

## CIPRO'S \$400 MILLION PAY FOR DELAY: HOW CALIFORNIA LAW AND COURTS CAN MAKE A DIFFERENCE IN REVERSE PAYMENT CHALLENGES

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Cipro, the world's best-selling antibiotic for years, became a household name due to its eye-popping prices and shortages during the Anthrax crisis.<sup>1</sup> After Cipro's manufacturer paid \$400 million to its rivals to stave off generic competition for six additional years, it also became the moniker for dozens of antitrust lawsuits brought in federal and state courts. Some twenty-six suits were filed in the federal courts and all were dismissed without trials, albeit before the Supreme Court's *FTC v. Actavis*<sup>2</sup> decision. A lone class action—*In re Cipro I and II*—filed in a California state court under California state law, remains the sole surviving case challenging these Cipro agreements, and now awaits hearing before the California Supreme Court.<sup>3</sup>

Using the *In re Cipro I and II* lawsuit as a case study, this Article explores the value and the broader opportunity that California antitrust and unfair competition laws, as well as California's state court procedures, offer to plaintiffs challenging reverse payment agreements. Part I will detail the background of previous challenges to reverse

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1. See Melody Petersen & Robert Pear, *Anthrax Fears Send Demand for a Drug Far Beyond Output*, N.Y. TIMES, Oct. 16, 2001, <http://www.nytimes.com/2001/10/16/business/16DRUG.html>; see also *Meyers v. Bayer AG*, 735 N.W.2d 448, 452 (Wis. 2007).

2. 133 S. Ct. 2223 (2013).

3. Briefing by the parties was completed on April 24, 2014. Docket Entry, *In re Cipro Cases I & II*, No. S198616 (Cal. Apr. 24, 2014), available at [http://appellatecases.courtinfo.ca.gov/search/case/dockets.cfm?dist=0&doc\\_id=1999739&doc\\_no=S198616](http://appellatecases.courtinfo.ca.gov/search/case/dockets.cfm?dist=0&doc_id=1999739&doc_no=S198616).

payment agreements under federal law, both in the context of prior suits involving Cipro and in the suits culminating in the Supreme Court's foray into this issue in *FTC v. Actavis*. It will also note some of the unresolved legal issues that remain even after *Actavis*. Part II will discuss some threshold challenges to the application of state law to reverse payments, and how these challenges can be easily overcome. Part III will conclude with a discussion of possible claims available under California law, noting the advantages these laws offer in language, scope, intent, and plain applicability, as compared to federal law, along with the procedural advantages of pursuing such claims in California courts. With these points in mind, it will be clear that plaintiffs and regulators seeking to challenge reverse payment agreements should strongly consider bringing claims under California law in addition to, or even in lieu of, federal antitrust claims.

#### I. DEVELOPMENTS IN FEDERAL LAW ON REVERSE PAYMENTS AND THE RISE OF REVERSE PAYMENT AGREEMENTS

Reverse payment agreements involve a patent-holding branded drug firm paying, either in cash or in side deal incentives, companies seeking to manufacture generic versions of the drug in exchange for delaying the start of that competition. These payments are made in the context of settling patent litigation between the brand and generic over the validity and enforceability of the branded company's patents relating to that drug.<sup>4</sup> The resulting settlement can facilitate a combination and contract between pharmaceutical rivals that restricts the output of generic drugs and extends the monopoly of the brand-drug sales by avoiding the legal challenge to the patents that might end that monopoly.

Before about 2006, drug manufacturers generally considered these agreements unlawful, and settled their patent lawsuits, based in principle upon the perceived strength of the patent in question.<sup>5</sup> These

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4. For a detailed discussion of the regulatory framework in which reverse payment agreements are concluded, see *In re K-Dur Antitrust Litig.*, 686 F.3d 197, 203–04 (3d Cir. 2012) and C. Scott Hemphill, *Aggregate Approach to Antitrust Using New Data and Rulemaking to Preserve Drug Competition*, 109 COLUM. L. REV. 629, 635 (2009).

5. Cf. FTC, PAY-FOR-DELAY: HOW DRUG COMPANY PAY-OFFS COST CONSUMERS BILLIONS (2010) [hereinafter PAY-FOR-DELAY], available at <http://www.ftc.gov/sites/default/files/documents/reports/pay-delay-how-drug-company-pay-offs-cost-consumers-billions-federal-trade-commission-staff-study/100112payfordelayrpt.pdf> ("The Federal Trade Commission's (FTC) investigations and enforcement actions against pay-for-delay agreements deterred their use from April 1999 through 2004 . . . . Since 2005, however, a few appellate courts have misapplied the antitrust law to uphold these agreements.

agreements generally did not raise antitrust concerns, as they were not drawn to the preservation of the patent-holder's monopoly and paid for with shares in the resulting extension of monopoly profits.<sup>6</sup>

However, a body of law developed in which these agreements were increasingly insulated from legal challenge, culminating in the Second Circuit's decision in *In re Tamoxifen Citrate Antitrust Litigation*.<sup>7</sup> These cases held that the settlement agreements were not subject to any antitrust scrutiny absent evidence that the patent was procured by fraud or that the branded company's patent litigation was a "sham."<sup>8</sup> Ironically, this standard became known as the "scope-of-the-patent" test, though it effectively foreclosed inquiry into the scope, validity, or enforceability of the patent except in the two very limited exceptions.<sup>9</sup> In the wake of the institution of this permissive standard came a surge of these agreements, with many, if not most, adopting highly-disguised forms given lingering concerns about their ultimate legality.<sup>10</sup>

Introducing payments<sup>11</sup> into the settlement process raises antitrust concerns as the payment provides an incentive for resolving the patent

Following those court decisions, patent settlements that combine restrictions on generic entry with compensation from the brand to the generic have reemerged.<sup>12</sup>

6. See *Actavis*, 133 S. Ct. at 2234–35, 2237 (providing that parties can settle without payments which suggest monopoly sharing); *K-Dur*, 686 F.3d at 216, 218; Hemphill, *supra* note 4, at 635.

7. 466 F.3d 187 (2d Cir. 2005).

8. *Valley Drug Co. v. Geneva Pharm., Inc.*, 344 F.3d 1294, 1308–09 (11th Cir. 2003); *Schering-Plough Corp. v. FTC*, 402 F.3d 1056, 1068 (11th Cir. 2005); *In re Ciprofloxacin Hydrochloride Litig.*, 363 F. Supp. 2d 514, 525 (E.D.N.Y. 2005); *Tamoxifen*, 466 F.3d at 208–09.

9. This misnomer was particularly inapt given that this is the term the U.S. Supreme Court has used to define the intersection between antitrust and patent law in assessing such issues, such as whether patent licensing agreements were unduly restrictive, and is a standard that involves an actual inquiry as to the scope of the patent. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969).

10. Press Release, FTC, FTC Study: In FY 2012, Branded Drug Firms Significantly Increased the Use of Potential Pay-for-Delay Settlements to Keep Generic Competitions Off the Market (Jan. 17, 2013), available at <http://www.ftc.gov/news-events/press-releases/2013/01/ftc-study-fy-2012-branded-drug-firms-significantly-increased>. The FTC's most recent report found that of the twenty-nine pay-for-delay agreements or potential ones entered into in 2013, covering more than twenty-one drugs with U.S. annual sales of \$4.3 billion, fourteen had compensation in the form of cash purporting to reimburse the generic's fees, four included promises not to launch an authorized generic, ten restricted generic entry with declining royalty rates and other possible forms of compensation not readily discernible, and the balance included side business deals between the branded and the generic. FTC, AGREEMENTS FILED WITH THE FTC UNDER THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT OF 2003 1–2 (2014) [hereinafter AGREEMENTS FILED WITH THE FTC].

11. Use of the term "payments" here is not limited to cash payments but rather denotes any form of consideration or value given in exchange for an agreement to delay

litigation beyond the strength of the patent. This skews the decision of the generic firm to delay competition and induces the generic firm to accept a later date to enter competition than would be accepted without the payment. Indeed, reverse payments often offer generics greater value than that available from successful competition with the branded drug.<sup>12</sup> Conversely, these agreements enable the branded company to buy a greater degree of market exclusion and monopoly than it could get based upon the strength of its patent alone.

The shift toward eliminating the virtual antitrust immunity that these agreements enjoyed under the *Tamoxifen* standard was slow. Prior to the Supreme Court's ruling in *FTC v. Actavis*, the federal courts—with the exception of the Third Circuit in *In re K-Dur Antitrust Litigation*<sup>13</sup>—largely continued to hew to the criticized *Tamoxifen* standard.<sup>14</sup>

#### A. *The Cipro Agreements and the Ensuing Federal Cipro Litigation*

For some, the Cipro agreements represent “the worst of a bad lot” of the hundreds of reverse payment settlements.<sup>15</sup> The pay-for-delay element of the agreement was unadorned and fairly audacious, consisting of a large \$398 million cash payment from Bayer, the manufacturer of Cipro, to the many generic drug companies poised to launch generic competition to Cipro. For their part, the generics agreed to delay that launch for a period of almost six years.

Cipro was protected by a patent issued to Bayer in 1987, scheduled to expire on December 9, 2003.<sup>16</sup> When Barr Pharmaceuticals applied with the FDA in 1991 to launch a generic version of Cipro,<sup>17</sup> Bayer sued Barr

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competition. In apparent recognition of the dubious legality of these pay-for-delay agreements, more recent agreements eschew straight cash payments and instead include promises not to launch an authorized generic or other non-cash forms. See AGREEMENTS FILED WITH THE FTC, *supra* note 10; Michael Carrier, *Payment After Actavis*, 100 IOWA L. REV. 7, 42 (2014) (“In its most recent survey, the FTC concluded that 19 of 40 potential reverse payment settlements reported in 2012 involved no-authorized-generic provisions.”).

12. *Actavis*, 133 S. Ct. at 2235.

13. 686 F.3d 197 (3d Cir. 2012).

14. *In re Ciprofloxacin Hydrochloride Litig.*, 544 F.3d 1323 (Fed. Cir. 2008); *FTC v. Watson*, 677 F.3d 1298 (11th Cir. 2012).

15. Appellants' Opening Brief on the Merits at 2, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 27, 2012), available at <http://www.lieffcabraser.com/Documents/cipro-opening-merits.pdf>.

16. The patent expired on Dec. 9, 2003, and the FDA granted pediatric exclusivity until June 9, 2004. Answer Brief of Respondent Bayer Corp. at 8, *In re Cipro Cases I & II*, No. S198616 (Cal. May 30, 2012), 2012 WL 2379475, at \*8; Appellants' Opening Brief on the Merits, *supra* note 15, at 8.

17. Barr had an agreement to jointly manufacture and distribute generic Cipro with two other generic companies who helped fund Barr's litigation against Bayer in exchange

for patent infringement. Barr counterclaimed that the Bayer patent was invalid and unenforceable on a number of grounds, including the failure to disclose two prior art German patent applications and the process of making Cipro.<sup>18</sup> The parties filed cross-motions for summary judgment, which were denied.<sup>19</sup> Barr's attorneys had several meetings with Bayer as to the weaknesses of the Cipro patent, boasting that Barr would defeat the patent at the upcoming trial.<sup>20</sup> In response, Bayer and its Board calculated the billions of dollars in Cipro sales it would lose if its patent was defeated at trial, computing differing dollar amounts to be paid to the generic manufacturers depending on the length of time they agreed to defer their generic competition.<sup>21</sup> The parties ultimately settled on a payment of some \$398.1 million to drop the challenge and delay competition for six years.<sup>22</sup> Additionally, the settlement agreement required Barr's attorneys to destroy all evidence of the Cipro patent's unenforceability save one copy to be delivered to Bayer who then allegedly hired Barr's lawyers.<sup>23</sup>

Bayer had calculated that the six-year delayed generic entry spared it the loss of some \$3.336 billion in sales.<sup>24</sup> At the same time, Barr, the generic receiving the largest payment from Bayer, is alleged to have received three to four times the profits it expected had it successfully challenged the patent and commenced selling its generic Cipro.<sup>25</sup> All the drug companies involved in this deal—both branded and generics—profited handsomely, but all did so at the expense of consumers who paid billions of dollars more for their Cipro prescriptions.

The Cipro settlement agreement also forbade the settling generic parties and their counsel and experts from assisting a challenge to any Cipro patents and required Barr to destroy all of its documents, save for one copy to be delivered to Bayer, which then retained Barr's

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for a portion of the profits from marketing a generic or the settlement with Bayer. Appellants' Opening Brief on the Merits, *supra* note 15, at 11 n.8.

18. See Appellants' Opening Brief on the Merits, *supra* note 15, at 9.

19. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 165, 171 (Ct. App. 2011), *rev. granted*, 269 P.3d 653 (Cal. 2012).

20. Appellants' Opening Brief on the Merits, *supra* note 15, at 10–14.

21. *Id.*

22. *Id.* at 13.

23. Appellants' Reply Brief on the Merits at 3, 44–45, *In re Cipro Cases I & II*, No. S198616 (Cal. Aug. 23, 2012), available at <http://www.lieffcabraser.com/Documents/cipro-reply-brief.pdf>.

24. Appellants' Opening Brief on the Merits, *supra* note 15, at 10 n.6, 11 (expected to lose 90% of its sales within twelve months of generic entry).

25. *Id.* at 3, 13 (“The total profits Barr gained from the anticompetitive agreement were 3.3 to 4 times larger than the profits Barr could reasonably have expected to gain through competition.”).

lawyers to seal up the evidence by virtue of the attorney-client privilege.<sup>26</sup> Thus, it effectively muzzled Barr from sharing or using the evidence it had developed on the frailties of the Cipro patent.

The court was presented with a two-page consent judgment devoid of the details of the settlement.<sup>27</sup> Right after the settlement closed, Bayer began rounds of price hikes at rates among the highest in the pharmaceutical industry, almost doubling the price of some Cipro dosages.<sup>28</sup>

In 2000 and 2001, over thirty lawsuits were filed by direct and indirect purchasers of Cipro challenging the Cipro settlement under federal antitrust law, and were consolidated as Multidistrict Litigation (“MDL”) before Judge David Trager in the Eastern District of New York.<sup>29</sup> In 2005, the judge granted summary judgment to the defendants, applying the reasoning in *Tamoxifen* to find that a reverse payment agreement is lawful and within the exclusionary scope of the patent unless it was shown to have been procured by fraud or an enforcement suit is shown to be objectively baseless.<sup>30</sup> Under then-existing law, as long as competition was restrained within the scope of the patent, the court concluded there was no cognizable injury to the market.<sup>31</sup>

The direct purchaser Cipro class actions were appealed to the Second Circuit, which affirmed the trial decision because it felt duty-bound by the precedent that the Second Circuit had earlier established in *Tamoxifen*.<sup>32</sup> However, the Second Circuit panel invited an *en banc* review because it felt the *Tamoxifen* standard appeared flawed, believing it was based on an erroneous factual interpretation of the Hatch-Waxman Act and contrary to the teachings of leading scholars and

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26. Appellants’ Reply Brief on the Merits, *supra* note 23, at 3, 44–45.

27. *Id.* at 14.

28. Supplemental Letter Brief of Appellants at 6, *In re Cipro Cases I & II*, No. S198616 (Cal. Jan. 24, 2014), available at <http://saverilawfirm.com/wp-content/uploads/2014/01/2014-01-24-Appellants-Supp-Letter-Brief-re-Actavis.pdf>.

29. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 165, 172 (Ct. App. 2011). After denial of a motion for summary judgment on the ground the Cipro agreements were illegal *per se*, plaintiffs added a state claim for fraud on the patent office and sham litigation in Bayer’s litigation against Barr.

30. *In re Ciprofloxacin Hydrochloride Litig.*, 363 F. Supp. 2d 514, 533, 535 (E.D.N.Y. 2005).

31. *Id.* at 535. The court also dismissed the indirect purchaser plaintiffs’ state law *Walker Process* claim on the ground that it was preempted by federal patent law. *Id.* at 542–46.

32. *Ark. Carpenters Health & Welfare Fund v. Bayer AG*, 604 F.3d 98, 110 (2d Cir. 2010).

regulators.<sup>33</sup> The subsequent petition for *en banc* review, however, was denied, with Judge Pooler inking a vigorous dissent.<sup>34</sup>

Judge Trager’s dismissal of the indirect purchaser action was appealed to the Federal Circuit, which also relied on *Tamoxifen* in upholding the dismissal.<sup>35</sup> Petitions for certiorari in both the Second Circuit and Federal Circuit decisions were denied by the Supreme Court.<sup>36</sup>

### B. The U.S. Supreme Court’s Decision in *FTC v. Actavis*

Having rejected certiorari in six previous reverse payment agreement challenges,<sup>37</sup> the United States Supreme Court granted certiorari in the Eleventh Circuit decision in *FTC v. Watson (Actavis)*.<sup>38</sup> The Eleventh Circuit in *Watson (Actavis)* had followed the Second Circuit’s controversial *Tamoxifen* decision, though it was arguably at odds with the law in other circuits and denounced by the FTC, the Solicitor General, academics, regulators, and even some of the judges that decided *Tamoxifen*.<sup>39</sup> Two months after the Eleventh Circuit’s *Watson* decision, the Third Circuit in *In re K-Dur Antitrust Litigation*, after surveying the legal landscape and considering the broad public interest in freeing competition from price-fixing agreements stemming from narrow or invalid agreements, concluded that *Tamoxifen* was “bad policy.”<sup>40</sup> Rather,

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33. *Id.* at 109–10 (“*Tamoxifen* relied on an erroneous mischaracterization of the Hatch-Waxman Act . . . . This case could provide our full Court with an opportunity to revisit the issues in play in *Tamoxifen* and to analyze the competing interests that underlie antitrust challenges to reverse payment settlements in light of the full record and the arguments of the parties and amici . . . . We therefore invite plaintiffs-appellants to petition for in banc rehearing.”).

34. Ark. Carpenters Health & Welfare Fund v. Bayer AG, 625 F.3d 779, 781–82 (2d Cir. 2010) (Pooler, J., dissenting) (“I think that our *Tamoxifen* decision unambiguously deserves reexamination” as these settlements “inevitably protect patent monopolies that are, perhaps, undeserved.”).

35. See *Cipro*, 363 F. Supp. 2d at 533; *In re Ciprofloxacin Hydrochloride Litig.*, 544 F.3d 1323, 1332, 1335–36 (Fed. Cir. 2008).

36. Ark. Carpenters Health & Welfare Fund v. Bayer AG, 557 U.S. 920 (2009); La. Wholesale Drug Co. v. Bayer AG, 131 S. Ct. 1606 (2011).

37. The Supreme Court earlier denied certiorari in the following cases: *La. Wholesale Drug*, 131 S. Ct. 1606; *Ark. Carpenters Health & Welfare Fund*, 557 U.S. 920; *Joblove v. Barr Labs, Inc.*, 551 U.S. 1144 (2007); *FTC v. Schering-Plough Corp.*, 548 U.S. 919 (2006); *Valley Drug Co. v. Geneva Pharm., Inc.*, 543 U.S. 939 (2004); *Andrx Pharm., Inc. v. Kroger Co.*, 543 U.S. 939 (2003).

38. *FTC v. Watson (Actavis)*, 133 S. Ct. 787 (2012).

39. See, e.g., *Ark. Carpenters Health & Welfare Fund v. Bayer AG*, 604 F.3d 98, 109–10 (2d Cir. 2010) (Pooler, J., dissenting); *In re K-Dur Antitrust Litig.*, 686 F.3d 197, 213 (3d Cir. 2012).

40. *K-Dur*, 686 F.3d at 216–17.

*K-Dur* instructed that reverse payments should be considered presumptively unlawful, as they “permit the sharing of monopoly rents between would-be competitors without any assurance that the underlying patent is valid.”<sup>41</sup>

In *FTC v. Actavis*, the U.S. Supreme Court in a 5-3 decision, resolved this split, rejecting *Tamoxifen* as an erroneous interpretation of federal antitrust and patent law.<sup>42</sup> The Court said that reverse payment agreements could be anticompetitive, and the presumptive immunity from antitrust under *Tamoxifen*’s “scope-of-the-patent” test was not justified under either patent or antitrust law.<sup>43</sup>

Examining the extent to which patent law protected these agreements, the Supreme Court concluded that patent law provided no comfort or support for patentees to pay their drug company rivals to stay out of their markets.<sup>44</sup> Rather, it determined that the patentee’s statutory rights—“whether expressly or by fair implication”—could not be viewed as extending any right to pay-one’s-rivals-not-to-compete.<sup>45</sup> The history and experience with these agreements further convinced the *Actavis* Court that paying one’s rivals was not necessary to settle pharmaceutical patent litigation.<sup>46</sup>

Similarly, the Court found that the Hatch-Waxman Act did not protect reverse payments. To the contrary, it said the Act condemned such payments in both its letter and its spirit.<sup>47</sup> Finally, the *Actavis*

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41. *Id.* at 215–16, 218.

42. *FTC v. Actavis*, 133 S. Ct. 2223, 2234–35 (2013) (payments by patentee in return for staying out of the market simply keeps prices at patentee-set monopoly levels while dividing those monopoly returns with its rivals all at the expense of the consumer); *id.* at 2237 (large unjustified payments can bring the risk of significant anticompetitive effects).

43. *Id.* at 2232–33.

44. *Id.* at 2231 (“It would be incongruous to determine antitrust legality by measuring the settlement’s anticompetitive effects solely against patent law . . . .”); *id.* at 2230 (even if the agreements’ anticompetitive effects are within the scope of the exclusionary potential of the patent, they are not immunized from antitrust attack); *id.* at 2234 (“[P]ayment in effect amounts to a purchase by the patentee of the exclusive right to sell its product . . . .”).

45. *Id.* at 2233 (the dissent identifies no patent statute that grants a patentee the right to pay its competitors, whether expressly or by fair implication, and such a right would be irreconcilable with the patent policy of eliminating unwarranted patent grants); *id.* at 2232 (patent-related settlement agreements can violate the antitrust laws though the patents were valid as the Sherman Act strictly limits concerted action by patent owners); *id.* at 2231 (court must balance whether the patent statute specifically gives a right to restrain competition in the manner challenged against available lesser restraints and the prohibitions against monopolies).

46. *Id.* at 2237.

47. *Id.* at 2234.

Court also rejected any pro-settlement policy as a justification for reverse payment agreements.<sup>48</sup>

While *Actavis* restored antitrust scrutiny of these agreements, it fell short of adopting the approaches urged by the FTC, the states' attorneys general, and private plaintiffs. They had all urged the Court to treat the agreements as *per se* illegal, presumptively illegal, subject to a quick-look test, or some variant thereof.<sup>49</sup> However, the Court disagreed, instead ruling that the agreements were to be evaluated under a rule of reason, using "traditional antitrust factors."<sup>50</sup> But the Court left it to the trial courts to further flesh out that standard, vaguely instructing trial courts that they:

can structure antitrust litigation so as to avoid, on the one hand, the use of antitrust theories too abbreviated to permit proper analysis, and, on the other, consideration of every possible fact or theory irrespective of the minimal light it may shed on the basic question—that of the presence of significant unjustified anticompetitive consequences.<sup>51</sup>

Predictably, this "instruction" has generated a surfeit of commentary,<sup>52</sup> while courts overseeing the bountiful post-*Actavis* lawsuits struggle to divine the intended boundaries of *Actavis*.<sup>53</sup>

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48. *Actavis*, 133 S. Ct. at 2234–35.

49. *Id.* at 2237.

50. *Id.* at 2231.

51. *Id.* at 2238.

52. See, e.g., the Fall 2013 issue of *Antitrust*, which is dedicated to this commentary, containing some nine articles on the topic. See also articles cited in Michael Carrier, *Payment After Actavis*, 100 IOWA L. REV. 7, 10 (2014); Allison A. Schmitt, *Competition Ahead? The Legal Landscape for Reverse Payment Agreements After Federal Trade Commission v. Actavis, Inc.*, 29 BERKELEY TECH. L.J. 493 (2014); Seth Silber, Jonathan Lutinski & Ryan Maddock, "Good Luck" Post-Actavis: Current State of Play on "Pay-for-Delay" Settlements, COMPETITION POL'Y INT'L (Nov. 2014), available at [www.wsgsr.com/publications/PDFSearch/Silber-1114.pdf](http://www.wsgsr.com/publications/PDFSearch/Silber-1114.pdf).

53. See, e.g., *United Food & Commercial Workers Local 1776 v. Teikoku Pharma USA, Inc.*, No. 14-md-02521, 2014 WL 6465235, at \*6–13 (N.D. Cal. Nov. 17, 2014); *Time Ins. Co. v. Astrazeneca AB*, No. 14-4149, 2014 WL 4933025, at \*2–3 (E.D. Pa. Oct. 1, 2014); *In re Niaspan Antitrust Litig.*, No. 13-MD-2460, 2014 WL 4403848, at \*10–11 (E.D. Pa. Sept. 5, 2014); cases discussed in Silber, Lutinski & Maddock, *supra* note 52.

*C. California Litigation Challenging the Cipro Agreement Under California State Law and the Call for a Stricter Approach*

While the federal Cipro cases wound their way through the federal system to their ultimate dismissals based on the now-rejected *Tamoxifen* reasoning, a group of plaintiffs brought actions in the Superior Court of San Diego challenging the Cipro agreements under California state competition laws, specifically California's Cartwright Act,<sup>54</sup> Unfair Competition Law ("UCL"),<sup>55</sup> and common law monopolization. The defendants removed the cases to a New York federal court, unsuccessfully arguing that they involved federal patent law questions requiring exclusive federal jurisdiction.<sup>56</sup> After remand, the San Diego trial judge certified a class of consumers and payers who purchased Cipro after the date of the settlement; the class certification was affirmed on appeal.<sup>57</sup>

In August 2009, the San Diego trial judge granted summary judgment to the defendants, finding the agreements were not "outside the exclusionary scope" of the Bayer patent, and that there was no reason in interpreting California state law to depart from the "dispositive" federal court rulings under the Sherman Act.<sup>58</sup> On appeal, the California Court of Appeal agreed with the reasoning in *Tamoxifen*, announcing that it applies equally to claims under the Cartwright Act as to the Sherman Act claims.<sup>59</sup> Unless the patent was procured by fraud or enforcement actions were objectively baseless, the court of appeal concluded "in accordance with *Cipro II* and *Tamoxifen*," that a reverse payment agreement would not violate the Cartwright Act.<sup>60</sup> The court then dismissed the UCL claims, citing its Cartwright Act references.<sup>61</sup>

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54. CAL. BUS. & PROF. CODE §§ 16720–16726 (2015).

55. *Id.* §§ 17200–17204.

56. The California state claim lawsuits challenging the Cipro agreements had been removed to federal court and remanded back to the California Superior Court in *In re Cipro I & II*, 166 F. Supp. 2d 740, 755 (E.D.N.Y. 2001), which rejected both the federal question and the diversity jurisdiction arguments. State law claims were also filed under Wisconsin law and remanded after removal in *Meyers v. Bayer AG*, 143 F. Supp. 2d 1044, 1053 (E.D. Wis. 2001). Following remand, the Wisconsin claims were dismissed for failure to state a claim, but on appeal, the Wisconsin Supreme Court held that some stated a claim under Wisconsin antitrust laws. *Meyers v. Bayer AG*, 735 N.W.2d 448 (Wis. 2007).

57. *In re Cipro Cases I & II*, 17 Cal. Rptr. 3d 1, 12 (Ct. App. 2004).

58. Coordination Proceeding, *In re Cipro Cases I & II*, No. JCCP4154, 2009 WL 2700124, at \*2, \*4 (Cal. Super. Ct. Aug. 21, 2009). It also overruled all objections to the defendants' evidence. *Id.* at \*8.

59. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 165, 183–84 (Ct. App. 2011).

60. *Id.* at 184.

61. *Id.* at 192–93.

On appeal, Bayer had also argued that federal patent law preempted those Cartwright claims based on sham litigation. In dictum, the court of appeal, confusing federal jurisdiction with preemption, announced that “plaintiffs’ claim that Bayer’s infringement suit against Barr was objectively baseless due to Bayer’s inequitable conduct . . . is preempted by federal patent law because . . . [it] necessarily depends on resolution of a substantial question of federal patent law.”<sup>62</sup>

The parties’ petition for review with the California Supreme Court was granted on February 15, 2012.<sup>63</sup> After the parties had briefed the merits of the appeal, the U.S. Supreme Court announced the *Actavis* decision, prompting the California Supreme Court to request additional briefing on the import of *Actavis* to the standard under California state antitrust law. The plaintiffs, the California Attorney General, and a group of forty-nine law and economics professors all urged the California Supreme Court to adopt a standard more aggressively pro-enforcement than was done in *Actavis*, championing adoption of a *per se* illegal standard, a “constrained rule of reason,” or a *per se* illegal structure with a few carve-outs.<sup>64</sup> All predicated their arguments on the dimensions of California’s competition laws that differed in language, policy, and mandate from those of federal antitrust law.

In response to these proposed approaches to California state law, the defendants and their supporting amici objected to any state-specific approach not faithfully mirroring *Actavis*.<sup>65</sup> Such a differing approach, they argued, could not be countenanced in state courts due to exclusive federal court jurisdiction, and in any event, would be preempted by federal antitrust and patent laws.<sup>66</sup> Part II addresses these objections,

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62. *Id.* at 169–70, 189.

63. *In re Cipro Cases I & II*, 269 P.3d 653 (Cal. 2012).

64. Appellants’ Reply Brief on the Merits, *supra* note 23, at 6–9; Amicus Brief of the California Attorney General at 20, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 19, 2014), 2014 WL 1765268, at \*20; (Proposed) Brief of Amicus Curiae American Antitrust Institute Supporting Petitioners at 2–3, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 25, 2014), 2014 WL 1765272, at \*2–3; Proposed Brief of Amici Curiae 49 Professors Supporting Petitioners at 22–23, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 25, 2014), 2014 WL 1765271, at \*22–23.

65. Chamber of Commerce of the United States of America Amicus Curiae Brief Supporting Respondents (Defs. Briefs on Merits) at 15–16, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 18, 2014), 2014 WL 1385469, at \*15–16. One amicus, however, argues that the state is allowed to be more permissive but not more restrictive in its laws. Supplemental Letter Brief of Washington Legal Foundation as Amicus Curiae Supporting Respondents at 8, *In re Cipro Cases I & II*, No. S198616 (Cal. Mar. 19, 2014), 2014 WL 1765266, at \*8.

66. Chamber of Commerce of the United States of America Amicus Curiae Brief Supporting Respondents, *supra* note 65, at 10–11; Supplemental Letter Brief of Washington Legal Foundation as Amicus Curiae Supporting Respondents, *supra* note 65, at 5.

demonstrating that they are ultimately without merit, and should be easily overcome, clearing the way for the novel California approaches to reverse payments as detailed in Part III.

## II. FEDERAL LAW DOES NOT LIMIT STATE CHALLENGES TO REVERSE PAYMENTS

Though the Supreme Court's decision in *Actavis* defined the boundaries of federal law's application to reverse payments, its limitations need not, and should not, be read to extend to state law. Nor should it be read to foreclose the possibility of liability, or broader liability, under state law. Nonetheless, defendants and their supporting amici in *Cipro* have put forth several legal theories claiming that federal law, as set forth in *Actavis*, presents the exclusive standard for liability resulting from reverse payments, or that any such cases must be adjudicated in federal court. The following discussion addresses each of these arguments.

### A. *Exclusive Federal Court Jurisdiction of Patent Cases Should Not Preclude State Court Challenges*

The *Cipro* defendants asserted at the outset of the case that reverse payment challenges are subject to exclusive federal jurisdiction and cannot proceed in state courts. This argument relies on an interpretation of 28 U.S.C. § 1338(a), which provides that the U.S. district courts "shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . . No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents."<sup>67</sup> Challenges to reverse payment agreements, so the argument goes, "relate to patents," and thereby trigger exclusive federal jurisdiction. While that argument may have had some resonance years

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67. 28 U.S.C.A. § 1338(a). Jurisdiction is decided at the outset of the litigation, based on the plaintiff's well-pleaded complaint, even after the case has been tried or judgment has been entered. *E-Pass Techs., Inc. v. Moses & Singer, LLP*, 117 Cal. Rptr. 3d 516, 523–25 (Ct. App. 2010). Federal patent defenses raised in the answer and federal counterclaims are not considered in determining the Section 1338 jurisdiction. *Applera Corp. v. MP Biomedicals, LLC*, 93 Cal. Rptr. 3d 178, 188–89 (Ct. App. 2009); *E-Pass Techs.*, 117 Cal. Rptr. 3d at 524. Similarly, subsequent arguments and theorizing in the case after the complaint is filed do not alter that result, else venue of the action could change with every change in the arguments and theories being pursued in the case. See *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 814 (1988) (28 U.S.C.A. § 1338(a) jurisdiction is determined by "reference to the well-pleaded complaint, not the well-tried case.").

ago, the U.S. Supreme Court's recent *Gunn v. Minton* decision<sup>68</sup> should disarm any future arguments.

Despite resolution of an early jurisdictional battle in *In re Cipro I & II* in favor of state court jurisdiction,<sup>69</sup> on appeal, federal court jurisdiction was visited anew after oblique challenges by defendants. But the court of appeal responded with a confused ruling that the sham litigation claims were preempted by federal patent law because plaintiffs' rights to relief on those claims necessarily depended on resolution of a "substantial question of patent law."<sup>70</sup> While the ruling was expressed as one of "preemption," it cited 28 U.S.C. § 1338(a), which defines federal courts' exclusive jurisdiction over certain patent cases, and utilized a "resolution of a substantial question of patent law" metric, which is a jurisdictional rather than a preemption test.<sup>71</sup> Whether the case must be litigated in federal court due to the patent issues triggering Section 1338(a), exclusive federal court jurisdiction is a separate and distinct inquiry from the issue of whether federal patent law preempts state antitrust claims because of the Constitution's Supremacy Clause. Despite that, these issues are often confused as they were by the court of appeal in *Cipro*.

It is well established that California state courts are capable of resolving complex cases involving possible patent issues, and have been doing so in a wide variety of cases for more than one-hundred years.<sup>72</sup> In strongly rejecting any notion that state courts are inferior or incapable of resolving patent issues, a California appellate court in *Caldera Pharmaceuticals, Inc. v. Regents of University of California* noted the "formidable heritage that defendants must push aside to divest a California court of the power" to entertain state claims relating to

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68. *Gunn v. Minton*, 133 S. Ct. 1059 (2013).

69. *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 166 F. Supp. 2d 740 (E.D.N.Y. 2001). Petitioners' California claims had been removed to federal court and remanded back to superior court, after the Eastern District of New York found the resolution of the state claims did not depend on resolution of patent law claims so as to come within the federal courts' exclusive jurisdiction.

70. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 165, 169–70 (Ct. App. 2011), *rev. granted*, 269 P.3d 653 (Cal. 2012).

71. *Id.* at 189.

72. *Caldera Pharm., Inc. v. Regents of Univ. of Cal.*, 140 Cal. Rptr. 3d 543, 554 (Ct. App. 2012); *Linear Tech. Corp. v. Applied Materials, Inc.*, 61 Cal. Rptr. 3d 221, 228–29 (Ct. App. 2007) ("The fact that an issue of patent law may be relevant in the interpretation of a contractual dispute cannot possibly convert a suit for breach of contract into one arising under the patent laws as required to render the jurisdiction of the district court based on [S]ection 1338"); *see also* *Miller v. Lucas*, 124 Cal. Rptr. 500, 501–02 (Ct. App. 1975); *Rogers v. Hensley*, 14 Cal. Rptr. 870, 871–73 (Dist. Ct. App. 1961).

patents.<sup>73</sup> Even federal law has long recognized California state courts' qualifications to decide patent law issues arising in state cases.<sup>74</sup>

Notwithstanding the state courts' recognized ability to handle patent law issues, case law has been less than resolute as to when patent law issues became so "substantial" as to trigger "arising under" exclusive federal jurisdiction under Section 1338(a). In *Christianson v. Colt Industries Operating Corp.*, the Supreme Court clarified that "arising under" jurisdiction "extends only to those cases in which . . . the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims."<sup>75</sup> This oft-litigated prong produced unpredictable results, with some courts inclined to find any potential patent issue to be "substantial," while others were undeterred by ancillary patent issues.<sup>76</sup>

Following the *Cipro* briefing on the merits, the U.S. Supreme Court in 2012, in *Gunn v. Minton*,<sup>77</sup> clarified *Christianson*, explaining that state

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73. *Caldera Pharm.*, 140 Cal. Rptr. 3d at 560. The court in *Caldera* explained: The appearance of a patent in state court is more than likely to unsettle lawyers and judges . . . . [T]his trepidation is unreasonably exaggerated . . . . [S]tate courts retain jurisdiction over a wide variety of suits involving contracts affecting patent rights or involving tort claims arising out of interference with business relations in which patent rights are implicated, and are regularly called upon to determine the scope and validity of federal patents with the clear bless[ing] of the United States Supreme Court . . . . [A] state law tort claim is not preempted by the federal patent law, even if it requires the state court to adjudicate a question of federal patent law, provided the state cause of action . . . is not an impermissible attempt to offer patent-like protection to subject matter addressed by federal law.

*Id.* at 547, 554, 560 (citations, footnote, and internal quotation marks omitted).

74. See, e.g., *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988); *Jacobs Wind Elec. Co. v. Fla. Dep't of Transp.*, 919 F.2d 726, 728 (Fed. Cir. 1990) ("[A]lthough a state court is without power to invalidate an issued patent, there is no limitation on the ability of a state court to decide the question of validity when properly raised in a state court proceeding.").

75. *Christianson*, 486 U.S. at 801. As a result, the potential existence of federal patent defenses does not alone render a case subject to the exclusive jurisdiction of the federal courts. *Id.* at 809. A cause of action is not created by federal patent law, and therefore does not satisfy the first prong of the *Christianson* test, where the plaintiff does not sue the defendant for patent infringement or for declaratory judgment on patent issues, such as patent validity. See *Applera Corp. v. MP Biomedicals, LLC*, 93 Cal. Rptr. 3d 178, 188–90 (Ct. App. 2009).

76. See Stephen Holtzman et al., *State Antitrust Law and Intellectual Property*, in CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW § 12.04 (Cheryl L. Johnson et al. eds., 2014).

77. 133 S. Ct. 1059 (2013).

claims having subsidiary patent issues belong in the state courts except for a very “special and small category” of cases.<sup>78</sup> The *Gunn* Court limited “arising under” jurisdiction to those state law claims raising a patent issue that is: (1) necessarily raised; (2) actually disputed; (3) substantial; and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.<sup>79</sup> Only where “all four of these requirements are met . . . jurisdiction is proper because there is a ‘serious federal interest in claiming the advantages thought to be inherent in a federal forum,’ which can be vindicated without disrupting Congress’s intended division of labor between state and federal courts.”<sup>80</sup> While intending to bring some order to the “unruly” jurisdictional doctrine, the Supreme Court noted it was not creating new law or even painting on a blank canvas, but rued that “the canvas looks like one that Jackson Pollock got to first.”<sup>81</sup>

Since *Actavis* established that patent law does not shield reverse payment agreements from antitrust scrutiny, challenges to the agreements cannot present the kind of disputed and substantial patent issues under federal patent laws required by *Gunn*. Moreover, ample federal precedent establishes that reverse payment cases are not to be treated as arising under or requiring a resolution of a substantial issue of patent law under Section 1338(a). This is made clear because appeals from the many district court rulings on the legality of reverse payment agreements have gone to the regional circuit courts in the Second, Third, Sixth, and Eleventh Circuits<sup>82</sup> rather than to the Federal Circuit, the exclusive appellate court for cases arising under patent law.<sup>83</sup> In the one reverse payment case that went to the Federal Circuit (due to the

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78. *Id.* at 1064. *Gunn* held that only those claims that necessarily raise disputed and substantial issues of patent law implicating substantial federal interests were subject to exclusive federal court jurisdiction. It also rejected any notion that federal courts’ greater familiarity with patent law would trigger exclusive federal court jurisdiction. *Id.* at 1068.

79. *Id.* at 1065. “[A]lthough the state courts must answer a question of patent law to resolve Minton’s legal malpractice claim, their answer will have no broader effects.” *Id.* at 1068.

80. *Id.* (internal citation omitted).

81. *Id.*

82. See, e.g., *Andrx Pharms., Inc. v. Biovail Corp.*, 256 F.3d 799 (D.C. Cir. 2001); *In re Cardizem CD Antitrust Litig.*, 332 F.3d 896 (6th Cir. 2003); *Valley Drug Co. v. Geneva Pharms., Inc.*, 344 F.3d 1294 (11th Cir. 2003); *Schering-Plough Corp. v. FTC*, 402 F.3d 1056 (11th Cir. 2005); *In re Ciprofloxacin Hydrochloride Litig.*, 363 F. Supp. 2d 514 (E.D.N.Y. 2005); *In re Ciprofloxacin Hydrochloride Litig.*, 544 F.3d 1323 (Fed. Cir. 2008); *Ark. Carpenters Health & Welfare v. Bayer AG*, 604 F.3d 98, 108 (2d Cir. 2010); *In re Tamoxifen Citrate Antitrust Litig.*, 466 F.3d 187 (2d Cir. 2006); *FTC v. Watson (Androgel)*, 677 F.3d 1298 (11th Cir. 2012); *In re K-Dur Antitrust Litig.*, 686 F.3d 197 (3d Cir. 2012).

83. *Cipro*, 544 F.3d at 1330 n.8.

presence of *Walker Process* claims), Second Circuit law rather than Federal Circuit law was applied.<sup>84</sup>

Even before *Gunn*, numerous district courts considered removal motions involving state claims challenging reverse payment agreements and the “overwhelming majority” of them found federal jurisdiction lacking.<sup>85</sup> Post-*Gunn*, this result should be practically pre-ordained, as it was in the court’s decision in *Time Insurance Co. v. Astrazeneca AB*.<sup>86</sup> In that case, the court reviewed state claims challenging reverse payment agreements relating to Nexium, determining that the claims would not affect the administration of federal patent law nor have a substantial enough effect to support federal jurisdiction.<sup>87</sup>

### *B. Federal Antitrust Law Does Not Preempt Differing State Antitrust Standards*

Claims that federal antitrust law preempts or somehow precludes the development of differing state antitrust standards for scrutinizing reverse payments were pressed in *Cipro*,<sup>88</sup> as is common in reverse payment cases. But these claims disregard long-established state and federal precedent recognizing that the development of state antitrust law distinct from and independent of federal law is healthy, lawful, and not to be disturbed by federal courts or laws.

This argument also misunderstands the federal preemption doctrine. Federal law does not prevent the states from utilizing their law to adopt either a stricter or more relaxed antitrust regime than that under the federal antitrust laws. The states’ authority in this area was famously

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84. *Id.* at 1332.

85. *See, e.g.*, *Meyers v. Bayer AG*, 143 F. Supp. 2d 1044 (E.D. Wis. 2001); *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 166 F. Supp. 2d 740, 742–43 (E.D.N.Y. 2001) (citing, among others, *McGrew v. Schering-Plough Corp.*, No. Civ. A 01-2311, 2001 WL 950790 (D. Kan. Aug 6, 2001)); *Altman v. Bayer Corp.*, 125 F. Supp. 2d 666 (S.D.N.Y. 2000); *In re Cardizem CD Antitrust Litig.*, 90 F. Supp. 2d 819, 836 (E.D. Mich. 1999) (citing additional cases).

86. No. 14-4149, 2014 WL 4933025, at \*5–8 (E.D. Pa. Oct. 1, 2014).

87. *Id.* at \*7.

88. The appellants’ opening brief on the merits in *Cipro* asks, “[D]oes *Tamoxifen* preempt the Cartwright Act and prevent California courts from enforcing it?” Appellants’ Opening Brief on the Merits, *supra* note 15, at 1. The Chamber of Commerce of the United States of America argued in its Amicus Curiae Brief Supporting Respondents, *supra* note 65, at 16, 18, that California’s adoption of rules differing from those of federal antitrust law raised preemption concerns. The Chamber asserted that the California courts “have followed federal law on almost every antitrust issue raised over the past century” and that there is no textual distinction between the Cartwright Act and federal law mandating a result other than *Actavis*. *Id.* at 17–18.

demonstrated by over twenty-five states' rejection of federal law's *Illinois Brick Co. v. Illinois*<sup>89</sup> limitation.<sup>90</sup>

The U.S. Supreme Court reaffirmed this in *California v. ARC America Corp.*<sup>91</sup> Congress, the Court decreed, "intended the federal antitrust laws to supplement, not displace, state antitrust remedies" and did not indicate any "federal policy against imposing liability in addition to that imposed by federal law."<sup>92</sup> State law's provision of additional or different remedies from federal law is likewise not preempted by federal law, as recognized by the California Court of Appeal in *McKell v. Washington Mutual, Inc.*<sup>93</sup>

Nor has California shrunk from enacting state competition laws broader and deeper than federal antitrust laws. In fact, California jurisprudence has boldly rejected narrower federal positions on numerous antitrust issues including resale price maintenance,<sup>94</sup> covenants not to compete,<sup>95</sup> sales below cost and predatory pricing,<sup>96</sup> and other anticompetitive conduct that extends beyond the reach of federal law.<sup>97</sup>

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89. 431 U.S. 720 (1977).

90. *See, e.g.*, *Cal. v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989).

91. *Id.*

92. *Id.* at 101, 105.

93. *McKell v. Wash. Mut., Inc.*, 49 Cal. Rptr. 227, 250–51 (Ct. App. 2006); *see also* *R.E. Spriggs Co. v. Adolph Coors Co.*, 112 Cal. Rptr. 585, 592–93 (Ct. App. 1974); *Younger v. Jensen*, 605 P.2d 813, 817–18 (Cal. 1980).

94. *Compare* *Mailand v. Burckle*, 572 P.2d 1142, 1146–48 (Cal. 1978) (finding that resale price maintenance is *per se* illegal), *with* *Leegin Creative Leather Prods. v. PSKS, Inc.*, 551 U.S. 877, 889–91 (2007) (finding that resale price maintenance is not *per se* illegal); *see also* *Durash v. Revision LP*, No. CV 12-10296, 2013 WL 1749539, at \*1, \*6 (C.D. Cal. Apr. 10, 2013); David W. Kesselman & Trevor V. Stockinger, *Why California's Per Se Rule Against Resale Price Maintenance is Good for Businesses and Consumers*, 22 CAL. BAR. ASSOC.—COMPETITION, Fall 2013, at 88, 94 ("[T]he *per se* rule [against resale price maintenance] is likely to remain the law in California" despite the opposite result in federal law.).

95. *Edwards v. Arthur Andersen, LLP*, 189 P.3d 285, 290–92 (Cal. 2008) (expressly rejecting the interpretation of California law in *Campbell v. Trs. of Leland Stanford Jr. Univ.*, 817 F.2d 499 (9th Cir. 1987)).

96. *Bay Guardian Co. v. New Times Media, LLC*, 114 Cal. Rptr. 3d 392, 404 (Ct. App. 2010), *as modified*, (Aug. 11), *as modified on denial of reh'g*, (Sept. 8, 2010) (California's predatory pricing law is not "entirely analogous to the federal and sister-state predatory pricing laws.").

97. *See, e.g.*, CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW, *supra* note 76, § 2.02(c) (no pass-on defense); *Id.* at § 2.04(a) (burden on defenses and proof of procompetitive justifications); *Id.* at § 3.03 (conspiracies from coercion); *Id.* at § 3.07 (differing tying standards); *Id.* at § 3.08 (percentage market exclusion on exclusive dealing arrangements); §§ 13.02–13.07 (exemptions); *Id.* at § 13.13 (statute of limitations and applicable tolling principles); *Id.* at § 14.02 (standing for indirect purchasers); *Id.* at §§ 15.01, 23.02–23.04 (availability of attorneys' fees, penalties, and other remedies); *Id.* at ch. 16 (unfair competition law which reaches conduct not illegal, but unfair or fraudulent); *Id.*

As the California Supreme Court noted in *California ex rel. Van de Kamp v. Texaco, Inc.*, the text of the Cartwright Act and the Sherman Act “differ[ ] substantially,” and “interpretation of the Sherman Act is *not* directly probative of the intent of the drafters of the Cartwright Act.”<sup>98</sup>

Though some states’ antitrust laws have so-called “harmonization” clauses requiring that the state antitrust law follow federal antitrust law in whole or in part as a matter of substantive law, California is not one of those states. Rather, California has a single, very narrow harmonization provision, 16721.6 of the Business and Professions Code, which requires harmonization of the Cartwright Act with federal law only in two rarely-encountered situations involving letters of credit and transactions implementing discriminatory policies.<sup>99</sup> This limited harmonization statute has little or no application to reverse payment cases, as claims arising from those agreements are not brought under Section 16721.<sup>100</sup>

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at ch. 18 (UPA, a collection of provisions barring below cost sales, loss leaders, secret rebates and locality discriminations); *Id.* at §§ 21.01–21.02 (differing class action standards).

98. *Cal. ex rel. Van de Kamp v. Texaco, Inc.*, 762 P.2d 385, 392, 395–96 n.14 (Cal. 1988) (emphasis added). The Cartwright Act was based on the Texas and Michigan and similar state acts, *id.* at 392–93, is broader in scope and intent, see, e.g., *Marin Cnty. Bd. of Realtors, Inc. v. Palsson*, 549 P.2d 833, 835–37 (Cal. 1976), *Union Carbide Corp. v. Superior Court*, 679 P.2d 14, 19–21 (Cal. 1984), and has different wordings and more specific provisions condemning specific anticompetitive practices than the Sherman Act.

99. Specifically, California Business & Professions Code Section 16721.6 provides:  
It is the intent of the Legislature that Sections 16721 and 16721.5 be interpreted and applied so as not to conflict with federal law with respect to transactions in the interstate or foreign commerce of the United States to the extent, if any, not preempted by the Export Administration Act of 1969 as amended (50 U.S.C. App. Sec. 2401 and following) and any regulations promulgated thereunder.

CAL. BUS. & PROF. CODE § 16721.6 (2015). This harmonization provision, on its face, relates to only two narrow Cartwright provisions: Sections 16721 and 16721.5. The first provision, Section 16721, prohibits transactions to implement discriminatory policies of third parties based on “sex, race, creed, color, or national or ethnic origin.” The second, Section 16721.5, prohibits letters of credit or other contracts or documents that require discrimination or certification of boycotts based on a person’s lawful business associations. Violations of these two provisions are deemed unlawful restraints of trade. *Id.* §§ 16721.6, 16721.5(a). The history of this provision, designed to align interpretations of the Cartwright Act with 1977 federal legislation prohibiting compliance with a foreign boycott, is discussed in more detail in Chapter 14 of CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW, *supra* note 76.

100. See *Clayworth v. Pfizer, Inc.*, 233 P.3d 1066, 1074–76 (Cal. 2010) (in noting that the text of the Cartwright Act did not answer the question of whether there was a pass-on defense, the court implicitly did not follow harmonization provisions in construing the Cartwright Act). While *In re Graphics Processing Units Antitrust Litigation*, 540 F. Supp. 2d 1085, 1097 (N.D. Cal. 2007) suggested that California has a harmonization provision, the only support cited was Section 16721.

*C. Patent Law Does Not Preempt State Antitrust Law Claims  
Challenging Reverse Payments*

Beyond arguments that federal antitrust law preempts state claims, pharmaceutical companies may also claim that federal *patent law* preempts any state law rulings as to reverse payment agreements. After the defendants in *Cipro* argued patent law preemption, the California Court of Appeal announced, in dicta, that properly pled sham litigation claims are preempted by federal patent law.<sup>101</sup> The court identified no conflict with, or frustration of, patent law principles by such claims, but rather cited the fact that substantial issues of patent law might be involved.<sup>102</sup>

But preemption of a state law does not turn on the existence of substantial patent law issues, as the *Cipro* court indicated in its dicta. Rather, preemption is a question of congressional intent, which may be express or implied where Congress intended to occupy an entire field, or where compliance with both state and federal law is impossible, or if state law poses an obstacle to congressional purposes.<sup>103</sup>

Respect for California's independent sovereignty in the federal system is reflected by a strong presumption against preemption absent clear and manifest evidence that Congress intended to supersede those state laws.<sup>104</sup> Laws such as the Cartwright Act and the UCL that embody California's historic police powers are subject to a "heightened presumption against preemption by a federal law."<sup>105</sup> Moreover, this "strong presumption against displacement of state law . . . applies not only to the existence, but also to the extent, of federal preemption."<sup>106</sup>

Federal patent law contains no express preemption of California antitrust laws and has coexisted with those laws for over 100 years, demonstrating that Congress has not preempted the field.<sup>107</sup> Thus, any patent law preemption in a reverse payment case must be of the conflict or obstacle variety which occurs only where "simultaneous compliance with both state and federal directives is impossible" or, when "under the

101. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 165, 192 (Ct. App. 2011), *rev. granted*, 269 P.3d 653 (Cal. 2012).

102. *Id.* at 189.

103. *Bronco Wine Co. v. Jolly*, 95 P.3d 422, 428 (Cal. 2004).

104. *In re Farm Raised Salmon Cases*, 175 P.3d 1170, 1177 (Cal. 2008).

105. *Wash. Mut. Bank v. Superior Court*, 115 Cal. Rptr. 2d 765, 770 (Ct. App. 2002); *accord* *Cal. v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989); *Farm Raised Salmon Cases*, 175 P.3d at 1176; *Paduano v. Am. Honda Motor Co.*, 88 Cal. Rptr. 3d 90, 108 (Ct. App. 2009).

106. *Brown v. Mortensen*, 253 P.3d 522, 528 (Cal. 2011).

107. *See* *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1334 (Fed. Cir. 1998); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 166 (1989).

circumstances of the case, [the challenged state claim] stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”<sup>108</sup>

Most of the preemption arguments raised in *Cipro* predated *Actavis*, and posited that patent law prevented federal or state law from restricting or outlawing reverse payment agreements.<sup>109</sup> But *Actavis* made clear that nothing in the patentee’s statutory rights, either expressly or implicitly, provided the patentee with a right to pay its rivals not to compete.<sup>110</sup> Even if there were such a right, *Actavis* decided it would be incompatible with the more important public interest of eliminating unnecessary monopolies and payments for unwarranted patent grants.<sup>111</sup>

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108. *Viva! Int’l Voice for Animals v. Adidas Promotional Retail Operations, Inc.*, 162 P.3d 569, 571–72 (Cal. 2007). Courts consider three patent law purposes or objectives when faced with the argument that federal patent law preempts a state claim on obstacle grounds: “providing an incentive to invent, promoting the full disclosure of inventions, and ensuring that ‘that which is in the public domain cannot be removed therefrom by action of the States.’” *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1474 (Fed. Cir. 1998) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–81 (1974)). *Actavis* rejected the notion that reverse payment agreements promote the full disclosure of ideas, ensure that ideas in the public domain stay there, or enhance the incentive to invent. *FTC v. Actavis*, 133 S. Ct. 2223, 2232–33 (2013).

109. See Answer Brief of Respondent Bayer at 44–46, *In re Cipro Cases I & II*, No. S198616 (Cal. May 30, 2012), 2012 WL 2379475, at \*44–46; Answer Brief of Respondents Barr Laboratories et al. at 61, *In re Cipro Cases I & II*, No. S198616 (Cal. May 29, 2012), 2012 WL 2379476, at \*61.

110. *Actavis*, 133 S. Ct. at 2233. A patent grants the exclusive right to make, use, and vend the invention; the “essence of a patent grant is the right to exclude others from profiting by the patented invention.” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980). The reverse payment patentee does not seek to keep alleged infringers from profiting by using the patentee’s invention, but rather allows infringers to profit by not using the alleged invention. Patent law provides profits to the patentee as incentives for innovation; giving profits to putative infringers does not advance the touchstone of patent law to promote innovation.

111. *Actavis*, 133 S. Ct. at 2233. It is hardly surprising that *Actavis* found no patent law right to pay rivals not to compete. Over the last decades, the Supreme Court had condemned, as outside of the exclusionary power of the patent monopoly, lesser attempted restrictions by patentees. See, e.g., *United States v. Masonite Corp.*, 316 U.S. 265, 279 (1942) (agreements fixing prices for sale of patented product secure protection from competition which the patent law unaided by restrictive agreements does not afford); *Hartford-Empire Co. v. United States*, 323 U.S. 386, 406 (1945) (rejecting defense that buying up patents or entering restrictive alliances with patent owners was “necessary” to protect the legitimate interests of the patentees); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944) (fact that patentee has the power to refuse a license does not enable him to attach to it conditions to its use); *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 17 (1913) (rights of patent holder do not include privilege to keep up prices and prevent competition by notices restricting the price); *Boston Store of Chicago v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918) (resale price condition “not within the monopoly conferred by the

Because reverse payment agreements do not lie within the patent monopoly, there is no federal patent law right to enter into these agreements as a reverse payment lies “beyond the limits of the patent monopoly.”<sup>112</sup> Thus, when it comes to anticompetitive reverse payments, there is not a patent law policy that conflicts with federal or state regulation of the agreements.<sup>113</sup> Nor is there any logical reason to conclude that state antitrust regulation presents any conflict with patent law not presented by federal antitrust scrutiny.<sup>114</sup>

Thus, though defendants may raise the threshold issues of federal jurisdiction and preemption, those arguments are easily surmounted, clearing the way for state law scrutiny of reverse payments. Part III will discuss the policy justifications for state challenges to these agreements, along with the particular advantages, both procedural and substantive, that California law offers in challenging reverse payments.

### III. CALIFORNIA’S ROLE IN CHALLENGING REVERSE PAYMENTS

Part II demonstrated that *Actavis*, and federal law in general, does not preclude the pursuit of state claims of liability relating to reverse payments. The following discussion details the opportunities that California law presents as a vehicle for these challenges, along with the

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patent law”); *United States v. Line Material Co.*, 333 U.S. 287, 311 (1948) (patent statute does not permit patentees by cross licenses to fix prices on their respective products); *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 48 (1912) (price limitations in pooled patent licenses “transcended what was necessary to protect the use of the patent”); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (Notice restricting use of machine to showing certain unpatented films is invalid because enforcement would “create a monopoly . . . wholly outside of the patent in suit and of the patent law as we have interpreted it . . .”). In all these patent arrangements, which the Supreme Court found to be unlawful and unnecessary to statutory patent rights, competition was suppressed only with respect to price or use. The exclusion resulting from reverse payment agreements, in contrast, is more pervasive and pernicious; it eliminates all forms of competition between the parties for a period of time. *Blue Cross & Blue Shield United of Wis. v. Marshfield Clinic*, 65 F.3d 1406, 1415 (7th Cir. 1995) (“It would be a strange interpretation of antitrust law that forbade competitors to agree on what price to charge, thus eliminating price competition among them, but allowed them to divide markets, thus eliminating all competition among them.”).

112. *Actavis*, 133 S. Ct. at 2231–32.

113. *Id.* at 2233 (there is not a “patent law policy [that] offsets the antitrust law policy strongly favoring competition”).

114. *See Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473–79 (Fed. Cir. 1998) (no preemption where state law cause of action could have no “discernible effect on the incentive to invent, the full disclosure of ideas, or the principle that ideas in the public domain remain in the public domain”); *Sukumar v. Nautilus, Inc.*, 829 F. Supp. 2d 386, 400 (W.D. Va. 2011) (refusing to find California unfair competition law preempted where state claims would not endanger any of the three patent law objectives).

advantages offered by the pursuit of these claims in California courts. The discussion begins, however, by examining the interests of the State of California both in pursuing and in adjudicating these claims.

*A. The State of California Has a Special Interest in Challenging Reverse Payment Agreements*

Generally, state governments have immediate and cogent interests in drug prices that inform their own laws and enforcement priorities. The states are major consumers of and direct payers for the drugs consumed by their residents through state-supported systems. In California, the affordability of healthcare and drugs represents a key state concern, as these areas represent 16% of state and resident expenditures.<sup>115</sup> Californians spent \$32 billion for pharmaceutical drugs in 2011, up from \$4.5 billion in 1991.<sup>116</sup> The costs also weigh on state budgets, with California's Medi-Cal reimbursements for drugs alone exceeding \$2.3 billion per year<sup>117</sup> and state and local governments cumulatively paying approximately \$45 billion annually for drug prescriptions.<sup>118</sup> Pharmaceutical costs in California continue to rise,<sup>119</sup> and reverse payment agreements contribute to those rising costs. Studies estimate that these agreements insulate billions of dollars of drug sales from generic competition,<sup>120</sup> costing consumers at least \$3.5 billion annually.<sup>121</sup>

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115. *Health Care Costs 101: Slow Growth: A New Trend?*, CAL. HEALTH CARE ALMANAC (Cal. Health Care Found.), Sept. 2013 [hereinafter *Health Care*], available at <http://www.chcf.org/~media/MEDIA%20LIBRARY%20Files/PDF/H/PDF%20HealthCareCosts13.pdf>; *2011 California Economy Rankings*, NUMBERS IN THE NEWS (Ctr. for the Continuing Study of the Cal. Econ.), Sept. 2012, at 3, available at <http://ccsce.com/PDF/Numbers-Sept-2012-CA-Economy-Rankings-2011.pdf> (average per capita healthcare spending was \$8,680 in 2011 and per capita real GDP was \$52,210).

116. *Health Care*, *supra* note 115, at 9 (multiplying \$270 billion in US prescription drug spending by a 12% portion of California citizens).

117. Ctrs. for Medicare & Medicaid Servs., *Medicaid Drug Rebate Program Data: State Utilization Data*, MEDICAID.GOV, <http://medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Benefits/Prescription-Drugs/Medicaid-Drug-Rebate-Program-Data.html> (last updated Nov. 2013).

118. *Health Care*, *supra* note 115, at 11–12 (multiplying \$263 billion in prescription drug spending by 17% of state and local government contributions).

119. Janet Lundy, *Prescription Drug Trends Fact Sheet—May 2010 Update*, HENRY J. KAISER FAM. FOUND. 1–4, 8 (May 2010), available at <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/3057-08.pdf>.

120. Brand-name drugs, many of which have patent protection, account for most of the increase in the nation's increasing drug costs. Generic drugs, on the other hand, typically cost less than a third of the price of branded drugs, and are one of the primary factors responsible for slowing the rate of increase in drug costs. *Id.* at 1–3; *In re K-Dur Antitrust Litig.*, 686 F.3d 197, 208 (3d Cir. 2012) (FTC estimates an average generic sells for 15% of the cost of a branded drug within one year of market entry); U.S. Dep't of Health

It is well-established that competition among drug companies is vital to arrest increasing drug prices as competition directly—and dramatically—correlates with the drug prices.<sup>122</sup> In the case of *Cipro*, under the cover of the reverse payment agreements, Bayer is alleged to have raised the price to California consumers for a single Cipro pill to \$5.30 or more,<sup>123</sup> whereas recently, with a robust competitive market, a generic Cipro pill costs less than seventeen cents.<sup>124</sup> Bayer, for its part, retained an extra \$3.96 billion to \$4.4 billion in monopoly profits, which came out of the pockets of those forced to pay monopoly prices for Cipro.<sup>125</sup>

The California Attorney General has had longstanding concerns about the agreements' competitive impact on California and its consumers and has aggressively challenged these agreements. To this end, the California Attorney General paired with the FTC to file the lawsuit in which the Supreme Court issued the *Actavis* decision.<sup>126</sup> Additionally, the Attorney General has joined numerous other lawsuits<sup>127</sup>

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& Human Servs., *Generic Competition and Drug Prices*, U.S. FOOD & DRUG ADMIN., <http://www.fda.gov/AboutFDA/CentersOffices/OfficeofMedicalProductsandTobacco/CDER/ucm129385.htm> (last updated Mar. 1, 2010) (for drugs with many generic competitors, drug prices fall to 20% of the branded price and even lower).

121. PAY-FOR-DELAY, *supra* note 5; *see also* Press Release, FTC, FTC Study Finds that in FY 2011, Pharmaceutical Industry Continued to Make Numerous Business Deals that Delay Consumers' Access to Lower-Cost Generic Drugs (Oct. 25, 2011), *available at* <http://www.ftc.gov/opa/2011/10/mma.shtm> (concluding reverse payment agreements cost Americans some \$35 billion from 2004–2011); Hemphill, *supra* note 4, at 650, 651–53 n.6 (finding that these agreements cost consumers some \$12–14 billion per year). The FTC's most recent report on the agreements entered in 2013 found that twenty-nine of the thirty-nine suspect agreements entered into in 2013 covered twenty-one drugs with annual sales of \$4.3 billion. *See* AGREEMENTS FILED WITH THE FTC, *supra* note 10.

122. *See K-Dur*, 686 F. 3d at 208; PAY-FOR-DELAY, *supra* note 5, at 8 (after market entry, an average generic product takes some 90% of the branded drug's sales and sells for 15% of the branded drug's price).

123. Appellants' Opening Brief on the Merits, *supra* note 15, at 13–15.

124. GOOD RX, <http://www.goodrx.com/> (last visited Jan. 14, 2014) (indicating that sixty generic Cipro pills cost \$10.00).

125. Appellants' Opening Brief on the Merits, *supra* note 15, at 13–15.

126. *FTC v. Actavis*, 133 S. Ct. 2223 (2013). The suit was originally entitled *FTC v. Watson Pharmaceuticals, Inc.* and was filed in the Central District of California on January 29, 2009. 611 F. Supp. 2d 1081 (C.D. Cal. 2009). It was subsequently transferred, over the jurisdictional objections of the State of California, to Georgia, at which time the State of California entered a voluntary dismissal.

127. *See, e.g., In re Terazosin Hydrochloride Antitrust Litig.*, 352 F. Supp. 2d 1279; (S.D. Fla. 2005); *Colo. v. Warner Chilcott Holdings Co. III, Ltd.*, No. 05-2182, 2007 WL 6215857, at \*1 (S.D.N.Y. Nov. 7, 2005); *In re Cardizem CD Antitrust Litig.*, 332 F.3d 896 (6th Cir. 2003).

and authored or joined *amicus curiae* briefs in various jurisdictions challenging reverse payment agreements.<sup>128</sup>

*B. California Courts and Law Offer Unique Advantages to Plaintiffs Seeking to Challenge Reverse Payments*

Whether the California Supreme Court adopts *Actavis* as a floor, ceiling, or gateway for California's own state competition law, there are ample practical reasons to pursue reverse payment challenges in California state courts. Aside from the greater breadth and differing provisions of California's antitrust regime discussed in Part C, *infra*, California law frequently and often diverges from federal law, both substantively and procedurally, in other ways that may be beneficial to challengers of these agreements. Litigating reverse payment agreements in federal courts presents plaintiffs with certain disadvantages, such as the demanding pleading standard of *Twombly*,<sup>129</sup> strict class action rules and procedures, and differing evidentiary and expert standards. By contrast, state courts offer more favorable law on pleading, juries, experts, and class actions, among others.<sup>130</sup>

Federal forums also suffer from often dueling decisions about the interpretation of *Actavis*. For instance, several district courts have held that *Actavis* covers reverse payment agreements accomplished with any form of consideration,<sup>131</sup> while two others have found it limited to only monetary consideration.<sup>132</sup> The California forum in contrast presents a relatively blank slate on which to craft a standard after *Actavis*.

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128. See, e.g., Brief of the States of California et al. as Amici Curiae Supporting Petitioners, *La. Wholesale Drug Co., Inc. v. Bayer AG*, 131 S. Ct. 1606 (2011) (No. 10-762), 2011 WL 96299; Brief of Thirty-Four State Attorneys General as Amici Curiae, *Ark. Carpenters Health & Welfare Fund v. Bayer AG.*, 604 F.3d 98 (2d Cir. 2010); Brief of 31 Attorneys General as Amici, *FTC v. Watson Pharm.*, No. 12-416 (U.S. 2013), 2013 WL 391000.

129. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007).

130. For a detailed analysis of California procedures and law as to class actions, juries, experts and pleading standards, and their contrast with federal law, see Chapters 21, 22, and Chapter 24 in CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW, *supra* note 76.

131. See, e.g., *In re Nexium (Esomeprazole) Antitrust Litig.*, 968 F. Supp. 2d 367, 392 (D. Mass. 2013) ("This Court does not see fit to read into the opinion a strict limitation of its principles to monetary-based arrangements alone."); *In re Lipitor Antitrust Litig.*, No. 3:12-CV-02389, 2014 WL 4543502, at \*25 (D.N.J. Sept. 12, 2014); *In re Effexor XR Antitrust Litig.*, No. 11-5479, 2014 WL 4988410, at \*19-20 (D.N.J. Oct. 6, 2014).

132. *In re Loestrin 24 Fe Antitrust Litig.*, No. 1:13-MD-2472, 2014 WL 4368924, at \*13 (D.R.I. Sept. 4, 2014) ("[I]n this Court's view, *Actavis* requires cash consideration in order to trigger rule of reason scrutiny . . ."); *In re Lamictal Direct Purchaser Antitrust*

Dismissals of complaints challenging the agreements have been oft-dismissed on *Twombly* grounds for, among other reasons, not providing a monetary estimate of the non-monetary consideration.<sup>133</sup> While a few state courts have flirted with *Twombly*-like approaches, California rejects *Twombly* as a controlling standard.<sup>134</sup> Thus, in state court, the plaintiff may not have overcome the *Twombly* rule that has stopped many antitrust actions in their infancy.

Similarly, the application of *Daubert* in federal courts has also been fairly lethal to plaintiff experts in federal antitrust cases.<sup>135</sup> However, *Daubert* is not used as the expert screen in California state courts, which instead use California's own *Kelly-Frye* test to determine expert testimony admissibility.<sup>136</sup> These are but a few of the potential pitfalls that use of state law may avoid.

State antitrust law not only differs from federal law on substance, but on class action procedures, remedies, standing, immunities, and other aspects.<sup>137</sup> Importantly, other facets of litigating in state courts under state law—whether it be relative familiarity with state courts and rules, reduced opportunity for transfers to distant venues, less time to trial, timing of expert disclosures, a state requirement that a jury verdict be by three-fourths of the jury as opposed to federal rules requiring an unanimous verdict, the state court presumption that antitrust cases are

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Litig., 18 F. Supp. 3d 560, 570 (D.N.J. 2014) (“The Court concludes that *Actavis* applies to patent settlements that contain an unjustified reverse payment of money.”).

133. *Lipitor*, 2014 WL 4543502, at \*25; *Effexor*, 2014 WL 4988410, at \*14.

134. See *Sheehan v. S.F. 49ers, Ltd.*, 201 P.3d 472, 476–77 (Cal. 2009) (noting that courts “may affirm the sustaining of a demurrer only if the complaint fails to state a cause of action under any possible legal theory”); see also CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW, *supra* note 76, at § 2.02(B).

135. See James Langenfeld & Christopher Alexander, *Daubert and Other Gatekeeping Challenges of Antitrust Experts*, 25 ANTITRUST 21, 21, 23 (Summer 2011) (tracking *Daubert* challenges in cases from 2000–2008 and concluding that, of the 45% of *Daubert* challenges granted, in whole or part, some 73% were of motions directed to plaintiffs’ experts, and that while antitrust cases constituted only 3% of the civil cases in that time period, 18% of all the *Daubert* challenges were in antitrust cases).

136. *Sargon Enters., Inc. v. Univ. of S. Cal.*, 288 P.3d 1237, 1251–52 (Cal. 2012). For a fuller discussion of the two tests and how they differ, see CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW, *supra* note 76, at § 24.05(B).

137. See *supra* note 97; *Bruno v. Superior Court*, 179 Cal. Rptr. 324, 346 (Ct. App. 1981) (analysis of federal civil procedure is inapposite to interpreting California’s class action statute); *People ex rel. Freitas v. City & Cnty. of S.F.*, 155 Cal. Rptr. 319, 323–24 (Ct. App. 1979) (federal law inapplicable to city’s governmental immunity under the Cartwright Act).

complex, or other procedural aspects unique to state courts—may likewise counsel proceeding in state courts.<sup>138</sup>

*C. California Substantive Law Extends to Conduct Beyond the Reach of Federal Antitrust Law*

Aside from the ancillary advantages described above, California's competition law offers substantive provisions, broader judicial interpretations, and legislative mandates absent in federal law. The following discussion details some of the substantive California law that offers substantial advantages, compared to federal antitrust law, for plaintiffs and regulators seeking to challenge reverse payments. Specifically, it discusses California's Cartwright Act, the Business & Professions Code's prohibition of non-competition agreements, and the UCL.

1. Cartwright Act's Application to Reverse Payments

The Cartwright Act, California's principal antitrust law, is significantly different in language and spirit from the Sherman Act. The Cartwright Act unambiguously condemns trusts and has multiple unambiguous definitions of "trusts." Thus, it condemns agreements between competitors that serve: (1) "[t]o limit or reduce the production, or increase the price" of a product;<sup>139</sup> (2) "[t]o prevent competition in manufacturing, making, transportation, sale or purchase" of a product;<sup>140</sup> and (3) "to pool, combine or directly or indirectly unite any interests that . . . may have connected with the sale or transportation of" a product, "that its price might in any manner be affected."<sup>141</sup> Agreements falling under these definitions of "trusts" are declared "unlawful, against public policy[,] and void" by the express terms of the Cartwright Act.<sup>142</sup>

The Cartwright Act was intended to be a potent and far-reaching weapon against practices stifling competition,<sup>143</sup> being expressly intended to punish trusts and "to promote free competition in commerce and all classes of business in this state."<sup>144</sup> Accordingly, the Act condemns trusts

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138. Robert B. Pringle et al., *Pretrial and Trial Considerations, in* CALIFORNIA ANTITRUST AND UNFAIR COMPETITION LAW § 24.03 (Cheryl L. Johnson et al. eds., 2014).

139. CAL. BUS. & PROF. CODE § 16720(b) (2015).

140. *Id.* § 16720(c).

141. *Id.* § 16720(e)(4).

142. *Id.* § 16726.

143. *See* Marin Cnty. Bd. of Realtors, Inc. v. Palsson, 549 P.2d 833, 842 (Cal. 1976); *Cianci v. Superior Court*, 710 P.2d 375, 383 (Cal. 1985).

144. *Clayworth v. Pfizer, Inc.*, 233 P.3d 1066, 1083 (Cal. 2010).

repeatedly in unambiguous and definitive terms, such as “absolutely void” and “against public policy,” reflecting the California legislature’s preference for maximizing deterrence of free market impairments even if the victims are overcompensated.<sup>145</sup>

Because reverse payment agreements allow a brand and a generic drug company to *combine* and execute a *contract* that restricts the output of generic drugs and creates and maintains a monopoly for the brand drug, they plainly appear to be the kind of classic competitor trusts that animated the Cartwright Act’s enactment.<sup>146</sup> They are also a species of industry trusts that have been historically treated as *per se* unlawful horizontal output limitation or allocation agreements under the Cartwright Act.<sup>147</sup>

In sharp contrast to the Cartwright Act’s prohibition of output restriction, no federal statute, by its plain language, bars an agreement by which a competitor pays its rival to stay out of the market. While federal law outlaws such behavior as “horizontal output limitation” or “horizontal market allocation” schemes, it does so only as a judicial interpretation of the more generally worded Sherman Act.<sup>148</sup>

## 2. California Business and Professions Code Section 16600 Favors a Different Standard

California’s fairly unique Business and Professions Code Section 16600 presents another important opportunity for challenging reverse payment agreements. This Section provides, “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” It has been read broadly to apply to every kind of “trade or business” as it was intended to “apply to any sort of contract which contains a covenant restraining

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145. CAL. BUS. & PROF. CODE §§ 16722, 16726; *Cianci*, 710 P.2d at 917.

146. Jonathan M. Eisenberg, *The Cartwright Act*, in CALIFORNIA STATE ANTITRUST AND UNFAIR COMPETITION LAW § 1.01 (Cheryl L. Johnson et al. eds., 2014).

147. Appellants’ Opening Brief on the Merits, *supra* note 15, at 18–20; Appellants’ Reply Brief on the Merits, *supra* note 23, at 5–7 (describing some of the apt California state precedent, including *Wright v. Ryder*, 36 Cal. 342, 359 (1868); *Callahan v. Donnolly*, 45 Cal. 152, 153–154 (1872)); *Getz Bros. & Co. v. Federal Salt, Co.*, 147 Cal. 115, 118 (1905) (condemning payment made for covenant not to compete); *Guild Wineries & Distilleries v. J. Sosnick & Son*, 102 Cal. App. 3d 627, 633–34 (1980) (agreements by competitors to divide customers and territories are manifestly anticompetitive with no redeeming pro-competitive benefits); *Oakland-Alameda Cnty. Builders’ Exchange v. F. P. Lathrop Construction Co.*, 4 Cal. 3d 354, 361 (1971) (horizontal agreements dividing markets *per se* unlawful).

148. *See, e.g.*, *Palmer v. BRG of Ga., Inc.*, 498 U.S. 46, 49–50 (1990); *United States v. Topco*, 405 U.S. 596, 609 n.9 (1972).

competition.”<sup>149</sup> As part of California’s antitrust laws, both independent of and supplemental to the Cartwright Act, Section 16600 is also intended to promote competition.<sup>150</sup>

Section 16600, as applied, is an uncompromising condemnation of virtually all non-competition agreements, evincing the state legislature’s strong hostility to non-competition pacts.<sup>151</sup> An earlier form of the law was enacted by the California legislature in 1872, responding to the California Supreme Court’s struggle to address what it deemed “reasonable” agreements not to compete.<sup>152</sup> Despite this history, the Ninth Circuit read Section 16600 to include a “reasonableness exception” in accord with federal law.<sup>153</sup> However, this Ninth Circuit limitation was roundly rejected by the California Supreme Court.<sup>154</sup> Importantly, the court declared that Section 16600 sets out a general rule in California making all contracts restraining trade illegal *per se* under California law (save for statutory exceptions) and hence not subject to a rule of reason analysis.<sup>155</sup>

For more than a century, Section 16600 and its predecessor, Section 1673, have voided competitor collusion in the form of contracts in which competitors agreed not to compete with one another.<sup>156</sup> The California

149. Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034, 1040 (N.D. Cal. 1990).

150. Comedy Club, Inc. v. Improv W. Assocs., 553 F.3d 1277, 1293 n.17 (9th Cir. 2009).

151. Edwards v. Arthur Andersen LLP, 189 P.3d, 285, 291 (Cal. 2008).

152. Eisenberg, *supra* note 146; *see also* Vulcan Powder Co. v. Hercules Powder Co., 31 P. 581, 581 (1892).

153. *See, e.g.*, IBM Corp. v. Bajorek, 191 F.3d 1033, 1040–41 (9th Cir. 1999); Campbell v. Bd. of Trs. of Leland Stanford Jr. Univ., 817 F.2d 499, 502–03 (9th Cir. 1987).

154. *Edwards*, 189 P.3d at 292 (“[We] leave it to the Legislature, if it chooses . . . , [to] adopt additional exceptions to the prohibition-against-restraint rule under [S]ection 16600.”).

155. *Id.*; Hill Med. Corp. v. Wycoff, 103 Cal. Rptr. 779, 784 (Cal. 2001) (California rejected the common law rule of reasonableness in 1872).

156. *See, e.g.*, Comedy Club, Inc. v. Improv W. Assocs., 553 F.3d 1277, 1291–92 (9th Cir. 2009) (finding a restrictive trademark licensing agreement that barred licensees from competing with trademarked clubs plainly invalid under California Business & Professions Code Section 16600); Burdell v. Grandi, 92 P. 1022, 1024–25 (Cal. 1907) (holding deed provisions that reserving monopoly territory to seller for liquor sales against public policy and void without regard to seller’s justifications); Getz Bros. & Co. v. Fed. Salt Co., 81 P. 416, 417 (Cal. 1905) (finding “no doubt” that agreement to purchase salt from one supplier for two years and thwart purchases from others was “in restraint of trade” and in violation of the “express mandate” of Section 1673); Merchants’ Ad-Sign Co. v. Sterling, 57 P. 468, 470 (Cal. 1899) (ruling a contract agreeing not to engage in the business of bill posting, which is a lawful business, void in restraint of trade); Meyers v. Merillion, 50 P. 662, 664 (Cal. 1897) (condemning non-compete agreements as “designed to secure to the business of one person immunity from rivalry and consequent damage at the hands of another, who would be a dangerous competitor by reason of his skill, energy, and popularity”); Pac. Factor

Supreme Court's decision in *Vulcan Powder Co. v. Hercules Powder Co.*<sup>157</sup> is particularly instructive. There, the court considered a series of restrictive patent-licensing agreements between competing dynamite sellers holding various applicable patents, which, among other things, allocated territories and volumes for the sale of dynamite. The court found the agreements to plainly constitute illegal restraints of trade under Section 1673.<sup>158</sup> The court further found unconvincing the argument that such restrictive agreements were part of the patentee's patent rights.<sup>159</sup>

Section 16600 stands as both an independent part of California's antitrust laws and as a supplement to the Cartwright Act.<sup>160</sup> Of course, it can also serve as the predicate violation for a Section 17200 claim. Like the Cartwright Act, Section 16600 addresses competition, so the two statutes must be construed to harmonize with one another.<sup>161</sup> In this respect, Section 16600's absolute prohibition of covenants not to compete may enhance the Cartwright Act's analogous *per se* proscriptions of agreements among competitors that eliminate competition.

Lending further support to this approach is a constellation of California statutes intended to "manag[e] escalating prescription drug prices" by mandating greater use of generic drugs and fostering generic competition.<sup>162</sup> They embody policies warranting a more expansive

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Co. v. Adler, 27 P. 36, 38–39 (Cal. 1891) (finding an illegal restraint of trade from terms of contract drawn to removing competition and compelling sales of grain bags above value); *Santa Clara Valley Mill & Lumber Co. v. Hayes*, 18 P. 391, 393 (Cal. 1888) (finding an agreement between lumber manufacturers to restrict their output and sell through one party illegal and "even more mischievous than combinations not to sell under an agreed price").

157. 31 P. 581, 582 (Cal. 1892).

158. *Id.* (stating that this is a point "too obvious to need argument, authorities, or elucidation.").

159. *Id.*; see also *Summerhays v. Scheu*, 52 P.2d 512 (Cal. Ct. App. 1935) (finding covenants not to compete in purchase of patent applications unenforceable).

160. *Comedy Club*, 553 F.3d at 1293 n.17.

161. See *Pac. Gas & Elec. Co. v. Cnty. of Stanislaus*, 947 P.2d 291, 297 (Cal. 1997) (courts should "adopt[ ] the construction that best harmonizes the statute internally and with related statutes").

162. CAL. GOV. CODE § 14977.1(a) (permitting the Department of General Services to enter into most types of contracts for the purpose of managing prescription drug prices); *id.* § 14982(b) (instructing the Department of General Services to share information regarding prescription drug prices with other agencies, identify strategies to reduce prescription drug costs through joint activities with other agencies, and develop information on the relative effectiveness of prescription drugs, establish strategies to increase the use of generic drugs); *id.* § 14980 (permitting additional strategies to reduce prescription drug costs); CAL. BUS. & PROF. CODE § 4073 (increasing the ease by which a pharmacist may substitute for a generic or lower-cost drug); CAL. BUS. & PROF. CODE § 4122 (requiring pharmacists to better inform customers about the costs of drugs); CAL. LAB. CODE § 4600.1 (requiring that generic drugs

antitrust approach against practices that impede competition in California drug markets. Thus, when considering the history of California's strong prohibition of non-competition agreements and the legislature's goal of managing drug prices, Section 16600 affords a particularly apt vehicle for challenging reverse payments.

### 3. The UCL Offers Another Untapped Resource for Challenging Reverse Payment Agreements

Yet another state statute, California Business and Professions Code Sections 17200 *et seq.*, also known as the Unfair Competition Law ("UCL"), offers a further form of challenge. It defines unfair competition to include "any unlawful, unfair or fraudulent business act or practice . . . ." <sup>163</sup> The disjunctive form of the statutory definition has been interpreted by the California Supreme Court in *Cel-Tech Communications, Inc. v. Los Angeles Cellular Telephone Co.* to establish three independent "varieties" of UCL violations. <sup>164</sup> Thus, "a practice is prohibited as 'unfair' or 'deceptive' even if not 'unlawful' and vice versa." <sup>165</sup>

Accordingly, acts or practices not unlawful under the Cartwright Act or Section 16600, may be violations of the UCL if they are "unfair" or "deceptive." Against the background of *Cel-Tech's* plain holding, that the predicate to a UCL claim need not itself be a violation of the law, both the trial court and the court of appeal in *Cipro* dismissed, with scant analysis, the plaintiffs' (albeit not extensively briefed) UCL claims. The courts concluded that because the UCL claims relied on the same factual allegations as the Cartwright Act claim, the dismissal of the latter precluded the former. <sup>166</sup> These decisions not only plainly contradict the holding of *Cel-Tech*, <sup>167</sup> but also run contrary to the strong public policies underlying the UCL. <sup>168</sup>

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be available alongside branded drugs); CAL. HEALTH & SAFETY CODE §§ 130500 *et seq.* (creating the California Discount Prescription Drug Program).

163. CAL. BUS. & PROF. CODE § 17200 (2015).

164. *Cel-Tech Commc'ns, Inc. v. Los Angeles Cellular Tel. Co.*, 973 P.2d 527, 539–40 (Cal. 1999).

165. *Id.* at 540 (quoting *Podolsky v. First Healthcare Corp.*, 58 Cal. Rptr. 2d 89, 98 (Ct. App. 1996)).

166. *In re Cipro Cases I & II*, 134 Cal. Rptr. 3d 175 (Ct. App. 2011), *rev. granted and opinion superseded by*, 269 P.3d 653 (Cal. 2012) ("[T]he determination that the conduct is not an unreasonable restraint of trade necessarily implies that the conduct is not 'unfair' toward consumers.") (quoting *Chavez v. Whirlpool Corp.*, 93 Cal. App. 4th 363, 375 (Ct. App. 2001)); Coordination Proceeding, *supra* note 58, at 6 ("[T]he Court's determination that the agreement does not violate the Cartwright Act is fatal to . . . the UCL claim . . .").

167. The *Cipro* lower courts' brief discussion of the UCL's applicability relied heavily on *Chavez*, 113 Cal. Rptr. 2d at 184. In *Chavez*, *Cel-Tech* was applied in the context of a

Where “unfairness to competitors” is alleged, the *Cel-Tech* court requires that any finding under the UCL be “tethered to some legislatively declared policy or proof of some actual or threatened impact on competition.”<sup>169</sup> This in turn could be demonstrated by satisfying one of three conditions; conduct will be unfair if it: (1) threatens an incipient violation of an antitrust law; (2) violates the policy or spirit of one of those laws because its effects are comparable to or the same as a violation of the law; or (3) otherwise significantly threatens or harms competition.<sup>170</sup> As in that case, where the legislature had not proscribed the conduct at issue, nor had it created a “safe harbor” explicitly authorizing the conduct, the conduct may be within the reach of the unfair competition law.<sup>171</sup> The California Supreme Court in reaching this conclusion, surveyed the legislative history of the UCL, finding that it was “intentionally framed in its broad, sweeping language” to deal with the “new schemes which the fertility of man’s invention would contrive.”<sup>172</sup> Further, the limited remedies available under the UCL also convinced the court that an expansive reading of the UCL was intended and appropriate.<sup>173</sup>

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consumer action, though subsequent precedent plainly applies different standards in cases involving consumers than in cases involving competitors. See *Drum v. San Fernando Valley Bar Ass’n*, 106 Cal. Rptr. 3d 46 (Ct. App. 2010) (declining to select which standard applies as the claims could not stand under any of the standards developed so far). *Chavez* also held that conduct permissible under a doctrine of federal antitrust law could not serve as the predicate conduct for a UCL claim, another ruling at odds with *Cel-Tech*. 113 Cal. Rptr. 2d at 184 (“[W]e conclude as a matter of law that conduct that the courts have determined to be permissible under the *Colgate* doctrine cannot be deemed ‘unfair’ under the unfair competition law.”).

168. The Consumer Attorneys of California filed an amicus brief with the Supreme Court of California dedicated to this issue, which forms the basis for the argument relating to the UCL’s continued applicability in this paper. See Application for Leave to File and Brief of Amicus Curiae Consumer Attorneys of California Supporting Plaintiffs-Appellants at 9, *In re Cipro Cases I & II*, No. S198616 (Cal. Super. Ct. Mar. 18, 2014), 2014 WL 1385468, at \*9 (“This case is not a proper vehicle for the Court to resolve the three-way split (because the issue has not been briefed). What the Court can and should do, however, is reconfirm its holding in *Cel-Tech* that conduct may be ‘unfair’ . . . even if not ‘unlawful’ and vice versa.”).

169. *Cel-Tech*, 973 P.2d at 544.

170. *Id.*

171. *Id.* at 545. The California Supreme Court reaffirmed the “settled” law that a claim under the UCL could not be precluded merely because some other statute does not prohibit the underlying conduct; rather, only a provision that “actually ‘bar[s]’ the action or clearly permit[s] the conduct” can forestall a UCL claim. *Rose v. Bank of Am., N.A.*, 304 P.3d 181, 186 (Cal. 2013) (quoting *Cel-Tech*, 973 P.2d at 527) (abolition of a private remedy under the Truth in Savings Act did not preclude a UCL claim for the same conduct).

172. *Cel-Tech*, 973 P.2d at 540 (citation omitted).

173. *Id.*; *Rose*, 304 P.3d at 187 (“Private plaintiffs suing under the UCL may seek only injunctive and restitutionary relief, and the UCL does not authorize attorney fees.”).

When unfairness is alleged as to consumers, there is a three-way split of authority as to the parameters of unfairness.<sup>174</sup> These different interpretations of the UCL would find a violation where: (1) the harm of the conduct outweighs the utility of the conduct in light of consideration of whether the conduct “offends an established public policy or . . . is immoral, unethical, oppressive, unscrupulous, or substantially injurious to consumers”;<sup>175</sup> (2) the conduct is unfair based on a public policy “tethered” to specific constitutional, statutory, or regulatory provisions;<sup>176</sup> or (3) the injury is substantial, not outweighed by countervailing benefits to consumers or competitors, and could not be reasonably avoided by consumers themselves.<sup>177</sup>

Neither the trial court nor the court of appeal in *Cipro* addressed any of these alternative standards in their summary dismissal of the UCL claim. Presumably, the California Supreme Court will re-recognize that the UCL’s “unfair” prong warrants an analysis independent of that under the Cartwright Act, in order to give the UCL the expansive scope and adaptability intended by its framers.

Indeed, such an analysis could conclude that a reverse payment agreement violates the UCL under any of the three prevailing standards. A court could find under the “balancing test”<sup>178</sup> that the gravity of the harm of an improperly extended monopoly on a life-saving drug outweighs the benefit of resolving patent litigation, and that such an agreement offends public policy in favor of affordable health care. So, too, could a court find a reverse payment to violate the “spirit” of the Cartwright Act or Section 16600 even if not the letter of it.<sup>179</sup> Lastly, a reverse payment could assuredly be found to cause substantial consumer injury not outweighed by the benefit of decreased litigation costs, and consumers clearly have no route to avoid the harm of extended monopoly prices on a drug.<sup>180</sup>

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174. See *Zhang v. Superior Court*, 304 P.3d 163, 174 n.9 (Cal. 2013). This split remains unresolved. See *Rose*, 304 P.3d at 187 n.9 (“The Court of Appeal identified three separate tests for ‘unfairness’ under the UCL, and applied all three of them. Plaintiffs assert in cursory fashion that the court misapplied one of these tests. We decline to address this claim, which is neither properly raised nor sufficiently briefed.”).

175. *S. Bay Chevrolet v. Gen. Motors Acceptance Corp.*, 85 Cal. Rptr. 2d 301, 316 (Ct. App. 1999).

176. *Aleksick v. 7-Eleven, Inc.*, 140 Cal. Rptr. 3d 796, 807 (Ct. App. 2012). This “tethering” standard should not, however, be read to foreclose the reach of *Cel-Tech* to conduct that violates the “spirit of one of those laws because its effects are comparable to or the same as a violation of the law.” *Cel-Tech*, 973 P. 2d at 544.

177. *Boschma v. Home Loan Ctr., Inc.*, 129 Cal. Rptr. 3d 874, 892 (Ct. App. 2011).

178. See *S. Bay Chevrolet*, 85 Cal. Rptr. 2d at 316.

179. Compare *Aleksick*, 140 Cal. Rptr. 3d at 807; with *Cel-Tech*, 973 P.2d at 544.

180. See *Boschma*, 129 Cal. Rptr. 3d at 892.

Properly construed, then, the UCL offers an additional and independent route to challenges of reverse payments under California law, even where no Cartwright Act claim can be established, albeit a route that offers limited remedies.<sup>181</sup>

#### IV. CONCLUSION

Much work remains in the pursuit of restoring the competition restrained by reverse payment agreements. While *Actavis* offers one route to challenging these agreements, it is not an exclusive standard, nor does it present a ceiling. Rather, state law may present significant additional opportunities for plaintiffs and enforcement agencies. California law in particular offers the Cartwright Act, Section 16600, and the UCL, all of which have broad language, sweeping mandates, and strong underlying enforcement policies. Procedural advantages available under California law should also commend plaintiffs to consider bringing state claims, perhaps exclusively, when challenging reverse payment agreements.

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181. State law unjust enrichment claims have also been asserted with mixed results. See discussion in Qianwei Fu et al., *State Common Law Torts, Business Torts and Unfair Competition Law*, in CALIFORNIA STATE ANTITRUST & UNFAIR COMPETITION LAW § 20.08(H) (Cheryl L. Johnson et al. eds., 2014); *United Food & Commercial Workers Local 1776 v. Teikoku Pharma USA, Inc.*, No. 14-md-02521, 2014 WL 6465235, at \*29 (N.D. Cal. 2014) (surveying law and dismissing claim).