# SUPREME COURT OF THE UNITED STATES

No. 91–1043

PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL., PETITIONERS *v.* COLUMBIA PICTURES INDUSTRIES, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

[May 3, 1993]

JUSTICE STEVENS, with whom JUSTICE O'CONNOR joins, concurring in the judgment.

While I agree with the Court's disposition of this case and with its holding "that an objectively reasonable effort to litigate cannot be sham regardless of subjective intent," *ante*, at 7, I write separately to disassociate myself from some of the unnecessarily broad dicta in the Court's opinion. Specifically, I disagree with the Court's equation of "objectively baseless" with the answer to the question whether any "reasonable litigant could realistically expect success on the merits."[1] There might well be lawsuits that fit the latter definition but can be shown to be objectively *unreasonable*, and

[1] *Ante*, at 10. See also *ante,* at 12: "[S]ham litigation must constitute the pursuit of claims so baseless that no reasonable litigant could realistically expect to secure favorable relief;" *ante*, at 10: "If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr* . . . ." But see *ante*, at 12: "The existence of probable cause to institute legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation." And see *ante*, at 15: "Columbia's lawsuit was arguably `warranted by existing law'" under the standards of Fed. Rule Civ. Proc. 11. These varied restatements of the Court's new test make it unclear whether it is willing to affirm the Court of Appeals by any of these standards individually, or by all of them together.

thus shams. It might not be objectively reasonable to bring a lawsuit just because some form of success on the merits—no matter how insignificant—could be expected.[2] With that possibility in mind, the Court should avoid an unnecessarily broad holding that it might regret when confronted with a more complicated case.

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[2]The Court's recent decision in *Farrar* v. *Hobby*, 506 U. S. ___ (1992) makes me wonder whether "10 years of litigation and two trips to the Court of Appeals" to recover "one dollar from one defendant," *id*. at ___, (O'CONNOR, J., concurring), would qualify as a reasonable expectation of "favorable relief" under today's opinion.

As the Court recently explained, a "sham" is the use of "the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon." *Columbia* v. *Omni Outdoor Advertising, Inc.*, 499 U. S. ___, ___ (1991) (slip op., at 14). The distinction between abusing the judicial process to restrain competition, and prosecuting a lawsuit that, if successful, will restrain competition, must guide any court's decision whether a particular filing, or series of filings, is a sham. The label "sham" is appropriately applied to a case, or series of cases, in which the plaintiff is indifferent to the outcome of the litigation itself, but has nevertheless sought to impose a collateral harm on the defendant by, for example, impairing his credit, abusing the discovery process, or interfering with his access to governmental agencies. It might also apply to a plaintiff who had some reason to expect success on the merits but because of its tremendous cost would not bother to achieve that result without the benefit of collateral injuries imposed on its competitor by the legal process alone. Litigation filed or pursued for such collateral purposes is fundamentally different from a case in which the relief sought in the litigation itself would give the plaintiff a competitive advantage or, perhaps, exclude a potential competitor from entering a market with a product that either infringes the plaintiff's patent or copyright or violates an exclusive franchise granted by a governmental body.

The case before us today is in the latter, obviously legitimate, category. There was no unethical or other improper use of the judicial system; instead, respondents invoked the federal court's jurisdiction to determine whether they could lawfully restrain competition with petitioners. The relief they sought in their original action, if granted, would have had the anticompetitive consequences authorized by federal copyright law. Given that the original copyright infringement action was objectively reasonable—and

the District Court, the Court of Appeals, and this Court all agree that it was—neither the respondents' own measure of their chances of success nor an alleged goal of harming petitioners provides a sufficient basis for treating it as a sham. We may presume that every litigant intends harm to his adversary; moreover, uncertainty about the possible resolution of unsettled questions of law is characteristic of the adversary process. Access to the courts is far too precious a right for us to infer wrongdoing from nothing more than using the judicial process to seek a competitive advantage in a doubtful case. Thus, the Court's disposition of this case is unquestionably correct.

I am persuaded, however, that all, or virtually all, of the Courts of Appeals that have reviewed similar claims (involving a single action seeking to enforce a property right) would have reached the same conclusion. To an unnecessary degree, therefore, the Court has set up a straw man to justify its elaboration of a two-part test describing all potential shams. Of the ten cases cited by the Court as evidence of widespread confusion about the scope of the "sham" exception to the *Noerr-Pennington* doctrine, see *ante*, at 5, n. 3, five share three important characteristics with this case: the alleged injury to competition was defined by the prayer for relief in the antitrust defendant's original action; there was no unethical conduct or collateral harm "external to the litigation or to the result reached in the litigation";[3] and there had been no series of repetitive claims. Each of those courts concluded, as this Court does today, that allegations of subjective anti-competitive motivation do not make an otherwise reasonable lawsuit a sham.[4]

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[3]*Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F. 2d 1412, 1414 (CA9 1984) (Kennedy, J.).

[4]See *McGuire Oil Co.* v. *Mapco, Inc.*, 958 F. 2d 1552

In each of the five other cases cited by the Court, the plaintiff alleged antitrust violations more extensive than the filing of a single anticompetitive lawsuit. In three of those cases the core of the alleged antitrust violation lay in the act of petitioning the government for relief: One involved the repetitive filing of baseless administrative claims,[5] another involved extensive evidence of anticompetitive

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(CA11 1992) (unsuccessful action to enjoin alleged violations of Alabama's Motor Fuel Marketing Act not a sham); *Hydro-Tech Corp.* v. *Sundstrand Corp.*, 673 F. 2d 1171 (CA10 1982) (unsuccessful action alleging misappropriation of trade secrets not a sham); *Eden Hannon & Co.* v. *Sumitomo Trust & Banking Co.*, 914 F. 2d 556 (CA4 1990) (successful action imposing constructive trust on profits derived from breach of nondisclosure agreement not a sham); *Columbia Pictures Industries, Inc.* v. *Redd Horne, Inc.,* 749 F. 2d 154 (CA3 1984) (successful copyright infringement not a sham); *South Dakota* v. *Kansas City Southern Industries, Inc.*, 880 F. 2d 40 (CA8 1989) (successful action to enjoin breach of contract not a sham; the court was careful to point out, however, that success does not "categorically preclude a finding of sham." *Id*., at 54, n. 30).

[5]*Litton Systems, Inc.* v. *American Telephone & Telegraph Co.*, 700 F. 2d 785 (CA2 1983), cert. denied, 464 U. S. 1073 (1984). The Second Circuit found that AT&T's continued filing of administrative tariffs long after those claims had become objectively unreasonable supported a jury's sham finding. AT&T's anticompetitive actions were in fact so far removed from the act of petitioning the government for relief that Chief Judge Oakes and Judge Meskill also held, in reliance on *Continental Ore Co.* v. *Union Carbide & Carbon Corp.*, 370 U. S. 690 (1962), and *Cantor* v. *Detroit Edison Co.*, 428 U. S. 579 (1976) (plurality opinion), that tariff filings with the FCC were

motivation behind the lawsuit that followed an elaborate and unsuccessful lobbying effort,[6] and in the third a collateral lawsuit was only one of the many ways in which the antitrust defendant had allegedly tried to put the plaintiff out of business.[7] In each of these cases the court showed appropriate deference to our opinions in *Noerr* and *Pennington*, in which we held that the act of petitioning the

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acts of private commercial activity in the marketplace rather than requests for governmental action, and thus were not even arguably protected by the *Noerr–Pennington* doctrine. *Litton Systems*, 700 F. 2d, at 806–809.

[6]*Westmac, Inc.* v. *Smith*, 797 F. 2d 313 (CA6 1986), cert. denied, 479 U. S. 1035 (1987). Although the Sixth Circuit did hold that the genuine substance of an anticompetitive lawsuit creates a rebuttable presumption of objective reasonableness, given the facts of that case—in which the antitrust plaintiff had presented strong evidence that the defendant's lawsuit, which followed a long and unsuccessful lobbying effort, had been motivated solely for the anticompetitive harm the judicial process would inflict on them—that modest reservation was probably wise. Evidence of anticompetitive animus in *Westmac* was in fact so great that Chief Judge Merritt thought that the plaintiff *had* successfully rebutted the presumptive reasonableness of defendant's lawsuit. The delay from the defendants' combined lobbying and litigation attack had allegedly sent the plaintiff into bankruptcy, and memos from one defendant to its attorney had stated, "`If this [lobbying activity] doesn't succeed, start a lawsuit—bonds won't sell,'" 797 F. 2d, at 318, and (in a statement repeated to a co-defendant), "`if nothing else, we'll delay sale of the bonds,'" *id.*, at 322 (Merritt, C. J., dissenting) (emphasis omitted). In any event, the Sixth Circuit rule—to the extent that it would apply in a case as

government (usually in the form of lobbying) deserves especially broad protection from antitrust liability. The Court can point to nothing in these three opinions that would require a different result here. The two remaining cases—in which the Courts of Appeals did state that a successful lawsuit could be a sham—did not involve lobbying, but did contain much broader and more complicated allegations than petitioners presented below.[8] Like the three opinions

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simple as this one—would result in the same conclusion we reach here.

[7]*Federal Prescription Service, Inc.* v. *American Pharmaceutical Assn.*, 214 U. S. App. D. C. 76, 663 F. 2d 253 (1981), cert. denied, 455 U. S. 928 (1982). In that case, the antitrust plaintiff alleged a 2-decade long conspiracy to lobby, boycott, and sue it (in state licensing boards, state legislatures, the marketplace, and both state and federal courts) out of existence. In spite of those allegations, the Court of Appeals found that the defendant's actions, which primarily consisted in lobbying for the abolition of plaintiff's mail-order prescription business, were immune under *Noerr–Pennington*.

[8]In *Grip-Pak, Inc.* v. *Illinois Tool Works, Inc.*, 694 F. 2d 466 (1982) (Posner, J.), cert. denied, 461 U. S. 958 (1983), the antitrust defendant's alleged violations of several provisions of the Sherman and Clayton Acts included much more than the filing of a single lawsuit; they encompassed a broad scheme of monopolizing the entire relevant market by: purchasing patents; threatening to file many other, patently groundless lawsuits; acquiring a competitor; dividing markets; and filing a fraudulent patent application. In *In re Burlington Northern, Inc.*, 822 F. 2d 518 (CA5 1987), cert. denied, 484 U. S. 1007 (1988), the plaintiffs alleged, and produced evidence to support their theory, that the defendant had filed suit solely to cause them a delay of crippling

described above, these decisions should not be expected to offer guidance, nor be blamed for spawning confusion, in a case alleging that the filing of a single lawsuit violated the Sherman Act.

Even in this Court, more complicated cases, in which, for example, the alleged competitive injury has involved something more than the threat of an adverse outcome in a single lawsuit, have produced less definite rules. Repetitive filings, some of which are successful and some unsuccessful, may support an inference that the process is being misused. *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U. S. 508 (1972). In such a case, a rule that a single meritorious action can never constitute a sham cannot be dispositive. Moreover, a simple rule may be hard to apply when there is evidence that the judicial process has been used as part of a larger program to control a market and to interfere with a potential competitor's financing without any interest in the outcome of the lawsuit itself, see *Otter Tail Power Co.* v. *United States*, 410 U. S. 366, 379, n. 9 (1973); *Westmac, Inc.* v. *Smith*, 797 F. 2d 313, 322 (CA6 1986) (Merritt, C. J., dissenting). It is in more complex cases that courts have required a more sophisticated analysis—one going beyond a mere evaluation of the merits of a single claim.

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expense, and the defendants had either brought or unsuccessfully defended a succession of related lawsuits involving petitioners' right to compete. In both of these cases the Courts of Appeal ably attempted to balance strict enforcement of the antitrust laws with possible abuses of the judicial process. That they permitted some reliance on subjective motivation—as even we have done in cases alleging abuse of judicial process, see *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U. S. 508, 513–518 (1972)—is neither surprising nor relevant in a case involving no such allegations.

In one such case Judge Posner made the following observations about the subtle distinction between suing a competitor to get damages and filing a lawsuit only in the hope that the expense and burden of defending it will make the defendant abandon its competitive behavior:

> "But we are not prepared to rule that the difficulty of distinguishing lawful from unlawful purpose in litigation between competitors is so acute that such litigation can never be considered an actionable restraint of trade, provided it has some, though perhaps only threadbare, basis in law. Many claims not wholly groundless would never be sued on for their own sake; the stakes, discounted by the probability of winning, would be too low to repay the investment in litigation. Suppose a monopolist brought a tort action against its single, tiny competitor; the action had a colorable basis in law; but in fact the monopolist would never have brought the suit — its chances of winning, or the damages it could hope to get if it did win, were too small compared to what it would have to spend on the litigation— except that it wanted to use pretrial discovery to discover its competitor's trade secrets; or hoped that the competitor would be required to make public disclosure of its potential liability in the suit and that this disclosure would increase the interest rate that the competitor had to pay for bank financing; or just wanted to impose heavy legal costs on the competitor in the hope of deterring entry by other firms. In these examples the plaintiff wants to hurt a competitor not by getting a judgment against him, which would be a proper objective, but just by the maintenance of the suit, regardless of its outcome. See *City of Gainesville* v. *Florida Power & Light Co.*, 488 F. Supp. 1258, 1265–66 (S.D. Fla. 1980).
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> "Some students of antitrust law would regard all

of our examples of anticompetitive litigation as fanciful, and in all the evidentiary problems of disentangling real from professed motives would be acute. Concern with the evidentiary problems may explain why some courts hold that a single lawsuit cannot provide a basis for an antitrust claim (see Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80, 109–10 (1977))—an issue we need not face here since three improper lawsuits are alleged, and it can make no difference that they were not all against Grip-Pak. Still, we think it is premature to hold that litigation, unless malicious in the tort sense, can never be actionable under the antitrust laws. The existence of a tort of abuse of process shows that it has long been thought that litigation could be used for improper purposes even when there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition in its antitrust sense, see, e.g., *Products Liability Ins. Agency, Inc.* v. *Crum & Forster Ins. Cos.*, 682 F. 2d 660, 663–64 (7th Cir. 1982), it becomes a matter of antitrust concern. This is not to say that litigation is actionable under the antitrust laws merely because the plaintiff is trying to get a monopoly. He is entitled to pursue such a goal through lawful means, including litigation against competitors. The line is crossed when his purpose is not to win a favorable judgment against a competitor but to harass him, and deter others, by the process itself—regardless of outcome—of litigating. The difficulty of determining the true purpose is great but no more so than in many other areas of antitrust law." *Grip-Pak, Inc.* v. *Illinois Tool Works, Inc.*, 694 F. 2d 466, 472 (1982).

It is important to remember that the distinction between "sham" litigation and genuine litigation is not always, or only, the difference between lawful and unlawful conduct; objectively reasonable lawsuits may still break the law. For example, a manufacturer's successful action enforcing resale price maintenance agreements,[9] restrictive provisions in a license to use a patent or a trademark,[10] or an equipment lease,[11] may evidence, or even constitute, violations of the antitrust laws. On the other hand, just because a sham lawsuit has grievously harmed a competitor does not necessarily mean that it has violated the Sherman Act. See *Spectrum Sports, Inc.* v. *McQuillan*, 506 U. S. ___, ___ (1993) (slip op., at 11). The rare plaintiff who successfully proves a sham must still satisfy the exacting elements of an antitrust demand. See *ante*, at 11.

In sum, in this case I agree with the Court's explanation of why respondents' copyright infringement action was not "objectively baseless," and why allegations of improper subjective motivation do not make such a lawsuit a "sham." I would not, however, use this easy case as a vehicle for announcing a rule that may govern the decision of difficult cases, some of which may involve abuse of the judicial process. Accordingly, I concur in the Court's judgment but not in its opinion.

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[9]*Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U. S. 373 (1911); *Schwegmann Brothers* v. *Calvert Distillers Corp.*, 341 U. S. 384 (1951).

[10]*Timken Roller Bearing Co.* v. *United States,* 341 U. S. 593 (1951); *Farbenfabriken Bayer A.G.* v. *Sterling Drug, Inc.*, 307 F. 2d 207 (CA3 1962).

[11]*International Salt Co.* v. *United States*, 332 U. S. 392 (1947); *United Shoe Machinery Corp.* v. *United States*, 258 U. S. 451 (1922).