

United States

The new world of post-verdict damages: the evolution of the patentee's right to exclude

Introduction

In *eBay v MercExchange, LLC* (547 US 388 (2006)) the Supreme Court changed the landscape of available remedies awarded in patent infringement cases by overturning the longstanding rule – endorsed by the Federal Circuit – of routinely issuing permanent injunctions following a finding of patent infringement. Prevailing patentees must now also establish entitlement to an injunction; otherwise, no injunctions will be entered as part of a final judgment.

Since it was issued, *eBay* has spawned a new line of cases addressing the novel issue of how to compensate a patentee for ongoing infringement when injunctive relief is denied. Two post-*eBay* Federal Circuit cases – *Paice LLC v Toyota Motor Corp* (504 F 3d 1293 (Fed Cir 2007), cert denied, 128 S Ct 2430 (2008)) and *Amado v Microsoft Corp* (517 F 3d 1353 (Fed Cir 2008)) – have provided some, albeit limited, guidance on the issue, but seem to have left much to the district courts to craft an appropriate post-judgment, non-injunctive remedy. As a result, district courts have been grappling with the issue of adequately compensating the prevailing patentee when an injunction is denied and the now-wilful infringer continues to infringe.

In tackling this problem, district courts have taken a variety of approaches (thus far, all based on a royalty measure), which range from a traditional *Georgia-Pacific* analysis of the type used for pre-judgment damages calculations to approaches that ignore the *Georgia-Pacific* factors altogether. Recent cases, however, suggest that a trend may be emerging based on a modified *Georgia-Pacific* analysis that weights some of those traditional *Georgia-Pacific* factors in light of all post-verdict circumstances. This chapter explores the development of post-judgment remedies in the wake of *eBay*.

eBay v MercExchange: The Supreme Court redefines the right to exclude

For decades, with very limited exceptions, courts routinely issued permanent injunctions against patent

infringement. In *eBay*, however, the Supreme Court abolished that practice and ruled that permanent injunctions in patent cases should issue only after a court conducts the same four-factor equity analysis that is used in any other injunction case – namely whether:

- the plaintiff has suffered irreparable injury;
- the remedies available at law (eg, monetary damages) are inadequate to compensate for that injury;
- the balance of hardships favours the plaintiff; and
- the public interest would be disserved by a permanent injunction (547 US at 391).

The Federal Circuit's solution

The *eBay* decision itself, however, provided no guidance for addressing the resulting consequences – namely, the possibility of ongoing, post-judgment infringement. The Federal Circuit has attempted to fill this void in two subsequent cases, *Paice* and *Amado*, indicating that district courts may award a post-judgment royalty to compensate for ongoing infringement in lieu of a permanent injunction.

The *Paice* decision

In *Paice*, the jury found that Toyota's drive train infringed one of three patents-in-suit and awarded Paice \$4.27 million in royalties for past infringement, amounting to \$25 per vehicle (504 F 3d at 1296, 1302-03). Thereafter, Paice moved for a permanent injunction (*id* at 1302). Applying the four-factor test, the district court denied an injunction, instead imposing an "ongoing royalty" equivalent to the same pre-judgment royalty (ie, \$25 per vehicle) for those sold during the remaining life of the patent (*id* at 1302-03). Paice appealed the court-imposed ongoing royalty, but not the denial of the injunction, arguing that (i) the district court had no statutory authority to impose an ongoing royalty, and (ii) the court-imposed royalty deprived Paice of its right to a jury trial (*id* at 1314, 1315-16).

The Federal Circuit disagreed with *Paice* on both points and ruled that it was within the court's discretion

– and not a denial of right to a jury trial – to impose a post-verdict royalty for future infringement (*id.*). It cautioned, however, that “an ongoing royalty where ‘necessary’ to effectuate a remedy... does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed” (*id.* at 1314-15). The Federal Circuit further noted that:

“where... a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement.” (*Id.* at 1315.)

Although the majority acknowledged that an ongoing royalty may be appropriate, it vacated the royalty imposed because “the district court’s order provide[d] no reasoning to support the selection of \$25 per infringing vehicle as the royalty rate” (*id.* at 1315). The majority admonished “[u]pon remand, the court may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty” (*id.*). Judge Rader’s concurrence similarly cautioned that “pre-suit and post-judgment acts of infringement are distinct, and may warrant different royalty rates given the change in the parties’ legal relationship and other factors” (*id.* at 1317 (Rader concurring)).

The Amado decision

In *Amado*, a jury found the patent-in-suit to have been infringed by Microsoft and awarded Amado past damages equivalent to a royalty of \$0.04 per copy of infringing software (517 F 3d at 1356). The district court granted Amado’s request for a permanent injunction but stayed the injunction pending resolution or abandonment of any appeal, subject to Microsoft escrowing \$2 per copy of the infringing software sold during the stay (*id.*).

On appeal the Federal Circuit “‘affirm[ed] in all respects’ and remanded for disposition of the funds deposited in the escrow account” (*id.* at 1356, citing *Amado*, 185 Fed App’x 953 (Fed Cir 2006)). On remand the district court dissolved the injunction in light of *eBay* and awarded Amado \$0.12 a copy from the escrow account for sales made during the stay (*Amado*, 517 F 3d at 1356). The district court calculated the damages by trebling the jury award, reasoning that infringement was wilful (*id.* at 1361).

In a second appeal to the Federal Circuit both parties argued, among other things, that the court erred in assessing a \$0.12 royalty for each infringing copy sold

during the stay (*id.*). Amado argued that the court had already set the royalty at \$2 per unit – the escrowed amount – and that the court did not have discretion on remand “to step in after-the-fact and issue Microsoft a refund” (*id.*). Microsoft argued that Amado was entitled to no more than \$0.04 per unit – the jury-awarded royalty (*id.*).

The Federal Circuit rejected both arguments but remanded, vacating the \$0.12 per copy royalty for the stay period because (i) Microsoft’s infringement was permitted by a court-ordered stay, and (ii) the jury’s award was based on pre-verdict infringement (*id.* at 1362). Beyond that, the Federal Circuit commented only that the award should fall between the \$0.04 per copy jury-set royalty and the \$2 per copy escrow amount (*id.* at 1362 n2).

Evolution of post-verdict damages following *Paice* and *Amado*

The *Paice* and *Amado* Federal Circuit opinions clarified several issues:

- A district court may award an ongoing royalty where a permanent injunction is denied without offending the patentee’s Seventh Amendment right.
- Damages for past and future infringement are distinct and may require different royalty rates given the change in the parties’ legal relationship.
- Courts may consider additional evidence related to imposition of an ongoing royalty.
- As reiterated in *Telecordia Technologies, Inc v Cisco Systems, Inc* (612 F 3d 1365, 1379 (Fed Cir 2010)), before setting an ongoing royalty, district courts may instruct parties to negotiate the terms of the royalty (*Paice*, 504 F 3d at 1315, 1317; *Amado*, 517 F 3d at 1361).

However, the Federal Circuit’s guidance ends here, leaving district courts (at least for now) to grapple with crafting an appropriate measure for compensating prevailing patentees for ongoing infringement. Although there may be no clear consistency in the approach employed by the various district courts, as explored below, a trend in dealing with the issue may be emerging.

Applying pre-verdict *Georgia-Pacific* analysis to ongoing infringement

Before re-addressing the *Paice* case on remand from the Federal Circuit in April 2009, the Eastern District of Texas had taken the position that a jury verdict of patent infringement should not affect the applicability of the *Georgia-Pacific* factors in a post-judgment analysis. For example, in *Ariba, Inc v Emptoris, Inc* (567 F Supp 2d 914 (ED Tex 2008)) the court determined that

expert testimony on the hypothetical negotiation at the time of infringement (ie, pre-verdict) is relevant to the future royalty rate because experts assume findings of validity and infringement when analysing the hypothetical negotiation (567 F Supp 2d at 917-18).

Similarly, the court in *Cummins-Allison Corp v SBM Co Ltd* (584 F Supp 2d 916 (ED Tex 2008)) determined that “[c]alculating a future royalty rate should be little different than opining on the rate the parties would have agreed upon at the hypothetical negotiation” (584 F Supp 2d at 918).

Ignoring the Georgia-Pacific factors in ongoing infringement analyses

On remand of *Amado*, the Central District of California rejected the idea of using the *Georgia-Pacific* factors to determine an ongoing royalty, reasoning that “[the] Federal Circuit indicated that it was error for the Court to base the reasonable royalty on the pre-judgment award found by the jury... If the Court applies the *Georgia-Pacific* factors, it runs the risk of skewing the analysis towards a pre-judgment framework” (*Amado*, No 03-242, 2008 US Dist LEXIS 110152 at *32-33 (CD Cal Dec 4 2008)).

The court instead examined the following factors based on the Federal Circuit’s comments:

- the infringer’s likelihood of success on appeal;
- the infringer’s ability to comply with an injunction immediately and the effect this had on the parties’ bargaining positions;
- the parties’ reasonable expectations if the stay was entered by consent or stipulation; and
- the evidence and arguments that were material to the grant and stay of the permanent injunction (*id* **10-11, 15-17, 23-24).

On balance, the district court concluded that while the foregoing factors tended to increase *Amado*’s bargaining power because of the infringement finding, there were other factors minimising it, including Microsoft’s ability to comply with the injunction immediately (*id* at *33). Thus, *Amado*’s increase in bargaining position resulting from the finding of infringement was minimal (*id*). The court implemented a 3.77% royalty rate – which was equivalent to its \$0.12 per copy royalty (*id* at *45).

Emergence of a modified Georgia-Pacific analysis

Recently, some district courts have taken a ‘middle ground’ approach to compensate a prevailing patentee for ongoing infringement, namely a modified *Georgia-Pacific* analysis that weighs the various *Georgia-Pacific*

factors in light of all post-verdict circumstances.

On remand of *Paice* from the Federal Circuit, the Eastern District of Texas applied a modified *Georgia-Pacific* analysis. While noting that many of the *Georgia-Pacific* factors are applicable, the court also noted:

“A post-judgment, ongoing royalty negotiation, however, is logically different from the pre-trial hypothetical negotiation discussed in *Georgia-Pacific*. In the case of an ongoing royalty, the hypothetical negotiation occurs post-judgment; therefore, the ‘willing licensee’ in this negotiation is an adjudged infringer, unlike the situation described in *Georgia-Pacific*.” (*Paice LLC v Toyota Motor Corp*, 609 F Supp 2d 620, 624 (ED Tex 2009)).

Ultimately, the court awarded a royalty of \$98 per vehicle, or 1.5% of the power train value (and almost four times the pre-verdict royalty of \$25 per vehicle) (*id* at 630). The court reasoned that reducing *Paice*’s proposed royalty rate of 2.25% (which was based on a ‘25% rule of thumb’ approach – ie, 25% of Toyota’s profit margin of 9%) by one-third was justified because the “jury’s award for past damages, when divided by the number of infringing vehicle sales, counsels in favor of a reduction” and because “Toyota, as a general matter, makes less profit on its hybrid vehicles than its non-hybrid vehicles” (*id*).

The Northern District of California also recently applied a modified *Georgia-Pacific* analysis in calculating an ongoing royalty. In *Boston Scientific Corp v Johnson & Johnson* (02-790, 2009 US Dist LEXIS 35372 (ND Cal Apr 2009)) the defendants sought an ongoing royalty after a jury finding of infringement on their counterclaim. The court determined that the jury verdict would strengthen the patentee’s bargaining position (2009 US Dist LEXIS 35372 at *16). The court also used the *Georgia-Pacific* factors, but considered whether certain factors should be weighed differently in the context of post-verdict royalties (*id*). In considering one factor, the hypothetical negotiation, the court assumed that a reasonable royalty would have fallen within the range of 5.1% and 14.8% as proposed by the patentee. After considering the other relevant *Georgia-Pacific* factors, the court found that a royalty rate of 5.1%, was appropriate (*id* at **17-24).

More recently, the Eastern District of Texas reiterated its modified *Georgia-Pacific* approach in *Creative Internet Advertising Corp v Yahoo! Inc* (674 F Supp 2d 847 (ED Tex 2009)). There the court reasoned that a 23% royalty rate, which represented a 3% increase from the rate imposed by the jury, was appropriate given the changed positions of the parties. The court noted “[t]he Federal Circuit has instructed that post-verdict infringement should typically entail a higher royalty rate

than the reasonable royalty found at trial... and the Court adopts a methodology that recognizes the effect of a jury verdict on the parties' bargaining position as they enter into a hypothetical negotiation" (674 F Supp 2d at 861). The court also made a policy argument for this position, noting that failure to recognise the parties' changed legal status "would create an incentive for every defendant to fight each patent infringement case to the bitter end because without consideration of the changed legal status, there is essentially no downside to losing" (*id* (citation omitted)).

Finally, while noting that it is unclear whether the *Georgia-Pacific* factors should control in a post-judgment context, the Southern District of California recently examined what it considered the relevant *Georgia-Pacific* factors as potentially "helpful in determining the appropriate royalty rate post-judgment" (*Presidio Components, Inc v Am Tech Ceramics Corp*, 08-335, 2010

US Dist LEXIS 79039, **17-18 n7 (SD Cal Aug 2010)).

Conclusion

In the absence of further guidance from the Federal Circuit (or even Congressional action), a trend may be emerging toward a modified *Georgia-Pacific* analysis. In the meantime, the consequences of the Supreme Court's *eBay* decision are still unfolding. For example, some courts are conducting *eBay* hearings to determine whether an injunction should issue, and discovery now often includes materials relating to entitlement to an injunction. Where an injunction is denied, parties are being encouraged first to negotiate their own licence for future practice of the invention. Where the parties fail to agree, courts may then hold an evidentiary hearing to determine an ongoing royalty rate in light of the changed circumstances and relationship of the parties, changes in the market and other relevant factors.



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