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United States: IP and Antitrust

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Around the world, patents – and the associated rights a patent confers upon its holder – are increasingly being subjected to and defined by competition law policies and analysis. The United States proves to be no exception to this trend, as American litigants in particular have been successful in turning to antitrust and unfair competition laws to attack and limit patent rights. Thus, even though the US patent system lawfully bestows limited term exclusionary rights upon a patent holder, antitrust and unfair competition law is being wielded as an increasingly effective weapon to diminish patent rights in the United States.

This article examines the growing importance of antitrust principles in shaping modern patent rights, with a particular focus on key federal court decisions over the past year at the intersection of patent and antitrust law. Three important developments emerge: (1) federal appellate courts have expanded the scope of antitrust liability to include non-cash 'reverse payment' settlements for patent infringement between branded and generic pharmaceutical manufacturers; (2) a federal appellate decision was handed down affirming a rarely successful fraud-based antitrust violation in connection with how a company obtained its patents; and (3) federal district courts have continued to impose competition-based limitations on patents implicated in standards-setting activities.

Circuit courts endorse broad interpretation of Supreme Court's Actavis decision

Two federal appellate courts, the United States Courts of Appeals for the First and the Third Circuits, recently weighed in for the first time on the implications for so-called 'reverse payment' patent infringement settlement agreements involving non-cash transfers of value between branded and generic pharmaceutical manufacturers. Under a unique regulatory scheme in the United States, generic drug manufacturers are entitled to make a commitment to the US Food and Drug Administration, pursuant to the Hatch-Waxman Act,[1] that the would-be generic producer will not infringe upon the brand-name patents either because the patent is invalid or the sale of a generic would not constitute infringement. This commitment could entitle them to bring their drug on the market and typically prompts the brand-name drug company to sue the prospective generic competitor for infringement. Historically, many of these cases settled with the brand-name drug company paying the generic company to stay out of the market for a period of time. This prompted action by the Federal Trade Commission and numerous private litigants, claiming that the 'reverse-payment' settlements violated the antitrust laws.

Actavis, the US Supreme Court decision, set the stage for the First and Third Circuit opinions in *In re Loestrin 24 Fe Antitrust Litigation*[2] and *King Drug Co. of Florence, Inc v Smithkline Beecham Corp*,[3] respectively. In *Actavis*, generic manufacturers agreed to delay bringing the drug to market for a certain period of time in exchange for cash payments from the branded manufacturer. The Supreme Court concluded that 'a reverse payment, where large and unjustified can bring with it the risk of significant anticompetitive effects,'[4] in violation of the antitrust laws, even if their anticompetitive effects fall within the scope of the exclusionary potential of the patent. The Court further rejected the Federal Trade Commission's argument that such settlements should be presumptively unlawful, instead clarifying that the rule of reason was the appropriate analytical framework.

Actavis left open the question of whether its holding would extend to settlement agreements between potential competitors that do not involve cash payments. However, both the First and Third circuits held that even non-cash settlements constitute 'payments' that fall plainly within *Actavis*'s purview. Both of the settlements at issue involved settlement agreements that included (among other provisions) a 'no-AG clause' under which the branded manufacturer agreed to not introduce or delay introduction of its own generic version of the drug, and neither involved an explicit cash payment that was present in *Actavis*. Nevertheless, both circuits concluded that *Actavis* was directly applicable.

For example, the Third Circuit in *King Drug Co* held that the no-AG agreement 'may represent an unusual, unexplained reverse transfer of considerable value from the patentee to the alleged infringer and may therefore give rise to the inference that it is a payment to eliminate the risk of competition.' The Third Circuit rejected the defendants' argument that *Actavis* was inapplicable because no-AG agreements are comparable to exclusive licences; instead, the 'right' defendants were seeking was 'to use valuable licensing in such a way as to induce a patent challenger's delay.' Similarly, and relying upon the decision in *King Drug Co*, the First Circuit in *In re Loestrin* interpreted *Actavis* as 'acknowledg[ing] that antitrust scrutiny attaches not only to pure cash reverse payments, but to other forms of reverse payment that induce the generic to abandon a patent challenge, which unreasonably eliminates competition at the expense of consumers,' which the court found consistent with the antitrust law's preference for 'substance over form.'

A petition for a writ of certiorari for *King Drug Co* is pending in the US Supreme Court, and the Court recently invited the Solicitor General to file a brief expressing the views of the United States.[5] If the Court denies the petition, the long-term impact of these cases depends on whether other courts of appeal address the same question and come to the same conclusion, or whether a circuit split emerges which would likely result in another invitation for the US Supreme Court to intervene.

Federal Circuit upholds rare antitrust Walker Process claim

The United States Court of Appeals for the Federal Circuit, which has exclusive jurisdiction to hear patent appeals from district courts,[6] is not a court that takes lightly antitrust-based challenges in connection with patents.[7] The Federal Circuit's opinion in *TransWeb, LLC v 3M Innovation Properties Co*[8] was therefore striking in that it affirmed a jury verdict finding that a patent holder had committed an antitrust violation based on *Walker Process*[9] fraud, a claim that is frequently invoked but rarely successful.

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Liability for *Walker Process* fraud occurs when, in an infringement action, the patent infringement defendant (who is the antitrust plaintiff) establishes that (1) the patent holder (who is the antitrust defendant) obtained the patent by a knowing and wilful fraud upon the US Patent Office and maintained and enforced the patent with knowledge of the fraudulent procurement, and (2) each element of a claim for unlawful monopolisation under section 2 of the Sherman Act.[10] Due to these stringent requirements, successful *Walker Process* claims are rare, especially at the appellate level.[11]

In this case, 3M had sued TransWeb for infringing on 3M patents related to manufacturing filters for respirators, and TransWeb sued 3M for a declaratory judgment of invalidity and non-infringement. When the case went to trial, the jury found, among other things, that the patents were invalid and that 3M committed a *Walker Process* violation by fraudulently obtaining its patent through inequitable conduct and enforcing it. In affirming the jury verdict, the Federal Circuit elucidated what facts are necessary to establish antitrust liability by fraud on the Patent Office. Specifically, the Federal Circuit reviewed the evidence showing that TransWeb had publicly distributed samples of its filters at an industry trade exposition that occurred over a year before the priority date of the 3M patents asserted in the infringement action. Two 3M employees were aware that the samples were distributed but nonetheless 'undertook an intentional scheme to paper over the potentially prior art nature' of the samples. During prosecution, 3M failed to properly disclose the samples as prior art to the Patent Office by relying on a 'dubious assertion' that it had only received them after a confidentiality agreement with TransWeb and also delayed disclosing the samples to the examiner until after it received a notice of allowance. 3M therefore engaged in inequitable conduct, rendering its patents unenforceable, and committed a fraud upon the Patent Office.

Turning to the second prong of the *Walker Process* claim, 3M specifically challenged the district court's analysis in defining the relevant market for determining whether there was a dangerous probability of obtaining monopoly power.[12] Even though the Federal Circuit acknowledged that evidence also supported an alternative market definition than the district court used, it upheld the district court's narrower definition. The court therefore could not alter the jury's finding of *Walker Process* violation.

The Federal Circuit also held that an accused infringer's attorney's fees are an appropriate measures of damages on a *Walker Process* claim because of the nexus between the fees incurred in defending against a lawsuit that was aimed to reduce competition and the resulting impact on competition. Thus, 3M was responsible for TransWeb's attorneys fees because those fees constitute an antitrust injury, and those fees were subject to trebling (approximately US$23 million total) under the antitrust laws.[13]

Patent holders have a new reason to be wary after *TransWeb*, which expands the scope of potential damages in a prevailing *Walker Process* by inclusion of attorney's fee as the basis for antitrust treble damages. Of course liability for a *Walker Process* claim is highly fact-specific, but this case could encourage increased *Walker Process* claims in patent infringement suits.

Abuse of standards-essential patents as potential antitrust liability

Finally, a pair of district court opinions allowing antitrust claims to proceed based on patents related to standards illustrates how the area of standards-setting is a fruitful ground for antitrust challenges to patents. By way of background, standards-essential patents (SEPs) are those that have been formally incorporated into a particular technological standard by a standard-setting organisation (SSO). Because inclusion of a technology in a standard may confer significant power upon the patent holder in relation to potential licensees, many SSOs require that the patent holder commit to license its SEPs on fair, reasonable and non-discriminatory (FRAND) terms. Absent the FRAND commitment, there is a risk that SEP holders might inequitably wield their SEP to extract royalties beyond the patent's incremental value of the technology to a product,[14] a problem referred to as 'hold up.'

In Microsoft Mobile Inc v Interdigital, Inc,[15] the District Court for Delaware held that Microsoft stated a claim for unlawful monopolisation under section 2 of the Sherman Act against InterDigital, a major holder of SEPs covering wireless telecommunications standards, for InterDigital's alleged failure to license its SEPs on FRAND terms. The patents at issue were essential to the 3G and 4G standards. Specifically, Microsoft alleged, among other things, that InterDigital used the standards-setting process to unlawfully acquire monopoly power and pursued meritless infringement and injunctive actions against Microsoft in order to coerce Microsoft into accepting a non-FRAND licence.

Ruling on a motion to dismiss, the court found 'no material differences' between Microsoft's complaint and the complaint the Third Circuit found sufficient to survive a motion to dismiss in *Broadcom Corp v Qualcomm Inc*[16] Thus, Microsoft's allegations that InterDigital refused to comply with its FRAND licensing commitment was sufficient to support a claim for illegal monopolisation. The harm Microsoft alleged – lack of access to necessary technology in the market for technologies covering the 3G and 4G standards, the threat of being coerced to accept a non-FRAND licence, and the impact on the downstream market in the form of higher prices and reduced innovation – was sufficient to demonstrate antitrust injury. Further, InterDigital's litigation conduct was 'causally connected' to its deceptive conduct before the SSO because the litigation to enforce SEPs is the mechanism by which it accomplished the allegedly anticompetitive scheme.[17]

Across the country, another federal district court permitted an antitrust case to proceed against licensors in a patent pool. In *Samsung Electronics Co, Ltd v Panasonic Corporation*,[18] the Northern District of California held that the plaintiff Samsung stated a claim against defendants Panasonic and a licensing entity Panasonic jointly owned with two other companies in a patent pool, under sections 1 and 2 of the Sherman Act. Although *Samsung* did not involve a question of whether Panasonic breached its duty to license SEPs on FRAND terms, it involved patent pooling arrangements, which are a common method for licensing patents covered by a standard.

In the case, Panasonic and two other companies entered into a patent pool for secure digital memory cards (SD cards), created a jointly owned licensing entity, and required manufacturers to accept a licence for SD cards that included a 6 per cent royalty. Samsung manufactures and sells SD cards but had declined to execute a licence agreement, desiring instead to negotiate individual licences with certain of the pool members. The court largely denied Panasonic and the licensing entity's motion to dismiss, stating that '[a]nticompetitive effects may arise from patent pooling arrangements that require payment for a pool of rights without a realistic opportunity as a practical matter to obtain individual licenses from individual owners as opposed to a single license from the pool.' Samsung plausibly pled facts that it was denied an opportunity to negotiate individual licences, and even if it were, it still would have needed to go through the pool licensing agreement to obtain the SD card specification, logo and trademarks.

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The impact of these opinions should not be overstated in light of their procedural posture – both were opinions ruling on motions to dismiss, rather than addressing a particular antitrust claim on the merits. However, these cases provide further corroboration to the ongoing trend in the law whereby standard-essential patents are subject to limitations under patent and general contract law based on how an SEP holder behaves with respect to royalties and licensees.

Conclusion

As the above federal court decisions demonstrate, antitrust law and policies continue to define the scope of patent rights in the US. The trends noted above reflect a broader global trend of subjecting patents to competition law analysis. The interplay between patent and antitrust law is likely to continue to be an area to monitor for further developments.

Notes

1 21 U.S.C. section 355(j)(2)(A)(vii)(IV). This procedure for obtaining regulatory approval is referred to as the 'paragraph IV route'.
2 814 F.3d 538 (1st Cir. 2016).
3 791 F.3d 388 (3d Cir. 2015).
4 *Actavis*, 133 S.Ct at 2237.
5 2016 U.S. LEXIS 3640 (U.S. June 6, 2016).
6 28 U.S.C section 1295(a)(1).
7 See, e.g., *CSU, LLC v Xerox Corp* (*In re Independent Serv. Orgs. Antitrust Litig.*), 203 F.3d 1322 (Fed. Cir. 2000) (recognising that a patent holder may 'refuse to sell or license in markets within the scope of the statutory patent grant' without incurring antitrust liability).
8 812 F.3d 1295 (Fed. Cir. 2016).
9 *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).
10 15 U.S.C. section 2. These elements are '(1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power.' TransWeb, 812 F.3d at 1306.
11 *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (Herbert Hovenkamp et al, second edition, 2015, section 11.2 *Walker Process* claims).
12 3M did not contest that a showing of inequitable conduct, if affirmed, along with suing TransWeb for infringement, would satisfy the first prong of a *Walker Process* claim as well the first and second elements of the second prong.
13 15 U.S.C. section 15(a).
14 See, e.g., *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201 (Fed. Cir. 2014).
15 No. 15-723-RGA, 2016 WL 1464545 (D. Del. April 13, 2016).
16 501 F.3d 297 (3d Cir. 2007).
17 The court also recently denied InterDigital's motion to certify the motion to dismiss opinion for an interlocutory appeal. 2016 U.S. Dist. LEXIS 76367 (D. Del. June 13, 2016).
18 No. C 10-03098 JSW, 2015 WL 10890655 (N.D. Cal. Sep. 30, 2015).
19 See, eg, *Microsoft Corp v Motorola, Inc*, 795 F.3d 1024 (9th Cir. 2015) (setting forth the proper methodology for calculating a FRAND royalty rate, which allows for modification of Georgia-Pacific factors which typically determine royalty patent damages); *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys.*, 809 F.3d 1295 (Fed. Cir. 2015) (holding that a district court erred in not taking into account a patent's standard-essential status in apportionment analysis); *Apple Inc v Motorola, Inc*, 757 F.3d 1286 (Fed. Cir. 2014) (refusing to recognise a per se rule that injunctions are unavailable for infringement of SEPs, but acknowledging that such injunctions should be rare); *Ericsson, Inc v D-Link Sys*, 773 F.3d 1201 (Fed. Cir. 2014) (holding that a reasonable royalty rate for an SEP should be based on the value the technology contributes to the product, not any value added by standardisation).

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Jay is a first-chair trial lawyer who advises clients in antitrust conduct investigations, mergers and acquisitions, and high-stakes litigation. He is deeply involved in issues at the intersection of antitrust and IP, and speaks and publishes regularly on topics such as standard-essential patents (SEPs), F/RAND, patent assertion entities (PAEs) and patent trolls. Recently, Jay helped resolve the Korea Fair Trade Commission’s challenge to Microsoft Corporation’s acquisition of the Nokia devices and services business, with no changes to Microsoft’s pre-acquisition patent licensing practices. He also obtained a multimillion-dollar jury verdict on behalf of iBiquity Digital Corporation in its SEP licensing dispute with Continental Automotive Systems.

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Alex advises and represents clients in government mergers and conduct investigations and defends against private antitrust litigation. Before joining the firm in 2015, Alex was an antitrust advisor to US FTC Commissioner Maureen Ohlhausen and a trial attorney in the US DOJ Antitrust Division’s Networks and Technology Enforcement Section. He was heavily involved in shaping and implementing federal policies for IP issues, including SEPs, PAEs, patent pools, and pharmaceutical patent litigation ‘reverse payment’ settlements. He recently contributed a chapter to the widely read *Intellectual Property and Antitrust Handbook* (second edition 2015) and is currently co-editing an update to the *Handbook on the Antitrust Aspects of Standard Setting* (forthcoming 2017). Alex is co-chair of the Intellectual Property Committee of the American Bar Association’s Section of Antitrust Law.

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