis added).

Lower courts have followed the Supreme Court's lead in *California Motor Transport* and *Allied Tube* and held that antitrust liability can be imposed for fraudulent conduct in administrative and adjudicative fora. *See, e.g., St. Joseph's Hosp. v. Hospital Corp. of America*, 795 F.2d 948, 955 (11th Cir. 1986); *Israel v. Baxter Labs, Inc.*, 466 F.2d 272, 278 (D.C. Cir. 1972); *Woods Exploration & Prod. Co. v. Aluminum Co. of America*, 438 F.2d 1286, 1296-97 (5th Cir. 1971).

Courts have continued to recognize the viability of the misrepresentation exception even after the Supreme Court's narrowing of the sham exception in *Omni* and *PREI*. The Federal Circuit's decision in *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068-69 (Fed. Cir. 1998), and the Ninth Circuit's decisions in *Kottle v. Northwest Kidney Centers*, 146 F.3d 1056, 1060-62 (9th Cir. 1998) and *Liberty Lake Investments, Inc. v. Magnuson*, 12 F.3d 155, 158-59 (9th Cir. 1993) specifically ruled that *PREI* ***did not*** extinguish the misrepresentation exception based on *Walker Process*. At this point, the Ninth, D.C., and Federal Circuits have all recognized a separate misrepresentation exception that is distinct from the "sham" exception.[13] Moreover, even the rationale of the Third Circuit, which has adopted the most narrow view regarding the misrepresentation exception would support a finding of liability in this case. The views of antitrust scholars likewise are supportive of liability under the facts presented here.

a. CARB's Reformulated Gasoline Rulemaking Proceedings Were "Adjudicatory" and Not "Political" in Nature.

Following the lead of the Supreme Court in *California Motor Transport*, some courts have focused the application of a misrepresentation exception to *Noerr* on proceedings that are more "adjudicatory" than "political" in the *Noerr* sense. In this regard, the Complaint specifically alleges that, as a factual matter, "CARB's Phase 2 RFG proceedings were quasi-adjudicative in nature" (Cmplt., ¶ 26). While Unocal disputes this characterization of the CARB proceedings,

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[13] *See, e.g., Clipper Express v. Rocky Mountain Motor Tariff,* 690 F.2d 1240, 1261; *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1071 (Fed. Cir. 1998) ("*PRE* and *Walker Process* provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws"); *Whelan v. Abell*, 48 F.3d 1247, 1254-1255 (D.C. Cir. 1995) (*Noerr* does not immunize the filing of "deliberately false complaints" before an administrative agency or court.).

this again is a factual dispute that cannot be resolved at the motion to dismiss stage.[14]

The Ninth Circuit's decision in *Kottle v. Northwest Kidney Centers*, 146 F.3d 1056 (9th Cir. 1998), is particularly instructive here. In *Kottle*, after reviewing a number of Ninth Circuit precedents, the court observed that its cases "stand for the general proposition that 'the scope of immunity depends on the degree of political discretion exercised by the government agency.'" *Id.* at 1062 (citation omitted). Hence, the Ninth Circuit had in previous cases treated as "legislative" an administrative agency that "made decisions virtually unguided by enforceable standards and ... [whose] decisions could be appealed only to a legislative body." *Id.* at 1061 *(citing Boone v. Redevelopment Agency*, 841 F.2d 886, 896 (9th Cir. 1987)). In *Kottle* itself, by contrast, the administrative agency "operates in a sufficiently non-political way to warrant application of the judicial sham exception." *Id.* at 1062. Applying a "totality of the circumstances" test, the *Kottle* court concluded:

> The CON determination by the Department bears many indicia of a true adjudicatory proceeding. The Department conducts public hearings, accepts written and oral arguments, permits representation by counsel, and allows affected persons to question witnesses. The Department must issue

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[14] Unocal cites a few cases for the proposition that the Complaint's allegations that CARB's process was quasi-adjudicative should be disregarded. Resp. Mot. at 8, n.4. These cases are inapposite. This is not a situation in which the Complaint contains conclusory *legal* conclusions. The Complaint describes the CARB Phase 2 proceedings (*see* Cmplt., ¶¶ 16-27) and supports with additional facts the factual allegation that the process was quasi-adjudicative. Significantly, the cases cited by Unocal recite the well established rule that the facts pled in a complaint must be taken as true on a motion to dismiss. *See, e.g., Silver v. H&R Block,* Inc., 105 F.3d 394, 396 (8th Cir. 1997) (whether public statements are misleading is a question for the trier of fact); *LRL Props. v. Portage Metro Hous. Auth.*, 55. F.3d 1097, 1104 (6th Cir. 1995) ("All well-pleaded facts, as distinguished from conclusory allegations, must be taken as true.") (citations omitted); *Westcott v. City of Omaha*, 901 F.2d 1486, 1488 (8th Cir. 1990) (Affirm the granting of a motion to dismiss only if "it appears beyond doubt that the plaintiff can prove no set of facts which would entitle him to relief.") (citations omitted).

written findings after its hearing. Its decision is appealable, and that appeal is governed by APA procedures and statutory standards. *Id.*

CARB likewise "operate[d] in a sufficiently non-political way to warrant application" of the misrepresentation exception. Unlike the government body in *Boone*, CARB did not operate "virtually unguided by enforceable standards," nor was its decision appealable only to a legislative body. Rather, like the state agency involved in *Kottle*, CARB's Phase 2 rulemaking was conducted in accordance with APA procedures: CARB provided notice of its proposed regulations; it provided the language of these proposed regulations with a statement of reasons; it solicited and accepted written comments; and it conducted hearings at which oral testimony was permitted (Cmplt., ¶ 26).

CARB also issued extensive written findings on the results of its rulemaking, with answers to concerns or questions raised by affected parties.[15] *See* Cal. Gov. Code §§ 11340 *et seq.* CARB's regulations were reviewed by the Office of Administrative Law to ensure that the regulations met the statutory standards of necessity, authority, clarity, consistency, reference and nonduplication. *Id.*, § 113491.1. Finally, CARB's rulemaking was subject to judicial review to

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[15] Unocal suggests that CARB in the CARB Phase 2 rulemaking could have, but made a conscious decision not to, invoke adjudicative proceedings available to it under Sections 11370 et seq. of the Cal. Govt. Code and Title 17 of the California Code of Regulations at sections 60040 to 60094. Motion at 15. This is misleading. The adjudicatory hearing procedures to which Unocal refers are limited by the express language of California Code of Regulations to review of certain executive officer decisions and are not available in rulemaking proceedings. See Cal. Code Regs. § 60040 (adjudicatory hearing provisions apply to executive officer decisions relating to vehicle or engine recalls; revocation or suspension of vehicle test laboratory licenses; and other decisions where adjudicatory hearings required by law but no hearing procedures specified). Thus, CARB did not make a deliberate decision to forego these quasi-judicial hearing procedures. In any event, the availability, in certain limited circumstances, of hearing procedures that resemble judicial proceedings does not mean that CARB's RFG rulemaking proceedings are "legislative" for purposes of a *Noerr* analysis.

determine whether the agency acted within its delegated authority; whether the agency employed fair procedures; and whether the agency's action was arbitrary, capricious, or lacking in evidentiary support. *Id,* § 11350; Cmplt., ¶ 18. Moreover, quite apart from CARB's adherence to the strictures of the California Administrative Procedures Act, the agency's discretion and authority were circumscribed by an express legislative mandate that required it to take actions that were "technologically feasible," "cost-effective," and "necessary" to reduce pollution to specified levels by December 31, 2000. Cal. Health & Safety Code §§43013(a), 43018(c); Cmplt., ¶ 21a.

The nature of the technical decisions resulting from CARB's highly circumscribed exercise of its delegated authority further undermines Unocal's efforts to characterize the CARB rulemaking as "political in the *Noerr* sense." While Unocal argues that CARB's rulemaking "consisted entirely of policymaking" (Resp. Mot. at 11), this is simply not the case. In its rulemaking, CARB was carrying out its mandate and making technical decisions that simply implemented the policy judgments already made by the legislature concerning the reduction of automobile emissions. As alleged in the Complaint, the California legislature had mandated that CARB achieve specific emissions reduction goals – *e.g.*, the "reduction in actual emissions of reactive, organic gases of at least 55 percent, a reduction in emissions of oxides of nitrogen of at least 15 percent from motor vehicles" no later than December 31, 2000. Cmplt. ¶ 21a. CARB's rulemaking cannot be deemed as an exercise in "political" policymaking.

Nor is this conclusion undermined by Unocal's argument that CARB is classified under California law for standard of review purposes as a "quasi-legislative" body. *See* Resp. Mot. at 11. Instead of focusing, as *Kottle* does, on whether CARB's actions are "guided by enforceable standards subject to judicial review," Unocal argues that CARB has been treated as a "quasi-

legislative" body for some state-law purposes. *Id.* at 12. Unocal's desire to redirect the inquiry to this classification and nomenclature is understandable, but misleading nonetheless.

Unocal devotes a great deal of its brief to emphasize that CARB's rulemakings are "quasi-legislative" in nature. *See* Resp. Mot. at 2, 8-9, 11. But the distinction drawn between "legislative" and "adjudicative" proceedings under state law is unrelated to the classification of rulemaking as "adjudicatory," as opposed to "political," for purposes of application of the *Noerr Pennington* doctrine.[16] Under California law, the designation of an administrative agency as "quasi-legislative" is intended to indicate the source of the authority for actions taken by the agency and the scope of judicial review for such agency actions. *Yamaha Corporation of America v. State Bd. of Equalization*, 19 Cal. 4th 1, 6 n.3 (1988). But the designation of an administrative body, such as CARB, as "quasi-legislative" ***does not*** determine whether it is more political or adjudicatory for *Noerr* purposes. For example, ratemaking by an administrative agency is defined as "quasi-legislative" under California law for the purpose of defining the scope of judicial review. *Consumer Lobby Against Monopolies v. Public Utilities Commission*, 25 Cal. 3d 891, 908 (1979). Significantly, in *Clipper Express,* the Ninth Circuit treated the ratemaking proceedings at issue as *adjudicatory* for *Noerr* purposes and held that *Noerr* immunity did not apply to misrepresentations made in connection with such ratemaking proceedings. *Clipper Express,* 690 F.2d 1240, 1252 n.17 (1982). As a result, the Complaint's allegation that the CARB RFG rulemaking proceedings were "quasi-adjudicative" is not, as Unocal contends, wrong as a matter of law.

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[16] *Cf. Crosby v. Hospital Auth. of Valdosta*, 93 F.3d 1515, 1524 (11th Cir. 1996) (holding that "definition of 'political subdivision' for purposes of sovereign immunity" under state law not controlling for purposes of determining immunity under federal state action doctrine).

Characterizing CARB's proceedings as "quasi-adjudicative" for *Noerr* purposes and "quasi-legislative" for purposes of defining the standard of judicial review under California law makes sense because such differing characterizations buttress the same important objectives – namely, effectuating the goals and purposes of the administrative agency and ensuring its smooth and proper functioning. *See Litton Sys. v. AT&T,* 487 F. Supp. 942, 956 (S.D.N.Y. 1980) ("The system of administrative supervision is not undercut but is complemented and reinforced by affording judicial relief for cynical evasion and corruption of that system for unfair competitive advantage.").

b. The Formalized Nature of CARB's Rulemaking Proceedings Permits An Assessment of the Causal Relationship Between Unocal's Misrepresentations and CARB's Actions.

Significantly, while Unocal places great emphasis on the label "quasi-legislative," such labels generally have been rejected by commentators as a means for determining whether *Noerr* immunity should be applied in a particular case. Professors Areeda and Hovenkamp, for example, emphasized that the important inquiry is showing the requisite causal nexus between the alleged misrepresentation and the agency's conduct. While showing such causation is "almost impossible to establish in the legislative context, where no one can say what combination of facts, arguments, politics, or other factors produced the legislation," the same is not true of "quasi-legislative activities." Executives or agencies exercising such powers "often behave as legislatures," but "on the other hand, the relevant procedures may approximate the adjudicatory and the path of decision may be clearer." Areeda & Hovenkamp ¶ 203f3 at 177.

In Areeda and Hovenkamp's view, "where the agency has its own investigative resources and there is no reason to believe it relied on the particular allegedly false evidence, the case for

ignoring it seems strong." Conversely, the causation question is easiest [w]here, as here, "the information in question was exclusively in the control of the proponent." *Id.*, ¶ 203f3 at 178; ¶ 203e at 170. They conclude:

> There certainly is no privilege for misrepresentations to administrative agencies that base their decisions on information provided by the parties. Moreover, there is no reason here to differentiate for these purposes between adjudication and rule making or between rules grounded exclusively in a hearing record and those grounded in less formal procedures. *Id.*, ¶ 203e 169 (footnotes omitted).

In *The Antitrust Paradox*, Professor Bork likewise rejected the "legislative" label as significant for purposes of determining *Noerr* immunity. Rather, it is "the character of the governmental decision-making process" that should affect the scope of immunity from liability:

> We have seen that law may punish those who knowingly advance baseless claims in court, and it is undisputed that the legislature may punish those who lie to its investigative committees. What these situations have in common is a formalized process by which judicial or legislative tribunals attempt to find facts. . . . Our society requires a wide-open political process, robust and free. It also requires that there be more formal, constrained procedures for the establishment of certain types of facts and the application of particular policies. Processes of the latter type must be guarded from abuse if they are to be effective. R. Bork, *The Antitrust Paradox* 360 (1978).

CARB's Phase 2 rulemaking constitutes precisely the type of "formalized process" for "the establishment of certain types of facts" that *The Antitrust Paradox* views as outside the proper scope of *Noerr* immunity.[17] As alleged in the Complaint, CARB's rulemaking proceedings were marked by intensive fact-finding and information gathering, which was

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[17] *See also id.* ("To say that everything that is said to any kind of tribunal is 'political expression' and therefore unregulable is to 'politicize' the courts, legislative fact-finding committees, and administrative tribunals so that they lose much of their present value and may become unmanageable").

accompanied by notice and comment hearing proceedings. Cmplt., ¶¶ 25, 26. Moreover, this formalized process resulted in a rulemaking record that substantially assists any efforts to discern the causal effects of a party's actions in the rulemaking. The Final Statement of Reasons for the CARB Phase 2 RFG Regulations that Unocal has attached to its motion as an exhibit illustrates this point inasmuch as it contains detailed statements concerning information provided in the proceedings, as well as the effect or impact of such information. *See* Resp. Mot., App. 4.

c. Unocal's Misrepresentations Affected the "Core" of the Adjudicatory Proceedings.

Even courts that have placed the most stringent requirements on the misrepresentation exception have nonetheless accepted that *Noerr* does not immunize fraud that affects the core of the governmental proceedings. *See, e.g., Cheminor Drugs, Ltd. v. Ethyl Corp.,* 168 F.3d 119, 123-124 (3d Cir. 1999) (stating that "a *material* misrepresentation that affects the very core of a litigant's [] case will preclude *Noerr-Pennington* immunity."). *See also Baltimore Scrap Corp. v. David J. Joseph Co.*, 237 F.3d 394, 402 (4th Cir. 2001) (assuming a fraud exception to *Noerr* exists, it applies only to fraudulent statements that go to the "core" of the adjudicatory proceedings). Unocal's conduct would satisfy even this test.

The Complaint alleges that Unocal made "material" misrepresentations during these rulemaking proceedings relating to, among other things, the costs associated with the CARB Phase 2 regulations and the nature of its proprietary interests (Cmplt., ¶ 2a, 2b, 2c). In this regard, the Complaint also alleges that Unocal understood that data and information bearing on the costs of complying with, and the cost-effectiveness of, the regulations were material. *Id.*, ¶ 27. Given

the specific legislative mandate that CARB develop regulations that were "cost-effective" (Cmplt., ¶ 21a), Unocal's misrepresentations concerning its proprietary interests in its research results, and its intention to enforce these proprietary interests, clearly affected the core of the rulemaking.

d. CARB Necessarily Relied and Depended on the Information Provided By Unocal and Other Participants to the Rulemaking.

One of the principal reasons that Unocal's misconduct is so egregious is that no one else possessed information that could dispel the effect of Unocal's fraud. Unocal, and only Unocal, could have provided accurate information to CARB concerning its intent to enforce its proprietary interests in its purportedly "non-proprietary" research results. Given the fact that CARB necessarily relied on the truth and accuracy of information provided to it in the rulemaking, Unocal's intentional concealment of information tainted CARB's rulemaking.

In *Clipper Express*, the Ninth Circuit held that "the fraudulent furnishing of false information to an agency in connection with an adjudicatory proceeding can be the basis for antitrust liability, if the requisite predatory intent is present and other elements of an antitrust claim are proven. *Id.* at 1261. In so holding, the *Clipper Express* court recognized that significant policy justifications existed for applying *Walker Process* outside the PTO context:

> We find significant support for our findings in both policy and practice. Adjudicatory procedures will not always ferret out misrepresentations. Administrative bodies and courts, however, rely on the information presented by the parties before them. They seldom, if ever, have the time or resources to conduct independent investigations. The recognition, however, of a private right of action based on the fraudulent misrepresentation, might be sufficient incentive to

induce parties not to fraudulently misrepresent facts.[18]

Id. at 1262 (footnote omitted). *See also Whelan v. Abell,* 48 F.3d 1247, 1253-54 (D.C. Cir. 1995) (*Noerr* misrepresentation exception applied where plaintiffs had no opportunity to contest contentions raised in letter of complaint to administrative agency submitted by defendants).

These policy justifications further support the conclusion that Unocal's misconduct is not immunized under *Noerr*. Given the technical and highly specialized nature of the fact-finding involved in the CARB rulemaking, CARB necessarily relied on the accuracy and truthfulness of information provided to it by participants to the rulemaking. In arriving at its regulations, CARB "did not conduct any independent studies of its own, but relied on industry to provide the needed research and knowledge." (Cmplt., ¶ 25). Nor could CARB or any other participant to the rulemaking proceedings "ferret out" Unocal's misrepresentations because only Unocal knew (but deliberately concealed) material information concerning its intention to enforce its proprietary interests. Cmplt., ¶¶ 2c, 35, 42. Accordingly, Unocal's misrepresentations and half-truths are all

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[18] The Third Circuit in *Armstrong* set forth a similar analysis in its characterization of *Walker Process*. In distinguishing the case before it from *Walker Process*, the Third Circuit stated:

> The decision making process [in *Walker*] was an ex parte one in which the Patent Office was wholly dependent on the applicant for the facts. While the Patent Office can determine the prior art from its own records, it effectively and necessarily delegates to the applicant the factual determinations underlying the issuance of a patent. Accordingly, when the applicant has submitted false factual information, the state action is dependent on financially interested decision making. . . . The same is true of the situation in *Woods [Exploration & Prod. Co. v. Aluminum Co. of America*, 438 F.2d 1286 (5th Cir. 1971)] where the Texas Railroad Commission was wholly dependent on the antitrust defendants for the factual information on which it predicated its allocation of production from a given field. 158 F.3d at 164 n.8.

the more pernicious and unworthy of *Noerr* protection.[19] *See* Areeda & Hovenkamp ¶ 205a at 215 ("The potential threat to competition is far greater when the adjudication plaintiff alleges nonpublic facts that it knows not to be true or fails to state nonpublic facts that it knows will defeat its claim.")

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In sum, all of the factors emphasized by courts or commentators – proceedings subject to evidentiary review under enforceable standards; formalized proceedings that permit the determination of a causal nexus between the misrepresentations and agency action; misrepresentations affecting the core of the proceedings; clear agency reliance on facts known only to Unocal; a fact-specific agency inquiry – compel the conclusion that Unocal's conduct should lie outside the scope of the *Noerr* doctrine; Unocal has no immunity for its fraud.

C. *Noerr* Does Not Immunize Unocal's Conduct In this Case Because This Action Is Brought Under the FTC Act and Not the Sherman Act.

The significant remedial and organizational differences between the Sherman Act and the FTC Act provide separate and independent reasons that this Tribunal should decline to extend *Noerr* protection to Unocal's fraudulent conduct. To the extent that *Noerr* extends beyond

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[19] *See Woods Exploration and Producing Co., Inc. v. Aluminum Company of America*, 438 F.2d 1286, 1295 (5th Cir. 1971) (oil and gas producers that filed false nomination requests with Texas Railroad Commission not entitled to *Noerr* immunity because administrative agency action "rested upon false facts adduced by defendants" and "Commission neither was the real decision maker nor would have intended its order to be based on false facts"); *De Loach v. Phillip Morris Cos.*, 2001 U.S. Dist. LEXIS 16909 *44 (M.D.N.C. 2001) (defendant tobacco companies could not claim *Noerr* immunity for the submission of false purchase intentions to the USDA since "it was part of an administrative determination that relied on Defendant Manufacturers' truthfulness").

constitutional limits, *Noerr* does not apply to actions brought under Section 5 of the FTC Act.

First, the Supreme Court's establishment of the *Noerr* doctrine sprang in part because of concerns that the severe penalties (treble damages or criminal penalties) for violating the Sherman Act might chill legitimate petitioning activity. In contrast, the remedies available under the FTC Act are unlikely to chill speech. The relief available to the Department of Justice, to the States, and to private parties under the Sherman Act includes a number of retrospective and punitive remedies, including criminal penalties. 15 U.S.C. §§ 1 *et. seq.* By contrast, the remedies available to the Commission under the FTC Act are exclusively civil and nonpunitive. 15 U.S.C. § 41 *et. seq.* Moreover, the FTC Act does not provide for a private right of action or the potential to recover treble damages. [20]

Second, the FTC Act is unitary in nature–it applies to the closely associated areas of "unfair methods of competition" and "unfair or deceptive acts or practices" and addresses them in a single voice. 15 U.S.C. § 45. Interpreting the Act to mean that the Commission should prevent unfair or deceptive acts or practices to the full extent constitutionally permitted by the First Amendment, but should prevent unfair methods of competition only to the extent permitted by a statutory construction of a different statute violates this unitary nature. The substantive provisions and legislative history of the FTC Act make it clear that the concepts of "unfair methods of competition" prohibited by the original statute and of "unfair or deceptive acts or

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[20] In concurring with the decision not to extend the *Noerr* doctrine to the National Labor Relations Board enforcement actions, four Supreme Court Justices in stressed the fact that the NLRA, unlike the Sherman Act, does not impose treble damages, does not give rise to costly private lawsuits, and involves proceedings before a congressionally authorized and politically accountable administrative agency. *BE&K Constr. Co. v. NLRB*, 536 U.S. 516, 538-544 (2002) (Breyer, J. concurring, joined by Stevens, J., Souter, J. & Ginsburg, J.). These three salient differences also obtain between the FTC Act and the Sherman Act.

practices" added by the Wheeler-Lea Amendments of 1938 are closely connected. As such, the FTC Act is not solely an "antitrust law" but rather one aimed at protecting consumers from a whole spectrum of harms. Section 5 of the FTC Act provides the Commission *both* an antitrust and consumer protection enforcement mandate. The simultaneous invocation of the Commission's antitrust and consumer protection missions in the FTC Act in general and Section 5 in particular strongly suggests that, in contrast to the Sherman Act context, there is no basis for imputing to Congress a desire to immunize from FTC Act liability speech or petitioning that constitutes an unfair method of competition.

Far from contending that First Amendment concerns are out of place under the FTC Act, Complaint Counsel argues that, this Tribunal should apply the "rule" of First Amendment Petition Clause principles, rather than the "exception" of a broader *Noerr* doctrine, to determine whether Unocal's conduct is somehow immunized from liability. The Supreme Court's recent decision in *BE&K Constr. Co. v. NLRB*, 536 U.S. 516 (2002), supports this approach. In that case, the Supreme Court specifically declined to apply *Noerr* in considering whether the National Labor Relations Board could impose liability on an employer for filing a retaliatory lawsuit. After summarizing the *Noerr* line of cases, the Court stated that "[t]his case raises the same underlying issue of when litigation may be found to violate federal law, but this time with respect to the NLRA rather than the Sherman Act." *Id.* at 526. The Court then proceeded to develop an NLRA-specific application of Petition Clause principles to the case at hand and, in doing so, specifically declined the opportunity to apply the two-pronged *PREI* test for "sham" litigation. *Id.* at 536-37. While the *BE&K Construction* Court ultimately found the employer's activity at issue was protected by the First Amendment, the decision lends credence to the argument for a more

restricted application of the *Noerr* doctrine.

Neither the Commission nor the Supreme Court have ruled that the *Noerr* doctrine applies as extensively to the FTC Act as it does to the Sherman Act. Respondent cites several cases in which the Commission or the Supreme Court discussed the *Noerr* doctrine in the context of FTC Act cases (Resp. Mot. at 6-7), but none of these decisions explicitly hold that the doctrine should apply without consideration of the kind of analysis performed by the Court in *BE&K Construction*.

As set forth above, the First Amendment right to petition does not, and should not, shield Unocal's fraudulent conduct from antitrust liability. In light of the Complaint allegations – which clearly detail fraudulent and deceptive conduct, this Tribunal should rule that neither *Noerr* nor First Amendment principles immunize Unocal from liability under Section 5 of the FTC Act.

D. Unocal's Misrepresentations to Private Industry Groups Do Not Constitute Political Petitioning Protected By *Noerr*.

Unocal once again urges this Tribunal simply to ignore (as it cannot) the factual allegations of the Complaint relating to Unocal's conduct before private industry groups. Here again, Unocal either misses the point or deliberately attempts to recast the allegations of the Complaint. The Complaint does not allege, as Unocal claims, "that these groups *determined* the terms of CARB's Phase 2 regulations." Resp. Mot. at 4 (emphasis added). Rather, the Complaint alleges that Unocal's deception of these groups and its constituent members was part and parcel of Unocal's anticompetitive scheme to subvert and corrupt the CARB rulemaking process (Cmplt., ¶ 54). Specifically, Unocal's misrepresentations to these groups ensured that CARB would not be apprized of Unocal's proprietary interests and thus would continue to be unwitting

instrumentalities of Unocal. In addition, the Complaint specifically alleges that Unocal's fraud prevented the members of these industry groups from taking actions – unrelated to their participation in the CARB RFG proceedings -- to avoid or minimize the anticompetitive effects of Unocal's fraudulent conduct:

> Participants in Auto/Oil and WSPA reasonably relied on Unocal's misrepresentations and material omissions. ***But for Unocal's fraud, these participants in the rulemaking process would have taken actions including,*** but not limited to, (a) advocating that CARB adopt regulations that minimized or avoided infringement of Unocal's patent claims; (b) advocating that CARB negotiate license terms substantially different from those that Unocal was able to obtain and/or (c) ***incorporating knowledge of Unocal's pending patent rights in their capital investment and refinery reconfiguration decisions to avoid and/or minimize potential infringement.*** As a result, if other participants in WSPA or Auto/Oil had known the truth, the harm to competition and consumers, as described in the Complaint, would have been avoided. (Cmplt., ¶ 90)[21].

Where, as here, the purported petitioning activity comprises only a part of a party's business conduct, such petitioning arguably cannot cloak the party's conduct in *Noerr* immunity. The Supreme Court has recognized that such conduct falls outside of Noerr protection. *See Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 502 (1988) (imposing antitrust liability for the effect that a wrongfully procured electrical safety standard "had of its own force in the marketplace"). In other words, even if CARB had consciously chosen to give Unocal a monopoly, the oil companies could have avoided significant harm had Unocal not duped them independently through its fraudulent, inequitable, and bad-faith business conduct. For this

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[21] In its motion to dismiss, Unocal mischaracterizes this paragraph as a "suggestion that Unocal somehow duped these organization to support regulations that overlapped with Unocal's regulations" and that this suggestion is contrary to CARB's Statement of Reasons. Resp. Mot. at 23. But this paragraph says nothing about whether the participants advocated for, or opposed the regulations. Indeed, it appears that Unocal employs this allegation (and others) in its motion to dismiss as a straw man. In this particular case, Unocal does so to introduce flawed extrinsic evidence in an effort to influence this Court's assessment of the merits of the underlying case.

independent reason, Unocal's motion must be denied.

E. Unocal's Victory in the Private Patent Litigation Does Not Immunize it From Antitrust Liability Under *Noerr*.

Unocal's argument that its "successful patent enforcement" efforts are immunized under *Noerr* misses the point. *See* Resp. Mot. at 25. In the first instance, the Complaint does not seek to impose antitrust liability for any misrepresentations or conduct before the federal district court that adjudicated the private patent trial. Nor does the Complaint seek to overturn or otherwise modify the federal court judgment or the Patent and Trademark's office issuance of Unocal's patents. Rather, the relief sought is limited to a cease and desist order that is narrowly tailored to remedy the anticompetitive effects flowing from Unocal's fraud before CARB – i.e., the relief only applies to the prospective enforcement of patent rights against the production or sale of summertime gasoline to be sold in California.

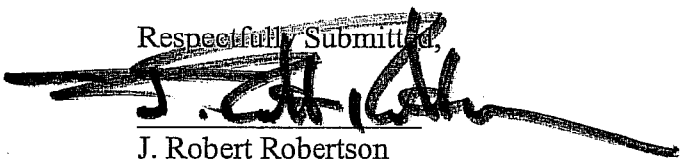
Furthermore, Unocal suggests that the only exception to *Noerr* arises in cases where knowing and willful fraud is perpetrated on the Patent and Trademark Office. Relying on *Walker Process*, Unocal claims that "Complaint Counsel cannot show that Unocal obtained its patent rights by knowing and willful fraud." Resp. Mot. at 26. This misses the point. *Noerr* immunity does not attach here because, as alleged in the Complaint, Unocal perpetrated fraud on CARB and others. Indeed, while Unocal argues that *Walker Process* has not been extended outside of the PTO context, this is not the case. *See Clipper Express,* 690 F.2d at 1260 ("[t]he *Walker Process* doctrine is not limited to fraud on the Patent Office"). Accordingly, Unocal's assertion of *Noerr* immunity in this instance is simply inapposite.

CONCLUSION

To impose antitrust liability in this case would effectuate the purposes of the FTC Act and would not impinge on any of the constitutional freedoms recognized in *Noerr*. Neither established precedent nor valid policy justifications support Unocal's proposition that it should be immune from antitrust liability where, as here, it tricked a state administrative agency and ensnared this agency and other private industry participants in its anticompetitive scheme. Contrary to Unocal's charge, Complaint Counsel seeks to *enforce* the laws as laid down by Congress. It is Unocal that seeks to evade the consequences of its unlawful acts by attempting to stretch the reach of *Noerr* beyond its intended bounds. This Tribunal should not permit Unocal to do so.

For the reasons stated above, Complaint Counsel respectfully requests that Unocal's motion be denied.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

This is to certify that on April 21, 2003, I caused a copy of Complaint Counsel's Response to Unocal's Motion for Dismissal of the Complaint to be served by hand-delivery and/or overnight delivery to the following persons:

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No. 00-249

In The

Supreme Court of the United States

ATLANTIC RICHFIELD COMPANY, et al.,

Petitioners,

v.

UNION OIL COMPANY OF CALIFORNIA,

Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

AMICI CURIAE BRIEF OF THE STATES OF ALABAMA, ARIZONA, ARKANSAS, CALIFORNIA, COLORADO, DELAWARE, GEORGIA, ILLINOIS, INDIANA, KANSAS, KENTUCKY, MAINE, MASSACHUSETTS, MICHIGAN, MINNESOTA, MISSOURI, NEVADA, NEW HAMPSHIRE, NEW JERSEY, NEW MEXICO, NEW YORK, NORTH CAROLINA, NORTH DAKOTA, OHIO, OKLAHOMA, PENNSYLVANIA, SOUTH CAROLINA, SOUTH DAKOTA, TEXAS, UTAH, VIRGINIA, WASHINGTON, WEST VIRGINIA, AND WISCONSIN AND THE DISTRICT OF COLUMBIA IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the federal courts should uphold the validity of a patent when the patent's sole value comes from its resemblance to state regulatory requirements, rather than from the discovery of an innovative technology, and the patent is contrary to the public interest.

2. Whether a patent is valid when the patent's original claims include one trillion different combinations, and its claims are thereafter changed to claims which resemble regulatory requirements.

3. Whether a patent applicant should be required to fully and completely disclose all material information to the Patent and Trademark Office.

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INTEREST OF *AMICI CURIAE*

Ordinarily, States are not interested in disputes over the validity of patents. Nevertheless, these States are concerned about this particular case because it raises broad policy implications, beyond the rights of a few private corporations.

The basis for our concerns is that the value of Unocal's patent derives solely from its similarity to the complex requirements of California's cleaner-burning gasoline regulations. Unocal's patent is not for a new technology or a new chemical. Rather, the patent claims various combinations of gasoline characteristics, designed to resemble the regulatory requirements set by California. Unocal has essentially sought to patent a state regulatory requirement.

The States' concerns fall into two categories. First, the Federal Circuit's decision potentially allows Unocal to monopolize the retail gasoline market, and significantly increase the price consumers pay for gasoline. Second, Unocal's prosecution of this patent distorted and abused California's administrative regulatory process, and provides a model for similar mischief in a variety of important environmental and consumer protection contexts. The States – unlike the oil companies who are parties – are uniquely positioned to supply public law and policy analysis on these issues of public concern.

The Clean Air Act allows the federal government to regulate the composition of gasoline, in order to control ozone, the primary constituent of smog across the Nation. *See* 42 U.S.C. § 7545; 40 C.F.R. Part 80. This legislation recognized that the composition of gasoline can greatly

influence the amount of ozone-forming pollutants in car and truck emissions. The most recent iteration of gasoline that meets these federal requirements is commonly called federal reformulated gasoline, or federal RFG. *See* 40 C.F.R. §§ 80.40-.83.

The Clean Air Act also allows California to set more stringent fuel specification standards, and it has done so. *See* 42 U.S.C. § 7545(c)(4)(B); Cal. Health & Safety Code §§ 43013, 43018; 13 Cal. Code Regs. §§ 2250-73. The gasoline that California allows to be sold within its boundaries is commonly called CaRFG, or CARB gas. California's "Phase 2" requirements were adopted in 1991, and the "Phase 2" technical requirements were finalized in 1994. Other States could also adopt advanced fuel specification regulations, if those regulations were necessary to reach air quality standards and the appropriate approvals were obtained. *See* 42 U.S.C. § 7545(c)(4)(C). *See also* 65 Fed.Reg. 16094, 16096-97 (Mar. 24, 2000) (describing the areas, within many of the *Amici* States, where reformulated gasoline is required to be sold and used).

In this case, Unocal's inventors admitted that this patent was developed to "resemble" California's fuel specification regulations. Thus, the trier of fact determined that 29% of all of the gasoline sold in California, for the five months at issue at the trial, was within Unocal's patent. The trial court awarded damages – computed at 5¾ cents per gallon – of over $69,000,000, plus interest, attorneys' fees and costs. That amount was for only the five months at issue during the trial, and only for California. It remains to be seen what the complete –

and ongoing – effects of this patent will be. However, they are sure to be considerable.

This case has serious implications beyond this one particular patent, however, and beyond California. *Unocal has since obtained four other, similar patents.* All were based on the original patent application, and Unocal appears to have designed these additional patents to "resemble" the federal, nation-wide fuel specification regulations. *See* Alexei Barrionuevo, *Exhausting Feud: A Patent Fracas Pits Unocal Corp. Against Big U.S. Oil Producers*, WALL ST. J., Aug. 17, 2000, at A1. No litigation has yet occurred on these additional four patents, but the potential is there for Unocal to control the entire Nation's gasoline market, increasing prices even further. The patents certainly have increased uncertainty about the availability of gasoline, and therefore have already indirectly increased consumer prices. *See* Alexei Barrionuevo, *Fears Over Gasoline Patents May Buttress Prices*, WALL ST. J., May 1, 2000, at A2; Pam Belluck, *In Gas Prices, Misery and Mystery*, N.Y. TIMES, June 14, 2000, at A18. As every consumer knows, retail gasoline prices have increased dramatically in the last two years, with even higher temporary price spikes. Because of these potentially widespread economic effects, this case has important consequences for the Nation.

Even beyond the retail gasoline price consequences of this patent, this case portends undeniable conflict between the patent system and the States' obligations to protect their citizens. This is because Unocal's patents could provide it with a monopoly on a product which the law requires consumers to use. In this case, California adopted the strictest cleaner-burning gasoline requirements in the nation, in an effort to protect the health of its

citizens. California actually set standards for the composition of gasoline to be sold within its borders. Unocal has attempted, by this patent, to commandeer these regulations – adopted for the benefit of all California residents – for its own profit motive. This places the State of California in the untenable position of effectively having to choose between cleaning up the air and encouraging increased competition in the gasoline market.

In many other arenas, in order to protect the health and safety of their citizens, the States may feel compelled to require the use of a particular product, or the use of a product with particular characteristics. This could occur in the context of environmental protection or consumer safety regulation. States might wish to require particular water quality control technology. States might wish to require particular products to be sold in particular containers. States might wish to require drivers to use particular safety equipment. The patent system should not allow opportunistic businesses to covertly create monopolies on these regulatory choices. Nor should it force States considering these kinds of approaches – requiring the use of a product developed through a state regulatory process – to also risk unknowingly providing a monopoly (and the accompanying windfall) to the first manufacturer of the legally-required product.

What makes this patent even more unconscionable is that Unocal developed this patent while it was participating in a public-private partnership designed to assist in the development of the regulations at issue. Unocal did not develop its patent *after* the regulations were adopted, as a consequence of a technology-forcing legal requirement. Nor did Unocal disclose the patent to the State of

California, so that the State could take the patent into account in deciding whether to adopt the regulations. Rather, Unocal kept the patent application, its amendments, and the patent itself secret until after the regulations were finalized – *while Unocal was discussing, with its competitors and the State of California, what form the California regulations should take.* In this way, Unocal sought to hijack and distort the state regulatory process.

The overarching question this case presents is whether the Courts of the United States should allow the patent system to be used in this manner, to distort and plunder the States' regulatory processes. Never before has the Court addressed this exceedingly important question.

REASONS FOR GRANTING THE PETITION

I. THE COURT SHOULD REQUIRE THE FEDERAL COURTS TO EVALUATE PATENTS IN LIGHT OF THE PUBLIC INTEREST

The explicit purpose of the Constitution's Patent and Copyright Clause is to "promote the Progress of Science and useful Arts." CONST. art. I, § 8, cl. 8. Thus, patents are granted to serve the public interest. *See Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) ("The primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and the useful Arts.' "); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) ("the limited grant is a means by which an important public purpose may be achieved"); *Graham v. John Deere Co.*, 383 U.S. 1, 5-6 (1966)

(discussing that the federal patent power does not go beyond the constitutional grant of power). "When there is no novelty and the public parts with the monopoly grant for no return, the public has been imposed upon and the patent clause subverted." *U.S. v. Singer Mfg. Co.*, 374 U.S. 174, 199 (1963) (White, J., concurring). As one Court of Appeals long ago stated, "the law does not allow the granting of these valuable franchises to private individuals, with consequent public detriment, unless there is a concomitant public benefit." *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 439 F.2d 1369, 1371 (5th Cir. 1970), *cert. denied*, 400 U.S. 956.

While we should encourage companies to pursue innovation to meet consumer demands, or to meet already-adopted technology-forcing environmental requirements, that is not what occurred here. Unocal's amendment and substitution of patent claims simply tracked the development of the California's cleaner-burning gasoline regulations. As one of Unocal's inventors testified, "Some of [the claims] were narrowed at various times to resemble the [California] regulations." Moreover, at the same time it was prosecuting this patent, Unocal was lobbying before California's administrative agency, participating in an administrative process, intended for the benefit of the general public, which would create regulations Unocal could use to attempt to control the California gasoline market. The actual value of this patent flows from the fact that it covers products required by California's cleaner-burning gasoline regulations, *not the patent's inventiveness*. Unocal would have had to meet

these regulatory requirements to sell gasoline in California, regardless of whether it developed a patent. Upholding the validity of the patent just rewards Unocal's timing, secretiveness and audacity. It does not serve the public interest.

Amazingly, the courts below ignored the public interest implications at play in this case. Those public policy arguments fell on deaf ears at the trial court and at the Federal Circuit. *Nowhere* does the decision below address the requirement that the patent be in the public interest. There simply is no discussion of the implications of this decision. Instead, the lower courts focused exclusively on the parties before them. This Court needs to remind the federal courts that patent cases – especially cases like this which have obvious consequences for ordinary, everyday consumers – are not just a financial dispute between two private corporations. Patent cases have an impact on the public at large. Consistent with the Constitution's Patent and Copyright Clause, this Court should require the federal courts, in deciding the validity of patents, to evaluate whether the patent is in the public interest. This case provides a splendid opportunity to do so, because the public interest weighs so clearly against the validity of this patent.

II. THE COURT SHOULD REQUIRE A STRICT CONSTRUCTION OF THE PATENT LAW'S WRITTEN DESCRIPTION REQUIREMENT IN CASES SUCH AS THIS

One of the legal issues in this case is whether Unocal's original patent application contained a

sufficiently adequate written description of its subsequently added claims. This issue is salient because Unocal's original patent application would have included literally a trillion gasoline property combinations.

A patent application must include,

> "a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

35 U.S.C. § 112. *See also Universal Oil Prods., Inc. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944) ("preciseness of description is essential"). As one Court of Appeals explained,

> "Adequate description of the invention guards against the inventor's overreaching by insisting that he recount his invention in such detail that his future claims can be determined to be encompassed within his original creation."

Rengo Co. v. Molins Mach. Co., 657 F.2d 535, 551 (3rd Cir. 1981), *cert. denied*, 454 U.S. 1055. Without specific identification in the original application, "simply describing a large genus of compounds is not sufficient to satisfy the written description requirement as to particular species or sub-genuses." *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1571 (Fed. Cir. 1996).

These *Amici* States believe that important public policy considerations warrant the *strict construction* of the

patent laws, including the written description requirement, in a case such as this. This patent covers products *mandated* by government regulations developed during the patent application process. Failure to strictly construe the written description requirement will encourage companies to file broad, preliminary and ill-defined patent applications at the beginning of an administrative rulemaking process, followed by substantial amendments that conform more closely to the developing and ultimately adopted regulatory requirements – exactly as Unocal did in this case. Thus, a patent's monopoly will be achieved without disclosure to the rulemaking body (since patent applications can be kept secret), obstructing the agency's ability to protect and advance the public interest – again, exactly as Unocal did in this case. This is simply bad public policy.

In this case, in assessing the written description requirement, the Court of Appeals – over a vigorous dissent – allowed Unocal's written description because it came reasonably close. The panel failed to assess the connection between the California cleaner-burning gasoline regulations and Unocal's patent. Granting certiorari in this case provides this Court with the opportunity to ensure that the written description requirement will be vigorously enforced and strictly construed in cases involving the public interest.

III. THE COURT SHOULD ALSO ENSURE THAT PATENT APPLICANTS MAKE A FULL AND COMPLETE DISCLOSURE TO THE PATENT AND TRADEMARK OFFICE

While pursuing patents, applicants have an obligation to conduct themselves with " 'the highest degree of candor and good faith.' "[1] *Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949). "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." *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945). *See also Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 882 F.2d 1556, 1563 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1076 (1990). Moreover, this Court has more recently explained that if a patent applicant commits fraud on the Patent and Trademark Office, the applicant may be liable for antitrust violations. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965); *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068-71 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 876.

It is no secret that there has been an overwhelming increase in the workload of the Patent and Trademark

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[1] We are cognizant that the question of inequitable conduct is not squarely within the questions framed by the petition for writ of certiorari. However, we believe the question of inequitable conduct is inextricably linked to the question of whether a patent is in the public interest.

Office. With the current technological revolution, touching on computers, biotechnology and other fields, companies are filing an avalanche of patent applications. This increased workload has had an overpowering impact on the staff of the Patent and Trademark Office, and increased public scrutiny on the appropriateness of granting some patents. *See, e.g., Patents: Witnesses at Oversight Hearing Testify on Continuing Issue of PTO Fee Diversion*, BNA PATENT, TRADEMARK & COPYRIGHT LAW DAILY, Mar. 14, 2000 (discussing increased workload of Patent and Trademark Office and increased criticism of quality of patents issued). This means that the courts need to be particularly vigilant about the process by which patents – in secret – are sought.

In this case, Unocal failed to disclose to the Patent and Trademark Office the extent to which its patent grew from and was dependent upon the outcome of California's administrative regulatory proceedings. Unocal participated in a government-industry partnership to develop cleaner-burning gasoline. It knew that California was developing stringent fuel specification regulations. It modified its patent application to "resemble" those regulations. Yet, Unocal's disclosure to the Patent and Trademark Office was vague and incomplete. The only disclosure that Unocal made was to forward a newspaper article discussing the adoption of California's regulatory standards. Unocal failed to explain the significance of those regulations or indeed the *very close connection* between the regulations and its patent. Unocal had a duty to make a full and complete disclosure, and simply failed to do so. Unocal should have provided the Patent and Trademark Office this full and complete disclosure,

explaining that Unocal's patent claims were amended to resemble the California regulations, so that the Patent and Trademark Office could reasonably make a determination of whether this patent was innovative and in the public interest.

Patents are granted in the public interest, to promote the public welfare. Consumer welfare is, of course, also advanced by government-industry partnerships such as that formed to combat air pollution. It was at best inequitable conduct for Unocal to work hand-in-glove with the other participants in a state administrative process to develop cleaner-burning gasoline, while at the same time seeking to garner a monopoly from the fruits of that joint endeavor, all the while hiding its true objective. If Unocal had advised the State of California that it was seeking this patent, California could have taken into account that vital information in the administrative regulatory process. Instead, Unocal essentially sought in secret to patent the regulations which California adopted. A patent gained by virtue of such conduct should be invalidated as manifestly contrary to the public good.

CONCLUSION

The Court should grant the petition for writ of certiorari.

Dated: September 14, 2000

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Unocal sued over gas patents

S.J. Merc. News A1

FTC ALLEGES MONOPOLY MAY HAVE LED TO HIGHER PRICES

3.5.03

By Michael Bazeley
Mercury News

U.S. antitrust officials have accused Unocal of creating an illegal monopoly over the composition of a cleaner-burning gasoline mandated in California, a move that might eventually lead to lower gasoline prices in the state.

In its complaint filed Tuesday, the Federal Trade Commission said the Southern California oil producer acted improperly when it secretly applied for patents on a formula for cleaner gasoline while at the same time publicly working with state officials on clean-fuel standards.

Other gasoline refiners were forced to pay royalties to Unocal of up to 5.75 cents a gallon for the clean-air fuel they produced, the FTC said, possibly driving up gasoline prices.

The FTC wants to stop Unocal from enforcing its patents and collecting the royalties.

Officials at Unocal, which no longer refines gasoline, vehemently denied the allegations, noting that competing oil companies have filed suit over the issue and lost.

"Every time we've taken the matter into the courtroom, we've won," said Barry Lane, spokesman for the El Segundo company.

State officials hailed the move.

"We applaud the FTC," said Jerry Martin, spokesman for the California Air Resources Board, which developed the clean-fuel regulations. "It puts us in an awkward position when we work with companies to develop a rule, and it turns out the company is taking our work and filing a patent on it."

"We applaud the FTC. It puts us in an awkward position when we work with companies to develop a rule, and it turns out the company is taking our work and filing a patent on it."

— JERRY MARTIN, CALIFORNIA AIR RESOURCES BOARD

The dispute dates to the late 1980s, when the California Air Resources Board was developing regulations for cleaner-burning gasoline. Air resources board officials worked closely with oil refiners on the regulations, eventually mandating a fuel known as "Phase 2" gasoline.

The low-emission fuel, also known as "summer fuel," evaporates more slowly in warmer weather. It is supposed to be sold about eight months of the year, when air-pollution levels are highest.

The FTC said that during the rule-making process, "Unocal made materially false and misleading statements to CARB" regarding its research on automobile emissions. At the same time, it "failed to disclose that it had pending patent claims on these research results."

State officials said Unocal had close knowledge of the type of fuel that was to be required under the new rules and exploited that information.

"Obviously, we would not have continued working with them if we had known about the patents," Martin said.

Unocal eventually disclosed its patents in 1995, and companies that wanted to create low-emission fuels with certain characteristics were forced to pay royalties to the company.

How much of the cost of the royalties has been passed on to consumers in the form of higher gas prices is not clear. ExxonMobil and three other major refiners challenged the patents in court. But in 1996, a federal jury ordered the companies to pay Unocal $91 million in royalties. In 2001, three other companies began signing royalty agreements with Unocal ranging from 1.2 cents to 3.4 cents a gallon. All told, the company has signed eight licensing agreements with refiners.

"It stands to reason that those costs would be paid by consumers," Martin said.

The FTC said the patents could "potentially result in hundreds of millions of dollars per year in additional consumer costs."

But Unocal's Lane said the patents are worth only $75 million to $150 million a year to the company. He said just 29 percent of the so-called "summer fuel" is based on Unocal's patents.

"Other companies were developing patents at the same time," Lane said, "which makes the argument of a monopoly kind of moot."

The state Attorney General's Office has been working with the FTC on the case. A spokesman there said it was "hard to quantify" what the cost to consumers has been. He said he was not sure that any of the royalties had actually been paid.

"If the commission wins this case, at the very least the consumer will be protected from having these royalties passed on in the future," said spokesman Tom Dressler.

The FTC case is the result of a complaint filed by ExxonMobil in 2001. The complaint will now go to an administrative law judge, who will issue a recommendation to the FTC. The commission will then decide whether to uphold the judge's ruling. The process could take several months.

The FTC's charges against Unocal are similar to a case it is pursuing against Los Altos chip designer Rambus. The FTC charged last year that Rambus violated federal antitrust laws, saying the company hoodwinked an industry group into adopting memory standards that Rambus was secretly patenting.

The FTC is trying to force Rambus to give up as much as $100 million in annual royalties.

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Unocal Accused of Monopolizing Clean Gasoline

State officials welcome the FTC's move to block the oil company from pursuing royalties from disputed patents.

LA Times 3/5/03

By ELIZABETH DOUGLASS
Times Staff Writer

C2

Federal antitrust officials Tuesday accused **Unocal** Corp. of misleading California regulators and illegally securing patents that gave the El Segundo-based oil company a stranglehold on the state's formula for cleaner-burning gasoline.

After a unanimous vote, the Federal Trade Commission filed an administrative complaint against Unocal for fraud and anti-competitive behavior in connection with the gasoline patents. The complaint, which will be heard by an FTC administrative law judge, asks for a cease-and-desist order preventing Unocal from pursuing legal action or royalty payments involving the disputed patents.

Unocal rejected the FTC's claims, saying in a statement that "hard evidence and case law will again vindicate" the company. Related cases brought by competing oil companies failed to strike down Unocal's patents in U.S. District Court , the U.S. Court of Appeals and the U.S. Supreme Court.

News of the FTC action was warmly received by the California attorney general's office and at the state Air Resources Board — which have helped the FTC with its investigation and complained loudly about the patents' cost to consumers.

"Our office has been greatly concerned about the Unocal patents," said Tom Dresslar, spokesman for Atty. Gen. Bill Lockyer. "If Unocal is defeated in this case, at least California consumers will be protected from any increases at the pump that might be caused by Unocal's competitors having to pay royalties."

The FTC estimated that a victory in the case could save California consumers up to $500 million a year in higher gasoline prices. Unocal, however, has estimated that its patents would yield about $150 million a year in royalty fees — a tiny percentage of its $5.2 billion in annual revenue.

Unocal's gasoline patents have been under attack since the company announced their existence in early 1995. From 1990 to 1994, Unocal and other oil companies and refiners had been working with the California Air Resources Board to come up with an acceptable state standard for reformulated gas.

In its complaint, the FTC said Unocal "obtained unlawful market power through affirmative misrepresentations, materially false and misleading statements, and other bad-faith, deceptive conduct that caused CARB to enact regulations that overlapped almost entirely with Unocal's pending patent rights."

The FTC's case was sparked by a complaint from **ExxonMobil** Corp., which sought relief from the commission after the court challenge failed. As part of the court case, ExxonMobil and other major oil firms together had to pay Unocal $91 million in royalties covering a five-month period in 1996. Although some companies have agreed to pay royalties, the largest California operators have refused to pay additional fees pending the FTC probe and a parallel patent challenge at the U.S. Patent Office.

The patent office case is pending. The FTC case does not challenge the validity of the patents, but accuses Unocal of using anti-competitive methods to secure them. Unocal has 20 days to submit a written response, and a hearing is set for June 4.

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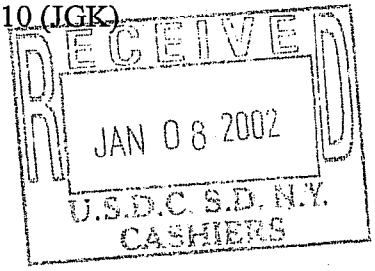
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re: Buspirone Patent Litigation	MDL Docket No. 1410 (JGK)
In re: Buspirone Antitrust Litigation	



MEMORANDUM OF LAW OF *AMICUS CURIAE* THE FEDERAL TRADE COMMISSION IN OPPOSITION TO DEFENDANT'S MOTION TO DISMISS

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January 8, 2002

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SUMMARY

In its motion to dismiss, defendant Bristol-Myers Squibb Co. ("BMS") asserts immunity from the antitrust laws, under *Eastern R. Pres. Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961) ("*Noerr*"), and *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965), for its actions in filing with the Food and Drug Administration ("FDA") information on U.S. Patent No. 5,150,365 ("the '365 patent") for listing in the FDA's Orange Book. In making this the basis for a motion to dismiss for failure to state a cause of action under Fed. R. Civ. P. 12(b)(6), BMS asserts that even if the allegations of the complaint are true, it enjoys antitrust immunity. In essence, BMS claims that a pharmaceutical company is at liberty, as a matter of antitrust law, to monopolize a market by means of falsely asserting to the FDA that a new patent claims its approved branded drug, despite knowing that the patent does not, in fact, claim the drug and hence does not meet the statutory criteria for listing in the Orange Book.

Under its regulations and longstanding practice, the FDA does not scrutinize patent listings in the Orange Book for accuracy, and instead takes a wholly ministerial role in maintaining the Orange Book. Moreover, at least one court has held that a potential generic rival whose entry into the market is blocked by an erroneous listing has no private right of action to compel removal of that listing. Therefore, the necessary implication of BMS's position is that neither the FDA nor courts enforcing the antitrust laws can provide any remedy if a pharmaceutical company fraudulently abuses the regulatory procedures of the Hatch-Waxman Act, Pub. L. No. 98-417, 98 Stat. 1585 (1984), in order to wrongfully extend a drug product's monopoly beyond its lawful limits, to the substantial detriment of consumers.

A ruling in BMS's favor would potentially give a branded drug manufacturer an almost

unlimited ability to stifle generic competition, a result that could cost American consumers billions of dollars annually and would be plainly at odds with Congress's intent, in enacting the Hatch-Waxman Act, to "make available more low cost generic drugs." H.R. Rep. No. 98-857 (Part I), 98th Cong., 2d Sess. 14 (1984). As an agency charged by Congress with enforcing federal antitrust laws, and with substantial experience in competition issues specific to the pharmaceutical industry, the Federal Trade Commission ("FTC") considers such a potential outcome to be a matter of grave concern.

BMS's assertion of antitrust immunity is, however, legally meritless. The *Noerr* doctrine immunizes genuine *petitioning* activity directed at persuading government bodies to adopt a particular course of action. Orange Book filings, even when made properly, are decidedly not "petitions." Rather, they are mechanical, informational filings that do not trigger any exercise of legal or discretionary judgment by the FDA and do not call for any agency decision-making. FDA's role in receiving and publishing Orange Book information is simply ministerial. As such, Orange Book filings are akin to tariff filings, which have consistently been held not to constitute immunized *Noerr* petitioning.

Orange Book filings likewise cannot reasonably be analogized to the limited category of conduct – principally pre-litigation threat letters – that some courts have held may be immunized from Sherman Act liability as "incidental" to a clear form of petitioning. Unlike threat letters, Orange Book filings are remote and distinct from litigation; they are *pro forma* communications with the FDA, not adversary communications with a prospective litigant. Nor are they necessary for, or normally attendant upon, patent infringement litigation. A patent holder can bring the same infringement suit, for the same claims, at the same time, regardless of whether its patents

are listed in the Orange Book.

Finally, even if, contrary to the above, Orange Book filings could be characterized as "petitioning," plaintiffs appear to have alleged abuse of the petitioning process sufficient to invoke the "misrepresentation" and "sham" exceptions to *Noerr* immunity.

STATEMENT OF INTEREST

It is the statutory mission of the FTC to protect consumers. The Commission enforces, *inter alia*, Section 5 of the Federal Trade Commission Act, which prohibits "unfair methods of competition." 15 U.S.C. § 45. Health-related products and services currently account for approximately 15 percent of gross domestic product,[1] including $131.9 billion in expenditures for retail outpatient prescription drugs in the year 2000.[2] The Hatch-Waxman Act is designed to increase the flow of new pharmaceuticals into the marketplace by carefully balancing two public policy objectives: encouraging vigorous competition from generic drugs, and maintaining incentives to invest in the development of innovator drugs. Consumer benefits from generic competition have been dramatic. For example, a Congressional Budget Office report estimated that, in 1994 alone, consumers saved $8-10 billion on prescription drugs sold at retail pharmacies by purchasing generic drugs instead of their branded counterparts.[3]

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[1] *See Federal Trade Commission Enforcement and Programmatic Priorities*: Hearings Before the Subcomm. on Commerce, Trade, and Consumer Protection of the House Energy and Commerce Comm., 107th Cong. (2001) (statement of Timothy J. Muris, Chairman of the Federal Trade Commission) <http://www.ftc.gov/os/2001/11/muris011107.htm>.

[2] *See* National Institute for Health Care Management Research and Educational Foundation, *Prescription Drug Expenditures in 2000: The Upward Trend Continues* at 2 (May 2001) <http://www.nihcm.org>.

[3] Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry* (July 1998) <http://www.cbo.gov>. The

The Commission has developed significant expertise regarding the pharmaceutical industry and has brought a number of antitrust enforcement actions affecting both the branded and generic pharmaceutical industries.[4] The Commission is also conducting an industry-wide study of generic drug competition, designed to provide a more complete picture of how generic competition has developed under the Hatch-Waxman Act.[5] In addition, the staff of the FTC's Bureau of Economics has recently released an in-depth report on competition issues in the pharmaceutical industry,[6] and the Commission staff has twice commented to the FDA concerning the specific issue of Hatch-Waxman Act implementation.[7]

CBO noted in particular that the Hatch-Waxman Act had "greatly increased the number of drugs that experience generic competition and, thus, contributed to an increase in the supply of generic drugs." *Id.*

[4] *See, e.g., FTC v. Mylan Laboratories, Inc. et al.*, 62 F. Supp. 2d 25 (D.D.C. 1999); *In the Matter of Hoechst Marion Roussel, Inc.; Carderm Capital L.P.; and Andrx Corporation*, Docket No. 9293 (FTC May 8, 2001) (consent order); *In the Matter of Abbott Laboratories*, Docket No. C-3945 (FTC May 22, 2000) (consent order); *In the Matter of Geneva Pharmaceuticals, Inc.*, Docket No. C-3946 (FTC May 22, 2000) (consent order); *In the Matter of Roche Holding Ltd.*, 125 F.T.C. 919 (1998) (consent order); *In the Matter of Ciba-Geigy Ltd.*, 123 F.T.C. 842 (1997) (consent order); *In the Matter of Hoechst AG*, 120 F.T.C. 1010 (1995) (consent order). For a discussion of FTC pharmaceutical enforcement actions, *see FTC Antitrust Actions in Health Care Services and Products* <http://www.ftc.gov/bc/healthindex.htm>.

[5] *See* 65 Fed. Reg. 61334 (Oct. 17, 2000); 66 Fed. Reg. 12512 (Feb. 27, 2001).

[6] Bureau of Economics Staff Report, Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change* (Mar. 1999) <http://www.ftc.gov/reports/pharmaceutical/drugrep.pdf>.

[7] *FDA: Citizen Petition*, Comment of the Staff of the Bureau of Competition and of Policy Planning of the Federal Trade Commission Before the Food and Drug Administration (Mar. 2, 2000) <http://www.ftc.gov/be/v000005.pdf>; *FDA: 180-Day Marketing Exclusivity for Generic Drugs*, Comment of the Staff of the Bureau of Competition and of Policy Planning of the Federal Trade Commission Before the Food and Drug Administration (Nov. 4, 1999) <http://www.ftc.gov/be/v990016.htm>.

The *Noerr-Pennington* issues that defendant's motion raises plainly have significance extending well beyond the scope of this particular lawsuit. The instant proceeding has direct relevance to the Commission. Indeed, the Commission currently has several open investigations inquiring into whether actions by pharmaceutical companies of the very type alleged here may constitute "unfair method[s] of competition" in violation of Section 5 of the Federal Trade Commission Act. Because the Court's ruling on the motion may have implications for numerous Commission investigations and potential antitrust enforcement proceedings, and because the Commission's views may be relevant to the Court's disposition of the motion, the Commission respectfully requests to be heard as *amicus* and to be allowed to participate at oral argument if and when the Court considers the motion.

ARGUMENT

I. THE FILING OF PATENT INFORMATION FOR LISTING IN THE ORANGE BOOK IS NOT "PETITIONING"

The First Amendment includes among its enumerated rights the "right of the people . . . to petition the Government for a redress of grievances." In *Noerr*, the Supreme Court determined that, in enacting the Sherman Act – and its proscriptions against contracts, combinations, or conspiracies in restraint of trade and against monopolistic acts – Congress did not intend to "invade these freedoms."[8] Accordingly, the Court held that the Sherman Act did not extend to a

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[8] 365 U.S. at 138, 144 (1961). Because of the view it took of "the proper construction of the Sherman Act," the Court found it unnecessary to consider, *inter alia*, the defendant railroads' "contention that the activities complained of were constitutionally protected under the First Amendment . . . ." *Id.* at 132 n.6; *accord, e.g., In re Airport Car Rental Antitrust Litig.*, 474 F. Supp. 1072, 1083 (N.D. Cal. 1979) ("In *Noerr*, the Supreme Court strongly suggested that its exemption was the result of statutory construction."). Four years later, in *Pennington*, the Court extended *Noerr*'s reach to concerted action before the Executive Branch and, seven years after that, to joint petitioning before courts in *California Motor Transp. Co. v. Trucking Unlimited*,

joint effort among several rival railroads to lobby Congress for legislation that would insulate the railroads from competition by trucking firms.

Not all communications addressed to the government, however, constitute "petitioning" immunized from Sherman Act liability under *Noerr*. *See* 1 Phillip Areeda & Herbert Hovenkamp, Antitrust Law ¶ 210 (1999). Black's Law Dictionary defines a "petition" as "[a] written address, *embodying an application or prayer* from the person or persons preferring it, to the power, body, or person to whom it is presented, *for the exercise of his or their authority* in the redress of some wrong, or the grant of some favor, privilege, or license." Black's Law Dictionary 1145 (6th ed. 1990) (emphasis added). As the *Noerr* Court itself noted, legitimate petitioning activity is by its nature "directed toward *obtaining governmental action.*" 365 U.S. at 140 (emphasis added). *See also* Raymond Ku, *Antitrust Immunity, the First Amendment and Settlements: Defining the Boundaries of the Right to Petition,* 33 IND. L. REV. 385, 404 (2000) ("Valid petitioning is defined as a formal or informal attempt to *persuade* an independent government decision maker consistent with the rules of the political forum in question"; if no such attempt is made, immunity does not attach regardless of whether the criteria for a "sham" are met.) (emphasis added).

In the instant case, defendant engaged in two separate acts, only one of which constituted "petitioning." It is perfectly clear under the case law that the filing of a lawsuit constitutes *Noerr* petitioning (unless it loses its immunity under the "misrepresentation" or "sham" exceptions). It is equally clear that defendant's earlier filing of the '365 patent with the FDA was *not* "petitioning" under *Noerr*. Faced with these two separate acts, and the prospect of significant

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404 U.S. 508 (1972).

antitrust liability for the allegedly fraudulent FDA listing, defendant gamely attempts to conflate both acts throughout its memoranda, repeatedly framing the issue in terms of the follow-on litigation alone. *See, e.g.,* Memorandum in Support of Bristol-Myers Squibb Company's Motion to Dismiss ("Def. Mem.") at 13 ("The issue here really comes down to whether or not BMS's patent infringement suits are sham litigation."); Reply Memorandum in Support of Bristol-Myers Squibb Company's Motion to Dismiss ("Def. Reply Mem.") at 1 ("The entire issue of *Noerr-Pennington* . . . turns on one question: whether BMS's assertion of the '365 patent is objectively baseless.").

To the critical question of whether the *Orange Book filing* was *Noerr* petitioning, defendant tellingly devotes a total of two footnotes in its 35 pages of legal argument. *See* Def. Mem. at 12 n.10; Def. Reply Mem. at 5 n.7. Neither footnote is persuasive.

"Petitioning" is, by its very essence, an effort to convince the government to *do* something. Defendant implicitly recognizes this: "From start to finish, BMS has done nothing but seek the benefit of government *actions*." Def. Mem. at 12 (emphasis added). Simply put, with respect to the Orange Book listing, there was no discretionary government decision or action for which defendant was "petitioning." Rather, defendant's filing was informational and mechanical (not argumentative) and the FDA's listing was ministerial (not adjudicatory or discretionary).

The Second Circuit case on point is *Litton Systems v. American Tel. & Tel. Co.*, 700 F.2d 785 (2d Cir. 1983), *cert. denied*, 464 U.S. 1073 (1984). In that case, the Court of Appeals addressed the antitrust significance of a tariff filed by AT&T with the Federal Communications Commission, which required the use of an AT&T interface device to connect non-AT&T

telephone equipment into the Bell System network. The Court of Appeals premised its *Noerr* analysis on "the Supreme Court's repeated admonition that antitrust exemptions are to be countenanced only where 'there is a plain repugnancy between the antitrust and regulatory provisions.'" *Id.* at 807 (quoting *Gordon v. New York Stock Exchange, Inc.*, 422 U.S. 659, 682 (1975) (quoting *United States v. Philadelphia National Bank*, 374 U.S. 321, 350 (1963))) (internal quotation marks omitted). Because the tariff filings at issue there were mechanical and the FCC's consideration of them ministerial, the Second Circuit concluded they did not amount to "petitioning" under *Noerr*:

> AT&T erroneously assumes that a mere *incident* of regulation – the tariff filing requirement – is tantamount to a request for governmental action akin to the conduct held protected in *Noerr* and *Pennington*. But in this case, as in *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 707 (1962), the *Noerr-Pennington* doctrine is "plainly inapposite" because AT&T was "engaged in private commercial activity, no element of which involved seeking to procure the passage or enforcement of laws." . . . AT&T cannot cloak its actions in *Noerr-Pennington* immunity simply because it is required, as a regulated monopoly, to disclose publicly its rates and operating procedures.

Id. at 807 (emphasis in the original).

Other circuits have consistently agreed that ministerial tariff filings are not protected by *Noerr*. *See, e.g., Ticor Title Ins. Co. v. FTC,* 998 F.2d 1129, 1138 (3d Cir. 1993) (a collective rate filing is not a petition), *cert. denied,* 510 U.S. 1190 (1994); *City of Kirkwood v. Union Elec. Co.,* 671 F.2d 1173, 1181 (8th Cir. 1982) (utility rate filings are not petitions; tariff filings "may not be used as pretext to achieve otherwise unlawful results"), *cert. denied,* 459 U.S. 1170 (1983); *New England Motor Rate Bureau,* 112 F.T.C. 200, 284 (1989) (joint applications to regulators for tariff changes are not petitions), *vacated on other grounds,* 908 F.2d 1064 (1st Cir.

1990); 1 Areeda & Hovenkamp ¶ 210 (collecting cases).[9]

Orange Book filings are like tariff filings in two critical respects. First, patent information filing is a purely mechanical process, involving only the formulaic provision of data, not advocacy or the expression of "grievances." An NDA filer need do nothing more than include in its application "the patent number and the expiration date" of any patent claiming the drug or a method of using the drug that is the subject of the NDA, together with a supporting

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[9] *Accord In re Wheat.Rail Freight Rate Antitrust Litig.*, 579 F. Supp. 517, 537-38 (N.D. Ill. 1984) ("Though the [ICC] may reject a tariff on its own initiative or at the request of a third party, the filing of a tariff itself cannot be considered a 'petition' to the government." Therefore, such a tariff filing is not immune under *Noerr.*), *aff'd mem.*, 759 F.2d 1305 (7th Cir. 1985), *cert. denied*, 476 U.S. 1158 (1986). *See also Columbia Steel Casting Co. v. Portland Gen. Elec. Co.*, 111 F.3d 1427, 1446 (9th Cir. 1996) ("Applying to an administrative agency for approval of an anticompetitive contract is not lobbying activity within the meaning of the *Noerr-Pennington* doctrine."), *cert. denied*, 523 U.S. 1112 (1998); *United States v. Southern Motor Carriers Rate Conf., Inc.*, 672 F.2d 469, 477 (5th Cir. 1982) (*Noerr* immunity extends to "joint efforts of the bureaus to secure [State] legislation or commission regulation permitting collective ratemaking procedures . . . ," but not to "collective action to determine the rates which the bureaus desire the commission to approve . . ."), *modified en banc on other grounds*, 702 F.2d 532 (1983), *rev'd on other grounds*, 471 U.S. 48 (1985).

In *MCI Communications Corp. v. AT&T*, 708 F.2d 1081, 1153 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983), the Court of Appeals considered, *inter alia*, a jury finding "that AT&T filed tariffs [covering interconnections between interstate long distance carriers regulated by the FCC and local telephone operating companies regulated by state agencies] in bad faith with state utility commissions as an act in willful maintenance of its monopoly position," and AT&T's claim that the filings were immune from antitrust scrutiny because they simply constituted "petitioning of the government." While the court suggested in *dicta* that "activities such as state tariff filings are immune from antitrust liability where their purpose is to influence government action," it later noted that "[s]ince *Noerr-Pennington* is designed to protect the right to petition the government to take some action, *Noerr-Pennington* might not apply if a tariff filing is only a *pro forma* publication perhaps required by law and not an exercise of the right to *petition* the government . . . ." The court further noted that it did not in any event need to reach this issue "given [its] conclusion that these filings, even if 'petitions' to which *Noerr-Pennington* applied, were, in any event, 'sham.'" *Id.* at 1155 n.114.

declaration.[10] Similarly, when a holder of an approved NDA secures a new patent, it need only provide the FDA with the same type of patent information within 30 days after the patent is issued.[11] In either circumstance, the submitter is neither requesting governmental action nor expressing a political opinion, and this "essentially procedural aspect of regulation . . . cannot [support an antitrust exemption]." *Litton Sys.*, 700 F.2d at 807.[12]

Second, the FDA's review of pre-listing submissions, and subsequent listing of patents in the Orange Book, are purely ministerial, not involving discretionary judgment or adjudication. Explicitly, the FDA does not purport to evaluate the propriety of patent listings,[13] and will not change patent information in the Orange Book "[u]nless the NDA holder withdraws or amends its patent information."[14] As the D.C. Circuit recently explained,

[t]he FDA, pursuant to longstanding practice and its own regulations, and based on its

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[10] 21 U.S.C. § 355(b)(1); 21 C.F.R. § 314.53(c).

[11] 21 U.S.C. § 355(c)(2).

[12] *Cf. Noerr,* 365 U.S. at 138 (protected petitioning involves "solicitation of governmental action with respect to the passage and enforcement of laws"); Ku, *Antitrust Immunity,* 33 IND. L. REV. at 417, 422 (equating protected petitioning with "an effort to persuade an independent government decision-maker through the presentation of facts and arguments," and noting that purely private settlements are not *Noerr*-protected "because they are in fact the antithesis of efforts to solicit government action").

[13] *See* 59 Fed. Reg. 50338, 50343 (1994); *accord Abbott Laboratories v. Novopharm Ltd.*, 104 F.3d 1305, 1307 n.1 (Fed. Cir. 1997) ("[t]he FDA must accept as true the patent information supplied by the patentee"). Indeed, the FDA has consistently maintained that it has neither the resources nor the expertise to resolve patent issues. *See* 54 Fed. Reg. 28872, 28910 (1989) (preamble to proposed regulations); 59 Fed. Reg. at 50345 (cols. 2, 3) (preamble to final regulations in which FDA rejected two comments that asserted that "FDA should ensure that patent information submitted to the agency is complete and applies to a particular NDA").

[14] 21 C.F.R. § 314.53(f); *accord American Bioscience, Inc. v. Thompson*, 269 F.3d 1077, 1080 (D.C. Cir. 2001) ("*American Bioscience II*").

> acknowledged lack of expertise and resources, has refused to become involved in patent listing disputes, accepting at face value the accuracy of NDA holders' patent declarations and following their listing instructions.

American Bioscience II, 269 F.3d at 1080.[15] In other words, as the court elaborated, the FDA's Orange Book listing, rather than being an exercise of judgment or discretion, is purely "ministerial." *Id.* at 1084. The ministerial nature of the FDA's role in listing patents in the Orange Book is further evident in the rule that such listings create no presumption that the patent has been listed correctly. *See Ben Venue Laboratories, Inc. v. Novartis Pharmaceutical Corp.*, 10 F. Supp. 2d 446, 456 (D.N.J. 1998). *See also Watson Pharm., Inc. v. Henney*, No. S 00-3516, 2001 U.S. Dist LEXIS 2477 at *7 (D. Md. Jan. 18, 2001) (describing the FDA's role in Orange Book listing as "very limited [and] ministerial") (Attachment 1).

The distinction between ministerial government acts and exercises of judgment and discretion reflects in part the reality that, with the former, there is little check on the truth or falsity of parties' representations, whereas with the latter, the government decisionmaker can assess veracity and weigh those statements in accordance with the public interest. Under *Noerr*, it is both the nature of the submission (informational or attempting to persuade) and the nature of the governmental agency's review (discretionary or ministerial) that determine whether a given communication constitutes "petitioning."[16] Thus, while advocacy in a political or adjudicatory

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[15] *Cf. Woods Exploration & Producing Co. v. Aluminum Co. of America*, 438 F.2d 1286, 1295 (5th Cir. 1971) (*Noerr* provides no immunity for gas producers' filings with Railroad Commission where Commission has "no opportunity . . . [to] supervis[e] or verif[y]" filings and instead "must rely on the truthfulness" of producers), *cert. denied*, 404 U.S. 1047 (1972).

[16] *See Noerr,* 365 U.S. at 138 (protected petitioning involves "solicitation of governmental action with respect to the passage and enforcement of laws"); *see also Litton,* 700 F.2d at 807-08 (contrasting a "mere incident of regulation" with "a 'request' for government action or an 'expression' of political opinion"); *cf.* Gregory A. Mark, *The Vestigial Constitution: The History*

context is deemed petitioning; informational filings in ministerial contexts are not.[17]

Indeed, the FCC's review of the tariff filings in *Litton* was far less ministerial than the FDA's review of Orange Book filings. There, the FCC did engage in some substantive review of those filings, but, as the Second Circuit concluded,

> [t]he fact that the FCC might ultimately set aside a tariff filing does not transform AT&T's independent decisions as to how it will conduct its business into a "request" for governmental action or an "expression" of political opinion. Similarly, the FCC's failure to strike down a tariff at the time of its filing does not make the conduct lawful, particularly where, as in this case, the agency specifically declines to rule on a tariff's legality.

700 F.2d at 807-08. *A fortiori*, an FDA filing subjected to even more circumscribed and ministerial review cannot be considered "petitioning" protected under *Noerr*.[18]

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and Significance of the Right to Petition, 66 FORDHAM L. REV. 2153, 2173 (1998) (as developed in English law and known to the Framers, "[a] petition was a communication that, 1) had to be addressed to an authority such as the King, 2) had to state a grievance, and, 3) had to pray for relief").

[17] For example, misrepresentations on an individual's tax return are not protected "petitioning" under *Noerr*, but arguing to an elected Representative or to a court that one's taxes are too high (or that a given expense should be deductible) would be.

[18] In contrast, neither of these characteristics – (1) a purely mechanical, information-providing content to the filing, or (2) an absence of judgment or discretion on the part of the government agency – has been present in recent cases in which *Noerr* immunity was held to apply. Rather, *Noerr* cases typically involve efforts to persuade or negotiate with the government to promulgate statutes or regulations, enter into agreements, or engage in law enforcement actions – *i.e.*, appeals to the substantive judgment or discretion of a government agent. *See, e.g., A.D. Bedell Wholesale Co. v. Philip Morris, Inc.*, 263 F.3d 239, 252 (3d Cir. 2001) (upholding district court's holding that tobacco companies' successful negotiations with state governments to enter the Multistate Settlement Agreement and secure implementing state legislation were *Noerr* protected), *cert. denied*, __ U.S. __ (Jan. 7, 2002); *Hallco Environmental, Inc. v. Comanche County Board of County Commissioners*, 1998-1 Trade Cas. (CCH) ¶ 72,175, at 82,138 (10th Cir. June 10, 1998) (efforts by a number of individuals to persuade a county board and its commissioners to establish landfill regulations under a state solid waste management act); *Massachusetts School of Law at Andover, Inc. v. American Bar Association,* 107 F.3d 1026, 1038 (3d Cir.) (efforts by the ABA to convince states to prohibit graduates of unaccredited law

II. ORANGE BOOK FILINGS ARE NOT "INCIDENTAL" TO SUBSEQUENT PATENT INFRINGEMENT LITIGATION

In the event that the Court concludes that Orange Book filing does not constitute "petitioning," BMS urges the Court to adopt the position that filing is "incident[al]" to petitioning. *See* Def. Mem. at 12 n.10; Def. Reply Mem. at 5 n.7. This latter contention is equally unpersuasive. Patent listings in the Orange Book result from mechanical informational filings calling for ministerial action, rather than the exercise of judgment, by the FDA. Furthermore, they share little in common with other conduct held to be "incidental" to petitioning, such as the transmittal of pre-litigation threat letters.

A number of courts have found a limited category of pre-litigation conduct to be "incidental" to petitioning and so protected by *Noerr*. Those cases have generally involved a *threat* to litigate a specific claim against a specific party. *See Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999); *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1558-60 (11th Cir. 1992); *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 851 (1st Cir. 1985); *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1366-67 (5th Cir. 1983); *Barq's Inc. v. Barq's*

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schools from taking the bar examination), *cert. denied*, 522 U.S. 907 (1997); *PTI, Inc. v. Philip Morris Inc.*, 100 F. Supp. 2d 1179, 1193 (C.D. Cal. 2000) ("activities involved with the negotiation, execution, and attempts to implement the [tobacco litigation] MSA, the Qualifying Statute, and the Model Act"); *Modesto Irrigation District v. Pacific Gas & Elec. Co.*, 61 F. Supp. 2d 1058, 1062, 1070-73 (N.D. Cal. 1999) (utility's petition to the Federal Energy Regulatory Commission for a declaration that it was not obligated to supply power to another firm); *Omega Homes, Inc. v. City of Buffalo*, 4 F. Supp. 2d 187, 193-94 (W.D.N.Y. 1998) (successful lobbying efforts to secure an exclusive contract to build a low-income housing development), *aff'd*, 171 F.3d 755 (2d Cir.), *cert. denied*, 528 U.S. 874 (1999); *Ehlinger & Assocs. v. Louisiana Architects Ass'n*, 989 F. Supp. 775, 784-85 (E.D. La.) (efforts to influence a state board that selected architects for state projects), *aff'd*, 167 F.3d 537 (5th Cir. 1998); *Association of Minority Contractors & Suppliers v. Halliday Properties, Inc.*, 1998-2 Trade Cas. (CCH) ¶ 72,250, at 82,575-78 (E.D. Pa. 1998) (efforts to convince city council to initiate a lawsuit to dissolve a local redevelopment authority).

Beverages, Inc., 677 F. Supp. 449, 452-53 (E.D. La. 1987). Such conduct is closely related to litigation: it announces an intent to litigate specific claims against specific parties; it is typically communicated between the prospective parties to the suit; it is a normal part of the litigation process; it makes the litigation process itself work better by providing notice that may lead to a settlement or an adjustment of conduct that makes the process less costly for all involved; its deterrent or remedial effects are directly dependent on the merits of the litigation; and it is often an essential part of the process of petitioning effectively, inasmuch as the remedies sought by the petitioner often include treble damages for willful infringement for which notice – typically in the form of a threat letter – is a legal requirement. A pre-litigation threat letter has been found to be immune as incidental to the petitioning process because it is often a normal aspect of the process of litigating effectively and in good faith:

> Given that petitioning immunity protects joint litigation, it would be absurd to hold that it does not protect those acts reasonably and normally attendant upon effective litigation. The litigator should not be protected only when he strikes without warning. If litigation is in good faith, a token of that sincerity is a warning that it will be commenced and a possible effort to compromise the dispute.

McGuire Oil, 958 F.2d at 1560; *see also Outboard Marine Corp. v. Pezetel*, 474 F. Supp. 168, 174 (D. Del. 1979); *Clairol, Inc. v. Boston Discount Center of Berkley, Inc.*, 1976 U.S. Dist. LEXIS 13139 at *16 (E.D. Mich.), *aff'd on other grounds*, 608 F.2d 1114 (6th Cir. 1979) (Attachment 2).

In a similar vein, the Second Circuit has described signal strength challenges under the Satellite Home Viewer's Act ("SHVA") as analogous to pre-litigation threat letters and so conceivably *Noerr*-protected. In *Primetime 24 Joint Venture v. National Broadcasting Co.*, 219 F.3d 92 (2d Cir. 2000), the court held that signal-strength challenges by TV networks to satellite

providers' assertions of mandatory copyright licensing rights could be (absent abuse) *Noerr*-protected, finding that such challenges served the same role as pre-litigation threat letters. *Id.* at 100. Like pre-litigation threat letters, SHVA challenges provided specific notice to a specific party that specific conduct by that party is alleged to violate the challenger's rights. They were, in short, "a litigation skirmish in miniature," *id.*, and for that reason protected together with the litigation which they preceded.

An Orange Book filing, by contrast, is plainly *not* a miniature, preliminary version of *Noerr*-protected litigation. Unlike a litigation threat letter, an Orange Book listing is made to the world in general; and it is made without regard to, and often in the complete absence of, any potentially adversary party. An Orange Book filing is a communication with the government purporting to describe a property right – akin to registration of a trademark or title to land – not a communication with an adversary asserting an infringement. Indeed, the obligation to list a patent in the Orange Book arises without regard to whether there is, or ever will be, another company that seeks to manufacture the drug claimed in the NDA. For patents that have issued by the time the NDA is filed, the obligation to list arises with the filing of the NDA; for subsequently issued patents, the patent must be listed within 30 days of its issuance. 21 U.S.C. §§ 355(b)(1), (c)(2). The listing thus often will arise years before any potential competitor has emerged; and, indeed, sometimes there will *never* be another company seeking to make the claimed drug. Moreover, the statutory obligation to list encompasses patents owned by persons other than the NDA holder – *i.e.*, circumstances in which even if subsequent patent infringement suit may occur, the person filing the Orange Book listing will not be a party to such litigation. Given the significant attenuation between Orange Book filings and potential future litigation,

fraudulent conduct undertaken in compliance with regulatory obligations under the FDA cannot properly be characterized as "incidental" to hypothetical future litigation that may or may not arise against unknown parties who may or may not appear.

Moreover, an Orange Book filing is not merely separated in time and made without regard to the identity of any particular adversary. It also relates to a *different subject matter* from subsequent patent litigation. An Orange Book filing makes a representation about the relationship between a particular patent and the branded drug that is the subject of the NDA – that is, between the patent and the *NDA holder's product.* A patent infringement claim, by contrast, concerns the relationship between a particular patent and the *ANDA filer's product.* The listing of a patent in the Orange Book accordingly does not mean that an ANDA filer infringes the patent; an Orange Book listing might be proper even though a patent litigation claim would not be, and vice versa. In short, an Orange Book filing bears little resemblance to the "litigation skirmishes in miniature" that have been protected as "incidental" to litigation. Unlike threat letters and SHVA challenges, which are between the same parties, involve the same claims, and arise immediately before the protected litigation, Orange Book filings are unrelated in time, different in subject matter, and made to the world in general. To find such conduct "incidental" to litigation would be a dramatic, and unwarranted, extension of existing precedent.

BMS nonetheless asserts that Orange Book filings should be deemed "incidental" to litigation because, BMS claims, listing in the Orange Book is required in order to take advantage of 35 U.S.C. § 271(e)(2), which permits commencement of an infringement action at the time an

ANDA is filed.[19] Otherwise, BMS contends, it would have had to wait until the ANDA filer actually made, used, or sold the allegedly infringing drug under 35 U.S.C. §271(a). *See* Def. Mem. at 12 n.10 (Orange Book listing "was a necessary predicate to the filing of [its] patent suits against Mylan and Watson under 35 U.S.C. § 271(e)(2)").

There are, however, several difficulties with BMS's argument. To begin with, the hypothesized distinction between the timing of an action under §§ 271(a) and 271(e)(2) appears to be entirely irrelevant on the facts of this case. Given the conduct alleged here – namely, that Mylan and Danbury had manufactured sizeable quantities of the allegedly infringing product, presumably subsequent to multiple offers to sell, and even had their trucks loaded and ready to go – it would appear that BMS could have brought the same suit, alleging the same claims, at the same time, under either § 271(a) or § 271(e)(2). The Orange Book listing accordingly was not "necessary" in any respect to BMS's filing of the current litigation.

Second, BMS's suggestion that otherwise unrelated conduct is protected under *Noerr* because it affects – at most – only the *timing* of litigation, proves far too much. To our knowledge, only one court has adopted BMS's interpretation of § 271(e)(2). Notably, however, that case itself emphasized that the unavailability of § 271(e)(2) did not alter the litigant's ability to secure the same effective relief under § 271(a). *See Abbott Laboratories v. Zenith Laboratories, Inc.*, 1995 WL 117984 at *12 (N.D. Ill. Mar. 16, 1995) ("[D]ismissal of Plaintiff's § 271(e)(2)(A) claim does not leave Plaintiff without a remedy as Plaintiff can bring a patent

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[19] 35 U.S.C. § 271(e)(2) provides in relevant part: "It shall be an act of infringement to submit (A) an application under section 505(j) [the ANDA provisions] of the Federal Food, Drug and Cosmetic Act or described in section 505(b)(2) [provisions allowing "paper NDAs"] of such Act for a drug claimed in a patent or the use of which is claimed in a patent."

infringement claim pursuant to 35 U.S.C. § 271(a) if and when Defendant proceeds to manufacture and sell its new generic form of Hytrin.") (Attachment 3).[20] Indeed, it would be highly anomalous for BMS to claim that the difference between the two provisions is an important one, if, as BMS claims, listing in the Orange Book is required to bring a § 271(e)(2) claim. As discussed earlier, *it is unilaterally within the control of the NDA holder which patents are listed in the Orange Book*, and many patents can affect a given drug yet not be owned by the NDA holder. If other patent holders are dependent on the NDA holder to decide whether they can bring a claim under § 271(e)(2), it would be striking indeed for BMS to claim that Congress intended to leave this right within the unilateral control of another firm.

In fact, however, BMS's argument suffers from an even more fundamental difficulty: its interpretation of § 271(e)(2) finds no support in the plain language of the provision. The referenced provision merely indicates that submission of an ANDA "for a drug claimed in a patent or the use of which is claimed in a patent" constitutes grounds for an infringement action. It makes no reference, either express or implied, to the Orange Book listing process. Rather, under the terms of § 271(e)(2), the filing of an ANDA makes a patent infringement suit ripe if the generic drug for which the ANDA is filed infringes a patent, *irrespective* of whether the patent concerned is listed in the Orange Book or whether a Paragraph IV certification has been, or should have been, filed.

The only court to interpret § 271(e)(2) as BMS suggests – the Northern District of Illinois in *Abbott Laboratories* – was, we would respectfully submit, in error. There the court appears to

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[20] *Cf. Glaxo Group Ltd. v. Apotex, Inc.*, 130 F. Supp. 2d 1006, 1009 n.4 (N.D. Ill. 2001) (agreeing in *dicta* with *Abbott Laboratories*' holding, but declining to reach the issue because plaintiff sought the same effective relief under § 271(a)).

have been motivated principally by a policy concern,[21] that NDA holders not withhold patents from the Orange Book in hopes of surprising ANDA filers with subsequent litigation. However, that concern does not justify grafting a new requirement onto the otherwise straightforward statutory text of § 271(e)(2): "It shall be an act of infringement to submit an [ANDA] for a drug claimed in a patent or the use of which is claimed in a patent." Had Congress intended to do so, it would not have been difficult to have written: "It shall be an act of infringement to submit an ANDA for a drug claimed in a patent *that has been filed with the FDA under § 355(b)(1)*." Moreover, actual practice in the intervening years suggests that the underlying policy concern is unlikely to have substantial real world consequences: given the substantial economic advantages to NDA holders of having patents listed in the Orange Book – namely, the automatic 30-month stay provision halting FDA approval of competing ANDAs – there are very few incentives for NDA holders to deliberately withhold validly listable patents (which, indeed, they are required to list under § 355(b)).

Not only is BMS's contention contrary to the plain language of § 271(e)(2), but, as suggested earlier, it makes little sense within the framework of the statute. For example, suppose

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[21] In addition, the court looked to *dicta* in the Supreme Court's decision *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 678 (1990), that § 271(e)(2) created "a highly artificial act of infringement that consists of submitting an ANDA or paper NDA *containing the fourth type of certification*" (emphasis added). But the Court in *Eli Lilly* was not addressing the question of whether § 271(e)(2) required an Orange Book listing, which had not been briefed, argued, or even considered. Rather, the Court was addressing the reach of § 271(e)(1)'s broad immunity from infringement liability for research conducted in the process of submitting an ANDA. Its passing mention of § 271(e)(2) described the usual circumstance in which a suit proceeds (where there is a Paragraph IV certification) but did not state or even imply that this is the *only* circumstance where a suit may lie. And it would be doubtful, to say the least, that Justice Scalia's opinion for the Court in *Eli Lilly*, which relied heavily on the plain language of § 271(e)(1), was meant to foreclose the same reliance on the plain language of § 271(e)(2) on an issue the Court was not there considering.

that party A filed an NDA, party B held a related patent, and party C filed an ANDA potentially infringing on B's patent. If A refused to list B's patent (a not unlikely occurrence, *see American Bioscience II,* 269 F.3d at 1080-81), it would be a very odd conclusion that A's malfeasance foreclosed B from enforcing his patent against C's infringement. The much more natural inference would be that § 271(e)(2) in fact means what it says – that submitting an ANDA for "a drug claimed in a patent" constitutes infringement, so B can sue for C's submission.

In any event, the fact remains: if BMS had not made its allegedly false Orange Book filing, it could nonetheless have brought all the lawsuits it brought, for exactly the same claims, at exactly the same time it brought them. It could have done so under § 271(a), or under the plain terms of § 271(e)(2), *irrespective of any Orange Book listing.*

To be sure, Orange Book listing has substantial relevance *within the FDA process*, and that process is brought to a halt if subsequent infringement litigation ensues. But the fact that infringement litigation triggers a statutory delay in FDA approval does not render listing incidental *to the litigation.* The "30-month stay" is not a "stay" in the ordinary sense: it is not ordered by a court, enforced by contempt authority, or issued after a preliminary hearing assessing, *inter alia*, likelihood of success on the merits.[22] Rather, it is an automatic delay in the *regulatory process of the FDA* to approve a generic drug as safe and effective for public consumption. That process is wholly unrelated to any patent litigation, does not affect the patent litigation, and so cannot be deemed "incidental" to that litigation.[23]

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[22] In fact, precisely such a remedy remains available in infringement litigation irrespective of whether a patent is listed in the Orange Book.

[23] By way of analogy, suppose employee John Doe had an employment contract with employer Acme that specified he could be fired only for cause. Suppose Acme fraudulently altered that

III. EVEN IF ORANGE BOOK FILINGS WERE "PETITIONING" UNDER *NOERR*, THE "MISREPRESENTATION" AND "SHAM" EXCEPTIONS MAY DEPRIVE BMS OF *NOERR* IMMUNITY

Even if the Court were to determine that Orange Book filings are petitioning activity, BMS's conduct would not necessarily be immune from liability under *Noerr-Pennington*. The Commission will leave it to the parties to this case to address the particular fact pattern at issue here, but there are a number of legal principles relevant to *Noerr*, and Orange Book filings generally, that could be helpful to resolution of these complex issues.

First, as the plaintiffs noted in their memorandum, many courts have held that *Noerr* immunity does not extend to knowing and material misrepresentations made in adjudicatory or administrative proceedings. *See, e.g., Kottle v. Northwest Kidney Centers*, 146 F.3d 1056, 1062-63 (9th Cir. 1998) (in adjudicatory or administrative proceedings "guided by enforceable standards subject to review," *Noerr* does not apply if misrepresentations deprived "the entire . . . proceeding of its legitimacy"); *Whelan v. Abell*, 48 F.3d 1247, 1255 (D.C. Cir. 1995) ("the knowing assertion of false claims [to courts and securities regulators] is not protected by *Noerr-Pennington*"). *See also Cheminor Drugs Ltd. v. Ethyl Corp.*, 168 F.3d 119, 124 (3d Cir. 1999) ("a material misrepresentation that affects the very core of a litigant's . . . case will preclude . . . immunity"); *St. Joseph's Hosp. v. Hospital Corp. of America*, 795 F.2d 948, 955 (11th Cir. 1986) ("When a governmental agency . . . is passing on specific certificate applications it is acting judicially. Misrepresentations under these circumstances do not enjoy *Noerr* immunity.").

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contract to insert a provision that being sued necessarily constituted "cause," and then sued Doe and fired him. In that situation, the negative consequence – Doe's being subject to termination – is triggered by the lawsuit, but none would suggest that the employment contract imposing those consequences was somehow "incidental" to the litigation or that Acme's fraud concerning that contract should be immune from liability.

Indeed, the Supreme Court itself has explained that "[m]isrepresentations, condoned in the political arena, *are not immunized when used in the adjudicatory process*." *California Motor Transp.*, 404 U.S. at 513 (emphasis added).[24] Thus, the significant misrepresentations plaintiffs have alleged that BMS made to the FDA, if proven, could defeat *Noerr* immunity.[25]

Moreover, the submission of knowing and willful misrepresentations to the FDA in the Orange Book listing process is quite closely analogous to the submission of intentional misrepresentations to the Patent Office during patent prosecution, which the Supreme Court explicitly held sufficient to support a finding of Sherman Act liability in *Walker Process Equip. Co. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). The Supreme Court's decision in *Walker Process* gave rise to the "misrepresentation" exception, *see, e.g., Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1260 (9th Cir. 1982), and the reasons that led the Court to recognize an exception to *Noerr* in *Walker Process* would support the same outcome in Orange Book listing cases such as this one.

In both cases, the administrative process is *ex parte*, and potential competitors typically

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[24] Although Orange Book listing is properly characterized as non-petitioning and ministerial, were it to be deemed petitioning it would certainly be closer to "adjudicatory" than to "political." *Cf. Kottle,* 146 F.3d at 1061 (explaining that the critical difference between "adjudicatory" and "political" is whether there are "objective standards" to govern the decision).

[25] In brief, plaintiffs' key allegations appear to be the following: (1) before the PTO, BMS attempted to claim the systematic administration of buspirone as a prodrug and as a metabolite; (2) the PTO did not allow the prodrug claim; (3) BMS therefore elected to abandon that claim and to proceed explicitly on the metabolite alone; and (4) upon receiving the '395 patent on the metabolite (and describing it in a company press release as limited to the metabolite), BMS willfully represented to the FDA that it covered the prodrug as well and secured an improper Orange Book listing to enable a 30-month stay on generic entry. In essence, the allegation is that BMS stated "not X" to the PTO and then "X" to the FDA; both cannot be true. If the application covered the prodrug, BMS's representations to the PTO were false; if it did not, its filings with the FDA were fraudulent.

have no opportunity to challenge the claimant's submission before the patent issuance or listing takes place. The Patent Office has only a limited ability to probe a claimant's factual assertions; the FDA expressly accepts representations regarding the Orange Book at face value. In both proceedings, much of the most critical evidence, including relevant prior art and background of patent claims, lies in the hands of private parties and is not necessarily easily available. And in both instances, the antitrust consequences of the false representation can be severe: in the case of the issuance of a patent, exclusion of a competitor from the invention claimed in the patent; in the case of an Orange Book listing, automatic exclusion from the market for up to 30 months.

In addition, a knowing, material misrepresentation in an Orange Book listing context would also appear to satisfy the "sham" exception to *Noerr*.[26] The "sham" exception "encompasses situations in which persons use the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon." *City of Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 380 (1991). A "sham" petitioner attempts to use the governmental process itself to impose collateral harm on a competitor, such as "impos[ing] expense and delay," *id.*, without regard to the merits.

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[26] The Ninth, D.C., and Federal Circuits have all explicitly recognized a "misrepresentation" exception distinct from the "sham" exception identified by the Supreme Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.* ("*PRE*"), 508 U.S. 49 (1993). *Kottle*, 146 F.3d at 1060; *Whelan*, 48 F.3d at 1255; *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1071 (Fed. Cir. 1998) ("*PRE* and *Walker Process* provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws," and *Walker Process* liability may be imposed "without the additional sham inquiry required under *PRE*."). The Third Circuit, on the other hand, has held that the "misrepresentation" exception is subject to the Supreme Court's "sham" standard in *PRE*. *Cheminor*, 168 F.3d at 123. To *amicus's* knowledge, the Second Circuit has not ruled on the issue: in *PrimeTime*, the Second Circuit agreed with the Ninth Circuit that a different exception to *Noerr* (the "pattern" exception) falls outside the scope of *PRE*, but *PrimeTime* did not address whether the "misrepresentation" exception also is separate from *PRE*'s "sham" test. *See PrimeTime*, 219 F.3d at 101.

In the Orange Book listing context, that is precisely what a competitor may be alleged to have done. By making a false filing in the Orange Book, a branded pharmaceutical company can impose lengthy delay on its competitor's ability to enter the market, wholly without regard to the merits of its litigation claim. Moreover, it is not the case, as BMS contends, that the "issue here really comes down to whether or not BMS's patent infringement suits are sham litigation." Def. Mem. at 13. The listing inquiry is whether the new patent claims the *branded* drug (that is, it falls within the scope of the NDA). An infringement suit, by contrast, inquires whether the patent is infringed by the *generic* drug. A branded company may have a colorable claim that a generic drug infringes a patent, even though it has no basis (and, in fact, knows it to be false) that the patent covers the branded drug. Through its Orange Book filing, the branded drug company obtains an anticompetitive effect unrelated to the judicially determined outcome of litigation; it does so on the basis of an allegedly false assertion to the FDA that the patent is properly listable; and, therefore, that filing may fall within the scope of the "sham" exception to the *Noerr-Pennington* doctrine.

IV. THERE IS NO GENERAL "PATENT ENFORCEMENT IMMUNITY" FROM THE ANTITRUST LAWS

Finally, BMS asserts that "the patent law affords immunity to patent holders' assertions of their rights," and appears to imply that such immunity is independent of, and extends in unspecified ways beyond, *Noerr-Pennington* immunity. Def. Mem. at 11. BMS argues that such immunity is the corollary of the patent holder's right to exclude.[27] *Id.* Although BMS's

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[27] BMS neither explains why a patent holder's right to exclude should be treated differently from the right to exclude of all other property owners, nor addresses the well-established precedent holding that abuse of patent rights provides grounds for antitrust liability in the same manner as abuse of other property rights. For example, the Supreme Court has expressly stated that "the

description of this "immunity" sounds broad at first blush, defendant's concession that "[t]here can be no liability unless evidence of bad faith, *e.g.*, fraud, is presented," *id.* – precisely what plaintiffs here have alleged – makes clear that there is little substance to this argument. Rather, the point seems to be that legitimate good-faith litigation to enforce valid patents should not give rise to liability, a true observation irrelevant to the case at hand.

CONCLUSION

The filing of patent information for listing in the Orange Book is not a petition seeking discretionary government action or any legislative, regulatory, or adjudicatory judgment. It is, instead, a mechanical act that leads to ministerial processing by the FDA, akin to tariff filings that have long been considered subject to full antitrust scrutiny. Improper Orange Book filings, such as those alleged in the present case, have harmful effects on generic competition prior to, independent of, and without any regard to the merits of any subsequent patent litigation, and are not analogous to pre-litigation threat letters "incidental" to litigation.

Moreover, even if such filings were deemed petitioning under *Noerr*, plaintiffs appear to have adequately alleged abuse of the petitioning process sufficient to invoke the "misrepresentation" and "sham" exceptions to *Noerr* immunity.

Accordingly, the Court should deny BMS's motion to dismiss the plaintiffs' claims under the antitrust laws.

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patent monopoly may not be used in disregard of the antitrust laws." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964). *See also Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) ("there are established limits which the patentee must not exceed in employing the leverage of his patent to control or limit the operations of the licensee"); *United States v. Singer Manufacturing Co.*, 374 U.S. 174 (1963) (patent settlement violated Sherman Act); *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952); *United States v. Line Materials Co.*, 333 U.S. 287 (1948); *United States v. Masonite Corp.*, 316 U.S. 265 (1942).

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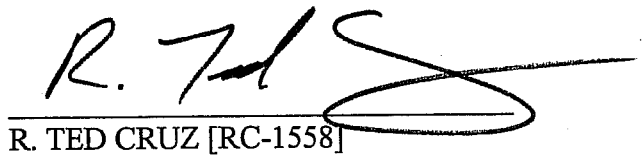

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January 8, 2002