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FEDERAL COURT REJECTS NIA DEFENCE AND AWARDS COMPOUND INTEREST ON PATENT DAMAGES

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On Jan. 23, 2015, the Federal Court released its decision regarding the quantum of damages recoverable by Eli Lilly ("Lilly") in an action relating to Apotex's infringement of patents related to the manufacture of the antibiotic cefaclor. Lilly was awarded damages, including those related to lost profits on lost sales and prejudgment interest at the average rate of Lilly's overall profit rate compounded annually, for the 17 years between the commencement of the proceeding and the final disposition on the quantum of damages.

The quantum of the final award including prejudgment interest totalled to $106,274,649.00.

The Court fully rejected Apotex's argument that damages should be reduced because Apotex could have hypothetically avoided infringement if it had known it was going to lose the liability case (the "non infringing alternative" or NIA defence).

The action commenced in 1997, damages were bifurcated and the liability phase was decided in 2008 with Justice Gauthier holding that Apotex infringed at least one valid claim in each of the eight separate patents asserted by Lilly (Eli Lilly and Co v Apotex Inc, 2009 FC 991; aff'd 2010 FCA 240; leave to appeal to SCC refused, [2010] SCCA No 434).

"Infringement of a patent is a statutory tort"

Justice Zinn fully rejected Apotex's argument that Lilly's remedy for damages was more limited than that provided for in subsection 55(1) of the Patent Act. Justice Zinn noted that only Parliament can alter that statutory right, and no judge has the jurisdiction to limit a plaintiff's recovery to something less than its entitlement under the Patent Act.

Non-infringing Alternative

After a thorough review of the applicable jurisprudence, Justice Zinn fully rejected that a NIA Defence is available in law to an infringer in Canada in an action for damages for patent infringement, thereby confirming Justice Snider's position that "the existence of a non-infringing alternative is not relevant to an assessment of damages" (Merck & Co v Apotex Inc, 2013 FC 751).

Justice Zinn also confirmed that the causal connection between the infringement and the damages it causes is determined based on the facts as they existed in the real world, not on those that could have existed. In other words, the infringer is not allowed to argue that it would not have infringed in the "but for" world when it did so in the real world.

Justice Zinn explained that a NIA is only considered when one accounts for an infringer's profits as opposed to in a case based on a patentee's damages. In an accounting of profits analysis, it is necessary to determine what profit is directly attributable to the **use** of the invention. However, when one is assessing the damage sustained by the patentee because of the infringement, it is irrelevant whether the infringer could have done otherwise, because the damage resulted precisely because of the infringement.

Compound Interest

Justice Zinn relied on the Supreme Court's decision in Bank of America Canada v Mutual Trust Co, 2002 SCC 43 to find that compound prejudgment interest was available to Lilly as an element of the compensation provided by subsection 55(1) of the Patent Act which provides that the infringer is liable to the patentee "for all damage sustained" by reason of the infringement.

In Bank of America, the Supreme Court recognized the "time value" of money and concluded that the unwillingness to award compound interest at common law should be discarded where that remedy is required for the plaintiff to be compensated fully.

Justice Zinn rejected Apotex's narrow view of the judgment in Bank of America, holding that the Supreme Court did not state that equity and the common law right in contract were the only "rights" available to support an award of compound interest.

Once Lilly established that it lost profits as a result of the infringement by Apotex, Justice Zinn accepted that "in today's world there is a presumption that a plaintiff would have generated compound interest on the funds otherwise owed to it and also that the defendant did so during the period in which it withheld the funds." As such, Lilly also sustained the damage of the lost income that it would have generated from those profits.

Finally, to determine the rate of prejudgment interest, Justice Zinn held that the best measure to ascertain what loss the patentee suffered over the period by not having the funds available to invest in its business is to examine what profit it realized in its business in the relevant time period.

Lilly was represented by Gowlings lawyers Anthony Creber, Isabel Raasch and Marc Richard.

Related Life Sciences, Intellectual Property, Patents

Author(s)

Anthony G. Creber

Partner - Lawyer, Patent & Trademark Agent, Ottawa

Email
anthony.creber@gowlingwlg.com

Phone
+1 613-786-0140

vCard
Anthony G. Creber

Marc Richard

Partner - Ottawa

Email
marc.richard@gowlingwlg.com

Phone
+1 613-786-8690

vCard
Marc Richard