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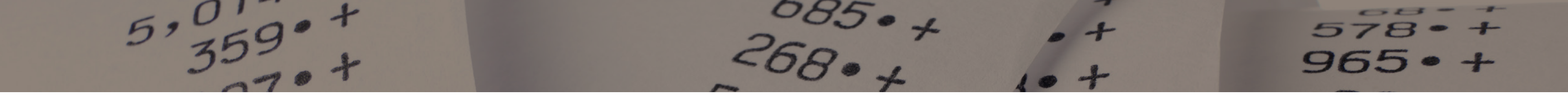
SECOND CIRCUIT ANTITRUST DECISION CREATES UNCERTAINTY FOR NON-PRACTICE OF PATENTS

The U.S. Court of Appeals for the Second Circuit's recent decision in *New York v. Actavis PLC* appeared on its face to address a narrow issue of antitrust law — whether the antitrust laws were violated by a drug company's withdrawal of a patented drug product about to go generic in favor of another drug with the same active ingredient but with a different patented release mechanism. *New York v. Actavis PLC*, No. 14-4624-CV, (2d Cir., decided May 22, 2015). That decision, however, has potentially broad implications for all patent-holders because it suggests that there may be antitrust consequences for not practicing patents and for companies which build defensive patent portfolios.

The defendant held patents covering two versions of a drug to treat Alzheimer's disease, one covering a twice-daily dosage and another covering a daily-dose version. The twice-daily patent was to expire in mid-2015, while the daily-dose patent would not expire until much later. Initially, the defendant marketed both versions, but as patent protection on the twice-daily version was nearing, the defendant withdrew that version to avoid the effect of state laws on generic substitution which, if it occurred, would cause both versions to lose substantial sales to generic substitutes. The New York attorney general sued, alleging withdrawal of the patented twice-daily product amounted to monopolization in violation of Section 2 of the Sherman Act, and sought a preliminary injunction mandating continued sales of the twice-daily product. The district court granted the preliminary injunction, which the Second Circuit affirmed.

The lengthy Second Circuit opinion first addressed the difficult issue of whether monopolization can occur when a monopolist withdraws an old product and introduces a new, arguably superior product. The court concluded that this was an act of monopolization. Although the daily-dose version was clearly superior, the court found the defendants' withdrawal of the twice-daily version excluded competition and coerced consumers through the impact of generic substitution laws, which did not permit generic substitution of a product that was no longer on the



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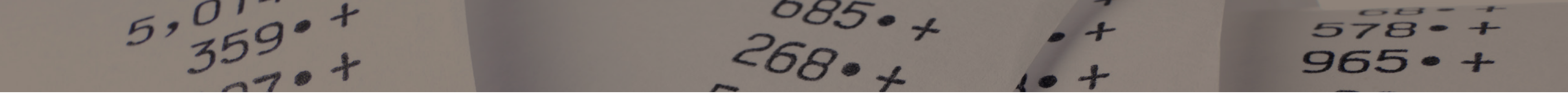
market: generics could not enter the market and consumers were therefore coerced into buying the daily version. And the court held that the defendant had no valid procompetitive justification for the withdrawal of the twice-daily product: the evidence indicated its motive for the withdrawal was to bar generic entry into the market.

The court next rejected the argument that the defendant had merely done what the patent laws allowed it to do: exercise its patent rights to exclude others from practicing its patent. The court found that defendant had used its patent rights in the twice-daily product to extend its monopoly over the entire market – in essence leveraging its patent rights beyond the scope of the patent by making its patent of the daily-dose product more valuable.

The decision is disturbing for several reasons. First, it implies that a patent holder whose patents give it a monopoly in an antitrust market needs a valid procompetitive business justification for not practicing its patents relating to that market. Moreover, the decision implies that it is never a sufficient justification that the patent laws permit him or her to do just that. *See Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 424 (1908). (Congress provided exclusionary patent rights as a reward to induce disclosure of ideas; an inventor who obtains patent because he has made that disclosure can exercise exclusionary rights even without practicing the patent). The Second Circuit never acknowledges that exclusionary patent rights encourage inventions such that permitting the patent holder to exercise the patent right to exclude others from practicing the patent is itself procompetitive. As a result, the decision may now require patent holders who possess monopoly power to have a procompetitive business justification, one unrelated to the patent, for not practicing a patent related to the monopoly market.

Second, the decision has potentially enormous implications for defensive patent portfolios. Although it is settled antitrust law that a defendant cannot extend his patent rights beyond the scope of the patent, the Second Circuit ignored that the monopoly at issue derived from another patent held by the patent holder (the daily-dose patent). As a result, the opinion suggests that a patent owner cannot refuse to practice a patent if doing so will make another patent held by the patent holder more valuable. Defensive patent portfolios have been built on this very principle: companies invent new ways to make a patented product, and obtain patents on those ways which go unpracticed because it makes it harder



for other companies to make the product, rendering the original patent more valuable. The decision may now compel any company that has built a defensive patent portfolio to practice all the patents in the portfolio or face the risk of antitrust liability or a patent misuse defense.

It is possible that the *Actavis* decision will be reviewed and overturned by the U.S. Supreme Court or by the Second Circuit sitting *en banc*. It is also possible that subsequent courts will limit *Actavis* to its facts — a situation involving a decision to cease practicing a patent — and will not apply it to patents that have never been practiced. Alternatively, subsequent courts could limit the decision to the pharmaceutical industry by holding that the defendant improperly magnified its legitimate exclusionary patent rights by taking advantage of the generic-substitution laws.

Unless and until one of those events occurs, (a) patent holders who possess monopoly power in an antitrust market may face antitrust litigation if they do not practice patents relating to products in that market or have a procompetitive justification, independent of the patent, for not doing so, and (b) companies with defensive patent portfolios will be open to claims of antitrust violations or patent misuse if they refrain from practicing some of the patents in their portfolios to make another patent in the portfolio more valuable. In the meantime, it may be possible to limit the risk of these consequences by consulting experienced antitrust counsel.