IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

ADVANCED MEDICAL OPTICS, INC., a Delaware corporation, Plaintiff, v. ALCON INC., a Swiss corporation, and ALCON LABORATORIES, INCORPORATED, a Delaware corporation. Defendants.	)	Civil Action No. 03-1095-KAJ

MEMORANDUM ORDER

I. INTRODUCTION

Before me is a motion by the plaintiff ("AMO") to compel discovery (the "Motion") into a variety of defendants' (collectively "Alcon") products which may be used in cataract surgery. In this patent case, AMO asserts that Alcon infringes two of AMO's patents pertaining to machines used in a cataract removal procedure called phacoemulsification. (*See* Docket Item ["D.I."]1, 25.) In addition to discovery of Alcon's allegedly infringing products, AMO seeks discovery into Alcon's sales of products AMO claims are related to the so-called "phaco" procedure. For the reasons that follow, the Motion is granted, with certain limitations.

II. BACKGROUND

Phaco machines allow surgeons to use ultrasonic energy to liquify a cataract-diseased lens and then remove it by aspiration from a patient's eye. (*See, e.g.*, D.I. 72 at 1.) A synthetic lens is then inserted beneath the cornea to replace the removed lens.

(*Id.*)

According to AMO, Alcon infringes U.S. Patent No. 5,700,240, entitled "Phacoemulsification System Having Ultrasonic Power Controlled By Aspiration Vacuum Sensor" ("the '240 patent") and U.S. Patent No. 6,059,765, entitled "Fluid Management System With Vertex Chamber" ("the '765 patent"). Roughly speaking, both patents are represented as relating to phaco procedures and machines. The '240 patent is "directed to a method and apparatus for controlling the flow of fluid from a source to a patient and removal of fluids from the patient ... ." ('240 patent at col. 1, lines 8-10.) The '765 patent relates to an "irrigation/aspiration apparatus for surgical procedures and more particularly relates to fluid management ... ." ('765 patent at col. 1, lines 4-6.) These patents were apparently granted as being advances in phacoemulsification technology. (*See* D.I. 84 at 1-2 (asserting that AMO's patents relate to features added to existing phacoemulsification technology).) AMO sells a phaco machine that it calls the "Sovereign" and that embodies the technology described in the '240 and '765 patents. (D.I. 25 at ¶ 11.) Alcon sells a phaco machine called the "Series 20000 Legacy," which AMO alleges infringes the '240 patent. (*Id.* at ¶ 12.) Alcon also sells a phaco machine called the "Infiniti," which AMO alleges infringes both the '240 and the '765 patents. (*Id.* at ¶¶ 13-14.)

AMO claims that it has obtained evidence during discovery that demonstrates that Alcon aggressively markets a variety of products with Alcon's phaco machines. (D.I. 79, 83.) Among the products that AMO says Alcon seeks to "pull-through" its sales system as adjuncts to its sales of phaco machines are synthetic lenses, opthalmic antibiotics and anti-inflammatory medications, hand-pieces used for applying the

ultrasonic energy generated by the machines, foot-switches used to control the level of ultrasonic energy being applied to a patient's eye, "viscoelastic," which is used to "replace or supplement fluid that leaks from the eye during phaco surgery," and "surgical paks" in which Alcon bundles tubing, sleeves, tips, surgical trays, drapes, knives, and fluid control units called "cassettes" that are used with its phaco machines. (D.I. 79 at 1-2.) AMO wants discovery into all of Alcon's sales of these products (referred to collectively as "pull-throughs"), because, it says, such information is relevant both to the calculation of a reasonable royalty for Alcon's infringing use of the patents-in-suit (D.I. 79 at 2-5) and because it may be relevant to lost profits (*see* D.I. 83 at 1 (implying that AMO believes that it can prove at some point that the "entire market value rule" will support and not limit its ability to prove that pull-through sales are properly included in a lost-profits damages calculation). Alcon, of course, is resisting such discovery as irrelevant and unduly burdensome. (*See* D.I. 80, 84.)

III. STANDARD OF REVIEW

The broad scope of discovery under the Federal Rules of Civil Procedure is well-known. "Parties may obtain discovery regarding any matter, not privileged, that is relevant to the claim or defense of the party ... . Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence." Fed. R. Civ. P. 26(b)(1). In the context of damages discovery in a patent case, inquiry generally falls into the two general categories of "lost profits" and "reasonable royalty". Sales of products other than an allegedly infringing device may be relevant to one, the other, or both of those categories of damages, as is more fully discussed herein.

IV. DISCUSSION

While trying to keep open the possibility that Alcon's sales of the foregoing listing of products may be determined to be sufficiently related to the patented inventions to permit AMO to claim lost profits associated with them (*see* D.I. 79 at 3), AMO focuses its argument on the issue of a reasonable royalty. It argues that Alcon itself has linked the sales of the listed products to its phaco machines and therefore any discussion of a reasonable royalty would consider such sales. (*See id.* at 1-3; D.I. 83.) I agree that AMO appears to have developed evidence in discovery demonstrating that Alcon itself has emphasized the sale of "pull-throughs" in its sales of allegedly infringing phaco machines and that a sufficient basis has been laid to allow some further discovery to support this reasonable royalty argument.

The Federal Circuit has noted that the value of collateral sales of unpatented products can be considered in determining an appropriate royalty rate. *See State Industries, Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989) (when patented method of using foam to insulate water heaters affected defendant's marketing of its "entire line of heaters," trial court could factor into the royalty rate the value of collateral sales). AMO tries to distinguish cases on collateral sales by emphasizing that the well-known *Georgia-Pacific* factors allow for consideration of "collateral profits from convoyed sales of *products sold along with [the patented product].*" *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1130 (S.D.N.Y. 1970) (emphasis and bracketed language from Alcon, D.I. 84 at 3). The so-called "pull-throughs" are not so

tightly linked to the patented inventions, says Alcon.[1]

Alcon's argument fails, at least to this extent: while it may ultimately be that, as Alcon asserts, the "pull-throughs" are so remote that they cannot in fairness be considered even as something that would be in the minds of hypothetical negotiators working out terms for a license for the plaintiff's patents affecting phaco machines, I cannot say now, based on the record before me, that AMO's discovery requests are out of bounds. On the contrary, the evidence seems to indicate that Alcon itself tracks the effect that sales of its phaco machines have on the "pull-throughs". (*See, e.g.,* D.I. 79, Tab 1 at ALDE 007681 (memo from Alcon's head of reasearch and development for phaco equipment stating that "our data indicates that an increase in pull-thourgh products results following a new machine placement even when an Alcon system is replaced"; Tab 4 at AMO 03367 (Alcon's IOL [synthetic intraocular lens] market share increased from 53.7% overall to 92.1% among surgeons using an Alcon phaco system); *see also* Tabs 5-10 (subsequent market reports showing a similar increase in market share for Alcon's IOLs among surgeons using Alcon's phaco machines).) It stands to reason, then, that fully-informed negotiators would have that sales effect in mind when considering how to price a license.

[1]There's precedent for Alcon's argument even in the *Mor-Flo* case, cited above. The Court there noted that it was the components of the heaters themselves that were being argued over as the source of demand and that, "[i]n any event, no components can be used separately, except as spare or repair parts for which [the plaintiff] does not claim damages." 883 F.2d at 1580.

However, my ruling is not an invitation for AMO to wade freely through all of Alcon's sales information. (*See* D.I. 74 at 2.) AMO says that it is seeking documents from three of the ten categories of products that Alcon sells - namely, cataract, eye infection, and eye inflammation. (D.I. 79 at 5.) AMO will be held to that representation. Moreover, AMO is not necessarily entitled to any and all information on all of the sales that Alcon had in those categories. Rather, AMO should receive only the information necessary for it to calculate the pull-though effect the accused devices have had on the sales of the identified products. (*See id.* at 4 (summarizing evidence showing Alcon's reliance on pull-through sales from specific products).)

Accordingly, with the noted limitation, it is hereby ORDERED that AMO's Motion (D.I. 72) is GRANTED.

Kent A. Jordan
UNITED STATES DISTRICT JUDGE

Wilmington, Delaware
August 18, 2004