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# Plavix case illustrates perils of generic drug wars

## Regulatory problems, poor judgment led to BMS' costly situation.

**By, Thomas C. Carey/Special to The National Law Journal**

This year, Peter R. Dolan, the chief executive officer of Bristol-Myers Squibb Co. (BMS), was faced with the threat of generic competition for Plavix, a blockbuster anti-clotting drug with about $3.2 billion in annual U.S. sales. In responding to this threat, he committed several errors that have cost BMS more than $500 million in sales, have cost him his job and may yet cost him his freedom. This story gives a rare look at the currents that swirl around executives at pharmaceutical companies who must make huge gambles in the face of an uncertain legal and regulatory environment.

Before the Plavix matter came to a boil, the attorneys general of 35 states filed suit against BMS in 2001 and 2002, alleging that BMS had excluded generic competition for two proprietary drugs through manipulative Food and Drug Administration (FDA) filings and baseless lawsuits. These cases were settled in 2003 for more than $125 million, and left BMS and its practices subject to close scrutiny by the state attorneys general.

Then in 2004 the U.S. Securities and Exchange Commission (SEC) accused BMS of managing its reported earnings to arrive at a smooth growth curve that was not indicative of the company's true results. To settle the matter, in June 2005, BMS entered into a deferred prosecution agreement with the U.S. Attorney's Office for the District of New Jersey. See www.usdoj.gov/usao/nj/press/files/pdffiles/deferredpros.pdf. In that agreement, BMS agreed, among other things, to be complete, truthful and prompt in providing information to the federal authorities. The U.S. attorney agreed to drop its criminal complaint if no violations of the agreement occurred in the next two years.

The Plavix litigation commenced before those lawsuits arose, but the settlement occurred afterwards. In November 2001, Apotex Corp., a privately held drug manufacturer controlled by its chief executive officer, Bernard Sherman, filed an abbreviated new drug application (ANDA) providing a "Paragraph IV certification" under 21 U.S.C. 5050)(2)(vii)(IV), alleging that the patent covering Plavix was invalid. This filing started a brief period during which BMS could sue Apotex for infringement, thereby triggering a statutory 30-month automatic stay preventing the FDA from approving any ANDA filing with respect to Plavix. 21 U.S.C. 355(j)(5)(B)(iii).

Before continuing this story, a little background is necessary. The first generic maker to file an ANDA has a 180-day period of exclusivity during which the FDA may not approve another ANDA with respect to the same proprietary drug. The 180-day period does not start until the first ANDA filer enters the

market. If it does not enter the market, whether because of ongoing litigation or because it has agreed not to, the 180-day period never starts, thus preventing other competitors from coming to market almost indefinitely.

This bottleneck can create tremendous value for the benefit of the brand drug company. Realizing that value, brand drug companies are sometimes willing to pay the first ANDA filer more to stay off the market than the generic drug company would make by selling the generic drug. See the Federal Trade Commission's Prepared Statement on Barriers to Generic Entry before the Special Committee on Aging of the U.S. Senate (July 20, 2006), www.ftc.gov/os/2006/07/P052103BarrierstoGenericEntryTestimonySenate07202006.pdf, at 11-12.

**The 'reverse payments' issue**

These "reverse payments" are viewed quite negatively by the FTC, which generally sees them as a violation of antitrust laws. In 1999, the FTC began challenging reverse payment arrangements, and their incidence dropped dramatically. The basic theory espoused by the FTC was that reverse payments constituted an illegal restraint of trade in violation of § 5 of the Federal Trade Commission Act and § 2 of the Sherman Act. The FTC gained additional leverage in its campaign against reverse payments in 2003, when Congress required drug companies to disclose to the FTC and the U.S. Department of Justice agreements made to settle Paragraph IV litigation. See the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. 108-173 (2003) at Title XI, Subtitle B, § 1112.

The tide turned against the FTC in 2005, however. First, the 11th U.S. Circuit Court of Appeals disputed both the FTC's analytic framework and its conclusions in S*chering-Plough v. FTC*, 402 F.3d 1056 (11th Cir.), cert. denied, 126 S.Ct. 2929 (June 26, 2006). The 11th Circuit said that the FTC was incorrect in applying antitrust standards to a reverse payments arrangement without first considering applicable patent law. The court held that if the settlement does not seek to expand upon the exclusionary powers of the patent and the litigation is not a sham, then reverse payments are not unlawful and may in fact be pro-competitive. The 11th Circuit's analysis has been followed in the 2d Circuit in *In re Tamoflaxen Citrate Antitrust Litigation*, 429 F.3d 370 (2d Cir. 2005).

The FTC received another setback in 2005 when the Federal Circuit held that a generic drug manufacturer that is not the first ANDA filer and that has not been threatened with a lawsuit by the brand drug company cannot sue for a declaratory judgment concerning the validity of the patent because of a lack of ripeness. *Teva Pharmaceuticals USA Inc. v. Pfizer Inc.*, 395 F.3d 1324 (Fed. Cir.), cert den., 126 S. Ct. 473 (2005). In the view of the FTC, this decision strengthens the power of a patentee and a first ANDA filer, acting together, to block any competition, even if the patent itself is invalid. See the FTC Statement at 19-20.

It was against this regulatory backdrop that BMS had to wrestle with Apotex. BMS' 30-month stay expired in September 2005. In January 2006, while the patent litigation was still ongoing, the FDA approved Apotex's ANDA application. Settlement discussions then began in earnest, with the parties entering into a settlement agreement in March 2006.

**The settlement agreement**

The agreement contained two types of provisions: those that required FTC and state attorneys general approval to become effective and those that would apply if such approval were denied. The terms that

required regulatory approval included a license for Apotex to make a generic version of Plavix starting on March 17, 2011, eight months before the patent would expire; a commitment by BMS not to launch an authorized generic of Plavix; and BMS' purchase of Apotex's unsold inventory of generic Plavix for $40 million.

The terms that would take effect upon a regulatory denial were that BMS would pay $60 million to Apotex; BMS would limit its damages recovery in an infringement suit brought after Apotex launched its generic product to 70% of Apotex's sales; and BMS would not seek a temporary restraining order or a preliminary injunction against such a launch without giving Apotex five days prior notice.

The proposed payment of $60 million was startling enough. As events would show, the five-day head start was critical to Apotex, which was prepared to launch its generic upon a moment's notice. BMS' limitation on its potential damages, which precluded treble damages that might otherwise be available under 35 U.S.C. 284, was enough to guarantee that Apotex would pursue an "at risk" launch if the regulators did not approve the settlement.

In May 2006, when the state attorneys general objected to the settlement agreement, BMS and Apotex signed a revised settlement agreement that accelerated slightly the date when Apotex would be licensed to sell Plavix, and provided that BMS' infringement damages in the event of an Apotex launch would not exceed 50% of Apotex sales. BMS' commitment not to launch an authorized generic was deleted. In a letter sent to three U.S. senators on July 7, Sherman, the Apotex CEO, contended that he expected that the settlement agreement would be rejected by the regulators, and that his main focus in negotiating the "somewhat bizarre arrangement" was to clear the way for an "at risk" launch of Plavix once the rejection came.

After the revised settlement agreement was filed, Apotex's lawyers apparently told the FTC that there were oral side agreements that BMS had not disclosed to the FTC or the attorneys general. See M. Schuchman, "Delaying Generic Competition-Corporate Payoffs and the Future of Plavix," The New England Journal of Medicine, Sept. 28, 2006, at 1300. Among the rumored side deals was BMS' agreement not to launch an authorized generic, a term that was dropped from the written version of the settlement agreement. In an interview, Sherman has hinted at the existence of incriminating e-mails, but he has refrained from being more specific. See Stephanie Saul, "A Generic Drug Tale, With an Ending Yet to be Written," N.Y. Times, Aug. 15, 2006, http://travel2.nytimes.com/2006/08/15/business/worldbusiness/15drug.html?fta=y.

On July 26, the FBI commenced a criminal investigation and raided Peter Dolan's office, apparently looking for evidence that the Plavix regulatory disclosures were misleading. On July 28, BMS announced that the state attorneys general would not approve the second settlement agreement. At a court hearing held on Aug. 4, BMS' lawyers accused Sherman of sabotaging the settlement agreement by giving false information to the regulators, which Sherman denied.

**Launch and injunction**

On Aug. 8, Apotex launched its generic version of Plavix. One customer immediately placed a $75 million order. On Aug. 13, BMS sought a preliminary injunction prohibiting any further sales of the generic and requiring a recall of the generics that had been sold. On Aug. 31, the U.S. District Court for the Southern District of New York granted the preliminary injunction, but refused to order a product recall. In its refusal, the court pointed to the five-day head start that BMS had agreed to give Apotex in

the settlement agreement. The court reasoned that, having negotiated away its ability to prevent the generic launch, BMS was not in a position to ask the court to order a recall. In the 23 days prior to the preliminary injunction, Apotex had sold enough generic Plavix to cost BMS more than $500 million in sales!

The preliminary injunction was a major victory for BMS, but it came too late for Dolan. On Sept. 12, the board of BMS terminated Dolan and the company's general counsel. The criminal investigation had since been broadened to encompass possible securities fraud violations in connection with the Plavix settlement.

On Oct. 31, the Federal Circuit heard an appeal by Apotex of the injunction granted by the trial court. While no decision has yet been rendered, the recording of the hearing, available at www.cafc.uscourts.gov/oral_arguments/ mp3/06-1613.mp3, suggests a great reluctance to overturn the injunction. That is where this tale stands now.

**Lessons to be learned**

What lessons can be learned from the experience of BMS? First, regulatory problems have a way of compounding. Had BMS not been the subject of prior regulatory scrapes, it would not have had to seek approval for its settlement agreement with Apotex, making its position much stronger.

Second, BMS appears to have negotiated with Apotex in the belief that its patent was not likely to be upheld. Yet the trial court, in issuing the preliminary injunction, found that Apotex had not raised a substantial question regarding the validity and enforceability of the patent. It appears that BMS greatly underestimated the strength of its legal position, and thus made unusual concessions to Apotex in order to settle the case. By waiving treble damages and agreeing to give Apotex a five-day head start in a generic product launch, BMS virtually guaranteed that Apotex would proceed with a generic launch. BMS should not have overlooked the statutory presumption that its patent was valid.

Third, while the subject of reverse payments is extremely controversial, brand drug companies should be aware that the courts are more inclined to accept them than are the regulators. A bill to curb the practice, S. 3582 (Preserve Access to Affordable Generics Act), has been introduced in the Senate and referred to committee. But until such legislation is adopted, reverse payments are on the table as an option to settle Paragraph IV litigation, notwithstanding the train wreck that the Plavix wars have been for BMS. It is important, however, that the settlement be structured properly to conform to the structures of *Schering-Plough v. FTC*.

Finally, it pays to know your adversary. Apotex launched a generic version of Paxil in 2003 without first settling its ongoing patent litigation. Having gone at risk once, it was likely to do so again. BMS should have resisted terms intended to facilitate that move.

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