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Jury's Royalty Rate Quadrupled After Judgment in Eastern District of Texas Patent Case

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by [Eric Walters](#)

Judge Folsom of the Eastern District of Texas has just published the latest chapter in the story of post-judgment remedies in patent cases, after the Supreme Court decision in *eBay, Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006). In an opinion that is likely to garner much attention, the court awarded post-judgment damages using a royalty rate that was nearly *quadruple* that awarded by the jury for past damages (\$98 per vehicle sold versus \$25). *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211 (E.D. Tex. April 17, 2009). Several factors may make this case factually unique, and the decision has not been subject to review by the Federal Circuit, but the significantly increased royalty rate awarded post-judgment will certainly make many in the IP world stand up and take notice.

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Since *eBay*, injunctive relief in patent cases has been available only if the traditional equitable standards for granting an injunction have been met. In practice, this has meant that, with rare exceptions, an injunction is now effectively unavailable for entities that do not practice the patent. As a result, the playing field for many cases is shifting to the method for calculating the post-judgment royalty rate for a license in lieu of an injunction.

In the earlier district court action, after a jury verdict in Paice's favor, Judge Folsom applied the same rate for the post-judgment royalty that the jury had used for its damages award (\$25 per vehicle). Paice challenged that decision, and on appeal, the Federal Circuit reversed, holding that the district court committed error by *sua sponte* imposing on the parties as an ongoing royalty the same rate awarded by the jury, without any explanation as to why that rate was appropriate. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2430 (2008). The case was remanded "for the limited purpose of having the district court reevaluate the ongoing royalty rate." *Id.*

The Federal Circuit made clear that on remand the court should not simply defer to the jury, but instead

that “the court may take additional evidence necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty.” *Id.* It also noted that parties presumably would be given the opportunity “to negotiate their own rate,” but that in the absence of such an agreement, the court could award a royalty for ongoing infringement in appropriate circumstances. *Id.* at 1314-16.

The majority opinion in the Federal Circuit’s *Paice* decision did not set forth an explicit standard for determining the amount of the post-judgment royalty. Judge Rader’s concurrence, however, stated that “[p]re-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. This view was echoed by a panel of the Federal Circuit in *Amado v. Microsoft Corp.*, [1] 517 F.3d 1353, 1361-62 (Fed. Cir. 2008), which explained that:

There 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. *Id.* (citations omitted).

On remand, the district court picked up the Federal Circuit’s suggestion that post- and pre-judgment royalty rates may differ, and ran with it. The parties agreed that the appropriate framework was a hypothetical negotiation, and that the relevant date for the hypothetical negotiation was August 2006, the date judgment was entered. The court noted that an injunction was not available, and thus framed the question to be decided as “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?”

Toyota proposed that the jury’s damages award should be used as the starting point for the analysis, and then argued that it should be reduced *downward* as a result of declining profit margins for hybrid vehicles since the date of the earlier hypothetical negotiation. The court rejected this approach. According to the court, it was impossible to know the jury’s rationale for arriving at its damages award. In addition, there were significant differences between the question posed to the jury and the ongoing royalty rate. These included that:

Once judgment is entered, ongoing infringement by the alleged infringer is necessarily 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 negotiation calculus.

The court reasoned that under these circumstances, “failing to take into account the change of legal relationship between the parties would be manifestly unjust to *Paice*” and “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.” In addition, the court explained that it “must be mindful in this case that establishing an ongoing royalty rate has a significant impact on *Paice*’s ability to license its technology to others and effectively precludes an exclusive licensing arrangement.” And while the licensing terms must be fair to both parties, “the fact that Toyota is an adjudged infringer who chooses to continue infringing simply cannot be ignored.”

Although the parties had agreed that August 2006 was the appropriate date for the hypothetical negotiation, Judge Folsom also took into account later developments in establishing the ongoing royalty rate. For example, he cited “skyrocketing” oil prices during 2008 (while acknowledging they later declined), increases in sales of some hybrid vehicles, and the fact that hybrids have become a “hot topic” with the consuming public. The court also cited a 2007 law mandating that fleet gas mileage increase to 35 mpg by 2020.

The jury’s award, however, should not be ignored entirely, according to the court. The court ruled that *Paice*’s expert erred by failing to take into account the jury’s award for past damages in his analysis and reduced the royalty rate it awarded by one-third based on the jury’s lower royalty rate (in addition to the reduced profit margin for hybrid versus non-hybrid vehicles).

Although the *Paice* decision's eye-catching increase in license rates post-judgment is certainly worthy of note, the long-term significance of the opinion is unclear. The district court noted several case-specific factors that may have contributed to the substantial difference in royalty rates, including its belief that the jury's original damages award was "low" and that a mandatory license would prevent Paice from exclusively licensing the patent. In addition, the total damages award was relatively modest (\$4,269,950), which could have contributed to the court's belief that absent a more substantial royalty rate similarly situated parties would have no incentive to avoid infringement or to bring litigation to a close. Indeed, in attempting to persuade the court to reduce the royalty rate, Toyota had argued that a design-around was available, but did not implement it. Finally, in recent post-*eBay* cases in the Eastern District of Texas, plaintiffs have often severed claims for post-judgment infringement, asking that damages awards and in some cases willfulness determinations be adjudicated in separate actions. In *Paice*, in contrast, the ongoing royalty was decided as part of the original case, and the court determined that Toyota was necessarily a willful infringer after judgment was entered.

Of course, the decision has not been reviewed by the Federal Circuit. The defensibility of the court's determination that Toyota was *necessarily* a willful infringer, particularly as of August 2006, prior to the Federal Circuit's review, remains to be seen. Nonetheless, since the Federal Circuit has held that pre- and post-judgment royalty rates can differ, it will be difficult for it to police district courts' decisions regarding post-judgment royalties, which are impossible to arrive at with mathematical precision, at least without further guidance for the lower courts.

Footnotes

[1] Morrison & Foerster represented Carlos Armando Amado in this action.