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## PATENTS

The author reviews a July district court ruling that rejected or minimized many patent owner arguments for an onerous ongoing royalty for continued infringement after a verdict.

## Clarity at Long Last: Post-Verdict Compensatory Patent Infringement Damages



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In contemporary patent infringement litigation, the parties usually turn to the jury to determine liability and damages. Section 284 of the Patent Act provides, however, that “[w]hen the damages are not found by a jury, the court shall assess them.” 35 U.S.C. § 284. Thus, while the jury may be charged with awarding damages for pre-verdict infringement, the court will generally be responsible for addressing claims for post-verdict relief. (The obvious exception is when a party—typically the defendant—urges, and the jury explicitly awards, a fully paid-up lump sum. See, e.g., *Prism Techs. LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360, 1377-79, 121 U.S.P.Q.2d 1817 (Fed. Cir. 2017) (affirming denial of accounting and ongoing royalties because jury’s award included

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royalties for “past, present, and ongoing infringement”).

Prevailing plaintiffs typically seek one of two types of post-verdict relief: an injunction or an ongoing royalty. The precedential case law on how to assess the ongoing royalty is, however, somewhat sparse and conflicting. See II Peter S. Menell et al., *PATENT CASE MANAGEMENT JUDICIAL GUIDE* § 9.2.1.2 (3d ed. 2016). But a recent order entered by Federal Circuit Judge William C. Bryson, sitting by designation as a trial judge in the U.S. District Court for the Eastern District of Texas in *Erfindergemeinschaft Uropep GbR v. Eli Lilly & Co.* goes a long way toward clarifying the Federal Circuit’s framework for calculating an ongoing royalty in patent infringement cases. No. 15-cv-01202-WCB (E.D. Tex. July 18, 2017) (Dkt. No. 388) (hereinafter *Uropep*).

In sum, according to *Uropep*, the post-verdict royalty should generally be equivalent to the one awarded by the jury unless the plaintiff could have been awarded an injunction or if the parties’ economic circumstances—not simply the occurrence of the verdict—are expected to be demonstrably different post-verdict from what they were at the hypothetical negotiation. Simply losing a patent infringement case is not cause for jacking up the ongoing royalty rate.

### I. Right to Post-Verdict Relief

According to the court in *Uropep*, it is “clear” that a court may compensate a prevailing plaintiff for post-verdict infringing acts—as long as neither party urged the jury to award a fully paid-up lump sum or to consider post-trial infringing activity in calculating its award. *Id.* at 3 (citing *Fresenius USA, Inc. v. Baxter, Int’l, Inc.*, 582 F.3d 1288, 1303, 92 U.S.P.Q.2d 1163 (Fed. Cir. 2009)). Specifically, where a trier of fact has found infringement, a court may consider several types of relief for ongoing infringement: (1) it can grant an injunction pursuant to 35 U.S.C. § 283; (2) it can order the par-

ties to negotiate terms for future use of the invention (i.e., an ongoing royalty); (3) if the parties are unable to agree, it can decide what the ongoing royalty should be; or (4) it has the discretion to conclude that no forward-looking relief is appropriate. *WhitServe LLC v. Computer Packages, Inc.*, 694 F.3d 10, 35, 104 U.S.P.Q.2d 1024 (Fed. Cir. 2012); *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15, 85 U.S.P.Q.2d 1001 (Fed. Cir. 2007) (awarding an ongoing royalty in lieu of an injunction is not granted as a matter of course).

In *Uropep*, the defendant urged the court take the fourth road—i.e., to decline to award the plaintiff forward-looking relief. The court acknowledged that, although it “technically” could do that, in that case it would be “improper” given that the court had concluded that the jury’s verdict did not cover the post-verdict period. *Id.* at 5. In other words, a prevailing plaintiff is generally entitled to post-verdict relief. It is not appropriate, according to *Uropep*, to “consign” a prevailing plaintiff to the “inefficient process of initiating follow-on litigation” where the accused products are the same. *Id.* at 6-7.

## II. Ongoing Royalties: An Introduction

An ongoing royalty is a form of equitable relief that may be awarded pursuant to 35 U.S.C. § 283 when an injunction is not available or is stayed, and when the parties have not been able to negotiate the ongoing royalty themselves. *Paice*, 504 F.3d at 1313 n.13, 1315 n.15; *Prism*, 849 F.3d at 1377; *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 807 F.3d 1311, 1332-33, 116 U.S.P.Q.2d 1541 (Fed. Cir. 2015) (en banc), *vacated on other grounds*, 137 S. Ct. 954 (2017). Where a court concludes that an ongoing royalty is appropriate relief, the parties are not entitled to a jury trial to determine the amount; the court makes that determination. *Paice*, 504 F.3d at 1317. Nor is the court bound to adopt the royalty rate awarded by the jury. *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1361-62, 86 U.S.P.Q.2d 1090 (Fed. Cir. 2008); *see also ActiveVideo Networks, Inc. v. Verizon Commcn’s, Inc.*, 694 F.3d 1312, 1342-43, 104 U.S.P.Q.2d 1241 (Fed. Cir. 2012). That is because the Federal Circuit has concluded that there is a “fundamental difference” between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement (*Amado*, 517 F.3d at 1361 (“[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.”)); *Paice*, 504 F.3d at 1317; *see also Amado*, 517 F.3d at 1362 (“different economic factors are involved” after judgment of validity and infringement is entered)).

Thus, the trial court may take additional evidence, if necessary, to account for parties’ changed circumstances as between the date of the hypothetical negotiation underpinning the jury’s award—i.e., just before infringement began—and the date of the verdict. *Paice*, 504 F.3d at 1315; *see also Uropep*, at 15.

## III. Calculating an Ongoing Royalty

Plaintiffs often argue that the ongoing royalty rate awarded by the court should be demonstrably higher than that awarded by the jury. For example, in *Uropep*, the plaintiff urged the court to increase the jury’s implied royalty rate “more than five-fold.” *Id.* at 2, 9. The plaintiff argued that the premium was warranted due to the changed circumstances of the parties post-verdict,

namely: the plaintiff’s far stronger bargaining position due to the jury’s finding of infringement and no invalidity, the defendant’s continuing infringement post-verdict (what the plaintiff alleged was per se willful infringement), and the increased profitability of the accused product during the post-verdict period. *Id.* at 2.

The court in *Uropep* examined each of the plaintiff’s arguments, and the Federal Circuit precedent in support, and found that only the accused product’s increased profitability post-verdict warranted a higher ongoing royalty, and not to the extent plaintiff had urged. In so doing, the court clearly articulated a framework for the calculation of ongoing royalties, as explained below.

### A. The Starting Point

The court in *Uropep* explained that, while Federal Circuit precedent did not require the ongoing royalty to be equivalent to the jury’s award, the verdict is nonetheless an “important consideration in the Court’s calculus.” *Id.* at 15. Indeed, courts have “uniformly” used it as a starting point when determining the ongoing royalty rate. *Id.* at 15 (citing cases). The court in *Uropep* followed suit. “In this case, the jury’s finding as to the proper royalty rate in a setting in which the patent is assumed to be infringed and valid is highly pertinent to the Court’s equitable task of determining a post-verdict award in lieu of an injunction.” *Id.* at 16.

The *Uropep* jury awarded the plaintiff \$20 million in damages on evidence that the plaintiff had made \$704.3 million in infringing sales during the damages period. *Id.* at 1-2. Based on that, the court calculated an implied royalty rate, and starting point for its ongoing royalty analysis, of 2.84 percent. *Id.* at 9.

### B. Plaintiff’s Trial Win Does Not Per Se Increase Its Post-Verdict Bargaining Power

Next, the court in *Uropep* considered the plaintiff’s argument that a premium over the jury’s pre-verdict royalty rate was warranted simply because it had more bargaining power now that the jury had found the patent infringed and not invalid. *Id.* at 2, 9. The court rejected this argument. Instead, the court reasoned that the reality post-verdict was basically unchanged compared to the assumptions the jury had been asked to take into account when awarding damages for pre-verdict infringement. Specifically, “both parties relied on a damages theory based on a hypothetical negotiation conducted at the outset of the infringement period,” both parties’ experts had “based their analyses of the hypothetical negotiation on the assumption that the [asserted] patent was valid and infringed,” and the court had instructed the jury to “assume that the [asserted] patent was valid and infringed” in applying the hypothetical negotiation method of calculating damages. *Id.* at 13.

Now that the jury had reached that same conclusion, the court reasoned that the “jury’s hypothetical negotiation analysis was quite similar to the Court’s assessment of the ongoing hypothetical royalty rate,” performed after the trial. *Id.* (citing cases supporting same). Consequently, the plaintiff’s trial win did not, in the court’s estimation, automatically enhance its bargaining power and support a higher post-verdict royalty rate. *See id.* at 13-14.

### C. The “Realistic” Availability of an Injunction Frames the Post-Verdict Negotiation

But the court clarified that a verdict of infringement and no invalidity *would* increase a hypothetical plaintiff’s bargaining power were that plaintiff eligible to be awarded an injunction. *See id.* at 10. Specifically, the court addressed the Federal Circuit’s decision in *Amado*, where it had explained, “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.” 517 F.3d at 1362. For example, where an injunction is an available remedy but is stayed, the assessment of damages for the period of the stay “should take into account the change in the parties’ bargaining positions, and the resulting change in economic circumstances, resulting from the determination of liability—for example, the infringer’s likelihood of success on appeal, the infringer’s ability to immediately comply with the injunction, the parties’ reasonable expectations if the stay was entered by consent or stipulation, etc.—as well as the evidence and arguments found material to the granting of the injunction and the stay.” *Id.*

Plaintiffs often cite *Amado* and its progeny as per se justification for increasing the post-verdict royalty rate. The court in *Uropep*, however, concluded it was “not entirely clear” that the *Amado* analysis applies when the plaintiff is not eligible to be awarded an injunction. *Uropep*, at 10. The court noted that, in *Amado*, “the district court granted an injunction and then stayed it in favor of an ongoing royalty award.” *Id.* “Moreover,” the court noted, “the [Federal Circuit] used language suggesting that the rule in *Amado* might be limited to instances in which an injunction was, or could be, granted.” *Id.*

The court in *Uropep* acknowledged that some Federal Circuit cases had come to the contrary conclusion, “suggesting” that *Amado* was *not* “limited to cases in which an injunction was sought, obtained, and stayed or vacated.” *Id.* at 10-11 (citing *SynQor, Inc., v. Artesyn Techs., Inc.*, 709 F.3d 1365, 1384, 106 U.S.P.Q.2d 1052 (Fed. Cir. 2013); *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1378-79, 95 U.S.P.Q.2d 1673 (Fed. Cir. 2010); *Paice*, 504 F.3d at 1317). Nonetheless, the court took a different tack, holding, “the extent to which the imposition of an injunction is a realistic threat is an important factor that largely accounts for the differences between pre-verdict and post-verdict hypothetical negotiations.” *Id.* at 11. Quoting *Presidio Components Inc. v. American Technical Ceramics Corp.*, No. 08-CV-335 (S.D. Cal. Aug. 5, 2010) (Dkt. No. 367, at \*6), the court confirmed that “the difference between reasonable royalties for pre-verdict and post-verdict infringement ‘is largely due to the threat of an injunction, which 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. Where . . . an injunction is no longer proper, the Court is hard pressed to find in what material respect the situation is different now than it was during trial.’” *Uropep*, at 12.

In *Uropep*, the plaintiff was not entitled to an injunction, and indeed conceded as much. *Id.* at 11. The plaintiff and defendant were not competitors and the patent

was set to expire three months after trial. *Id.* at 11, 4. While the plaintiff had asked for an injunction in its complaint, its pretrial order stated that it wished to recover only “post-verdict damages . . .” *Id.* at 4. Accordingly, the court concluded that the “‘big stick’ threat of an injunction was not available to [the plaintiff] and thus should not be a factor suggesting a higher royalty rate for post-verdict infringement.” *Id.* at 12.

Thus, *Uropep* teaches that simply winning a patent infringement case does not warrant a higher ongoing royalty than that awarded (expressly or impliedly) by the jury. Instead, the parties’ bargaining positions are affected by the win only to the extent an injunction is a realistic possibility.

### D. Post-Verdict Infringement Is Not Per Se Willful

The plaintiff in *Uropep* also argued for a premium on the pre-verdict royalty because the defendant did not stop infringing the asserted patent after the adverse verdict. *Id.* at 20. Citing multiple cases, the plaintiff argued that failing to halt infringing activity post-verdict amounted to willful infringement. *Id.* The court in *Uropep* disagreed. *Id.* “[T]he entry of a verdict and judgment does not justify recharacterizing [the defendant’s] behavior as ‘wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.’” *Id.* at 23 (quoting *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932, 118 U.S.P.Q.2d 1761 (2016)). Despite the fact that the defendant now knew that a “jury ha[d] found its conduct to be infringing, [the defendant] has not committed any new acts deserving of enhanced punishment. [The defendant] has merely continued its previous conduct with the reasonable belief that [the plaintiff] would not seek an injunction and in circumstances in which [the defendant] would be required to pay an ongoing royalty to which [the plaintiff] is entitled.” *Id.*

The court rejected the argument that “every adjudged infringer of an unexpired patent must immediately cease all infringing activity or be subject to an enhanced ongoing royalty for willfulness,” because the Supreme Court in *Halo* declined to “adopt[] a bright-line rule punishing all instances of knowing infringement.” *Id.* at 23-24. Further, as a policy matter, the contrary result would “give the patentee unfair bargaining power after a verdict to force the infringer to agree to license the patent at an enhanced rate in order to avoid an even greater enhancement by the court.” *Id.* at 24.

The court then examined the case through the lens of the factors set out in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827, 23 U.S.P.Q.2d 1426 (Fed. Cir. 1992). Notably, the court concluded that just because “the jury found the [asserted] patent not invalid, that alone does not negate [the defendant’s] good faith belief that the patent is invalid,” citing the defendant’s filing of a motion for judgment as a matter of law to challenge the verdict and its expressed intent to appeal if that motion were to be denied. *Uropep*, at 21.

Thus, simply failing to halt the activity a jury has found to be infringing does not itself transform that infringement into that which is “characteristic of a pirate,” deserving of enhanced punishment under *Halo*.

### **E. The Court May Consider the Parties' Changed Economic Circumstances Post-Verdict**

All that being said, a court may—and should—take into account the changes, if any, in the parties' respective economic circumstances, the facets of which are articulated in the *Georgia-Pacific* factors, on the date the verdict is reached as compared to the date of the hypothetical negotiation. *Uropep*, at 24; see also *Bianco v. Globus Med., Inc.*, 53 F. Supp. 3d 929, 933, 2014 BL 184284 (E.D. Tex. 2014) (blessing the use of the *Georgia-Pacific* factors to evaluate a post-verdict royalty rate).

For example, in *Uropep*, the court determined that the defendant's profit margin on the accused product was expected to be twice as high during the post-verdict period as it had been expected to be just before the hy-

pothetical negotiation. *Id.* at 24-25. The court reasoned that that difference would have "likely" produced a "higher recovery" for the plaintiff, "since the size of the pie being divided is an important factor in determining the size of the slice allocated to each of the interested parties." *Id.* at 25 (citing *Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 722, 113 U.S.P.Q.2d 1347 (Fed. Cir. 2014)). Thus, the court doubled the pre-verdict royalty rate proportionally to the defendant's increased profit margin. *Id.* at 29.

### **IV. Conclusion**

While not binding precedent, *Uropep* dispenses with many a favorite plaintiff argument in favor of onerous ongoing royalties post-verdict. Savvy defendants will be hip to these arguments, and prepared to make them in their defense.