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Jury Deliberation of Evidence for Future Damages in Patent Cases. Ripple Effect of 2006 U.S. Supreme Court Decision.

Permanent injunctions against patent infringers are no longer considered a matter of course but are being analyzed according to the 2006 U.S. Supreme Court decision entitled *eBay Inc. v. MercExchange*, 547 U.S. 388. When a patent owner cannot satisfy the *eBay* four-factor test, courts are awarding future damages in lieu of a permanent injunction. Applying the *eBay* four-factor test, a patent owner must demonstrate:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

Id. In the last year the Federal Circuit has remanded a number of the cases back to district courts to explain their reasons for future patent damages. In turn, the district courts are requesting that the parties provide evidence of a reasonable ongoing royalty rate. As a result, if the district court decides a permanent injunction is not warranted, this evidence will arm the district court with facts to support a clear explanation of its reasons for the ordered future damage award.

For example, in *Paice LLC v. Toyota Motor Corp.*, the district court, upon finding patent infringement, decided a permanent injunction was not warranted and instead imposed an ongoing royalty for future damages. However, the ongoing royalty rate was ordered without explanation of the reasons for establishing the rate. On appeal, the Federal Circuit held that the district court was within its

discretion to award an ongoing royalty *sua sponte*, but remanded the case suggesting the district court take additional evidence so the district court could "reevaluate the ongoing royalty rate," and provide a concise but clear explanation of its reasons for the fee award. 504 F.3d 1293 (Fed. Cir. 2007). As a practical matter, in dicta, the Federal Circuit also stated:

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 the 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.

Since a district court can, in effect, force a patent owner to license their invention after a finding of infringement by refusing to issue an injunction, both the patent owner and the infringing party should be prepared to negotiate a license. In addition, both the patent owner and the infringing party should be prepared to provide evidence for a desired ongoing royalty rate during trial.

In another patent infringement case, a district court, applying pre-*eBay* Federal Circuit law (i.e., case must have been "exceptional" to justify the denial of a permanent injunction), found that the patent owner warranted an injunction, but the injunction was stayed pending the appeal. The district court then dissolved the permanent injunction in light of *eBay*. It calculated the future damages by trebling the reasonable royalty the jury awarded for the past infringing conduct, as is allowed for willful infringement. On appeal, the Federal Circuit, while finding that the district court was within its discretion to award future damages, again remanded the case to the district court on the issue of whether the amount of the future damages was appropriate. *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008). The Federal Circuit found that willfulness is not the proper inquiry when the infringement is permitted by a court-ordered stay. The Federal Circuit did provide further guidance on why post-verdict royalties as future damages could be higher than pre-verdict royalties awarded for past infringing acts:

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.

Id. While the Federal Circuit distinguished the above *Paice* case, decided four months earlier where the injunction was not warranted, from the present *Amado* case where the enjoined infringing activity was permitted to continue by a court-ordered stay, the 2008 *Amado* case echoed the 2007 *Paice* case that "it is important for the district court to provide a concise but clear explanation of its reasons for a fee award". Therefore, the Federal Circuit has confirmed that all parties should now be prepared to offer evidence during trial to establish its desired royalty rate for future damages.

The U.S. District Courts in the Eastern District of Texas have responded to *eBay* and its above progeny. In the last couple of months, U.S. District Judge Ron Clark, acknowledging that fewer injunctions are being awarded in patent infringement suits, has notified counsel in pending patent cases that juries will assess future damages in the damage phase of the case. Having the juries hear the damage testimony in the damage phase will hopefully avoid the lawyers preparing, and the court hearing, damage testimony twice (pre- and post-verdict) and patent cases will be resolved more efficiently. In summary, if a license cannot be negotiated, all parties involved in patent cases should now provide evidence, including expert witness testimony, of the desired ongoing royalty rate during the damage phase in case an injunction is denied.

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