

Keywords: antitrust; *Walker Process*; fraud; license; infringement; Rule 12(b)(6)

General: A plaintiff may bring a *Walker Process* claim against a patentee based on threatened enforcement of a fraudulently-obtained patent against the plaintiff's customers.

Hydril Company LP v. Grant Prideco LP

No. 2006-1188 (Fed. Cir. 2007)

Decided January 25, 2007

I. Facts

Hydril manufactures threaded connections for interlocking lengths of drill pipe used in drilling oil and gas wells. Hydril does not manufacture drill pipe, but does add its threaded connections to pipe manufactured by others and then sells the finished drill pipe outside the United States. The primary customers for Hydril's connections are distributors who often assemble the finished drill pipe for an end-user, such as a major oil company. Hydril is the owner of U.S. Patent Reissue No. 34,467 ("the '467 patent"), which is directed to drill pipe connections.

Grant Prideco manufactures and sells both drill pipe and its own line of connections. In 1997, Grant Prideco purchased Hydril's equity stake in a company, XL Systems, Inc. As part of the sale, Grant Prideco and Hydril entered into a merger agreement in which, among other things, Grant Prideco was granted an exclusive license to use Hydril's intellectual property, including the '467 patent, to make only "large-diameter connections" (twenty inches and over). In return, Grant Prideco agreed to not use the licensed intellectual property to develop small-diameter connections (less than twenty inches).

In 1999, Grant Prideco filed a patent application generally directed to drill pipe and related connections, which issued in 2001 as U.S. Patent No. 6,244,631 ("the '631 patent"). Then, in early 2003, Grant Prideco mailed a letter to OMSCO Inc., a drill pipe distributor and licensee of the '467 patent, alleging that certain orders from OMSCO's customers for small-diameter pipe and connections may violate the '631 patent, and suggesting that OMSCO take action to "ensure that [Grant Prideco's] patent rights are being respected." Similar letters were also mailed to other companies in the pipe and drilling industries.

Believing that the '631 patent was obtained through fraud, Hydril filed suit against Grant Prideco, alleging that Grant Prideco knew the '631 patent was fraudulently obtained and, therefore, that the threatened enforcement of the '631 patent violated Section 2 of the Sherman Act. In support of this claim, Hydril asserted that Grant Prideco knew of material prior art, including prior sales of covered technology, and failed to disclose such prior art to the USPTO. The complaint also alleged that Grant Prideco, through its development of small-diameter connections and disclosure of confidential information, had breached the merger agreement. Still further, Hydril alleged infringement of the '467 patent under the theory that Grant Prideco's conduct amounted to a material breach, thus terminating Grant Prideco's field-of-use license of the '467 patent.

The district court, however, dismissed the antitrust and patent claims for failure to state a valid claim for relief, pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. Particularly, the court held that the complaint failed to allege enforcement activity by Grant Prideco that would create an objectively reasonable apprehension that Grant Prideco intended to enforce the '631 patent against Hydril or others. Further, the court held that Hydril waived the right to sue for

patent infringement of the '467 patent in the merger agreement, which instead provided a breach of contract remedy for such claims.

II. Issues

- A. Did the district court err in granting judgment on the antitrust claim to Grant Prideco?
- B. Did the district court err in granting judgment on the infringement claim to Grant Prideco?

III. Discussion

- A. Yes. In a majority opinion, the Federal Circuit panel reversed the district court's grant of judgment to Grant Prideco. Citing Federal Circuit precedent, the two-judge majority noted that *Walker Process* fraud is a variant of common law fraud, which generally requires: (1) a representation of a material fact, (2) the falsity of that representation, and (3) the intent to deceive (or reckless disregard for the consequences of the false representation rising to the equivalent of intent). The court noted that the complaint alleged that Grant Prideco had knowingly and deliberately concealed prior art from the USPTO, and knew that submission of such prior art would have resulted in a rejection of its patent application. Based on this alleged conduct, the panel held that the complaint sufficiently stated a *Walker Process* claim against Grant Prideco. Notably, citing additional precedent, the court reiterated that a fraudulent omission of material fact (in contrast to a fraudulent misrepresentation) may also provide the basis for a *Walker Process* antitrust claim.

Further, the court also discussed the legal standards for determining whether an alleged enforcement activity exposes a patentee to a *Walker Process* claim. According to Federal Circuit precedent, the legal standards for determining jurisdiction in a declaratory judgment action in a patent case also generally define the minimum level of enforcement necessary to give rise to a *Walker Process* claim against a patentee. In contrast to a recent decision of the Federal Circuit with respect to declaratory judgment actions, however, the panel held that threatened enforcement of a fraudulently-obtained patent against customers of a supplier was sufficient to support a *Walker Process* claim by the supplier itself. Although Grant Prideco argued several alternative grounds for affirming the district court decision, the panel declined to consider these alternatives in favor of resolution by the district court.

- B. Yes. The panel reviewed relevant passages of the merger agreement and, essentially, concluded that, because the waiver in the merger agreement failed to explicitly mention patent infringement suits (although mentioning waiver of statutory rights), that the parties must not have intended to waive their rights to bring patent infringement actions against one another. Further, the court interpreted this waiver as applicable only during the life of the agreement. Because Hydril's infringement action was based on the legal theory that Grant Prideco's material breach terminated the agreement, the court held that Hydril could bring suit for infringement occurring after the termination.