Litigation Update

Washington Legal Foundation
Advocate for freedom and justice®
2009 Massachusetts Ave., NW
Washington, D.C. 20036
202.588.0302

September 18, 2003

COURT REJECTS *PER SE* TEST IN CHALLENGES TO PATENT SETTLEMENTS

(Valley Drug Co. v. Geneva Pharmaceuticals, Inc.)

The U.S. Court of Appeals for the Eleventh Circuit in Atlanta this week rejected claims that agreements to settle patent disputes can amount to *per se* violations of the antitrust laws. The court explained that patents are intended to provide holders with the power to exclude competition, so that agreements that simply confirm that power by settling patent disputes do not violate the antitrust laws. The appeals court reversed a district court decision that had condemned a patent settlement as a *per se* antitrust violation.

The decision was a victory for the Washington Legal Foundation (WLF), which filed a brief in the case, *Valley Drug Co. v. Geneva Pharmaceuticals, Inc.* The Court agreed with WLF that parties ought to be encouraged to settle their patent disputes. By raising the possibility that settlements will be subjected to *per se* condemnation under the antitrust laws, the courts are unnecessarily discouraging settlements, WLF argued.

WLF prepared its brief with the *pro bono* assistance of Stephen Paul Mahinka, Scott A. Stempel, Penelope M. Lister, and John F. Terzaken III of the Washington, D.C. office of Morgan, Lewis & Bockius LLP.

The Eleventh Circuit's decision conflicts with a recent decision from the U.S. Court of Appeals for the Sixth Circuit, *In re Cardizem CD Antitrust Litigation.* The Sixth Circuit held in *Cardizem* that a patent settlement that includes payments by the patent holder to the alleged infringer is a *per se* violation of the antitrust laws. The conflict between the two appeals courts means that the issue is likely to be resolved by the Supreme Court in the near future.

The Eleventh Circuit case arose in the aftermath of a patent dispute between Abbott Laboratories (the initial manufacturer of a drug known by the brand name Hytrin) and two generic drug manufacturers, Geneva Pharmaceuticals, Inc. and Zenith Goldline Pharmaceuticals. Geneva and Zenith had announced plans to produce a generic version of Hytrin, but Abbott Laboratories insisted that it still had exclusive patent rights to the drug. The patent dispute was eventually settled, with Geneva and Zenith agreeing to delay their entry into the market and in return receiving a payment from Abbott Laboratories.

A number of drug purchasers thereafter filed antitrust claims against Abbott Laboratories, Geneva, and Zenith, alleging that the patent settlement violated the antitrust laws because it amounted to an illegal horizontal market allocation agreement. Without listening to any evidence regarding the reasonableness of the patent settlement, a federal district judge in Florida agreed, finding that the settlement was a *per se* violation of the antitrust laws for which there could be no defense. The case continued in the district court on other issues, including the amount of damages (if any) suffered by the plaintiffs as a result of higher prices attributable to the market allocation agreement.

The defendants filed an interlocutory appeal, and the Eleventh Circuit in April 2002 agreed to hear the appeal. (Normally, district court rulings cannot be appealed until all district court proceedings have been completed.) This week's decision reversed the district court's "*per se* violation" ruling.

The Eleventh Circuit agreed with WLF that *per se* condemnation of the defendants' patent settlement is wholly inappropriate. The court held that the very point of patents is to exclude competitors from the market and thus that the Hytrin patent settlement should be subject to antitrust review only to the extent that it is "found to have effects beyond the exclusionary effects of Abbott's patent." The court held that if, on remand, some such effects are found to exist, then those provisions of the settlement agreement should "be subject to traditional antitrust analysis to assess their probable anticompetitive effects in order to determine whether those provisions violate" the antitrust laws. The court said that its analysis was unchanged by the fact that Abbott paid money to Geneva and Zenith in connection with the settlement, and that Abbott's patent was later held invalid.

WLF is a nonprofit pubic interest law and policy center with supporters in all 50 states. WLF devotes a significant portion of its resources to efforts designed to protect the economic and civil liberties of individuals and businesses.

* * *

For further information, contact WLF Chief Counsel Richard Samp, (202) 588-0302. A copy of WLF's brief is posted on its website, www.wlf.org.