Key issues for senior life sciences executives

Deciding whether to proceed with litigation or to forgo or settle an infringement claim requires that a broad number of factors be carefully weighed

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Litigation is expensive. This will come as no surprise to anyone faced with the unenviable task of managing a legal department budget. What begins as a seemingly discrete matter can quickly and easily transform into something bigger as matters proceed towards trial. Unforeseen developments almost invariably arise, requiring a response involving an unexpected expenditure for additional legal resources. This unpredictability poses a particular problem in deciding whether to advance or defend a claim. One must constantly ask whether the amounts to be potentially recovered or saved are worth the uncertainty in cost of bringing a matter to trial. Even if liability is established, a successful plaintiff may be left with little more than a pyrrhic victory, depending on how damages are assessed and quantified. For those tasked with making these difficult decisions, the choice to proceed with litigation may seem, at times, like a high-stakes roll of the dice.

In IP litigation, these stakes can seem particularly high, as IP cases can be expensive both to prosecute and to defend. Expert evidence is frequently required – especially in patent cases – often at a cost for an expert at several hundred dollars an hour. While successful litigants can expect to recover expert fees as part of a costs award, unsuccessful litigants can be faced with the unpleasant prospect of paying for the cost of both their own experts and those retained by the opposing party. IP litigators also frequently charge a premium for their unique expertise. Under the existing system, these costs are largely unrecoverable, as the amounts awarded for legal fees pale in comparison to the real cost of litigation.

Despite the often significant costs involved, avoiding IP litigation entirely is simply not an option for many enterprises. Millions of dollars are spent building and promoting a brand, researching and developing new technologies or financing the creation of blockbuster films and television programmes. Unless the property rights arising from these creative acts are adequately protected, the value of these investments can be diminished or even destroyed. Furthermore, businesses are increasingly confronted with cease and desist letters or even lawsuits asserting IP rights that either are not infringed or are, in fact, invalid. Unless these unfounded claims are resisted, businesses can find themselves with no legal market for their product. In situations such as these, litigation may be unavoidable.

The challenge then is to determine when it is appropriate to proceed with litigation and when it is not. Many factors must be considered in making this determination. Aside from the prospects of success, one of the key factors is the amount likely to be awarded in damages, as this will determine either the extent of recovery or the scope of liability. Some recent Canadian decisions provide interesting insight into how courts in Canada are approaching the issue of damages arising from the infringement of IP rights.

Damages for copyright infringement

On December 23 2013 the Supreme Court of Canada issued final judgment in

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Cinar Corporation v Robinson, a copyright infringement case that had been making its way through trial and appellate level courts for over 17 years. The plaintiff, Claude Robinson, developed the idea for a children's animated television show, *Robinson Curiosité,* modelled loosely on Daniel Defoe's 1719 novel *Robinson Crusoe*. In attempting to develop his show, Robinson presented his idea, along with scripts and storyboards, to the various defendants. While these interactions did not result in the production of *Robinson Curiosité*, the defendants proceeded to develop their own show, *Robinson Sucroë,* which incorporated certain visual components and motifs that were similar to those developed by Robinson for *Robinson Curiosité*.

In upholding the trial judge's finding of copyright infringement, the Supreme Court made a number of interesting comments regarding the damages recoverable for copyright infringement.

First, the court affirmed that directors and officers of a company can be held personally liable for copyright infringement where there was a "deliberate, wilful and knowing pursuit of a course of conduct that that was likely to constitute infringement". As such, recovery may be possible even where the corporation committing the infringement has been dissolved or has insufficient assets to pay a damages award.

Second, the court affirmed that disgorgement of profits can be sought in respect of non-infringing aspects of the copied work if those non-infringing aspects cannot be dissociated from the work as a whole. In this case, profits were not apportioned between the copied material and the independently created soundtrack, as the infringing and original elements of the show were found to be so interwoven as to make separation impossible. Unless apportionment is possible, an infringer may be forced to disgorge profits made on more than just the copied part of the work.

Third, the court confirmed that disgorgement can be ordered only on a joint basis, not a joint and several basis. This means that a party will be required to disgorge only the profits they received and cannot be held responsible for the profits made by other infringers that may, for some reason, be incapable of paying an award. This limits, to some extent, the liability of an infringer or the prospects of full recovery in some circumstances.

Fourth, damages for mental distress and suffering arising from the infringement are recoverable and are not limited by the cap applicable when such damages arise from bodily injury. In this case, Robinson was awarded C$400,000 as his mental health suffered as a result of having his work wrongfully appropriated. The prospect of such damages can increase the scope of liability facing an alleged infringer, depending on the particular facts of the case.

Finally, the court confirmed that punitive damages can be awarded for infringement on a joint – but not joint and several – basis. While the decision reflects the idiosyncrasies of the Quebec civil law regime, the decision suggests that punitive damages for infringement may be awarded where the infringer's course of conduct warrants special sanction. In this

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case, Robinson was originally awarded C$1 million in punitive damages, an amount eventually reduced to C$500,000 by the Supreme Court. The award stands as a caution against the capricious appropriation of another's intellectual property and the use of protracted litigation to avoid the consequences of such acts.

Damages for patent infringement

A similarly robust damages award was made in the recent Federal Court case of *Merck & Co Inc v Apotex Inc*. Merck was the owner of a patent for the anti-cholesterol drug lovastatin when made by a particular process. Apotex produced and sold its own lovastatin product during the life of the Merck patent. Some batches of Apotex's product were made according to Merck's patented process; other batches were made according to a non-infringing process. In a bifurcated hearing, the validity of Merck's patent was upheld and Apotex was found to have infringed the patent in respect of all batches made according to the patented process.

In the damages phase of the proceeding, an issue arose as to the nature of the damages to which Merck was entitled. Merck sought its lost profits on sales of its lovastatin that would have been made but for Apotex's infringing sales. Apotex argued that Merck could not establish that it would have made those sales because Apotex could still have taken Merck's market by selling lovastatin produced by the non-infringing process. Therefore, Apotex argued that Merck's recovery should be limited to a reasonable royalty on the infringing sales. The difference between a claim for lost profits and for a reasonable royalty was immense. While Merck Canada's claim for lost profits amounted to almost C$63 million, the royalty proposed by Apotex was less than C$7 million.

In finding that the existence of a non-infringing alternative did not disentitle Merck to its lost profits, the court reaffirmed that Canadian law (and the UK law on which it is based) is different from US law on this point. The court noted that US law requires a party seeking its lost profits first to establish that there is no non-infringing alternative to the patented invention; if this cannot be done, the patentee's damages will be limited to a reasonable royalty on infringing sales. The court was influenced by the different remedies available for infringement under Canadian and US law in declining to endorse the United States' "non-infringing alternative defence".

The court also cited public policy considerations that counselled against adopting the US defence. In the court's reasoning, adoption of the non-infringing alternative defence would create an incentive to infringe by allowing a party to use wantonly patented technology knowing that its liability would be limited to a reasonable royalty rate if the patentee successfully sued. The patentee would effectively be left only with royalties from what is effectively a limited, compulsory licence that would not compensate it for the real losses arising from infringement of its patent rights. While the existence of an available non-infringing alternative may be considered in calculating the impact of legitimate competition leading to lost sales, a party found to infringe a patent will not have its liability limited simply because it could have used a non-infringing alternative, but chose not to. While understandable, this reasoning raises a question as to whether the damages in these circumstances were actually caused by the act of infringement.

The Federal Court's decision is being appealed. However, until a higher court recognises a non-infringing alternative defence in Canada, particular care should be taken when choosing to use technologies that potentially fall within the scope of a valid patent when other non-infringing alternatives exist. At least for the moment, the potential cost of such a choice can be significant.

Damages for trademark infringement and passing-off

The consequences of pursuing a parsimonious approach to IP litigation are evident in the recent Federal Court case of *Trans-High Corporation v Hightimes Smokeshop and Gifts Inc.* Trans-High published *High Times* (a magazine focused on counterculture, particularly the medical and recreational use of marijuana) and owned the registered trademark HIGH TIMES. Trans-High also sold a variety of goods bearing the 'High Times' trademark. Hightimes Smokeshop operated a retail store in Niagara Falls, Ontario, which sold an extensive array of smoking and marijuana-related accessories. The words 'High Times' were the prominent feature of the retail store's signage.

Trans-High commenced a suit alleging trademark infringement, passing-off and depreciation of goodwill. Rather than pursuing its claim by way of an action, Trans-High brought a summary application in the Federal Court. A summary application is an expeditious, cost-effective way of advancing a claim that forgoes discovery and relies on the use of written affidavits rather than oral testimony. Hightimes did not defend the application, which was decided based solely on submissions made by Trans-High.

The court found that Hightimes had infringed Trans-High's trademark and was also liable for passing-off. However, the court stated there was insufficient evidence to find that Trans-High had suffered depreciation of its goodwill. While Trans-High had failed to adduce evidence of its own market penetration and advertising practices in Canada, the court also noted that the lack of discovery deprived the applicant of the opportunity to compel further and better information about the depreciation of its goodwill. Similarly, the court refused to award the C$200,000 sought by Trans-High for trademark infringement and passing-off. Although Trans-High failed to introduce some evidence presumably within its possession, the court noted that the lack of any evidence of Hightimes' sales, profits or valuations (all of which would have been available on discovery) left the court with only a speculative statement of damages.

In the end, the court awarded C$25,000 in damages and C$30,000 in legal fees. One can only speculate whether a more complete evidentiary record would have resulted in a more substantial damages award. Whether the amounts awarded justified retaining counsel and proceeding with the claim is similarly unknowable. Nevertheless, the court correctly noted that, by proceeding summarily, Trans-High surrendered an opportunity to potentially strengthen its claim for a more substantial monetary award. In this case, a penny saved may not have been a penny earned.

Conclusion

Ultimately, deciding whether it is better to proceed with litigation or to forgo or settle a claim requires that a broad number of factors be carefully weighed. The strength of one's claim and the scope of one's liability are key questions to consider. Yet the importance of considering how damages will be assessed if liability is established cannot be overstated. Without a clear understanding of how courts assess damages and the nature of the evidence required to establish those damages, a successful litigant can be left with little more than a hollow victory. ■

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