Federal Court  Cour fédérale

Date: 20191210

Docket: T-1321-97

Citation: 2019 FC 1463

Ottawa, Ontario, December 10, 2019

PRESENT: The Honourable Mr. Justice Zinn

BETWEEN:

ELI LILLY AND COMPANY
AND ELI LILLY CANADA, INC.

Plaintiffs

and

APOTEX INC.

Defendant

JUDGMENT AND REASONS

(Confidential Judgment and Reasons issued November 20, 2019)

Background

[1] This action for patent infringement was commenced on June 18, 1997. The plaintiffs, Eli Lilly and Company [Lilly US] and Eli Lilly Canada Inc. [Lilly Canada], collectively referred to herein as Lilly, claimed that their rights under eight patents were infringed when the defendant, Apotex Inc. [Apotex], imported bulk cefaclor for use in Apo-cefaclor which it sold in Canada

after January 1997. Lilly US is the owner of these patents. Lilly Canada, a wholly owned subsidiary of Lilly US, has rights to these patents under a license issued by Lilly US.

[2] The action was bifurcated. In the liability phase of this action it was held by the trial judge that at least one valid claim in each of eight patents owned by Lilly US had been infringed by Apotex: *Eli Lilly and Co v Apotex Inc*, 2009 FC 991 [the Liability Judgment]; aff'd 2010 FCA 240; leave to appeal to SCC refused, [2010] SCCA No 434.

[3] Lilly elected damages under subsection 55(1) of the *Patent Act*, RSC 1985, c P-4 [*Patent Act*] as the remedy for infringement:

> A person who infringes a patent is liable to the patentee and to all persons claiming under the patentee for all damage sustained by the patentee or by any such person, after the grant of the patent, by reason of the infringement. [emphasis added]

[4] Justice Gauthier, who issued the Liability Judgment, was appointed to the Federal Court of Appeal, and I was assigned to hear and determine damages. Judgment and Reasons issued in December 2014: 2014 FC 1254 [the Damages Judgment]. It was found that Lilly suffered damages on account of lost profits over 5 years of $31,234,000.00 [the Lost Profits].[1] It was also found that Lilly suffered damages for the time value of the Lost Profits in the 17 years before the damages judgment issued. At paragraph 125 of the Damages Judgment, I wrote:

> Lilly is awarded prejudgment interest compounded annually on the damages to be awarded at the rate of **[..Redacted..]**%. The parties are directed to advise the court as to the amount of such prejudgment interest, if agreed, or provide their respective submissions on the quantum if they are unable to agree.

[1] The Lost Profits were as follows: in 1997 [redacted], in 1998 [redacted], in 1999 [redacted], in 2000 [redacted], and in 2001 [redacted].

The interest rate ordered to be applied to the Lost Profits in the Damages Judgment will be referred to hereafter as the Rate of Return.

[5] As is recited at paragraphs 134 to 136 of the Damages Judgment, the parties were unable to agree on the amount of prejudgment interest. I accepted the calculation done by Apotex's expert, Dr. Harington, being Schedule 2 to his letter to counsel for Apotex dated January 9, 2015, and awarded $75,040,649.00 in prejudgment interest on the Lost Profits to January 23, 2005, the date of the Damages Judgment. The total award of $106,274,649.00 was paid by Apotex, as ordered in the Judgment.

[6] In awarding Lilly this interest component, the Court found that in order to receive compensation for "all damage sustained" pursuant to subsection 55(1) of the *Patent Act*, an award of damages recognizing the time value of the lost profits over so many years was required. The Court also accepted that compound interest reflects the time value of money while simple interest does not: See *Bank of America Canada v Mutual Trust Co*, 2002 SCC 43 [*Bank of America*]. At paragraphs 21 to 24 of *Bank of America*, Justice Major made these observations:

> The value of money decreases with the passage of time. A dollar today is worth more than the same dollar tomorrow. Three factors account for the depreciation of the value of money: (i) opportunity cost (ii) risk, and (iii) inflation.
>
> The first factor, opportunity cost, reflects the uses of the dollar which are foregone while waiting for it. The value of the dollar is reduced because the opportunity to use it is absent. The second factor, risk, reflects the uncertainty inherent in delaying possession. Possession of a dollar today is certain but the expectation of the same dollar in the future involves uncertainty. Perhaps the future dollar will never be paid. The third factor, inflation, reflects the fluctuation in price levels. With inflation, a dollar will not buy as much goods or services tomorrow as it does today (G. H. Sorter, M. J. Ingberman and H. M. Maximon,

> *Financial Accounting: An Events and Cash Flow Approach* (1990), at p. 14). The time-value of money is common knowledge and is one of the cornerstones of all banking and financial systems.
>
> Simple interest and compound interest each measure the time value of the initial sum of money, the principal. The difference is that compound interest reflects the time-value component to interest payments while simple interest does not. Interest owed today but paid in the future will have decreased in value in the interim just as the dollar example described in paras. 21-22. Compound interest compensates a lender for the decrease in value of all money which is due but as yet unpaid because unpaid interest is treated as unpaid principal.
>
> Simple interest makes an artificial distinction between money owed as principal and money owed as interest. Compound interest treats a dollar as a dollar and is therefore a more precise measure of the value of possessing money for a period of time. Compound interest is the norm in the banking and financial systems in Canada and the western world and is the standard practice of both the appellant and respondent.
>
> [emphasis added]

[7] Picking up on these words from Canada's highest court, it was noted in the Damages Judgment that the dollar value of the Lost Profits is reduced because Lilly lost the opportunity to use the money Apotex had deprived it of in the intervening 17 years. As a consequence, compound interest was awarded to compensate Lilly for this lost opportunity.

[8] Apotex appealed the Damages Judgment to the Federal Court of Appeal: 2018 FCA 217 [Appeal Judgment], leave to appeal to SCC refused May 23, 2019, [2019] SCCA No 75. The Judgment of the Federal Court of Appeal reads, in relevant part:

> The appeal is dismissed except with respect to the portion of the award dealing with damages in the form of interest. The matter will be remitted to Zinn J. for reconsideration of this issue only.

[9] To appreciate the scope of the issue that has been remitted to me, a somewhat fulsome discussion of the relevant section of the Appeal Judgment penned by Justice Gauthier, is required.

Reasons in Appeal Judgment

[10] The Federal Court of Appeal observed at paragraph 152 of the Appeal Judgment that "the Federal Court had to assess whether full compensation required an award of interest as damages arising from the wrongful conduct at issue" [emphasis in original].

[11] At paragraph 155, the Federal Court of Appeal summarized my thinking when awarding the compound interest to Lilly:

> First, the Federal Court began by stating that, in order to establish Lilly's right to compound interest, it was not required to prove exactly what use it would have made of the profits lost as a result of the infringer's actions (Damages Decision at para. 118). But after adopting a passage from S.M. Waddams in *The Law of Damages*, 3rd ed. (Aurora, Ont.: Canada Law Book, 1997, as cited at paragraph 37 of Bank of America), which indicated that there is no reason why, in principle, compound interest should not be awarded, the Federal Court went on to say:
>
> > I would go further and say 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.
> >
> > [emphasis added.]

[12] The Federal Court of Appeal did not take issue with my finding that Lilly "was not required to prove exactly what use it would have made of the profits lost as a result of the

infringer's actions." I made that observation because, as stated at paragraph 118 of the Damages Judgment: "This is after all, a hypothetical scenario because it did not have the funds in hand." More will be said about this hypothetical world when discussing the evidence at trial on Lilly's use of its profits.

[13] Rather, the Federal Court of Appeal found that the error in the Damages Judgment is reflected in my statement at paragraph 118 that there is a presumption that a plaintiff would have generated compound interest on the funds otherwise owed to it. This presumption was found by the Federal Court of Appeal to have "relieved Lilly from proving its loss regarding compound interest *per se*."

[14] The Federal Court of Appeal observed at paragraphs 156 and 157 that "this is not the state of the law … whether such interest is simply reflecting the time value of money owed or intended to compensate a specific opportunity lost."

[15] In so saying, the Federal Court of Appeal points to the reality that the patentee (1) may prove that it lost the general opportunity to use the foregone funds while awaiting judgment and payment, or (2) may prove that it lost a specific opportunity to use the foregone funds. In both scenarios, the value of the dollar is reduced because the opportunity to use it (in either a general or specific fashion) is lost. Provided the loss is proven on the balance of probabilities, the Federal Court of Appeal held that this Court can award Lilly compound interest on the Lost Profits as damages reflecting its lost opportunity.

[16] At paragraph 161 of the Appeal Judgment, the Federal Court of Appeal said that this Court's task on reconsideration "is to evaluate whether there is sufficient evidence in the trial record to satisfy Lilly's burden of proof taking into account all the circumstances including among others the size and type of the companies involved, the relative size of the amount lost for such large corporations, the long delay involved, including its potential impact on the availability of more specific evidence, and what inferences can be drawn, etc."

[17] In addition, the Federal Court of Appeal made the following three observations on the scope of the task on reconsideration:

> Observation 1: "As the Federal Court will have to reconsider the portion of the claim relating to the time value of the money in this case, it will be important for it to explain in more detail its finding as to the rate applicable": Appeal Judgment paragraph 162;
>
> Observation 2: "[S]hould the new award be less than the last one, the Federal Court will need to determine the rate of interest applicable to the amount to be reimbursed by Lilly": Appeal Judgment paragraph 162; and
>
> Observation 3: "[L]ogically, interest should only be earned on the net amount that could be used by Lilly … the Federal Court, in its reconsideration of the award of interest as a whole, shall give this factor the weight it believes appropriate … [and provide] a fuller explanation as to the role of the burden of proof in this respect": Appeal Judgment paragraph 163.

[18] Following these directions from the Federal Court of Appeal, this Court must answer the following questions:

1. In addition to the Lost Profits, has Lilly proved a lost opportunity to use those funds?

2. If so, and if those damages for lost opportunity are calculated as interest on the Lost Profits, what applicable rate of interest should be applied to reflect the lost opportunity, and why?

3. If not, and Lilly is required to disgorge some of the funds paid to it following the Damages Judgment, what is the amount to be disgorged and what rate of interest should it carry?

4. What, if any weight is to be given in calculating the interest on the lost opportunity to the tax consequences to Lilly when the sums would have been received by Lilly?

The Position of the Parties

[19] The parties' positions on this reconsideration differed from those taken at the damages trial.

[20] Apotex now takes the position that the evidence "points to the conclusion that Lilly could have and would have added the additional cefaclor profits to its cash deposits and earned annual compound interest at the Treasury Bill rate (2.593%)" and that the award must take income tax

into consideration. Accordingly, it submits that damages for the lost opportunity is determined by applying a 2.593% compound interest rate to the Lost Profit Award, adjusted for income tax.

[21] Lilly now takes the position that "based on the evidence that was before the Court and the existing jurisprudence, there is no basis to vary the award."

Proving Lost Opportunity Cost

[22] The principal challenge in determining the use Lilly could and would have made of the Lost Profits is that it is an assessment of a hypothetical. This hypothetical is often described as the "but-for world" and the question the Court must ask is: "But for Apotex wrongfully depriving Lilly of profits from lost sales of cefaclor (totalling the Lost Profits), what could and would Lilly have done with the Lost Profits at the time when they should have been received?"

[23] Jurisprudence establishes that damages in patent cases are generally assessed by a comparison of the real-world with the hypothetical or but-for-world in which the wrong did not occur: See *Teva Canada Limited v Pfizer Canada Inc*, 2014 FC 248, *Apotex Inc v Takeda Canada Inc*, 2013 FC 1237 at para 21, *Jay-Lor International Inc v Penta Farm Systems Ltd*, 2007 FC 358 at para 126. The real-world informs the but-for-world.

What Happened in the Real World?

[24] Apotex and Lilly both approach the issues at hand by looking at the various ways Lilly did use its profits in the relevant period. Because the real-world informs the but-for-world, this is appropriate.

[25] In its Outline of Oral Argument, Apotex writes as follows at page 7 (references omitted):

> There is no debate between the parties that, at all material times, Lilly was in an incredibly strong financial position, with excess funds available to it dwarfing the lost profits on cefaclor (~$31 million) (e.g., in 1997, the [redacted] in lost profits would represent [redacted] of Lilly's cash position)
>
> - Lilly had billions of dollars in cash deposited at the bank
> - Lilly had sufficient cash from operations to fund all of the company's operating needs, including debt service, capital expenditures, share repurchases and dividends
> - Lilly regularly paid out vast amounts of money as dividends and share buy-backs
> - Lilly had a very large and relatively untapped borrowing capacity
> - When Lilly unexpectedly sold its interest in the DowElanco joint venture in 1997 for $631.8 million, rather than making any material investments or paying down any high interest-bearing long-term debt, Lilly instead applied the funds to its cash, cash equivalents, short-term investments and short-term borrowings, all of which bore very low interest
> - Lilly's cash, cash equivalents and short-term investments would likely have been made in Treasury Bills (and the average Treasury Bill rate between 1998 and 2014 was 2.5930%).
>
> [emphasis added]

[26] In its Memorandum, Lilly writes at paragraph 38 (references omitted):

> Based on the evidence, the following un-contradicted facts were established:
>
> i. Lilly Canada's average annual profit (before tax) during the accounting period was about [redacted];
>
> ii. Lilly's [Weighted Average Cost of Capital] rate was on average above [redacted];
>
> iii. Lilly held millions of dollars in debt which was accruing interest at a compound rate (e.g. $150 million at 8.38%, $525 million at 7.951%, $1 billion at 6.85%, $650 million at 6.25-8.38%, $97.6 million at 6.55%);
>
> iv. Lilly's average cost of debt during the period was around [redacted];
>
> v. Apotex had a cost of debt over 5% including a loan at 13.5%.
>
> vi. Lilly invested heavily in R&D to the tune of about $1.37 billion to $5.28 billion per year or 19.5% of revenues.

[27] Lilly led evidence at trial that it would not simply have taken the Lost Profits and kept it under its corporate mattress, not earning any return. Apotex does not appear dispute that. Such inaction would be contrary Lilly US's business model which Brendan Crowley, Director of Finance of Lilly US testified was "maximizing the return on investments and maximizing return on our revenue" [emphasis added]. I accept that evidence, both because it was within the scope of Mr. Crowley's duties to know it and because it accords with common sense.

[28] The evidence of net sales, and income before taxes and extraordinary items, for Lilly Canada and Lilly US and its subsidiaries is as follows:

Lilly Canada (Dollars in thousands)

Year	Net Sales	Income Before Taxes
1997	[redacted]	[redacted]

1998	[redacted]	[redacted]
1999	[redacted]	[redacted]
2000	[redacted]	[redacted]
2001	[redacted]	[redacted]
2002	[redacted]	[redacted]
2003	[redacted]	[redacted]
2004	[redacted]	[redacted]
2005	[redacted]	[redacted]
2006	[redacted]	[redacted]
2007	[redacted]	[redacted]
2008	[redacted]	[redacted]
2009	[redacted]	[redacted]
2010	[redacted]	[redacted]
2011	[redacted]	[redacted]
2012	[redacted]	[redacted]

Lilly US and Subsidiaries (Dollars in millions)

Year	Net Sales	Income Before Taxes
1997	7,987.7	2,901.1
1998	9,236.8	2,665.0
1999	10,002.9	3,245.4
2000	10,862.2	3,858.7
2001	11,542.5	3,506.9
2002	11,077.5	3,457.7
2003	12,582.5	3,261.7
2004	13,857.9	2,941.9
2005	14,645.3	2,717.5
2006	15,691.0	3,418.0
2007	18,633.5	3,876.8
2008	20,371.9	(1,307.6)
2009	21,836.0	5,357.8
2010	23,076.0	6,525.2
2011	24,286.5	5,349.5
2012	22,603.4	5,408.2

[29] From these documents, Dr. Foerster concluded that "the profit margins [for Lilly Canada] ranged from [redacted]." The Rate of Return is the average of the annual rates of return. Lilly submits that a review of the evidence in the 10-K Forms "yields an average rate of

return of about 24%" for Lilly US and its subsidiaries. Accordingly, in the real-world and in the relevant period, Lilly generated an annual rate of return between the Rate of Return and 24 %.

[30] The evidence is that Lilly's Lost Profits (totalling ~$31 Million over 5 years) is only 1.08% of Lilly's world-wide average annual profit (~$2,861 Million). The lost cefaclor profits per year from 1997 to 2001, never exceed [redacted] of Lilly's world-wide annual profit. It is fair to say that addition of the Lost Profits would have had a minimal impact of Lilly's business operations or profitability.

The Standard of Proof in the But-For-World

[31] Lilly submits that in determining how it might have used the Lost Profits, being a hypothetical, the Court need not apply the balance of probabilities standard. Lilly notes that in *Athey v Leonati*, [1996] 3 SCR 458, 40 DLR (4th) 235 (SCC) [*Athey*], Justice Major held at paragraph 41, that future or hypothetical events can be factored into the calculation of damages according to degrees of probability.

[32] Lilly also relies on two decisions from the United Kingdom. In *Sempra Metals Ltd v Her Majesty's Commissioners of Inland Revenue and another*, [2007] UKHL 34, the court discussed what is required to establish a claim for lost investments and stated at paragraph 95 that "there are no special rules for the proof of facts in this area of the law." Similarly, in *Parabola Investments Ltd v Browalia Cal Ltd*, [2010] EWCA Civ 486 [*Parabola*], the England and Wales Court of Appeal stated at paragraph 22 that when measurement of a loss requires consideration

of things that might or might not have happened, "the law does not require a claimant to perform the impossible, nor does it apply the balance of probability test to the measurement of the loss."

[33] Lilly suggests that proving the appropriate level of damages in this case merely requires "some evidence." Lilly points to *Ford Motor Co of Canada v Ontario Municipal Employees Retirement Board* (2006), 79 OR (3d) 81, 2006 CanLII 15 (ON CA) [*Ford Motor*] where the Ontario Court of Appeal upheld a trial judge's award of pre-judgment interest at the average rate of profit rather than the bank rate. The Court, at paragraph 181, stated that there was evidence to support the trial judge's decision, so it would not interfere with it.

[34] I agree with Apotex that *Athey* does not apply to the matter before me. *Athey* addresses uncertainty at the time of trial when the full extent of the injury is uncertain. Here, Lilly's harm had fully crystallized by the time of the trial, albeit some of it in the hypothetical world. I also agree that *Ford Motor* does not apply because it is based on a fundamentally different analytical framework under subsection 190(23) of the *Canadian Business Corporations Act*, RSC 1985, c C-44.

[35] With respect to the jurisprudence from the United Kingdom, Apotex submits that *Pattni v First Leicester Buses*, [2011] EWCA Civ 1384 [*Pattni*] is a more recent decision that displaces *Parabola*. In *Pattni*, a finding that a plaintiff might have put funds to a particular use was insufficient to make out a claim for interest as damages. The Court of Appeal of England and Wales found at paragraph 67 that "proof of actual loss" is required:

> In my view the relevant question is whether Mr Pattni, the claimant, could prove that he had suffered a loss because, as a

> result of the defendant's tort, he had actually had to pay out money which he could have used for other purposes. There are concurrent findings of fact that he did not make any such payments or suffer any such actual loss. It is immaterial that he might have done so, because the principle enunciated in ***Sempra*** requires proof of actual loss.

[36] This statement must be understood within the context of that case. *Pattni* was a situation where the loss was being examined in the real-world and not the but-for-world. As such, proof of actual loss was available. For this reason, the statement from *Pattni* has no application where one is considering the hypothetical world because in that world there can be no evidence of actual loss.

[37] Nonetheless, I agree with Apotex that more is required when considering loss in a hypothetical world than a mere statement, made without foundation, that the plaintiff might have conducted itself in a particular manner.

[38] In *Sanofi-Aventis Canada Inc v Teva Canada Limited*, 2012 FC 552 [*Teva Ramipril*], Teva made a claim for indirect losses because the lost revenue "would have been put towards building more value into Teva, for example, through investing in research and development and litigation." Justice Snider found that "the alleged losses are speculative and too remote. … In addition, there is simply no evidence on the record, beyond the bare assertions of Mr. Fishman and Mr. Youtoff, that Teva would have made such investments."

[39] I agree with Justice Snider's analysis of the testimonial evidence offered in that case and with her conclusion. Teva was attempting to obtain "indirect losses" flowing from the lost

profits on the basis of very general statements about using the money to invest in research and development and litigation; statements made without evidence or foundation. I further agree with her analysis that a claim for losses flowing from being unable to use profits requires that the "plaintiff provides clear and non-speculative evidence of a lost opportunity."

[40] I do not accept that Justice Snider's judgment rules out recovery of lost opportunity damages in all cases other than those where a specific lost opportunity is proven. Such a requirement in the but-for-world would result in a plaintiff failing to recover damages in nearly every case. While there may be a few instances where a plaintiff can lead evidence that it forewent a specific investment opportunity because of a shortage of funds, that situation will be exceptional. The more typical instance in the but-for-world will be where a plaintiff is not putting forward a specific lost opportunity, but relying on evidence to show, on the balance of probabilities, what the result would have been if, at that time, the Lost Profits had been pooled with the other corporate profits and invested or spent together.

[41] I agree with Justice Snider that whether the plaintiff is relying on a specific lost opportunity or more generally on the lost opportunity to use the funds as a part of the corporate wallet, it must provide "clear and non-speculative evidence" to support its claim.

[42] In the Damages Judgment, I held at paragraph 33 that Lilly was required to prove, on the balance of probabilities, the profit it would have generated but for the wrongful conduct of Apotex:

> Apotex is correct in saying that Lilly must prove the causal connection between its lost sales and the infringing sales made by

> Apotex. It must prove on the balance of probabilities that but for the sales of the infringing product, it would have made additional sales; and it must prove the number of those additional sales and the profit that it would have realized on them. I also agree with the submission of Apotex that damages for lost profits have been denied where the causal link between the infringement and the lost sales has not been established.

[43] Similarly, I agree with Apotex that in order to establish its claim for interest as damages Lilly "must establish [on the balance of probabilities] how they could have and would have used the additional profits that would have been earned from the lost sales of cefaclor from 1997 to 2001 through to the date of judgment."

[44] Apotex takes this "could-have" and "would-have" language from the decision of the Federal Court of Appeal in *Pfizer Canada Inc v Teva Canada Limited*, 2016 FCA 161 [*Venlafaxine*], which involved a claim for damages under section 8 of the *Patented Medicines (Notice of Compliance) Regulations*, SOR 93-133. Its analysis and assessment of proof in the but-for-world applies in this case.

[45] In *Venlafaxine* at paragraph 50, the Federal Court of Appeal noted the necessary aspects of the analysis in this hypothetical world when determining loss or damage:

> Both "would have" and "could have" are key. Compensatory damages are to place plaintiffs in the position they would have been in had a wrong not been committed. Proof of that first requires demonstration that nothing made it impossible for them to be in that position—i.e., they could have been in that position. And proof that plaintiffs would have been in a particular position also requires demonstration that events would transpire in such a way as to put them in that position—i.e., they would have been in that position.
>
> [emphasis added]

[46] I agree with Apotex that when determining what could have and would have transpired in the hypothetical world one must examine the evidence and arrive at a decision on the balance of probabilities. Indeed, in the Damages Appeal, the Federal Court of Appeal said as much at paragraph 158:

> [I]t appears clearly from *Bank of America* at paragraphs 53-55 and *Sempra* at paragraphs 94-97, as well as in the jurisprudence before us applying those two cases, that a loss of interest must be proved in the same way as any other form of loss or damage.
>
> [emphasis added]

[47] Similarly, in *Venlafaxine* the Federal Court of Appeal at paragraph 54 noted that in a previous decision "this Court held that the plaintiffs bear the burden of proving the hypothetical world on the balance of probabilities as part of their damages claim."

[48] While I find that the burden is on Lilly to prove to the Court on the balance of probabilities what it could have and would have done with the Lost Profits had it received them when it should, I also accept that quantifying that damage in a hypothetical world cannot be exact. The United Kingdom Supreme Court recognized this in *Morris-Garner v One Step Ltd*, [2018] UKSC 20, at paragraph 37:

> Evidential difficulties in establishing the measure of loss are reflected in the degree of certainty with which the law requires damages to be proved. As is stated in Chitty, para 26-015, "[w]here it is clear that the claimant has suffered substantial loss, but the evidence does not enable it to be precisely quantified, the court will assess damages as best it can on the available evidence."

[49] If, as Lilly submits, the initial award is to be maintained, the evidence at trial must demonstrate, on a balance of probabilities, that Lilly could have and would have used the Lost Profits to generate income at the compound Rate of Return.

[50] The "could-have" component is satisfied if Lilly demonstrates that nothing made it impossible for it to be in the position to generate the Rate of Return on the Lost Profits. The "would-have" component is satisfied if Lilly demonstrates that it would have generated the Rate of Return on the Lost Profits.

[51] The could-have and would-have are components that must be examined separately, as the Federal Court of Appeal noted in *Venlafaxine* at paragraph 51, because proof one does not entail proof of the other:

> Both elements have to be present. "Could have" does not prove "would have"; "would have" does not prove "could have":
>
> - Evidence that a party would have done something does not prove that it could have done something. I might swear up and down that I would have run in a marathon in Toronto on April 1 aiming to complete it, but that says nothing about whether I could have completed it. Maybe I am not fit enough to complete it.
>
> - Evidence that a party could have done something does not prove that it would have done something. A trainer might testify that I was fit enough to complete a marathon race in Toronto on April 1, but that says nothing about whether I would have completed it. Perhaps on April 1 I would have skipped the marathon and gone to a baseball game instead.

From What Perspective Does One Examine These Two Components?

[52] The damage the patentee claims under subsection 55(1) of the *Patent Act* is damage caused "by reason of the infringement." In the Damages Judgment it was found that this was comprised of two components: (1) the Lost Profits which should have been received in the five-year period Apotex infringed the patent, and (2) the opportunity Lilly lost to use the Lost Profits between the date when they ought to have been received and the date of judgment. In assessing each head of damage the Court is looking back and asking what would have occurred at that time, had Apotex not infringed the patent. The award of damages attempts to put Lilly back into the place it would have been, but for the misconduct of Apotex. As such, the proper focus must be on what Lilly could have and would have done with the Lost Profits had they been received when they ought to have been.

[53] I find that the opinions of the parties' experts, and particularly Mr. Harington, as to the use Lilly could have and would have put the Lost Profits are unhelpful because they examine the issue of what use could and would have been made of the Lost Profits as if it is a sum separate and apart from the other Lilly profits. Mr. Harington's opinion is a good illustration of this approach.

[54] Mr. Harington examined the Lilly's financial records and concluded: "Lilly had no additional investment opportunities available to it that exceeded the return on short-term cash deposits … and accordingly … Lilly could have and would have deposited any additional profits from cefaclor in the bank" [emphasis added]. In taking this approach, Mr. Harington examines the Lost Profit separately from the other profit that was actually received. He fails to consider

the matter from the perspective of asking what Lilly could and would have done had it received the profit it did and the Lost Profit at the same time. It is only asking the question from this perspective that one truly puts Lilly back in the position it would have been but for the misconduct of Apotex.

Could-Have Component

[55] The proper focus at this stage of the inquiry is to ask what Lilly could have done with its profits, including the Lost Profits. Brendan Crowley, Director of Finance, Lilly US, approached the question properly. He testified that the Lost Profits would have been gathered together with the other Lilly profits:

> Should additional resources have been available to us through additional revenue and profits from additional sales that might have accrued from cefaclor during that time period, then those resources would have been put into the pool of resources available to the company to make investments.

[56] The financial documents entered as exhibits at trial disclose all the uses (investments and expenses) to which Lilly put the profit it received in the real-world. The Lost Profits represent less than [redacted] of that large sum. In my view, it is most probable that had the Lost Profits been received when it should have, it would be spread among those same uses.

[57] Could this pool of resources have generated the Rate of Return? As noted earlier, what Lilly did do with its profits at the time is good evidence of what it could have done then if it had this very slightly larger pool of profit. The uses to which Lilly did direct its profits generated, at a minimum, the Rate of Return. Where that proposed use of the slightly larger pool of profits

parallels the use Lilly made in the real-world, there must be a heavy burden on Apotex to show that there was something making it impossible for Lilly to do so again.

[58] Apotex, in its analysis of the could-have component, says that an award of the Rate of Return "ignores all the failures and merely assumes that every additional dollar it had could have been used to generate an equivalent profit to what was actually earned."

[59] In applying the Rate of Return, one is not ignoring the failures that Lilly, like all pharmaceutical companies, had; rather it expressly takes them into account. Lilly had successes and failures, but its average rate of return shows that its successes exceed the failures – at least in a monetary sense. The average rate of return takes into account all consequences based on historical uses and results. Apotex's submission would have merit only if it were claimed that the Lost Profits could have generated income at a greater rate than Lilly's average rate of return. Using the Rate of Return provides one with an average outcome – not an exceptional one.

[60] The real-world informs the but-for-world. Absent evidence to the contrary, I find that the rates of return in the real-world is convincing and unequivocal evidence that Lilly, on the balance of probabilities, could have generated the same rate of return if the Lost Profits had been added to the other profits that generated this return.

[61] I do not accept the submission of Apotex that this is speculative. Evidence of past events, all things being equal, is persuasive evidence of what could have occurred in the but-for-world.

The burden shifts to Apotex to show that there is something that makes repetition of those rates of return impossible to generate in the same period. Apotex did not meet that burden.

[62] I find therefore, that Lilly has proven on the balance of probabilities that it could have generated the Rate of Return on the Lost Profit Award.

Would-Have Component

[63] Having found that there was nothing that made it impossible for Lilly to generate income on the Lost Profits at the Rate of Return per annum, compounded, the next question is whether Lilly has shown on the balance of probabilities that it would have done so. This analysis focuses on the question: "What would Lilly have done with the Lost Profits had it been received when it ought to have been?"

[64] As noted above, I give the opinions of Mr. Harington and Dr. Foerster little weight as each approached the question of what would have been done by implicitly assuming that all historical investment and spending decisions had been made and the use of the Lost Profits was being determined afterwards. As such, both fail to recognize that the role of an award of damages is to place Lilly back in the position it would have been had Apotex not engaged in the infringing conduct. If Apotex had not infringed the patent, then Lilly would have earned additional profits in 1997 through to 2001. These sums would have been taken in and gathered together with all other profits. Decisions taken about the use of all this would be based on the global amount, not the specific revenue it would have received from additional sales of cefaclor.

[65] I do agree with Dr. Foerster that had the Lost Profits been received when it should have, that Lilly would have invested the Lost Profits in its business, as it did with the profit it had on hand. There is no evidence suggesting it would have done anything differently.

[66] When considering whether the past financial decisions and performance can be used as a mirror of hypothetical financial decisions and performance based on a larger sum, it is relevant to consider the relative size of the sums being examined. If the additional sum is small when compared with the historical sum, then common-sense informs that there is no reason to think that the small amount would be treated differently. On the other hand, if the additional sum is close to or exceeds the historical sum, then common-sense informs that it is more likely it would have been treated differently.

[67] Consider the following illustration. Joe has an annual income of $50,000 which he spends on various goods and services – food, housing, entertainment, etc. – and he invests a portion for retirement. If he receives a 0.5% increase in pay, it is unlikely that his spending and investing habits will change significantly. However, if he wins the lottery or obtains a significant new job and finds himself with an additional $25,000, it is less likely that he will spend that additional sum in the same manner he spends his other income. It is more likely that he will buy a new car, take a vacation, pay down his mortgage, or invest significantly in his retirement plan. When considering what Joe would do with a large cash injection, the past is not a reliable guide.

[68] Here, the Lost Profits represents a very slight increase in Lilly's profits per year from 1997 to 2001. I find that the past is good evidence of the but-for-world of Lilly.

[69] The record establishes that Lilly generated return on the received profits of at least the Rate of Return. The evidence also establishes that the return may have been significantly greater – up to three times as much. I have found that Lilly would have used the enlarged pool of profits as it did those profits it actually received. It succeeded in generating at least the Rate of Return on that sum and I find on the balance of probabilities that it would have done the same if those profits were increased by less than [redacted], because the best evidence of what would occur in the but-for-world is what happened in the real-world.

What Rate of Return

[70] I was asked to provide more detail as to why the Rate of Return was selected as the appropriate interest rate.

[71] The action relates to infringement in Canada. The Lost Profits were profits lost in Canada, although Lilly Canada may have been required under the licence agreement to compensate Lilly US. The opportunity lost by not having the Lost Profits was by-and-large an opportunity lost to Lilly Canada.

[72] The Rate of Return selected represents the profit margin of Lilly Canada in the period under consideration (save the final two years for which no evidence was provided). It is within the discretion of a trial judge to fix an appropriate rate of interest: *Federal Courts Act*, RSC

1985, c F-7, subsections 36(2) and 36(5); *Merck & Co v Apotex Inc*, 2006 FCA 323 at paras 137-140. Given that the Rate of Return is the minimum average profit rate of Lilly, and represents the average return for Lilly Canada, I found that rate to be the most appropriate.

Interest on Reimbursement

[73] As I have found that the original award must stand, this issue does not arise.

Tax Considerations

[74] The Federal Court of Appeal stated that "logically, interest should only be earned on the net amount that could be used by Lilly" after deduction for taxes paid.

[75] Lilly cites *Cunningham v Wheeler*, [1994] 1 SCR 359 at 418:

> In Canada, the cases have consistently held that damage awards should be calculated without taking into account taxes that would have been paid if the sum awarded had been received by the plaintiff in the form of income.

[76] That case involved an action in tort to recover lost income as a result of a car accident. It bears some similarities to the present circumstances, in that absent the tortious actions of Apotex, Lilly would have received the Lost Profits as income. However, the issue of tax arises here on the interest earned on the Lost Profits, not the Lost Profits.

[77] The issue of income tax was first raised at trial indirectly by Mr. Harington. It had not been pleaded. There was no evidence in the record from either party as to the tax rate(s) of the

plaintiffs, or whether deductions or rebates would be available. In brief, the Court can do nothing in this regard. Anything the Court might do would be based on speculation, not evidence.

[78] Lilly has already been exposed to tax liability on the damages it recovered in this litigation. There is no way of knowing what that liability would have been had the interest component been adjusted for tax prior to the Judgment being issued. What is known is that the cause of the amounts not being received by Lilly at the time was solely because of the actions of Apotex. If either party should bear any financial burden because of the failure to consider the income tax payable during the many years the loss was suffered by Lilly, it is appropriate that the burden be on Apotex.

[79] The burden of proof usually lies with the party who raises the issue requiring proof. I see no principled reason why that principle ought not to be applied in this litigation. Having been raised by Apotex, it bore the burden but failed to meet it.

Conclusion

[80] For these reasons, the initial award is maintained. In keeping with the Damages Judgment: (1) Lilly is awarded its costs at the upper level of Column IV, (2) Lilly is entitled to tax the costs of two senior counsel and one junior counsel, (3) Lilly is entitled to tax the reasonable disbursements of counsel for travel, accommodation and related expenses on the basis of economy fare and single rooms, and (4) No costs or disbursements are recoverable for in-house counsel, law clerks, students, paralegals, or other support staff.

JUDGMENT IN T-1321-97

THIS COURT'S JUDGMENT is that the Damages Judgment, 2014 FC 1254, having been reconsidered, is maintained, with costs to the Plaintiffs as set out in these Reasons.

"Russel W. Zinn
Judge

FEDERAL COURT

SOLICITORS OF RECORD

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