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Ronald J. Schutz & Patrick M. Arenz



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UNCHARTED WATERS: DETERMINING ONGOING ROYALTIES FOR VICTORIOUS PATENT HOLDERS DENIED AN INJUNCTION

*Ronald J. Schutz & Patrick M. Arenz**
Robins, Kaplan, Miller & Ciresi L.L.P.
Minneapolis, MN

INTRODUCTION

The Supreme Court's *eBay* decision, of course, caused a sea change. Before *eBay*, courts awarded victorious patent holders an injunction preventing the adjudged infringer from future infringing acts unless the case was "exceptional." Since *eBay*, courts reluctantly grant injunctions for at least victorious non-practicing entity patent holders. The Federal Circuit in *Paice v. Toyota Motor Corp.*, moreover, determined that district courts may issue an ongoing royalty for future infringing acts, if a victorious patent holder is denied an injunction. But the *Paice* Court did not specify what factors should be considered in determining an ongoing royalty. Nor was the issue of who—the district court or the jury—properly at issue on appeal. A discussion of this decision is set forth below.

In light of *eBay* and *Paice*, therefore, patent holders who are denied an injunction face uncertain waters for future compensation. This paper addresses those patent holders' options for proper, adequate, and fair compensation after a jury finds infringement of a valid patent, and an infringer willingly decides to continue infringing. In particular, the paper addresses, and ultimately concludes, that an ongoing royalty must be decided by a jury, as required by the Seventh Amendment, and that the jury should decide the ongoing royalty by assessing what the infringer would pay to avoid an injunction, which should in most cases be higher than the royalty found for past infringement as a result of the change in the parties' legal relationship.

* Ronald J. Schutz is the Chair of the Intellectual Property Litigation Group and a member of the Executive Board of Robins, Kaplan, Miller & Ciresi L.L.P. He is a Fellow of the American College of Trial Lawyers and is listed in *The Best Lawyers in America*. In 2008 the *National Law Journal* named Mr. Schutz to its annual list of the Top 10 Winning Litigators in the United States. He can be reached at RJSchutz@rkmc.com. Patrick M. Arenz is an associate at Robins, Kaplan, Miller & Ciresi L.L.P. He focuses his practice on intellectual property litigation and can be reached at PMArenz@rkmc.com.

I. The Federal Circuit's *Paice v. Toyota Motor Corp.* Decision Permits Ongoing Licenses.

The seminal case involving—and permitting—ongoing royalties is *Paice v. Toyota Motor Corp.*¹ The patented technology in *Paice* dealt with an automobile drive train that utilized a microprocessor and a controllable torque transfer unit, so that wheels in hybrid vehicles use torque from an internal combustion engine, an electric motor, or a combination of both.² The accused products were Toyota's Prius hybrid cars.³

At the district court, venued in the Eastern District of Texas in front of Judge David J. Folsom, a jury concluded that Toyota infringed one of Paice's patents.⁴ The jury awarded Paice a reasonable royalty of \$4,269,950.00.⁵ This amounted to a royalty of \$25 per infringing car.⁶ During post-trial motions, the court rejected Paice's motion for a permanent injunction.⁷ The court determined that Paice—a non-practicing entity—would not suffer irreparable injury and that monetary damages were adequate.⁸ In conjunction with this denial, the court imposed an ongoing royalty of \$25 per infringing vehicle for the remaining life of the patent.⁹ Both parties appealed this decision.

On appeal, the Federal Circuit rejected Toyota's appeal and Paice's cross-appeal on infringement issues.¹⁰ Of most relevance, however, the Federal Circuit examined Paice's two other cross-appeal issues. First, Paice challenged the district court's statutory authority to issue an ongoing royalty.¹¹ Second, Paice alleged, even if a court could issue an ongoing royalty, the district court denied Paice its right to a jury determining the amount of the ongoing royalty rate.¹²

With respect to the first issue, the Federal Circuit started its analysis with 35 U.S.C. §283.¹³

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

The court reviewed this statute to determine “whether an order *permitting* use of a patented invention in exchange for a royalty is properly characterized as *preventing* the violation of the rights secured by the patent.”¹⁴ Without much analysis, the Federal Circuit cited an earlier Federal Circuit case, *Shatterproof Glass Corp. v. Libbey-Owens Ford Corp.*,¹⁵ which allowed a “compulsory license,”¹⁶ noting that neither party objected to the district

1 504 F.3d 1293 (Fed. Cir. 2007), *reh'g en banc denied*, [hereinafter *Paice I*]. The panel included Circuit Judges Lourie, Rader, and Prost. Judge Prost authored the opinion. Judge Rader filed a concurrence.

2 *See id.* at 1296.

3 *Id.* at 1299.

4 *Id.* at 1302.

5 *Id.*

6 *Id.* at 1303.

7 *Id.*

8 *See Paice LLC v. Toyota Motor Corp.*, No. 2:04-cv-211, 2006 WL 2385139, at *5-6 (E.D. Tex. Aug. 16, 2006).

9 *Paice I*, 504 F.3d at 1303.

10 *See id.* at 1312-13.

11 *Id.* at 1314.

12 *Id.*

13 *Id.*

14 *Id.*

15 758 F.2d 613, 628 (Fed. Cir. 1985).

16 Notably, the court used “ongoing royalty” and distinguished it from “compulsory royalty.” *Id.* at 1313 n.13. “We use the term ongoing royalty to distinguish this equitable remedy from a compulsory license. The term ‘compulsory license’ implies that anyone who meets certain criteria has congressional authority to use that which is licensed.” *Id.* Judge Rader, nonetheless, recognized less of a difference. “Nonetheless, calling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.” *Id.* at 1316 (Rader, J., concurring).

court's authority to impose that remedy.¹⁷ The court also relied on antitrust law. "In the context of an antitrust violation, 'mandatory sales and reasonable-royalty licensing' of relevant patents are 'well-established forms of relief when necessary to an effective remedy, particularly where patent have provided the leverage for or have contributed to the antitrust violation adjudicated.'¹⁸

The Federal Circuit, therefore, concluded that an ongoing royalty may be appropriate when an injunction is denied.¹⁹ But the court cautioned that, in most cases, when a district court denies a permanent injunction, the court may wish to allow the parties first the opportunity to negotiate a license.²⁰ Only if those negotiations fail should the court step in to "assess a reasonable royalty in light of the ongoing infringement."²¹

Based on the record on appeal, the Federal Circuit remanded the case to the district court because the district court's ongoing royalty order provided no reasoning to support the \$25 rate.²² On remand, the Federal Circuit required the district court to "take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty."²³ Judge Rader, in his concurrence, further elaborated 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."²⁴

The Federal Circuit then addressed Paice's argument that it is entitled to have a jury determine the ongoing royalty. In this respect, the court presented Paice's argument as "merely stat[ing] that '[i]t is well settled that the determination of damages is a legal question which carries a Seventh Amendment right to a jury trial.'²⁵ While the court acquiesced with Paice as a general matter, the Federal Circuit cited case law that money damages does not always carry a jury trial right, but did not analyze ongoing royalties specifically.²⁶ Therefore, the court concluded that "the fact that monetary relief is at issue in this case does not, standing alone, warrant a jury trial."²⁷ Quite simply, little analysis went into the argument, which required little analysis to decide.

II. How and Who Determines an Ongoing License.

The *Paice* decision leaves open more questions than it answers. Specifically, the law is not clear who—the court or the jury—determines the ongoing royalty, or how the fact-finder determines an appropriate ongoing license. Each of these issues is discussed below.

17 *Paice*, 504 F.3d at 1314.

18 *Id.* (citing *United States v. Glaxo Group, Ltd.*, 410 U.S. 52, 59 (1973)).

19 *Id.* at 1314-15.

20 *Id.* at 1315.

21 *Id.* See also *id.* at 1316-17 (Rader, J., concurring) (opining that "this court should require the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself").

22 *Id.* at 1315 ("The district court may determine that \$25 is, in fact, an appropriate royalty rate going forward. However, without any indication as to why that rate is appropriate, we are unable to determine whether the district court abused its discretion.").

23 *Id.*

24 *Id.* at 1316 (Rader, J., concurring).

25 *Id.* at 1316.

26 *Id.* at 1316. The court cited *Root v. M.S. Ry. Co.*, 105 U.S. 189, 207 (1881), for the proposition that "[w]hen, ... relief was sought which equity alone could give ... in order to avoid multiplicity of suits and to do complete justice, the court assumed jurisdiction to award compensation for the past injury, not, however, by assessing damages, which was the peculiar office of the jury, but requiring an account of profits....", and *Bowen v. Massachusetts*, 487 U.S. 879, 910 (1988) explaining "even if the District Court's orders are construed in part as orders for the payment of money by the Federal Government to the State, such payments are not 'money damages' That is, since the orders are for specific relief (they undo the Secretary's refusal to reimburse the State) rather than for money damages (they do not provide relief that substitutes for what which ought to have been done) they are within the District Court's jurisdiction....").

27 *Id.* at 1316.

A. Who Decides an Ongoing Royalty—the Court or the Jury?

The issue of whether a patent holder has a Seventh Amendment right to an ongoing royalty determination was ostensibly in front of the court in *Paice*. However, as explained above, the Federal Circuit made clear that *Paice* had not sufficiently raised the issue. The following discussion provides a fuller analysis of whether a jury trial right should attach to an ongoing royalty determination, and then how courts have decided ongoing royalties without a jury trial requirement.

1. A Patent Holder Is Entitled to Have a Jury Determine an Ongoing Royalty.

The United States Constitution and Supreme Court precedent establishes a right to jury trial for patent holders denied an injunction and who pursue an ongoing royalty. The Seventh Amendment provides that “[i]n suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved....”²⁸ This right is not limited to common law causes of action, however, but also includes actions created by Congress.²⁹ The right to a jury trial, of course, is one of the most sacred in our democracy. “Trial by a jury of laymen rather than by the sovereign’s judges was important to the founders because juries represent the layman’s common sense, the ‘passional elements in our nature,’ and thus keep the administration of law in accord with the wishes and feelings of the community.”³⁰ Indeed, the right to a jury trial was “one of the only rights unanimously included in the original state constitutions.”³¹

The United States Supreme Court applies a two-prong test to determine if a jury right attaches to a cause of action.³² Under the first prong, “a court must compare the action with the analogous action brought in the courts of England during the eighteenth century, prior to the merger of law and equity. Second, a court must look to the remedy sought and determine whether it is legal or equitable in nature.”³³ Application of this “historical test”³⁴ compels the conclusion that a patent holder has a Seventh Amendment right to trial by jury for the issue of ongoing royalties.

a. Patent infringement cases for damages have always been tried in courts of law.

Patent holders have always had the option to sue for patent infringement in courts of law. In fact, “[i]n 1790, before the adoption of the Seventh Amendment in 1791, the patent statute in this country provided only for the award of damages in an action at law, with the right to a trial by jury.”³⁵ Indeed, as the United States Supreme Court explained in

28 U.S. CONST. amend. VII.

29 *Tull v. United States*, 481 U.S. 412, 417 (1987) (citing *Curtis v. Loether*, 415 U.S. 189, 193 (1974)).

30 *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 343 (1979) (Rehnquist, J., dissenting). See also *Jacob v. New York*, 315 U.S. 752, 752-53 (1942) (“The right of jury trial in civil cases at common law is a basic and fundamental feature of our system of federal jurisprudence which is protected by the Seventh Amendment. A right so fundamental and sacred to the citizen, whether guaranteed by the Constitution or provided by statute, should be jealously guarded by the courts.”).

31 *Parklane*, 439 U.S. at 341 (Rehnquist, J., dissenting).

32 See *Tull*, 481 U.S. at 417.

33 See, e.g., *In re Tech. Lic. Corp.*, 423 F.3d 1286, 1287 (Fed. Cir. 2005).

34 See, e.g., *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 376 (1996).

35 *In re Lockwood*, 50 F.3d 966, 976 n.12 (Fed. Cir. 1995) (citing *Root*, 105 U.S. 189, 191-92; DONALD S. CHISUM *in* 5 CHISUM ON PATENTS § 20.02 (1995)). Even though the Supreme Court vacated the order in *Lockwood* when, after the Court granted certiorari, *Lockwood* withdrew his request for a jury trial, the Federal Circuit has continually relied on the “relevant and detailed analysis” in *Lockwood*, which contains the Federal Circuit’s most extensive discussion of the historical and legal framework for assessing jury trial rights in connection with patent infringement cases. See, e.g., *In re Tech.*, 423 F.3d at 1289 n.1 (citing *Tegal Corp. v. Tokyo Electron America, Inc.*, 257 F.3d 1331, 1340 (Fed. Cir. 2001)). As a result, the Federal Circuit has explained that *Lockwood* “has been neither supplanted nor questioned” and continues to be “pertinent.” *Tegal*, 257 F.3d at 1340.

Markman, “[t]here is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”³⁶

In particular, at common law, the patent holder had the option of selecting a court of law or equity, depending on the remedy sought. A patent holder seeking only damages brought an action at law, whereas a patent holder pursuing an injunction brought suit in equity.³⁷ For patent cases, therefore, the two-prong historical test melds into a one-prong test focusing on the remedy the patent holder seeks.³⁸ With respect to ongoing royalties, the first prong is satisfied because that is an action for damages, which is analogous to actions at common law brought in courts of law.

b. An ongoing royalty for future acts of infringement is a legal remedy.

An ongoing royalty as compensation for future infringing acts is a legal remedy. Quite simply, “[b]y the law the jury are judges of the damages.”³⁹ Indeed, the Supreme Court has held that almost all forms of money damages are legal remedies for courts of law. Most generally, the Court has explained that money damages, which serve as compensation or punishment are legal remedies.⁴⁰ Therefore, statutory damages for copyright actions, punitive damages, treble damages, *inter alia*, are all considered legal remedies.⁴¹ There is even historical evidence of juries determining discretionary monetary relief.⁴² Thus, as a “general rule[,] ... monetary relief is legal.”⁴³

But the *Paice* Court correctly noted that not “any award of monetary relief must necessarily be ‘legal’ relief.”⁴⁴ The Supreme Court has identified two exceptions to the “general rule” that monetary relief is legal. But neither apply to an ongoing royalty in patent cases. First, the Court has “characterized damages as equitable where they are restitutionary, such as in ‘action[s] for disgorgement of improper profits.’”⁴⁵ As discussed below, however, an ongoing royalty is compensatory, not restitutionary. Second, “a monetary award ‘incidental to or intertwined with injunctive relief’ may be equitable.”⁴⁶ Ongoing royalties do not fall within this exception because patent holders may now receive an ongoing royalty when they are in fact denied equitable relief. An ongoing royalty is not, therefore, intertwined with, but rather a replacement of an equitable remedy.

Ongoing royalties are properly characterized as a legal remedy because they are compensation for future acts of infringement. Compensation, as a purpose for money damages, is “traditionally associated with legal relief.”⁴⁷ On remand, for instance, the district court in *Paice* explained that “an ongoing royalty rate must still adequately *compensate* a patentee for giving up his right under the law to exclude others....”⁴⁸ This is the same

36 *Markman*, 517 U.S. at 377.

37 See, e.g., *Lockwood*, 50 F.3d at 976. *In re Tech.* at 1288.

38 See, e.g., *Medimmune, Inc. v. Genentech, Inc.*, 535 F. Supp. 2d 1020, 1026 (C.D. Cal. 2008) (explaining that the *Lockwood* Court did not need to perform a second prong analysis because the remedy sought controlled the first prong, concluding a jury right attached).

39 See, e.g., *Feltner, Jr. v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 352 (1998).

40 See *id.*

41 See *id.* at 353 (citing *Curtis v. Loether*, 415 U.S. 189, 196 (1974); *Tull v. United States*, 481 U.S. 412, 422 (1987)).

42 See *id.* (citing *Coryell v. Colbaugh*, 1 N.L.J. 77 (1791)).

43 See, e.g., *id.* at 352 (1998).

44 *Curtis*, 415 U.S. at 196. See also *Paice*, 504 F.3d at 1316 (noting that “not all monetary relief is properly characterized as ‘damages.’”).

45 *Chauffeurs, Teamsters & Helpers, Local No. 391 v. Terry*, 494 U.S. 558, 570 (1990) (explaining that “restitution is limited to ‘restoring the status quo and ordering the return of that which rightfully belongs to the purchaser or tenant.’”).

46 *Id.* at 571.

47 See, e.g., *Feltner*, 523 U.S. 353; *Curtis*, 415 U.S. at 196 (concluding that compensatory damages was a traditional form of relief in courts of law).

48 *Paice, LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009) (emphasis added).

purpose as a royalty for past infringement. Title 35 of the United States Code, § 284 provides a victorious patent holder “damages adequate to *compensate* for the infringement.”⁴⁹ Compensation, as the purpose for an ongoing royalty, is further underscored by courts now issuing ongoing royalties when patent holders fail to prove, *inter alia*, that “remedies available at law, such as monetary damages, are adequate to compensate.”⁵⁰ Thus, an ongoing royalty is a recognition that money damages compensate the patent holder for the infringer’s future acts, and even that the ongoing royalty is a legal remedy. Therefore, a compensatory ongoing royalty should be considered legal relief for a Seventh Amendment analysis. The second prong of the historical test is then met and a jury trial right should attach to an ongoing royalty determination.

2. Courts Have Adopted Various Procedures for Addressing Ongoing Royalties Under the Current Law.

Despite this view that a jury trial right should attach to an ongoing royalty determination, under the current law there is no explicit recognition of this right yet. District courts, therefore, have generally adopted three different procedures to determine an ongoing royalty.⁵¹ First, since *Paice*, district courts have most often decided, or suggested they will decide, the ongoing royalty themselves. That is what Judge Folsom did in *Paice* on remand.⁵² The Northern District of California followed suit in *Boston Scientific, Corp. v. Johnson & Johnson*.⁵³ In that case, the district court held a two-hour evidentiary hearing, which consisted of each party putting on one damages expert.⁵⁴ Other courts have indicated they will undertake a hearing, but only after the parties first attempt to negotiate an ongoing royalty, as the Federal Circuit suggested in *Paice*.⁵⁵

The second procedure used is to submit the issue to the jury during the underlying trial. Even if the court ultimately decides the ongoing royalty rate, the court may submit the issue to a jury. Courts, for instance, often do this for inequitable conduct determinations.⁵⁶ Judge Ron Clark, sitting in the Eastern District of Texas, has established a practice of submitting the ongoing royalty issue to the jury during the trial.⁵⁷ Specifically, Judge Clark recommends the following jury instruction: “What rate or sum of money, if any, do you find is adequate as a reasonable royalty to compensate Plaintiff for the conduct you found to infringe that occurs in the future? Answer in a percentage or in dollars and cents.”⁵⁸ Judge Clark justifies this practice because “time and expense can be saved by having the damages experts testify once, rather than hold a separate mini-trial on the issue of future damages post-verdict. This procedure would encourage the experts

49 35 U.S.C. § 284 (emphasis added).

50 See generally *eBay, Inc. v. Mercexchange, LLC*, 547 U.S. 388, 390 (2006) (requiring patent holder to prove money damages are inadequate). See also *Mercexchange, LLC v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007) (denying injunction, *inter alia*, because money damages compensate patent holder); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 WL 2385139, at * (E.D. Tex. Aug. 16, 2006) (denying injunction, *inter alia*, because patent holder’s previous post-trial offer to license technology to defendant “further demonstrates the adequacy of monetary relief”).

51 See *Creative Internet Adver., Corp., v. Yahoo!, Inc.*, 674 F. Supp. 2d 847, 851 (E.D. Tex. 2009) (“To this end, the approaches used to calculate of [sic] post-verdict royalties has not been uniform amongst various courts.”).

52 *Paice, LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 622 (E.D. Tex. 2009) (establishing ongoing royalty rate after holding hearing and considering the parties’ submitted papers, testimony, evidence, and case law) [hereinafter *Paice II*].

53 No. C 02-00790, 2009 WL 975424, at *2 (N.D. Cal. Apr. 9, 2009).

54 See *id.*

55 See *Hynix Semiconductor, Inc. v. Rambus, Inc.*, 609 F. Supp. 2d 951, 987 (N.D. Cal. 2009); *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 592 F. Supp. 2d 727, 748 (D. Del. 2009) (declining patent holder’s immediate request for an ongoing royalty, and instead ordering “the parties to negotiate the terms of a reasonable royalty rate going forward. Should the parties fail to reach an agreement, the court will permit the filing of competing proposals”).

56 See, e.g., *Qualcomm Incorporated v. Broadcom Corp.*, 548 F.3d 1004, 1009 (Fed. Cir. 2008) (explaining that inequitable conduct was submitted to the jury for an advisory opinion).

57 See, e.g., Lynne Marek, *Juries May Take Up Future Damages in Patent Cases*, THE NATIONAL LAW JOURNAL, Vol. 30, No. 47 (Aug. 4, 2008).

58 See, e.g., *Cummins-Allison, Corp. v. SBM Co., Ltd.*, 584 F. Supp. 2d 916, 921 n.6 (E.D. Tex. 2008).

to keep their testimony about past and future damages logically consistent, and to give reasons for any differences.⁵⁹ This approach, however, arguably takes away the ability of the parties to negotiate a license themselves in light of the jury's verdict, as the Federal Circuit recommended.⁶⁰

A third and final approach is for the court to decline to consider and determine an ongoing royalty. Instead, as Judge T. John Ward of the Eastern District of Texas did in *Medtronic Vascular, Inc. v. Boston Scientific, Corp.*, the court may sever a patent holder's continuing causes of action for future royalties.⁶¹ In *Medtronic*, thus, Judge Ward required the patent holder to file a new complaint and proceed with a second action.⁶²

B. How an Ongoing Royalty Is Decided.

The Federal Circuit has not provided any specific guidance as to how an ongoing royalty should be decided. In *Paice*, for instance, the Federal Circuit remanded "account for any additional economic factors arising out of the imposition of an ongoing royalty."⁶³ In light of this uncertainty, courts and commentators have undertaken and proposed different approaches. For instance, some courts simply apply the *Georgia-Pacific* factors to determine an ongoing royalty.⁶⁴ One law review commentary suggests the following five-factor test: (1) the market for the patent has, or is substantially certain to, expand or contract; (2) the likelihood that the infringer would explore other markets; (3) the availability and cost of noninfringing alternatives; (4) the capacity of the infringer to design around the patented technology, and the cost at which the infringer could do so; and (5) the expert testimony of qualified experts.⁶⁵ Another suggestion is to treat the patent like a stock option, or to recalculate the royalty each year based on the value of the patent during that year.⁶⁶ This, of course, is impractical and inefficient for the courts and the parties. Yet another option is to simply do nothing, and allow the patent holder to file additional lawsuits alleging willful infringement.⁶⁷

Despite these diverse approaches, the analysis performed by the district court in *Paice* on remand most fairly compensates a patent holder for losing its right to exclude the infringer from practicing its invention. The court's analysis on remand is set forth below, followed by a recommendation for supplementing that analysis in future cases.

1. The district court's analysis in *Paice* on remand.

On remand in *Paice*, the district court set forth and analyzed the following "modified *Georgia-Pacific* framework" to determine an ongoing royalty: "what amount of money would reasonably compensate a patentee for giving up his right to exclude yet allow an ongoing willful infringer to make a reasonable profit?"⁶⁸ The court recognized that "the law must ensure that an adjudged infringer who voluntarily chooses to continue his

59 *Ariba, Inc. v. Emptoris, Inc.*, 567 F. Supp. 2d 914, 916 (E.D. Tex. 2008).

60 *But see Cummins-Allison, Corp. v. SBM Co., Ltd.*, 669 F. Supp. 2d 774, 779 (E.D. Tex. 2009) (explaining that "if the parties are given an opportunity to confer on the issue of future damages post-verdict and before final judgment, the court's submission of this question to the jury would not run afoul of the Federal Circuit's statement in *Paice*" with respect to negotiations about an ongoing royalty).

61 No. 2-06-CV-78, 2009 WL 175696, at *1 (E.D. Tex. Jan. 23, 2009).

62 *Id.*

63 *Paice*, 504 F.3d at 1315.

64 *See Boston Scientific*, 2009 WL 975424, at *5 (citing *Orion IP, LLC v. Mercedes-Benz USA, LLC*, No. CV 05-322, at *9 (E.D. Tex. Mar. 28, 2008)).

65 Stephen M. Ullmer, *Paice Yourself: A Basic Framework for Ongoing Royalty Determinations in Patent Law*, 24 BERKELEY TECH. L.J. 75, 97 (2009).

66 *See* Tim Carlton, *The Ongoing Royalty: What Remedy Should a Patent Holder Receive When a Permanent Injunction Is Denied?* 43 GA. L. REV. 543, 572 (2009).

67 *See* Bernard H. Chao, *After eBay, Inc. v. Mercexchange: The Changing Landscape for Patent Remedies*, 9 MINN. J.L. SCI. & TECH. 543, 565 (2008).

68 *Paice II*, 609 F. Supp. 2d at 624.

infringing behavior must adequately compensate the patent holder for using the patent holder's property. Anything less would be manifestly unjust and violate the spirit, if not the letter, of the U.S. Constitution and the Patent Act."⁶⁹ Furthermore, the court explained that an ongoing royalty rate significantly impacts the patent holder's ability "to license its technology and effectively precludes an exclusive licensing agreement."⁷⁰

Applying this framework to a supplemented evidentiary record, the court raised the royalty from \$25 per car to \$98. Specifically, the court found the following additional economic factors increased the royalty: (1) the change in legal relationship between the parties, as Toyota was an adjudged infringer; (2) the increased cost of oil since the jury verdict, (3) changes in federal fuel efficiency laws, (4) Toyota's dominance in the hybrid industry and its increased reputation as a "green" company, and (5) Toyota has introduced more hybrid cars. The court agreed with Toyota that the availability of non-infringing alternatives is a consideration, but rejected Toyota's argument that the cost of switching to an alternative design should not be considered.⁷¹ Furthermore, the court gave little and perhaps no weight to licenses Toyota argued should lower the royalty. The court explained that neither of licenses accounted for the change in legal relationship between the parties, as neither involved an adjudged infringer.⁷²

The court, therefore, started with Paice's expert's application of the 25 percent Rule of Thumb to Toyota's profit margin of nine percent, which resulted in a royalty of 2.25 percent. The court then lowered the royalty to 1.5 percent taking into account the modest earlier damages award and due to the fact that Toyota makes less profit on hybrid than non-hybrid cars. This resulted in a \$98 per car royalty.⁷³

2. A recommendation for supplementing the *Paice* analysis.

A victorious patent holder denied a permanent injunction must be compensated for losing its right to exclude the infringer from practicing its invention and allowing the infringer to willfully infringe the patent going forward. The *Paice* district court's modified *Georgia-Pacific* framework⁷⁴ generally accomplishes this, as long as it includes two concepts discussed below. These concepts contextualize the fact-finder's appreciation of the patent holder's right to exclude, and the willfulness of the infringer's actions.

First, expert witnesses should be able to consider, and counsel should be able to argue, that the jury—see section II(A)(I)—may consider what the infringer would pay to avoid a future injunction. Whether or not a patent holder may later obtain an injunction under *eBay* is irrelevant. The relevance is providing a context for what the right to exclude means. The fundamental nature of a right to exclude is to prevent another from infringing on a right unless on terms agreeable to the entity possessing the right. If the jury is unable to consider what an infringer would pay to avoid a future injunction, then the patent holder's statutory right to exclude⁷⁵ is completely eviscerated. Furthermore, this context

69 *Id.* at 630 (citing U.S. CONST. art. I, §8).

70 *Id.*

71 *Id.* at 627.

72 *Id.* at 628.

73 *Id.* at 630. *See also Creative Internet Adver.*, 674 F. Supp. 2d at 860-62 (increasing jury's 20% royalty for past damages to a 23% ongoing royalty).

74 *Id.* at 624 ("what amount of money would reasonably compensate a patentee for giving up his right to exclude yet allow an ongoing willful infringer to make a reasonable profit?").

75 The Court in *eBay* determined the Patent Act does not provide a remedy of automatic injunctive relief, but it did recognize a patent holder's statutory right to exclude others from practicing its invention. "To be sure, the Patent Act also declares that patents shall have the attributes of personal property," §263, including 'the right to exclude others from making, using, offering for sale, or selling the invention,' §154(a)(1)." *eBay Inc. v. Mercexchange, LLC*, 547 U.S. 388, 392 (2006). *See also* U.S. CONST. art. I, § 8 ("Congress shall have the power to ... promote the progress of science and useful arts, by securing for limited times to authors and inventors the *exclusive* right to their respective writing and discoveries") (emphasis added). "But the creation of a right is distinct from the provision of remedies for violations of that right." *Id.*

properly frames the issue for the jury. Just as a reasonable royalty for past infringement is based on a hypothetical negotiation for a license at the time of infringement, the ongoing royalty is a hypothetical negotiation to prevent an injunction of an adjudged infringer. Juries will understand this.

Second, as a general matter, the ongoing royalty rate should be higher than it was for the past infringement. This is a result of the changed legal relationship between the patent holder and the adjudged infringer from the jury verdict. The Federal Circuit recognized this fact in *Amado v. Microsoft Corp.*, explaining that “[t]here is a fundamental difference [] between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement. Prior to judgment, liability for infringement, as well as the validity of the patent, is uncertain, and damages are determined in the context of that uncertainty. Once a judgment of validity and infringement has been entered, however, the calculus is markedly different because different economic factors are involved.”⁷⁶ District courts since *Paice* and *Amado* have reached the same conclusion.⁷⁷

In light of this changed legal relationship, the patent holder will generally have an increased bargaining position after a jury finds infringement of a valid patent that was not present at the time the hypothetical negotiation began on the eve of infringement. This should generally result in a larger ongoing royalty than the royalty for past infringement. Nonetheless, there could be circumstances where, due to economics and equity, the ongoing royalty may not be as much as or more than the past royalty. The exact contours of any framework for determining an ongoing royalty, however, is best left to be decided by the experience of juries deciding, and courts overseeing, ongoing royalties on a case-by-case basis.

CONCLUSION

In recent years, patent holders have been under attack. Patent “reform” is routinely discussed in Congress and “patent troll” is now part of the vernacular. The *eBay* decision, more significantly, rejected the notion that the Patent Act’s “right to exclude” provides an injunction as a remedy. As a result, and following the *Paice* decision, many patent holder’s “right to exclude” now means “right to receive an ongoing royalty if an adjudged infringer unilaterally decides to continue making, using, or selling the invention.” Fortunately, open issues remain as to how and who determines the ongoing royalty. In order to stop any further erosion of patent rights, the ongoing royalty should be decided by a jury, and the jury should determine the ongoing royalty by considering what an infringer would pay to avoid an injunction.

76 517 F.3d 1353, 1361-62 (Fed. Cir. 2008) (citing *Paice* (Rader, J., concurring)). *Amado*, notably, dealt with a slightly different issue than an ongoing royalty; the issue on appeal was establishing damages for infringing acts from judgment through appeal, while an injunction is stayed.

77 See also *Boston Scientific v. Johnson & Johnson*, No. C 02-00790, 2009 WL 975424, at *5 (N.D. Cal. Apr. 9, 2009); *Paice II*, 609 F.3d at 626-27 (“Once judgment is entered, ongoing infringement by the adjudged infringer is willful; that factor, along with the potential for enhancement, the potential impact of *res judicata*, and many additional factual factors significantly change the ongoing royalty calculus.”); *id.* at 628 (“Failing to take into account the change in legal relationship between the parties would be manifestly unjust to *Paice*.”); *Creative Internet Adver.*, 674 F. Supp. 2d at 860. *But see Arriba*, 567 F. Supp. 2d at 918 (“[G]iven the role of assumptions in economic analysis of damages, it is logically inconsistent to argue that a calculation based upon assumptions of infringement and validity would change when those assumptions are replaced by jury findings of the same facts.”).

