

Growing patent damages – a look behind the headlines

Faye Waters, Editor of *The Patent Lawyer Magazine*, examines the recent cases that broke the high-water mark for patent damages awards and finds surprising commonalities.

A recent ruling sees patent damages awarded far in excess of the previous high-water mark, becoming one of only nine cases to date in the U.S. to be awarded a billion-dollar verdict. The \$2.7 billion sum awarded in *Centripetal Networks, Inc. v. Cisco Systems, Inc.*¹ [subsequently referred to as '*Centripetal v. Cisco*'] exceeds the previous record for damages (which stood at \$2.5 billion) won by Merck & Co, who acquired Idenix Pharmaceuticals LLC before the trial in 2016, in *Idenix Pharmaceuticals LLC et al v. Gilead Sciences, Inc.*² [subsequently referred to as '*Idenix v. Gilead*'].

Interestingly, in both cases damage valuation experts from Ocean Tomo, a self-described Intellectual Capital Merchant Banc™ firm, testified on behalf of the plaintiffs.

Centripetal v. Cisco

On 5 October 2020, Judge Morgan, at the U.S. District Court in the Eastern District of Virginia, determined, in a case filed by Centripetal Networks, that Cisco systems' routers, firewalls, and network switches willingly infringed four of the five patents in question and awarded Centripetal \$1.9 billion. In addition, the judge ordered that Cisco pay a running royalty of 10% for three years, and subsequently 5 % for a further three years, on the sales of the accused products – totaling a minimum of \$2.7 billion in damages.

Ocean Tomo CEO, James E. Malackowski, was hired as an economic expert to testify as the final witness on behalf of the plaintiff and provided the economic foundation for the plaintiff's claim. What was unusual about Malackowski's role is that he was not the expert which actually calculated lost royalties. Rather, he was presented as a distinct expert to address the value of the patents to Centripetal, both before and after the



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infringement. The use of a second complementary patent valuation or licensing expert is unique.

The Court's opinion reveals that Ocean Tomo's Chief Executive began by defining the opportunities Centripetal had for monetizing their technology pre-infringement, which included analysis of commercializing and selling patents, and licensing. In regard to licensing, the Court's ruling detailed that Centripetal, a network security start-up founded in 2009, shared key information about their technology and developments with Cisco between 2015 and 2017 during discussions for the purchase of licenses. No deal was reached, but Centripetal claimed that Cisco incorporated elements discussed in the aforementioned communications into products released less than a year after these conversations took place.

Based on his experience in patent transactions and licensing, Malackowski testified that Cisco's actions had an adverse impact on both Centripetal's products and their business reputation, with continued impairment expected. Malackowski then addressed the impact of Cisco's infringement on Centripetal's technologies, concluding that the true value of the inventions had been negatively impacted as a consequence. Essentially, Malackowski's role was to put the damage claim into context; especially with respect to Centripetal's claim for irreparable harm.

Centripetal's trial counsel, Lisa Kobialka, Partner at Kramer Levin, believes that it was Malackowski's holistic approach to the case that secured the success for Centripetal, calling for injunction relief with specific and in-depth calculations which took the impact of the infringement on the business as a whole into consideration – not just from a legal aspect. Kobialka commented on the uniqueness of this

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case, but also the uniqueness of Malackowski's approach – he looked at the importance of the technology from the side of both parties, giving a full evaluation of the effects of infringement. Kobialka said, "Ocean Tomo's real world market experience provides insight from many different aspects in a way that exceeds a typical damages opinion."

The ruling by Judge Morgan on this willful misconduct eclipsed all previous judgements to make this the largest patent damages verdict in history.

Idenix v. Gilead

Comparing what happened in Centripetal to the previous high-water mark for patent damages leads to a surprising similarity. In a Delaware courtroom in 2016, it was Ocean Tomo who again testified for the plaintiff in the *Idenix v. Gilead* case. The trial was brought before a jury, with a claim that Idenix Patent No. 7,608,597, for a Hepatitis C treatment, was being infringed by the defendant's, Gilead, products. Ocean Tomo's co-founder Andrew W. Carter testified to the amount necessary to compensate Idenix.

In 2000, Idenix filed for a provisional patent application at the USPTO after discovering a modification to an existing Hepatitis C treatment which increased its success rate and reduced undesirable side effects. This included the placement of an ethyl group at the nucleoside's 2' up position. Idenix obtained patents including Patent No. 7,608,597. At a similar time, a pharmacist employed by Gilead developed a treatment that included the methyl group at the 2' up position as well as a fluorine atom at the 2' down position. This treatment proved to be a great success, curing many without the previous side effects and produced billions of dollars in revenue – thus leading to this infringement case.

Carter's testimony was previewed in opening statements, outlining damages being sought from a proposed royalty of 10%, totaling \$2.5 billion. Carter provided both his conclusion as the amount but also the basis of such an amount as fair given the factual testimony with exhibits presented. Like in Centripetal, Ocean Tomo opined to the economic choices facing the litigants, including the value of the plaintiff's patents and the impact of the infringement.

Carter's appeal for a 'fair and reasonable' value-based royalty resulted in the plaintiff being awarded his exact request for patent damages – 10% of sales totaling \$2.5 billion, which stood, until the recent Centripetal case, as the largest award in history.

In October 2019, the jury verdict was overturned on issues unrelated to the claim for damages following an appeal that found the patent inadequately explained how the treatment was



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made and determined that the written description was insufficient, ruling the patent invalid. This overturned decision was upheld by The Federal circuit. Merck & Co, of which Idenix is a subsidiary, have since filed a petition for certiorari on September 21, 2020, rising question as to whether a genus claim can be enabled under section 112 of the Patent Act, docket no. 20-380 in the Supreme Court of the United States.

Defense

Given that the two largest patent verdicts both relied on Ocean Tomo's patent valuation expertise, a query arose as to whether the firm has a pro-patent or pro-plaintiff bias. A broader review of cases citing Ocean Tomo suggests not. Indeed, the firm represents many of the most often targeted defendants as well as numerous smaller accused infringers. Interestingly, hereto the firm seems to return results consistent with its conclusions. Less than a month after the \$2.7 billion Centripetal award, Ocean Tomo's experts found themselves adverse to a claim that was also well above \$1 billion. This case saw allegations of fraud and breach of contract. Interviews with lead counsel described that Ocean Tomo's deep market experience enabled them to deconstruct the speculative damages claim that the plaintiff had filed for, leading to success for the defendant by proving the accused damages were inappropriate and a dishonest reflection on reality. With respect to this specific matter, counsel spoke on the condition of anonymity as others in his AM100 law firm were currently on the opposite side of Ocean Tomo in active cases.

¹ Case No. 2:18-cv-00094 (EDVA).

² Case No. 1:14-cv-00846 (DDE).

³ American Arbitration Association International Centre for Dispute Resolution, Case No. 01-17-0003-0930

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Each supports and reinforces the other. That is their secret sauce.
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Selex Galileo, Inc. v. Nomir Medical Technologies, Inc.³

One matter that was recently reported appears to confirm Ocean Tomo's involvement on behalf of IP defendants. Malackowski testified on behalf of the defendant in an arbitration hearing concerning an agreement between Selex Galileo, Inc. and Nomir Medical Technologies, Inc. In 2014, Selex and Nomir forged an agreement to commercialize Nomir's proprietary laser device, designed for the treatment of MRSA and similar superbug infections, but in 2017 Selex sued for the wrongful termination of the agreement after Nomir claimed the material development of the technology had ceased. Alleging lost value in the technology, Nomir countersued.

Hereto however, Ocean Tomo's role was beyond and complementary to that of a traditional damage expert. As an IP market expert, Ocean Tomo addressed the availability of venture capital in the sector during the period of 2014-2017, opining to alternative funding opportunities Nomir could have secured to continue the technologies development, if their technology was as viable as they were claiming.

Malackowski concluded that the damages being sought where unrealistic given the lack of recognition in Nomir's technology by other Venture Capital firms, undermining the suggested damages proposed by the plaintiff. As a result, the Arbitration Tribunal ruled in favor of Selex, awarding \$7.4 million in counter-claim damages, interests, and costs.

Sunoco Partnership Marketing & Terminals L.P. v. U.S. Venture, Inc., U.S. Oil, and Technics, Inc.⁴

In a reported U.S. District Court decision, Ocean Tomo experts again testified for the defendant in a case brought before the Northern District of Illinois in January 2020. Sunoco Partnership Marketing & Terminals L.P. sought lost profit damages from U.S. Venture, Inc., U.S. Oil, and Technics, Inc. totaling \$31.59 million, or royalties suggesting between \$17 - \$25.7 Million. Ocean Tomo opined on behalf of U.S. Venture and worked to prove the damages were unreasonable, significantly reducing the proposed royalty to just \$2 million, the exact amount awarded by the Court.

Requests to interview Malackowski and Carter were declined. However, Molly Keenan, Senior Director of Client Services, noted that "large plaintiff verdicts get all the attention, but our most significant work has often been on the defensive side for large corporate clients. That doesn't grab headlines, but it has made us the gold standard for blue-chip defendants. Ocean Tomo works hard to maintain its independence as experts, working towards a balance of work for plaintiffs and defendants".

Intellectual Capital Merchant Banc™

There are several firms that offer economic damage experts. Ocean Tomo claims to be different, describing itself as an "Intellectual Capital Merchant Banc" firm, making clear that serving as an expert witness is one of many IP-related services. From the examples above, it is clear that the firm draws upon their broad market and valuation experience when in the courtroom. This appears to also be why their experts are increasingly put forth as a compliment to a traditional damages expert, providing their clients with what one attorney described as a more in-depth and complete presentation to the jury putting the ultimate claim for damages in context. Keelan reported that the firm's goals for 2021 include significantly increasing the number of expert engagements where the firm's Managing Directors are testifying as a 'speciality expert', complimenting the chosen damages witness. The firm sees this as a way to meaningfully grow their practice as no other firm shares their qualifications. "We literally see a potential for an Ocean Tomo valuation or licensing speciality expert at every IP trial" Keelan noted.

Apparently, this growth potential is not lost on investors. Earlier this year, Bow River Capital, a private equity firm based in Denver, took a majority stake in Ocean Tomo. Rick Pederson, Bow River's Chief Strategy Officer, stated, "Intellectual property is an increasingly important aspect of the global economy, and we are thrilled to be partnered with the premier firm in the IP field." Bow River intends to expand Ocean Tomo's mandate to expand from "IP only" to become "IP driven", to include valuations of a broader range of general business technologies including investment banking. Bo Sutton, of Bow River, explained that their aim is to expand the work of Ocean Tomo beyond IP into other sectors, and to increase growth with Ocean Tomo as the basis of a market-leading platform. Hon. Randal R. Rader, former Chief Judge of the Court of Appeals for the Federal Circuit, has agreed to sit on the Board of Ocean Tomo International H.K. Ltd, commenting that, "Ocean Tomo has gone far beyond what I saw from them during my time on the bench, I don't know of any other firm that combines leading edge IP management with the solid skills honed in the courtroom. Each supports and reinforces the other. That is their secret sauce."

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⁴ United States District Court for the Northern District of Illinois, Case No. 1:15-cv-08178