CRA Insights:
Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

Recent developments in IP damages

Pharrell Williams, et al. v. Bridgeport Music, Inc., et al. CV13-06004-JAK (AGRx) (CACD)

On March 10, 2015, a jury in the Central District of California, Western Division, issued a unanimous verdict rejecting Williams's claims and awarding almost $7.4 million in counter-claim damages to Bridgeport. The case involves allegations that two songs on Robin Thicke's "Blurred Lines" album, specifically the title track and "Love After War," infringed the copyrights of two Marvin Gaye songs, "Got To Give It Up" and "After The Dance," respectively. The Williams parties originally filed suit against the Bridgeport parties to obtain a declaratory judgment that these songs were not infringing; the Bridgeport parties countered seeking an opposing judgment, along with damages. The jury found that for the song "Blurred Lines," Williams and Thicke had infringed "Got To Give It Up," but found no infringement on behalf of the rapper T.I., who contributed certain rap lyrics to the track, nor three record labels attached to the album. The jury found that the song "Love After War" did not infringe "After The Dance."

During the trial, the parties stipulated that for the "Blurred Lines" song, music publishing royalties, which include mechanical and performance royalties, were roughly $8 million, while profits from CD sales and digital downloads were roughly $16.7 million, split between Williams, Thicke, T.I., and the three record labels. While the Bridgeport parties sought $25 million in damages, the jury found that Bridgeport was entitled to a) 50% of the music publishing royalties, or $4 million, and b) 31.25% (5/16ths) of the $16.7 million in profits attributable to Williams and Thicke, or roughly $1.6 million and $1.8 million, respectively. The jury also awarded Bridgeport approximately $10,000 in statutory damages.

Smartflash LLC, et al. v. Apple Inc., et al., 6:13-cv-00447-JRG (TXED)

On February 24, 2015, a jury in the Eastern District of Texas rendered a verdict awarding Smartflash $532.9 million for Apple's infringement of three patents generally related to digital rights management, data storage, and access management. The jury also found the infringement was willful. Smartflash had sought $852 million in reasonable royalty damages based on Apple's sales of iPhones, iPads, and Mac computers that were used to access iTunes. Apple argued that damages should amount to no more than $4.5 million. The Court had previously excluded portions of Smartflash's damages analysis.

On May 1, 2015, Apple filed two renewed motions for judgment as a matter of law. In the first motion, Apple argued that its infringement was not willful. In the second motion, Apple argued that the patents-in-suit are directed to an abstract idea and therefore not eligible under 35 U.S.C. § 101. Although the Court had previously determined that the patents were eligible under § 101, Apple argued that the Court should reconsider that decision since "the U.S. Patent & Trademark Office's Patent Trial and Appeal Board ("PTAB") concluded that two of the four claims are more likely than not ineligible." On the same day, Smartflash filed a motion seeking treble damages totaling approximately $1.6 billion, a permanent injunction, an ongoing royalty until Apple complies with the injunction, pre-judgment interest of approximately $109 million, post-judgment interest, attorney fees, and additional costs. Additional motions were filed under seal. A hearing on all post-verdict motions is scheduled for July 1, 2015.

Smartflash filed a second suit against Apple on February 25, 2015 asserting infringement of seven patents, including the three patents at issue in the prior trial.

AstraZeneca AB, et al. v. Apotex Corporation, et al., No. 2014-1221

On April 7, 2015, the Court of Appeals for the Federal Circuit (CAFC) issued a ruling in *AstraZeneca AB, et al. v. Apotex Corporation, et al*. in which it upheld the District Court's award of damages based on a royalty of 50% of Apotex's gross profits from its infringing sales of omeprazole (brand name Prilosec®), but reversed the portion of the District Court's damages award relating to the pediatric exclusivity period. (Click **here** for a summary of the District Court decision.)

Apotex appealed the District Court's damages award on the basis that it overcompensated Astra, claiming that the Court "lost sight of the essential purpose of the exercise: to compensate Astra for harm actually suffered." Apotex also argued that the District Court improperly based its damages calculation on the value of the omeprazole product as a whole, and that the value of the patented formulation must be discounted in light of the non-infringing alternative formulations in existence at the time of the infringement.

Apotex presented three arguments to support its position on "overcompensation." With respect to the first, Apotex argued that it was the fourth generic manufacturer to enter the omeprazole market, and therefore its entry caused marginal injury to Astra. The CAFC disagreed, finding that Apotex's argument ignored many of the detailed findings made by the District Court in support of its determination of the reasonable royalty. It also stated that "Apotex's focus on what it refers to as 'the harm that Astra actually suffered' is more suited to a case involving lost profits….The reasonable royalty theory of damages, however, seeks to compensate the patentee not for lost sales caused by the infringement, but for its lost opportunity to obtain a reasonable royalty that the infringer would have been willing to pay if it had been barred from infringing."

The CAFC also found that Apotex's second "overcompensation" argument, that a royalty rate that depends on the obstacles that would have kept a competitor off the market, regardless of the actual harm the patentee suffers, was "not reasonable." Apotex argued that the District Court wrongly considered the period of regulatory delay with the US Food and Drug Administration (FDA), which applies to every drug application and bears no relation to the value of Astra's patents. However, based on the evidence presented at trial, the CAFC determined that "Apotex's prospect of developing its own non-infringing alternative was bleak, with or without a period of FDA delay. The district court's consideration of the regulatory delay, as an alternative ground for its conclusion that Apotex would not have been able to market a non-infringing formulation within a reasonable period of time, therefore had no effect on the Court's damages calculation."

Apotex's third argument about "overcompensation" was based on its assertion that the District Court's analysis of the evidence regarding settlement and licensing negotiations with omeprazole sellers other than Apotex was fundamentally flawed and that the Court abused its discretion in the way it assessed that evidence. The CAFC disagreed, finding that the District Court analyzed the pertinent settlement and that licensing negotiations in detail and with close attention to the similarities and differences between those negotiations and the hypothetical negotiation in this case, and that it was satisfied that the Court fairly weighed those negotiations in reaching its ultimate determination as to the reasonable royalty rate for damages purposes.

Apotex also argued that the District Court improperly based its damages calculation on the value of the omeprazole product as a whole. Specifically, it argued that because the active ingredient patents had expired at the time of the infringement and the active ingredient had thus become a "conventional element," the District Court should have calculated damages by apportioning the relative contribution of value between the active ingredient and the "inventive element" of the patents, i.e., the subcoating. The CAFC concurred with the District Court that the entire market value rule (EMVR) was inapplicable to this case. It stated "[t]his case does not fit the pattern in which the entire market value rule applies. Astra's formulation patents claim three key elements—the drug core, the enteric coating, and the subcoating. The combination of those elements constitutes the complete omeprazole product that is the subject of the claims. Thus, Astra's patents cover the infringing product as a whole, not a single component of a multi-component product. There is no unpatented or non-infringing feature in the product."

However, it added that "[w]hile the entire market value rule does not apply to this case, the damages determination nonetheless requires a related inquiry. When a patent covers the infringing product as a whole, and the claims recite both conventional elements and unconventional elements, the court must determine how to account for the relative value of the patentee's invention in comparison to the value of the conventional elements recited in the claim, standing alone." It went on to note that several of the *Georgia-Pacific* factors bear directly on this issue. Thus, the standard *Georgia-Pacific* reasonable royalty analysis takes account of the importance of the inventive contribution in determining the royalty rate that would have emerged from the hypothetical negotiation. However, "while it is important to guard against compensation for more than the added value attributable to an invention, it is improper to assume that a conventional element cannot be rendered more valuable by its use in combination with an invention. In practice, all inventions are for improvements; all involve the use of earlier knowledge; all stand upon accumulated stores of the past. Yet it has long been recognized that a patent that combines 'old elements' may 'give[] the entire value to the combination' if the combination itself constitutes a completely new and marketable article. It is not the case that the value of all conventional elements must be subtracted from the value of the patented invention as a whole when assessing damages. For a patent that combines "old elements," removing the value of all of those elements would mean that nothing would remain. In such cases, the question is how much new value is created by the novel combination, beyond the value conferred by the conventional elements alone." It concluded that Astra's formulation thus created a new, commercially viable omeprazole drug. That product was previously unknown in the art and was novel in its own right. Accordingly, the District Court permissibly found no reason to exclude the value of the active ingredient when calculating damages in this case.

Apotex also argued that the value of the patented formulation must be discounted in light of the non-infringing alternative formulations in existence at the time of the infringement. Apotex did not challenge the finding that it had no non-infringing formulation of its own, and the CAFC agreed with the District Court that two of the competitors' formulations, which were launched at risk amid ongoing litigation with

Astra and were not found to be non-infringing after the hypothetical negotiation, would not have been considered as non-infringing alternatives at the time of the hypothetical negotiation. Apotex argued that Astra had not proved that a third competitor's patented formulation would have been unavailable at the time of the infringement because Astra did not prove that using that formulation would have infringed the third competitor's patents. The CAFC disagreed, however, noting that "the patents held by [the third competitor] were designed to protect its formulation. From that fact, the District Court could reasonably infer that the [the third competitor] formulation was not available to Apotex as a non-infringing alternative. Apotex's conclusory assertion that it could have used [the third competitor]'s formulation without infringing [the third competitor]'s patents does not suffice to overcome that inference."

Finally, Apotex objected to the District Court's decision to award damages for sales of generic omeprazole during the "pediatric exclusivity" period of the asserted patents. Apotex contends that the District Court's award of damages for the period after the expiration of Astra's patents runs counter to the Supreme Court's decision in *Brulotte v. Thys Co.*[1] The CAFC disagreed with Apotex that *Brulotte* controlled the outcome in this case. Nonetheless, it found that the period during which damages are to be measured under section 284 may not include the post expiration pediatric exclusivity period. In a footnote, it added that it "do[es] not decide whether the pediatric exclusivity period may be considered in determining the royalty rate that might be employed in a hypothetical negotiation. Neither party has raised that argument, and the district court made no finding regarding the relationship between the royalty rate and the pediatric exclusivity period." Thus, given the CAFC's finding that section 284 fails to support Astra's claim for royalty payments on Apotex's post-expiration sales, it reversed the portion of the District Court's damages award relating to the pediatric exclusivity period, and remanded for a recalculation of damages.

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[1] *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).