

Intellectual Property

Springboard damages, springboard profits

By Paula Frederick and Jacob Martin



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(May 4, 2021, 11:27 AM EDT) -- The infringer of a patent may continue to experience benefits or advantages after the expiry of the patent due to entering the market early, which are to the detriment of the patent holder (i.e. the springboard advantage). Part one of this article discussed these advantages and the related compensation to the patent holder (i.e. how to quantify springboard damages and springboard profits). This second part examines cases involving springboard damages or springboard profits and discusses how experts can assist in quantifying these amounts.

Court decisions involving springboard damages and springboard profits

The following are examples of Federal Court and Federal Court of Appeal decisions in which judges have commented on and/or awarded springboard damages or springboard profits:



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1. *Merck & Co., Inc. v. Apotex Inc.* [2015] 1 F.C.R. 405;
2. *AstraZeneca Canada Inc. v. Apotex Inc.* [2015] F.C.J. No. 778;
3. *Janssen Inc. v. Teva Canada Ltd.* [2016] F.C.J. No. 667; and,
4. *Dow Chemical Co. v. Nova Chemicals Corp.* [2017] F.C.J. No. 441 and *Nova Chemicals Corp. v. Dow Chemicals Co.* [2020] F.C.J. No. 928

MEVACOR (lovastatin) decision

This case involved the drug lovastatin, which was sold by Merck Canada Inc. under the brand name MEVACOR. During the liability phase, the court found that the defendants had infringed the patent for MEVACOR by selling a generic version of the product.

In addition to its lost profits for the period prior to the expiry of the patent, the plaintiffs also claimed the following with respect to the post-patent expiry period:

- Lost profits for the MEVACOR tablets that would have been sold domestically in place of the Apo-lovastatin tablets sold after the expiry of the patent; and,
- A reasonable royalty on infringing Apo-lovastatin tablets produced before patent expiry and sold domestically after patent expiry, which Merck would not have sold in the but-for world.

In her decision, Justice Judith Snider noted the following with respect to the allowable period for patent infringement damages (para. 183):

"There is nothing in the *Patent Act* that limits damages to those sustained during the life of the patent. Section 55(1) states that the infringer is liable 'for all damages sustained by the patentee [or licensee] after the grant of the patent, by reason of the infringement.' Merck is entitled to its damages for infringing sales even though those sales actually would take place during the post-expiry period."

Merck's economic expert estimated Apotex's ramp-up after patent expiry in the but-for world based on Apotex's actual experience when it entered the lovastatin market. Justice Snider did not agree with this approach and stated "Apotex's historical 1997 ramp-up experience may not be appropriate or take into account a number of factors" (para. 219).

Ultimately, Justice Snider did not grant Merck damages in respect of its lost sales post-patent expiry due to the late nature of the claim and Merck's failure to prove its lost profits during this period. However, Justice Snider did grant Merck a reasonable royalty on sales of infringing Apo-lovastatin tablets manufactured prior to patent expiry, but sold after patent expiry.

LOSEC (omeprazole) decision

Apotex was found to have infringed a patent related to LOSEC and, as such, the plaintiffs were entitled to elect either an accounting of profits or damages. The parties sought clarification on a number of issues from Justice Robert Barnes, who had issued the liability phase decision, one of which was the significance of the original judgment not including any reference to "springboard profits or damages".

Justice Barnes made the following statement with respect to this issue (para. 7):

"In my view, springboard damages are nothing more than a type of loss no different than any other claim to damages. They must be proven or disproven with evidence. There is accordingly no need to refer to springboard damages or to any other particular form of damages at the liability stage. Nothing about my Judgment as rendered will preclude either party from addressing this issue in the damages phase."

LEVAQUIN (levofloxacin) decision

Teva Canada Limited was found to have infringed a patent related to LEVAQUIN to which Janssen Inc. was a licensee. While the patent-at-issue expired on June 23, 2009, Janssen claimed losses until December 2010. In addressing this issue, Justice Roger Hughes cited Justice Snider in the Lovastatin decision and noted (para. 110):

"In this case, it would be reasonable to presume that some time would extend beyond the date that the patent expired. Prescriptions would have to be filled, contracts complied with, and other existing obligations incurred during a period of price suppression when the patent was in force would have to be fulfilled."

Justice Hughes, however, did not find it reasonable to extend the damages period to December 2010 and instead applied a "broad axe" principle to extend losses for prescription (retail) sales for about two months after the patent expired and hospital losses for approximately one year after the patent expired.

Dow decision

Nova Chemicals Corporation was found to have infringed the Dow Chemical Company's patent for polyethylene. As part of its claim for a disgorgement of Nova's profits, Dow claimed for springboard profits. Justice Simon Fothergill summarized Dow's claim as follows (para. 112):

"If Nova had not infringed the '705 Patent, then it would have taken Nova some time following the patent's expiry to attain the same level of sales of the infringing products that Nova enjoyed in April 2014. Dow says that Nova's infringement of the '705 Patent provided it with a "springboard" into the market and, as a result, Nova continued to profit from its infringing activity after the expiry of the '705 Patent. Dow says that it is entitled to receive these 'springboard profits' from April 20, 2014 to December 31, 2015."

In order to quantify Nova's springboard profits, Dow used a number of experts including an industry expert, an economist and an accounting expert who, based on the opinions of the other two experts, quantified Nova's springboard profits under multiple scenarios.

Justice Fothergill ultimately accepted the approach that used Nova's actual ramp-up experience in 2002 to quantify the springboard period sales volumes because it was "grounded in reality" (para. 130). This was the first time that springboard profits were granted in Canada.

The Federal Court of Appeal upheld Justice Fothergill's award of springboard profits, stating that "to allow an infringer to retail any advantage gained from its infringement is to incentivize the infringement If post-expiry profits are immune from the reach of an accounting of profits, an infringer could be economically incentivized to invade the patentee's monopoly shortly before its expiry." (para. 128).

Further, the Federal Court of Appeal stated that springboard profits do not require the use of a "hypothetical exercise" or "but-for world," which it considers inappropriate in an accounting of profits. Instead, the court stated that one must compare a non-infringing baseline, or "ramp-up" period, to the total profits that the infringer actually earned in order to quantify the value added from the unauthorized use of the patent (para. 131).

Use of experts in quantifying springboard damages and profits

Springboard damages and springboard profits can include the following:

- Lost profits on lost sales volumes/Increased profits on incremental sales volumes — were the patent holder's sales volumes lower during the springboard period due to having a competitor (the infringer) on the market earlier than at the patent expiration date? Conversely, were the defendant's sales volumes higher post-patent expiry due to entering the market prior to patent expiry?
- Lost profits due to price suppression — did the patent holder lower prices prior to the patent expiring to compete with the infringer such that the price on its actual sales was lower during the springboard period than it otherwise would have been?
- Increased costs — did the patent holder incur additional costs to compete with the infringer during the springboard period due to the infringer's early entry into the market (e.g., increased promotional expenses)? Conversely, were the defendant's costs lower after patent expiry due to entering the market early (e.g., lower product costs due to economies of scale)?

Due to the different assumptions made in estimating springboard damages and springboard profits, a number of experts may be required, including market experts, pricing/formulary experts and accounting experts (i.e. chartered professional accountants and chartered business valuers).

Conclusion

Court decisions indicate that claims for springboard damages and springboard profits are no different from any other claim for damages or profits. These claims should be considered in every patent infringement case where appropriate; however, as noted by Justice Barnes, a claim for springboard damages "must be proven or disproven with evidence." The appropriate evidence and its impact on springboard damages or profits will be case dependant.

It is important to have a well thought out and supported analysis of the springboard damages and springboard profits based on reasonable assumptions. Involving the accounting expert and other experts at an early stage in the litigation process can assist in the production of necessary information and relevant questions being asked such that estimates of the springboard damages or springboard profits are well supported. Ultimately, it will be up to the court to decide if an infringer obtained any additional benefit after patent expiration and if springboard damages or springboard profits should be awarded.

This is part two of a two-part article. Part one: Spring past expiration date.

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