

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA**

Case No. 14-cv-62369-BLOOM/Valle

ARCTIC CAT INC.,

Plaintiff,

v.

BOMBARDIER RECREATIONAL
PRODUCTS, INC., and BRP U.S. INC.,

Defendants.

ORDER AWARDING ONGOING ROYALTY AND PREJUDGMENT INTEREST

THIS CAUSE is before the Court upon the parties' Report of Mediation, ECF No. [257] ("Report"), filed on December 6, 2016, which informs the Court that Plaintiff Arctic Cat, Inc. ("Arctic Cat") and Defendants Bombardier Recreational Products, Inc. and BRP U.S. Inc., (together, "BRP") were unable to agree to the amount of an ongoing royalty rate in this case. Therefore, in accordance with the previous orders in this case and the applicable law, it falls to the Court to determine an appropriate ongoing royalty rate.

Background

This case has a long and recently convoluted history. After prevailing at trial, Arctic Cat filed Post-Trial Motions for (A) Accounting of Supplemental Damages; (B) Post-Judgment Ongoing Royalty; and (C) Periodic Accounting Through Expiration of the '545 Patent-in-Suit, ECF No. [160] ("Motion"). After full briefing by the parties, the Court entered an order finding that Arctic Cat is entitled to supplemental damages, and awarding \$1,491,385 to Arctic Cat. *See* ECF No. [211] ("Order") at 13-14. The Court also determined that, based on BRP's concession

that it continues to manufacture and sell infringing PWCs, Arctic Cat is entitled to an ongoing royalty, and that the reasonable royalty rate for past damages determined by the jury—\$102.54 per infringing unit—would set the floor for the parties’ negotiations of such a rate. *Id.* at 15-16. Accordingly, the Court ordered the parties to negotiate the terms for future use of the infringing PWCs, and to attempt to agree upon an appropriate ongoing royalty rate. *Id.* at 17.¹ In the interim, BRP filed a notice of appeal of the Final Judgment, ECF No. [217], which the Federal Circuit ultimately dismissed as premature. ECF No. [248]. This Court then concluded that it must determine the amount of prejudgment interest to which Arctic Cat is entitled before the judgment in this matter is final and appealable. *See Extreme Networks, Inc. v Enterasys Networks, Inc.*, 395 F. App’x 709, 712 (Fed. Cir. 2010) (“[C]ourts should calculate prejudgment interest before determining the amount of damages that would fully compensate the patentee for the infringer’s use of the patented invention.”). Because the parties have addressed the issues of ongoing royalty and prejudgment interest in their previous filings, the Court will consider each in turn, and enter an amended final judgment separately.

Ongoing Royalty

“A damages award for pre-verdict sales of the infringing product does not fully compensate the patentee because it fails to account for post-verdict sales” *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 582 F.3d 1288, 1303 (Fed. Cir. 2009). In determining an appropriate amount of an ongoing royalty, the Court should “take into account the change in the parties’ bargaining positions, and the resulting change in economic circumstances, resulting from the determination of liability.” *ActiveVideo Networks, Inc. v. Verizon Commc’ns., Inc.*, 694 F.3d 1312, 1343 (Fed. Cir. 2012) (quoting *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 (Fed. Cir.

¹ As indicated in their Report, the parties have been unable to do so.

2008)) (internal quotations omitted). Ongoing royalties are determined based on the assumption that the parties engage in post-verdict negotiation, with the jury's damages award as a starting point:

Because the Court is using the jury's determination of a . . . royalty rate . . . as a starting point, the Court focuses on any new evidence that was not before the jury and additionally any changed circumstances (other than willfulness) between a hypothetical negotiation that occurred [when infringement began] (which the jury determined) and a hypothetical negotiation that would occur . . . after the judgment (which this Court is determining).

Mondis Tech. Ltd. v. Chimei InnoLux Corp., 822 F. Supp. 2d 639, 647 (E.D. Tex. 2011), *aff'd sub nom. Mondis Tech Ltd. v. InnoLux Corp.*, 530 F. App'x 959 (Fed. Cir. 2013).

The Court has already established that the jury's reasonable rate for past damages sets the floor for the determination of an ongoing royalty rate. Therefore, the ultimate rate set by the Court will necessarily be equal to, or exceed the rate for past damages. Arctic Cat argues for an enhanced rate twice the amount of \$102.54 determined by the jury, or \$205.08. BRP maintains that the jury rate should not be increased. The Court's analysis begins with a consideration of the applicable *Georgia-Pacific* factors.² *See Rite-Hite Corp v. Kelley Co., Inc.*, 56 F.3d 1538,

² *Georgia-Pacific* factors: "1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty. 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit. 3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold. 4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly. 5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter. 6. The effect of selling the patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales. 7. The duration of the patent and the term of the license. 8. The established profitability of the product made under the patent; its commercial success; and its current popularity. 9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results. 10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention. 11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use. 12. The portion of the

(Fed Cir. 1995) (approving application of *Georgia-Pacific* factors in determining ongoing royalty rate); *see also Apple Inc. v. Samsung Elecs. Co.*, No. 12-CV-00630-LHK, 2014 WL 6687122, at *4 (N.D. Cal. Nov. 25, 2014) (“Courts have used the *Georgia-Pacific* factors to evaluate a post-verdict hypothetical negotiation for ongoing royalties.”).

Arctic Cat argues that taking into account the relevant factors, the ongoing royalty rate should be at least equivalent to the amount of profit BRP derives from the infringing PWCs, which it calculates to be \$205.08 per infringing unit. BRP counters that the rate determined by the jury is appropriate and that, in any event, an ongoing willful infringer should still be able to derive a profit from post-judgment infringing sales. The Court does not find BRP’s first argument to be well-taken, principally because of the change in the parties’ relative bargaining positions following the jury verdict. “[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 LLC v. Toyota Motor Corp. (Paice II)*, 504 F.3d 1293, 1317 (Fed. Cir. 2007) (Rader, J., concurring). Significantly, “[p]rior 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.”

profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions. 13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer. 14. The opinion testimony of qualified experts. 15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee – who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention – would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.” *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

Amado, 517 F.3d at 1362.³ In this case, Arctic Cat’s bargaining position is significantly different, precisely because the jury determined validity and infringement. Therefore, BRP continues to willfully infringe the ‘545 patent. *See Paice III*, 609 F. Supp. 2d at 626 (“Toyota never considers the fact that its continued infringement is willful and that a new lawsuit by Paice would likely result in treble damages and could potentially be considered an exceptional case.”). Here, as in *Paice III*, the “systematic flaw” in BRP’s contention that the jury rate is appropriate is the failure to consider that validity and infringement have now been determined. *See id.*

Arctic Cat argues that, in addition to a better bargaining position (*Georgia-Pacific* factor 5), the royalty awarded of \$307.62 per infringing unit (taking into account the Court’s trebling for willfulness of the jury’s rate) (*Georgia-Pacific* factors and 11), the commercial success of its throttle reapplication device (*Georgia-Pacific* factor 8), the fact that BRP does not utilize its non-infringing alternative (*Georgia-Pacific* factor 9), and BRP’s use of the infringing system has enhanced BRP’s reputation (*Georgia-Pacific* factor 8) weigh heavily in favor of awarding an ongoing royalty rate higher than the rate determined by the jury. In response, BRP argues that only three years remain on the ‘545 patent (*Georgia-Pacific* factor 7), and Arctic Cat has abandoned efforts to license its patents (*Georgia-Pacific* factor 4). Upon an evaluation of the relevant *Georgia-Pacific* factors and the arguments of the parties, the Court determines that Arctic Cat is indeed entitled to an ongoing royalty amount higher than the jury rate. *See Affinity Labs of Tex., LLC v. BMW No. Am., LLC*, 783 F. Supp. 2d 891, 898 (E.D. Tex. 2011) (“Without the risk of a post-judgment enhancement, a defendant would be encouraged to bitterly contest

³ BRP notes in a footnote that “the court in *Amado* distinguished the case from one for ongoing infringement under circumstances in which an injunction was not warranted.” Response at 8 n.6 (internal quotations omitted). However, this is a distinction without a difference, and is an argument that has been explicitly rejected by at least one court. *See Paice LLC v. Toyota Motor Corp.* (*Paice III*), 609 F. Supp. 2d 620, 626 (E.D. Tex. 2009).

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.”).

Furthermore, BRP’s argument that Arctic Cat’s proposed rate would foreclose BRP from making any profit is unpersuasive. BRP argues, relying on *Paice III*, that the ongoing royalty rate must allow the ongoing infringer to make a reasonable profit. Response at 175. The Court disagrees. In fact, *Paice III* supports the proposition that BRP sets prices for its products, including those that incorporate the infringing features, and therefore is in a position to pass any potential increased cost along to the consumer. 609 F. Supp. 2d at 627-28 (“However, Toyota controls its pricing as well as its conduct; if Toyota’s hybrid vehicles are no longer profitable, it can choose to cease its infringing conduct or simply pass increased production and material costs along to the consumer.”). The purpose of an ongoing royalty is precisely to reduce the incentive to infringe. See *Affinity Labs of Tex., LLC*, 783 F. Supp. 2d at 901 (“Of course, it is not possible to precisely calculate an exact amount that reduces the defendant’s profit motive to infringe and serves to deter infringing conduct in general.”). Therefore, in consideration of the applicable *Georgia-Pacific* factors, the Court determines that Arctic Cat’s requested ongoing royalty rate of \$205.08 per infringing unit is reasonable.

Arctic Cat argues that the higher ongoing royalty amount is also proper following the application of the factors set forth in *Read v. Portec*, 970 F.2d 816, 827 (Fed. Cir. 1992). In response, BRP argues that Arctic Cat’s reliance on *Read* is misplaced because *Read* sets forth factors to be considered for willfulness enhancement of damages under 35 U.S.C. § 284. ECF No. [175] (“Response”) at 10 n.7. While the Court does not read the relevant case law to require an application of the *Read* factors, there is little indication that doing so is improper or misplaced, especially because BRP’s post-judgment infringement of the ‘545 patent continues to

be willful.⁴ See, e.g. *Affinity Labs of Tex., LLC*, 783 F. Supp. 2d at 902 (E.D. Tex. 2011) (considering the *Read* factors in determining whether to enhance ongoing royalty); *Mondis Tech. Ltd.*, 822 F. Supp. 2d at 652-53 (same). A consideration of the applicable *Read* factors also supports Arctic Cat's requested rate of \$205.08, especially with respect to factors 2 (good-faith belief of invalidity and non-infringement) and 4 (litigation behavior). Following the jury verdict and a determination that BRP's infringement was willful, BRP cannot have a good-faith belief of the invalidity of the patent-in-suit. Furthermore, BRP unconvincingly dismisses Arctic Cat's specific assertions that the verdict has been referred to as "unfounded" and "baseless" on several occasions in BRP's fiscal year 2017 first quarter results, and by corporate representatives, including BRP's president and CEO, Jose Boisjoli, to the Montreal Gazette, and BRP's spokeswoman, Valérie Bridger, to the Financial Post. Regardless of BRP's opinions regarding the likelihood of success on appeal, such actions in fact demonstrate a lack of proper respect for the Court, the jury, and the U.S. patent system. See *Mondis Tech. Ltd.*, 822 F. Supp. 2d at 653.

Prejudgment Interest

The Court already determined that Arctic Cat did not unreasonably delay proceedings in this matter and that BRP was not materially prejudiced, such that the propriety of an award of prejudgment interest would be in question in this case. See ECF No. [148] at 17-21. In general, "[p]rejudgment interest should ordinarily be awarded." *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983). "[A]n award of prejudgment interest serves to make the patent owner whole, for damages properly include the foregone use of money of which the patentee was wrongfully deprived." *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996)

⁴ The *Read* factors include: (1) deliberate copying; (2) investigation of the patent and good-faith belief of invalidity or non-infringement; (3) litigation behavior; (4) size and financial condition; (5) closeness of the case; (6) duration of misconduct; (7) remedial action; (8) motivation for harm; and, (9) attempts to conceal misconduct. *Read Corp.*, 970 F.2d at 827.

(citing *Gen. Motors Corp.*, 461 U.S. at 655-56). Determining the amount of prejudgment interest lies within the sound discretion of the Court. *Bio-Rad Labs., Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 967 (Fed. Cir. 1986). *See also Powell v. Home Depot U.S.A., Inc.*, 715 F. Supp. 2d 1285, 1300 (S.D. Fla. 2010) (“The interest rate used to calculate prejudgment interest and the frequency of compounding is left to the sound discretion of the district court.”) (citing *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed. Cir. 1991)). Arctic Cat argues that the Court should apply Florida’s statutory interest rate in calculating the amount of prejudgment interest; while BRP argues that the federal post-judgment interest rate set forth in 28 U.S.C. § 1961 (“T-bill rate”), or 0.45%, should apply. It bears noting that the parties, through the affidavits of their respective damages experts, agree that the amount of damages involved is \$16,061,675. *See* ECF Nos. [162-3], [177-2]. However, even though Arctic Cat represents that it is seeking only a simple interest rate, an examination of its expert’s calculations reveals that in fact the interest calculations have been compounded on a monthly basis using the historical statutory interest rate, which varied from 4.75% to 8%. *See* ECF No. [162-1].

The Court finds that the most equitable outcome lies in the middle. Because this case does not depend on Florida law, the Court is not convinced that the Florida interest rate should apply. In fact, applying the Florida interest rate simply because this litigation occurred in Florida would encourage forum-shopping by patent litigants hoping to take advantage of states with high interest rates on judgments. Likewise, the Court finds that the current T-bill rate proposed by BRP is too low, and that such an amount would not adequately compensate Arctic Cat. Alternatively, Arctic Cat urges the Court to apply the prime rate, which is currently 3.5%. Arctic Cat has provided data to show that the interest rate on its borrowings for fiscal years 2009 to 2016 was between 3.5%-5.75%. While the Court appreciates that Arctic Cat should have had the

benefit of royalty payments during this time, the information provided by Arctic Cat does not reflect that the debt it incurred during this time period was connected in any way to BRP's infringement. *See Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 955 (Fed. Cir. 1997) ("The district court found that there was no evidence that Laitram borrowed money at a higher rate, what that rate was, or that there was a causal connection between any borrowing and the loss of the use of the money awarded as a result of NEC's infringement."). Furthermore, Arctic Cat does not dispute that it has been out of the business of selling PWCs since 1999. Therefore, the Court finds that the prime rate would not be appropriate in this case.

As the court in *Powell*, this Court determines that the T-bill rate on the date of issuance of the '545 patent in September, 2004, or 2.14%, is appropriate in this case. *See Powell*, 715 F. Supp. 2d at 1300. Furthermore, the Court believes that in order to fully compensate Arctic Cat, that rate should be compounded monthly. *See id.* (compounding interest on prejudgment amount monthly). As a result, Arctic Cat is entitled to a total of \$894,717.00 in prejudgment interest. *See* ECF No. [177-2] at 3-4.

Conclusion

For the foregoing reasons, it is **ORDERED AND ADJUDGED** that Arctic Cat shall be entitled to an **ongoing royalty rate of \$205.08 per infringing unit** from the date of Final Judgment, June 14, 2016, through the expiration of the '545 patent, and **prejudgment interest in the amount of \$894,717.00**. The Court will enter an amended final judgment by separate order.

DONE AND ORDERED in Miami, Florida, this 3rd day of January, 2017.



BETH BLOOM
UNITED STATES DISTRICT JUDGE

Copies to: Counsel of Record