UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
JACKSONVILLE DIVISION

HOLLISTER INCORPORATED, an Illinois corporation,

Plaintiff,

v. Case No. 3:13-cv-132-J-32PDB

ZASSI HOLDINGS, INC., a Florida corporation and PETER VON DYCK, an individual,

Defendants.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

In this bifurcated action, a jury previously ruled that Defendants Zassi Holdings, Inc. and Peter von Dyck committed breach of contract and fraud in the course of selling business technology to Plaintiff Hollister Incorporated. Now in the non-jury damages phase, Hollister attempted to prove that but for these transgressions, it would have prevailed in a patent infringement suit against its main competitor, ConvaTec, Inc., and thus seeks to collect from Zassi and von Dyck the patent damages it would have won from ConvaTec.

I. BACKGROUND AND PROCEDURAL HISTORY

Hollister is an independently-owned global company that develops, manufactures, and markets health care products, including ostomy, continence, critical care (including bowel management), and wound care products. Zassi is a

privately-held company that designs, develops, manufactures, and commercializes medical devices.

In 2006, Hollister purchased the technology and intellectual property rights related to a bowel management system ("BMS") developed by Zassi and von Dyck, Zassi's founder and chief executive officer. Under the Asset Purchase Agreement (Pl. Ex. 38), Hollister paid Zassi $35 million to acquire certain assets, including Zassi's interest in the patent applications that resulted in U.S. Patent Nos. 7,147,627 ("'627 patent"), which issued on December 12, 2006 (Pl. Ex. 53), and 7,722,583 ("'583 patent"), which issued on May 25, 2010 (Pl. Ex. 54).[1] The patents involve a BMS used principally in hospitals to contain and divert fecal matter for bedridden, incontinent patients.

Shortly thereafter, Hollister began manufacturing, marketing, and selling Zassi's BMS device and rebranded it the ActiFlo device. During this time, Hollister competed in the BMS marketplace with ConvaTec, a global company in the business of making and selling health care products, including ostomy devices and BMSs. Like Hollister, ConvaTec sold fecal management systems ("FMS"), including its Flexi-Seal device and its subsequently released Flexi-Seal Signal device ("Signal") (referenced in combination as the "ConvaTec products").

On October 7, 2010, shortly after the '583 patent had been issued, Hollister sued C.R. Bard, Inc. and ConvaTec, its two main competitors in the BMS space, alleging

[1] Court filings are identified by their document number on the docket, trial testimony by "Tr." followed by the volume of the transcript and cited pages, and the parties' trial exhibits by "Pl. Ex." and "Def. Ex." followed by the exhibit number.

that their products infringed at least one of the claims of the '583 patent.[2] (Pl. Ex. 39). On June 8, 2011, Hollister and Bard entered into a Settlement and Patent License Agreement (the "Bard agreement"), in which Bard paid Hollister $6.65 million which included a one-time, lump-sum payment for a fully-paid, worldwide license to use certain claimed inventions of the '583 patent in Bard's products. (Pl. Ex. 57).

ConvaTec, however, asserted that Hollister's claim was barred by a settlement agreement executed between ConvaTec and Zassi in 2005 (before Hollister acquired the patent rights from Zassi), which released ConvaTec from present and future claims for infringement as to the Flexi-Seal device.[3] (Pl. Ex. 6). As Zassi's assignee, Hollister could not assert rights Zassi had released. Thus, ConvaTec moved for summary judgment on Hollister's claims based on the release in the settlement agreement, and the court granted the motion, concluding that "Zassi and ConvaTec intended to release ConvaTec from patent infringement claims relating to its Flexi–Seal® and Flexi–Seal® Signal™ products." Hollister Inc. v. ConvaTec Inc., No. 10 C 6431, 2011 WL

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[2] Bard's accused product was the DigniCare Stool Management System. (Tr. I, 84:12).

[3] In October 1999, ConvaTec and Zassi entered into a Development and License Agreement for the development and distribution of certain ostomy care products, including a continent ostomy port. Under the agreement, the two companies shared information about the continent ostomy port and related technology.

In 2001, ConvaTec and Zassi executed a Supply Agreement pertaining to the manufacturing and supply of products consistent with their Development and License Agreement. Disagreements arose between ConvaTec and Zassi, and in late 2005, they resolved their disputes and executed a settlement agreement. That agreement contained a provision at paragraph 10 in which Zassi forever released ConvaTec from any past, present, or future claims, including claims for patent infringement, related to ConvaTec's FMS design, marketed as the Flexi-Seal FMS product. (Pl. Ex. 6).

2473662, at *4 (N.D. Ill. June 21, 2011), aff'd, Hollister Inc. v. ConvaTec Inc., 470 F. App'x 904 (Fed. Cir. 2012).

In Hollister's estimation, but for the release in the agreement between ConvaTec and Zassi, which Hollister only learned of in 2010 after it sued ConvaTec for patent infringement, Hollister would have obtained a substantial damages award against ConvaTec. Therefore, following its unsuccessful suit against ConvaTec, Hollister sued Zassi and von Dyck, claiming that Zassi breached the warranty of good and marketable title contained in the Asset Purchase Agreement (Doc. 1 ¶¶ 42-49), and that Zassi and von Dyck committed fraud by failing to disclose that Zassi had released claims against ConvaTec that would make it impossible for Hollister to enforce the patent rights it acquired from Zassi. (Id. ¶¶ 50-57).

The Court bifurcated the liability issues from damages for trial purposes. (Doc. 26). The measure of Hollister's damages was more distinct from the liability issues than in the usual case because Hollister's damages involved complex proof of patent infringement by ConvaTec, a non-party, and the amount of any resultant patent damages.

The liability issues were tried to a jury on February 4 through February 7, 2014 before the Honorable Paul A. Magnuson.[4] (Docs. 57, 60, 64, 72). On February 10, 2014, the jury reached a verdict for Hollister on liability on both counts, finding, among other things, that Zassi and von Dyck had defrauded Hollister by failing to disclose in the

[4] Judge Magnuson is a Senior United States District Judge of the District of Minnesota, who was sitting by designation in the Middle District of Florida during the liability phase.

sale negotiations that they had released certain patent claims against ConvaTec. (Doc. 77).

Shortly after the completion of the liability trial, Zassi and von Dyck's attorneys withdrew. (Doc. 84). New counsel appeared for Zassi and von Dyck, and after unsuccessfully moving for a retrial, also withdrew. (Docs. 89, 138, 139, 144). After no new counsel appeared, Hollister filed a Motion for Default Against Zassi Holdings, Inc. (Doc. 147), and a clerk's default was entered against Zassi on September 4, 2015 (Docs. 149, 150). New counsel later appeared on October 2, 2015 on behalf of von Dyck only to contest damages. (Doc. 153).

Before the trial on damages, the Court issued its Markman Order construing terms found in the patent in suit.[5] (Doc. 110; Pl. Ex. 56). The Court then conducted a three day non-jury damages trial from December 7 through December 9, 2015, the record of which is incorporated herein.[6] (Docs. 177-79). The parties submitted post-trial proposed findings of fact and conclusions of law (Docs. 186, 189), and Hollister filed a post-trial brief and a reply (Docs. 187, 196).[7] Von Dyck elected not to submit a

[5] Zassi and von Dyck withdrew their request for claim construction (Doc. 105), and therefore Hollister's claim constructions (Doc. 106) were unopposed.

[6] Pursuant to Federal Rule of Civil Procedure 38(d), the parties waived their right to a jury trial on the damages phase and agreed to a non-jury trial before the undersigned. (Doc. 164).

[7] Because von Dyck submitted his Post-Trial Proposed Findings of Fact and Conclusions of Law four days late, the Court struck without prejudice the submission as untimely and provided von Dyck with an opportunity to explain the untimely filing. (Doc. 190, 192). Von Dyck complied with the Court's Orders (Docs. 191, 193), following which the Court vacated its Order striking von Dyck's filing, but the Court allowed Hollister an opportunity to reply to von Dyck's Post-Trial Proposed Findings of Fact and Conclusions of Law (Doc. 195).

post-trial brief. In addition, at the Court's direction at the conclusion of the trial, Hollister filed a Proposed Default Judgment Order Against Zassi Holdings, Inc.[8] (Tr. III, 95:13-17; Doc. 188).

The Court has reviewed the extensive record, examined the evidence presented at trial,[9] observed the witnesses, read the parties' post-trial submissions, and considered the arguments. The Court now makes the following findings of fact and conclusions of law as required by Federal Rule of Civil Procedure 52(a).

II. INFRINGEMENT[10]

A. Hollister's Infringement Contentions

Hollister asserts five claims from the patent in suit: claims 1, 2, 3, 4, and 6 of the '583 patent. (Tr. I, 105:1-3). The asserted claims relate to a BMS used to contain and divert fecal matter for bedridden, incontinent patients. (Pl. Ex. 54). The device is composed of a rectal catheter with various sections, each with different elasticity and durometer hardness, and may be used to facilitate the collection of fecal matter for patients requiring stool management, provide access for colonic irrigation, and provide a conduit through which medications may be administered. (Id.). Claim 1 is an

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[8] The Court construes the proposed default judgment order as a motion for default judgment against Zassi.

[9] The Court has considered all of the evidence admitted at trial. The Court does not include any evidence that it has rejected as unreliable or that it finds irrelevant.

[10] To prove its damages case at trial, Hollister had to show by a preponderance of the evidence that it would have obtained a verdict finding that the ConvaTec products infringed its '583 patent and the resultant patent damages. Under this standard, where the evidence to support a relevant finding was in dispute, the undersigned has weighed the evidence on both sides to determine what facts "are more likely true than not true." Eleventh Circuit Pattern Jury Instructions (Civil Cases) 2013, Basic Instruction 3.7.1.

independent claim.[11] (Tr. II, 159:13-15; Pl. Ex. 54, Column 11). Claims 2, 3, 4, and 6 are dependent claims and further limit the independent claim. (Tr. II, 159:16-24; Pl. Ex. 54, Column 11). "Of course, infringement of a dependent claim also entails infringement of its associated independent claim." Honeywell Int'l Inc. v. Universal Avionics Sys. Corp., 488 F.3d 982, 995 (Fed. Cir. 2007).

Hollister contends that the evidence establishes that the ConvaTec products meet every limitation in the five asserted claims. (Doc. 186 at 8-13; Tr. I, 137-61). Russell Genet, a patent lawyer and partner in the law firm of Nixon Peabody, testified

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[11] Claim 1 of the '583 patent covers:

1. A bowel management system comprising:

a rectally inserted catheter having a first catheter section having a patient proximal opening that, when in position for normal use, is in a patient's rectum to receive bowel waste, and a second catheter section located distal to the first section that, when in position for normal use, can be collapsed by a patient's anal sphincter muscles;

the first catheter section being sufficiently pliable to permit folding for insertion into a patient's rectum but following insertion permits flow of bowel waste through the patient proximal opening;

the second catheter section permitting passage of bowel waste from the patient and being sufficiently soft to permit retention within a patient's anal canal for extended periods of time; and

a balloon coaxial with, and extending radially outward relative to, the patient proximal opening of the first catheter section for retaining the patient proximal opening in a position for normal use where it opens into the rectum of the patient, and the balloon having a proximal-most end coincident to a proximal-most first end of the first catheter section, the balloon having an inflated size sufficiently large so as to prevent migration of the first catheter section out of the patient's rectum through the patient's anal canal without being so large as to trigger a defecatory response in the patient.

(Pl. Ex. 54).

on Hollister's behalf as its expert witness on both patent infringement and damages. (Tr. I, 75:2-3).

Von Dyck asserts that the ConvaTec products do not meet the claim limitations, arguing that claim 1 requires a rectal catheter with at least two distinct sections and varying durometer hardness. (Doc. 189 at 11). Von Dyck contends that the ConvaTec products do not have a rectal catheter with a first and second section as required by claim 1; instead, they have a single catheter tube, and as a result do not infringe claim 1. He relies primarily on the '583 patent's specifications, claim differentiation, and prosecution history to support this theory. Von Dyck declined to retain an expert witness to testify on his behalf, instead using the cross-examination of Genet to elicit testimony to support his non-infringement arguments.[12]

Infringement analysis involves two steps: (1) claim construction, and (2) comparison of the properly construed claims to the accused devices. Cook Biotech Inc. v. Acell, Inc., 460 F.3d 1365, 1372 (Fed. Cir. 2006). The Court accomplished the first step in its Markman Order. (Doc. 110). "To establish infringement, every limitation set forth in a patent claim must be found in an accused product or process exactly or by a substantial equivalent." Laitram Corp. v. Rexnord, Inc., 939 F.2d 1533, 1535 (Fed. Cir. 1991); see also Dynacore Holdings Corp. v. U.S. Philips Corp., 363 F.3d 1263, 1273

[12] Although von Dyck, an inventor of the Zassi BMS, testified at trial, he was not identified as an expert witness in accordance with Federal Rule of Civil Procedure 26(a)(2) and was precluded from providing expert testimony as to patent infringement. See Centricut, LLC v. Esab Grp., Inc., 390 F.3d 1361, 1368 (Fed. Cir. 2004) (inventor not qualified to testify as expert on infringement simply by virtue of being the inventor). As a result, the only contrary evidence regarding infringement was the cross-examination of Genet.

(Fed. Cir. 2004). "Literal infringement requires that each and every claim limitation be present in the accused product." Abraxis Bioscience, Inc. v. Mayne Pharm. (USA) Inc., 467 F.3d 1370, 1378 (Fed. Cir. 2006). Hollister, as patentee, has the burden of proving infringement by a preponderance of the evidence. Warner-Lambert Co. v. Teva Pharm. USA, Inc., 418 F.3d 1326, 1341 n.15 (Fed. Cir. 2005). Based on the essentially uncontradicted testimony of Genet, the Court finds that Hollister has proved that the ConvaTec products meet all of the limitations of the asserted claims.[13] (Tr. I, 137-61).

B. Von Dyck's Non-Infringement Positions

The core of von Dyck's theory of non-infringement is that the ConvaTec products contain a single catheter tube, while the asserted claims of the '583 patent require a catheter tube with at least two distinct sections. Although von Dyck attempted to elicit testimony supporting his non-infringement arguments through the cross-examination of Genet, he failed to do so.

[13] The differences between the Flexi-Seal and Signal products are inconsequential to the infringement analysis because the features that were claimed in the infringed claims of the '583 patent are present in both products. (Tr. I, 132:10-20).

Von Dyck relies on the '583 patent's specifications [14] and claim differentiation[15]—specifically, a comparison between certain non-asserted claims from the '583 patent and claim 1 of the '627 patent—to underpin the argument that claim 1 of the '583 patent requires a catheter tube with two sections. To the extent that von Dyck has implicitly asked the Court to reexamine its Markman ruling by introducing new claim construction theories at trial, the Court declines.[16]

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[14] A person of ordinary skill in the art is "deemed to read the claim term not only in the context of the particular claim in which [it] appears, but in the context of the entire patent, including the specification." Serverside Grp. Ltd. v. Tactical 8 Techs., L.L.C., 927 F. Supp. 2d 623, 647 (N.D. Iowa 2013) (quoting Deere & Co. v. Bush Hog, L.L.C., 703 F.3d 1349, 1354 (Fed. Cir. 2012) (quotations marks and citations omitted)). "While claim terms are understood in light of the specification, a claim construction must not import limitations from the specification into the claims." Id. To put it another way, "although the specification often describes very specific embodiments of the invention, [the Federal Circuit Court of Appeals has] repeatedly warned against confining the claims to those embodiments." Id. (citations omitted).

[15] "In the most specific sense, 'claim differentiation' refers to the presumption that an independent claim should not be construed as requiring a limitation added by a dependent claim." Curtiss-Wright Flow Control Corp. v. Velan, Inc., 438 F.3d 1374, 1380 (Fed. Cir. 2006) (citing Nazomi Commc'ns, Inc. v. Arm Holdings, PLC, 403 F.3d 1364, 1370 (Fed. Cir. 2005) ("[C]laim differentiation normally means that limitations stated in dependent claims are not to be read into the independent claim from which they depend.")). "Thus, the claim differentiation tool works best in the relationship between independent and dependent claims." Id. (citing Liebel–Flarsheim Co. v. Medrad, Inc., 358 F.3d 898, 910 (Fed. Cir. 2004) (citations omitted)). Indeed, the statute stresses that a dependent claim must add a limitation to those recited in the independent claim. See 35 U.S.C. § 112(d) (2012) ("[A] claim in dependent form shall contain a reference to a claim previously set forth and then specify a further limitation of the subject matter claimed.").

[16] Genet's testimony bolsters the Court's conclusion that von Dyck attempted to engage in claim construction on cross-examination. For instance, Genet notes that "this is claim construction . . . you look at the file history and look to the specification to see if that makes any sense." (Tr. II, 172:11-14). In addition, in response to a question comparing ConvaTec and Hollister's BMS products, Genet stated, "It doesn't make a difference from the patent standpoint, because . . . it becomes a claim

It is true that a district court may engage in claim construction during various phases of litigation, not just in a Markman order. Conoco, Inc. v. Energy & Envtl. Int'l, L.C., 460 F.3d 1349, 1359 (Fed. Cir. 2006). The Federal Circuit has recognized that district courts may engage in "rolling claim construction, in which the court revisits and alters its interpretation of the claim terms as its understanding of the technology evolves." Id. (quoting Guttman, Inc. v. Kopykake Enters., Inc., 302 F.3d 1352, 1361 (Fed. Cir. 2002)). Here, however, von Dyck had ample opportunity to engage in thorough discovery and argument regarding claim construction. Instead, he withdrew his request for claim construction (Doc. 105) and did not respond to Hollister's claim construction brief (Doc. 106), allowing the Court to rule on it unopposed (Doc. 110). At no point prior to the damages trial did von Dyck request that the Court revisit Markman issues. In any event, Genet's expert testimony regarding the specifications and the patent claims was unopposed at trial due to von Dyck's decision not to retain his own infringement expert, and von Dyck's efforts to elicit testimony on cross supporting non-infringement at trial were ultimately unsuccessful.

1. Claim Specifications and Limitations

In his Post-Trial Proposed Findings of Fact and Conclusions of Law, von Dyck notes that the '583 patent contains several references to sections of the rectal catheter as being distinct, each having a first and second end, connected to other sections of the rectal catheter, and having varying durometer hardness. (Doc. 189 at 7). Specifically,

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construction issue. . . . You have to find something in the patent specification that limits it to that . . . and I don't think it exists." (Tr. II, 175-76).

he references the abstract, the summary of the invention, and the detailed description. (Id. at 7-8; Tr. II, 160, 163-64). He also points out that certain non-asserted claims in the '583 patent reference separate sections, and claim 1 of the '627 patent contains the word "distinct," referring to sections. (Doc. 189 at 6, 9-10).

Although von Dyck attempted to present evidence through cross-examination that claim 1 of the '583 patent requires two distinct sections, Genet's testimony belies these efforts. He stated that "the specification in the file history, I don't think requires this type of design, the [two-section] design in the [Hollister] ActiFlo . . . where you actually have . . . different materials that are glued together as very separate pieces. I don't think that that's required by the patent." (Tr. II, 170:14-19). Further, he testified that "there's no language that would say – in the spec [specification] that would say that you have to make this device with two very different sections of different material of different durometers." (Tr. II, 173:9-12).

In fact, the Hollister ActiFlo's two-section catheter tube is simply a "preferred embodiment." (Tr. II, 173:12). In other words, under the limitations of claim 1, a party may make a catheter tube with one section of one durometer hardness and infringe that claim, even though the preferred embodiment, such as the ActiFlo device, comprises two sections. ConvaTec did so with the Flexi-Seal. Genet explained the way in which ConvaTec's Flexi-Seal has distinct sections, even though it is made of one silicone tube and has the same material from start to end: "[T]here is a distinct section of [the ConvaTec] catheter that is within the patient's rectal vault" and "there's also a distinct section of this catheter that transverses the . . . sphincter region." (Tr. II,

170:3-7). Thus, he opined that there are "distinct sections . . . of the ConvaTec product when you look at how it is used in a patient." (Tr. II, 170:10-11). Upon further questioning by the Court, Genet explained that while the preferred embodiment sold by Hollister contains multiple sections, "the claims don't require it to be made that way." (Tr. II, 171).

The claims of the patent define the invention, and it is improper for the Court to read into those claims limitations that simply are not there. 35 U.S.C. § 112; Envtl. Designs, Ltd. v. Union Oil Co. of California, 713 F.2d 693, 699 (Fed. Cir. 1983), cert. denied, 464 U.S. 1043 (1984). Despite von Dyck's numerous comparisons of claim 1 with the specifications and other non-asserted claims' language, claim 1 does not contain language requiring "distinct" sections of the catheter tube or separate materials. (Tr. II, 171).

While ConvaTec has succeeded in constructing a catheter tube that is different from Hollister's commercial embodiment of its invention, or even the embodiments described in the patent specifications, ConvaTec's invention nevertheless falls within the scope of Hollister's claim, which defines the scope of Hollister's right to exclude. The accused devices—here, the ConvaTec products—must be compared to the claim language as interpreted. Amgen Inc. v. Hoechst Marion Roussel, Inc., 314 F.3d 1313, 1324 (Fed. Cir. 2003). "It is the claims that measure the invention," id. at 1325 (citation and quotation marks omitted), and the claims are not to be limited to the embodiments disclosed in the specification. Id. at 1328. "[T]he scope of the asserted claims may be ascertained from the plain language of the claims." Prima Tek II, L.L.C. v. Polypap,

S.A.R.L., 318 F.3d 1143, 1151 (Fed. Cir. 2003). The broad language of claim 1 reaches the ConvaTec products and affords Hollister the right to exclude the ConvaTec Flexi-Seal products.

2. Prosecution History

Von Dyck also argues that the infringement position Hollister took in this case regarding claim 1 is inconsistent with the position it was required to take to get the '583 patent issued, and thus Hollister should be estopped from asserting infringement of claim 1. (Tr. II, 156:19-23). At trial, von Dyck guided Genet through amendments in the file wrapper[17] of the '583 patent[18] in an apparent effort to demonstrate that at the time Hollister assumed responsibility for prosecuting the application for what would eventually become the '583 patent, there were certain specifications that were removed before the final claims were issued. (Tr. II, 140-43).

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[17] According to the United States Patent and Trademark Office's Manual of Patent Examining Procedure, "[t]he electronic file record in which the U.S. Patent and Trademark Office maintains the application papers is referred to as an image file wrapper. The electronic file record is the official record of the application." MPEP § 719.

[18] Hollister's post-trial brief states that von Dyck cross-examined Genet extensively about the '627 file wrapper. (Doc. 187 at 5 n.3). The Court has reviewed the transcript and, while the record is not a model of clarity, believes von Dyck in fact cross-examined Genet about the '583 file wrapper. (Tr. II, 121:22-24).

Von Dyck mistakenly had the '627 file wrapper on the projector and substituted the '583 file wrapper after realizing the error. Regardless, Hollister correctly notes that von Dyck never provided Hollister, or the Court for that matter, a copy of the file wrappers, and he never formally offered either file wrapper as evidence. (Doc. 175). As a result, the Court only has Genet's cross-examination testimony to consider in evaluating the strength of von Dyck's prosecution argument.

To the extent that von Dyck contends that Hollister is barred by prosecution history estoppel from asserting that claim 1 does not require distinct sections, this theory is inapplicable because Hollister does not assert a theory of infringement under the doctrine of equivalents.[19] "Prosecution history estoppel ensures that the doctrine of equivalents remains tied to its underlying purpose" by requiring that where an amendment narrows the scope of the claims and that amendment is adopted for a substantial reason related to patentability, the amendment gives rise to a presumption of surrender for all equivalents that reside in "the territory between the original claim and the amended claim." Envtl. Mfg. Sols., LLC v. Peach State Labs, Inc., No. 6:09-CV-395-ORL, 2011 WL 1262659, at *15 (M.D. Fla. Mar. 31, 2011) (quoting Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 734, 740 (2002)). "Whether prosecution history estoppel applies to a particular argument, and thus whether the doctrine of equivalents is available for a particular claim limitation, is a question of law." Intervet Inc. v. Merial Ltd., 617 F.3d 1282, 1290–91 (Fed. Cir. 2010). Here, Hollister does not assert that the ConvaTec products infringe the '583 patent under the doctrine of equivalents. Rather, Hollister contends that the ConvaTec products literally infringe the '583 patent. (Tr. II, 230:21-231:3). Accordingly, the doctrine of prosecution history estoppel is inapplicable to Hollister's infringement allegations.

[19] Hollister construed von Dyck's cross-examination of Genet regarding the file wrapper as geared toward a prosecution history estoppel argument. (Tr. II, 202).

Similarly, to the extent von Dyck construes his argument as one of prosecution disclaimer, there is insufficient proof that Hollister (or its predecessors) made an unambiguous disavowal of "one section" during prosecution. The doctrine of prosecution disclaimer precludes patentees from recapturing through claim interpretation specific meanings disclaimed during prosecution. Omega Eng'g, Inc. v. Raytek Corp., 334 F.3d 1314, 1323 (Fed. Cir. 2003) (quotations omitted) (citing Schriber–Schroth Co. v. Cleveland Trust Co., 311 U.S. 211, 220–21, (1940) ("It is a rule of patent construction consistently observed that a claim in a patent as allowed must be read and interpreted with reference to claims that have been cancelled or rejected, and the claims allowed cannot by construction be read to cover what was thus eliminated from the patent.")). The Federal Circuit, however, declines to apply the doctrine of prosecution disclaimer where the alleged disavowal of claim scope is ambiguous. Id. at 1324. Consequently, for prosecution disclaimer to attach, Federal Circuit precedent requires that the alleged disavowing actions or statements made during prosecution be both clear and unmistakable. Id. at 1325-26.

As an initial matter, Genet testified that he was "not involved . . . in patent prosecution work" on the '583 patent and that he would "not have any personal knowledge outside of what was actually filed on behalf of Hollister by the previous attorneys of record." (Tr. II, 148:7-17). As such, the Court accords his testimony regarding the patent prosecution history considerably less weight than his opinions regarding literal infringement of the '583 patent. While von Dyck succeeded in eliciting testimony from Genet that certain language appeared in the file wrapper and that the

patentee indeed amended the application, the Court's review of the record reveals no "clear and unmistakable" evidence of the patentee's disavowal of one catheter section.[20] In fact, when asked "would you agree that within . . . those arguments there was an argument that there were two distinct sections of the catheter that were embodied in the '583 claims and there were not two distinct sections in the catheter that was involved in [the prior art]," (Tr. II, 147:11-15), Genet responded, "[N]o, I don't remember that being one of the arguments" (Tr. II, 147:16-17).

Moreover, on redirect examination, Genet pointed out that the inventor did not distinguish the cited prior art reference by arguing that the presence of two distinct catheter sections was the difference. (Tr. II, 202-03).

> Q: And what you reviewed in the argument to the examiner that ultimately led to the allowance of the '583 patent, did Hollister's counsel ever argue that the claim should be allowed because they do not—they require different material and different sections of a catheter, whereas [the prior art] did not?
>
> A: No. That—that argument was not made. They did not argue you required different materials of different durometer values.

(Tr. II, 203:6-13).

Therefore, in light of the evidence, the Court does not find prosecution disclaimer.

Accordingly, having rejected von Dyck's arguments, the Court concludes that Hollister has proven that the ConvaTec products literally infringe the '583 patent.[21]

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[20] Neither party offered the file wrapper of the '627 or '583 patent as evidence.

[21] The Court makes this finding on this record in this breach of contract and fraud action. This finding is not intended to serve as precedent in any future patent infringement action involving these patents.

III. DAMAGES

Having found infringement, the Court determines that Hollister has been damaged as a proximate result of Zassi's breach of contract and Zassi and von Dyck's misrepresentations regarding Zassi's release of patent claims against ConvaTec. The measure of damages is the amount of money that would put Hollister in as good a position as it would have been in if the Defendants had not breached the contract or made the misrepresentations and omissions at issue. See Florida Standard Jury Instructions (Contract and Business), 504.1 and 504.2; Nordyne, Inc. v. Florida Mobile Home Supply, Inc., 625 So. 2d 1283, 1287 (Fla. Dist. Ct. App. 1993) (benefit of the bargain rule is appropriate damages measure in fraud case). Applying this measure, Hollister's damages constitute the amount it could have recovered against ConvaTec in patent damages if the release that Zassi gave to ConvaTec in the settlement agreement had not precluded a patent claim. Thus, Hollister is entitled to damages as prescribed by patent law.

Assessing and computing damages under the patent statute, 35 U.S.C. § 284, is a matter within the sound discretion of the district court. Yarway Corp. v. Eur–Control USA, Inc., 775 F.2d 268, 275 (Fed. Cir. 1985); King Instrument Corp. v. Otari Corp., 767 F.2d 853, 863 (Fed. Cir. 1985), cert. denied, 475 U.S. 1016 (1986). Patent damages attempt to assess the difference between the patentee's pecuniary condition after the infringement and what his condition would have been if the infringement had not occurred. Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886). The burden of proving damages falls on the patentee, Hollister. Dow Chem. Co. v. Mee Indus., Inc., 341 F.3d 1370, 1381 (Fed. Cir. 2003). To properly carry this burden, Hollister must

sufficiently tie the expert testimony on damages to the facts of the case. Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1315 (Fed. Cir. 2011) (citation and quotation marks omitted). Damages can be proven using two alternative methods: lost profits and the reasonable royalty.[22]

A. Hollister's Damages Framework

Hollister's benchmark for a reasonable royalty is based on the Bard settlement agreement, executed after Hollister had filed a patent infringement case against Bard for infringing the '583 patent. (Tr. I, 166-67; Pl. Ex. 57). The agreement required Hollister to dismiss the case and provided Bard with a fully paid-up non-exclusive license to the '583 patent, its parent patent, the '627 patent, as well as any children of the '583 or '627 patents. (Tr. I, 167:7-10). The license also covered the patents' foreign counterparts to provide "world peace on the patent family." (Tr. I, 167-68). As part of the settlement agreement, Bard paid Hollister $6.65 million, a one-time, lump-sum, non-refundable payment. (Tr. I, 168:21-169:1). However, the method of calculating the $6.65 million payment is not specified in the agreement. The Bard agreement characterizes the $6.65 million payment as "consideration of the release set forth in Article 3.1, the license set forth in Article 3.2, and the covenant set forth in Article 3.3," but does not break out the amount allocated for the license or characterize the payment as a royalty. (Pl. Ex. 57 at 3 ¶ 2.1).

Hollister submits that it would have offered ConvaTec a license identical in scope to the Bard agreement to settle the infringement suit, with adjustments to the

[22] Hollister does not seek damages based on its lost profits.

dollar amount based on ConvaTec's market share. (Tr. I, 170:10-25). To determine market share, Hollister obtained data from the Global Health Exchange ("GHX"), an industry organization that collects United States market data of medical device companies and reports on their sales. (Tr. I, 171-72; Pl. Ex. 58). Seamus Kavanagh, Hollister's Vice President of Business Development, testified that many health care companies subscribe to GHX and rely on GHX's market reports. (Tr. I, 29-30). The data presented at trial represented ConvaTec, Bard, and Hollister's sales in the number of BMS kits per quarter, beginning in 2007.[23] (Tr. I, 171-72). Using this information, Hollister determined the market share by calculating what percentage of the total sales was sold by each company.

To calculate its reasonable royalty, Hollister used the date on which the Bard agreement was signed (June 2011 or Q2 2011) and looked at the total sales in the marketplace in that quarter. (Tr. I, 175-76; Pl. Ex. 60). The total kits sold in Q2 2011 were 93,400 units, ConvaTec's total kits sold were 68,984, and Bard's total kits sold were 18,034. (Tr. I, 176). By dividing ConvaTec's share by the total number of kits sold, Genet calculated that ConvaTec had a 74 percent market share. (Tr. I, 177:21). Bard's market share was 19 percent. (Tr. I, 178:2). Genet then determined that ConvaTec's market share is 3.89 times larger than Bard's by dividing ConvaTec's 74 percent market share by Bard's 19 percent market share. (Tr. I, 178:16-20). Genet calculated Hollister's damages by multiplying the amount Bard paid Hollister in the

[23] Genet testified that Hollister's team used 2007 because it was the date available to them. (Tr. I, 172:4-6).

Bard agreement ($6.65 million) times ConvaTec's market share (3.89) to arrive at a reasonable royalty of $25,868,500. (Tr. I, 178:21-25). Hollister also seeks $5,756,449.98 in prejudgment interest for a total damages award of $31,624,949.98, plus postjudgment interest and costs.[24] (Doc. 186 at 17-18).

To justify this calculation as a reasonable royalty, Genet explained that the existence of the Bard agreement presented a "unique situation" in which to calculate Hollister's damages. (Tr. I, 180:20). Although comparable licenses offered as evidence of patent damages typically contain "all kinds of variables," such as "differences between the license[d] technology and what the parties are providing and the scope in terms of the license," Genet opined that this case is "unique" because the marketplace consists of only three competitors selling very similar products. (Tr. I, 180:19-181:24). According to Genet, the terms that Hollister would have offered to ConvaTec are exactly the same terms that were offered to Bard, including identical patents. (Tr. I, 181:6-18). Moreover, the Bard agreement contains the only license that Hollister has for its patents. (Tr. I, 183:11-12).

The Bard agreement, the numerical extrapolations from GHX data, and Genet's testimony constitute the only evidence of a reasonable royalty offered by Hollister. Von Dyck did not (nor was he required to) retain his own damages expert or provide an alternative method for calculating damages.[25] With only its damages model in

[24] Hollister made a typographical error at paragraph 79, where it wrote $5,756,559.98 instead of $5,756,449.98. The error does not affect Hollister's total damages request of $31,624,949.98. (Doc. 186 at 17-18).

[25] At trial and in his Post-Trial Proposed Findings of Fact and Conclusions of Law, von Dyck raised several arguments in an attempt to "poke holes" in Hollister's

evidence, Hollister frames the Court's damages analysis as "a Hobson's choice of either awarding Hollister the entirety of what it claims (as established by competent evidence) or nothing." (Doc. 187 at 18).

B. Reasonable Royalty

In its Post-Trial Proposed Findings of Fact and Conclusions of Law, Hollister characterizes the benchmark it used for its calculation of a reasonable royalty for ConvaTec as an "established royalty" insomuch as it is based on Hollister's settlement with Bard. (Doc. 186 at 14).

1. ***Georgia-Pacific***

A reasonable royalty is the floor below which patent damages shall not fall. Bandag, Inc. v. Gerrard Tire Co., 704 F.2d 1578, 1583 (Fed. Cir. 1983). To calculate the reasonable royalty, patentees generally consider a hypothetical negotiation in which the asserted patent claims are assumed valid, enforceable, and infringed, and attempt "to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began." Multimedia

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theory of damages, including arguing that Hollister may not obtain a judgment for fraud against Zassi and von Dyck due to certain allegedly exculpatory provisions in the Hollister/Zassi Asset Purchase Agreement, Hollister's failure to mitigate damages, and the independent tort doctrine. (Doc. 189 at 28-30).

As Hollister suggested at trial and in several of its briefs, although the Court gave von Dyck significant leeway at the damages trial to present these arguments, they were more appropriate for the liability phase and cannot now serve to reduce or eliminate Hollister's damages. Moreover, even if these arguments were properly before the Court, von Dyck has provided no basis for the Court to apply them to the damages calculation. Instead, he merely suggests that these theories demonstrate that Hollister has not sufficiently proven its damages. (Tr. II, 107). Because the Court does not rely on these arguments in analyzing Hollister's damages request, it need not address them.

Patent Trust v. Apple Inc., No. 10-CV-2618-H KSC, 2012 WL 5873711, at *2 (S.D. Cal. Nov. 20, 2012) (quoting Lucent Tech., Inc. v. Gateway, Inc., 580 F.3d 1301, 1324-25 (Fed. Cir. 2009)). This hypothetical negotiation "necessarily involves an element of approximation and uncertainty." Lucent, 580 F.3d at 1325; see also Fromson v. W. Litho Plate & Supply Co., 853 F.2d 1568, 1574 (Fed. Cir. 1988), overruled by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337 (Fed. Cir. 2004) (overruled on other grounds) ("Determining a fair and reasonable royalty is often . . . a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge."). "Still, a reasonable royalty analysis requires a court to hypothesize, not to speculate." ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d 860, 869 (Fed. Cir. 2010). "A damages theory must be based on 'sound economic and factual predicates.'" LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51, 67 (Fed. Cir. 2012) (quoting Riles v. Shell Exploration & Prod. Co., 298 F.3d 1302, 1311 (Fed. Cir. 2002)).

A hypothetical negotiation can result in either a lump-sum license or a running royalty license. See Lucent, 580 F.3d at 1326. Here, we are dealing with a lump-sum license which is an up-front payment in full for the invention that involves uncertainty about "whether the technology is commercially successful or even used." Id.

In determining the reasonable royalty that would have been agreed to at the hypothetical negotiation, parties in patent cases frequently utilize the fifteen factors enunciated in Georgia–Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120

(S.D.N.Y. 1970).[26] The Federal Circuit has expressly "sanctioned the use of the Georgia–Pacific factors to frame the reasonable royalty inquiry," Uniloc, 632 F.3d at 1317, and courts use the Georgia–Pacific framework to calculate lump-sum royalty figures. Lucent Techs., Inc. v. Microsoft Corp., No. 07-CV-2000 H CAB, 2011 WL 7664416, at *4 (S.D. Cal. June 16, 2011). Accordingly, the Court now considers Hollister's proffered evidence under Georgia–Pacific.

2. Established or Reasonable Royalty

Georgia–Pacific factor 1 concerns "the royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty." Georgia–Pacific, 318 F. Supp. at 1120. The Court first looks to see whether Hollister has offered proof of an established royalty.

[26] These are the factors: (1) royalties the patentee has received for licensing the patent to others; (2) rates paid by the licensee for the use of comparable patents; (3) the nature and scope of the license (exclusive or nonexclusive, restricted or nonrestricted by territory or product type); (4) any established policies or marketing programs by the licensor to maintain its patent monopoly by not licensing others to use the invention or granting licenses under special conditions to maintain the monopoly; (5) the commercial relationship between the licensor and licensee, such as whether they are competitors; (6) the effect of selling the patented specialty in promoting sales of other products of the licensee; (7) the duration of the patent and license term; (8) the established profitability of the product made under the patent, including its commercial success and current popularity; (9) the utility and advantages of the patent property over old modes or devices; (10) the nature of the patented invention and the benefits to those who have used the invention; (11) the extent to which the infringer has used the invention and the value of that use; (12) the portion of profit or of the selling price that may be customary in that particular business to allow for use of the invention or analogous inventions; (13) the portion of the realizable profit that should be credited to the invention as opposed to its non-patented elements; (14) the opinion testimony of qualified experts; and (15) the results of a hypothetical negotiation between the licensor and licensee. Georgia–Pacific, 318 F. Supp. at 1120.

"Keeping in mind that section 284 commands that damages should be no less than a reasonable royalty, the Court notes that the Federal Circuit has held that a reasonable royalty 'may be based upon an established royalty, if there is one, or if not upon a hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee.'" Mobil Oil Corp. v. Amoco Chems. Corp., 915 F. Supp. 1333, 1342 (D. Del. 1994) (quoting Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983)); see also Rude v. Westcott, 130 U.S. 152, 165 (1889) ("It is undoubtedly true that where there has been such a number of sales by a patentee of licenses to make, use and sell his patents, as to establish a regular price for a license, that price may be taken as the measure of damages against infringers.").

If an established royalty is found, it is generally deemed the best measure of damages for infringement. Mobil, 915 F. Supp. at 1342 (citing Hanson, 718 F.2d at 1078) ("'Where an established royalty rate for the patented inventions is shown to exist, the rate will usually be adopted as the best measure of reasonable and entire compensation.'"). For a patentee's negotiated royalties to constitute an "established" royalty they must meet five criteria: (1) they must be paid or secured before the infringement began; (2) they must be paid by a sufficient number of persons to indicate the reasonableness of the rate; (3) they must be uniform in amount; (4) they must not have been paid under threat of suit or in settlement of litigation; and (5) they must be for comparable rights or activity under the patent. Id. (citing Studiengesellschaft Kohle m.b.H. v. Dart Indus., Inc., 666 F. Supp. 674, 680 n.6 (D. Del. 1987)). Because of these stringent criteria, few courts have actually found an established royalty. Id.

(citing Julien v. Gomez & Andre Tractor Repairs, Inc., 512 F. Supp. 955 (M.D. La. 1981)).

To the extent that Hollister offers the Bard agreement as proof of an established royalty, it does not meet at least two of the criteria outlined in Mobil. The agreement was executed on June 8, 2011, over one year after the infringement allegedly began on May 25, 2010. (Pl. Ex. 54, 57). In addition, it was paid in settlement of litigation. Because all five criteria must be met to constitute an established royalty, the Bard settlement agreement does not constitute an established royalty. See Trell v. Marlee Elecs. Corp., 912 F.2d 1443, 1446 (Fed. Cir. 1990) ("A single licensing agreement, without more, is insufficient proof of an established royalty.").

Nevertheless, the Court will consider whether, in relying solely on the Bard agreement, Hollister has provided sufficient evidence of a reasonable royalty under the Georgia–Pacific hypothetical negotiation framework. See Multimedia, 2012 WL 5873711, at *9 (because damages expert did not contend there was an established royalty, there was no need to show that the five-part test from Rude was satisfied, and the court could consider the license under Georgia–Pacific); Caluori v. One World Techs., Inc., No. CV 07–2035, 2012 WL 630246, at *4 (C.D. Cal. Feb. 27, 2012) (explaining that an expert may rely on evidence to show a reasonable royalty even if it does not constitute proof of an established royalty).

"[L]icenses relied on by the patentee in proving damages [must be] sufficiently comparable to the hypothetical license at issue in suit." Multimedia, 2012 WL 5873711, at *7 (quoting Lucent, 580 F.3d at 1325). A patentee may not rely on license

agreements that are "'radically different from the hypothetical agreement under consideration' to determine a reasonable royalty." Id. (quoting Uniloc, 632 F.3d at 1316). At one time, it was the rule that settlement agreements in litigation simply could not be considered at all in the reasonable royalty calculus. ePlus, Inc. v. Lawson Software, Inc., 764 F. Supp. 2d 807, 813 (E.D. Va. 2011). However, it is now established that such settlement agreements may be considered (along with other evidence), but that they may have minimal probative value respecting the calculation of reasonable royalties. See ResQNet.com, 594 F.3d at 872. Settlement agreements in patent litigation are often not probative "because in the usual course they do not provide an accurate reflection of what a willing licensor would do in an arm's length transaction." Uniloc USA, Inc. v. Microsoft Corp., 632 F. Supp. 2d 147, 159 (D.R.I. 2009) (citations omitted). "The notion that license fees that are tainted by the coercive environment of patent litigation are unsuitable to prove a reasonable royalty is a logical extension of Georgia–Pacific, the premise of which assumes a voluntary agreement will be reached between a willing licensor and a willing licensee, with validity and infringement of the patent not being disputed."[27] LaserDynamics, 694 F.3d at 77.

[27] In AstraZeneca AB v. Apotex Corp., the Federal Circuit rejected the proposition that settlement offers that "occurred in the midst of litigation makes them irrelevant for purposes of determining a reasonable royalty rate," concluding that contention "goes too far." 782 F.3d 1324, 1336 (Fed. Cir. 2015). Although the fact that a settlement or settlement offer comes during litigation may affect the relevance of the settlement or offer, "there is no per se rule barring reference to settlements simply because they arise from litigation." Id. (citing ResQNet.com, 594 F.3d at 872). In fact, in AstraZeneca, the district court had held the patents valid and had made a finding of infringement as to both defendants, making the setting in which those events took place similar to that of a hypothetical negotiation in which infringement and patent validity are assumed. Id. In that procedural context, the Federal Circuit found that

Nevertheless, Hollister argues that the Bard agreement is the best, most comparable, most reliable evidence because it is the only license to the patent in suit. The Bard agreement is purportedly identical in every way to what Hollister would have offered ConvaTec to settle its infringement suit: it concerns the same patent, its family, and its foreign counterparts. It constitutes a one-time, lump-sum payment for a fully paid-up, non-exclusive worldwide license. Moreover, Hollister, Bard, and ConvaTec are the only three competitors in the relevant market. This leads Hollister to argue in its post-trial reply that "Hollister's license to Bard necessarily must be deemed sufficient evidence because it is the only possible license that exists for the '583 patent." (Doc. 196 at 12) (emphasis in original).

To support this position, Genet testified that because the Bard agreement was a settlement license, that made it an even better measure of damages than one not reached through litigation. He noted that the license agreement that Bard entered into was to settle the litigation and for a license of the technology, as would have been the situation with ConvaTec before Hollister learned of the release from Zassi. (Tr. I,

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the licenses negotiated after the onset of litigation constituted persuasive evidence that a royalty rate for a similarly situated party would be reasonable. Id. at 1336-37 (citing John M. Skenyon et al., Patent Damages Law and Practice § 1:15, at 25 (2013 ed.) ("[L]icenses negotiated to settle a case after a court has established validity and infringement of the patent are very probative of reasonable royalty. Such licenses duplicate the analytical process undertaken by the court in setting reasonable royalty damages in the 'willing licensor-willing licensee' fictional negotiation.")).

Hollister's suit against Bard is distinguishable from AstraZeneca, as the district court had yet to make any findings regarding infringement or Bard's invalidity and non-infringement defenses when the parties reached their settlement. (Tr. II, 233-34). The case settled a couple of days before the preliminary injunction hearing. (Tr. II, 233); see Hollister Inc. v. C.R. Bard, Inc., Case No. 1:10-cv-6427 (N.D. Ill. 2010).

182-83). Genet explained some of the background of the Bard case, in which Hollister had filed a motion for a preliminary injunction, the parties conducted extensive discovery on invalidity issues, took depositions on both sides, and in light of the information at hand, decided to settle the case. (Tr. II, 233-34). As such, Genet opined that the Bard agreement was "even more relevant than . . . a license agreement that was entered into without any litigation . . . These facts line up." (Tr. I, 183:1-5).

While this argument has initial appeal, the Bard agreement has a glaring flaw as a comparator: its settlement amount of $6.65 million exists in a vacuum. In Uniloc, the Federal Circuit emphasized that "there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." 632 F.3d at 1317. "Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion." Id.

The Bard agreement's base number of $6.65 million represents the type of "fundamentally flawed premise" that the Federal Circuit cautioned against in Uniloc because there was no evidence to show that this amount was actually intended to represent a license based on the reasonable royalty rate. At trial, Genet, who was Hollister's counsel in the Bard litigation and its only damages witness in the case, testified as follows regarding how Bard and Hollister reached a settlement amount of $6.65 million:

> Q: Okay. Would the 10 percent royalty rate be higher or lower than the royalty rate that you've used in your calculation for the determination of damages which the plaintiff has put forward in this case?

A: I don't know.

Q: Okay.

A: Because it's . . . the Bard settlement agreement, the one that we based our damages calculation on, is based on a fully paid-up license.

Q: Okay.

A: So there was no particular rate that was applied, or . . . we based it on that. So I don't know what Bard's lawyers and what Bard's in-house lawyers or their business people valued the . . . if they used a royalty rate or not in calculating what they agreed to pay Hollister.

(Tr. II, 70:23-71:12) (emphasis added).

Q: But to the best of your knowledge, nobody at Hollister actually took that number, that lump-sum number, and tried to figure out which portion of that would relate to any of the years of the life of the patent that this fully paid-up license was being issued for, correct?

A: [T]hat number is not broken out on a year-by-year or product-by-product or quarter-by-quarter or unit-by-unit basis anyway. It's a lump-sum payment.

Q: Okay. But that lump-sum payment—if you were trying to calculate it—if you were on either side of the transaction—so Bard, theoretically, should have gone through their analysis as to what they believe their sales would have been, correct?

A: I would assume that they did do that. I don't know if they did that.

Q: Okay. And they're projected sales. They [Bard] would look at it and they would also probably try and project what were their costs of goods sold related to that line or that product, correct?

A: Well, what you're saying makes sense. I don't know what they did. . . . In the lawsuit [Bard was] represented by Kirkland & Ellis, which is . . . a very large, very good law firm. I know the lawyers in the case were very smart. So I

assume they did an analysis to figure out . . . what is this license worth to us based on their wealth of experience and licensing patented technology? So I don't know what they particularly did. I know that . . . we ended up at the $6.65 million.

Q: Okay. Did anybody at Hollister on the side of the transaction that you were on—did you guys actually do any kind of valuation or projected sales that Bard would have over a period of time and then try and discount that down to see if that lump-sum number that was proposed was higher than or lower than any percentage on—based on projected sales?

A: So I know that when we were doing our due diligence process, part of that process was to come up with an estimate of what we thought the potential reasonable royalty damages would have been. I don't—I don't know what anyone else within Hollister did when they decided to agree to the settlement number.

(Tr. II, 72:13-74:7) (emphasis added).

Q: So 6.65 million. Did you do anything to try and break that 6.65 million dollars down into any category or cash flow of category for each of those roughly 14 years—14 years?

. . .

A: No, we didn't break it down, because, again, the agreement was for a fully paid-up lump-sum royalty, so . . .

Q: Okay.

A: You know, that would—that fully paid-up lump sum royalty covered anything—it covered—you know, it covered all the patents. And it covered this entire time period, and you know, the whole thing.

(Tr. II, 92:9-22).

The Court: Okay. Was the—was any factor in that settlement or the amount thereof, at least from Hollister's perspective, an attempt to set a floor or an attempt to predict what the damages would be in the companion case

> against ConvaTec? Or was it just you settled that case and then you decide to use that over here?
>
> The Witness: So how the number was arrived at in the Bard case, I can't tell you, because it was handled internal to Hollister. I just received the phone call and said, [w]e're settling the case and here's a number, let's work up the settlement agreement.

(Tr. II, 242:2-12) (emphasis added).

At the conclusion of Genet's testimony, the undersigned expressed concern that Genet had "no idea" why Bard settled for $6.65 million, noting that "people settle for all kinds of reasons for all kinds of amounts" and that "$6.65 million, there's nothing sacrosanct about it." (Tr. II, 242:19 – 243:3). See Fenner Invs., Ltd. v. Hewlett-Packard Co., No. CIVA6:08-CV-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010) ("These reasons [prompting settlement] include not only cost of additional litigation or the relative financial positions of the parties, but also the risk of a sizeable verdict against a defendant or a finding of invalidity or uneforceability [sic] against a plaintiff, which would end not only that action but future actions against other alleged infringers. Thus, admission of these agreements would invite a mini-trial on similarities and differences in the facts between this case and the settled claims.") (quotation marks and citations omitted). Accordingly, the Court asked "how do I know that's the reasonable royalty rate?"[28] (Tr. II, 243:4-5). Genet responded, acknowledging that there were some differences in the Bard and ConvaTec cases, saying:

> The only thing I can say, you know, is why it's a reasonable place to start is kind of—we just kind of go back again.

[28] Following trial, the Court also gave Hollister an opportunity to file a reply addressing the Court's concern regarding the proof of damages. (Docs. 195, 196).

> When you're determining a reasonable royalty, you're kind of trying to look at what would reasonable parties agree to.
>
> . . .
>
> And here we had two sophisticated companies with sophisticated lawyers with, you know, the—sophisticated in the area. And they came to an agreement—a meeting of the minds. Right. That's what we have.

(Tr. II, 243:21-244:5). Of course, this did not answer the Court's question as to why the $6.65 million represented a reasonable royalty.

The Court is mindful of the Federal Circuit's rejection of lump-sum licenses in Wordtech Sytems v. Integrated Networks Solutions, Inc., where "neither license describe[d] how the parties calculated each lump sum, the licensees' intended products, or how many products each licensee expected to produce." 609 F.3d 1308, 1320 (Fed. Cir. 2010). Hollister's failure to explain how the parties calculated the lump-sum in the Bard agreement or to prove that the $6.65 million amount represented a reasonable royalty, upon which its damages theory in this case depends, is a failure of proof.[29]

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[29] That the Bard agreement is not perfectly analogous generally goes to the weight of the evidence, not its admissibility. Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1227 (Fed. Cir. 2014) (citations omitted). Thus, while the Bard agreement is admissible, the minimal probative value generally attributable to settlement agreements in patent litigation is even less where, as here, the settlement agreement occurred over a year after the hypothetical negotiation called for by the Georgia–Pacific analysis would have occurred. See ePlus, 764 F. Supp. 2d at 813. Other differences between Hollister's suits against Bard and ConvaTec that undermine the probative value of the Bard agreement include the fact that although both Bard and ConvaTec asserted defenses of non-infringement and invalidity, ConvaTec had additional counterclaims of false marketing and false advertising that would have been considered during settlement. (Tr. II, 243). In addition, von Dyck showed on cross-examination that the Bard license included the '583 patent's foreign counterparts and that, had ConvaTec proceeded to a verdict, the court would not have

Hollister could have provided the Court with key information required to evaluate the Bard agreement as a benchmark of a reasonable royalty. See In re MSTG, Inc., 675 F.3d 1337, 1348 (Fed. Cir. 2012) (holding that settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege and thus the district judge did not abuse his discretion by ordering the production of negotiation documents underlying settlement agreements). While the Bard agreement itself does not address the royalty issue, see supra Part III.A, as one of only two parties to the Bard agreement, Hollister presumably had this information at its disposal and could have asked Bard to consent to its use in this lawsuit or, if necessary, asked the Court to allow its disclosure. At the very least, Hollister could have called its own legal or corporate representative who negotiated the Bard settlement to testify and explain, even in non-privileged terms, the considerations that went into the final settlement number.[30] However, Hollister did not to do so, presenting only the testimony of Genet, who admitted he had no idea how the $6.65 million figure was reached. Hollister also decided not to provide any alternative theories of damages for the Court to consider.[31]

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ordered ConvaTec to pay damages based on foreign counterparts because they are outside the United States' jurisdiction. (Tr. II, 101:11-20). Accordingly, he argued, whatever portion of the $6.65 million accounts for the '583 patent's foreign counterparts might have been inapplicable to a hypothetical negotiation between ConvaTec and Hollister. These concerns further diminish the weight the Court gives to Genet's opinion that the Bard agreement is a reasonable floor for Hollister's reasonable royalty here.

[30] Ronald F. Geimer, Vice President Law, signed the Bard agreement on Hollister's behalf. (Pl. Ex. 57 at 13, 15).

[31] In its post-trial reply to the Court's questions regarding how it arrived at its damages number, Hollister belatedly invites the Court to award, at a minimum, $6.65

Courts cannot award patent damages without supporting evidence or on the basis of speculation or conjecture. See, e.g., Whitserve LLC v. Comput. Packages, Inc., 694 F.3d 10, 29-33 (Fed. Cir. 2012). It is true that a district court must determine a

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million if the Court cannot find sufficient evidence to support its total request of $25,868,500 (before prejudgment interest). (Doc. 196 at 8). See SmithKline Diagnostics, Inc. v. Helena Labs. Corp., 926 F.2d 1161, 1168 (Fed. Cir. 1991) ("A district court is not limited to selecting one or the other of the specific royalty figures urged by counsel as reasonable.") (emphasis in original).

Hollister argues that "other benchmarks . . . support such an award including the . . . $5.9 million that ConvaTec paid to Zassi for a license and a full release of any future claims related to the BMS technology that resulted in the '583 patent. (Pl. Ex. 6)." (Doc. 196 at 8 n.5). Additionally, Hollister contends that "although [the Houlihan Lokey report was] not admitted into evidence, Defendant [von Dyck] elicited testimony from Genet that Hollister's investment brokers had valued the acquired Zassi intellectual property at $8.7 million. (Tr. II, 68:16-25)." (Doc. 196 at 8 n.5).

Neither at trial nor in its post-trial papers does Hollister seek either the $5.9 million or $8.7 million figure as its damages or explain how they relate to its $6.65 million alternative request. In fact, Genet testified that the information contained in the Houlihan Lokey report was irrelevant to the analysis of Hollister's hypothetical royalty. The report was a valuation done by outside investment brokers in June 2007 to value the intellectual property assets Hollister acquired from Zassi for tax purposes. (Tr. II, 60-61). The brokers assigned a fair value of $8.7 million to the technology. (Tr. II, 68:18-19). Genet explained that the report "was based on the current sales of Zassi and projected sales of Zassi of its product." (Tr. II, 63:4-11). "[W]hen you calculate that reasonable royalty, you're looking at the sales of the infringers." (Tr. II, 63:1-3). The "reasonable royalty analysis has nothing to do with Zassi's product or Hollister's product. It has everything to do with the ConvaTec product. So for that reason—those two reasons [different time periods and products], I think that's why this report isn't relevant or useful in a reasonable royalty analysis." (Tr. II, 63:6-11). Based on this evidence, the Court disagrees that $8.7 million represents a benchmark supporting an award of $6.65 million. Likewise, Hollister has not pointed to any evidence explaining why the $5.9 million amount ConvaTec paid to Zassi to settle business disputes in 2005 represents a reasonable benchmark to support the $6.65 million figure.

The Federal Circuit has instructed that the determination of a reasonable royalty must be based upon the entirety of the evidence, and courts are free to—indeed, must—reject the royalty figures proffered by the litigants where the record as a whole leads the court to a different figure. SmithKline, 926 F.2d at 1168. Here, to award Hollister its proposed alternative amount of $6.65 million would be as just speculative as awarding Hollister the full amount requested.

reasonable royalty based on whatever evidence is in the record, Dow, 341 F.3d at 1382, but Hollister did not present record evidence from which the amount of damages could be determined. See Unicom Monitoring, LLC v. Cencom, Inc., No. CIV.A. 06-1166 MLC, 2013 WL 1704300, at *8 (D.N.J. Apr. 19, 2013) ("Although there are many Georgia–Pacific factors which the Court can consider, the failure to present competent evidence regarding how the factfinder should perform the reasonable royalty calculation is fatal to Unicom's claim for reasonable royalty damages. A factfinder cannot be asked to speculate from numbers unsupported by law and divorced from expert guidance, but rather the factfinder needs either clear guidance from an expert about how to apply complex calculations or simple factual proofs about what this patentee has previously accepted in factually analogous licensing situations."). Rather, the evidence highlights Genet's admitted ignorance of the basis of the $6.65 million figure, which renders the Court unable to evaluate whether the Bard agreement is an accurate benchmark from which to determine a reasonable royalty. Courts are reluctant to give great weight to licenses awarded to settle patent litigation. See supra p. 27. To find that the Bard agreement had any probative value, without more information, would mean the Court was relying solely on Genet, who testified at several points that he lacked any knowledge of the origin of the very value he opines is a reasonable one.[32]

[32] Because the Court finds the amount in the Bard agreement too speculative and conclusory to rely on in calculating a reasonable royalty, it need not reach the issue of whether the GHX data extrapolation was a reasonable way for Hollister to calculate ConvaTec's market share.

Given no other tools to arrive at a reasonable royalty, the Court cannot invent one out of thin air, particularly given that the Federal Circuit requires "sound economic proof of the nature of the market and likely outcomes" in order "to prevent the hypothetical from lapsing into pure speculation[.]" Info-Hold, Inc. v. Muzak LLC, No. 1:11-CV-283, 2013 WL 6008619, at *2 (S.D. Ohio Nov. 13, 2013) (quoting Riles, 298 F.3d at 1311). Accordingly, the Court, as factfinder, finds that Hollister has failed to prove by a preponderance of the evidence the amount of reasonable royalty damages.[33] The Court will therefore award zero dollars in damages. See Boston Sci. Corp. v. Johnson & Johnson, 550 F. Supp. 2d 1102, 1120 (N.D. Cal. 2008) (quoting Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co., Harris Press & Shear Div., 895 F.2d 1403, 1407 (Fed. Cir. 1990) ("Where little or no satisfactory evidence of a reasonable royalty is presented, the court should award such reasonable royalties as the record evidence will support. Where the record lacks any evidence of a reasonable royalty rate, the Federal Circuit has approved of awarding zero damages because the statute [35 U.S.C. § 284] requires the award of a reasonable royalty, but to argue that this requirement exists even in the absence of any evidence from which a court may derive a reasonable royalty goes beyond the possible meaning of the statute.") (internal quotation marks and citations omitted)).

[33] To the extent required, the Court has incorporated the other Georgia-Pacific factors in its analysis.

Accordingly, it is hereby

ORDERED:

1. To the extent consistent with the Jury Verdict and these Findings of Fact and Conclusions of Law, the Court **GRANTS** Hollister's Motion for Default Judgment Against Zassi Holdings, Inc. (Doc. 188).

2. The Court will enter final judgment consistent with the Jury Verdict and these Findings of Fact and Conclusions of Law.

3. The Clerk shall then terminate all pending motions and close the file.

DONE AND ORDERED in Jacksonville, Florida the 30th day of March, 2016.

TIMOTHY J. CORRIGAN
United States District Judge

sj
Copies:

Counsel of record