“Sacrifice and Recoupment” in the Antitrust Analysis of Patent Settlements: Actavis through the Lens of Brooke Group, Aspen Skiing, and Trinko

Bryan Gant

Follow this and additional works at: https://digitalcommons.wcl.american.edu/aublr

Part of the Antitrust and Trade Regulation Commons, and the Intellectual Property Law Commons

Recommended Citation
Available at: https://digitalcommons.wcl.american.edu/aublr/vol10/iss2/1

This Article is brought to you for free and open access by the Washington College of Law Journals & Law Reviews at Digital Commons @ American University Washington College of Law. It has been accepted for inclusion in American University Business Law Review by an authorized editor of Digital Commons @ American University Washington College of Law. For more information, please contact kclay@wcl.american.edu.
“SACRIFICE AND RECOUPMENT” IN THE ANTITRUST ANALYSIS OF PATENT SETTLEMENTS: ACTAVIS THROUGH THE LENS OF BROOKE GROUP, ASPEN SKIING, AND TRINKO

BRYAN GANT*

Patent settlements are typically procompetitive, benefiting not only the settling parties but also the courts and the general public. But in rare cases patent settlements might instead harm competition, and thus raise antitrust concerns. How are courts to determine when antitrust scrutiny should — and, more importantly, should not — be applied to patent settlements?

The answer ostensibly came in the Supreme Court’s 2013 decision in FTC v. Actavis, Inc. Under Actavis, antitrust scrutiny of patent settlements may “sometimes” be appropriate where there is a “large,” “unexplained” “reverse payment” from the patentee to the patent challenger. Unless, that is, the “reverse payment” is “fair value,” represents “saved litigation costs,” or is a “traditional” or “commonplace” way to settle. Unfortunately, the Supreme Court did not define any of these terms, and Chief Justice Roberts in his dissent thus could only wish “good luck to the district courts” asked to interpret the decision, many of whom have struggled to do so.

But the key “mysteries” of Actavis can all be solved by recognizing that Actavis follows a line of antitrust cases that ask whether an alleged monopolist made an otherwise-irrational sacrifice in expectation of recouping anticompetitive benefits. This Article therefore places Actavis within the same legal framework as predatory pricing cases like Brooke Group v. Brown & Williamson Tobacco and refusal to deal cases like Aspen Skiing v. Aspen Highlands Skiing and Verizon Communications v. Law Offices of Curtis V. Trinko. In doing so, the article explains the

* Bryan Gant is a partner in the Global Competition Group of White & Case LLP and represents defendants in ongoing cases involving Actavis. The views expressed herein are his own, and do not necessarily reflect the views of White & Case or its clients. He would like to thank Professor Daniel Sokol, Tripp Odom, and Helen J. Gant for their comments and suggestions.
hidden underpinnings of Actavis, solves the apparent mysteries that have baffled the lower courts, and offers a roadmap to courts seeking to properly apply antitrust scrutiny to patent settlements.

I. Introduction ........................................................................................................... 238

II. Brooke Group, Aspen Skiing, and Trinko: Using Sacrifice and Recoupment to Identify Suspect Conduct ................................................................. 243
   A. Using a Monopolist’s Sacrifice to Suggest the Possibility of Recoupment Through Anticompetitive Effects............. 243
   B. The Guardrails of Brooke Group and Trinko: Form and Intent Based Screens Against Over-Enforcement ........ 244

III. A Reverse Payment Requires (1) a Patentee Sacrifice That Might Be Recouped Through Anticompetitive Effects and (2) a Benefit to the Patent Challenger ........................................... 247
   A. The “Actavis Inference” Seeks to Identify Conduct That Suggests Patent Weakness, Market Power, and Ultimately Potential Anticompetitive Effect ............... 249
   B. Only a Sacrifice By the Patentee Can Suggest Patent Weakness, Market Power, or Anticompetitive Effect ................................................................. 251
      i. A Patentee Might Not Be Expected to Make a Large, Unexplained Sacrifice It Could Not Then Recoup Through Anticompetitive Effects ...... 252
      ii. A Benefit to the Patent Challenger Is Also Necessary, But No Substitute for a Patentee Sacrifice ................................................................. 254
         a. A Benefit to the Patent Challenger Is Also Necessary to Show a Large, Unexplained Reverse Payment............................... 254
         b. However, A Benefit to the Patent Challenger Does Not Suggest Patent Weakness...................... 255
         c. A Benefit to the Patent Challenger Cannot Be Used as a “Proxy” or Replacement for a Patentee Sacrifice......................................................... 257
   C. A Reverse Payment Must Be Large Enough to Suggest Patent Weakness................................................................. 262

IV. “Fair Value” Is the Absence of a Patentee Sacrifice in Absolute Terms, and Is Not Defined by “Market Value” or by the “Reasons” for the Agreement ........................................... 263
   A. Failure to Achieve Market Value Cannot Support the Actavis Inference of Patent Weakness, Market Power, and the Potential for Anticompetitive Effects .............. 264
i. Actavis Addressed “Fair Value” Because Settlements Rarely Involve the Exchange of “Market Value” .............................. 264

ii. Actavis Does Not Apply a Market Value Standard Even Where There Is a Foregone Alternative........ 267
    a. Market Value Alternatives Are Often Illusory...... 267
    b. Failure to Profit Maximize Is Not a “Sacrifice” Under the Antitrust Laws ......................... 268
    c. Aspen Skiing Involved a True Sacrifice, and Does Not Require Companies to Profit Maximize ............................................ 271

B. Courts Must Reject the FTC’s “Basic Reason” Test, Which Confuses Intent to Settle with Intent to Delay and Would Bar Virtually All Contemporaneous Agreements.................................................. 272

C. Fair Value in Absolute Terms Is Instead the Right Standard under Actavis, Brooke Group, and Trinko ..... 274

V. Only a Patente Sacrifice Can Suggest Market Power .......................... 276
    A. Unlike a Benefit to the Patent Challenger, a Sacrifice By the Patentee May Suggest Patente Market Power .................................................. 276
    B. Inferences Are Not Enough; Market Power Must Ultimately Be Proven By the Plaintiff.................. 277

VI. Paying Saved Litigation Costs Is Not Suspect under Actavis Because Doing So Involves No Actual Sacrifice .......... 278
    A. The Patente Paying the Challenger Its Saved Litigation Costs Provides a Potentially Significant Benefit to the Patent Challenger, But Is not a Reverse Payment ........................................ 278
    B. That Saved Litigation Costs Are Not a Reverse Payment Cannot Be Explained on the Basis That They Are De Minimis or Based Only on Their Procompetitive Benefits ........................................ 280
    C. Paying Saved Litigation Costs Is not a Reverse Payment Because It Involves No Patente Sacrifice; Only the Lawyers Lose Out in Such a Settlement.................... 281
    D. A Large Payment Therefore Must Remain Large After Subtracting Saved Litigation Costs ........................ 281

VII. “Traditional” Compromises Are Not Suspect under Actavis Because Their Form Prevents a Court from Inferring Anticompetitive Intent or Harm........................................ 283

VIII. Conclusion .............................................................................. 286
I. INTRODUCTION

Courts have long recognized the benefits of settlement, which allows parties to avoid costly litigation, facilitates compromises the parties could not achieve through the binary win-or-lose litigation process, and avoids unduly burdening courts and the general public.\(^1\) Patent settlements in particular have the potential to further benefit consumers by using an agreement made prior to the patent’s expiration to create a path to the market for a challenger who might not have succeeded otherwise.\(^2\)

However, the Supreme Court has held that at least some limited forms of patent settlement could instead delay a patent challenger’s entry into the market, and thus such settlements may “sometimes” raise antitrust concerns, at least in certain circumstances.\(^3\) How, then, are courts to determine when it is appropriate to apply antitrust scrutiny to a patent settlement, and when it is not appropriate?

The Supreme Court’s 2013 decision in *FTC v. Actavis, Inc.*\(^4\) tried to answer this question, but in doing so created substantial confusion.\(^5\) *Actavis* held that patent settlements may “sometimes” be suspect under antitrust laws, at least at the motion to dismiss stage, when they involve “large” “unexplained” “reverse payments” from the patentee to the patent challenger, because (the Court held) such payments risk delaying a patent challenger’s entry into the market and suggest that the patentee may have the market power to exclude competition.\(^6\) Or, at least, *Actavis* held that such

---

2. *Actavis*, 570 U.S. at 154 (“[S]ettlement on terms permitting the patent challenger to enter the market before the patent expires would also bring about competition, again to the consumer’s benefit.”).
3. See id. at 141, 158–59.
5. See generally id. (holding that reverse payment settlements can sometimes violate antitrust laws because they can create “unfair restraints on trade”).
6. Id. at 141 (“[R]everse payment settlements such as the agreement alleged in the
settlements can be suspect under the antitrust laws so long as they are not “traditional,” “commonplace,” or “fair value” and do not represent payment only of the patentee’s saved or avoided litigation costs.\textsuperscript{7}

If the reader is confused at this point, they are in very good company. For example, just what is a “reverse payment?” What do the terms “large,” “unexplained,” “traditional,” “commonplace,” or “fair value” mean, and why are such payments not suspect?\textsuperscript{8} Why can a patentee “pay” its saved or avoided litigation costs to settle, when other types of payment are potentially suspect? And on what basis could a court infer market power from a reverse payment? \textit{Actavis} never answers any of these questions, and indeed never even defines the central terms (like “reverse payment”) that might help explain its ruling.\textsuperscript{9} Justice Roberts in dissent thus could only wish “[g]ood luck to the district courts” applying \textit{Actavis},\textsuperscript{10} and it is fair to say that courts have struggled to understand and apply it as the Supreme Court intended.

But all these “mysteries” can be solved simply by recognizing that in \textit{Actavis} the Court applied the same basic “sacrifice and recoupment” framework that it had previously used in predatory pricing cases such as

\begin{quote}
complaint before us can sometimes violate the antitrust laws."); \textit{id.} at 157 ("Where a reverse payment threatens to work unjustified anticompetitive harm, the patentee likely possesses the [market] power to bring that harm about in practice."); \textit{id.} ("An unexplained large reverse payment itself would normally suggest that the patentee has serious doubts about the patent’s survival."); \textit{id.} at 158 ("In sum, a reverse payment, where large and unjustified, can bring with it the risk of significant anticompetitive effects . . . .").

7. \textit{Id.} at 152 ("In the traditional examples cited above, a party with a claim (or counterclaim) for damages receives a sum equal to or less than the value of its claim."); \textit{id.} ("Insofar as the dissent urges that settlements taking these commonplace forms have not been thought for that reason alone subject to antitrust liability, we agree, and do not intend to alter that understanding."); \textit{id.} at 156 ("The reverse payment, for example, may amount to no more than a rough approximation of the litigation expenses saved through the settlement. That payment may reflect compensation for other services that the generic has promised to perform — such as distributing the patented item or helping to develop a market for that item. There may be other justifications."); \textit{id.} ("Where a reverse payment reflects traditional settlement considerations, such as avoided litigation costs or fair value for services, there is not the same concern that a patentee is using its monopoly profits to avoid the risk of patent invalidation or a finding of noninfringement."); \textit{id.} at 159 ("[T]he likelihood of a reverse payment bringing about anticompetitive effects depends upon its size, its scale in relation to the payor’s anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification.").

8. \textit{See}, e.g., \textit{King Drug Co. of Florence v. Cephalon, Inc.}, 88 F. Supp. 3d 402, 416 (E.D. Pa. 2015) ("\textit{Actavis} did not identify any specific formula for determining whether a reverse payment is sufficiently large.").

9. \textit{See Actavis}, 570 U.S. at 160 ("We therefore leave to the lower courts the structuring of the present rule-of-reason antitrust litigation.").

Brooke Group v. Brown & Williamson Tobacco\textsuperscript{11} and refusal to deal cases such as Aspen Skiing Co. v. Aspen Highlands Skiing Corp.\textsuperscript{12} and Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP.\textsuperscript{13} In Brooke Group, Aspen Skiing, and Trinko, the Supreme Court held that antitrust liability could apply only if the alleged monopolists made large sacrifices — below cost pricing or the termination of a prior profitable course of dealing — that would have been economically irrational unless “recouped” through the harm or delay they imposed on a rival.\textsuperscript{14} Actavis likewise involved an alleged sacrifice by the patentee (a “reverse payment”) that might be recouped through the delayed entry of a patent challenger, and thus follows the same sacrifice and recoupment framework the Court had previously established for other forms of antitrust conduct.\textsuperscript{15}

Recognizing this sacrifice and recoupment framework solves five “mysteries” that have troubled courts since the Actavis decision:

First Mystery. The first “mystery” of Actavis is simply what qualifies as a “reverse payment,” i.e., conduct that might sometimes make certain patent settlements subject to antitrust scrutiny. The answer is that because Actavis, like Brooke Group, Trinko, and Aspen Skiing, uses an alleged monopolist’s willingness to incur short-run losses to suggest the possibility of a long-run anticompetitive effect, it first requires showing that there was such a short-run sacrifice. As explained in Part III, a reverse payment is therefore best understood as a large sacrifice by the patentee that benefits the patent challenger, which the patentee would not rationally have been willing to make if it did not expect to receive some anticompetitive benefit in return, and which therefore can be used by a court to infer the potential for patent weakness, market power, and anticompetitive effect.

Second Mystery. Actavis holds that “fair value” agreements should not be treated as anticompetitive.\textsuperscript{16} But what is a “fair value” agreement? The answer, as explained in Part IV, is likely an agreement that lacks what makes a reverse payment potentially suspect in the first place: a large, unexplained

\begin{itemize}
\item \textsuperscript{11} 509 U.S. 209 (1993).
\item \textsuperscript{12} 472 U.S. 585 (1985).
\item \textsuperscript{13} 540 U.S. 398 (2004).
\item \textsuperscript{14} While Brooke Group, Aspen Skiing, and Trinko all involved claims under Sherman Act § 2 (monopolization), Actavis involved the related question of whether a patent monopoly was lawful or unlawful — and thus, the sacrifice and recoupment test’s application in an FTC Act § 5 (or for that matter Sherman Act § 1) context is not surprising.
\item \textsuperscript{15} Actavis, 570 U.S. at 140.
\item \textsuperscript{16} Id. at 156 (“Where a reverse payment reflects traditional settlement considerations, such as . . . fair value for services, there is not the same concern that a patentee is using its monopoly profits to avoid the risk of patent invalidation or a finding of noninfringement.”).
\end{itemize}
sacrifice by the patentee. But in answering this question, the fair value inquiry raises another one: What does it mean to make a sacrifice under Actavis or, put differently, a sacrifice relative to what? As explained in Part IV.A, the sacrifice cannot merely be a sacrifice relative to an ideal hypothetical alternative agreement that might have been entered, because not only are profit-maximizing “market value” alternatives often illusory, the Supreme Court in Brooke Group and Trinko rejected the idea of applying antitrust scrutiny based on a company’s failure to maximize profits and instead looked for a sacrifice in absolute terms. Nor, as explained in Part IV.B, must the agreement have been entered solely for the benefit of the patentee in order to be fair value, as the Federal Trade Commission has argued based on misreading Actavis. Rather, as explained in Part IV.C, a fair value agreement is one that lacks a large, unexplained patentee sacrifice in absolute terms — i.e., that lacks a true, out-of-pocket sacrifice in the same sense as in Brooke Group and Aspen Skiing/Trinko.

Third Mystery. Actavis also holds that where there is a large, unexplained reverse payment, the patentee “likely” has sufficient market power for such a payment to cause anticompetitive harm. But if we mistakenly think of a reverse payment as something received by the patent challenger, as some do, the idea that a benefit to the patent challenger can show market power for the patentee is a baffling non sequitur. Why should the fact that Party A receives value suggest that Party B has market power? As discussed in Part V, however, this inference of potential market power is less baffling if a reverse payment is viewed first as a sacrifice by the patentee in the same vein as the sacrifices in Brooke Group and Aspen Skiing — as one might initially infer that a purported monopolist would only make such a sacrifice if it has the market power to recoup that sacrifice through extended market exclusivity. Finally, this conclusion also makes clear that any such inference of market power is rebuttable, just as in Brooke Group — which ultimately requires not just inferring the possibility of recoupment by the monopolist, but showing that any such recoupment is possible.


18. Actavis, 570 U.S. at 157 (noting that “where a reverse payment threatens to work unjustified anticompetitive harm, the patentee likely possesses the power to bring that harm about in practice”).

19. See Brooke Grp., 509 U.S. at 226 (concluding that recoupment and competitive injury must be based not only on “below-cost pricing” but also on “an estimate of the cost of the alleged predation and a close analysis of both the scheme alleged by the plaintiff and the structure and conditions of the relevant market”). Notably, Brooke Group addressed the standards applicable at trial; Actavis concerns the standards a court should apply at a motion to dismiss — and an inference drawn at the motion to dismiss stage should not be permitted to become irrebuttable at trial. See infra Part V.B.
Fourth Mystery. *Actavis* held that a payment from the patentee to the challenger that merely approximates the patentee’s saved or avoided litigation costs would not raise antitrust concerns. But why not, given that such a payment (1) apparently could be made in cash (which *Actavis* otherwise thought suspect), and (2) would surely be a benefit to the patent challenger, which not only receives a payment from the patentee but also saves its own litigation costs? The answer, as explained in Part VI, is simply that there is no sacrifice in paying your opponent the same amount to settle as you would have otherwise paid your lawyers to litigate, and therefore nothing to “recoup” under the sacrifice and recoupment framework.

Fifth Mystery. *Actavis* took pains to distinguish a “large” “unexplained” “reverse payment” from a “traditional” compromise that the majority says should not raise antitrust concerns. But why should “traditional” forms of compromise be exempt from the antitrust scrutiny of *Actavis*? As explained in Part VII, the Court has long used the “form” of conduct as a guardrail to protect procompetitive conduct in sacrifice and recoupment cases, such as by requiring that the plaintiff show below-cost pricing in *Brooke Group* or a prior profitable course of dealing in *Trinko* before subjecting traditionally procompetitive conduct to the potentially deterring effects of antitrust scrutiny. The Court in *Actavis* similarly protected longstanding forms of procompetitive settlement from antitrust scrutiny by excluding forms of settlement that have not traditionally been considered problematic or likely to raise anticompetitive concerns.

Applying the sacrifice and recoupment framework used in *Brooke Group*, *Aspen Skiing*, and *Trinko* therefore solves the five major mysteries of *Actavis* and permits a court to apply the decision as the Supreme Court must have intended.

20. *Actavis*, 570 U.S. at 156 (noting that reverse payments based on costs that may otherwise have occurred, such as litigation costs, do not raise concerns about the misuse of monopoly profits).

21. See id. at 152 (noting that a “money” payment by the patentee to the patent challenger is “quite different” from a traditional settlement).

22. Id. (detailing the stark difference between a “traditional example” of a settlement, in which the claiming party receives “the value of its claim,” and a “reverse payment settlement,” in which a party with no damages claim receives payment to “stay away from the patentee’s market”).


24. See *Actavis*, 570 U.S. at 156.
II. BROOKE GROUP, ASPEN SKIING, AND TRINKO: USING SACRIFICE AND RECOUPMENT TO IDENTIFY SUSPECT CONDUCT

A. Using a Monopolist’s Sacrifice to Suggest the Possibility of Recoupment Through Anticompetitive Effects

The Supreme Court has long held that a short-run sacrifice by an alleged monopolist can sometimes suggest the potential for recoupment of that sacrifice through long-run anticompetitive effects. In “predatory pricing” cases, for example, a monopolist is alleged to price below its costs, making a short-run sacrifice, with the expectation that doing so will drive its less well-heeled rivals out of the market and thus allow the monopolist to then raise its prices to supracompetitive levels. However, the Supreme Court has further held, in cases such as Brooke Group, that such pricing can be actionable only if “the competitor had . . . a dangerous probability of . . . recouping its investment in below-cost prices,” i.e., if (a) the conduct is capable of driving off current competitors and (b) the market is susceptible to sustained monopoly pricing following the victim’s exit because competitors will not simply flood in as prices increase.

25. This is not to say, however, that the Supreme Court would treat all profit sacrifices as suspect, and much less as antitrust violations. Rather, as the Seventh Circuit has noted, a profit sacrifice is merely “helpful” to identifying suspect conduct — and not itself an antitrust problem. Viamedia, Inc. v. Comcast Corp., 951 F.3d 429, 462 (7th Cir. 2020) (explaining why “profit sacrifice is neither [a] necessary nor sufficient” element of antitrust claims, but merely “helpful” to identifying suspect conduct). Indeed, there are many circumstances where it would be wholly inappropriate to measure anticompetitive conduct by whether or not it involved an initial profit sacrifice — such as research and development into new products, which requires a short term sacrifice for long term gain but is obviously procompetitive. See, e.g., U.S. DEP’T OF JUST., COMPETITION & MONOPOLY: SINGLE-FIRM CONDUCT UNDER SECTION 2 OF THE SHERMAN ACT 39–43 (2008), https://www.justice.gov/sites/default/files/atr/legacy/2009/05/11/236681.pdf.


27. Brooke Grp., 509 U.S. at 224–26; see also Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co., 549 U.S. 312, 325–26 (2007); Stearns Airport Equip. Co. v. FMC Corp., 170 F.3d 518, 528 (5th Cir. 1999) (“If there is no likelihood of recoupment,
Sacrifice and recoupment also are at the heart of refusal to deal jurisprudence. In *Aspen Skiing*, the alleged monopolist — controlling three of the four ski mountains in the Aspen area — refused to continue dealing with its one-mountain competitor despite a prior, profitable course of dealing, and further refused to sell its competitor lift tickets even at a retail price. The effect was potentially to drive the one-mountain competitor out of business, as it could not effectively compete without offering consumers a multi-mountain lift ticket. The Supreme Court upheld a jury verdict for the plaintiff, noting that in refusing to deal the defendant “was willing to sacrifice short-run benefits and consumer goodwill in exchange for a perceived long-run impact on its smaller rival.” In *Trinko*, the Supreme Court further explained that in *Aspen Skiing* the alleged monopolist’s “unilateral termination of a voluntary (and thus presumably profitable) course of dealing suggested a willingness to forsake short-term profits to achieve an anticompetitive end.” *Trinko* therefore understood *Aspen Skiing* to involve a short-run sacrifice by the monopolist that it could expect to recoup through long-run anticompetitive effects.

**B. The Guardrails of Brooke Group and Trinko: Form and Intent Based Screens Against Over-Enforcement**

Predatory pricing and refusals to deal thus may sometimes violate the antitrust laws. However, as discussed in more detail in Part VII below, antitrust scrutiny must be applied carefully in this area because these cases also involve conduct that would, in most cases, be seen as procompetitive and beneficial: Low pricing (in the case of predatory pricing) and independent business decisions (in the case of refusals to deal with a rival).

---


29. *Id.* at 610–11; see also *Novell, Inc. v. Microsoft Corp.*, 731 F.3d 1064, 1075 (10th Cir. 2013) (explaining refusal to deal jurisprudence).


31. See, e.g., *Covad Commc’ns Co. v. Bell Atl. Corp.*, 398 F.3d 666, 675–76 (D.C. Cir. 2005) (citing *Brooke Group* in a refusal to deal case for the principle that conduct can violate the antitrust laws if it is “predatory”).

32. See infra Part VII; see, e.g., *Brooke Grp.*, 509 U.S. at 224 (avoiding antitrust scrutiny that would risk becoming “an obstacle to the chain of events most conducive to a breakdown of oligopoly pricing and the onset of competition”); *Trinko*, 540 U.S. at 414 (weighing the benefits of intervention against the various costs of intervention);
The Supreme Court therefore sought to avoid deterring such procompetitive conduct by over-enforcement of the antitrust laws, and did so by applying two important antitrust guardrails: form and intent.

First, the Supreme Court in *Brooke Group* and *Trinko* instituted important form-based guardrails limiting the types of conduct that might raise antitrust suspicions. For example, *Brooke Group* addressed so-called predatory pricing, i.e., pricing that is “too low” and that harms competition as a result. Low pricing is of course the very essence of competition, however. Any less efficient competitor could, in theory, claim that its more efficient opponent’s low pricing threatened to drive the less efficient competitor out of the market, and thus that the more efficient competitor should be compelled to raise its prices. Even if such a suit might not succeed, the mere threat of antitrust liability for lowering prices would risk discouraging efficient competitors from doing so. To avoid this result, the Supreme Court limited antitrust scrutiny of low pricing (perhaps absent bundling or other potential antitrust causes of action) only to below cost pricing, as that form of pricing might suggest the potential for anticompetitive effect, and thus ultimately be more likely to potentially raise antitrust concerns.

---

33. See *Brooke Grp.*, 509 U.S. at 224–27.

34. *Matsushita*, 475 U.S. at 594; see also *Brooke Grp.*, 509 U.S. at 222; *Atl. Richfield*, 495 U.S. at 337–38, 341 (“Cutting prices . . . is the essence of competition.”); *Cascade Health Sols. v. PeaceHealth*, 502 F.3d 895, 915 (9th Cir. 2007) (citing Thomas A. Lambert, *Evaluating Bundled Discounts*, 89 MINN. L. REV. 1688, 1705 (2005)) (“*Brooke Group’s* safe harbor for above-cost discounting in the single product discount context is not based on a theory that above-cost pricing strategies can never be anticompetitive, but rather on a cost-benefit rejection of a more nuanced rule.”); *id.* (quoting Thomas A. Lambert, *Evaluating Bundled Discounts*, 89 MINN. L. REV. 1688, 1705 (2005)) (“[T]he consumer benefit created by a rule that permits inquiry into above-cost, single-product discounts, but allows judicial condemnation of those deemed legitimately exclusionary, would likely be outweighed by the consumer harm occasioned by overdeterrence of nonexclusionary discounts”); *ZF Meritor, LLC v. Eaton Corp.*, 696 F.3d
Similarly, in *Trinko*, the Supreme Court worried that overly restricting the right of a company to choose its business partners could not only impair the ability to structure businesses in competitive ways, but indeed actively promote collusion. The Court further recognized the limitations lower courts face in making such economic decisions, such as which business partners a company should choose; simply put, “courts are of limited utility in examining difficult economic problems.” *Trinko* thus limited antitrust scrutiny to refusals to deal involving the termination of a prior profitable course of dealing and/or a refusal to sell a competitor a product otherwise available at retail — conduct that was reasonably identifiable and might provide insight into the monopolist’s anticompetitive expectations. The “form” of the conduct therefore serves as a guardrail to protect competition from over-enforcement of the antitrust laws in both these cases.

Second, the Supreme Court in these cases used “intent” as a screen to help assess the likely competitive effect of the conduct, and to thereby determine if antitrust scrutiny might be appropriate. For example, in *Aspen Skiing* the monopolist’s sacrifice suggested “a distinctly anticompetitive bent,” as the monopolist would not ordinarily have refused to continue receiving profits from a profitable course of dealing, or refused sales at retail price, if it did not receive a greater benefit from harm to competition. Thus, the Supreme Court would later explain in *Trinko*, antitrust scrutiny was appropriate. However, it is important to remember that intent will not substitute for

---

254, 274–75 (3d Cir. 2012) (citing Pac. Bell Tel. Co. v. Linkline Commc’ns, Inc., 555 U.S. 438, 452 (2009)) (“[A]lthough there may be rare cases where above-cost prices are anticompetitive in the long run, it is ‘beyond the practical ability’ of courts to identify those rare cases without creating an impermissibly high risk of deterring legitimate procompetitive behavior (i.e., price-cutting).”).

35. *Trinko*, 540 U.S. at 410, 415–16; *see also* United States v. Colgate & Co., 250 U.S. 300, 307 (1919) (“[T]he [Sherman] [A]ct does not restrict the long recognized right of a trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal . . . .”).


unlawful conduct, and that conduct must be shown before a court can ask why the parties engaged in it.\textsuperscript{39} In other words, it is not enough for a court simply to determine that an alleged monopolist intended to harm rivals; “sharp elbows” are expected in competition.\textsuperscript{40} Rather, a court must first identify conduct that might harm competition.

III. A REVERSE PAYMENT REQUIRES (1) A PATENTEE SACRIFICE THAT MIGHT BE RECOUPED THROUGH ANTICOMPETITIVE EFFECTS AND (2) A BENEFIT TO THE PATENT CHALLENGER

With this background, we turn to the first mystery of \textit{Actavis}. \textit{Actavis} holds that a so-called “reverse payment” in connection with a patent settlement — i.e., one in which the patentee “pays” the patent challenger to drop its patent challenge — can sometimes raise antitrust concerns.\textsuperscript{41} But what qualifies as a suspect “reverse payment?”\textsuperscript{42}

The courts have struggled to answer this question, when they sought to answer it at all. Because \textit{Actavis} provides no definition, much of the initial debate centered around whether a reverse payment must be made in cash or whether other forms of “value” might suffice.\textsuperscript{43} While the Supreme Court in \textit{Actavis} might well have meant to define a reverse payment as a payment of

\begin{itemize}
  \item \textsuperscript{39} See infra note 136 (collecting authority for the proposition that a “bad” intent cannot transform lawful conduct into unlawful conduct under the antitrust laws).
  \item \textsuperscript{40} See, e.g., FTC v. Qualcomm Inc., 969 F.3d 974, 1005 (9th Cir. 2020) (quoting Tension Envelope Corp. v. JBM Envelope Co., 876 F.3d 1112, 1122 (8th Cir. 2017)) (stating that the defendant “has also ‘acted with sharp elbows — as businesses often do’”).
  \item \textsuperscript{41} See FTC v. Actavis, Inc., 570 U.S. 136, 152–59 (2013).
  \item \textsuperscript{42} Because \textit{Actavis} (and most cases applying it) involved patent settlements in the pharmaceutical industry, it is common in these cases to refer to the patentee as the “brand” (i.e., the branded pharmaceutical manufacturer) and the patent challenger as the “generic” (i.e., the generic pharmaceutical manufacturer challenging the brand’s patents). See id. at 141 (“Apparently most if not all reverse payment settlement agreements arise in the context of pharmaceutical drug regulation . . . .”). However, nothing in \textit{Actavis} limits the reach of the decision to this one particular industry, and some aspects of the decision are easier to understand in a more general framework. See Spex Techs., Inc. v. Kingston Tech. Corp., No. SACV 16-1790, 2019 U.S. Dist. LEXIS 228888, at *10–11 (C.D. Cal. Dec. 23, 2019) (rejecting the argument that \textit{Actavis} is limited to Hatch-Waxman Act litigation). This Article therefore tries to avoid the industry-specific “brand/generic” terminology in favor of the more generally-applicable terms “patentee/patent challenger.”
  \item \textsuperscript{43} Compare, e.g., In re Lamictal Direct Purchaser Antitrust Litig., 18 F. Supp. 3d 560, 569 (D.N.J. 2014) (limiting reverse payments to cash), with In re Nexium (Esomeprazole) Antitrust Litig., 968 F. Supp. 2d 367, 392 (D. Mass. 2013) (“Nowhere in \textit{Actavis} did the Supreme Court explicitly require some sort of monetary transaction . . . .”), and In re Niaspan Antitrust Litig., 42 F. Supp. 3d 735, 750–751 (E.D. Pa. 2014) (agreeing that a reverse payment does not need to be exclusively made in cash).
\end{itemize}
courts have generally declined to adopt that approach and have instead expanded *Actavis* to apply to the payment of other forms of value that do not involve the payment of cash by the patentee. Unfortunately, though, many courts stop there, concluding that a reverse payment need not be in cash but failing to offer any other way to identify agreements that might potentially raise antitrust concerns, and thus, like the Supreme Court in *Actavis*, stop short of actually defining the term “reverse payment.”

However, the meaning of “reverse payment” is apparent if a court analyzes *Actavis* from the perspective of *Brooke Group*, *Aspen Skiing*, and *Trinko*, i.e., looks for a sacrifice that the alleged monopolist rationally would have made only if it expected to recoup that forfeiture through the exclusion of competition or some other anticompetitive effect. *Actavis* suggests that a court can infer from a reverse payment that (a) the patent at issue was weak (see Part III below), (b) the patentee has market power (see Part V), and, then, (c) ultimately there was the potential to “recoup” the reverse payment through anticompetitive effects. As explained below, and as is generally recognized, only a patentee’s sacrifice would permit each of these inferences, and thus support the Supreme Court’s reasoning, i.e., just as in *Brooke*

---

44. The Supreme Court made clear that a patent challenger “walk[ing] away with money simply so it will stay away from the patentee’s market” is “quite different” from traditional forms of settlement. *Actavis*, 570 U.S. at 152. Thus, the majority opinion not only contains multiple references to “money” and “dollars,” but also can be read to distinguish “traditional” settlements from “unusual” reverse payments based on the fact that in unusual reverse payments, unlike with traditional settlements that may provide value to both sides, there is cash or money flowing to the patent challenger. *Id.* at 152, 156 (discussing a reverse payment “in which A, the plaintiff, pays money to defendant B” and in which the defendant “walks away with money”). The distinction between monetary and non-monetary “payments” may therefore be a form-based guardrail similar to those discussed in Part VII below, such as limiting predatory pricing to “below cost” pricing — though this view has not been accepted by the courts. *See infra* Part VII.

45. *See*, e.g., *In re Nexium (Esomeprazole) Antitrust Litig.*, 968 F. Supp. 2d at 392 (noting that, in discussing reverse payments, the *Actavis* Court did not specify the necessity for a cash payment).

46. *Actavis*, 570 U.S. at 156 (discussing, but failing to define “reverse payment”); *see*, e.g., *King Drug Co. of Florence, Inc.*, v. *SmithKline Beecham Corp.*, 791 F.3d 388, 401 (3d Cir. 2015) (noting that the *Actavis* Court’s conclusion caused uncertainty in antitrust litigation).

47. *See Actavis*, 570 U.S. at 157–58 (requiring payment capable of serving as a “workable surrogate for a patent’s weakness”); *see also id.* at 154–55 (noting that “a high reverse payment signal[s] to other potential challengers that the patentee lacks confidence in its patent”).

48. *See id.* at 147 (describing a reverse payment as something the patentee could “recoup” through the exercise of the patent exclusivity).
Group, Aspen Skiing, and Trinko, only a sacrifice by the monopolist can suggest recoupment through anticompetitive effects.49

A. The “Actavis Inference” Seeks to Identify Conduct That Suggests Patent Weakness, Market Power, and Ultimately Potential Anticompetitive Effect

To understand Actavis, and how the Supreme Court’s decision fits into its prior antitrust jurisprudence, we must first understand what Actavis was trying to accomplish. Although settlement is typically procompetitive, and avoids litigation costs and wasting judicial resources, Actavis addressed the following situation that might, in theory, instead harm competition:

Company A sues Company B for patent infringement. The two companies settle under terms that require (1) Company B, the claimed infringer, not to produce the patented product until the patent’s term expires, and (2) Company A, the patentee, to pay B many millions of dollars. Because the settlement requires the patentee to pay the alleged infringer, rather than the other way around, this kind of settlement agreement is often called a “reverse payment” settlement agreement. And the basic question here is whether such an agreement can sometimes unreasonably diminish competition in violation of the antitrust laws.50

The challenge in answering the Supreme Court’s question is the uncertainty that surrounds the patent at issue, in light of the fact that the parties settled.51 On one hand, if a court would have considered the patent valid and infringed, then the settlement cannot have harmed competition, at

49. The need for a patentee sacrifice is well-recognized, though its importance to the Actavis analysis is not yet universally understood. See, e.g., Smithkline Beecham Corp., 791 F.3d at 405 (asking whether “the source of the benefit to the claimed infringer is something costly to the patentee”); In re Loestrin 24 Fe Antitrust Litig., 261 F. Supp. 3d 307, 332 (D.R.I. 2017) (“The text of Actavis suggests that the Court should consider both [the perspective of the patentee and alleged infringer] in considering an alleged unlawful reverse payment.”); Aaron Edlin et al., Activating Actavis, ANTITRUST, Fall 2013, at 16, 18 (“Where the payment takes a form other than a simple cash transfer from the patentee to the claimed infringer, consideration should be valued from the perspective of the patentee.”); Aaron Edlin et al., The Actavis Inference: Theory and Practice, 67 RUTGERS L. REV. 585, 594 (2015) [hereinafter Edlin et al., The Actavis Inference] (“[F]or noncash reverse payments, the courts should seek to measure the dollar value sacrificed by the patent holder as a result of the agreement it reached with the alleged infringer.”); Bryan Gant, Understanding Actavis: How Courts Misinterpret FTC v. Actavis, Inc., and How to Get It Right, 22 HARV. NEGOT. L. REV. 111, 125–29 (2016) (approaching the issue from a bargaining perspective and explaining why the Court’s focus on patentee sacrifice protects bargaining and settlement).

50. Actavis, 570 U.S. at 140–41.

51. See id. at 171–72 (Roberts, J., dissenting) (explaining that just as with any “hard legal question” the parties to a patent dispute do not know at the outset of litigation whether the patent is valid; however, this “doesn’t mean there is no answer until a court declares one”).
least as long as the settlement is no more exclusive of competition than the patent itself would be, i.e., as long as it is within the “scope of the patent.”52 Congress, moreover, has concluded that patents should be presumed valid.53 For this reason, several courts prior to Actavis applied the so-called “scope of the patent test,” refusing to apply antitrust scrutiny to patent settlements unless they extended exclusivity beyond the patent term.54 On the other hand, however, if the patent would have been held invalid or not infringed, then the patent challenger’s agreement to drop a meritorious challenge in return for a large, unexplained reverse payment could perhaps harm competition in at least some cases, at least theoretically, as, in theory, such an outcome could permit a patentee to avoid the invalidation of a patent that should have been invalidated.55

Whether a patent settlement risks harming competition and thus should be subject to antitrust scrutiny therefore may depend on whether the patent at issue in the underlying case was valid and infringed. But because the parties settled, no court has actually answered that question. How, then, are courts to know whether there is any basis for antitrust scrutiny of the patent settlement in such a case, particularly without retrying the underlying patent case at the motion to dismiss stage to determine whether the statutory assumption of patent validity can be overcome?

Actavis purports to circumvent this problem, at least at the motion to dismiss stage, by using the patentee’s conduct to infer something about the likely expected outcome of the patent suit.56 Thus, the Supreme Court held

52. Id. at 171 (Roberts, J., dissenting) (“[S]ettling a patent claim cannot possibly impose unlawful anticompetitive harm if the patent holder is acting within the scope of a valid patent . . . .”).

53. 35 U.S.C. § 282(a) (“A patent shall be presumed valid . . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”).

54. See, e.g., FTC v. Watson Pharms., Inc., 677 F.3d 1298, 1315 (11th Cir. 2012) (applying the “scope of the patent test”); see also In re Tamoxifen Citrate Antitrust Litig., 466 F.3d 187, 212–13 (2d Cir. 2006); In re Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323, 1335–36 (Fed. Cir. 2008); Valley Drug Co. v. Geneva Pharm., Inc., 344 F.3d 1294, 1308 (11th Cir. 2003).

55. See Brief for Petitioner at 46, FTC v. Actavis, Inc., 570 U.S. 136 (2013) (No. 12-416), 2013 WL 267027; see also In re K-Dur Antitrust Litig., 686 F.3d 197, 212–13 (3d Cir. 2012) (noting that a rule favoring settlement may allow “less sound” patents or cases of “less clear infringement” to continue when perhaps they should have been invalidated). To be clear, this Article merely restates the argument here — and does not necessarily agree that this argument is a correct one.

56. This should not be read to suggest that Actavis’s inference of patent weakness is a correct one, and much less that it is irrebuttable. That a patentee might mistakenly believe that its patent might be weak, or that a patentee might be averse to the risks of litigation, does not make an ironclad patent any less ironclad. Any inference Actavis
that an “unexplained large reverse payment itself would normally suggest that the patentee has serious doubts about the patent’s survival,” and could be a “workable surrogate for a patent’s weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself.” And, ultimately, such a “workable surrogate” could further suggest the possibility that the patentee will succeed in excluding competition and recouping its “unexplained large reverse payment.” This is the “Actavis inference,” as later commentators have dubbed it, an inference of potential patent weakness, and accordingly of potential anticompetitive effect, based on the patentee’s willingness to make a large, unexplained reverse payment.

B. Only a Sacrifice by the Patentee can Suggest Patent Weakness, Market Power, or Anticompetitive Effect

The Actavis inquiry therefore needs its inference, its (supposedly) “workable surrogate” for patent weakness, to establish any potential basis for antitrust scrutiny, particularly in the face of a presumptively-valid patent. And, as noted, Actavis draws this inference from a “reverse payment.” A reverse payment therefore must be something capable of draws should thus be viewed solely as preliminary, and certainly rebuttable. On the other hand, even if an antitrust plaintiff were to prove that a patent the patentee believed valid and infringed was in fact invalid or not infringed, the agreement — entered at a time when there was a presumptively valid patent and no one had demonstrated otherwise — would not therefore be transformed into an anticompetitive agreement, because antitrust conduct is assessed as of the time it occurs. See In re Wellbutrin XL Antitrust Litig., 133 F. Supp. 3d 734, 753 (E.D. Pa. 2015) (citing Polk Bros., Inc. v. Forest City Enters., Inc., 776 F.2d 185, 189 (7th Cir. 1985); SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1207 (2d Cir. 1981)) (“In conducting the rule of reason analysis, the Court will evaluate the Wellbutrin Settlement’s reasonableness at the time it was entered into. The Court will also evaluate the settlement as a whole, and not in a piecemeal, provision-by-provision approach.”).

57. Actavis, 570 U.S. at 157–58; see also id. at 154 (“[R]everse payment signal[s] to other potential challengers that the patentee lacks confidence in its patent . . . .”).

58. Id. at 157 (“[W]here a reverse payment threatens to work unjustified anticompetitive harm, the patentee likely possesses the [market] power to bring that harm about in practice.”).


60. That the patentee sacrifice is necessary to overcome the statutory presumption of patent validity, and thus bring the case outside of the “scope of the patent” analysis used prior to Actavis, refutes the suggestion by Edlin et al. that while “a sacrifice by the patent holder is the primary focus of the present analysis, a sacrifice is not the only route to establishing an anticompetitive effect.” Edlin et al., The Actavis Inference, supra note 49, at 594 n.28. Without a patentee sacrifice to serve as the “workable surrogate” under Actavis, a court has no basis on which to conclude that any anticompetitive effects could have occurred — because without this workable surrogate, there is simply a valid patent, and a patent settlement that by all accounts was within the scope of that patent.
suggesting patent weakness, along with market power and the potential for anticompetitive effect, i.e., whatever “reverse payment” means, it must “normally suggest that the patentee has serious doubts about the patent’s survival” and be a “workable surrogate for a patent’s weakness.” So what sort of agreement would provide that “workable surrogate” for patent weakness and thus suggest the possibility of anticompetitive effects?

i. A Patentee Might Not Be Expected to Make a Large, Unexplained Sacrifice It Could Not Then Recoup Through Anticompetitive Effects

A short-term patentee sacrifice could serve as such a workable surrogate in some cases, at least in theory, because the fact that the patentee made such a sacrifice might suggest that the “patentee ha[d] serious doubts about the patent’s survival.” The reasoning is that the patentee would not ordinarily make a large sacrifice to settle if it felt it had no risk of losing the patent case; thus, the fact that the patentee was willing to make such a sacrifice could in some cases be taken as evidence, at least at the motion to dismiss stage, that the patentee expected to recoup that sacrifice by avoiding the perceived risk of patent invalidation. It therefore is the patentee’s sacrifice that is the “workable surrogate” on which Actavis relies to infer the potential for the patentee to “recoup” anticompetitive benefits. This, of course, echoes the analyses in Brooke Group, Aspen Skiing, and Trinko, each of which required a sacrifice to suggest the potential for an anticompetitive effect. Indeed, Actavis notes that a reverse payment “amounts to a purchase by the patentee of the exclusive right to sell its product,” language which

61. See infra Part V (explaining how a sacrifice allows an initial inference of market power).
63. Again, accepting this premise for purposes of applying Actavis does not necessarily mean agreeing with it. See, e.g., Gant, supra note 49, at 121 (explaining the weakness of this inference, and why it must not be accepted as a final conclusion with respect to anything under Actavis).
64. Actavis, 570 U.S. at 157–58.
66. See Actavis, 570 U.S. at 147 (describing a reverse payment as something the patentee could “recoup” through the exercise of the patent exclusivity).
67. Id. at 153 (emphasis added).
directly echoes *Brooke Group*’s comment that predatory pricing represents an “investment in below-cost prices.”\(^6^8\)

*Actavis* further focused on the recoupment of this sacrifice through anticompetitive effects on the market, noting that the “patent, if valid and infringed, might have permitted [the patentee] to charge drug prices sufficient to *recoup* the reverse settlement payments.”\(^6^9\) Indeed, whether such recoupment was possible was a key question in the decision; *Actavis* noted that a practical question was whether the parties would “be able to enter into such an anticompetitive agreement? Would not a high reverse payment signal to other potential challengers that the patentee lacks confidence in its patent, thereby provoking additional challenges, perhaps too many for the patentee to ‘buy off?’”\(^7^0\) If so, then recoupment would not be possible.\(^7^1\) The Court concluded however, that the structure of the Hatch-Waxman Act reduces the incentives of subsequent challengers to meaningfully contest the validity of the patent, and thus, that driving out even one challenger might allow recoupment through delayed generic entry.\(^7^2\)

Finally, in *Actavis* the Court held that a patentee’s willingness to enter into a large and unexplained reverse payment may sometimes suggest an anticompetitive bent, asking if the “basic reason” for the agreement was “a desire to maintain and to share patent-generated monopoly profits.”\(^7^3\) *Actavis* thus echoes the intent discussion in *Trinko*, which addressed the supposedly “anticompetitive bent” disclosed by refusing to continue a prior profitable course of dealing with a rival.\(^7^4\) Having identified conduct that might raise antitrust suspicions — a large, unexplained reverse payment — *Actavis*, like *Trinko*, considers whether that conduct reveals an intent by the alleged monopolist to delay competition, and uses that inference of intent to help interpret potentially ambiguous conduct.

*Actavis* therefore follows the same framework of sacrifice and recoupment as in *Brooke Group*, *Aspen Skiing*, and *Trinko*. While this area of the

---


69. *Actavis*, 570 U.S. at 147 (emphasis added).

70. *Id.* at 154–55.


73. *Id.* at 158.

antitrust law has not yet seen a “Trinko” to explain the “Aspen Skiing” of Actavis, courts applying Actavis should therefore look for the same type of sacrifice required in prior Supreme Court sacrifice and recoupment cases.

ii. A Benefit to the Patent Challenger Is Also Necessary, but No Substitute for a Patentee Sacrifice

Before proceeding, however, we should pause to consider whether the Actavis inference could be based on conduct other than a sacrifice by the patentee. Most importantly, we might think that it would be possible to look to whether the patent challenger received any benefit in connection with settlement, and to ask if such a benefit could be a workable surrogate for a weak patent. But in fact, such a benefit, while necessary for there to have been a “payment” at all, is of little use in determining the potential for patent weakness and anticompetitive effect under Actavis.75

A Benefit to the Patent Challenger Is Also Necessary to Show a Large, Unexplained Reverse Payment

Initially, it is certainly true that a benefit to the patent challenger is an important part of the Actavis analysis, though such a benefit is necessary to show potential anticompetitive conduct, not sufficient. It is true that there is no way to infer that the patent challenger agreed to a later entry date (the anticompetitive harm at issue in Actavis) without showing that it received some benefit from the agreement that would encourage it to agree to such delay. Because a payment requires a payor and a payee, if the challenger received no benefit, then it can hardly be said that it was “paid” for delaying entry.76 And the Court’s discussion of a benefit to the patent challenger in Actavis is therefore unsurprising and does not refute in any way the conclusion that a reverse payment also requires a patentee sacrifice. Rather, because a reverse payment requires a patent challenger benefit as well as a

75. It has previously been shown that the mere fact that an agreement makes the patent challenger more willing to compromise does not suggest anticompetitive effect. See generally Gant, supra note 49.

76. Actavis, 570 U.S. at 145, 154 (alleging that the “true point of the payments was to compensate the generics for agreeing not to compete” and that such payments may “induce” delay); id. at 152 (“A, the plaintiff, pays money to defendant B purely so B will give up the patent fight.”); id. at 169 (“[A] party with no claim for damages . . . walks away with money simply so it will stay away from the patentee’s market.”); id. at 154 (noting that sometimes payments are larger than what the challenger would earn in profits if it won the patent challenge, thus the payment is essentially to “stay[] out of the market”).
patentee sacrifice, it would be odd if *Actavis* had not mentioned such a benefit; both sides of the payment are required.  

b.  **However, a Benefit to the Patent Challenger Does Not Suggest Patent Weakness**

However, a benefit to the patent challenger is of comparatively little value in the *Actavis* analysis because it cannot support the *Actavis* inference of patent weakness; such a benefit simply tells us nothing about the strength or weakness of the patent at issue. Simply put, a patent challenger would accept a large benefit from a patentee with an ironclad patent just as surely as it would accept the same benefit from a patentee with a weak patent; why should it care? At most, a court might be able to look to the fact that the challenger demanded a large payment as evidence that it viewed the patent as potentially vulnerable, but this would be of minimal value both because

77. Nor can a benefit to the patent challenger be condemned based on the argument that it alters the incentives of the patent challenger to settle. On this theory the state of California passed a statute, Assembly Bill 824 (“AB 824”), which in some cases might be said to require little more than a benefit to the patent challenger in order to raise an inference of anticompetitive effects. See, e.g., Kristen O’Shaughnessy, et al., *California’s New Reverse Payment Law Departs from Supreme Court Standard in FTC v. Actavis*, WHITE & CASE (Oct. 17, 2019), https://www.whitecase.com/publications/alert/californias-new-reverse-payment-law-departs-supreme-court-standard-ftc-v-actavis. But by focusing on the patent challenger’s benefit, rather than the patentee’s sacrifice, this rule undermines “traditional” forms of settlement that allow the parties to compromise between litigation expectations, as such compromises necessarily involve value for both parties. See Gant, *supra* note 49, at 125–29.

Moreover, the California statute has a substantial preemption problem. Because *Actavis* permits antitrust scrutiny of patents only where a large, unexplained reverse payment can serve as a “workable surrogate” for patent weakness, and because the “anything of value” to a patent challenger under AB 824 cannot serve as such a workable surrogate, see *infra* Part III.B.ii.b–c (explaining why the generic benefit cannot serve as a workable surrogate for patent weakness), an antitrust action under AB 824 must proceed against the backdrop of a presumptively valid patent. See 35 U.S.C. § 282(a). Without any mechanism for invalidating or avoiding the rights granted under such a patent, AB 824 therefore must shorten or ignore the patent rights granted by the U.S. Patent & Trademark Office — something the California state legislature has no power to do. AB 824 is thus in direct conflict with federal patent law and preempted by the same.

78. See Gant, *supra* note 49, at 125.
the challenger may have been bluffing,\textsuperscript{79} or even just wrong,\textsuperscript{80} and because the important fact is not that the challenger asked for a large payment to settle (rational to do in any hard bargaining situation), but rather that the patentee thought it better to meet that demand than to litigate. That the patent challenger agreed to receive a benefit therefore tells us nothing about the strength or weakness of the patent — at least, as discussed above, unless that benefit comes from a patentee \textit{sacrifice}. 

Similarly, it is not persuasive to suggest that a patentee would only provide value to a patent challenger, even at no cost to itself, if it believed that its patent was weak. On the contrary, a patentee with an absolutely ironclad patent that can settle at no cost to itself, and with an entry date that respects its patent term, would rationally do so regardless of the benefit its opponent receives. Willingness to enter such a no-cost settlement cannot suggest patent weakness regardless of how much the challenger receives.

For example, imagine a (purely hypothetical) patent that is 100% likely to be upheld and found to be infringed. However, to prove the validity and infringement of this perfect patent, the patentee will need to engage in a year of litigation, with all the attendant costs and annoyances. Rather than continuing litigation, though, the patent challenger offers to respect the full term of the patent, i.e., give the patentee exactly what it wants, if the patentee simply makes an introduction to a potential supplier that will save the patent challenger tens of millions of dollars. Doing so costs the patentee nothing. It would not be “irrational” or a “sacrifice” for the patentee to agree to such a no-cost settlement, such that we could infer that it would only take this deal if it was concerned about the strength of its patent and seeking to harm competition. On the contrary, it might be irrational for the patentee to refuse the challenger’s offer, and continue litigating for another year, just to deny the patent challenger that benefit. And indeed, this is true virtually no matter how much the patent challenger stands to benefit, or how strong the patentee’s patent might be; why should the patentee care what the challenger receives, when it has received what it wanted out of the exchange (its full patent term) and given up \textit{nothing} to get it?

\textsuperscript{79} United States v. Weimart, 819 F.3d 351, 369 (7th Cir. 2016) (“Bargaining ‘hard’ can include bluff about negotiating positions.”); Dalton v. McCourt Elec., LLC, No. 12-3568, 2013 U.S. Dist. LEXIS 176582, at *13, n.2 (E.D. Pa. Dec. 17, 2013) (quoting \textit{In re Trans Union Corp. Privacy Litig.}, No. 00 C 4729, 2009 U.S. Dist. LEXIS 116934, at *39 (N.D. Ill. Dec. 9, 2009)) (“In the hurly-burly of negotiation, depending on the style of the lawyer, it is not uncommon to encounter posturing, brinkmanship, bluster, puffing, bluffing, braggadocio, and some sharp elbows.”).

\textsuperscript{80} See United Food & Com. Workers Loc. 1776 & Participating Emps. Health & Welfare Fund v. Teikoku Pharma USA, Inc., 296 F. Supp. 3d 1142, 1179–80 (N.D. Cal. 2017) (“[A]ccess to imperfect information or overconfidence based on that imperfect information . . . can impact settlements or willingness to enter settlements.”).
We therefore cannot infer that a patentee would only permit a challenger to receive a benefit if the patent was weak. On the contrary, a patentee would rationally enter such a no-cost settlement regardless of the strength or weakness of its patent. The “workable surrogate” for patent weakness in Actavis therefore simply does not “work” when viewed solely from the perspective of the patent challenger, as a benefit to the patent challenger standing alone provides no insight into the strength of the patent.

Finally, by focusing primarily on the benefit to the patent challenger, courts encounter the problem that prompted the Court in Actavis to call reverse payments “unusual” and “quite different” from a traditional, commonplace compromise.81 But what makes a reverse payment “unusual?” It cannot be that the patent challenger benefits; most settlements provide both parties with greater value than they expect to receive from litigating.82 Why else would anyone ever settle? If a benefit to the patent challenger transformed a normal settlement into a reverse payment settlement, then the Supreme Court was simply wrong to call such settlements “unusual” — on the contrary, they would be the norm.

c. A Benefit to the Patent Challenger Cannot Be Used as a “Proxy” or Replacement for a Patentee Sacrifice

It might be asked, however, whether a benefit to the patent challenger necessarily or ordinarily equates to a patentee sacrifice, such that if a plaintiff can show such a benefit, it can be inferred that the benefit must have come from a patentee sacrifice and thus that the patent might be weak. To see why this is not so, consider three categories of contemporaneous agreements likely to be entered alongside a patent settlement: (a) a mutually beneficial “win-win” agreement,” (b) an agreement beneficial to one side at no cost to the other (“win-neutral”), and (c) an agreement that harms one side to benefit

81. Actavis, 570 U.S. at 147, 152.

the other ("win-lose"). While in all three scenarios at least one side benefits, that benefit is not sufficient to show that the other side sacrificed — on the contrary, the other side may also have benefited, thus negating any suggestion of a sacrifice.

Win-Win. Mutually beneficial agreements are one of the most fundamental building blocks of trade. Such agreements are, in economic terms, "Pareto superior," meaning that they make at least one of the parties better off and neither of the parties worse off, and are thus common ways both to settle disputes and to enter into agreements generally. For example, consider the purchase of a used car for $25,000. Intuitively, we might think that the car was worth exactly $25,000 to everyone involved, because that was the price paid. But this intuition is often wrong, because if everyone agreed that the car was worth exactly $25,000 then why bother trading $25,000 for $25,000? The answer is that the buyer values the car more highly than $25,000 and would have (if necessary) been willing to pay up to $30,000, while the store values the $25,000 more highly than the car as it paid only $15,000 wholesale. From the store’s perspective, it has made $10,000 in gross profit, while from the buyer’s perspective, she has enjoyed a $5,000 "consumer surplus."

Far from "unusual," such win-win agreements are both routine and fairly easy to understand, and certainly cannot suggest irrational conduct.

---

83. If the parties were, for some reason, to instead agree to terms that made one or more side worse off and neither side better off — a "neutral-lose," "lose-neutral," or "lose-lose" agreement — it would not transfer any value and thus not be a "payment."

84. See Gant, supra note 49, at 125–29 (explaining the benefits of "integrative" or win-win bargaining to reach an agreement in complex disputes).

85. See generally Guido Calabresi, The Pointlessness of Pareto: Carrying Coase Further, 100 YALE L.J. 1211 (1991) (examining the "Pareto optimality" and the "cost of making transactions in a market economy").

86. See, e.g., United States v. De La Mata, 535 F.3d 1267, 1270 (11th Cir. 2008) (stating reasons why settlement of a forfeiture claim is mutually beneficial, including saved litigation costs); In re Joint E. & S. Dist. Asbestos Litig., 14 F.3d 726, 729 (2d Cir. 1993) (stating the purpose of the class is to "facilitate the formation of a settlement that will mutually benefit both [parties]"); Shelby Cty. Health Care Corp. v. Am. Fed'n of State, Cty. & Mun. Emp., Loc. 1733, 967 F.2d 1091, 1097 (6th Cir. 1992) (noting that settlement agreements are "presumably mutually beneficial"); Judkins v. HT Window Fashion Corp., 529 F.3d 1334, 1340 (Fed. Cir. 2008) ("The fact that both [parties] took from the settlement something of value points to a constructive, mutually beneficial resolution to a legitimate dispute.").

87. See, e.g., Ind. Lumbermens Mut. Ins. Co. v. Reinsurance Results, Inc., 513 F.3d 652, 658 (7th Cir. 2008) (explaining consumer surplus); DENNIS CARLTON & JEFFREY PERLOFF, MODERN INDUSTRIAL ORGANIZATION 71 (3d ed. 2000) ("Typically, consumers value the goods they purchase above the amount they actually pay for them. Consumer surplus is the amount above the price paid that a consumer would willingly spend, if necessary, to consume the units purchased.").

However, there are still ways to misunderstand such an agreement. First, it is possible to mistake one side’s gain for a sacrifice by the other side. In our car example, the dealer receives a benefit (ignoring fixed costs) of $10,000. A simplistic view might thus assume that the buyer has taken a loss of $10,000; after all, she paid $25,000 for something that could be bought wholesale for $15,000. But to purchase the car for $15,000, the buyer would need to, *inter alia*, establish a wholesaling relationship with a distributor, purchase a large volume of cars on a regular basis, and wait for delivery. Put differently, the dealer has a “comparative advantage” in retailing cars, as it would be highly inefficient for the buyer to try to replicate the dealer’s position in the market to save $10,000. Thus, when considered from both parties’ perspectives (as it must be), this purchase of a car is not suspicious simply because the dealer makes a profit.

Second, a court could misunderstand the agreement by solely asking which side received the “better” benefit. For example, does the fact that the dealer made $10,000 gross profit while the buyer gained only $5,000 in consumer surplus mean that the buyer “lost money?” Not at all. That the dealer might have received greater additional value than the buyer means only that the buyer did not “win” to the maximum extent possible by getting the theoretical absolute minimum price; she still “won” a benefit of $5,000. The same is true, moreover, even if this win was below some measure of “market value”—i.e., if the market price of the used car was below $25,000—as the buyer still valued the car at $30,000, and thus obtained a consumer surplus regardless of whether she received the absolute best deal that she could have received in the market.

Finally, a word of caution. Some have described reverse payment patent settlements as “win-win” because over the long term the patentee might expect to more than recoup its initial sacrifice, while also benefiting the

---


90. It could similarly be possible to misunderstand an agreement by focusing overly on results rather than expectations. *See In re Wellbutrin XL Antitrust Litig.*, 133 F. Supp. 3d 734, 753–54 (E.D. Pa. 2015); Schering-Plough Corp. v. FTC, 402 F.3d 1056, 1071 (11th Cir. 2005) (“The Commission’s finding that the ‘Upsher licenses were worth nothing to Schering’ overlooks the very nature of the pharmaceutical industry where licenses are very often granted on drugs that never see the market.”).

91. *See also infra* Part IV.A (explaining why “market value” is a poor guide in a constrained market).
patent challenger. But the contemporaneous agreement — the alleged reverse payment — is not a win for the patentee, but rather a loss that is later recouped. To understand this distinction, consider predatory pricing, in which a monopolist prices below cost, taking an initial loss, which it then expects to recoup after driving others out of the market. Though the monopolist in such a predatory pricing scheme ultimately stands to “win” with supracompetitive profits, the initial below-cost pricing is not a win but a loss, because the monopolist initially loses money on each sale. Here, too, a reverse payment is not a “win-win” contemporaneous agreement but an initial sacrifice, and a win-win contemporaneous agreement is not a reverse payment as it contains no such initial sacrifice and thus no loss to recoup.

**Win-Neutral.** To return to our hypothetical, what if the dealer — doing a favor for the buyer, a personal friend in financial trouble — sells her the car for $15,000, i.e., at exactly the cost the dealer paid for the car? In this scenario, the dealer provides the buyer with $15,000 in consumer surplus ($30,000 minus the $15,000 the buyer paid), but the dealer earns no profit. Such a transaction is not too hard to imagine, particularly because the buyer otherwise could not have purchased a car from the dealer. The social benefits of such a favor may be worth the minimal transaction costs associated with the dealer sourcing and selling the car. While the dealer might in some sense be said to have “lost” $10,000 in potential profit, this profit is illusory; the buyer could not and thus would not have paid $25,000, because she was in financial trouble. And we assume the dealer will have no trouble procuring another car to sell to the next customer at $25,000. Thus, this is a win-neutral agreement, in which one side is able to do something for the other side at little or no cost to itself.

Such agreements may be less common than the extremely common win-win agreements discussed above, but they are likewise not hard to understand. Indeed, as discussed above, if a patentee can achieve a favorable settlement by providing a benefit to the patent challenger at no cost to itself, it would make perfect sense for it to enter that agreement, regardless of the size of the benefit to the patent challenger and regardless of the strength of

---

92. *See, e.g.*, *Actavis*, 570 U.S. at 154 (“The patentee and the challenger gain; the consumer loses.”); FTC v. Watson Pharms., Inc., 677 F.3d 1298, 1302 (11th Cir. 2012) (describing a reverse payment settlement as a “win-win” because the brand maintains its patent and the patent challenger receives more settlement money than it would earn in profits even if it won the patent litigation).

93. *But see infra* Part IV.A (discussing the implications when this assumption is not correct, and why the antitrust laws would nonetheless reach the same results).

94. WILLIAM URY, *GETTING PAST NO: NEGOTIATING IN DIFFICULT SITUATIONS* 118 (1991) (“The most common way to expand the pie is to . . . [i]dentify items you could give the other side that are of high benefit to them but low cost to you.”).
Such no-cost agreements, like a win-win agreement, are Pareto superior; they make at least one party better off and none worse off, and thus can be expected to rationally occur.96

Win-Lose. Finally, what if our buyer paid $10,000 for a toy car instead? Unless there was some other explanation, such an agreement would seem “unusual,”97 as the dealer would receive roughly $10,000 in profit and the buyer would only receive a toy.98 Such an arrangement, if not explained, may raise questions. This sort of irrational “sacrifice,” where one party appears to take an inexplicable loss in absolute terms, was allegedly at issue in Actavis.99 And if entered as part of a patent settlement, such an arrangement could in theory constitute a reverse payment (though perhaps not a “large” one given the dollar figures in our hypothetical).

The astute reader will notice something that this type of win-lose agreement has in common with the win-win agreement discussed above: they both benefit the dealer, and indeed in our hypothetical do so to the exact same extent ($10,000). By looking at these two very different agreements solely from the perspective of the dealer, we might mistakenly think that they are the same — that because in each case the dealer walks away with a $10,000 profit, a win-win and a win-lose transaction are equally suspicious. Yet the two agreements otherwise have little in common when viewed in totality; we might realistically ask why anyone would ever pay $10,000 for a toy car, but it takes no great understanding of economics to see why someone might pay $25,000 for what she sees as a $30,000 car.

A court therefore cannot infer that if a patent challenger received a benefit, the patentee must have taken a loss. A benefit to the patent challenger is necessary, not sufficient, to show a reverse payment.100 Rather, a reverse

---

95. See supra Part III.B.ii.c.
96. See Calabresi, supra note 85, at 1215 (describing Pareto superiority).
97. See Actavis, 570 U.S. at 147 (noting reverse payment settlements are “unusual”).
98. See id.
99. Appearances can of course be deceiving; perhaps the toy car is the last piece in the very rich buyer’s 30-year collection project, and one of a kind, such that the buyer expects to receive far more than $10,000 in value from owning it. Sure, $10,000 for such a toy might seem excessive, but, then, people have paid far more than that (over $5 million in fact) for cardboard pictures of baseball players. See, e.g., ROBERT S. PINDYCK & DANIEL L. RUBINFELD, MICROECONOMICS 132 (8th ed. 2013) (“Because different consumers place different values on the consumption of particular goods, the maximum amount they are willing to pay for those goods also differs.”). An initial suspicion about the agreement thus should not be permitted to become an irrebuttable presumption of wrongdoing.
100. Nor can a benefit to the patent challenger constitute a suspect reverse payment simply because the challenger received more from the contemporaneous agreements than it stood to gain by winning the patent case, as at least one court has incorrectly held.
payment under *Actavis* must be both a sacrifice by the patentee and a benefit to the patent challenger.

**C. A Reverse Payment Must Be Large Enough to Suggest Patent Weakness**

That a reverse payment must be a patentee sacrifice also helps define the meaning of the term “large” in *Actavis*.\(^{101}\) Simply put, a large payment must be one that is large enough to provide the “workable surrogate for a patent’s weakness” *Actavis* demands, by providing meaningful insight into the patentee’s views of the strength or weakness of the patent.\(^{102}\) For example, if a patentee were found to have made a $1 million payment above fair value and saved litigation costs in connection with a settlement of a $10 billion a year product, that $1 million would represent roughly 52 minutes worth of sales.\(^{103}\) While $1 million is maybe a lot of money to you or me, such a payment simply would not be large enough to suggest that the patent was weak; a $1 million payment is more or less a rounding error in that settlement, and thus tells us little to nothing about how the patentee viewed the strength or weakness of its patent. “Large” within the meaning of *Actavis* therefore must mean a sacrifice by the patentee that would be seen as large within the context of the overall value of the patent.

---

101. See *Actavis*, 570 U.S. at 158 (“[A] reverse payment, where large and unjustified, can bring with it the risk of significant anticompetitive effects . . . .”); *id.* (“[T]he size of the unexplained reverse payment can provide a workable surrogate for a patent’s weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself.”); *see also*, e.g., *Cephalon*, 88 F. Supp. 3d at 416 (“*Actavis* did not identify any specific formula for determining whether a reverse payment is sufficiently large.”).

102. *Actavis*, 570 U.S. at 158; *see also* *Gant*, supra note 49, at 144–46 (analyzing this question further from an integrative bargaining perspective). As discussed *infra* Parts IV and VI, such a payment must also remain large after subtracting saved litigation costs and fair value, as neither represents a “sacrifice” by the patentee.

103. $1 million is 0.01% of $10 billion, and 52 minutes is 0.01% of a year.
IV. “FAIR VALUE” IS THE ABSENCE OF A PATENTEE SACRIFICE IN ABSOLUTE TERMS, AND IS NOT DEFINED BY “MARKET VALUE” OR BY THE “REASONS” FOR THE AGREEMENT

We therefore have established that a reverse payment is, first and foremost, a patentee sacrifice. But simply knowing that there must be a patentee sacrifice is not quite enough to fully understand Actavis; we must also understand what it means to make a sacrifice. Or, more precisely, a sacrifice relative to what. To understand this point, we turn to the question of “fair value” in Actavis, though again we find the definition not in Actavis itself, but rather in Brooke Group, Aspen Skiing, Trinko, and their progeny.

Actavis holds that value provided by the patentee to the patent challenger in connection with a patent settlement is not suspect under the antitrust laws if that value was merely “fair value for services.” But why not? Here, too, the sacrifice and recoupment framework answers the question. “Fair value” under Actavis surely means the lack of a patentee sacrifice, as when a patentee receives fair value from a business arrangement entered in connection with settlement it has not made the sacrifice necessary to infer patent weakness or anticompetitive effect.

But what does it mean for a patentee not to have made a “sacrifice?” While that sounds like a very straightforward question — and, as we conclude below, it has a very straightforward answer — there are at least three potential answers that have been proposed in reverse payment cases:

1. Fair value in Actavis should be read to mean “market value,” such that a contemporaneous agreement must provide the patentee the same value as an ideal agreement reached on the open market or else the patentee has made a sacrifice relative to what it might have gained from a different, “market value” transaction (discussed in Part IV.A below);

2. A contemporaneous agreement should be considered fair value only if the “basic reason” the parties entered the agreement was to compensate the patent challenger for goods and services rather than to settle, such that the value provided under the agreement was effectively unrelated to the settlement (discussed in Part IV.B below); or

104. Actavis, 570 U.S. at 156.
105. See, e.g., In re Nexium (Esomeprazole) Antitrust Litig., 42 F. Supp. 3d 231, 263–64 (D. Mass. 2014) (addressing fair market value); Edlin et al., The Actavis Inference, supra note 49, at 594 (suggesting that parties must obtain the same value through patent settlements as they would have been able to obtain in the market through “arms-length, stand-alone” transactions).

106. See, e.g., Complaint Counsel’s Appeal of the Initial Decision at 33–34, In re Impax Labs., Inc. (F.T.C. July 10, 2018) (No. 9373) [hereinafter Impax Labs Complaint] (advocating this test).
(3) Fair value is the absence of a patentee sacrifice in absolute terms, meaning that so long as a patentee at least breaks even (a “win-neutral” deal) there can be no reverse payment (discussed in Part IV.C below).

As shown below, only the third option is consistent with the term “fair value,” the Court’s guidance in Actavis, and established antitrust principles, and thus, fair value must mean the absence of a patentee sacrifice in absolute terms, just as in Brooke Group and Trinko.

A. Failure to Achieve Market Value Cannot Support the Actavis Inference of Patent Weakness, Market Power, and the Potential for Anticompetitive Effects

We will start with the wrong answer — that the Supreme Court’s use of the term “fair value” in Actavis must actually be a misprint, as the Supreme Court must surely have meant “market value.” As shown below, such a conclusion is at odds with the normal legal meaning of the term “fair value,” because it asks courts to compare a settlement to illusory hypotheticals. Furthermore, it rejects the Supreme Court’s guidance in cases like Brooke Group and Trinko by replacing a “sacrifice” in the Court’s jurisprudence with a mere failure to profit maximize.

i. Actavis Addressed “Fair Value” Because Settlements Rarely Involve the Exchange of “Market Value”

Although the legal definition of the terms “fair value” and “market value” may overlap, they focus on entirely distinct questions. As discussed

107. See Actavis, 570 U.S. at 156 (noting that fair value is the standard).
108. See, e.g., Swope v. Siegel-Robert, Inc., 74 F. Supp. 2d 876, 888 (E.D. Mo. 1999) (comparing the differing analyses of fair value and market value, noting that in the fair value analysis there is no market; therefore, “[t]here is no implication that both parties have entered the market place, or that all of the parties are equally well-informed of the circumstances involved in the transaction . . . .” and “one of the parties lacks the ability to back out or withdraw from the transaction”); Calais Co. v. Ivy, 303 P.3d 410, 418 n.24 (Alaska 2013) (citing UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE 112–13 (2000)) (rejecting the view that “fair value, market value, and fair market value are ‘virtually synonymous’” because these values will rarely be the same); see also Balt. & Ohio R.R. v. United States, 305 U.S. 507, 524 (1939) (noting that market value is just one way to determine fair value); Lucas v. Alexander, 279 U.S. 573, 579 (1929) (stating “fair value” can be ascertained by means other than market value); DH2, Inc. v. SEC, 422 F.3d 591, 593 (7th Cir. 2005) (citing 17 C.F.R. §§ 270.2a-4(a)(1), (c) (distinguishing fair value and market value); Pueblo Bancorporation v. Lindoe, Inc., 63 P.3d 353, 361–63 (Colo. 2003) (noting “fair value does not mean fair market value” but instead “the shareholder’s proportionate ownership interest in the value of the corporation”); Robblee v. Robblee, 841 P.2d 1289, 1294 (Wash. Ct. App. 1992) (quoting Columbia Mgmt. Co. v. Wyss, 765 P.2d 207, 212 (Or. Ct. App. 1988)) (“[E]xcept in a
below, an agreement is fair value if the particular individuals involved in a transaction obtained something economically reasonable under their circumstances and in light of the constraints they faced.109 By contrast, “market value” (or, confusingly, “fair market value”110) is “the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.”111  Thus unlike a fair value standard, which looks to the actual parties and the actual prices that would have been fair for those parties to pay under the actual circumstances, market value asks what price would have been paid

---

109. See infra Part IV.C.; Bank One Corp. v. Comm’r, 120 T.C. 174, 308–09 (2003), aff’d in relevant part, sub nom. JP Morgan Chase & Co. v. Comm’r, 458 F.3d 564 (7th Cir. 2006) (stating fair value focuses on actual persons, while market value focuses on hypothetical persons with full information in an open market); see also Int’l Valuation Standards Council, International Valuation Standards 2013: Framework and Requirements ¶¶ 38, 40–41 (2013), http://www.valuersinstitute.com.au/docs/professional_practice/International%20Valuation%20Standards%202013.pdf (“Fair value is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. [F]air value can be distinguished from market value. Fair value requires the assessment of the price that is fair between two identified parties taking into account the respective advantages or disadvantages that each will gain from the transaction. It is commonly applied in judicial contexts. In contrast, market value requires any advantages that would not be available to market participants generally to be disregarded. Fair value is a broader concept than market value.”). Fair value is often used where assets are thinly traded, as there will not often be a “market” in which to crystalize value. Compare id. ¶¶ 41–42 (discussing fair value), with id. ¶¶ 29–34 (discussing market value).


111. I.R.S. Publication 561 (02/2020), Determining the Value of Donated Property (Feb. 13, 2020), https://www.irs.gov/publications/p561; see also, e.g., Int’l Valuation Standards Council, IVS 104 Bases of Value 18, ¶ 30.1 (2017), http://www.cas.org/docs/2017-01/20170120142445588690.pdf (“[T]he estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion.”).
in a hypothetical unconstrained market by hypothetical unconstrained buyers and sellers who can freely walk away.\textsuperscript{112}

Parties settling disputes are, generally speaking, not unconstrained buyers and sellers who can freely walk away, but rather constrained to prefer agreement over non-agreement. It therefore should not be expected that such parties would enter market value agreements.\textsuperscript{113} For example, imagine that the car dealer and the buyer in our hypothetical above are now locked in litigation over $7,000 in claimed damages that the buyer is seeking from the dealer. To settle, the buyer offers to purchase another car for $18,000 rather than the usual market price of $25,000. As before, the dealer paid $15,000 for the car, and can purchase another car for that price, so while it will see its profits reduced relative to the theoretical market price, it will earn $3,000 it would otherwise not receive (as the buyer otherwise would not buy, much less at full price). A settlement and a gain of $3,000 (or even $0) is of course better than no settlement in that situation — it is “fair value,” even if not “market value.” Entering such a settlement — while perhaps in some sense a “sacrifice” relative to the “market value” — not only would not be irrational for the dealer, but in fact would perhaps be the only economically rational course of action.\textsuperscript{114}

By contrast, applying a “market value” standard to the settlement of litigation would ask settling parties to do something that would often be completely irrational: Refuse to settle unless by settling the parties obtain as much value as they might obtain by dealing at arm’s length in an unconstrained market outside litigation. In our hypothetical, for example, the dealer would be forced to continue litigating, risking a loss of $7,000, simply because a gain of $3,000 to settle was somehow deemed insufficient as compared to a hypothetical market value transaction that it hypothetically could have entered — and indeed would be forced to do so even though in practice no such hypothetical market value transaction was available.\textsuperscript{115}

Likewise, under \textit{Actavis} the decision to settle for fair value but for less than market value cannot serve as a “workable surrogate for a patent’s weakness,” and cannot be the type of reverse payment that would support an
inference of potential anticompetitive effects. \(^{116}\) Simply put, a patentee would accept a gain and a settlement on acceptable terms regardless of the patent’s merits, as a gain and a settlement beats no gain and no settlement, regardless of whether the patent is strong or weak. *Actavis* therefore does not look to a sacrifice relative to “market value.”

\(\textit{ii. Actavis Does Not Apply a Market Value Standard Even Where There Is a Foregone Alternative}\)

But before proceeding, we should consider the “hard” case here. What if the car dealer in the above hypothetical was only able to procure one car of this type, for which there was significant demand, such that by selling to the buyer at $18,000 the dealer was foregoing another sale at $25,000 that it will not be able to recover? In this situation, some scholars have suggested that “fair value” for antitrust purposes would be the foregone market value of the alternative deal, presumably because they believe it would not be economically reasonable to enter into a settlement when doing so “sacrificed” the opportunity for a more profitable alternative. \(^{117}\) However, this conclusion is incorrect for two independent reasons.

\(\textit{a. Market Value Alternatives Are Often Illusory}\)

First, in practice such “alternatives” are often entirely illusory, particularly in the pharmaceuticals context in which *Actavis* cases most often arise. As the Supreme Court has noted, “[f]irms do not expand without limit and none of them enters every market that an outside observer might regard as profitable, or even a small portion of such markets.”\(^{118}\)

Indeed, the same literature suggesting that courts adopt a market value test also makes clear that patentees and patent challengers in the pharmaceutical industry (where most reverse payment cases arise) rarely actually enter alternative deals outside of settlement. \(^{119}\) What these sources incorrectly see as suspect — the fact that parties in litigation might “get creative” to find ways to work together profitably so that they can settle and exit that litigation, even if that means doing business together in a way they usually would not — is therefore also reason to reject the assumption that absent the settlement they would have entered some other, better hypothetical deal.


\(^{119}\) See C. Scott Hemphill, *An Aggregate Approach to Antitrust: Using New Data and Rulemaking to Preserve Drug Competition*, 109 COLUM. L. REV. 629, 633 (2009) (noting that agreements reached as part of patent settlements are rarely reached outside of settlement and arguing that this should be a concern).
Most likely, they would not have done so, and any foregone “market value” alternative is almost always illusory.

Moreover, even if the parties were to routinely enter alternative agreements, it is rare that entering development or similar deals is a zero-sum game, such that doing a deal with one party precludes also doing a separate deal with another party at market value. Although there may sometimes be unique cars that the dealer cannot replace with another, in most cases the dealer actually can buy another car to sell at full price. There is thus no valid basis on which to set a “market value” for most agreements entered alongside settlement, and a market value alternative is thus typically illusory.120

b. Failure to Profit Maximize Is Not a “Sacrifice” Under the Antitrust Laws

But the “market value alternative” approach is in error even in the rare case in which alternatives are not illusory. To show why, once again turn back to Broker Group, in which the Court held that above-cost pricing is not a sacrifice regardless of whether higher prices might have been more profitable.121 Plaintiffs in predatory pricing cases have long sought to argue that “above-cost” in Broker Group should be redefined to include the “opportunity cost” of pricing below market value, such that if an alleged monopolist prices below “market value,” it thus prices “below cost.”122 Courts consistently reject this approach of requiring monopolists to profit maximize, however, and reiterate that Broker Group instead requires a sacrifice in absolute terms — below cost pricing, not below-market pricing.123

120. See, e.g., Verizon Comm’ns, Inc. v. FCC, 535 U.S. 467, 482–83 (2002) (discussing how “value” is particularly hard to measure where “costly facilities rarely changed hands and so were seldom tagged with a price a buyer would actually pay and a seller accept”). See generally ASWATH DAMODARAN, DAMODARAN ON VALUATION: SECURITY ANALYSIS FOR INVESTMENT AND CORPORATE FINANCE 497–540 (2d ed. 2006) (noting the same determination). This is not to say, however, that, if forced to apply a market value analysis instead of Actavis’s fair value analysis, a defendant would be without all recourse. Although it will be rare that any actual alternative agreement will have been foregone in connection with a patent settlement, it is nonetheless sometimes possible to find a market value comparator by looking at other agreements at other times under other circumstances. But there is simply no requirement under Actavis to do so.


122. See United States v. AMR Corp., 335 F.3d 1109, 1113–14, 1116–17 (10th Cir. 2003).

123. See, e.g., Rebel Oil Co. v. Atl. Richfield Co., 146 F.3d 1088, 1095 (9th Cir. 1998) (quoting In re IBM Peripheral EDP Devices Antitrust Litig., 459 F. Supp. 626, 631 (N.D.
One reason for this rule, as the Supreme Court has repeatedly instructed, is simply that courts should not be in the business of requiring parties to make what the court considers the “best” deal (an inquiry for which courts are poorly suited at best), but rather may only look for irrational agreements that involve a true sacrifice by the alleged monopolist.124 Trinko thus rejects the idea of courts “act[ing] as central planners, identifying the proper price, quantity, and other terms of dealing — a role for which they are ill-suited,” and thus the idea of a court deciding which of a company’s various options was the “right” one.125 In the Actavis context, a court second-guessing a

Cal. 1978)) (“The measure of marginal cost proposed by Rebel is thus really the opportunity cost to ARCO of choosing to enter into the exchange agreement rather than selling the crude oil elsewhere. Opportunity costs are vastly different from ARCO’s marginal or variable costs, and we agree that ‘the use of the concept of opportunity costs [to show predatory pricing] must be held improper as a matter of law.’”); AMR Corp., 335 F.3d at 1118–19 (rejecting the test that “effectively treats foregone or ‘sacrificed’ profits as costs, and condemns activity that may have been profitable as predatory”); Cont’l Airlines, Inc. v. Am. Airlines, Inc., 824 F. Supp. 689, 701 (S.D. Tex. 1993) (expressing that opportunity cost is not a cost of implementing a particular business choice, and cannot be included in considering average variable price); see also Gant, supra note 49, at 141–42 (noting this point in passing).

124. See Verizon Commc’ns, Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 408–10, 415–16 (2004) (stating antitrust laws do not “give judges carte blanche to insist that a monopolist alter its way of doing business whenever some other approach might yield greater competition”); Novell, Inc. v. Microsoft Corp., 731 F.3d 1064, 1074–75 (10th Cir. 2013) (explaining risk of substituting judicial insight for business judgment by stating “to the extent that Aspens test still might be accused of being underinclusive to some degree even in the narrow field of refusals to deal, the general rule is firm independence and refusal to deal doctrine exists only to address one of the most obvious exceptions to that general rule. If the doctrine fails to capture every nuance, if it must err still to some slight degree, perhaps it is better that it should err on the side of firm independence—given its demonstrated value to the competitive process and consumer welfare—than on the other side where we face the risk of inducing collusion and inviting judicial central planning.”); In re United Artists Theatre Co., 315 F.3d 217, 231 (3d Cir. 2003) (“The art of governing [a company] (it is emphatically not a science) is replete with judgment calls and ‘bet the company’ decisions that in retrospect may seem visionary or deranged, depending on the outcome.”); Brooke Grp., 509 U.S. at 229.

125. Trinko, 540 U.S. at 408. Indeed, there is typically no “right answer” to a patent dispute, and thus no “right settlement” that the parties should have entered. See Gant, supra note 49, at 127 (explaining why there is no right answer to patent litigation); Joshua P. Davis, Toward a Jurisprudence of Trial and Settlement: Allocating Attorney’s Fees by Amending Federal Rule of Civil Procedure 68, 48 Ala. L. Rev. 65, 122 (1996) (rejecting idea of a “right answer to a dispute”); see also King Drug Co. of Florence, Inc. v. SmithKline Beecham Corp., 791 F.3d 388, 409 (3d Cir. 2015) (“Actavis does not stand for the proposition that parties must reach the most procompetitive settlements possible.”); In re Cipro Cases I & II, 348 P.3d 845, 864 n.10 (Cal. 2015) (“There is no statutory right to have parties enter the agreement most favorable to competition, only a prohibition against entering agreements that harm competition.”); Buffalo Broad. Co. v. Am. Soc’y of Composers, Authors & Publishers, 744 F.2d 917, 933 (2d Cir. 1984); Am. Motor Inns v. Holiday Inns, Inc., 521 F.2d 1230, 1249 (3d Cir. 1975) (stating businesses
“below market” settlement would similarly be asked to determine which of a range of possible business agreements the patentee “should” have preferred over that agreement — something courts are ill-equipped to do, particularly in a field as complex as the pharmaceutical industry.126

To understand the danger of such second-guessing, imagine that in our original used car hypothetical, there is a dealer next door that is willing to sell a roughly equivalent used car for $24,000 rather than the $25,000 our dealer was offering, but that our buyer nonetheless purchases a car from our original dealer for $25,000. Is the buyer’s purchase of the car thus irrational? The answer is far more complicated than might be imagined. First, the two cars are not identical — even if the same make, model, and year, and even if we imagine that they have the exact same mileage and are in the exact same condition — as one is priced higher than the other, which may lead buyers to assume that it is of higher quality.127 Moreover, the dealers are different, presumably employing different salespeople of differing persuasiveness, have different service departments, etc. And how these differences impact the buyer will be very much a matter of personal preference. The buyer may thus view the higher-priced car as providing sufficient value to more than offset any difference in price, even if the two cars are virtually identical. Finally, we should not assume that the buyer has conducted exhaustive market research before deciding to buy a car; the buyer may simply not know that there is a cheaper option next door, and merely making a bad or ill-

126. See, e.g., Trinko, 540 U.S. at 408; Novell, 731 F.3d at 1074–75 (explaining importance of prior profitable course of dealing to distinguish unlawful conduct); Covad, Commc’ns Co. v. Bell Atl. Corp., 398 F.3d 666, 673 (D.C. Cir. 2005) (noting the same); Concord v. Boston Edison Co., 915 F.2d 17, 25 (1st Cir. 1990) (“[H]ow is a judge or jury to determine a ‘fair price?’ Is it the price charged by other suppliers of the primary product? None exist. Is it the price that competition ‘would have set’ were the primary level not monopolized? How can the court determine this price without examining costs and demands, indeed without acting like a rate-setting regulatory agency, the rate-setting proceedings of which often last for several years? Further, how is the court to decide the proper size of the price ‘gap?’ Must it be large enough for all independent competing firms to make a ‘living profit,’ no matter how inefficient they may be? If not, how does one identify the ‘inefficient’ firms? And how should the court respond when costs or demands change over time, as they inevitably will? We do not say that these questions are unanswerable, but we have said enough to show why antitrust courts normally avoid direct price administration, relying on rules and remedies (such as structural remedies, e.g., prohibiting certain vertical mergers) that are easier to administer.”).

127. See Wendy Gerwick Couture, Price Fraud, 63 BAYLOR L. REV. 1, 47–50 (2011) (collecting authority that consumers tend to view higher-priced items as superior).
informed business decision is not typically an antitrust violation.\textsuperscript{128}

Thus, even when dealing with something as simple as a used car, for which there is an identifiable market, the idea that the buyer “should” have purchased the cheaper option, and that not purchasing the cheaper option is thus somehow suspicious, may well be mistaken. And of course, this is a greatly simplified example; courts trying to decide which agreement a pharmaceutical company should have preferred — a much more complicated inquiry — face an even harder task, which courts are not typically equipped to decide, and which they should thus approach very cautiously at best. A court therefore cannot replace the “sacrifice” in \textit{Brooke Group}, \textit{Aspen Skiing}, and \textit{Trinko} with a failure to profit maximize at “market value.”

\textbf{c. Aspen Skiing Involved a True Sacrifice, and Does Not Require Companies to Profit Maximize}

Finally, \textit{Aspen Skiing} is not to the contrary, and in fact illustrates the rule adopted in \textit{Brooke Group} and \textit{Trinko}. In \textit{Aspen Skiing}, a case \textit{Trinko} called “at or near the outer boundary of § 2 liability,”\textsuperscript{129} the alleged monopolist forfeited actual and concrete profits by discontinuing an existing profitable deal with a rival, and the Supreme Court held that such a sacrifice could raise potential antitrust concerns.\textsuperscript{130} But \textit{Aspen Skiing} would surely have been decided differently if there had been a limited number of tickets that could be sold each day, and greater demand for the tickets than supply, such that by selling a ticket to its competitor the alleged monopolist would be denied a chance to sell that same ticket to its own customers — and, indeed, forced to instead direct its customers to its rival to purchase the tickets.\textsuperscript{131} Given a choice between two mutually-exclusive sales, even a monopolist may choose to supply its own customers rather than a rival, and may presumably do so even if the competitor were to offer a higher price than the monopolist’s customers, such that preferring its own customers might appear “irrational”

\textsuperscript{128} See FTC v. AbbVie, Inc., 107 F. Supp. 3d 428, 436 (E.D. Pa. 2015) (rejecting allegations by the FTC because “[t]his is not a situation where the FTC has alleged that [the patentee] agreed to sell [a product] to [the generic] for less than its cost,” and refusing to “go forward on the basis of the existence of a reverse payment simply because the FTC believes [the patentee] signed a bad deal for itself and a good deal for [the generic]”); Crane & Shovel Sales Corp. v. Bucyrus-Erie Co., 854 F.2d 802, 809 (6th Cir. 1988) (stating “antitrust liability cannot be premised on improvident business decisions.”).

\textsuperscript{129} \textit{Trinko}, 540 U.S. at 409.

\textsuperscript{130} See \textit{id.} at 408–09.

\textsuperscript{131} See \textit{id.} at 408–09, 415–16; see also, e.g., RxUSA Wholesale, Inc. v. Alcon Labs., Inc., 661 F. Supp. 2d 218, 228 (E.D.N.Y. 2009), aff’d, 391 Fed. App’x 59 (2d Cir. 2010) (noting no obligation to enter into an agreement with plaintiff rather than other distributors).
Actavis, therefore, does not require that a patentee and patent challenger agree to the best possible or “market” rate, as failure to do so simply does not suggest the irrationality of a true patentee sacrifice and thus cannot serve as a workable surrogate for patent weakness. Actavis used the term “fair value” rather than “market value” for a reason, and that reason is that failure to realize market value is not a workable surrogate for patent weakness or anticompetitive effect as the Actavis inference would require. Many patentees would prefer a profit and a settlement over no profit and no settlement, even when the profit is not the ideal gain that they might have enjoyed in a market value transaction, and there is nothing remotely irrational about such a choice. “Fair value” under Actavis therefore should not be rewritten to mean the legally distinct concept of “market value.”

B. Courts Must Reject the FTC’s “Basic Reason” Test, Which Confuses Intent to Settle with Intent to Delay and Would Bar Virtually All Contemporaneous Agreements

For the same reasons, and more, courts should also reject the “basic reason” test now advocated by the FTC, effectively as a substitute or replacement for the “fair value” test the Supreme Court offered. In Actavis, the Supreme Court noted that “[i]f the basic reason” for a reverse payment “is a desire to maintain and to share patent-generated monopoly profits, then, in the absence of some other justification, the antitrust laws are likely to forbid the arrangement.” The FTC has since interpreted this passage to mean that a contemporaneous deal to a patent settlement is not “fair value” unless its “basic reason” is to compensate for goods or services, rather than to “induce the generic challenger to abandon its claim” — in other words, unless the reason for the contemporaneous agreement has effectively nothing to do with the parties’ decision to settle.

But this “basic reason” test for determining fair value is flawed, perverse, and misunderstands the instructions of Actavis.

First, by merging the question of whether there was a reverse payment with the question of the parties’ intent, the FTC forgets to look for the potentially-anticompetitive conduct Actavis requires. The antitrust laws do not condemn thought crimes, and the Supreme Court has long held that intent

---

132. See, e.g., Imperial Irrigation Dist. v. Cal. Indep. Sys. Operator Corp., 146 F. Supp. 3d 1217, 1235 (S.D. Cal. 2015) (stating there was no duty to supply a rival when monopolist wished to reserve supply to sell itself and did not have excess capacity).

133. See, e.g., Impax Labs Complaint, supra note 106, at 33–34 (advocating this test).


135. See, e.g., Impax Labs Complaint, supra note 106, at 33–34 (quoting Actavis, 570 U.S. at 154).
cannot transform proper conduct into improper conduct but rather only helps interpret the competitive effects of said conduct.\textsuperscript{136}

The FTC’s error here can be understood by once again considering \textit{Trinko} and \textit{Aspen Skiing}. \textit{Trinko} noted that in \textit{Aspen Skiing} the cancellation of a prior profitable course of dealing suggested that the monopolist had a “distinctly anticompetitive bent.”\textsuperscript{137} This conclusion helped the Court interpret potentially-ambiguous conduct such as the refusal to deal with a rival. The Court did not suggest, however, that a distinctly anticompetitive bent could be used to infer the cancellation of a prior profitable course of dealing. Intent must follow conduct, rather than conduct following intent.

Any proper inquiry under \textit{Actavis} must therefore begin by asking whether there was a suspect reverse payment, i.e., the type of conduct that \textit{Actavis} held could suggest the potential for anticompetitive effects.\textsuperscript{138} This is why the “basic reason” language in \textit{Actavis} appears near the end of the decision, as only after the Court establishes that there was allegedly a large, unexplained reverse payment does it then ask the question on which the FTC focuses: What was the basic reason for that payment, i.e., what was the intent of the conduct?\textsuperscript{139} If an agreement was instead fair value — i.e., involved no reverse payment — there was no such conduct from which to infer any

\begin{footnotesize}
\begin{itemize}
    \item 136. \textit{See supra} Part II.B; Bd. of Trade of Chi. v. United States, 246 U.S. 231, 238 (1918) (noting intent may be relevant “not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences”); Am. Needle, Inc. v. Nat’l Football League, 560 U.S. 183, 203 n.10 (2010) (stating the same); Joshua P. Davis & Ryan J. McEwan, \textit{Deactivating Actavis: The Clash Between the Supreme Court and (Some) Lower Courts}, 67 Rutgers U.L. Rev. 557, 580–81 n.132 (2015) (minimizing intent’s role in the \textit{Actavis} analysis); Michael A. Carrier, \textit{How Not to Apply Actavis}, 109 Nw. U.L. Rev. Colloquy 113, 122 (2015) (“\textit{Actavis} did not add an intent requirement into rule-of-reason analysis.”). A well-functioning market can be full of malicious, mean-spirited, aggressive competition — and intent to harm rivals is not anticompetitive. \textit{See} Aerotec Int’l, Inc. v. Honeywell Int’l, Inc., 836 F.3d 1171, 1184 (9th Cir. 2016) (quoting Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp., 509 U.S. 209, 225 (1993)) (“Competitors are not required to engage in a lovefest; indeed, [e]ven an act of pure malice by one business competitor against another does not, without more, state a claim under the federal antitrust laws.”); Novell, Inc. v. Microsoft Corp., 731 F.3d 1064, 1078 (10th Cir. 2013) (explaining if “intent to harm a competitor alone [was] the marker of antitrust liability, the law would risk retarding consumer welfare by deterring vigorous competition”); Olympia Equip. Leasing v. W. Union Tel. Co., 797 F.2d 370, 379 (7th Cir. 1986) (“[I]f conduct is not objectively anticompetitive the fact that it was motivated by hostility to competitors . . . is irrelevant.”).
    \item 138. \textit{See Actavis}, 570 U.S. at 156 (discussing fair value).
    \item 139. \textit{See id.} at 158 (emphasis added) (“Although the parties may have reasons to prefer settlements that \textit{include} reverse payments, the relevant antitrust question is: What are those reasons?”).
\end{itemize}
\end{footnotesize}
potentially-anticompetitive intent. By starting with intent rather than conduct, the FTC effectively condemns all settlements where it deduces some anticompetitive “intent” in the agreement — an absurd and improper result.

Second, the FTC’s proposed “basic reason” test would effectively outlaw all settlements involving contemporaneous agreements, and would do so for the purported crime of making it possible for the parties to settle. Under the FTC’s test, even fair value agreements containing no patentee sacrifice could be condemned if the parties’ “intent” was to “induce the generic challenger to abandon its claim.”140 “Induce the generic to abandon its claim” is just another way of saying “offer sufficiently attractive terms to allow the parties to reach a settlement.” All settlements do so; inducing the other side to stop litigating is the point of settlement!

*Actavis* did not seek to outlaw all such settlements; on the contrary, the Supreme Court went to great lengths to explain that inducing settlements will often be appropriate, including agreements that incorporate “fair value” deals.141 Instead, the passage of *Actavis* on which the FTC relies makes clear that it is not “inducing settlement” that is a problem, but rather inducing settlement *using a reverse payment* — i.e., if a patentee “seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market.”142 The FTC, therefore, cannot use the first clause in this sentence in *Actavis* to condemn all patent settlements with contemporaneous agreements on the basis that they “induce” settlement — it must look to the whole sentence.143

Fair value under *Actavis* thus cannot mean that the patentee’s “basic reason” for the agreement must have been entirely independent of any desire to “induce” the patent challenger to abandon its claims — i.e., to settle. Rather than a test for “fair value,” the “basic reason” language in *Actavis* serves the same role as the “anticompetitive bent” in *Trinko*, and thus comes into play only after suspect conduct has been shown.144

**C. Fair Value in Absolute Terms Is Instead the Right Standard under *Actavis*, Brooke Group, and Trinko**

Instead, the Supreme Court adopted a “fair value” standard. Under the normal legal definition, an agreement is fair value if the particular

---

141. *See Actavis*, 570 U.S. at 155–58 (explaining the various types of settlements that would ultimately not raise concerns under the antitrust laws).
142. *Id.* at 154 (emphasis added).
143. *See id.* at 158–59 (rejecting such an approach).
144. *See supra* Part II.B (explaining how intent in *Trinko* explained the conduct).
individuals involved in a transaction obtained something economically reasonable under their circumstances and in light of the constraints they faced.145 Thus, for example, courts in the securities context have made clear that “fair value” is the amount necessary to compensate a shareholder, regardless of whether it is the same amount that their shares might trade for on an open market.146 This definition is consistent with the requirement of a sacrifice in Actavis. A party that receives something economically reasonable under the circumstances, after all, has not taken the irrational step needed to serve as a workable surrogate for potential patent weakness; it has not made a sacrifice that it will need to recoup through exercise of a monopoly. Instead, it has simply received fair value.

The conclusion that courts should consider fair value using its ordinary definition is also consistent with the approach courts take when they are themselves asked to approve settlements. Rather than demanding that any settlement be “market value,” when courts are asked to approve a settlement they ask simply whether it is better than the alternative of litigation.147 If so,

145. See supra notes 108–11.
146. See, e.g., Cox Enters. v. News-Journal Corp., 510 F.3d 1350, 1357 (11th Cir. 2007) (“This is not to say that ‘fair value’ is synonymous with ‘fair market value.’ Most courts have rejected the notion of such synonymity.”); Swope v. Siegel- Robert, Inc., 243 F.3d 486, 492–93 (8th Cir. 2001) (citing and quoting Harry J. Haynsworth, Valuation of Business Interests, 33 MERCER L. REV. 457, 459 (1982)) (rejecting the idea that “fair value” is “equivalent to ‘fair market value’” because fair market value attempts to reflect “the context of a hypothetical sale between a willing seller and buyer, a situation that does not exist in the dissenting shareholder situation”); Joseph W. Anthony & Karlyn Vegoe Boraas, Betrayed, Belittled . . . But Triumphant: Claims of Shareholders in Closely Held Corporations, 22 WM. MITCHELL L. REV. 1173, 1186 (1996) (emphasis added) (“‘Fair value’ is not the same as, or short-hand for, ‘fair market value.’ ‘Fair value’ carries with it the statutory purpose that shareholders be fairly compensated, which may or may not equate with the market’s judgment about the stock’s value.”); see also New Haven Inclusion Cases, 399 U.S. 392, 487–88 (1970) (assessing the value of stock based on inherent value rather than merely the market value); Merion Cap. L.P. v. Lender Processing Servs., C.A. No. 9320-VCL, 2016 Del. Ch. LEXIS 189, at *37 (Del. Ch. Dec. 16, 2016) (quoting Finkelstein v. Liberty Dig., Inc., No. 19598, 2005 Del. Ch. LEXIS 53, at *12 (Del. Ch. Apr. 25, 2005)) (“The concept of fair value under Delaware law is not equivalent to the economic concept of fair market value.”).
147. See, e.g., Air Line Pilots Ass’n Int’l v. O’Neill, 499 U.S. 65, 81 (1991) (“In labor disputes, as in other kinds of litigation, even a bad settlement may be more advantageous in the long run than a good lawsuit.”); Hensley v. Eckerhart, 461 U.S. 424, 443 n.2 (1983) (Brennan, J., dissenting) (arguing litigants must conduct “calculations as to whether litigation — including the attorney’s fees it entails — represents a better investment than compromise and settlement or simply acceding to the opposing party’s demands”); Ahearn v. Fibreboard Corp., 162 F.R.D. 505, 520 (E.D. Tex. 1995) (acknowledging settlement was “better than any alternative”); Guzman v. Consumer Law Grp., P.A., No. 1:11-cv-00187-JRH, 2016 U.S. Dist. LEXIS 62410, at *6–7 (S.D. Ga. May 11, 2016) (“A settlement is fair, reasonable and adequate when the interests of the class as a whole
then it is reasonable and fair value because the settling parties acted rationally in taking the settlement instead of continuing to litigate. And, as illustrated above, a transaction need not be perfectly equal between the parties or provide market value in order to be “win-win.”

Just like in *Brooke Group*, *Aspen Skiing*, and *Trinko*, in *Actavis* the Court was looking not for mere failure to profit maximize, but rather for a true sacrifice similar to pricing below cost or terminating a prior profitable course of dealing. Thus, a fair value contemporaneous agreement under *Actavis* is any agreement in which the patentee makes no sacrifice in absolute terms, i.e., a break-even or better arrangement. This is the only reading of fair value that remains consistent with *Actavis*, and that can be consistent with the decades of antitrust jurisprudence on which *Actavis* depends.

**V. ONLY A PATENTEE SACRIFICE CAN SUGGEST MARKET POWER**

The next question is why *Actavis* held that “where a reverse payment threatens to work unjustified anticompetitive harm, the patentee likely possesses the [market] power to bring that harm about in practice.”

**A. Unlike a Benefit to the Patent Challenger, a Sacrifice By the Patentee May Suggest Patentee Market Power**

If a reverse payment were viewed primarily or solely from the perspective of the patent challenger, the Supreme Court’s inference of market power from a large, unexplained reverse payment would be a non sequitur; as the patent challenger’s receipt of value is a poor indicator of whether the
patentee has market power. There are likely very few people or companies in this world whose response to an offered benefit would be to inquire as to whether the offeror has market power. Why should they care?

Instead, a large, unexplained reverse payment suggests market power because a patentee “without [market] power is [un]likely to pay ‘large sums’ to induce ‘others to stay out of its market,’” and thus that a patentee is willing to make a large, unexplained sacrifice may in some cases suggest that it also has the market power to recoup that sacrifice. Once again, it is the patentee sacrifice and recoupment that matters, as it is only this that makes sense of the inference Actavis draws.

B. Inferences Are Not Enough; Market Power Must Ultimately Be Proven By the Plaintiff

This also makes clear, however, that any assumption of market power under Actavis is at most a rebuttable presumption (and perhaps not even that), as, under Brooke Group, recoupment cannot simply be assumed based on the monopolist’s sacrifice but rather must be proven. Actavis assumes that it would be irrational for a patentee without market power to make a large, unexplained reverse payment and thus infers that such a payment might suggest market power. And on the motion to dismiss posture in Actavis, this inference may be enough to survive dismissal. But not only do companies sometimes do irrational things, a company might make such a payment on the mistaken belief that it has market power when in fact, it does not, among many other potential explanations for the alleged payment. Thus, while a patentee sacrifice may suggest market power, that suggestion is not an irrebuttable presumption.

Rather, as in Brooke Group, the plaintiff ultimately bears the burden of showing that the patentee’s alleged sacrifice could actually have been recouped by anticompetitive effects. This ultimately requires showing that the patentee would have the market power to exclude competition and thus recoup its sacrifice. While the Actavis inference may be enough to survive

---

150. See id.
152. See Brooke Grp., 509 U.S. at 225–26; see also Novell, Inc. v. Microsoft Corp., 731 F.3d 1064, 1075 (10th Cir. 2013) (“To avoid penalizing normal competitive conduct, then, we require proof not just that the monopolist decided to forsake short-term profits. Just as in predatory pricing cases, we also require a showing that the monopolist’s refusal to deal was part of a larger anticompetitive enterprise.”).
a motion to dismiss, proving anticompetitive effect is required for a plaintiff to recover damages under Actavis.

VI. PAYING SAVED LITIGATION COSTS IS NOT SUSPECT UNDER ACTAVIS BECAUSE DOING SO INVOLVES NO ACTUAL SACRIFICE

The next question answered by the sacrifice-based framework is why a patentee may pay a patent challenger the patentee’s saved litigation costs when doing so may create a substantial benefit for the challenger — something a “benefit”-focused approach would consider problematic. By this point, the answer is perhaps not surprising: there is no patentee sacrifice.

A. The Patentee Paying the Challenger Its Saved Litigation Costs Provides a Potentially Significant Benefit to the Patent Challenger, but Is Not a Reverse Payment

In Actavis, the Court held that a payment representing nothing more than the patentee’s saved litigation costs would not raise antitrust concerns, as it would not “bring[] about anticompetitive effects.”154 However, these saved litigation costs can be significant; even the “direct costs” of lawyers and experts may be in the neighborhood of $10 million per suit,155 and there may be more than one suit. And by settling, the patent challenger likewise avoids costs that it would have incurred on its own side, as the challenger would likewise have needed to pay lawyers and other costs. Thus, when a patentee pays the challenger the patentee’s saved litigation costs the challenger may obtain a $20 million or greater benefit in direct costs alone ($10 million from the patentee and $10 million saved in its own direct costs). Moreover, such a payment may take the form Actavis considered suspect: a payment of money.156 Why isn’t that a problem?

This is not even the full tally of litigation savings, in fact, as by settling, both the patentee and patent challenger may save many times this amount in “hidden” or “indirect” litigation costs — all other forms of waste from the litigation process, such as added costs in obtaining financing, impact on stock price, management time spent on litigation, uncertainty regarding the expected lifespans of key patents, etc.157 — and the patentee could

154. Id. at 156, 159.
155. See id. at 170 (Roberts, J. dissenting).
156. See id. at 152 (calling the payment of money by the patentee to the patent challenger “quite different” from traditional forms of settlement).
presumably pass along some or all of these “indirect” saved costs to the patent challenger in exchange for a settlement.

For example, imagine that a company facing a patent challenge to its biggest product is simultaneously working on another product in the same category. Should it devote more effort to promoting its current product or to bringing the new product to market? The answer presumably depends on the resolution of the patent case, and while that case remains pending the company, thus, cannot efficiently allocate its resources. This uncertainty is a “cost” that flows from the fact that the litigation remains ongoing, not from the risk of an adverse outcome, and is thus a “litigation cost.”

These indirect costs can be significant; even just the cost of devoting executive time to litigation, which is only one component of the indirect costs discussed above, has been estimated at anywhere from fifty-three percent to seventy-nine percent of the fees paid to an attorney on a case.

---

158. See, e.g., Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp., 744 F.3d 1272, 1283 (Fed. Cir. 2014), rev’d on other grounds, 790 F.3d 1329 (procedures in patent litigation “can affect the cost, time, and uncertainty of litigation, and in turn affect economic activity founded on the presence or absence of enforceable patents”); In re Exennium, Inc., 715 F.2d 1401, 1403 (9th Cir. 1983) (noting the cost of uncertainty regarding title).

159. See Actavis, 570 U.S. at 156, 159.

160. Keet et al., supra note 157, at 72 (citing Robert H. Lande, Are Antitrust “Treble” Damages Really Single Damages?, 54 OHIO ST. L.J., 115, 143 (1993)). One study concluded that a very large litigation between Texaco and Pennzoil reduced the overall value of the two companies by $1–2 billion, due in large part to indirect litigation costs. David M. Cutler & Lawrence H. Summers, The Costs of Conflict Resolution and Financial Distress: Evidence From the Texaco-Pennzoil Litigation 1–2, 13, 16 (Nat’l Bureau of Econ. Rsch., Working Paper No. 2418, 1987) (explaining the inefficiencies and waste of resources litigation may cause: “Clearly one explanation [for the loss in value] is the fees that both companies will pay to the many lawyers, investment bankers, and advisors that have been retained. Even making generous allowance for these costs, however, we are unable to account for a large fraction of the loss in combined value. It appears that there have been additional costs to Texaco’s shareholders from disruptions in Texaco’s operations, difficulties in obtaining credit, incentive problems created by fears that Texaco would cease operations, and distraction of top management.”). Another study discussed a case in which a defendant paid a plaintiff twenty-five times its demand solely to avoid the costs of litigation. See Keet et al., supra note 157, at 53–
Paying an amount equivalent to these indirect litigation costs to the patent challenger could provide that challenger with a substantial benefit, on top of (again) the benefit the challenger receives from obtaining certainty on its own end. So why would paying saved litigation costs not raise the same suspicions identified in *Actavis*?

### B. That Saved Litigation Costs Are Not a Reverse Payment Cannot Be Explained on the Basis That They Are De Minimis or Based Only on Their Procompetitive Benefits

First, start with the unsatisfying answers. Perhaps we may think a $20 million or more benefit to the patent challenger is simply de minimis in a patent settlement, such that, although it has some anticompetitive effect courts should simply ignore that effect. And in many cases, it may well be true that saved litigation costs are too small to have a meaningful impact on the agreement, as $20 million (for example) is not particularly large relative to the overall market value of some patented products, particularly in the pharmaceutical marketplace.

But in some cases, the saved litigation costs can be far higher, particularly when the parties have lawsuits in dozens or hundreds of jurisdictions around the world, all of which will require separate litigation. And while some pharmaceuticals are blockbusters with billions in sales, not all are — and even if they were, *Actavis* is not limited to pharmaceuticals even if most *Actavis* cases arise in that context. Thus, if *Actavis* held that saved litigation costs are always de minimis, that rule may seem arbitrary. When viewed from the perspective of the patent challenger, there is no obvious reason why saved litigation costs would be expected to always be sufficiently de minimis in a patent settlement as to serve as a “safe harbor.”

Alternatively, perhaps we simply think that avoiding litigation costs is procompetitive, which it surely is; in the indirect costs example above, the ability to efficiently allocate resources and avoid waste was certainly a procompetitive outcome. But *Actavis* did not merely hold that avoiding litigation costs would be procompetitive, it also held that the patentee paying those avoided litigation costs to the patent challenger does not “bring[] about anticompetitive effects” notwithstanding that such a payment might provide

54 (citing SIMON VANDE WALLE, PRIVATE ANTITRUST LITIGATION IN THE EUROPEAN UNION AND JAPAN: A COMPARATIVE PERSPECTIVE 268 (2013)).

the challenger with significant benefits. The procompetitive benefits of avoiding litigation costs therefore cannot explain why a patentee can transfer its saved litigation costs to its opponent in settling.

C. Paying Saved Litigation Costs Is Not a Reverse Payment Because It Involves No Patentee Sacrifice; Only the Lawyers Lose Out in Such a Settlement

Instead, again the answer comes from sacrifice and recoupment. Simply put, where a patentee pays the patent challenger what it would otherwise waste through litigation, it makes no sacrifice. A patentee who would have paid its lawyers $10 million, and instead pays its adversary $10 million, has lost nothing; only its lawyers lose out. And that the patent challenger saves $10 million is likewise no sacrifice by the patentee; the patentee has no vested interest in enriching the patent challenger’s lawyers. Likewise, a patentee that pays an opponent an amount less than the patentee stands to incur in indirect litigation costs is no worse off; it has avoided waste that would have cost it far more than it paid, and thus come out ahead. Because payment of saved litigation costs does not therefore represent a sacrifice, it cannot serve as a workable surrogate for patent weakness and is not a suspect reverse payment. This is, in short, the classic “win-neutral” agreement, where the patentee is able to create value for the patent challenger in order to settle, but without incurring any costs of its own.

D. A Large Payment Therefore Must Remain Large After Subtracting Saved Litigation Costs

Recognizing that saved litigation costs are not a sacrifice and thus not a payment also fatally undermines the argument that a “large” payment under Actavis is any payment that exceeds saved litigation costs, even by a single dollar, like some absurd version of The Price Is Right. If a patent

162. *Actavis*, 570 U.S. at 156, 159.

163. See *In re Impax Labs, Inc.*, No. 9373, 2019 FTC LEXIS 25, at *56 n.19 (F.T.C. Mar. 28, 2019) (“*Actavis* indicates it is appropriate to compare the size of the payment to the payor’s expected saved litigation costs, not the combined savings . . . . This makes sense because it is the excess of Endo’s payment over its other savings or justified benefits that should be understood as directed toward buying market exclusivity.”) (internal citations omitted).

164. See, e.g., *In re Opana ER Antitrust Litig.*, 162 F. Supp. 3d 704, 718 (N.D. Ill. 2016) (“A ‘large’ payment is anything more than the value of the avoided litigation costs plus any other services provided from the generic to the brand manufacturer.”). Although *Opana* cited *In re Lipitor Antitrust Litigation*, it did so in error, as *Lipitor* holds exactly the opposite. See *In re Lipitor Antitrust Litig.*, 46 F. Supp. 3d 523, 543 (D.N.J. 2014) (asking “whether [the payment] is ‘large’ once the subtraction of legal fees and other services provided by generics occurs”).*
challenger is willing to settle for an amount equal to saved litigation costs, in a settlement which otherwise matches the patentee’s expectations for the outcome of the litigation and is thus a good result, but will do so only so long as the patentee lets them keep the pen used to sign the agreement... absent some great sentimental attachment, the patentee should give them the pen. Yet for those who define “large” in Actavis as “any amount that exceeds saved litigation costs,” that humble Bic® would transform a lawful settlement into a large reverse payment, on the theory that no one would enter such a deal absent anticompetitive intent. The idea that the patentee’s willingness to sacrifice a 98-cent Bic® pen could, by barely pushing the payment outside of saved litigation costs, serve as a workable surrogate for a patent’s weakness is absurd; it cannot do anything of the sort.

Instead, as discussed above, Actavis notes that a number of factors go into whether a large payment is substantial enough to provide meaningful information regarding (a) the strength or weakness of the underlying patent case and (b) market power. Because paying saved litigation costs to your opponent is not a “reverse payment” — large or otherwise — the first dollar that exceeds saved litigation costs cannot suffice to tell us anything meaningful about the patent or the market. Instead, a “large” payment under Actavis must be one that remains large “once the subtraction of legal fees and other services provided by generics occurs,” as it is only this portion that can ever fairly be called a patentee sacrifice.

165. It is not clear whether courts adopting the The Price Is Right rule would then treat the 98-cent value of the pen as an anticompetitive harm by itself, and ask exactly how many milliseconds of delay 98 cents can purchase, or whether they would seek to bring the entire payment of saved litigation costs outside of the “safe harbor” on that basis. If it is the latter, then a payment of $10,000,000 representing saved litigation costs would be a reverse payment of $0, whereas a payment of $10,000,000.98 would see the entire amount treated as suspect. Any such rule would be difficult to defend, to say the very least.

166. Actavis, 570 U.S. at 159 (characterizing Actavis factors as “size, its scale in relation to the payor’s anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification”); Barba v. Shire US, No. 13-21158-CIV, 2016 U.S. Dist. LEXIS 182548, at *9–10, 15 (S.D. Fl. Jan. 19, 2016) (rejecting the notion that a reverse payment was large if it exceeded saved litigation costs, and considering other factors: “Ultimately . . . there is no actual definition of ‘large’ in Actavis. Instead, there is a series of factors to consider . . . .”); see also supra Parts III.B, VI.

167. In re Lipitor, 46 F. Supp. 3d at 543; see also In re Aggrenox Antitrust Litig., 94 F. Supp. 3d 224, 243 (D. Conn. 2015) (“Even if the payments exceed avoided litigation costs, the Actavis factors — the size of the payments, their scale in relation to litigation costs, their independence from other services for which they might be fair consideration, and any other convincing justification — still matter.”); Gant, supra note 49, at 144–46 (explaining the role of “largeness” in the Actavis analysis).
VII. “TRADITIONAL” COMPROMISES ARE NOT SUSPECT UNDER ACTAVIS BECAUSE THEIR FORM PREVENTS A COURT FROM INFERRING ANTICOMPETITIVE INTENT OR HARM

We now turn to the final mystery of Actavis, which is again explained by Brooke Group, Aspen Skiing, and Trinko. Actavis holds that “traditional” forms of settlement, such as a compromise of damages, should not be considered reverse payments notwithstanding that they may involve the patentee giving up something of value that benefits the patent challenger. For example, if a patentee accepts $40 million for a damages claim it has against the patent challenger rather than the full $100 million it is claiming, this could be seen as a “payment” of $60 million to the challenger, but under Actavis would not be an antitrust concern.

But why not? The answer appears to be that Actavis sought, as a matter of policy, to limit the reach of antitrust scrutiny to protect settlement. To do so, Actavis requires courts to identify forms of agreement that are commonplace and traditional as a screen before applying antitrust scrutiny. Put differently, Actavis’s exclusion of “traditional” and “commonplace” settlements from antitrust scrutiny is a guardrail designed to keep antitrust law from undermining procompetitive patent settlements and thus to keep antitrust law from improperly deterring competition.

Trinko involved a similar guardrail. In theory many refusals to deal with rivals could be the basis for an antitrust claim under a sufficiently overbroad reading of Sherman Act Section 2. However, the Court in Trinko worried that overly restricting the right of a company to choose its business partners could not only impair the ability to structure businesses in competitive ways,

168. Actavis, 570 U.S. at 147, 156.
169. Id. at 151–52; see also In re Ciprofloxacin Hydrochloride Antitrust Litig., 261 F. Supp. 2d 188, 252 (E.D.N.Y. 2003) (raising the issue of whether this should be considered a reverse payment). See generally Mark Schildkraut, Patent-Splitting Settlements and the Reverse Payment Fallacy, 71 ANTITRUST L. J. 1033 (2003) (arguing that often in patent settlements there is consideration; therefore, reverse payments may not in fact always be anticompetitive).
171. Actavis recognized the importance of settlement. Actavis, 570 U.S. at 146, 154 (acknowledging the “public policy favoring settlement of disputes” and “recog[z]ing the value of settlements”); see also supra note 1 (collecting authority on settlement).
172. See Actavis, 570 U.S. at 154.
but indeed actively promote collusion. Trinko thus limited antitrust scrutiny to those “refusal to deal” cases that involved a prior profitable course of dealing and/or a refusal to sell a competitor a product otherwise available at retail. Similarly, although some have suggested that even above-cost pricing may be “predatory,” Brooke Group and similar cases hold that only below-cost pricing is potentially actionable, since “mistaken inferences in [predatory pricing] cases . . . are especially costly, because they chill the very conduct the antitrust laws are designed to protect.” The Court, in these cases, thus limited antitrust scrutiny to “forms” of conduct that could be more readily identified, rather than asking courts to second-guess all possibly-suspect conduct.

Like Trinko and Brooke Group, Actavis involves a normally procompetitive activity that in the vast majority of cases will tend only to benefit competition: Settlement. As discussed at the outset of this article, settlement is typically beneficial not only to the parties but also the courts and the general public, as it avoids litigation costs and judicial waste, and in the patent context may permit earlier entry of competition. Courts should not seek to discourage such procompetitive settlement conduct any more than they would discourage low pricing in Brooke Group or independent business decisions in Trinko. But, as in Aspen Skiing, there could be circumstances where this normally-beneficial activity could theoretically be problematic, and there must be some way to find these exceptions without throwing the procompetitive baby out with the antitrust bathwater.

The Supreme Court in Actavis thus held that the presence of a large, unexplained reverse payment raises the possibility of antitrust scrutiny. However, there will likely be many traditional forms of compromise that may appear to contain a “payment” but that actually reflect procompetitive compromise, such as the example the Supreme Court gave of compromising

174. Verizon Comm’ns Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 410, 415–16 (2004); see also United States v. Colgate & Co., 250 U.S. 300, 307 (1919) (“[T]he [Sherman] [A]ct does not restrict the long recognized right of a trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal . . . .”).

175. See Trinko, 540 U.S. at 409–10; see also supra note 37.


177. See supra note 32.


179. See Trinko, 540 U.S. at 409–10 (discussing Aspen Skiing); see also Novell, Inc. v. Microsoft Corp., 731 F.3d 1064, 1073 (10th Cir. 2013) (explaining how antitrust law establishes rules to address such conduct).

180. See Actavis, 570 U.S. at 159.
a damages claim for less than the claimed amount. Actavis, like Brooke Group and Trinko, thus adopted a guardrail that would not extend antitrust scrutiny to the broad range of “traditional,” “commonplace,” and “familiar” agreements that such scrutiny might otherwise inadvertently deter. However, it still allowed scrutiny for a limited set of “unusual” settlements the Court thought might raise concerns. Courts should therefore look to whether the agreements before them are of a type and form that has traditionally been used to reach compromise between litigants before declaring them to be “reverse payments” under Actavis, and should not extend Actavis to the types of agreements that are traditional and commonplace ways to reach a settlement.

Finally, it is no answer to suggest that the antitrust laws would never consider the form of the agreement in determining the potential for anticompetitive effect; on the contrary, they have long done so. While the antitrust laws often favor substance over form, in Trinko the Court looked to the form of the refusal to deal (i.e., whether there was a prior profitable course of dealing between the parties) to provide critical guidance regarding the potential reach of the antitrust laws, and in Brooke Group the Court focused on the form of the pricing (i.e., above or below cost) to do the same. Actavis likewise makes clear that the structure of the transaction is a critical guidepost, as “settlements taking these commonplace forms have not been thought for that reason alone subject to antitrust liability.” Indeed, Actavis contrasts such “forms” against the unusual “forms” of settlement that might raise antitrust issues. In other words, far from

181. See id. at 151–52.
182. See id. at 158.
183. See id. at 152. Indeed, the FTC recognized this in Actavis, arguing that Actavis should not apply to “a wide range of ordinary settlement practices.” See Reply Brief for Petitioner at 10, FTC v. Actavis, Inc., 570 U.S. 136 (2013) (No. 12-416), 2013 WL 1099171.
188. Actavis, 570 U.S. at 152 (emphasis added); see also id. (acknowledging “familiar settlement forms”).
189. Id. at 147–48 (“That form of settlement is unusual . . . . [T]here is reason for concern that settlements taking this form tend to have significant adverse effects on competition.”).
ignoring form, the sacrifice and recoupment framework uses form as a screen to avoid over-enforcement of the antitrust laws, and has done so for decades. *Actavis* therefore follows *Trinko* and *Brooke Group* in limiting the reach of antitrust laws to traditional forms of conduct unlikely to raise antitrust concerns, and courts that refuse to appreciate or apply these limitations will apply *Actavis* in ways the Supreme Court did not intend.

VIII. CONCLUSION

Courts have long struggled to determine when *Actavis* would require applying antitrust scrutiny to patent settlements and when it would not. But while *Actavis* is far from a picture of clarity, it can be properly applied — and its key mysteries all solved — simply by understanding that the case operates through the same sacrifice and recoupment framework used in *Brooke Group*, *Aspen Skiing*, and *Trinko*. Viewed through this lens, *Actavis* — while still an objectionable decision that the Supreme Court should revisit — can at least be applied in a way that makes sense and comports with longstanding antitrust principles.