

[D.I. 580]

THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

SCIELE PHARMA, INC., et al.,

Plaintiffs,

v.

LUPIN, LTD, et al.,

Defendants.

Civil No. 09-37 (RBK/JS)
(Redacted Version)

ORDER

This matter is before the Court on the letter application of plaintiff Sciele Pharma, Inc. n/k/a Shionogi, Inc., asking the Court to Order defendants Lupin Ltd. and Lupin Pharmaceuticals, Inc. to produce "settlement and licensing documents." December 12, 2012 Letter Brief ("LB") at 1. [Doc. No. 580]. The Court received Lupin's response [D.I. 583] and plaintiff's reply [D.I. 587]. For the reasons to be discussed Shionogi's application is GRANTED in part and DENIED in part.

Rather than repeating in detail the fact and procedural background of this matter that is already well known by the parties, the Court incorporates by reference the discussion in its August 27, 2012 Order [D.I. 545] deciding Lupin's application for a protective order.

The present discovery dispute centers on Shionogi's request for Lupin's licensing agreements and associated documents. Lupin

argues the documents are irrelevant.¹ The specific requests at issue are:

- 1.
2. Biguanides, which is in the class of compounds that includes metformin, the active ingredient in Fortamet®;
3. Other pharmaceutical products indicated for the treatment of diabetes;
4. Pharmaceutical products with extended-release characteristics; and
5. Communications concerning or associated with these agreements, including negotiations, forecasts and analyses.

Shionogi argues the requested documents are relevant to its claim for royalty damages. More specifically, Shionogi argues the documents are relevant to factors 2 and 12 of the Georgia-Pacific factors. Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), modified and aff'd, 446 F.2d 295 (2d Cir. 1971). Shionogi contends it is entitled to know "the rates paid by the licensee for the use of other patents comparable to the

¹To the extent Lupin argues it would be burdensome to produce the requested documents the argument is denied. Lupin has made no such showing and has not even identified how many responsive licensing agreements exist. To the extent Lupin argues non-production is warranted because the requested documents are confidential, the argument is also denied. The Confidentiality Order in effect adequately protects Lupin's interests. If Lupin believes additional protections are needed it can file a separate application for relief.

patent in suit” and the “portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.” December 12, 2012 Letter Brief (“LB”) at 1-2 (emphasis in original) (citation omitted). Lupin objects to the requested discovery because “it concerns different products, patents and litigation and seeks confidential information.” December 19, 2012 LB at 3. The crux of Lupin’s argument is that the requested agreements concern “non-comparable” patents. Given the parties’ dispute the first question the Court must address is whether any of the requested licensing agreements should be produced. If the Court determines that some or all of the requested licensing agreements are discoverable, the next question is whether documents besides the licensing agreements should be produced.

Discussion

As a general matter a patentee is entitled to “damages adequate to compensate for ... infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.” 35 U.S.C. §284. A “recoverable royalty” derives from a hypothetical negotiation between a patentee and the infringer when the infringement began. ResONet.com, Inc. v. Lansa, Inc., 594 F. 3d 860, 868-69 (Fed. Cir. 2010). As noted, a list of relevant factors to examine for a reasonable royalty calculation is set

forth in Georgia-Pacific, supra. Factor 2 refers to a consideration of "the rates paid by the licensee for the use of other patents comparable to the patent in suit." 318 F. Supp. at 1120. "This factor examines whether the licenses relied on by the patentee in proving damages are sufficiently comparable to the hypothetical license at issue in suit." Lucent Technologies, Inc. v. Gateway, Inc., 580 F.3d 1301, 1325-26 (Fed. Cir. 2009). Factor 12 refers to the "portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions." 318 F. Supp. at 1120.

Whether Lupin's licensing agreements involve patents "comparable" to those at issue in this case is not an easy task. A concise definition is elusive because the analysis is fact-specific and involves a great deal of discretion. The Federal Circuit recognizes that the reasonable royalty analysis "necessarily involves an element of approximation and uncertainty." Lucent Technologies, Inc., 580 F.3d at 1325 (citing Unisplay, S.A. v. American Electronic Sign Co., Inc., 69 F.3d 512, 517 (Fed. Cir. 1995)). Some general principles, however, apply to the Court's analysis. One, to be discoverable the licensing agreements at issue do not have to be identical to the patents at issue, they merely have to be comparable. The term "comparability" is interpreted broadly. See Procter & Gamble Co. v. Paragon Trade

Brands, Inc., 989 F. Supp. 547, 607-08 (D. Del. 1997); Mobil Oil Corp. v. Amoco Chemicals Corp., 915 F. Supp. 1333, 1354 (D. Del. 1994). One court ruled that comparability simply requires that the license agreements relate to the same patents or "comparable technology." Tyco Healthcare Group LP v. E-Z-EM, Inc., No. 2:07-CV-262 (TJW), 2010 WL 774878, at *2 (E.D. Tex. March 2, 2010. See also Lucent Technologies, Inc., F.3d at 1325-26 (citation omitted) ("For similar license agreements to be used as a proxy for derivation of a fair market royalty, the form of license compensation should be on a like-kind basis."). Nevertheless, the Court agrees with Lupin that "radically" or "far different" license agreements are not discoverable. December 19, 2012 LB at 8. It is Shionogi's burden to show "comparability." In the absence of special circumstances, which do not exist here, Shionogi cannot discover Lupin's licenses simply to determine in the first instance if they are "comparable" to the patents at issue. If the Court accepted this argument there would be almost no limit to discovery. Two, when addressing the parties' dispute the Court must be mindful that the federal rules of discovery "promote a broad and liberal policy of discovery for the parties to obtain the fullest possible knowledge of the issues and facts before trial." In re MTSG, Inc., 675 F.3d 1337, 1346 (Fed. Cir. 2012) (citation and quotations omitted). Albeit, discovery is not unlimited (id. at 1346) and may be circumscribed by the discretion afforded the Court pursuant to

Rule 26(b)(2)(C). Three, "comparable" license agreements are discoverable whether they arise in the context of the ordinary course of business or in the context of litigation. The differences in the agreements go to the weight and admissibility of the evidence, not whether the licenses are discoverable. See West v. Jewelry Innovations, Inc., No. C07-0182JF (HRL), 2009 WL 668695, at *1 (N.D. Cal. March 13, 2009). Since the Court does not find explicit or implicit support in the case law for the proposition, the Court will not apply, as Lupin argues, a "heightened discovery burden" (December 19, 2012 LB at 6) to licenses reached as part of settlement agreements. In fact, the Federal Circuit recently stated, "[o]ur cases appropriately recognize that settlement agreements can be pertinent to the issue of reasonable royalties." MTSG, 675 F.3d at 1348. Indeed, the most reliable license may arise out of litigation. ResQNet.com, Inc., 594 F.3d at 872. Four, even if the parties' negotiations are the best available reasonable royalty evidence, this does not preclude discovery of other relevant agreements. Parties may obtain discovery of "any non-privileged matter that is relevant to any party's claim or defense." Rule 26(b)(1). Five, the Court is only deciding whether the requested documents are discoverable. The parties are obviously aware that discovery is a broader standard than admissibility. Heat & Control, Inc. Hester Indus. Inc., 785 F.2d 1017, 1024 (Fed. Cir. 1986). Whether the requested documents are admissible at trial will be decided by the trial judge.

Requested License Agreements

1.

Shionogi argues:

Lupin's argument that the technologies and patents involved in the are "quite different" from this case is not persuasive. December 19, 2012 LB at 2. The differences go to the weight and admissibility of the evidence rather than whether the agreement is discoverable.²

2. Biguanides

Shionogi alleges biguanides is in the class of compounds that

²The fact that a partially redacted copy of the agreement is publicly available (December 19, 2012 LB at 4-5) counsels for, not against, its discovery. If part of the agreement is already in the public domain there is no good reason to withhold the rest of the agreement. Shionogi must determine for itself whether the agreement is "instructive."

includes metformin, the active ingredient in Fortamet®. December 12, 2012 LB at 5. It avers that since the active ingredient in Fortamet®, metformin, is a biguanide, agreements concerning other biguanides are likely to involve comparable businesses and analogous patents. Id. Shionogi alleges these agreements will shed light on how Lupin values comparable compounds, and provide insight on how Lupin might structure a Fortamet® license agreement. Id.

Although a closer call, the Court is satisfied that Shionogi has demonstrated that the involvement of "biguanides" is sufficiently comparable to warrant discovery of these agreements. See Gerardi Decl. ¶5.a.1.2. As noted, the scope of discovery, including determining whether a requested agreement is comparable, is interpreted broadly. Lupin points out that these agreements could include "completely unrelated indications and even non-pharmaceutical products." December 19, 2012 LB, Exhibit 1, Declaration of Ivan T. Hoffman ¶17. If Lupin is correct in its belief that some of the requested agreements are completely irrelevant, they will be quickly ignored and will not divert the parties' attention and resources. Shionogi, however, must make this determination for itself.

3. Other Pharmaceutical Products Indicated for the Treatment of Diabetes

Shionogi argues that since Fortamet® and the patents in suit concern the treatment of diabetes, all agreements concerning the

treatment of diabetes are comparable. The Court finds that Shionogi has not satisfied its burden of showing these agreements are comparable. In turn, the Court is satisfied that Lupin has demonstrated that Shionogi's request is overbroad. Hoffman Decl. ¶¶19-21.

4. Other Extended Release Pharmaceutical Characteristics

For the same reason discussed above, the Court finds that Shionogi has not satisfied its burden of showing that these agreements are comparable. Shionogi's request is overbroad and is not confined to comparable agreements. Hoffman Decl. ¶¶22-25.

Even though the Court has ruled that Shionogi's requests 3 and 4 above should be denied, the Court finds that a combination of the requests is sufficiently comparable to be discoverable. Lupin will be Ordered to produce licensing agreements for other drugs for the treatment of diabetes that also have extended release pharmaceutical characteristics.

Other Documents

Having determined that Lupin shall produce some license agreements, the Court must decide whether Lupin should produce "communications concerning or associated with these agreements including negotiations, forecasts and analysis." Not surprisingly the parties each cite cases that support their positions. Compare Tyco Healthcare Group LP, supra (settlement negotiation documents ordered to be produced for license agreements related to

the same patents or comparable technology), with High Point SARL v. Sprint Nextel Corp., C.A. No. 09-2269-CM-DJW, 2012 WL 1533213 (D. Kan. April 30, 2012) (distinguishing agreements regarding the patents-in-suit from comparable patents, the court denied the production of settlement communications even though licensing agreements were ordered to be produced). The disparity in the case law is not surprising given the discretion afforded the court in deciding discovery issues. Rather than adopting a blanket rule that the requested documents are or are not discoverable, the Court agrees with the approach taken in Charles E. Hill & Associates, Inc. v. ABT Electronics, Inc., 854 F. Supp. 2d 427, 429 (E.D. Tex. 2012), wherein the decision stated that a case-by-case approach would be taken to determine whether the requested documents were discoverable. The Court also agrees with the decision wherein it stated that as a general rule license negotiations are less probative and more prejudicial than the licenses themselves. Id. In addition, the Court agrees that negotiation documents "primarily add heat and not light to an already difficult judicial chore." Id.

As to Shionogi's requests, the Court is satisfied that the is sufficiently similar to the issues in this case so as to require Lupin to produce the requested documents. However, the same is not true as to the requested biguanides agreement(s) and the agreement(s) involving diabetes drugs with

extended release pharmaceutical characteristics. This later group of documents is denied based on relevancy and the Court's determination that even if the requested documents are relevant, the minimal relevancy is outweighed by the cost, burden, prejudice and distraction the documents will generate. See Fed. R. Civ. P. 26(b)(2)(C).

Conclusion

Accordingly, for all the foregoing reasons, IT IS HEREBY ORDERED this 28th day of January, 2013, that plaintiff's request for Lupin's "settlement and licensing documents" is GRANTED in part and DENIED in part; and

IT IS FURTHER ORDERED that Lupin shall produce the licensing agreement between Lupin shall also produce the biguanide licensing agreement(s) and the licensing agreement(s) involving diabetes drugs with extended release pharmaceutical characteristics; and

IT IS FURTHER ORDERED that only as to the Lupin shall produce "communications concerning or associated with the ... agreement[] including negotiations, forecasts and analyses"; and

IT IS FURTHER ORDERED that Shionogi's request for additional documents is DENIED; and

IT IS FURTHER ORDERED that the foregoing documents shall be produced by February 11, 2013.

s/ Joel Schneider
JOEL SCHNEIDER
United States Magistrate Judge