

## Uncertain Times: Three Distinct Approaches to Ongoing Patent Royalties

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The Supreme Court's 2006 decision in *eBay Inc. v. MercExchange* overturned decades of Federal Circuit precedent by rejecting the Federal Circuit's "general rule" of granting a permanent injunction upon a finding of patent infringement. 547 U.S. 388 (2006). Any court that declines to grant a permanent injunction must now decide whether and how to award an "ongoing royalty rate" for future damages following a verdict of patent infringement. In the absence of Federal Circuit precedent, district courts have crafted three different approaches to the ongoing royalty issue, each of which presents benefits and drawbacks.

### The "General Rule" Prior to *eBay v. MercExchange*

Prior to the Supreme Court's decision in *eBay v. MercExchange*, courts traditionally granted a permanent injunction following a finding of infringement. As the Federal Circuit explained in *Smith Int'l Inc. v. Hughes Tool*, 718 F.2d 1573 (Fed. Cir. 1983), denying an injunction would "seriously undermine" the constitutional purpose of patent rights and curtail the patentee's right to exclude. *Smith*, 718 F.2d at 1578. The Federal Circuit went on to state in *Richardson v. Suzuki Motor Co. Ltd*, 868 F.2d 1226, 1247 (Fed. Cir. 1989), that "[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." District courts applied this general rule almost without exception, and any prevailing patentee could expect to obtain a permanent injunction barring post-verdict infringement.

### *eBay v. MercExchange* and the Four Factor Test

The Supreme Court's decision in *eBay* abolished the Federal Circuit's general rule. The patentee in that case, MercExchange, initially sought a permanent injunction following a jury verdict finding that *eBay* infringed MercExchange's business method patents. The district court applied a traditional four-prong analysis by considering (i) whether the plaintiff would suffer irreparable harm in the absence of an injunction; (ii) whether the plaintiff had inadequate remedies at law; (iii) whether the balance of hardships weighed in favor of issuing an injunction; and (iv) whether the public interest would be harmed if an injunction issued. Examining these factors, the district court denied MercExchange's request for a permanent injunction. *eBay*, 547 U.S. at 390.

The Federal Circuit reversed, citing its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *Id.* at 391. On appeal, the U.S. Supreme Court unanimously vacated the Federal Circuit's judgment, holding that a plaintiff seeking injunctive relief must satisfy the traditional four-prong analysis for a permanent injunction.

In the wake of *eBay*, courts can no longer automatically impose a permanent injunction upon a determination of infringement, but must now satisfy the traditional four-prong analysis. As a result, district courts have been less inclined to issue permanent injunctions following a finding of infringement. See Stephen M. Ullmer, 24 Berkeley Tech. L.J. 75, 76 (2009). Accordingly, parties began to ask district courts to impose ongoing royalties if the court declined to issue a permanent injunction. Given the longstanding general rule that imposed permanent injunctions almost automatically, there was little precedent to guide district courts in deciding whether to award ongoing royalties.

### The Federal Circuit's Initial Foray into the Post- *eBay* World

The Federal Circuit's first post-*eBay* decision addressing ongoing royalties, *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), established some guiding principles, but failed to prescribe a uniform approach. In *Paice*, the Federal Circuit vacated the district court's award of ongoing royalties because it failed to articulate reasoning to support its award, leaving the Federal Circuit "unable to determine whether the district court abused its discretion in setting the ongoing royalty rate." *Id.* at 1315. The Federal Circuit explained that the district court must provide an indication of why the chosen royalty rate was appropriate and suggested that it consider the effect of the infringer's ongoing use of the patent on the patentee. While vacating, the Federal Circuit went out of its way to state on remand that "the district court may wish to allow the parties to negotiate a license amongst themselves . . . before imposing an ongoing royalty." *Id.* The Federal Circuit also suggested the district court "take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty . . ." a process that would "allow the parties the opportunity to present evidence regarding an appropriate royalty." *Id.* at 1315, n.15.

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Two guiding principles emerged from *Paice*. First, parties should be given the opportunity post-judgment to reach agreement on an ongoing royalty. Second, if they fail to reach agreement, district courts can impose an ongoing royalty but must articulate a rationale justifying the award. *Paice* did not, however, provide guidance on how to determine the ongoing royalty, but acknowledged this would require additional fact-finding.

This first principle is somewhat impractical. Parties who take a patent dispute to trial likely will not be willing to reach agreement following a finding of infringement. See *Presidio Components Inc. v. American Technical Ceramics Corp.*, 2010 WL 3070370, \*3 (S.D. Cal. 2010) (“In light of the parties’ strongly held positions in this cases, and in light of their extremely divergent views as to the appropriate royalty rate, the Court is convinced that requiring them to negotiate is not likely to be fruitful.”). In most cases, district courts will simply need to decide the appropriate ongoing royalty.

### Three Potential Approaches

Perhaps unsurprisingly, given the lack of guidance from the Federal Circuit, district courts in the wake of *eBay* have developed three different approaches for deciding the appropriate ongoing royalty: 1) hold a post-trial evidentiary hearing; 2) require the plaintiff to file a new complaint seeking post-verdict damages; or 3) require the parties to present evidence and testimony regarding an ongoing royalty during the initial trial on infringement. Each approach has a distinct impact on efficiency, Seventh Amendment rights, and the determination whether post-verdict infringement should be considered willful and therefore subject to treble damages.

#### 1. Post Trial Evidentiary Hearing

Most courts, including the *Paice* court on remand, have decided ongoing royalties by holding a post-trial evidentiary hearing. See e.g., *Presidio Components* 2010 WL 3070370, at \*1; *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 631 (E.D. Tex. 2009) (holding post-trial hearing on remand). These hearings are often, as in *Paice*, preceded by limited discovery to allow the court to take into account both the effect of the verdict and any changes in the market that might affect the amount of ongoing royalties, such as new non-infringing alternatives or recent commercial success of the patented technology. See e.g., *Paice*, 609 F. Supp. 2d at 625-31 (considering effect of jury’s finding of infringement and changes in market such as increased price of oil). This approach is efficient because the jury is not presented with evidence regarding royalties that would become moot following a verdict of non-infringement or invalidity.

Nonetheless, any post-trial hearing will likely involve additional discovery, thereby increasing delay, uncertainty, and expense for litigants. The hearing could also be challenged under the Seventh Amendment’s guarantee of a right to trial by jury “in suits at common law, where the value in controversy shall exceed twenty dollars.” U.S. Const. Amend. VII. Though the Federal Circuit summarily dismissed this argument in *Paice*, other courts could be more receptive. See Lisa M. Tittmore, *The Controversy Over “Ongoing Royalty” Awards in the Evolving Landscape of Remedies for Patent Infringement*, Fed. Law., 29, 37 (2009) (hereinafter “*Evolving Landscape*”). Finally, a district court that does use a post-trial hearing to determine an ongoing royalty must also decide whether post-verdict infringement is willful. *Id.*

#### 2. File A New Complaint

Some courts have altogether severed the issue of ongoing royalties and required the plaintiff to file a new complaint to recover them. For example, in *z4 Technologies Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006), to determine “an efficient method for z4’s recovery of future monetary damages post-verdict,” the court severed z4’s claims for post-verdict infringement and ordered z4 to file a new complaint. *Id.* at 444.

Courts may choose not to address the issue of ongoing royalties at all by simply denying an injunction and deciding only pre-verdict damages. See *Evolving Landscape* at 36. This approach allows a plaintiff to file a lawsuit for post-verdict infringement when and if such infringement occurs. It also avoids any Seventh Amendment issue because the plaintiff can request a jury on filing a new complaint. It also provides the plaintiff with reasonable grounds to allege willful infringement because any post-verdict infringement will likely be held willful. See *id.* at 37.

This approach, however, is inefficient because it forces litigants to incur additional time and expense to resolve their dispute. Indeed, other courts have considered and rejected this approach on grounds of judicial economy. See e.g., *Hynix Semiconductor Inc. v. Rambus Inc.*, 609 F. Supp. 2d 951 (N.D. Cal. 2009). Citing z4, the defendants in *Hynix* asked the court

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to require that patentee file a new complaint to obtain damages for post-verdict infringement. 609 F. Supp. 2d 951, 986 (N.D. Cal. 2009). The *Hynix* court declined because it did “not believe that requiring Rambus to file a supplemental complaint would serve any benefit.” *Id.* Likewise in *Voda*, the court found “no reason for severance of a cause of action for the post-verdict damages as there would be no issues for decision except simple mathematical calculations based on defendant’s sales.” *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, \*20-21 (W.D. Okla. Sept. 5, 2006).

### 3. Judge Clark’s All-at-Once Approach

Judge Clark of the Eastern District of Texas has developed a third approach by requiring parties to present evidence regarding ongoing royalties during the trial itself. See e.g., *Cummins-Allison Corp., v. SBM Co., Ltd.*, 584 F. Supp. 2d 916, 917 (E.D. Tex. 2008); *Ariba Inc. v. Emptoris inc.*, 567 F. Supp. 2d 914, 916 (E.D. Tex. 2008). Following the parties’ presentation of evidence and expert opinions regarding ongoing royalties, he instructs the jury to provide an advisory opinion on the issue.

This approach is meant to be efficient and avoid problems with Seventh Amendment rights or willful infringement. Judge Clark has explained that “[i]n many cases it makes sense to combine consideration of past and future damages because, to some extent, many of the factors to be analyzed are similar or even identical,” and this approach “may avoid the need for a later bench trial on this issue, conserving the time and resources of the court and the parties.” Order at 2, *Ariba Inc. v. Emptoris Inc.*, No. 9:07-CV-90 (E.D. Tex. July 9, 2008). Because the issue of ongoing royalties is presented to the jury, this approach avoids any Seventh Amendment issue. Another court has noted Judge Clark’s approach is efficient and “recognizes the vital role of the jury as fact finding partner.” See *Amgen Inc. v. F. Hoffman-La Roche Ltd.*, 581 F. Supp. 2d 160, 210 n.12 (D. Mass. 2008).

Not all, however, have been happy with this all-at-once approach. Some parties, including the plaintiff in *Ariba*, have argued that evidence regarding a future royalty rate would confuse the jury, increase the time and expenses of trial preparation, and endanger its right to seek injunctive relief. Moreover, the efficiency of this approach may be overstated because it requires the jury to consider evidence that may become moot upon a finding of non-infringement or invalidity.

### Conclusion

While the Federal Circuit has not expressed its own preference regarding these three approaches, its opinion is eagerly anticipated by both litigants and the district courts.