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Antitrust

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TransWeb, LLC v. 3M Innovative Properties Co.

Antitrust and intellectual property practitioners with an interest in trivia have been known to ask: When is the last time an appellate court has upheld a finding of antitrust liability for a claim alleging fraud on the US Patent Office? In early February, 2016, the Federal Circuit supplied an easy answer to that question in *TransWeb, LLC v. 3M Innovative Properties Co.* [No. 2014-1646, WL 520238 (Fed. Cir. Feb. 10, 2016)].

Background of the Case

In *Walker Process Equipment Inc. v. Food Machinery & Chemical Corp.* [382 U.S. 172 (1965)], the Supreme Court established that a patent infringement plaintiff who knowingly asserts a patent fraudulently procured from the Patent Office may be subject to antitrust liability if the patent infringement defendant/antitrust plaintiff can satisfy all other elements necessary to establish liability under the Sherman Act. Since then, such claims have been asserted frequently, but rarely have been successful. The Federal Circuit dealt with multiple issues in its recent *TransWeb* decision, but two stand out as worthy of special attention: (1) what key facts led the court to the highly unusual result of affirming antitrust liability for fraud on the Patent Office; and (2) should attorney fees incurred by the patent infringement defendant be recoverable, indeed subject to trebling, as an element of antitrust injury and damages?

In *TransWeb*, 3M sued TransWeb for allegedly infringing several 3M patents relating to improved methods for manufacturing filters for respirators. TransWeb claimed it had distributed samples of the filters publicly, including to 3M, more than one year before the 3M patents' priority date. During prosecution of the 3M patents, 3M had persuaded the Patent Office—through what the Court characterized as "dubious" evidence—that a sample of TransWeb's filter did not qualify as prior art because 3M had obtained the sample pursuant to a confidentiality agreement with TransWeb. The District Court found that 3M representatives "strategically delayed" for several years before informing the Patent Office of the TransWeb prior art and then, at "the last possible moment, when a notice of allowance had already been mailed," they "intentionally made an inaccurate disclosure of that material." [*TransWeb*, No. 2014-1646, WL 520238 at *7-8.] The jury found the 3M patents to be invalid as well as unenforceable due to inequitable conduct, and further found that 3M committed a *Walker Process* violation and that attorney fees incurred by TransWeb were appropriate antitrust damages. The District Court trebled the $7.7 million in attorney fees incurred by TransWeb as antitrust damages and entered judgment against 3M for approximately $23 million.

Although, it did not challenge the factual basis for finding fraud on the Patent Office, 3M appealed on multiple grounds, including that the assessment of attorney fees as antitrust damages was erroneous because TransWeb had "failed to show any link between those attorney fees and an impact on competition."

Antitrust Counterplaintiff May Recover Attorney Fees for Defending Infringement of Fraudulently Obtained Patent

The Federal Circuit affirmed the lower court's judgment on all grounds challenged by 3M. With respect to the holding that attorney fees for defending an *infringement suit* may be the basis for *antitrust damages*, the Court focused on the requirement that sustained "damages" that may be trebled pursuant to Section 4 of the Clayton Act must constitute antitrust injury, and not any injury that merely is causally linked to antitrust violations. The central issue thus turned on whether attorney fees incurred defending a patent infringement suit, which accounted for TransWeb's injury-in-fact, stemmed from *anticompetitive aspects* of 3M's behavior so as to qualify as antitrust injury.

3M argued that, because it did not prevail in its patent infringement suit and thus never adversely affected TransWeb's ability to compete in the marketplace, TransWeb's attorney fees could not constitute antitrust injury. The Court rejected this argument because it deemed

the anticompetitive aspect of 3M's behavior to be its *attempt* to obtain a monopoly by asserting fraudulently-obtained patents. Because the attempt constituted unlawful conduct under antitrust laws, the fact that 3M failed to exclude TransWeb from the market was not material. Persuaded by the Sixth Circuit in *Kearney & Trecker Corp. v. Cincinnati Milacron Inc.* [562 F.2d 365 (6th Cir. 1977)], the Federal Circuit reasoned:

> [T]he patentee instigated an anticompetitive suit that forced the defendant to choose between ceasing competition, taking a disadvantageous position in competition (taking a license), or defending the suit. Because the injury suffered by the antitrust-plaintiff under each choice flows from the anticompetitive aspect of the owner's behavior, each can be recovered as antitrust damages. *TransWeb*, No. 2014-1646, WL 520238 at *13.

Because a patent infringement defendant should not be penalized for choosing to defend itself rather than forfeiting competition, the Court held that TransWeb's attorney fees for defending the infringement suit constituted antitrust injury and thus can form the basis for treble damages under the Clayton Act.

Implications of *TransWeb*

By holding that attorney fees may be the basis for trebled antitrust damages, *TransWeb* expands considerably the potential damages in a successful *Walker Process* suit. Indeed, assuming the patent plaintiff's infringement lawsuit is unsuccessful, the infringement defendant may incur no losses other than attorney fees, so this change can be significant.

Nevertheless, the practical impact of this case is likely to be limited. Although it may briefly encourage patent infringement defendants to file antitrust counterclaims, the threshold for finding a *Walker Process* violation remains high. Not only must a claimant establish "knowing and willful fraud," it also must prove each element of a monopolization claim under the Sherman Act. The Court in *TransWeb* reiterated that "*Walker Process* liability requires a higher, more specific showing of 'knowing and willful fraud' than the more inclusive inequitable conduct doctrine," and implied that 3M could have challenged the sufficiency of the relevant evidence to establish fraud despite the finding that 3M had engaged in inequitable conduct. [*TransWeb*, No. 2014-1646, WL 520238 at *9.]

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