

# The Controversy Over “Ongoing Royalty” Awards in the Evolving Landscape of Remedies for Patent Infringement

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It's usually the millions—and sometimes billions—of dollars that gets people's attention. One of the things that can make patent infringement litigation in the United States so very interesting is the potential for large damages awards. Until recently, damages awards generally were calculated as a percentage of infringing pre-verdict sales. Courts historically would enter an injunction preventing further post-verdict infringing sales. That outcome has changed since the Supreme Court's decision in *eBay Inc. v. MercExchange*, 547 U.S. 388 (2006), which made it harder for patent owners to obtain injunctions. In the wake of the *eBay* decision, litigants and courts should be aware of the evolving—and quite controversial—case law relating to “ongoing royalties” for patent infringement after a verdict has been handed down.

Among the issues confronting courts and litigants in this post-*eBay* world is how plaintiffs will be compensated if infringement is found, but the plaintiff cannot meet the standard for obtaining an injunction. If the answer is that the court will enter damages for post-verdict infringement, what is the procedural mechanism for determining the amount of the award and how does it square with the Seventh Amendment right to a jury trial? How does the calculation of an award under these circumstances fit with existing jurisprudence relating to enhanced damages for willful infringement? A number of courts are holding post-trial—typically evidentiary—hearings related to royalties for future sales; other courts have severed the question of post-verdict damages and require the filing of a separate complaint on damages; and still others are asking the jury to consider the issue of post-verdict damages contemporaneously with the decision on the merits. Many courts are awarding what are clearly enhanced damages awards for post-verdict patent infringement but do not label such infringement as “willful” per se. This article examines the cases in which these different approaches have developed and also discusses the issues these cases have raised.



## Remedies for Patent Infringement, Pre-*eBay*: Damages Awards and Injunctive Relief

Upon a finding of patent infringement, the Patent Act directs the jury to award the claimant damages that are “adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” 35 U.S.C. § 284. Historically, courts defined a reasonable royalty as the amount that a prudent licensee who wished to obtain a license would have paid and a prudent patentee who wished to grant a license would have accepted if they had been negotiating at the time of the initial infringement. *Interactive Pictures Corp. v. Infinite Pictures Inc.*, 274 F.3d 1371, 1384–85 (Fed. Cir. 2001); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (“The hypothetical negotiation requires the court to envision the terms

of a licensing agreement reached as the result of a supposed meeting ... at the time infringement began.”)<sup>1</sup>

Awards of damages for past infringement are decided by the jury (or the judge in a case in which the parties have waived their right to a jury trial), which relies heavily on the evidence related to damages that is typically presented primarily through the testimony of expert witnesses. Judges will review and possibly adjust the amount of the jury’s damages award when it is not supported by the evidence or the law or reflects an improper punitive element or the like. See *Tronzo v. Biomet Inc.*, 236 F.3d 1342 (Fed. Cir. 2001) (affirming the district court’s reduction of a jury award that was not supported by the evidence). But, in line with the Seventh Amendment’s right to a trial by jury, if a court does alter a jury award, it generally must also offer the plaintiff the option of a new trial to determine damages. *Minks v. Polaris Industries Inc.*, 546 F.3d 1364 (Fed. Cir. 2008).

In addition, prior to the Supreme Court’s decision in *eBay*, upon a finding of infringement, district courts would routinely enter a permanent injunction precluding further infringing activity by the defendant. See, e.g., *Richardson v. Suzuki Motor Co. Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (“It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”). If the defendant wished to continue the infringing activity post-verdict, the defendant would be compelled to negotiate a license if the patent owner was willing to consider this option. Under these circumstances, it was up to the parties to determine the amount that would be charged in connection with such a license. It is an understatement to say that the issuance of an injunction gave the patent owner significant leverage in the negotiation of any post-judgment license, including the ability to refuse to enter into a licensing agreement at all, thereby potentially shutting down a defendant’s business entirely.

### The Supreme Court’s Change to the “General Rule” Regarding Injunctive Relief Results in Changes in the Calculation of Damages

In *eBay Inc. v. MercExchange*, the Supreme Court significantly changed the way that courts must address remedies for patent infringement. In *eBay*, the Supreme Court rejected the “general rule” that a permanent injunction would be issued once infringement was found. Even though the Supreme Court confirmed that injunctive relief is available in patent infringement disputes, the Court held that such relief could be awarded by the district court only under the same conventional four-factor test applicable in all cases in which an injunction is sought. That is, to obtain injunctive relief, the plaintiff is required to demonstrate the following:

- The plaintiff has suffered irreparable harm.
- Remedies available under the law, such as monetary damages, are inadequate to compensate for the injury.
- The balance of the hardships associated with injunctive relief favor the plaintiff.
- The public interest will not suffer by the issuance of the requested injunction.

Since the *eBay* decision, some district court cases have applied the four-factor test and found sufficient facts to warrant the imposition of an injunction; however, in a number of cases, the district courts have refused to issue an injunction. Often these decisions refusing an injunction have been influenced by the issue of whether or not the plaintiff was a competitor of the defendant engaged in commerce or whether the plaintiff was “merely” involved in the licensing of the patent. In the latter circumstance, courts have been more willing to deny an injunction. In other words, “irreparable harm” is harder to prove for a non-competitor.<sup>2</sup>

So, in our post-*eBay* world, what happens when the court finds that a patent has been infringed and enters an award of damages but refuses to enter an injunction precluding continued infringement?<sup>3</sup> In this situation, district courts are now often setting an “ongoing royalty rate” after they decline to enter an injunction and permit the defendant to continue to use the claimed invention. The practice of imposing an ongoing royalty for post-verdict infringement had some traction well before *eBay*. See, e.g., *Shatterproof Glass v. Libbey-Owens Ford Co.*, 758 F.2d 613, 616 (Fed. Cir. 1985) (denying an injunction and upholding a 5 percent royalty for continuing operations); *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (“Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory license is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair.”)<sup>4</sup> However, since *eBay*, ongoing royalties have become far more prevalent.

Who will determine the appropriate “ongoing” rate and how will that be done? As discussed below, the post-*eBay* decisions that have addressed this issue rest a significant amount of discretion in the district courts as to how an ongoing royalty rate will be determined and who will determine it. The specifics of the way in which the ongoing rate will be determined and the logistics for its implementation are still evolving.

### The Federal Circuit Provides Its Views Regarding “Ongoing Royalties”

Recent Federal Circuit decisions provide guidance as to the views of some of this court’s judges on awarding an ongoing royalty after a verdict of infringement. For example, with respect to how an ongoing royalty might be determined, Federal Circuit decisions have encouraged district courts to permit the parties a period of time after the verdict to attempt to negotiate a rate but, if the parties do not reach an agreement, suggest that either the judge or the jury—during trial or perhaps even in a separate trial—may set the rate. At least one Federal Circuit decision explicitly rejected the idea that the rate must be determined by a jury rather than a judge, seeming to lay to rest Seventh Amendment concerns, although perhaps only temporarily as others seek to raise and develop those arguments further.

As for the substantive question of what should be involved in setting a rate, some Federal Circuit decisions indicate that post-verdict royalties for future infringement should be considered “fundamentally different” from

royalties awarded for pre-verdict infringement. Federal Circuit judges may not have a unanimous opinion on this issue, however, and the existing decisions hint at the potential for disagreement. Surely, as new cases come before the court, the issue will be joined more fully. Accordingly, whether or not courts will uniformly award a higher ongoing royalty for infringing sales occurring post-verdict than the royalty set for pre-verdict infringement remains somewhat unsettled.

### The Paice Case

The leading decision from the Federal Circuit that addresses these issues is *Paice LLC v. Toyota Motor Corp.*, which involved a patent relating to hybrid car technology. 504 F.3d 1293 (Fed. Cir. 2007). In *Paice*, the U.S. District Court for the Eastern District of Texas rejected the plaintiff's argument that the absence of an injunction would have an adverse effect on its ability to license its patented technology. Finding that monetary damages were sufficient and that the balance of the hardships favored the defendant, Judge David Folsom entered an order providing for an "ongoing" royalty rate of \$25 per infringing vehicle. The Federal Circuit affirmed the decision in part, vacated it in part, and remanded the case to the district court, requiring the district court to provide the reasoning that supported the ongoing royalty rate that had been selected. Citing its 1985 decision in *Shatterproof Glass*, the Federal Circuit cautioned that, even though in some circumstances a judge's award of an ongoing royalty in lieu of an injunction may be appropriate, this may not be justified "as a matter of course whenever a permanent injunction is not imposed." *Paice*, 504 F.3d at 1314–15.

With respect to who should set the rate, in the *Paice* case, the Federal Circuit rather summarily rejected the plaintiff's argument that it was entitled to a jury trial and that the district court lacked the statutory authority to make the award. The Federal Circuit explained that "not all monetary relief is properly characterized as 'damages'" and concluded (presumably because the ongoing royalty was more in the nature of equitable relief) that "Paice's argument falls far short of demonstrating that there was any Seventh Amendment violation in the proceedings below." *Id.* at 1316. The Court continued that:

In most cases, where the district court determines that 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.

*Paice*, 504 F.3d at 1314–15.

Both the Seventh Amendment question and the question of the courts' statutory authority to grant ongoing royalties have been highly controversial and challenged in the academic and industry press.<sup>5</sup> Perhaps in an effort to avoid these issues, Judge Rader, in his concurrence, opined that the district court should be *required* to remand the ongoing

royalty issue to the parties or, at minimum, to obtain the consent of the parties before setting the royalty rate itself. He also observed 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. When given choices between taking additional evidence or not, a district court may prefer the simplest course—impose its own compulsory license. This simplest course, however, affords the parties the least chance to inform the court of potential changes in the market or other circumstances that might affect the royalty rate reaching into the future.

*Paice*, 504 F.3d at 1317.

The majority opinion, written by Judge Prost, and joined by Judge Lourie, made a point of explaining (in a footnote) the following: "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. By contrast, the ongoing-royalty order at issue here is limited to one particular set of defendants. ..." *Id.* at 1313, n.13 (citations omitted, emphasis in the original). This distinction is not merely academic, because compulsory licensing could potentially trigger concerns under trade-related treaties.<sup>6</sup>

### Subsequent Decisions

In a subsequent case, another panel of the Federal Circuit again noted a "difference" between pre- and post-verdict royalties. In *Amado v. Microsoft Corp.*, the plaintiff, Carlos Amado, was an inventor holding a number of patents relating to the interaction of computer database and spreadsheet programs. 517 F.3d 1353, 1362 (Fed. Cir. 2008). After the jury's finding that Microsoft had infringed Amado's patent, the District Court for the Central District of California granted Amado injunctive relief. After the Supreme Court's ruling in *eBay*, however, Microsoft requested that the court dissolve the injunction. The district court agreed to lift the injunction, stating that "Amado does not compete with Microsoft, does not sell a product covered by the patent and is no longer even attempting to commercialize or license the patent. Moreover, Amado's patent covers only a very small component of the infringing products. ..." Order at 19, *Amado v. Microsoft Corp.*, No. 8:03-CV-242 (C.D. Cal. Mar. 13, 2007). Both parties appealed. In setting an escrow amount that would apply while Amado's appeal was pending, the district court awarded Amado \$0.12 per infringing unit, which Microsoft appealed, arguing that the district court was entitled to award no more than the \$.04-per-unit rate that the jury had awarded for pre-verdict infringement.

The Federal Circuit, in a decision written by Judge Linn and joined by Judges Bryson and Clevenger, suggesting that the \$0.12 per unit rate set by the district court might be high, criticized the district court for failing to "expressly consider that Microsoft's infringing sales took place following the grant of an injunction that was stayed," and held that it

was “unable to determine whether the district court’s award of \$0.12 was a reasonable exercise of its discretion.” *Amado*, 517 F.3d at 1362. Accordingly, the Federal Circuit vacated the ruling and remanded the matter to the district court for reconsideration. Nevertheless, in so doing, the Federal Circuit reiterated the idea earlier suggested in *Paice*:

There is a fundamental difference, however, 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.

*Amado*, 517 F.3d at 1362 (citing Judge Rader’s concurrence in *Paice* with approval).

In contrast, in a case decided only a month earlier, a panel of the Federal Circuit confronted related issues, but in a different procedural posture, resulting in an arguably inconsistent outcome. In *Innogenetics N.V. v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008), a decision by Judge Moore, joined by Judges Bryson and Clevenger, reversed the district court’s grant of a permanent injunction as an abuse of discretion, when the jury had also awarded damages that included both a market entry fee of \$5.8 million and payment of a “running royalty of 5 to 10 Euros per test on the 190,000 tests Abbott had sold up to that point.” *Id.* at 1380. Because the damages award included a “market entry fee,” which was paid in anticipation of a “long-term license to sell product,” the panel held that the district court’s grant of a permanent injunction in addition to the damages award was an abuse of discretion. *Id.*

Not only did the Federal Circuit reverse the district court’s permanent injunction in *Innogenetics*, but it also suggested that the district court issue a new injunction that would include a requirement for the defendant to pay an ongoing royalty rate on future sales at the same rate that had been applied to infringing sales that had occurred before the judgment. Specifically, the panel remanded the case “to the district court to delineate the terms of the compulsory license, such as conditioning future sales of the infringing products on payment of the running royalty, the 5–10 Euros per genotyping assay kit.” *Id.* at 1381. Thus, in *Innogenetics*, unlike in *Paice* and *Amado*, the Federal Circuit had no discussion suggesting that the post-judgment rate should be different from the pre-judgment rate, although the payment of a hefty “market entry fee” may be the factor that explains this result.

### **District Courts Try to Figure It All Out**

District courts addressing this issue reflect a diversity of approaches, with the judges of the Eastern District of Texas and Northern District of California leading the way. Recent cases reflect trial courts’ attempts to think about the issue in advance and to design and implement procedures that will allow both efficient and fair results.

### **Requiring the Plaintiff to File a Separate Complaint for Damages for Future Infringement**

In one of the earliest district court decisions addressing remedies after the *eBay* ruling—*z4 Technologies Inc. v. Microsoft Corp.*, which was decided on June 14, 2006—the District Court for the Eastern District of Texas denied a permanent injunction after a jury finding of infringement. 434 F. Supp. 2d 437 (E.D. Tex. 2006). Judge Leonard Davis then faced the question of determining “an efficient method for z4’s recovery of future monetary damages post-verdict.” Judge Davis decided to sever “z4’s continuing causes of action for monetary damages due to Microsoft’s continuing post-verdict infringement of z4’s patents.” He then ordered z4 Technologies to “file an appropriate complaint within ten days of the issuance” of his order and required Microsoft to answer the complaint and to file quarterly reports showing the number of infringing units sold. *Id.* at 444. Judge Davis noted that the royalty calculation for these future sales “can be based on the same reasonable royalty calculation used by the jury at trial.” *Id.* at 442. On June 22, 2006, z4 Technologies filed its complaint for damages for patent infringement. Ultimately, the case was sent to mediation and eventually was settled and dismissed in April 2008.

Judge T. John Ward, also of the Eastern District of Texas, used this procedure in *Saffran v. Boston Scientific*. See, e.g., Order, *Saffran v. Boston Scientific Corp.*, No. 2-05-CV-547 (TJW) (E.D. Tex. Feb. 14, 2008) (sua sponte severing “plaintiff’s continuing causes of action for future royalties” and ordering the plaintiff to “file an appropriate complaint within 10 days of the court’s order”). The plaintiff in *Saffran* filed a complaint on Feb. 21, 2008, and the defendant, pursuant to the court’s order, filed an answer as well as quarterly unit sales reports until April 2009, when the case was dismissed pursuant to stipulation by the parties.

In a more recent decision, *Hynix Semiconductor Inc. v. Rambus Inc.*, No. CV-00-20905, 2009 WL 440473 (N.D. Cal. Feb. 23, 2009), Judge Ronald M. Whyte, of the Northern District of California, considered and rejected the request of the infringer, Hynix, that the court require the patent owner to file a supplemental complaint for damages based on quarterly statements that it would submit. Rambus, the patent owner, instead requested that the court simply order ongoing royalties. Judge Whyte specifically noted the example of the *z4 Technologies* case, which Hynix had cited, but stated that he did “not believe that requiring Rambus to file a supplemental complaint would serve any benefit.” *Id.* at \*30. Although Judge Whyte acknowledged that it was possible that the reasonable royalty rate should decline as a result of the age of the technology and changes in market conditions, he concluded that the delay had “occurred because of allegations Hynix made in the case which proved unsuccessful. To now require Rambus to file a supplemental complaint which would delay ultimate resolution even further seems unfair to Rambus.” *Id.*

Although Rambus apparently informed the court of its unwillingness to negotiate with Hynix, Judge Whyte nevertheless ordered the parties to negotiate, citing *Paice*. Further, Judge Whyte stated that the court “‘strongly encourages the parties to be *reasonable* in their negotiations.’”



Hynix's proposed ongoing royalty of less than 1% is irreconcilable with the remitted royalty rates and the Federal Circuit's guidance that post-verdict infringement should entail a *higher* royalty rate than the reasonable royalty found at trial." *Id.* (citations omitted, emphasis in the original) (quoting *Telcordia Techs. Inc. v. Cisco Sys. Inc.*, No. 04-876, 2009 WL 32717 at \*15 (D. Del. Jan. 6, 2009), and citing *Amado*, 517 F.3d at 1362, n.2).

On Feb. 24, 2009, the court entered an order requiring the parties to submit pleadings addressing the terms of "their compulsory license agreement" or otherwise stating their positions. The court noted that the "parties do not believe that an evidentiary hearing will be needed." Order Memorializing Compulsory License Negotiation Guidelines at 2, *Hynix Semiconductor Inc. v. Rambus Inc.*, No. CV-00-20905 (N.D. Cal. Feb. 24, 2009). On March 10, 2009, the court entered a final judgment, which included an award of royalties on future sales, and issued detailed instructions requiring payment by electronic transfer and interest for late payment and also requiring that Hynix provide outside counsel for Rambus sales data on a quarterly basis (along with provisions for obtaining tax credits should the Korean government require withholding an amount for taxes on account of payments made to Rambus under the order). Final Judgment at 3-6, *Hynix Semiconductor Inc. v. Rambus Inc.*, No. CV-00-20905 (N.D. Cal. Feb. 24, 2009). The level of detail in the order regarding the "license" terms is worth noting: the order points out the potential difficulties in ensuring that all such relevant terms are included.

On April 6, 2009, Hynix filed a notice of appeal, and on April 17, 2009, Rambus filed a notice of cross-appeal. The disposition of this appeal optimally would provide further guidance from the Federal Circuit on the many questions that have been raised regarding "ongoing royalty" awards.

#### **Determining Ongoing Royalties in a Post-Trial Evidentiary Hearing After Denial of Permanent Injunction**

A number of district court judges seem to prefer to address the question of royalties for post-verdict sales at a hearing after the question of whether an injunction should be issued has been resolved and without requiring the plaintiff to file a separate complaint relating to royalties on future sales. For example, in the continuation of the *Paice* case on remand, Judge David Folsom of the Eastern District of Texas requested that the parties file briefs addressing the following questions: "(1) what they felt the Court of Appeals meant in its remand opinion for this Court to do and (2) how the parties would like to proceed." Plaintiff Paice LLC's Motion to Re-Open Discovery and for an Evidentiary Hearing on Prospective Damages at 2, *Paice LLC v. Toyota Motor Corp.*, No. 2-04-CV-211 (E.D. Tex. Jan. 25, 2008). Apparently unable to agree on a negotiated ongoing royalty rate themselves, the parties submitted motions outlining proposed procedures for discovery and an evidentiary hearing. In its motion, Paice argued that numerous market changes, including "vehicle pricing changes due to product changes and inflation" as well as "supply costs, profit margins, changes in gas prices, standards governing emissions and the like" all required a "full airing" of the issues before

an ongoing royalty could be set. *Id.* at 3-4. Paice also argued that there should be a "per se" finding of willfulness relating to the continued infringement.

In its response, Toyota argued that its continued sale of vehicles was based on the court's order and thus was not willful infringement. In addition, Toyota argued that "the adjudication of infringement by equivalents does not change the basis for calculating the amount of a reasonable royalty in any way. The law provides that a reasonable royalty should be set by considering the result of a hypothetical negotiation between a willing licensor and a willing licensee at the beginning of the infringement, where both parties assume that the patent is *valid and infringed*." Toyota's Brief in Opposition to Paice's Motion to Re-Open Discovery and for an Evidentiary Hearing on Prospective Damages at 8, *Paice LLC v. Toyota Motor Corp.*, No. 2-04-CV-211 (E.D. Tex. Feb. 12, 2008). Judge Folsom allowed limited discovery, including document production and depositions,<sup>7</sup> and held an evidentiary hearing on July 21, 2008.

On April 17, 2009, Judge Folsom issued an order awarding Paice an ongoing royalty at a rate that was higher than the rate set for the pre-verdict infringement. The order apparently took into account both changes in market conditions and changes in the parties' relative positions in light of the jury's verdict. As Judge Folsom explained,

In many ongoing royalty negotiations, the threat of a permanent injunction serves as a big stick, essentially framing negotiation in terms of how much an adjudged infringer would pay for a license to continue its infringing conduct. However, when an injunction is not proper under *eBay*, the question instead becomes: 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? See *Georgia-Pacific*, 318 F. Supp. at 1120 (factor 15). It is under this modified *Georgia-Pacific* framework that the Court proceeds.

Order at 5, *Paice LLC v. Toyota Motor Corp.*, No. 2-04-CV-211 (E.D. Tex. April 17, 2009).

After framing the question in this manner, Judge Folsom concluded that—

Even though a permanent injunction may no longer be proper in many patent cases in light of *eBay*, an ongoing royalty rate must still adequately compensate a patentee for giving up his right under the law to exclude others from making, using, selling, offering for sale or importing his invention. That is, the law must ensure that an adjudged infringer who voluntarily chooses to continue his 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. Additionally, the Court must be mindful in this case that establishing an ongoing royalty has a significant impact on Paice's ability to license its technology to

others and effectively precludes an exclusive licensing arrangement. The licensing terms must be fair to both parties, but the fact that Toyota is an adjudged infringer who chooses to continue infringing simply cannot be ignored.

*Id.* at 15.

Taking these factors into account, Judge Folsom ordered an ongoing royalty rate at about \$98 per infringing vehicle—far more than the \$25 per vehicle rate that was initially set based on the jury’s award for pre-verdict damages. On May 15, 2009, Toyota filed a notice of appeal, which will provide another opportunity for the Federal Circuit to develop further its to date small body of case law on ongoing royalties.<sup>8</sup>

The question of ongoing royalties was also addressed by the Northern District of California in *Boston Scientific Corp. v. Johnson & Johnson*. In February 2008, District Judge Susan Illston allowed 60 days for the parties to negotiate a license or to permit the defendant to cease infringement. *Boston Scientific Corp. v. Johnson & Johnson*, 550 F. Supp. 2d 1102, 1122–23 (N.D. Cal. 2008). The case had an unusual posture: Cordis, the counterclaim-plaintiff, had prevailed on the question of infringement but had been denied damages for past infringement because it had failed to present sufficient evidence of a reasonable royalty rate. The court’s order required that, if infringement continued at the end of the 60-day period and the parties could not negotiate a license, the parties would be required to submit evidence of a reasonable royalty. The parties’ negotiations failed, and the parties filed briefs on the issue of injunctive relief, which the court denied on Nov. 25, 2008.

In its briefing prior to the November order, Cordis submitted the analysis of its expert, Dr. Wu, which evaluated the maximum royalty that the counterclaim defendant would have been willing to accept (15 percent of the catheter portion of the infringing products) and the minimum royalty that Cordis would have been willing to accept (5.4 percent of the catheter portion of the infringing products) and suggested a rate of 6 percent, which was larger than the past damages royalty rate of 2 percent that Cordis had advanced at trial. Cordis further argued that changes in market circumstances, namely the “demonstrated marketplace success” of the patented technology since the time of initial infringement, would have led to a higher royalty rate in October 2007 (at the time of verdict) than in October 1998 (when infringement began). Counterclaim Plaintiff Cordis’ Brief in Support of Equitable Relief to Address Boston Scientific’s Continued Infringement of the Fontirroche Patent at 9–10, *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-790 SI (N.D. Cal. May 9, 2008).

Boston Scientific argued that Cordis had failed to provide evidence supporting a damages award for pre-verdict infringement and therefore was not entitled to an ongoing royalty either. In addition, Boston Scientific argued that the hypothetical negotiation date should be the date of the first infringement, because using the date of the verdict “would reward a party for delay in bringing suit” and should not be justified by “the impermissible desire for a punitive result.”

*Id.* at 11–12.

Boston Scientific also marshaled a thorough historical analysis in support of its argument that the award of an ongoing royalty by the court would violate the company’s Seventh Amendment right to trial by jury. Confronting the contrary conclusion reached by the Federal Circuit in the *Paice* case, Boston Scientific argued that “*Paice* does not contain the full constitutional analysis necessary to determine the contours of the Seventh Amendment right to trial by jury in all other cases, and particularly not a case such as this one.” *Id.* at 4. Boston Scientific further argued that the patent statute did not clearly authorize the court to grant “the judicial royalty Cordis contends for here.” *Id.* at 9. Instead, Boston Scientific argued that the “proper recourse is a new action at law, triable by jury, and subject to the familiar restrictions of *res judicata*, issue preclusion, and related doctrines.” *Id.* at 10.<sup>9</sup>

With respect to the Seventh Amendment question, Judge Illston concluded in a summary fashion that, although the holding in *Paice* was a narrow one, the Federal Circuit’s disposition of the case “suggests that it would be permissible for this Court to determine, after an evidentiary hearing, a reasonable rate for an ongoing royalty.” Order re Counterclaim Plaintiff’s Motion for Equitable Relief at 5, *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-790 SI (N.D. Cal. Nov. 25, 2008). She also dismissed the question of the court’s authority under the patent statute to determine an ongoing royalty rate. With respect to when the hypothetical negotiation would be “held,” Judge Illston concluded that “the hypothetical negotiation for post-judgment royalties should occur on the date of the verdict, when the determination of liability altered the parties’ bargaining positions.” *Id.* at 7.<sup>10</sup>

On Feb. 2, 2009, the court held a two-hour evidentiary hearing and issued an Order Determining Reasonable Rate for Ongoing Royalty on April 9, 2009. According to that order, “much of the evidentiary hearing ... concerned the expert witnesses’ disagreement on a legal issue: the effect that a jury finding of liability should have on the royalty rate.” Weighing the testimony of the parties’ experts in this regard and relying on the Federal Circuit’s decision in the *Amado* case, Judge Illston concluded the following:

Over the course of a three-week trial, the jurors had to learn about an unfamiliar technology and listen to evidence on the complicated relationships between the parties and their patents. They deliberated and came to a conclusion about infringement. We must assume that the jury’s finding means something. ...

... Accordingly, the Court concludes that it must assume that the jury finding of liability would have strengthened Cordis’ bargaining position had the parties negotiated a license after the jury verdict. ... Although the trial court in *Amado* abandoned the *Georgia-Pacific* factors in its analysis on remand, both experts in this case have framed their analysis in terms of those factors. The Court will therefore also use the *Georgia-Pacific* factors but will consider

whether certain factors should be weighed differently in the context of post-verdict royalties.

Order Determining Reasonable Rate for Ongoing Royalty at 5, 7, *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-790 SI (N.D. Cal. April 9, 2009).

After weighing the evidence submitted by the parties at the hearing in this light, Judge Illston concluded that the relevant *Georgia-Pacific* factors supported a royalty rate of 5.1 percent (contrasted with the 2 percent rate Cordis had advanced at trial for pre-verdict infringement). She entered a final judgment on July 6, 2009, which, among many other issues addressed, held that “[u]ntil the earlier of (i) the date Plaintiffs obtain a license to the Fontirroche ‘594 patent or (ii) the expiration of the Fontirroche ‘594 patent on January 31, 2014, Plaintiffs jointly and severally shall pay Cordis Corporation a royalty of 5.1% of the value of the catheter portion of the Infringing BSC Products. ...” Final Judgment, at 4, *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-790 SI (N.D. Cal. July 6, 2009).

The decision went on to detail the manner in which the average selling price would be determined; specified that no payments would be required until 30 days after the expiration period for filing a notice of appeal or the issuance of a mandate by the Court of Appeals; and ordered that, in the interim, the plaintiffs should submit a quarterly royalty report to Cordis. The decision also specified that once payments became due, they would be paid quarterly, and late payments would accrue interest of 10 percent, compounded monthly. The decision also specified “meet and confer” and audit procedures for disputes regarding the royalty reports or amounts paid (requiring Cordis to seek the court’s permission to conduct an audit). Again, the level of detail in the order highlights the challenges (but not impossibility) of addressing “ongoing royalties” in this manner.

### ***Building Ongoing Royalties into Initial Trial Regardless of Unresolved Question Regarding Propriety of Permanent Injunction***

In more recent cases heard in the Eastern District of Texas, Judge Ron Clark has taken another approach. He has ordered parties to address the issue of “future damages” during discovery and to provide jury instructions on the question at trial rather than wait to make a post-verdict determination. *See, e.g., Ariba Inc. v. Emptoris Inc.*, 567 F. Supp. 2d 914, 916 (E.D. Tex. 2008) (order on the submission of issue on future damages, July 29, 2008); *Cummins-Allison Corp. v. SBM Co. Ltd.*, 584 F. Supp. 2d 916, 917 (E.D. Tex. 2008). This approach has the benefit of avoiding the question related to Seventh Amendment rights, although it raises logistical difficulties for a plaintiff who wishes to assert differing royalty rates for pre- and post-judgment infringement, as discussed below.

In the *Ariba* case, Judge Clark informed the parties that he would consider submitting a question on future damages to the jury<sup>11</sup> and told the parties to “instruct their damages experts to consider ongoing royalty rates or other future damages in their expert reports, be prepared to an-

swer questions on this point at deposition and trial, and otherwise conduct their damages discovery accordingly.” Order at 1–2, *Ariba Inc. v. Emptoris Inc.*, No. 9:07-CV-90 (E.D. Tex. July 9, 2008). Citing *Paice*, Judge Clark noted that, even though the decision to award an ongoing royalty “is frequently made by the court post-verdict, it does not have to be.” *Id.* at 1. He further explained:

In 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. Submission of an issue on an appropriate ongoing royalty rate, or other appropriate future method of calculating damages, to the jury may avoid the need for a later bench trial on this issue, conserving the time and resources of the court and the parties.

*Id.* at 2. The plaintiff objected to the order, arguing that the question on future damages would “confuse the jury and endanger Ariba’s right to seek injunctive relief.” 567 F. Supp. 2d at 915. This argument should have had some force—in both the *Ariba* and *Cummins-Allison* cases the parties appear to be market competitors, at least improving the chances that an injunction might be issued and make the issue of ongoing royalties no longer relevant.

In his subsequent order, issued on July 29, 2008, Judge Clark rejected the plaintiff’s argument, concluding that “time and expense can be saved by having the damages expert testify once, rather than hold a separate mini-trial on the issue of future damages post-verdict. This procedure would encourage the experts to keep their testimony about past and future damages logically consistent, and to give reasons for any differences.” *Id.* at 916. In a footnote, Judge Clark further observed, “Because the parties will have an opportunity to confer on the issue of future damages post-verdict and before final judgment is entered, the court’s submission of this question to the jury does not run afoul of the Federal Circuit’s statement in *Paice* that the court ‘may wish to allow the parties to negotiate.’” *Id.* at 916 n.1.

Judge Clark also addressed head-on the Federal Circuit’s comments regarding the “difference between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement.” Judge Clark concluded:

... it is not strictly correct under present case law to say that the jury determines past damages solely on information available at the time of the hypothetical negotiation. ... After all, by the time the jury reaches the question of damages, it has already decided that the patents are infringed and not invalid. ... Client-serving testimony of experts aside, given 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. Of course, other factors such as availability of a design-around, the impor-

tance of the technology, the development of products for convoyed sales, and the relative market positions of the parties may have changed by the time of trial. That evidence will be as available to the jury as it would be to the court at a post-trial hearing.

*Id.* at 917.

On Oct. 29, 2008, the jury returned a verdict finding infringement of all asserted claims and awarding damages for lost profits because of past infringement and a 1.5 percent royalty rate “to compensate Ariba for any conduct [the jury] found to infringe [the asserted patents] that occurs in the future.”<sup>12</sup> Ariba moved for a permanent injunction, and Emptoris opposed the motion partly on the ground that the jury had already awarded an ongoing royalty rate (citing *Innogenetics*). On Jan. 7, 2009, the Court entered a judgment and permanent injunction, rendering the issue of ongoing royalty irrelevant. On Feb. 5, 2009, Emptoris filed a notice of appeal.

In another case, *Cummins-Allison v. SBM Co. Ltd.*, Judge Clark followed a similar procedure, informing the parties that he would submit a question on future damages to the jury and instructing the parties that they “should be prepared to address the issue of future damages at trial.” *Cummins-Allison Corp.*, 584 F. Supp. 2d 916, 917 (E.D. Tex. 2008). Judge Clark reiterated that “a jury finding of infringement and no invalidity does not change any logically consistent analysis; rather it merely confirms the original assumption of those facts. It is inconsistent and unnecessarily confusing to adopt the position that once the assumed facts upon which the expert’s analysis of the hypothetical negotiation are confirmed by a verdict, the expert can change his opinion of a reasonable royalty rate.” *Id.* at 918.

Judge Clark further elaborated on his thinking on the issue, noting the following:

Calculating a future royalty rate should be little different than opining on the rate the parties would have agreed upon at the hypothetical negotiation. Naturally, a successful plaintiff wants to argue that “everything has changed.” This conveniently ignores the fact that even a minimally competent damages expert will have included in pre-trial calculations every advantageous change in profits, sales, and other conditions that occurred prior to trial under the “book of wisdom” rubric. It is true that some factors such as the relative importance of the technology or the availability of a design-around may have changed since the date of first infringement. To the extent these were not considered in the ‘book of wisdom’ analysis and will not be accounted for in total future sales, these factors can be explained without a great deal of difficulty. In short, the court is not convinced that submitting a question on future royalty rate is likely to increase the time or expense of pre-trial preparation. Unless the expert attempts to engage in a convoluted “that was then, this is now” presentation to the jury, little additional time need be devoted at trial to explain the forward royalty rate.

*Id.* at 918, 919 (citations omitted). Judge Clark’s analysis seems clearly influenced by concerns regarding the mutability of ex-

pert testimony. According to Judge Clark, “The trial judge will also be saved the trouble of having to pore over a post-trial ‘analysis’ of a markedly different rate offered by well-paid experts willing to change their analytical constructs in order to serve their clients.” *Id.* at 919 n.3. The case was tried beginning on Sept. 28, 2009. On Oct. 7, 2009, a jury verdict was entered for the plaintiff in the amount of \$11,898,279 and \$400 per unit “for future damages.” On Oct. 30, 2009, Judge Clark entered an order concluding that the “[d]efendants’ post-verdict sales are willful,” noting that the court had entered a permanent injunction against the defendants to prevent further infringing conduct, and for reasons “stated on the record” enhancing the jury’s award of \$400 per unit to “\$500 per unit for sales of infringing products occurring between the trial and the date the injunction [was] issued.” Order Re: Damages for Post-Verdict Sales of Infringing Products, at p. 12, *Cummins-Allison Corp. v. SBM Co. Ltd.*, No. 9:07-CV-196 (E.D. Tex., Oct. 30, 2009). Thus while the court enhanced the jury’s award, the enhancement was far less than the treble damages permitted by the Patent Act.

At least one other judge has commented approvingly on Judge Clark’s procedure. In a circular set of references, Judge Clark noted in the *Cummins-Allison* decision that District Judge William Young of the District of Massachusetts had stated that the “concept of a jury question on future damages is ‘not only efficient’ but a technique that ‘recognizes the vital role of the jury as fact finding partner.’” *Id.* at 920 (citing *Amgen Inc. v. F. Hoffman-La Roche Ltd.*, 581 F. Supp. 2d 160, 210, n.12 (D. Mass. 2008) (citing Judge Clark’s own earlier decision in *Ariba v. Emptoris*)).

### **Doing Nothing**

Courts are not required to award ongoing royalties or to issue permanent injunctions. Another option is simply to award damages for past infringement, to deny injunctive relief, and to permit the plaintiff to re-file its lawsuit if and when further damages accrue. Indeed, plaintiffs may prefer this procedure, because it would give them a strong case for willful infringement should the defendant continue the same activity that had been found to infringe in the initial lawsuit.<sup>13</sup>

In addition, the follow-on suit for willful infringement would dramatically increase the likelihood that the damage award would be made by a jury rather than by the judge, thus avoiding both Seventh Amendment questions and the question of the court’s statutory authority to award ongoing royalties. Moreover, following this procedure would put to rest the debate about the propriety of ongoing royalties as “compulsory licensing” and whether awarding ongoing royalties was permissible pursuant to international treaties.

Of course, from the perspective of both the judiciary (and probably many litigants), this procedure would be unattractive because of the additional expense and drain on resources created by bringing a series of lawsuits to resolve disputes over continued infringement between the same parties. Presumably, however, as a practical matter, the defendant would see the writing on the wall and would prefer to settle the dispute after the initial litigation rather than face additional lawsuits and the possibility of treble damages resulting from willful infringement of a patent.



## A Brief Summary of the Current Situation

Courts are still working out what might be the most efficient, fair, and just procedure for awarding ongoing royalties in patent infringement cases, and Congress has yet to weigh in. Of the options discussed above, Judge Clark's approach addressing the issue in the context of the initial jury trial seems to be the most efficient in the long run from the judicial standpoint. The approach has the added advantage of not raising the issue of Seventh Amendment rights, although the question of statutory authority remains. Judge Clark's procedure also seems to be the option under which the chances of the plaintiff obtaining an enhanced rate for continued ("willful") infringement seems lowest.

According to Judge Clark's procedure, the parties' experts should be able to address both the rate for pre-verdict infringement and the appropriate rate for ongoing royalties adequately, taking into account all factors that might result in a difference—if any—between the two rates by analyzing the trends that have occurred from the time of the first infringement until the date that expert reports are due. Similarly, the expert should be permitted to take into account a claim for multiple damages for post-verdict, willful infringement. To fully account for any significantly changed marketplace conditions between the time of the first infringement and the time of the trial, the court should be willing to consider a motion for discovery on that issue and allow experts to amend their reports if necessary. Such a procedure clearly has its downside as well: it will result in an increased burden and more expense for litigants at trial and has the potential to require additional expert testimony that may ultimately prove unnecessary if an injunction is awarded.

The alternatives seem to be to hold a post-trial hearing—typically an evidentiary hearing—in which royalties for future sales can be determined or to sever the issue of damages and require the filing of a separate complaint related to damages. These alternatives do not solve all the problems, however. In cases in which the judge sets the rate for ongoing royalties after a post-trial evidentiary hearing, the court will find itself in the position of trying to ensure that its order can function as a workable "license." By way of example only, it is unclear whether it would be preferable to set an "ongoing royalty rate" that is paid on a monthly, yearly, or other basis or to order payment of a "paid-up license" for all future sales during the remaining life of the patent. In the cases discussed above, when the courts actually ordered that ongoing royalties be paid, the orders tended to structure the payment in a way that tracked actual sales, rather than projected sales.<sup>14</sup> And, it is important to note that the evidentiary hearing procedure provokes concerns about Seventh Amendment rights as well.

Courts employing these procedures have also faced the question of whether post-verdict royalties should be considered willful. Some have argued that the statutory language of 35 U.S.C. § 271 prohibits only activities that are "without authority," and the order of an ongoing royalty is the court's authorization of continued use, provided that compensation is paid. This argument should not prevail, because it puts form over substance. At least before Judge Folsom in the Eastern District of Texas and Judge Illston in the Northern District of California, claims for enhanced damages for post-verdict

infringement have had some success. Whether other jurists will follow their lead on this question is still unknown. Continued uncertainty about this issue makes it harder for parties to reach agreement when they are negotiating the question of ongoing royalties prior to any court rulings on the issue.

Yet another alternative is simply to dismiss the case after awarding damages and to allow the plaintiff to bring a new lawsuit if the defendant continues to infringe the patent. Courts may oppose this alternative, which does not appear to have yet gained much traction, perhaps for reasons of efficiency, although this approach would avoid issues regarding Seventh Amendment rights, statutory authority, and the like. This alternative has the advantage of refocusing the issue of willful infringement, which certainly should be resolved in the plaintiff's favor in the context of a new lawsuit for patent infringement after a prior case in which liability had been established. Concerns regarding efficiency thus may be unnecessary, because the risk of a finding of willful infringement and the potential for an award for treble damages would create incentives for the infringing defendant to come to the settlement table and reach agreement on royalties for future sales or to cease infringement, thus making a subsequent lawsuit unnecessary in any event. At minimum, the parties should be given the opportunity to file briefs on this issue before the court proceeds to impose an award of ongoing royalties.

In the absence of further guidance from Congress and given the various options for addressing the issue—each of which has its pros and cons (and whether or not these pros and cons matter can depend on whether one is in the role of the plaintiff or defendant)—there is no simple answer to the problem. If one credits the Seventh Amendment issue, then perhaps the best way forward is for courts to continue to offer the parties the opportunity to negotiate their own ongoing royalty rate post-verdict and, if the parties are unable to agree on the rate, to offer the parties the option of a post-verdict evidentiary hearing before the judge. If both parties are willing to stipulate to that procedure, that process seems to be the most likely way to allow a full airing of the evidence relevant to the ongoing royalty without running the risk of unnecessarily introducing the issue at the trial on the merits if an injunction is issued. If the parties do not agree to the evidentiary hearing procedure, the court could simply enter a final judgment, including an award of past damages alone, and the plaintiff would then have the option of subsequently filing a new lawsuit with the ability to seek treble damages for willful infringement related to any post-verdict continued infringement by the defendant.

## Conclusion

Given the very large numbers often involved in awards of damages for patent infringement, it is understandable that renewed attention is being given to the methodologies and procedures used for calculating the amounts awarded. Efforts in Congress to pass new laws related to damage awards for patent infringement reflect some observers' views that steps must be taken to reduce the size of awards for patent infringement. New developments in case law, including the Supreme Court's decision in the *eBay* case and in ensuing cases, similarly create challenges for patent owners seeking to obtain

maximum awards for infringement of their patents.

Analysis of the developing body of case law related to royalties for post-verdict infringement when injunctive relief is denied makes it clear that there are many open issues remaining in this area. How they are resolved will obviously be influenced by many factors—both of a policy and procedural nature. As this area of the law evolves, parties should think hard about ways that the procedures employed may have an impact on substantive results and be prepared to appropriately brief the court fully on the relevant issues. **TFL**

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## Endnotes

<sup>1</sup>The courts and parties invariably rely on the well-known “Georgia-Pacific factors” for guidance in determining a reasonable amount for royalties. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119–20 (S.D.N.Y. 1970), *modified and aff’d*, 446 F.2d 295 (2d Cir. 1971).

<sup>2</sup>See Harold C. Wegner, *Post-eBay Compulsory Licenses: TRIPS Standards*, Paper Presented at the 41st World Congress of the Association Internationale pour la Protection de la Propriété Intellectuelle (Sept. 6–11, 2008) [hereinafter, “*Post-eBay Compulsory Licenses*”] (analyzing arguments made for why treatment of “trolls” should differ from treatment of practicing patentees).

<sup>3</sup>The analysis to follow assumes that a permanent injunction is denied. Other options might take into account some of the concerns raised by courts interpreting the *eBay* case, including the possibility of delaying the implementation of an injunction for a period of time. See, e.g., *Schneider (Europe) AG v. Scimed Life Sys. Inc.*, 852 F. Supp. 813, 869 (D. Minn. 1994) (granting delayed injunction to take effect one year after an order to allow efficient and nondisruptive changeover for physicians and providing for escalating royalties in the interim); see also Bernard H. Chao, *After eBay Inc. v. MercExchange: The Changing Landscape for Patent Remedies*, 9(2) MINN. J.L. SCI. & TECH. 543, 565 (2008) [hereinafter, “*After eBay*”] (“Although *Verizon* suggests that the delayed injunction is an appropriate way to account for the balance of hardships, it also serves to mitigate problems associated with overcompensating a patent holder for many of the same reasons related to the balance of hardship analysis. Thus, courts can be expected to delay injunctions when to do so would further satisfy the *eBay* factors.”).

<sup>4</sup>But see *After eBay*, 9(2) MINN. J.L. SCI. & TECH. at 567 (distinguishing *Shatterproof Glass* because “the opinion never addressed whether courts have the authority to order an ongoing royalty in a patent case ...”); Mitchell G.

Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC’Y 747, 755 (2006) [hereinafter, “*Implementing eBay*”] (“Before *eBay*, true compulsory licenses were exceedingly rare, and oft criticized.”).

<sup>5</sup>See, e.g., H. Tomás Gómez-Arostegui, *Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases*, 78 FORDHAM L. REV. \_\_ (forthcoming 2009), [ssrn.com/abstract=1355464](http://ssrn.com/abstract=1355464), 68 [hereinafter, “*Prospective Compensation*”] (undertaking a lengthy historical analysis and concluding that “federal courts actually have no power to order lump-sum awards or continuing royalties in lieu of a final injunction as either a matter of common law or equity”); *After eBay*, 9(2) MINN. J.L. SCI. & TECH. at 568 (“Although the courts have either ignored or failed to satisfactorily explain why they have the authority to grant ongoing royalties, they may believe that they have no alternative after the *eBay* decision.”); Michael C. Brandt, *Compulsory Licenses in the Aftermath of eBay Inc. v. MercExchange LLC: The Courts’ Authority to Impose Prospective Compensatory Relief for Patent Infringement*, 17 FED. CIRCUIT B.J. 699, 707 (2008) (arguing that ordering prospective compensatory relief ignores precedent and is not authorized by the patent statute).

<sup>6</sup>Commentators have questioned whether the award of ongoing royalties may be considered a violation of the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS) standards, which require compliance with complex procedures before a compulsory license may be granted. See Wegner, *Post-eBay Compulsory Licenses*; see also Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 4 NORTHWESTERN J. OF TECH. AND INTELLECTUAL PROP. L. 156 (2006); Charlene A. Stern-Dombal, *Tripping Over TRIPS: Is Compulsory Licensing Under eBay at Odds with U.S. Statutory Requirements and TRIPS?*, 41 SUFFOLK U.L.R. 249, 275 (“The emerging scenario is that most court-ordered compulsory licenses will comply with Article 31. Nevertheless, other member states monitoring the increase in compulsory licensing in the United States will likely seek to take advantage of this major shift in United States patent law.”).

<sup>7</sup>He stated that no depositions would be taken, however, except after a motion to the court explaining why the deposition was needed. Order at 3, *Paice LLC v. Toyota Motor Corp.*, No. 2-04-CV-211 (E.D. Tex. Mar. 13, 2008).

<sup>8</sup>Interestingly, *Paice LLC* has filed two subsequent complaints claiming infringement by Toyota; the complaints apparently relate to claims that were not adjudicated in the first case. These cases are still pending in the Eastern District of Texas (Docket No. 2:07-cv-00180-DF and Docket No. 2:08-cv-00261-DF).

<sup>9</sup>This argument has been taken up by others in the legal field, and a draft paper circulated online, via the well-known “Patently-O” Web site, has generated significant discussion in this regard; see *Prospective Compensation*, 78 FORDHAM L. REV. \_\_ (forthcoming 2009), (undertaking an extensive historical analysis and arguing that federal courts lack the authority, either in law or in equity, to award prospective compensation to plaintiffs for post-judgment copyright or patent infringement).

**ROYALTY AWARDS** *continued on page 47*

(c)(2)—and “court order,” the legislative history expressly states that any “warrant or other court order [must be] issued under this chapter,” *i.e.* the SCA. See S. Rep. No. 99-541, at 39 (1986), *reprinted in* 1986 U.S.C.C.A.N. 3555, 3593. This strongly suggests that the subpoena must be issued under the SCA, as the text of § 2703(e) treats warrants, subpoenas, and court orders identically. Notably, the SCA does not provide for ordinary civil discovery subpoenas nor for any subpoena by a nongovernmental party. See 18 U.S.C. § 2703; *FTC v. Netscape Comms.*, 196 F.R.D. at 560–61; *In re Subpoena Duces Tecum to AOL*, 550 F. Supp. 2d at 611. Moreover, that section appears to protect only ECS providers and their officers, employees, and agents, but not RCS providers. 18 U.S.C. § 2703(e) (“provider of wire or electronic communication service”); *cf.* 18 U.S.C. §§ 2510(15) and 2711(2) (defining ECS and RCS, respectively).

<sup>8</sup>The court also discussed whether other parts of § 2702 would permit disclosure to the city even in the absence of consent. *Flagg v. City of Detroit*, 252 F.R.D. 358–59 (E.D. Mich. 2008).

<sup>9</sup>The court cited *Theofel v. Farey-Jones*, 359 F.3d 1066 (9th Cir. 2004) and *Quon v. Arch Wireless Operating Co.*, 529 F.3d 892 (9th Cir. 2008), *petitions for cert. filed*, 77 U.S.L.W. 3619 (Apr. 27, 2009) (No. 08-1332), 77 U.S.L.W. 3760, (May 29, 2009) (No. 08-1472). It disagreed, however,

with the Ninth Circuit in the latter and instead agreed with the lower court.

<sup>10</sup>*Cf. Thayer v. Chiczewski*, No. 07-C-1290, 2009 U.S. Dist. LEXIS 84176 at \*13–\*21 (N.D. Ill. Sept. 11, 2009) (analyzing SCA and *Flagg*, and ordering production in response to a subpoena based, in part, on explicit consent but also on lack of objection).

<sup>11</sup>See *Columbia Pictures Indus. v. Fung*, 2007 U.S. Dist. LEXIS 97576, \*30–\*31 (C.D. Cal. June 8, 2007) (a Web site receiving communications directed to it (such IP addresses) may consent to disclose them as a recipient and thus cannot refuse to produce them under the SCA). The *Flagg* district court also noted that consent may be implied in certain circumstances. *Flagg*, 252 F.R.D., at 364–65.

<sup>12</sup>One cannot, however, presume that a person has control over all bank documents relating to that person’s activities. See *U. S. v. D.K.G. Appaloosas Inc.*, 630 F. Supp. 1540, 1561 (E.D. Tex. 1986) (documents are kept for the bank’s benefit, not for the customer), *aff’d* 829 F.2d 532 (5th Cir. 1987).

<sup>13</sup>One should not assume, however, that an employer will be presumed to have control over an employee. See *In re Domestic Air Transp. Antitrust Litig.*, 142 F.R.D. 354, 356–57 (N.D. Ga. 1992) (evidence needed for a finding by the court).

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## ROYALTY AWARDS *continued from page 39*

<sup>10</sup>Consistent with the approaches taken by Judge Folsom and Judge Illston in the cases discussed above, at a bench/bar discussion in Massachusetts in 2008, when discussing the question of ongoing royalties, one district judge suggested that it might be inappropriate to look back at what the rate might have been had the parties negotiated at the time of first infringement given that the patent subsequently had been proved valid and infringed. This jurist also wondered if damages for ongoing infringement might include a “bump up” for “eased market entry” and/or a “kicker” to act as a disincentive to parties from “just going ahead and infringing.” In the pre-verdict damages context, the issue of the propriety of such a “kicker” is one on which court decisions have not been entirely consistent. See *Panduit v. Stablin Bros. Fibre Works Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978) (reversing a district court award as not sufficiently taking into account factors that might support a higher award and noting that “[t]he setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly ‘willing’ patent owners and licensees.”); *Maxwell v. J. Baker Inc.*, 86 F.3d 1098, 1110 (Fed. Cir. 1996) (upholding a jury award of damages greater than the amount to which willing parties would have agreed because damages are supposed to compensate for infringement); but see *Maburkar v. C.R. Bard Inc.*, 79 F.3d 1572, 1581 (Fed. Cir. 1996) (finding that the district court’s “kicker,” which enhanced the damage award apparently to compensate for litigation expenses without meeting the statutory standards for enhancement and fees to be an abuse of its discretion).

<sup>11</sup>Judge Clark’s order noted that “An example of such

a question might be the following: 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.” Order at 1, *Ariba Inc. v. Emptoris Inc.*, No. 9:07-CV-90 (E.D. Tex. July 9, 2008).

<sup>12</sup>Jury Verdict Form at 6, *Ariba Inc. v. Emptoris Inc.*, No. 9:07-CV-90 (E.D. Tex. Oct. 29, 2008).

<sup>13</sup>See, e.g., *Implementing eBay*, 88 J. PAT. & TRADEMARK OFF. SOC’Y at 756 (“Numerous courts have ruled that post-trial infringement is willful and entitles the patentee to treble damages and attorneys fees. A court that imposes a compulsory licensing regime may deny the patentee access to the enhanced damages remedies Congress authorized.”); *After eBay* at 570 (“Many plaintiffs would prefer this situation to receiving an ongoing royalty. As a result, plaintiffs that do satisfy *eBay* may consider doing nothing as well. These plaintiffs can ask for past damages and forgo seeking a permanent injunction. If the defendant continues to infringe after judgment, the plaintiff could recover treble damages instead of an ongoing royalty that the plaintiff may view as insufficient.”).

<sup>14</sup>In several instances, courts ordered quarterly payments of an ongoing royalty based on actual sales of infringing products, accompanied by an accounting of those sales. Late payments were to accrue interest, and the courts generally gave plaintiffs some right to request an independent audit as a way to ensure compliance; see, e.g., *Paice*, 504 F.3d at 1314; *Fresenius Medical Care Holdings Inc. v. Baxter International Inc.*, No. C 03-1431, 2008 WL 928496 at \*7 (N.D. Cal. Apr. 4, 2008).