Ongoing Royalties as an Alternative to Injunctive Relief for PAEs: An Empirical and Theoretical Assessment

Professor Christopher B. Seaman

Texas Intellectual Property Law Journal Symposium:
Patent Assertion Entities

Feb. 20, 2015

seamanc@wlu.edu

Prospective Remedies in Patent Cases

"There are several types of relief for ongoing infringement that a court can consider:

(1) it can grant an injunction;

(2) it can order the parties to attempt to negotiate terms for future use of the invention;

(3) it can grant an ongoing royalty; or

(4) it can exercise its discretion to conclude that no forward-looking relief is appropriate in the circumstances."

Whitserve v. Computer Packages, Inc., 694 F.3d 10 (Fed. Cir. 2012).

Permanent Injunctions Pre-eBay

- Federal Circuit: "General rule" granting permanent injunction after patent(s) found infringed & not invalid
  - Patents and Right to Exclude: "It is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property." Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1246–47 (Fed. Cir. 1989).
  - Limited exception to protect public interest (e.g., health/safety)
- "Nearly automatic" in practice
  - Granted approx. 95% of the time before eBay

eBay v. MercExchange (2006)

- Supreme Court (Thomas, J):
  - Rejected Federal Circuit's "general rule" granting injunctive relief
  - Lower courts must apply "traditional equitable principles" in the form of a four-factor test:
    1) Irreparable injury to patentee
    2) Inadequate remedy at law
    3) Balance of hardships favors patentee
    4) Public interest would not be disserved by injunction

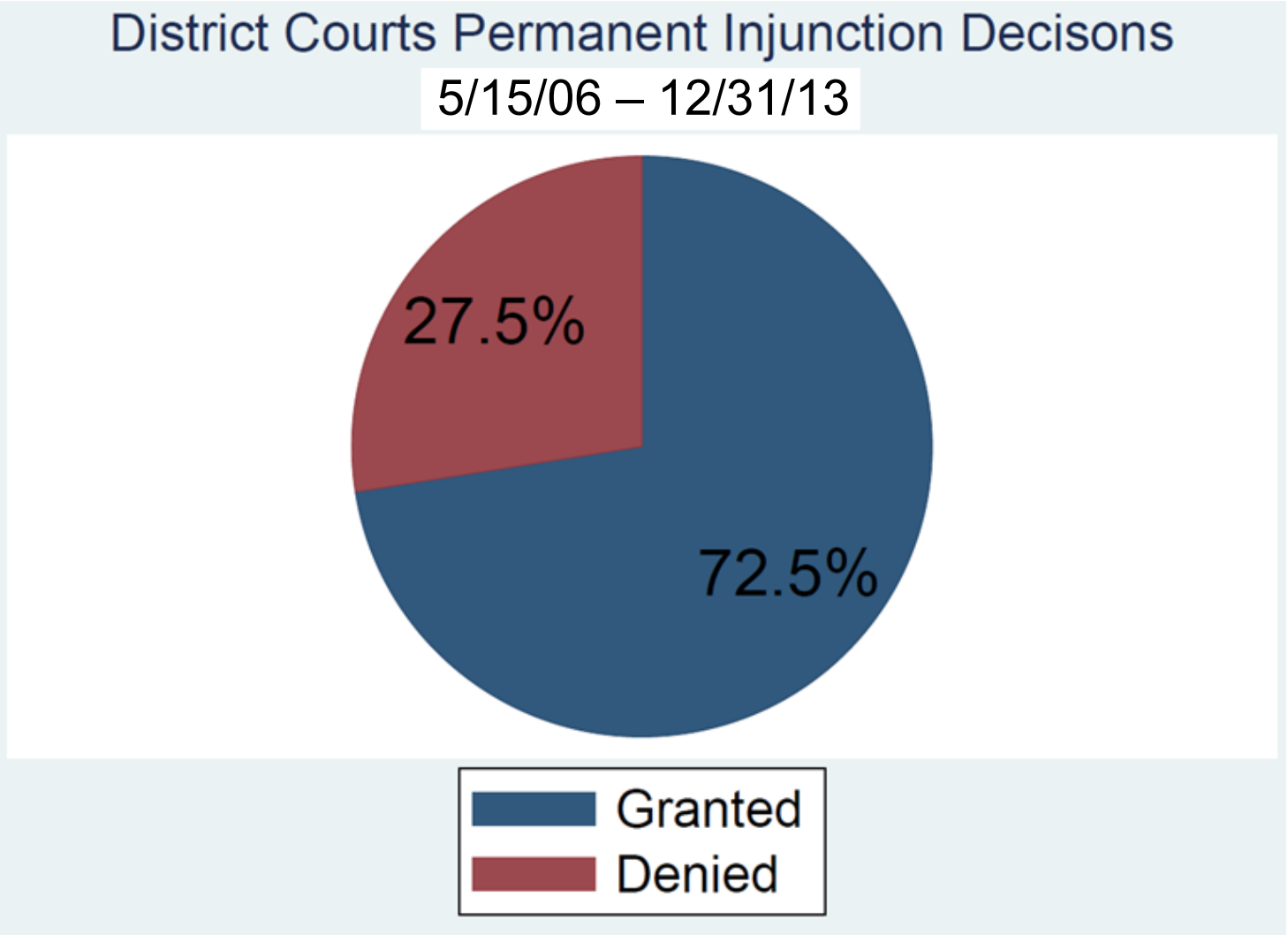
eBay v. MercExchange (2006)

- Roberts, C.J. (concurring):
  - Historical practice of granting injunctions to patentees: "From at least the 19th century, courts have granted injunctive relief in the vast majority of patent cases . . . ."
  - Noted "difficulty of protecting a right to exclude through monetary remedies that allow an infringer to use an invention against the patentee's wishes."

eBay v. MercExchange (2006)

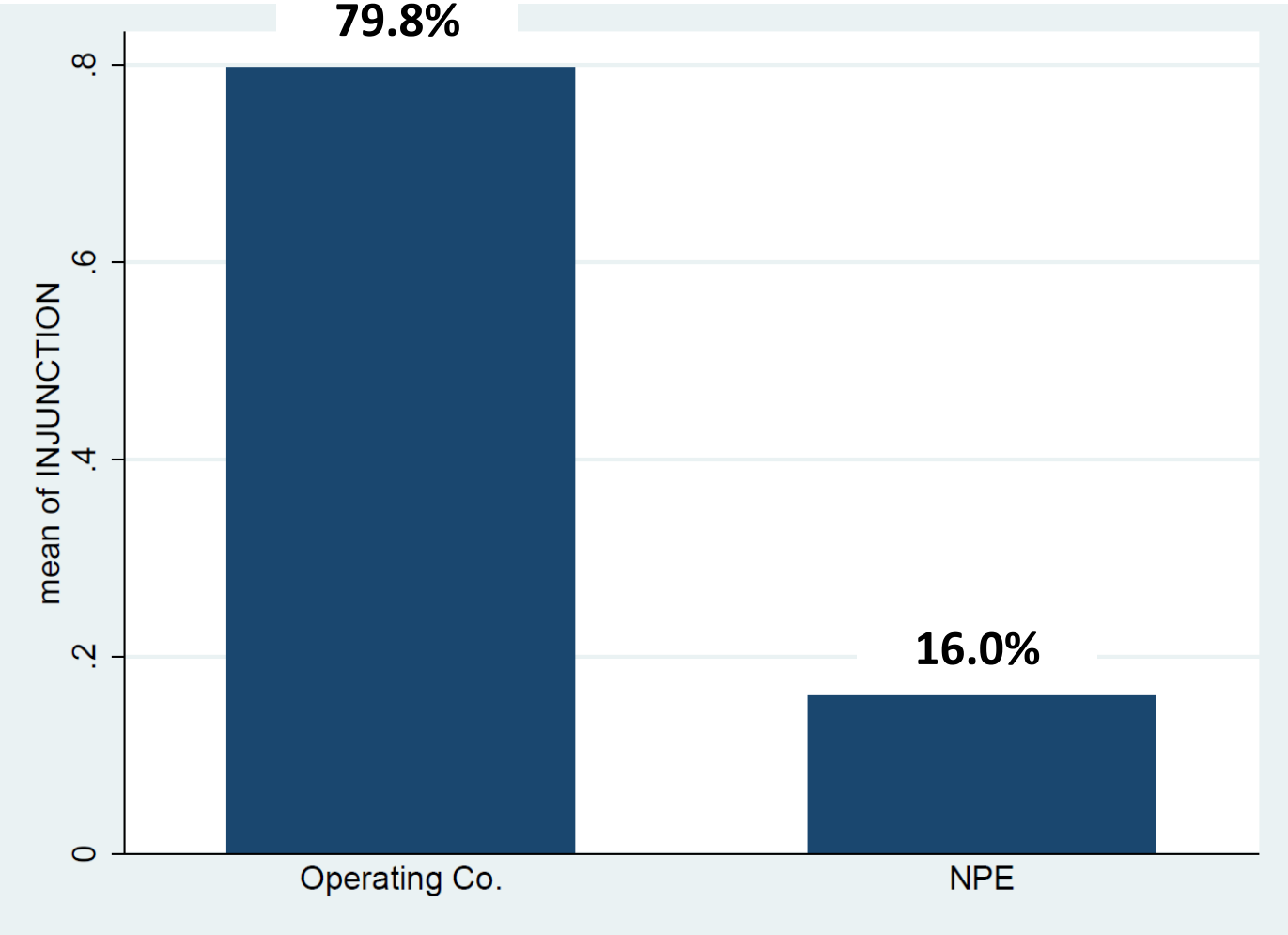
- Kennedy, J. (concurring):
  - PAEs may seek injunction "as bargaining tool to charge exorbitant fees"
  - Patented invention sometimes represents "small component of [infringing] product"
  - "Potential vagueness" and "suspect validity" of patents covering business methods

Permanent Injunctions Post-eBay



N = 218

Grant Rate by Identity of Patent Owner (Operating Company v. PAE)



$p < 0.001$

#1: Irreparable Harm

- Courts no longer presume irreparable harm to patentee following eBay
  - See Robert Bosch LLC v. Pylon Mfg. Corp., 659 F.3d 1142, 1149 (Fed. Cir. 2011) ("We take this opportunity to put the question to rest and confirm that *eBay* jettisoned the presumption of irreparable harm as it applies to determining the appropriateness of injunctive relief.")

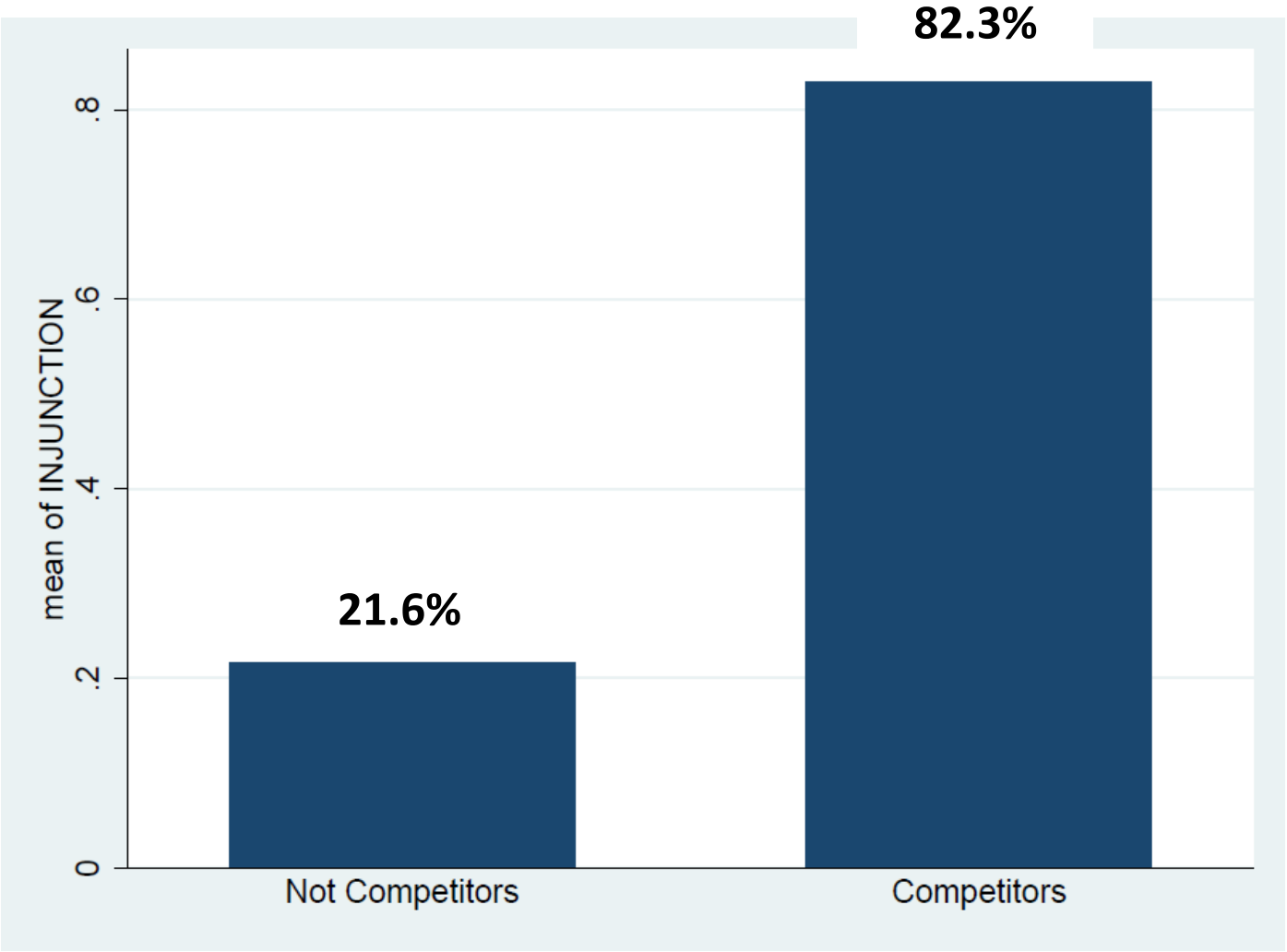
Role of Competition Between Litigants

Most important factor in determining irreparable harm

- "Where two companies are in competition against one another, the patentee suffers the harm—often irreparable—of being forced to compete against products that incorporate and infringe its own patented inventions." Douglas Dynamics, LLC v. Buyers Products Co., 717 F.3d 1336, 1345 (Fed. Cir. 2013).

- "[A] patent provides a right to exclude infringing competitors, regardless of the proportion that the infringing goods bear to a patentee's total business." Praxair, Inc. v. ATMI, Inc., 543 F.3d 1306, 1330 (Fed. Cir. 2008) (Lourie, J., concurring).

Competition Between Litigants



$p < 0.001$

#2: Inadequate Remedy at Law

- Willingness to license patent for monetary compensation may show adequate remedy at law
  - Apple Inc. v. Samsung Electronics Co., 735 F.3d 1352, 1368 (Fed. Cir. 2013) (finding "no error in the district court's decision to consider evidence of Apple's past licensing behavior," but also finding that it "could not create a categorical rule that [a patentee]'s willingness to license its patents precludes the issuance of an injunction.
  - MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556, 582 (E.D. Va. 2007) (holding that patentee's "public[] … willingness to license its patent portfolio" supported conclusion that it had an adequate remedy at law).

Paice LLC v. Toyota Motor Corp. (Fed. Cir. 2007)

- "Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate."

Ongoing Royalties: Equitable Alternative to Injunctive Relief

- Paice LLC v. Toyota Motor Corp., 504 F.3d 1293, 1314 (Fed. Cir. 2007) (denying permanent injunction under "principles of equity" and instead "permitting use of a patented invention in exchange for a royalty")

- Fresenius USA, Inc. v. Baxter Int'l, Inc., 733 F.3d 1369, 1379 (Fed. Cir. 2013) ("An injunction and compulsory license are both inherently prospective. While we may at times improperly use the term 'damages' as a shorthand term to encompass … the right to … prospective monetary relief, that cannot change the equitable character of that relief.")

Ongoing Royalty vs. Compulsory License

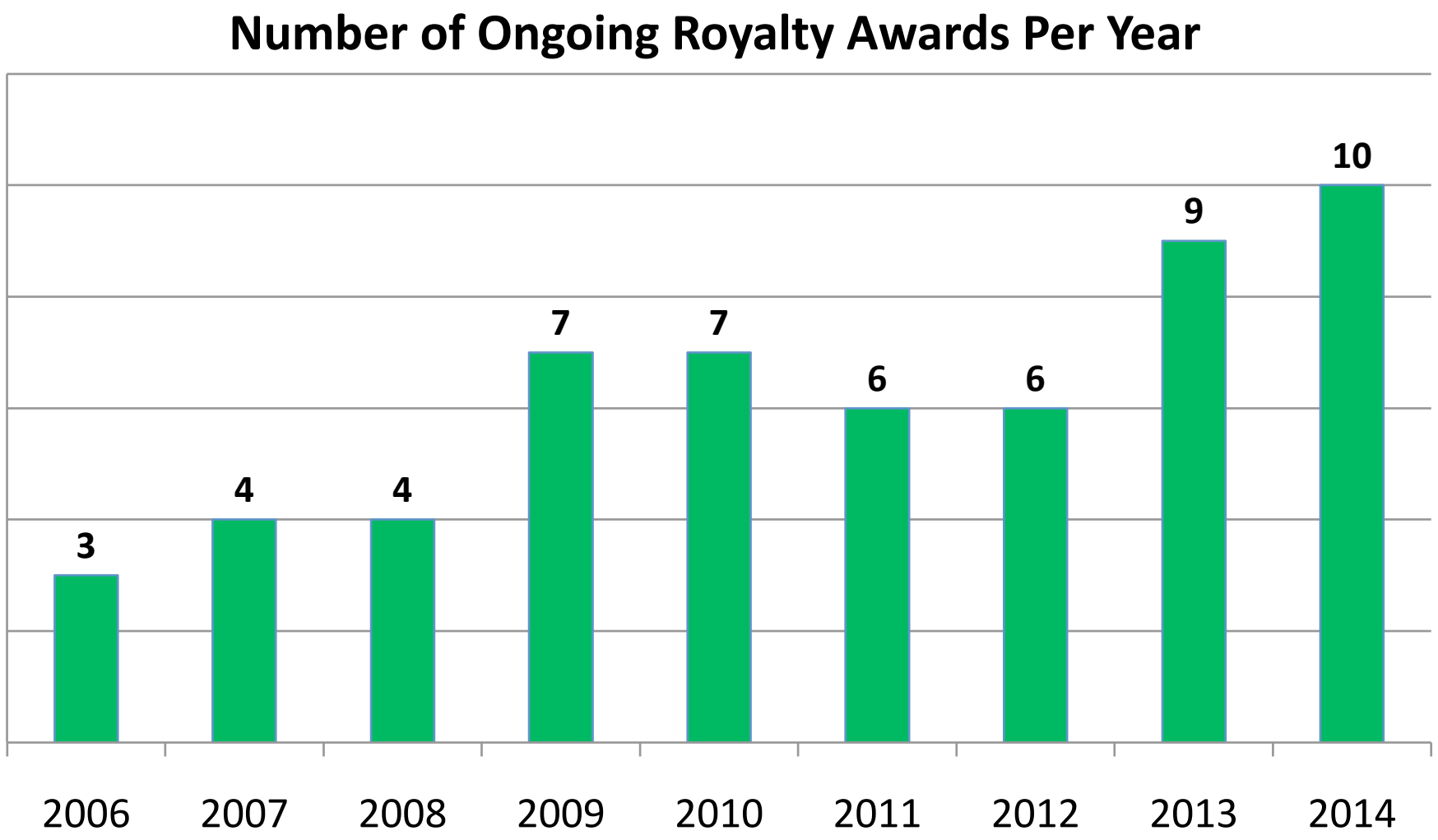
Some courts have conflated the two:

- Hynix v. Rambus, 609 F. Supp. 2d 951 (N.D. Cal. 2009) ("'[O]ngoing royalty' is merely a nice way of saying 'compulsory license.'")
- Paice v. Toyota, 504 F. 3d at 1316 (Rader, J., concurring) ("[C]alling a compulsory license an 'ongoing royalty' does not make it any less of a compulsory license.")

But there are several significant differences:

1. Not available to all comers like "compulsory licenses" in other areas of IP law (e.g., mechanical licenses under 17 U.S.C. § 115).
2. Patentee retains option to not seek ongoing royalty and instead file successive infringement suits for damages (and willfulness).
3. If infringer fails to pay royalty, court may grant injunction (and enforce using contempt power).

Ongoing Royalties Since eBay



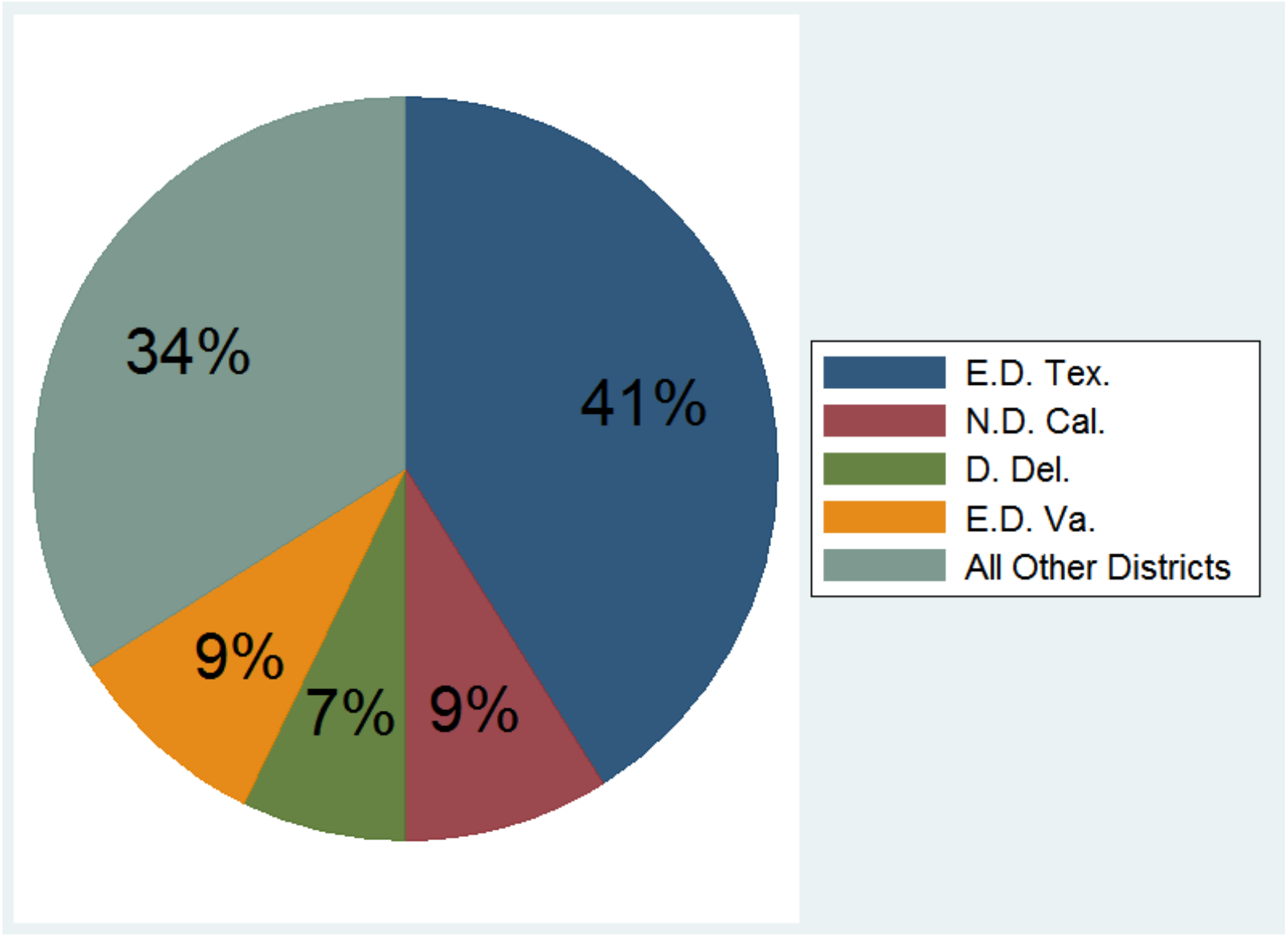
Empirical Study: Methodology

- Sources:
  - Author's post-eBay injunction study
  - Westlaw
  - Lex Machina
  - EDTexweblog.com (Michael C. Smith, Esq.)
- Coding Variables:
  - Case information (e.g., parties, district, date, citation)
  - Identity of patent owner
  - Resolution
  - Type and amount of ongoing royalty
  - Ratio b/w pre-judgment and post-judgment award

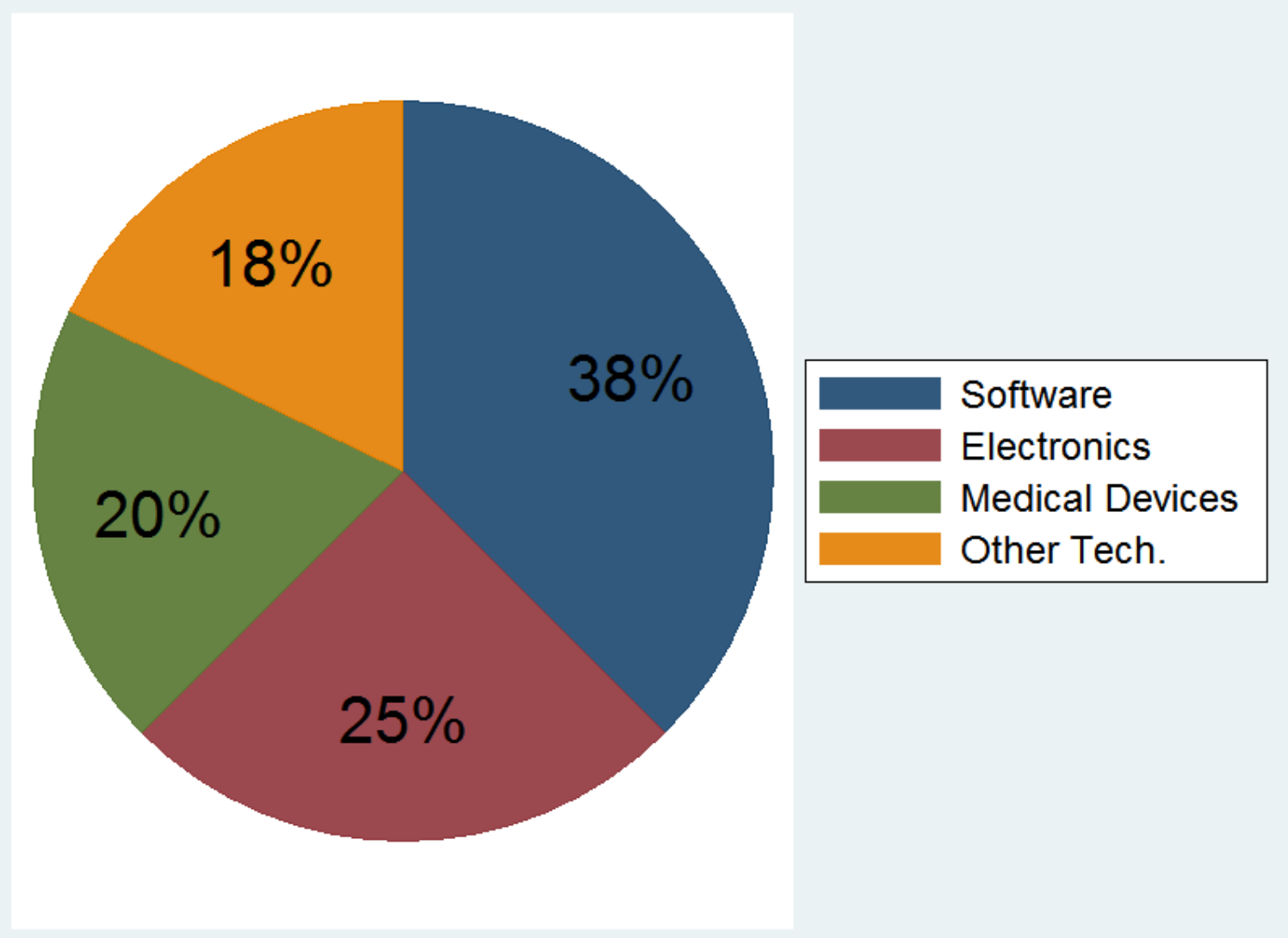
Limitations of Study

- Small # of decisions
  - 56 cases
  - 54 different royalty awards (excluding settlements)
- Some data unavailable
- Selection Effects
  - Only cases where:
    - Infringement and validity litigated to judgment
    - Permanent injunction denied
    - Patentee sought an ongoing royalty
    - Royalty amount not settled by litigants (some variables)

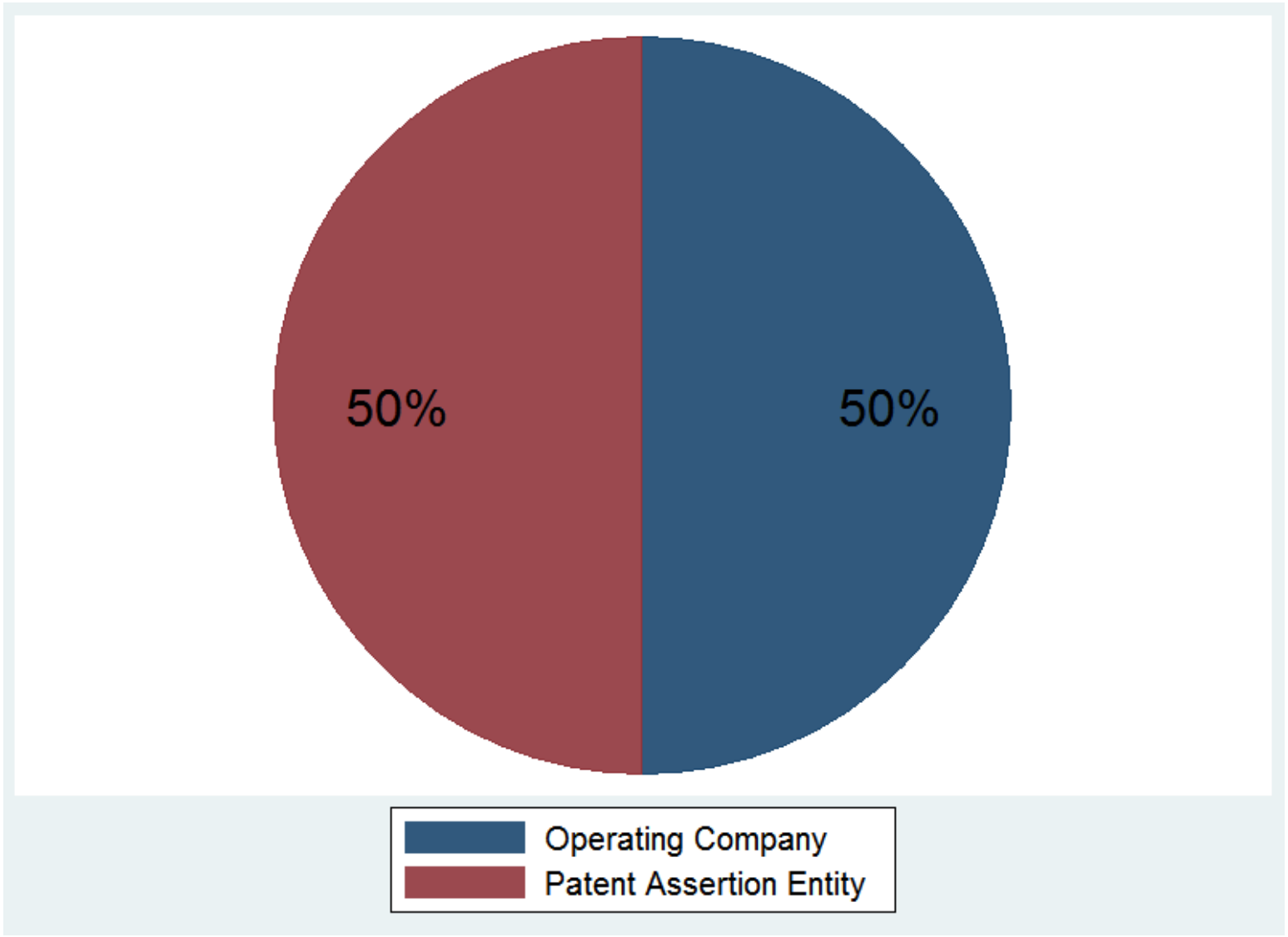
Ongoing Royalty Awards, by District



Patented Technology Involved



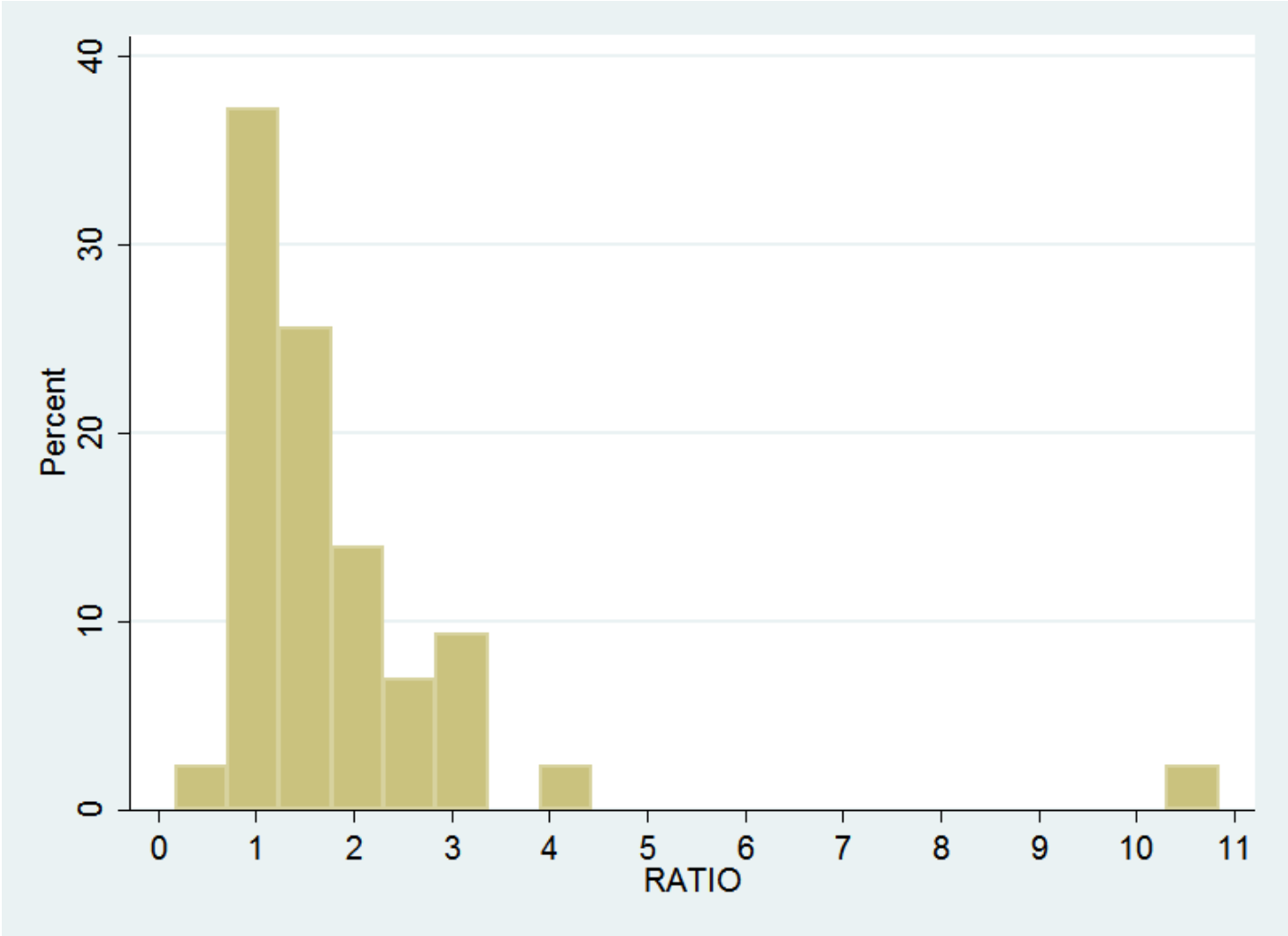
Operating Company vs. PAE



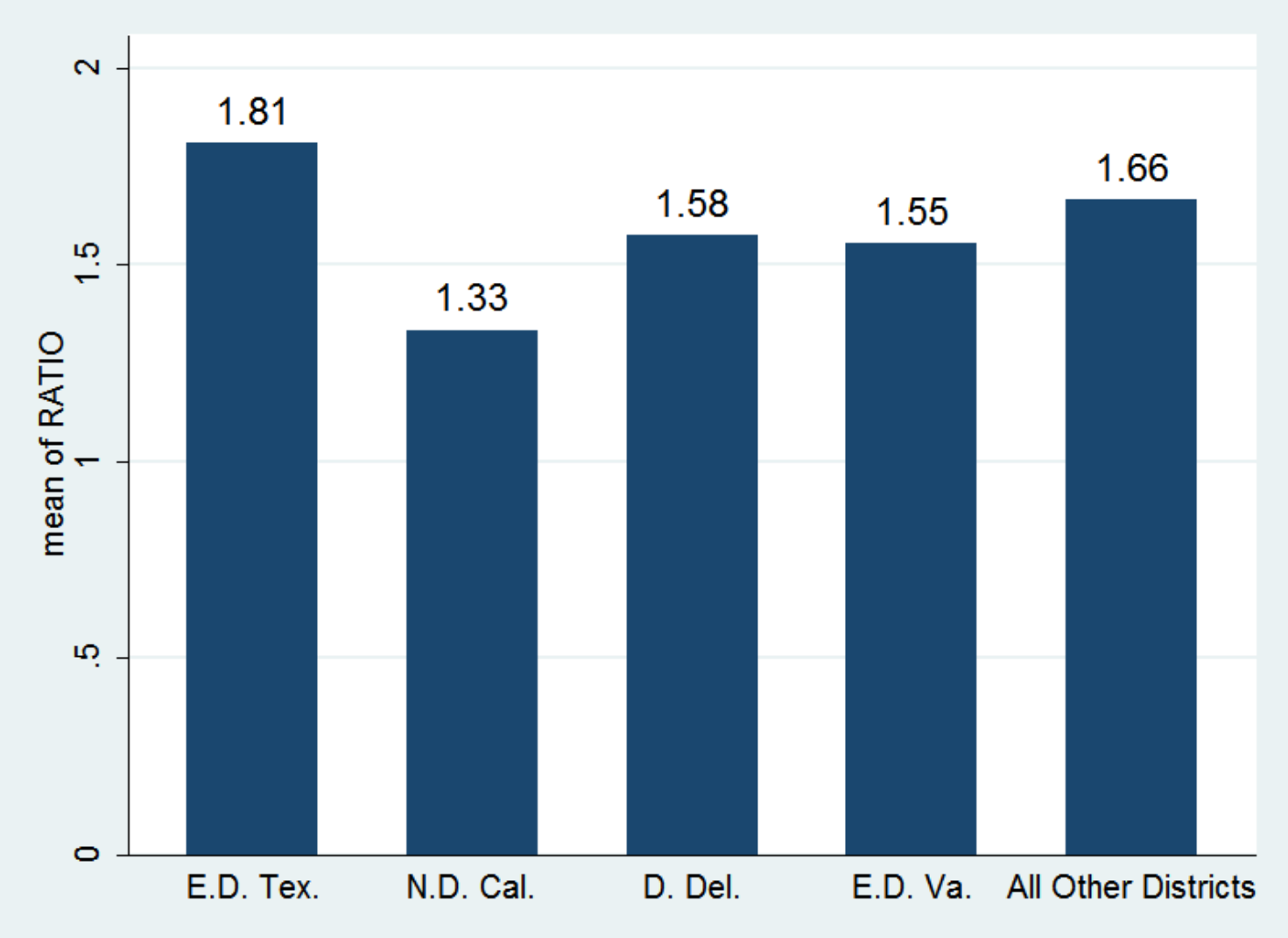
Prejudgment vs. Postjudgment Royalties

25th Percentile	1
Median	1.34
Mean	1.83
75th Percentile	2

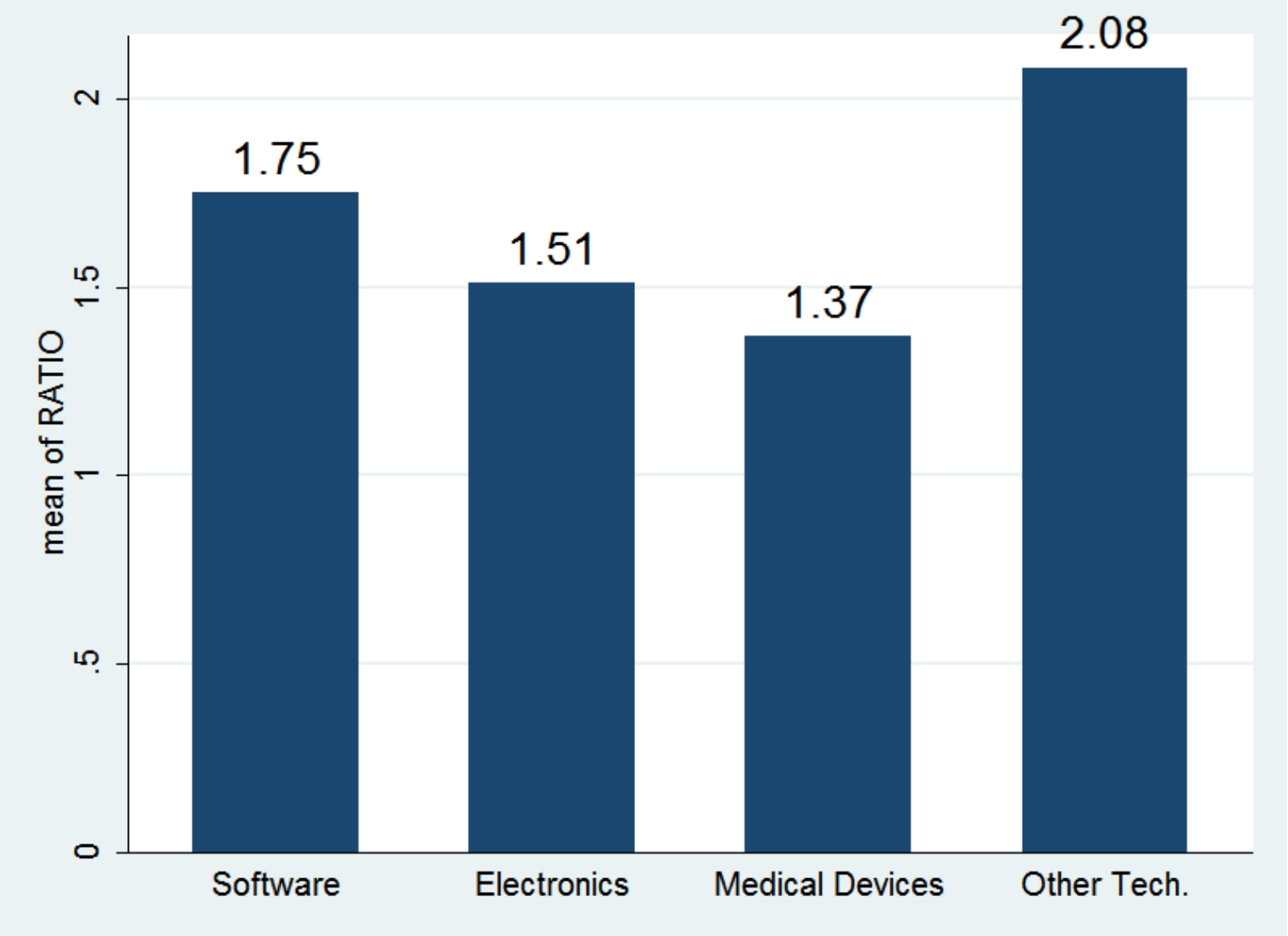
Prejudgment vs. Postjudgment Royalties: Distribution



Prejudgment vs. Postjudgment Royalties: Mean Royalty Award, by District



Prejudgment vs. Postjudgment Royalties: Mean Royalty Award, by Field of Tech.



Ongoing Royalties: Unresolved Issues

1. If a permanent injunction is denied, should an ongoing royalty always be awarded?
2. Who decides the royalty amount?
3. What is the structure of the royalty award?
4. How should the royalty be determined?
5. Should royalty award be increased for willfulness?

1. Awarding Ongoing Royalties

Argument: In nearly all cases where injunction denied if patentee requests it (55 out of 56 cases in dataset)

- Hard to adequately "compensate for the infringement," 35 U.S.C. § 284, if the infringer receives permission to engage in royalty-free future uses.

- But see Paice LLC v. Toyota Motor Corp., 504 F.3d 1293, 1314-15 (Fed. Cir. 2007) ("[A]warding an ongoing royalty where 'necessary' to effectuate a remedy . . . does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed.").

1. Awarding Ongoing Royalties

Exceptions:

- Patent expires before entry of judgment
- Voluntary cessation of infringing conduct without reasonable prospect of resumption
  - See Xpert Universe, Inc. v. Cisco Systems, Inc., 2013 WL 6118447, at *14 (D. Del. Nov. 20, 2013) (denying patentee's request for "an enhanced ongoing royalty award for the life of the patents for future sales" because "[t]here are no future infringing sales on which to base a royalty.")
- Public interest would be seriously harmed if royalty imposed (e.g., hinder access to life-saving treatment)

2. Judge vs. Jury

- Paice settled this issue (at least for now): no Seventh Amendment right to jury trial on amount of ongoing royalty. 504 F.3d at 1315-16.
  - But see H. Tomás Gómez-Arostegui, Prospective Compensation in Lieu of A Final Injunction in Patent and Copyright Cases, 78 Fordham L. Rev. 1661 (2010) (contending that "federal courts lack the authority, in either law or equity, to award prospective compensation for postjudgment copyright or patent infringements").

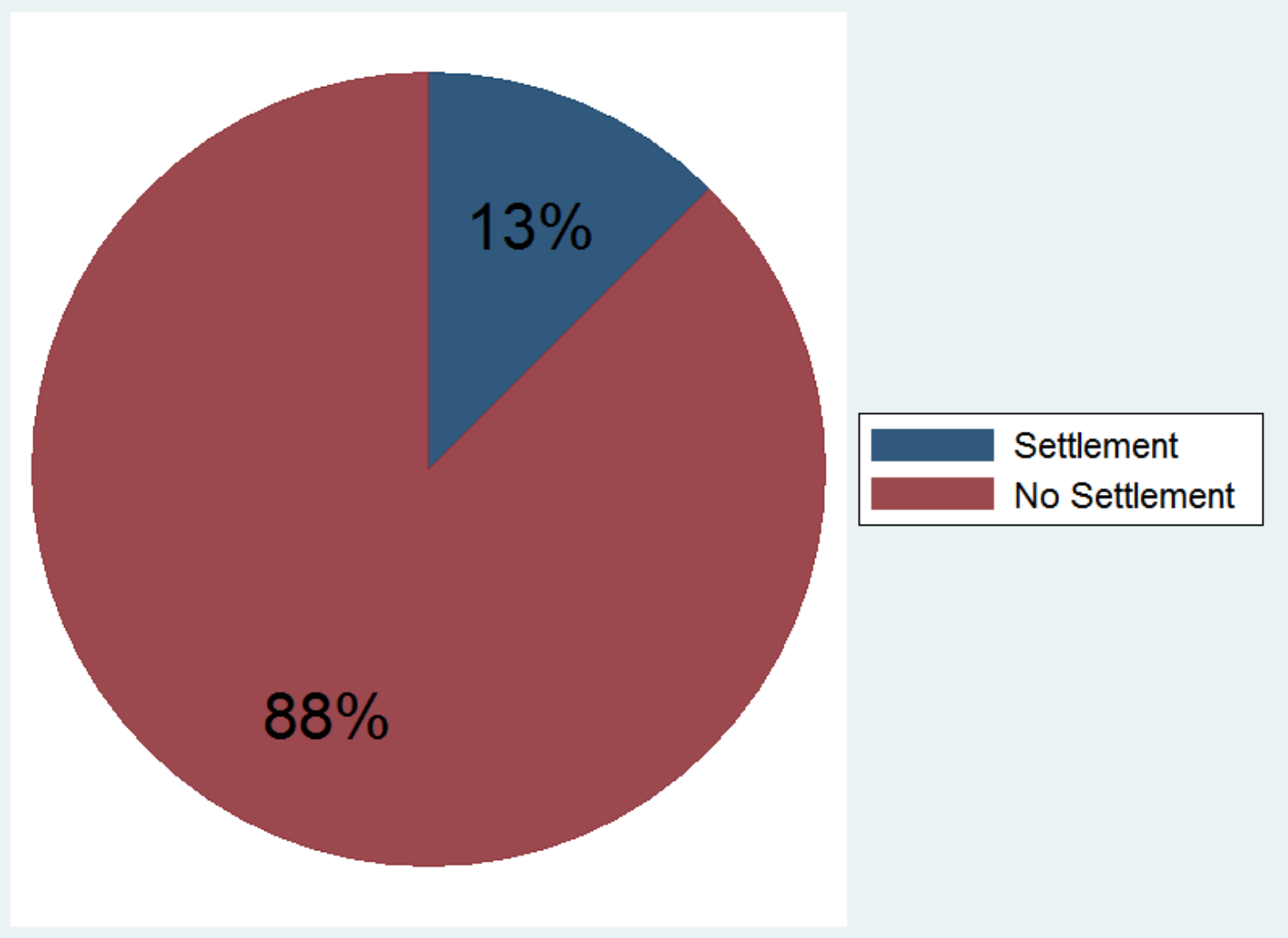
2. Judge vs. Jury

- Even if Seventh Amendment doesn't require jury trial, court can order advisory verdict.
  - Cummins-Allison Corp. v. SBM Co., 584 F. Supp. 2d 916, 921 (E.D. Tex. 2008) (submitting question on "proper future royalty rate" to the jury and noting that "[a]ny finding on that question may be taken into account by the court and the parties when arriving at a value for future damages, but would not automatically result in an award of future damages in that amount").
- Either party can argue for "lump sum" award covering both past and future uses of patent
  - Personal Audio, LLC v. Apple, Inc., 2011 WL 3269330, at *13 (E.D. Tex. July 29, 2011) (holding "lump sum award giving [infringer] a fully paid up license to the patents-in-suit" had the effect of "covering all past and future use of the patented technology")

2. Judge vs. Jury

- Courts often require litigants to engage in settlement negotiations before entering ongoing royalty award
  - See, e.g., Ricoh Co. v. Quanta Computer Inc., 2010 WL 1607908 (W.D. Wis. Apr. 19, 2010).
- But these efforts are usually unsuccessful.

Settlement of Royalty Amount

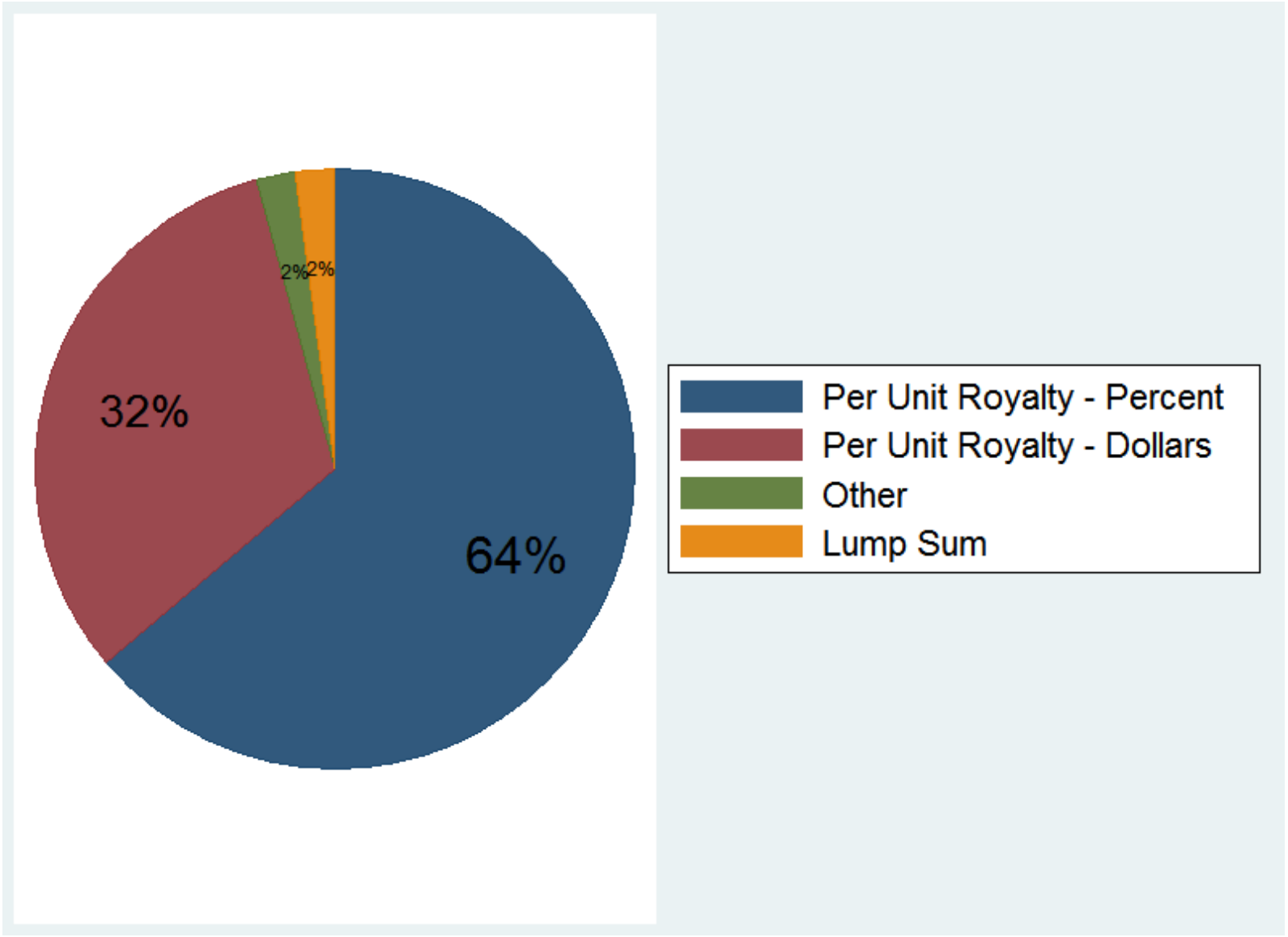


3. Structure of Royalty

Three main options:

- Lump sum
- Per unit royalty: (fixed) $ per sale
- Per unit royalty: % of sale price

Structure of Royalty



4. Standard

- No clear methodology endorsed by Fed. Cir.
  - See Mondis, 822 F. Supp. 2d at 645 ("[T]he Federal Circuit has not announced a particular standard to be used in calculating an ongoing royalty rate.")
- Many district courts use some/all Georgia-Pacific factors
  - See, e.g., Paice LLC v. Toyota, 609 F. Supp. 2d 620 (E.D. Tex. 2009) ("Many of the factors noted by the *Georgia-Pacific* court are also seemingly applicable to an ongoing royalty analysis.")
- But Georgia-Pacific has been criticized as too amorphous.

Proposed Framework for Ongoing Royalties

$$R_o = (R_j + F_i - F_d) * E$$

- Ro: Ongoing royalty rate
- Rj: Royalty rate for prejudgment damages
- Fi: Factors favoring increased ongoing royalty rate
- Fd: Factors favoring decreased ongoing royalty rate
- E: Enhancement for willful infringement (if any)

Factors Increasing Ongoing Royalty Rate

- Increased value of / demand for patented technology due to changing market conditions
  - See Paice LLC v. Toyota Motor Corp., 609 F. Supp. 2d 620, 628-30 (E.D. Tex. 2009) (finding that "changed factual and legal circumstances," including "higher oil and gas prices make the fuel efficiency advantages of the [patented] technology even more valuable," warranted a higher post-judgment royalty rate)
- Technology has matured / become more widely incorporated into products

Factors Decreasing Ongoing Royalty Rate

- Availability and cost of switching to a noninfringing alternative
  - Paice, 609 F. Supp. 2d at 627 ("In a post-judgment negotiation . . . the cost of switching to an alternative design is a factor that the parties would consider in arriving at an appropriate ongoing royalty rate.")
- Decreased profitability of patentee due to market entrance by noninfringing competitors

5. Willfulness

- Many courts find post-judgment infringement willful and enhance royalty rate.
  - I/P Engine, Inc. v. AOL, Inc., 2014 WL 309245, at *3 (E.D. Va. Jan. 28, 2014) "Reasoning that a jury verdict of infringement reduces the bargaining power of the infringer in a hypothetical negotiation *vis-à-vis* the patentee, courts frequently find that the post-verdict ongoing royalty rate should be higher than that found at trial.")
  - Affinity Labs of Tex., LLC. v. BMW N. Am. LLC, 783 F. Supp. 2d 891, 899 (E.D. Tex. 2011) ("Following a jury verdict and entry of judgment of infringement and no invalidity, a defendant's continued infringement will be willful absent very unusual circumstances.").

5. Willfulness

- Others do not enhance for post-judgment infringement, finding that entry of judgment doesn't change assumptions of the hypothetical negotiation

  - Univ. of Pittsburgh v. Varian Med. Sys., 2012 WL 1436569, at *11 (W.D. Pa. Apr. 25, 2012) (finding that "no changed circumstances exist which would warrant a higher ongoing royalty rate than that set by the jury"; jury was "instructed to assume that [patent-in-suit] was valid and was being infringed… all that has occurred since the damages portion of the trial is that the jury and/or the Court confirmed what the jury was to assume for that portion of the trial."),

  - Carnegie Mellon Univ. v. Marvell Tech. Grp., 2014 WL 1320154, at *38 (W.D. Pa. Mar. 31, 2014) (finding that in hypothetical negotiation, patentee would be "largely satisfied with the exceptional returns on its minimal financial investments in the[] patents" and would accept the pre-judgment royalty rate for post-judgments sales; no enhancement granted)

5. Willfulness

- Some scholars contend that post-judgment infringement shouldn't trigger higher royalty rate, even if "willful."

  - Mark A. Lemley, The Ongoing Confusion Over Ongoing Royalties, 76 Missouri L. Rev. 695, 702 (2011) ("If a court has decided that the defendant should be allowed to continue to sell the infringing product . . . it seems odd to then punish the defendant from doing the very thing the court just permitted.").

5. Willfulness

Possible reasons for enhancement:

- Deterrence
- Incentive to settle
  - See Affinity Labs, 783 F. Supp. 2d at 898 ("The private benefit of a patent to its owner is directly related to the protection it offers, i.e. the disincentives to infringement it provides. Without the risk of a post-judgment enhancement, a defendant would be encouraged to bitterly contest every claim of patent infringement, because in the end, only a reasonable royalty would be imposed and there would essentially be no downside to losing.")

Thank you!

Coding for Patentee Status

Bold underline classified as PAE:

- University
- **Individual inventor**
- **Large patent aggregator**
- **Failed operating or start-up company**
- **Patent holding company (LLC)**
- Operating company
- IP holding company owned by operating company
- **Technology development company**

From Cotropia, Kesan & Schwartz, Unpacking Patent Assertion Entities, 99 Minn. L. Rev. 649, 666-70 (2014)

Irreparable Harm Findings

(Pharma Excluded)