IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

KANEKA CORPORATION,	§	
	§	
Plaintiff,	§	
v.	§	3:10-cv-01430-P
	§	
JBS HAIR, INC., et al.,	§	
	§	
Defendants.	§	

ORDER

Now before the Court is Kaneka Corporation's ("Kaneka") Motion for Entry of Judgment filed on July 26, 2013. (Doc. 315) UNO & Company, Ltd. ("UNO"), JBS Hair, Inc. ("JBS"), and Jinny Beauty Supply Company, Inc. ("Jinny") (collectively "Defendants") filed a Response and a Cross Motion to Stay on August 16, 2013. (Doc. 322) Kaneka filed a Reply on August 30, 2013. (Doc. 334) After reviewing the parties' briefings, the evidence, and the applicable law, the Court GRANTS Kaneka's Motion for Entry of Judgment and DENIES Defendants' Cross Motion to Stay.

I. Background

On July 20, 2010, and as amended, Kaneka sued Defendants for infringing multiple claims under two patents. First, U.S. Patent No. 7,759,429 (the "'429 Patent") claims an artificial fiber made from, *inter alia*, polyester and brominated epoxy flame retardant. U.S. Patent No. 7,759,429 col.1 ll.17-33 (filed July 25, 2004) (issued July 20, 2010). Second, U.S. Patent No. 7,759,430 (the "'430 Patent") is a continuation-in-part of the '429 Patent and claims a fiber made from, *inter alia*, a certain amount of human hair as well as polyester and brominated epoxy flame retardant. U.S. Patent No. 7,759,430 col.29 l.14-col.30 l.2 (filed February 2, 2006) (issued July 20, 2010). Defendants asserted various defenses/counterclaims including, *inter alia*, unenforceability due to inequitable conduct and invalidity due to obviousness.

Trial before a jury began on June 17, 2013. The parties agreed to try only the first claims under both patents, while still allowing Defendants to argue certain defenses. (*See* Doc. 298) This stipulation was entered on June 19, 2013.

At the close of evidence and outside the presence of the jury, on June 26, 2013, the parties offered oral motions for judgment as a matter of law. After reviewing the evidence admitted at trial in conjunction with the testimony offered and arguments presented, on June 27, 2013, the Court made an oral ruling on the record against Defendants' inequitable conduct defense.[1] The following day, the jury returned a verdict in favor of Kaneka, finding that Defendants had infringed the patents-in-suit and both patents were *not* invalid for lack of written description or obviousness. (*See* Doc. 313) The jury found that Kaneka suffered $5.5 million in lost profits attributable to UNO's conduct. (*Id.* at 44) The jury also found that Kaneka was entitled to a royalty rate of 10% against each defendant's infringing sales. Although assigning a rate, the principal dollar amount remained blank on the form for all defendants—UNO, JBS, and Jinny. (*Id.* at 49) After the verdict, the Court entered an order withholding final judgment pending the resolution of royalty damages. (*See* Doc. 314)

Kaneka now moves for entry of final judgment and Defendants move to stay.

[1] As early as the pretrial conference, the Court was uncommitted and reserved the option to refuse an advisory jury instruction on the issue of inequitable conduct. The Court continued this position throughout trial and reminded the parties that this issue may not be available to the jury at the close of evidence. Although the Court initially indicated that it may consider submitting the question of inequitable conduct to the jury in an advisory capacity, the Court ultimately decided to take up the issue without assistance. *See Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1190 (Fed. Cir. 1993) ("The defense of inequitable conduct in a patent suit, being entirely equitable in nature, is not an issue for a jury to decide."). As such, the jury never received instructions on inequitable conduct. *See Hebert v. Lisle Corp.*, 99 F.3d 1109, 1114 (Fed. Cir. 1996) ("Absent a clear showing of prejudice, or failure to achieve a fair trial, the district court's choice of procedure [for how to determine inequitable conduct] will not be disturbed."). The Court subsequently issued findings and conclusions on the issue.

II. Motion Entry of Final Judgment

Kaneka asserts that it is entitled to: (1) an award of royalty damages as well as accounting for evidence unavailable to the jury; (2) pre-judgment interest; and (3) post-judgment interest.

a. Royalty-Based Damages and Accounting

First, Kaneka argues that it is entitled to royalties for any period of infringement not covered by the jury verdict for lost profits and an accounting for supplemental damages stemming from any infringing sales made during the period of January 1, 2013 through entry of judgment. (Doc. 315-1, pp. 2-6) Kaneka's damages expert testified at trial that his calculations for lost profits attributable to infringing sales ran as a timeline from issuance through his deposition in September 2012. Accordingly, this sales period covered July 20, 2010 through August 31, 2012. (*Id.* at 3) At trial, he stated that the final four months of sales could be calculated using the first eight months. Kaneka asserts that, based on the information that the expert relied on, the final four months of infringing sales for 2012 are estimated to be $3.45 million. (*Id.* at 4) Applying a 10% royalty rate, Kaneka would be entitled to $345,000.00 for those sales. (*Id.*) Further, Kaneka contends that it is entitled to $58,000.00 in royalties against JBS and Jinny jointly and severally because Defendants' damages expert testified that JBS realized $580,000.00 in infringing sales from July 20, 2010 through December 31, 2012. (*Id.*) Finally, Kaneka seeks an accounting of infringing sales during 2013 against UNO, JBS, and Jinny to reflect the appropriate period of infringement. (*Id.* at 5-6)

Defendants counter that Kaneka is only entitled to damages proven at trial. (Doc. 323, pp. 5-14) Defendants argue that the Court never instructed the jury to limit damages to a certain time period and the parties never stipulated to such a limitation. Although Kaneka's expert mentioned that damages could be further extrapolated from the last four months of 2012 and into

2013, Kaneka never called that witness back to testify on this matter and declined to ask the jury to perform its own calculations. As such, Kaneka is not entitled to pre-verdict damages not awarded by the jury. (*Id.* at 6-11) Defendants further assert that it would be "manifestly improper" to award supplemental damages because a simple accounting is not possible under these circumstances. (*Id.* at 11-13) Defendants again challenge the admissibility and reliability of PTX 115 notwithstanding that the Court ruled in favor of its admissibility at least three times during trial. (*Id.* at 11-12) With respect to PTX 115, "Kaneka's requested supplemental damages for the last four months in 2012 totaling $345,000 requires a fact determination, but is devoid of factual support." (*Id.* at 12) In addition, the calculations for 2013 would involve "guesswork" for the "ever changing" market of artificial fiber. (*Id.* at 12-13) Finally, Defendants contend that the Court should find that JBS and Jinny "owe Kaneka no money damages, either jointly or severally." (*Id.* at 13-14)

A patentee is entitled to damages for infringement "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 (2012). The burden of proving damages falls on the patentee. *See Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381 (Fed. Cir. 2003). A patentee may recover infringement compensation in the form of lost profits or reasonable royalties that the patentee would have received through arms-length bargaining. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009). To ascertain a reasonable royalty, "a court must ask, '[H]ad the Infringer not infringed, what would [the] Patent Holder[ ] have made?'" *Lucent*, 580 F.3d at 1324 (alterations in original) (quoting *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964)). "A reasonable royalty can be calculated from an established royalty, the infringer's profit projections for infringing sales, or a hypothetical negotiation between the patentee and infringer based on the factors in *Georgia-Pacific*." *Wordtech Sys. Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1319 (Fed. Cir. 2010) (citing *Lucent*, 580 F.3d at 1324).

"District courts have discretion to award damages for periods of infringement not considered by the jury." *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 38 (Fed. Cir. 2012) (citations omitted) ("On remand, the trial court shall give due consideration to any request for an accounting following a new damages verdict."). In fact, "when damages are not found by a jury, the court *shall* assess them." 35 U.S.C. § 284 (emphasis added). Although not expressly authorized by statute, courts generally endorse post-trial accounting to supplement damages calculations under certain situations. *See WesternGeco L.L.C. v. ION Geophysical Corp.*, No. 4:09-cv-1827, 2013 U.S. Dist. LEXIS 85952, at *62 (S.D. Tex. June 19, 2013) (noting in a case where information was affirmatively withheld: "The Court finds that WesternGeco is entitled to supplemental damages for ION's sales since May 2011") (citing *Stryker Corp. v. Davol, Inc.*, 234 F.3d 1252 (Fed. Cir. 2000) (affirming the district court's decision that a court may award a successful patentee supplemental damages to compensate for any infringement occurring between the date of the jury's verdict and the date of the judgment)). Regarding the efficacy and soundness of jury instructions, according to the Federal Circuit, "[d]istrict courts have broad discretion to interpret an ambiguous verdict form, because district courts witness and participate directly in the jury trial process." *Telcordia Techs., Inc. v. Cisco Sys.*, 612 F.3d 1365, 1378 (Fed. Cir. 2010) ("In any event, this court holds that the district court's finding that the jury's verdict compensates Telcordia only for past infringement is not clearly erroneous. In the circumstances of this case, this court finds that the district court did not abuse its discretion in interpreting the verdict form.").

Considering the record and arguments presented, the Court determines that Kaneka is entitled to $345,000 in royalties against UNO, $58,000 in royalties against JBS, and accounting for additional damages against all three defendants for infringing sales transactions during the year 2013. At closing, Kaneka's counsel affirmatively argued that Kaneka is entitled to $5.5 million in lost profits against UNO based on expert testimony *and* royalties against all defendants "going forward." Kaneka's expert grounded his calculations on various documents to include the admissible PTX 115 and gave a lost profits estimate from July 2010 through August 2012. He further indicated that he could extrapolate the remaining four months in 2012 from the previous months. Defendants' Response does not dispute that this four-month extrapolated figure is roughly $3.45 million in infringing sales. Next, Defendants' expert testified that JBS (and only JBS) sold $580,000 of infringing products. Again, Defendants do not contest this. Moreover, Kaneka closed with a royalty rate of 15%, while Defendants requested a rate of 5%.

With these preliminaries established, on the jury charge, the Court offered the following instruction: "If you find that Kaneka has not proved its claim for lost profits, or has proved its claim for lost profits for *only a portion of the infringing sales*, then you *must* award Kaneka a reasonable royalty for *all infringing sales for which it has not been awarded lost profits* damages.[2] (Doc. 313, p. 45 (emphasis added)) The Court then posed the following question:

> For those infringing sales for which you did not award Kaneka's lost profits, what amount of reasonable royalty has Kaneka proven it is more likely than not entitled to?
>
> UNO: $____________ Rate: _________%
> JBS Hair: $____________ Rate: _________%
> Jinny Beauty Supply: $____________ Rate: _________%

[2] This instruction is almost verbatim from page 69 of the Federal Circuit's 2012 Model Patent Jury Instructions.

(*Id.* at 49) The parties did not challenge these instructions at trial. Following a response to a jury question where the Court advised the jurors that "the base figure is a number that you will need to decide from the evidence before you," the jury wrote in "10 %" against all defendants without filling in a dollar amount. (Doc. 311, p. 2; Doc. 313, p. 49)

Read together, the jury instructions make clear that any award of royalties was in addition to lost profits. Therefore, Defendants' argument that $5.5 million represents the entirety of the damages verdict is unavailing. *See WesternGeco L.L.C.*, 2013 U.S. Dist. LEXIS 85952, at *56 ("ION claims the jury was instructed in such a way that they could award both a reasonable royalty and lost profits for the same acts of infringement. However, the jury instructions were clearly worded to avoid double counting."). Additionally, placing both sets of instructions together, there was no indication that the jury sought to limit Kaneka to recovery only through September 2012 or that sales outside the $5.5 million in lost profits during this time period was not contemplated when answering the question. In fact, just the opposite is true. *See Summit 6 LLC v. Research in Motion Corp.*, No. 3:11-cv-367-O, 2013 U.S. Dist. LEXIS 95164, at *56 (N.D. Tex. June 26, 2013) ("On the line below this question, the foreman wrote '15,000,000.00 -> $15 MILLION' and underneath the blank line added 'LUMP SUM.' The Court finds that this is an express statement in the verdict that this is award is for a lump sum license." (internal citation omitted)).

Given the plain language of the instructions with the evidence presented at trial and arguments offered, the jury sought to award Kaneka a 10% royalty for infringing sales made by UNO, JBS, and Jinny for those specific losses not recoverable as lost profits. The evidence available at trial ran through the first eight months of 2012 for UNO (coupled with an extrapolation for the last four months) and through the end of 2012 for JBS. As the sole lost profits award was affirmatively argued and derived from the calculations by Kaneka's expert through a certain period, the Court effectively is able to discern sales not awarded as lost profits through 2012 for all defendants.[3]

Although the evidence at trial was sufficient to calculate royalties through 2012 against both UNO and JBS, an accounting is necessary to determine the royalties going forward from January 1, 2013 through entry of judgment. While Kaneka failed to present affirmative calculations to reflect the actual amount of infringing sales during 2013 and declined to bring back its damages expert for additional testimony, Defendants likewise could not convince the jury that Kaneka was entitled to a *lesser* royalty recovery or *no* royalty recovery at all. Indeed, the jury affirmatively annotated that each defendant should bear a reasonable royalty cost of 10% for all infringing sales *through trial*. Though hesitant to enter final judgment with the issue of accounting through 2013 still open, the Court is at a loss for how to approximate the amounts necessary to effectuate the jury's verdict awarding 10% royalties for infringing sales not captured in the lost profits calculation.

Taking full stock of the record, an accounting is the Court's only option to complete the damages award given the market uncertainties year-to-year as portrayed by the parties. *See Mikohn Gaming Corp. v. Acres Gaming, Inc.*, No. CV-S-98-1462-EJW (LRL), 2001 U.S. Dist. LEXIS 23416, at *63 (D. Nev. Aug. 1, 2001) ("To deny the Motion for an Accounting would be to allow Mikohn to evade its obligation to pay damages for the remainder of the period of

[3] To the extent that Kaneka argues that both JBS and Jinny should be held jointly and severally liable as one entity, there is no evidence to compel such a ruling. Common ownership and control is not enough by itself to hold one separate legal entity accountable for the others' actions. Kaneka seemingly does not dispute that $580,000 encapsulates the sales otherwise attributable to these entities. (Doc. 315-1, p. 4) As such, the evidence directed at JBS through 2012 is the appropriate measure of infringing sales to base royalty calculations. Nevertheless, the issue of infringing sales through 2013 is still open for *both* JBS and Jinny. The infringing sales during this time period must be connected to each individual entity for compensatory liability to attach.

infringement and would contradict the patent law's purpose of compensating patent holders for the damage suffered due to infringement."). The jury clearly found that Kaneka was entitled to 10% royalties for whatever amount of infringing sales were not awarded as lost profits. Final judgment damages necessarily can be rendered through 2012 with a supplement to follow for 2013. *See Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1303 (Fed. Cir. 2009) (holding that "the district court was within its discretion to impose a royalty on [post-verdict sales not considered by the jury] in order to fully compensate" the patentee).

In sum, Kaneka is entitled to $345,000 in royalties against UNO through 2012, $58,000 in royalties against JBS through 2012, and an accounting for additional damages from infringing sales made by UNO, JBS, and Jinny from January 1, 2013 through the date of this Order.

b. Pre-Judgment Interest

Second, Kaneka claims that it is entitled to pre-judgment interest as a successful patent holder in a patent infringement action. (Doc. 315-1, pp. 6-8) Kaneka requests pre-judgment interest assessed at the prime rate during the period of infringement from July 20, 2010 through entry of judgment, compounded quarterly. (*Id.* at 7-8)

Defendants generally dispute an award of pre-judgment interest as it would create a windfall and be tantamount to punishment. (Doc. 323, pp. 14-15) Failing this, the proper measure of prejudgment interest should be the 52-week U.S. Treasury Bill rate because there is no evidence that Kaneka borrowed money to cover losses at a higher rate, much less the prime rate. (*Id.* at 15-16) In the alternative, Defendants argue that the Japanese prime rate should apply. (*Id.* at 17) Finally, under all scenarios, the interest should be compounded annually. (*Id.* at 17-18)

In patent infringement cases, "prejudgment interest should be awarded under § 284 absent some justification for withholding such an award." *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657 (1983). "A trial court is afforded wide latitude in the selection of interest rates, and may award interest at or above the prime rate." *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed. Cir. 1991) (affirming an award of prejudgment interest at the prime rate); *see also Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed. Cir. 1986) ("The rate of prejudgment interest and whether it should be compounded or uncompounded are matters left largely to the discretion of the district court."); *Paper Converting Mach. Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 24 (Fed. Cir. 1984); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 557, (Fed. Cir. 1984); *R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1520 (Fed. Cir. 1984); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1066 (Fed. Cir. 1983).

The Eastern District of Texas has a standard practice to award pre-judgment interest at the prime rate, compounded quarterly. *See Ericsson Inc. v. D-Link Sys.*, No. 6:10-CV-473, 2013 U.S. Dist. LEXIS 110585, at *73 (E.D. Tex. Aug. 6, 2013) ("This Court's standard practice is to award interest at the prime rate, compounded quarterly.") (citing *VirnetX Inc. v. Apple Inc.*, No. 6:10-CV-417, 2013 U.S. Dist. LEXIS 35631, at *64-65 (E.D. Tex. Feb. 26, 2013)). The Northern District of Texas has yet to establish a standard.

Having found no justification to withhold pre-judgment interest, the Court follows the reasoning and logic of the Eastern District and awards pre-judgment interest at the U.S. prime rate, compounded quarterly. Inasmuch as Defendants assert that the Japanese prime rate should apply, this argument ignores that Kaneka is a global corporation with offices in the United States. Moreover, there is no evidence to suggest that Kaneka would outwardly avoid lenders in the United States simply because it is a Japanese corporation. Such a result furthers congressional intent by placing Kaneka in the position it would have been in had a royalty agreement been achieved between entities hailing from Korea (UNO) and the United States (JBS and Jinny, Georgia corporations) and permits a suitable recovery for a successful claimant. *See Gen. Motors Corp.*, 461 U.S. at 655-56 ("In light of that purpose, we conclude that prejudgment interest should ordinarily be awarded. In the typical case an award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement. An award of interest from the time that the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the forgone use of the money between the time of infringement and the date of the judgment.").

In sum, Kaneka may recover pre-judgment interest at the U.S. prime rate, compounded quarterly.

c. Post-Judgment Interest

Finally, Kaneka argues that it is entitled to post-judgment interest as the victor in this lawsuit. (Doc. 315-1, pp. 8-9) Under § 1961, "[i]interest shall be allowed on any money judgment in a civil case recovered in a district court." 28 U.S.C. § 1961(a) (2012). As such, Kaneka may recover post-judgment interest from the date of this Order at a rate of 0.14% per annum.

III. Motion to Stay

Defendants move to stay on the basis that they "still have outstanding defenses" and their motions pursuant to Federal Rule of Civil Procedure 50(b) "will simplify issues raised in the final judgment and preserve resources in the likelihood that the judgment will change based on the Court's consideration of these motions." (Doc. 323, pp. 2-5) As for the outstanding defenses, Defendants only identify judicial shortcomings with respect to inequitable conduct and obviousness. (*See id.* at 1, 3-4)

Considering the arguments advanced by Defendants, the Court declines to stay final judgment. Defendants' points are addressed in sequence.

First, the Court has recently issued its findings and conclusions related to inequitable conduct. Therefore this issue is now moot.

Second, Defendants did not dispute submitting the question of obviousness to the jury and, even if they did, the Court makes the legal conclusion that the patents were *not* obvious. "Obviousness is a legal determination that may be submitted to a jury with proper instruction." *In re Hayes Microcomputer Products, Inc. Patent Litigation,* 982 F.2d 1527, 1539 (Fed. Cir. 1992). From the outset, Defendants did not object to this question being submitted to the jury and did not object to any imperfection contained within the question itself.[4] *See, e.g.*, *WesternGeco L.L.C. v. ION Geophysical Corp.*, No. 4:09-cv-1827, 2013 U.S. Dist. LEXIS 85952, at *18 (S.D. Tex. June 19, 2013) ("ION expressly agreed to submit the question of obviousness to the jury in the form of the special verdict form. ION has not met its burden to overturn the jury's finding of nonobviousness." (internal citation omitted)). Beyond this, the Court reviews the factual findings of the jury in conjunction with the existing record and prevailing law in the area of obviousness and determines that there is substantial evidence that the patents-in-suit were *not* obvious. Therefore, the Court makes the legal conclusion that Defendants have failed to prove their defense/counterclaim of obviousness. *See, e.g.*, *DDR*

[4] The instruction was almost verbatim from pages 42, 46-47 of the Federal Circuit's 2012 Model Patent Jury Instructions.

Holdings, LLC v. Hotels.com, L.P., No. 2:06-cv-42-JRG, 2013 U.S. Dist. LEXIS 86962, at *15-16 (E.D. Tex. June 20, 2013) ("In other words, Digital River did not meet their burden to show obviousness by clear and convincing evidence. For these reasons, the Court finds that substantial evidence supports the jury's verdict that the asserted claims are not invalid as anticipated or obvious in light of the SSS System and/or in light of the combination of the SSS System and the Tobin patent.").

Finally, the Court elects to take up the Rule 50(b) motions following entry of final judgment because Defendants cannot present a compelling reason to withhold judgment beyond the apprehension of an adverse ruling. (*See* Doc. 323, pp. 4-5) As an aside, to take up a Rule 50(b) motion before final judgment also shifts the proceedings from their typical sequence where final judgment would have been entered at the conclusion of trial saving the Court's order for supplemental briefing on the issue of royalties. Should Defendants' Rule 50(b) motions have merit, the Court is capable of adjusting fire as needed.

In short, a stay is not appropriate.

IV. Conclusion

For the foregoing reasons, the Court GRANTS Kaneka's Motion for Entry of Judgment and DENIES Defendants' Cross Motion to Stay. Kaneka is entitled to: (1) $345,000 in royalties against UNO through 2012; (2) $58,000 in royalties against JBS through 2012; and (3) an accounting for additional damages from infringing sales made by UNO, JBS, and Jinny from January 1, 2013 through the date of this Order. Pre-judgment interest is assessed at the U.S. prime rate, compounded quarterly. Post-judgment interest is set at 0.14% per annum. Each defendant bears its own pre-judgment and post-judgment interest based on the damages calculations.

IT IS SO ORDERED.

Signed this 24th day of October, 2013.

Jorge A. Solis

JORGE A. SOLIS
UNITED STATES DISTRICT JUDGE