

# IMPLEMENTING THE “ADEQUATE REMEDY AT LAW” FOR ONGOING PATENT INFRINGEMENT AFTER *EBAY V. MERCExchange*

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## I. INTRODUCTION

In 2006, the Supreme Court ruled in *eBay Inc. v. MercExchange, L.L.C.*<sup>1</sup> that when a patent owner wins an infringement suit against an infringer and the infringing acts are ongoing, the district court need not always issue a permanent injunction against those ongoing acts.<sup>2</sup> The district court should, according to the ruling, undertake a four-pronged analysis,<sup>3</sup> detailed later herein, to determine whether an injunction against the ongoing conduct is really necessary. The test is centered around whether damages—the ancient remedy at law—are viewed as adequate under the particular circumstances of the case under consideration. *eBay* had wide impact and occasioned a great deal of commentary on the bene-

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<sup>1</sup> 547 U.S. 388 (2006).

<sup>2</sup> *Id.* at 391–92 (rejecting a general rule for injunctive relief against ongoing patent infringement).

<sup>3</sup> The four prongs that a plaintiff needs to demonstrate are:

- (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.* at 391.

fits and detriments of making injunctive relief somewhat more difficult to get,<sup>4</sup> but that is not the focus of this article. Rather, the subject here is how courts should go about implementing the damages remedy if an injunction is refused. The question is important as part of the four-pronged analysis on whether an injunction should issue, for unless we know the parameters of the damages remedy, we cannot really say it is “adequate.” It comes up again, with a more concrete focus, if the injunction is refused and the court must then set about implementing the damages remedy. We have adequate precedents for implementing this remedy in cases involving ongoing civil wrongs in many contexts, but they have been overlooked somehow in the post-*eBay* world.

In the wake of the *eBay* decision, the district courts refusing permanent injunctions<sup>5</sup> against ongoing infringement have in every instance first found that an adequate damages remedy at law was indeed available.<sup>6</sup> Whether in so doing they have been aware of the characteristics and limitations of the damages re-

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<sup>4</sup> For other discussions of the *eBay* case and its impact, see, e.g., Robin M. Davis, *Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions In Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. MercExchange*, 17 CORNELL J.L. & PUB. POL'Y 431 (2008); Benjamin H. Diessel, *Trolling for Trolls: the Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions In Patent Cases Post-eBay*, 106 MICH. L. REV. 305 (2007); Benjamin Petersen, *Injunctive Relief In the Post-eBay World*, 23 BERKELEY TECH. L.J. 193 (2008); Yixin H. Tang, *The Future of Patent Enforcement After eBay v. MercExchange*, 20 HARV. J.L. & TECH. 235 (2006); Jonathan H. Urbanek, *A Post-mortem for Permanent Injunctions Against Business Method Patent Infringement In the Wake of eBay v. MercExchange*, 57 DEPAUL L. REV. 607 (2008). Other articles addressing the question of alternative remedies where injunctive relief is refused include Michael C. Brandt, *Compulsory Licenses In the Aftermath of eBay Inc. v. MercExchange, L.L.C.: the Courts' Authority to Impose Prospective Compensatory Relief for Patent Infringement*, 17 FED. CIR. B.J. 699 (2008); Bernard H. Chao, *After eBay, Inc. v. MercExchange: the Changing Landscape for Patent Remedies*, 9 MINN. J. L. SCI. & TECH. 543 (2008); Eric Keller, *Time-Varying Compulsory License: Facilitating License Negotiation for Efficient Post-Verdict Patent Infringement*, 16 TEX. INTELL. PROP. L.J. 427 (2008).

<sup>5</sup> Injunctions are now being withheld in a significant number of ongoing infringement cases. See *Post-eBay Permanent Injunction Rulings by District Courts*, PATSTATS.ORG, [http://www.patstats.org/Injunction\\_rulings\\_post-eBay\\_to\\_10-17-2010\\_post.xls](http://www.patstats.org/Injunction_rulings_post-eBay_to_10-17-2010_post.xls) (last visited Nov. 7, 2010) (indicating post-*eBay* grants of permanent injunctions in one hundred and seventeen cases and denials in thirty-nine, through Oct. 17, 2010). See also Benjamin Petersen, Note, *Injunctive Relief in the Post-eBay World*, 23 BERKELEY TECH. L.J. 193, 198 (2008). Petersen analyzes the fact patterns of thirty-three post-*eBay* district court rulings on permanent injunctions in patent cases where the patentee had prevailed on the merits and infringement was ongoing. He reports that direct competition or absence thereof seems to be the dominating factor in the decisions, with only one permanent injunction granted to a non-competing patentee and only two denials of injunctions to patentees who competed with the infringing product. *Id.*

<sup>6</sup> See Part VII (discussing cases that refuse permanent injunctions).

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medy is another matter, for what they have actually been awarding is some other form of monetary relief, styled as “compulsory license” or “ongoing royalty.” However, the patent statute provides only two principal remedies for patent infringement. Section 284 provides for damages as a matter of right,<sup>7</sup> and § 283 provides for an injunction in the equitable discretion of the court.<sup>8</sup> Despite this rather clear set of statutory remedies, the courts have steered into problematic waters, drifting into what they call “compulsory license,” a phrase previously used only to refer to punishment for a law-breaking patent owner, not a damages remedy for a successful one. The phrase is inapt because the remedy to be awarded is neither compulsory nor a license. Under this “license” thinking, the courts force plaintiffs to accept periodic payouts over time at rates set in advance by the courts. I will demonstrate herein that this approach is at odds with the patent statute’s remedies and with established law in cases of other types of unjoined ongoing torts. Ongoing unjoined infringement remains unlawful, and it cannot be made otherwise by the waving of a judicial magic wand.

Patent infringement is a tort.<sup>9</sup> Under traditional tort authorities there is a damages remedy for future wrongs, but it is lump-sum and it is not compulsory. It is normally elective with the plaintiff, who can alternatively elect to wait to recover damages for future wrongs after they occur by bringing successive actions. I will show herein that compelling an unwilling plaintiff to accept judicially preset periodic payments for future infringements is not a remedy within the power of a federal court. Further, it does not achieve the envisioned efficiencies that may have driven the current case decisions. Instead, it has placed courts in the license-drafting and license-administration businesses, a

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<sup>7</sup> 35 U.S.C. § 284 (2006) (stating courts “shall award . . . damages adequate to compensate for the infringement”).

<sup>8</sup> *Id.* § 283 (“[C]ourts . . . may grant injunctions in accordance with the principles of equity.”). There are a few other remedies, not pertinent to this discussion, which can be characterized as auxiliary, including attorney’s fees. These are allowed “in exceptional cases.” *Id.* § 285. Additionally, damages can possibly be trebled, in the court’s discretion, if the infringement is willful. *Id.* § 284 (stating “the court may increase the damages up to three times the amount found or assessed”).

<sup>9</sup> Patent infringement is a statutory tort. *See, e.g.,* *Belknap v. Schild*, 161 U.S. 10, 17 (1896) (stating that a patent infringement suit is “an action sounding in tort”); *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1365 (Fed. Cir. 2008) (“Patent infringement is a tort.”); *Med. Solutions, Inc. v. C Change Surgical L.L.C.*, 541 F.3d 1136, 1139 (Fed. Cir. 2008) (arguing that the “tort of patent infringement” occurs by making, using, offering to sell, or selling patented subject matter during the term of patent); *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 985 (Fed. Cir. 1995) (en banc) (“Patent infringement has often been described as a tort.”), *aff’d*, 517 U.S. 370 (1996).

result they would probably eschew if they had foreseen the problems associated with it.

Damages in the federal courts must be awarded in lump-sum form unless some other arrangement is provided by specific legislative authorization.<sup>10</sup> This proposition has been established across a wide spectrum of federal cases.<sup>11</sup> As Professor Dobbs in his Remedies treatise puts it, “The damages remedy is not conditional, and it is not payable periodically as loss accrues unless a statute so provides. So the damages award is traditionally made once, in a lump-sum to compensate for all the relevant injuries, past and future.”<sup>12</sup> No authorization for periodic-payout judgments is provided in the patent statute. Moreover, in the course of straying away from damages precedents and into the realm of judicially forced periodic payouts, the courts have brought about a number of difficulties for themselves, for the litigants, and for the patent system. Concededly, the advance award of so-called “ongoing royalties” paid out over time for future infringing acts has a superficial attractiveness. It allows the payments to be calculated in proportion to known volumes of infringing sales or uses, much as it would be under many forms of real licenses. However, the package of available remedies specified in the patent statute is seriously truncated by this judicial intervention. The patent owner loses the option to recover future damages as and when they occur, frustrating the mandatory damages language of the statute. She also loses the statutory opportunity to seek treble damages<sup>13</sup> due to the willfulness of post-judgment infringements. Moreover, while volume uncertainty is reduced by the ongoing royalty approach, other uncertainties intrude. It becomes unclear what the payment parameters are, for example, whether future

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<sup>10</sup> *Muensterman v. United States*, 787 F. Supp. 499, 527 (D. Md. 1992) (“In the absence of a structured settlement agreement between the parties, the Court has no alternative but to order the payment of a lump sum.”).

<sup>11</sup> These include Federal Tort Claims Act cases, *see, e.g.*, *Reilly v. United States*, 863 F.2d 149, 169 (1st Cir. 1988) (“the common law rule—to the effect that a court’s authority to award damages for personal injuries is limited to making lump-sum judgments—controls ‘unless and until Congress shall authorize a different type of award’”); *Frankel v. Heym*, 466 F.2d 1226, 1228 (3rd Cir. 1972) (“[C]ourts of law had no power at common law to enter judgment in terms other than a simple award of money damages”); a Public Vessels Act case, *see Gretchen v. United States*, 618 F.2d 177, 181 n.5 (2d Cir. 1980) (“absent specific legislative authorization, it is generally regarded as beyond the power of a court to fashion a [variable annuity type] remedy”); and an admiralty damages case, *see Stanley v. Bertram-Trojan, Inc.*, 868 F. Supp. 541, 544–45 (S.D.N.Y. 1994) (holding that a state law provision for periodic payments in judgment for personal injuries did not apply to a jury verdict in an admiralty proceeding).

<sup>12</sup> 1 DAN B. DOBBS, *LAW OF REMEDIES: DAMAGES-EQUITY-RESTITUTION* § 3.1 (2d ed. 1993).

<sup>13</sup> *See* 35 U.S.C. §§ 283–85.

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product types are covered by the court's permission, whether the payment privilege can be exercised by subsidiaries or successor corporations of the defendant, and whether significant changes in profitability will bring the parties back into court requesting higher or lower rates. In addition, courts are finding they must now resolve payment calculation disputes when they arise,<sup>14</sup> something a real license would commonly consign to arbitration. The mandatory ongoing royalty approach thus weakens the patent system as a whole, at a time when it is viewed, at least by some observers, as critical to the nation's economic wellbeing.<sup>15</sup>

In this article I shall advocate application of the traditional law remedy of damages for future patent infringements, in the manner outlined in the Restatement (Second) of Torts for ongoing torts generally, a manner fully consistent with the patent statute's set of infringement remedies. One such characteristic is that for wrongs that have not yet occurred, the remedy is normally not compulsory on the plaintiff, but is chosen at her option, the alternative being the bringing of successive actions if needed.<sup>16</sup> Another characteristic is that if damages are in fact sought in the present case for future wrongs, they are determined and awarded in a lump sum collectible in the present judgment, not dribbled out over time.<sup>17</sup> A third feature is that if the plaintiff elects to recover in the present case for future wrongs, she has a right to a jury trial to set the amount. All of

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<sup>14</sup> In at least one case involving court-set royalties, complex issues arose over the administration of the court's order. *See Broadcom Corp. v. Qualcomm Inc.*, No. SACV 05-467 JVS (RNBx), 2007 U.S. Dist LEXIS 97647, at \*36 (C.D. Cal. Dec. 31, 2007) (ordering interim royalties pending appeal). The Court of Appeals reversed in part on the merits in *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 686 (Fed. Cir. 2008), leading to a motion for partial return of royalties paid. *See* Part VII for further discussion.

<sup>15</sup> *See, e.g.*, S. JUDICIARY COMM. REP. ON PATENT LAW REFORM, S. REP. NO. 111-18, at 9 (2009) ("If the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents."); 155 CONG. REC. S 2692, 2706 (daily ed. Mar. 3, 2009) (statement of Sen. Patrick Leahy) (introducing the Patent Reform Act of 2009, and stating "ingenuity and innovation have been a cornerstone of the American economy from the time Thomas Jefferson issued the first patent to today").

<sup>16</sup> *See* Part III for further discussion. Contrary to the fears of some judges, such follow-on actions are quite rare historically. Both parties usually find an agreed monetary solution when faced with the prospect of another action, even though that action would be relatively streamlined due to preclusive impact of the first judgment.

<sup>17</sup> The Federal Circuit suggested that lump-sum damages for future harms are recoverable under § 284. *See, e.g.*, *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1385-86 (Fed. Cir. 2001) (upholding award of actual damages based on estimated lump-sum royalty payment from infringer's projected sales); *Snellman v. Ricoh Co.*, 862 F.2d 283, 289 (Fed. Cir. 1988) (upholding damages award based on infringer's projected future sales).

these characteristics, and others, have been abandoned or overlooked in the recent “compulsory license” cases, as will be discussed in detail in Part VII.

I shall advocate that in weighing the adequacy of a damages remedy, and in implementing it if an injunction is refused, courts should recognize the parameters of damages, using traditional tort damages rules as a guide, as follows:

1. The plaintiff patent owner, having prevailed in an infringement action where the court refuses a permanent injunction, should normally have the option either:
  - (a) to seek in the present action, along with damages for past infringements, a lump-sum damage award for future infringements; or
  - (b) to forego remedies for future acts of infringement until they occur, and then to bring follow-on suits seeking whatever damages then appear appropriate.
2. If the injunction was refused for reasons primarily relating to the public interest, the patent owner should be compelled to proceed under option (a) and to forego option (b).
3. Option (a) is a remedy at law, entitling the plaintiff under the Seventh Amendment to a jury trial.
4. A damage award under option (b) is subject to possible trebling, in the court’s discretion, due to the inherent willfulness of ongoing post-judgment acts of infringement.

In Part II, the Supreme Court’s *eBay* decision, from which the present topic descends, will be discussed. Part III will outline the available remedies in cases of ongoing infringement where a permanent injunction is refused under *eBay*. Part IV will show that these choices do not include an ongoing royalty set by the court against the wishes of the patent owner.

Part V will discuss the controlling authorities on the available remedies in ongoing torts generally, and for patent infringements in particular. Part VI will look at some of the procedural issues involved in a proper award of lump-sum future infringement damages and how courts should deal with these issues. Part VII will analyze the cases which, in my view, have gone in the wrong direction and departed from established precedents in attempting to force an advance, judicially set, set of periodic payments on the patent owner. Part VIII will summarize my conclusions.

## II. GENESIS OF THE ISSUE ABOUT ADEQUATE LAW REMEDY: *EBAY V. MERCExchange*

The line of cases now developing around monetary remedies for infringement have used the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*<sup>18</sup> as their starting point, and have then assumed that any unjoined infringement must be equated with a license. The *eBay* case involved two MercExchange patents, one of which claimed a business method, i.e., facilitating sales of goods by providing a trusted central authority to mediate the transactions. An eBay subsidiary, Half.com, was accused of infringing the claims by carrying out the claimed method. Although other companies had taken licenses under the patents in suit, license negotiations with Half.com were unsuccessful and a suit for infringement was commenced. A jury found the relevant claims of both patents valid and infringed and assessed reasonable royalty damages for past infringements.<sup>19</sup> It also found the infringement to have been willful,<sup>20</sup> setting the stage for possible increase of the award by the judge.<sup>21</sup> MercExchange sought a permanent injunction against further infringing acts, the normal remedy at the time.

In its initial address of the permanent injunction issue, the district court refused to enjoin eBay, mainly on the ground that MercExchange had no real business other than the exploitation of its patents.<sup>22</sup> It manufactured nothing and sold nothing. It had made repeated attempts, mostly unsuccessful, to license the patents in exchange for royalty payments. Under these circumstances the district judge ruled that the harm to MercExchange from any continued infringement could be adequately compensated in money.<sup>23</sup> Importantly, the judge recognized that no judicial permission or license was being adjudicated for future illegal activity, and that single damages for future infringements was unlikely to be the sole monetary penalty for such future misconduct.<sup>24</sup> He said, "the court

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<sup>18</sup> 547 U.S. 388 (2006).

<sup>19</sup> *Id.* at 390–91. The court of appeals opinion indicated that the total jury award for past infringement was \$35 million. See *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326 (Fed. Cir. 2005).

<sup>20</sup> *MercExchange*, 401 F.3d at 1326.

<sup>21</sup> A willful infringement finding authorizes the judge to increase the damages, pursuant to 35 U.S.C. § 284 (2006), up to three times the amount found. See, e.g., *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) ("[A]n award of enhanced damages requires a showing of willful infringement.").

<sup>22</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003).

<sup>23</sup> *Id.* at 713.

<sup>24</sup> *Id.* at 714–15.

notes that if the defendants continue to infringe the plaintiff's patents, the court will be more inclined to award enhanced damages for any post-verdict infringement. Thus, the plaintiff certainly will be compensated for any actions by the defendants in the absence of an injunction."<sup>25</sup>

This ruling was thus a far cry from conferring upon the defendants anything sounding like a "license" or a judicial permission to infringe. Instead, the court recognized the illegality of continued patent infringement and the likely heightened judicial penalties that would be imposed if such conduct were to go on into the future. The court recognized that post-judgment acts of infringement were more likely to be found willful than similar pre-judgment acts.<sup>26</sup>

On appeal one of the two patents in suit was held invalid by the Federal Circuit.<sup>27</sup> For the remaining patent, the findings of validity and infringement were upheld.<sup>28</sup> The court then addressed the refusal of the district judge to award a permanent injunction against future infringing acts. It announced the general rule, said to be of long standing, that absent extraordinary circumstances a plaintiff-patentee is entitled to a permanent injunction once validity and infringement have been adjudged in his favor.<sup>29</sup> The court found the circumstances here, including the fact that MercExchange did not itself practice under the patents and always tried to license them in exchange for money, were not exceptional and hence did not justify refusal of the injunction.<sup>30</sup> Importantly for our purposes, the court delineated what normally happens when an injunction is

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<sup>25</sup> *Id.* (citations omitted).

<sup>26</sup> The court provided the following citation as authority for increased damages in such situations:

*Stryker Corp. v. Davol Inc.*, 234 F.3d 1252, 1259 (Fed. Cir. 2000) (affirming district court's award of enhanced damages for post-verdict infringement as reasonable); *Corning Glass Works v. Sumitomo Electric Research Triangle, Inc.*, 671 F. Supp. 1369, 1401, 5 U.S.P.Q.2d 1545 (S.D.N.Y. 1987) ("To proceed [after an infringement determination] to manufacture and sell the same [infringing product] without changes designed to avoid infringement can only be construed as outright defiance or baseless optimism . . . [which entitles the patentee] to recover increased damages.").

*Id.* The subject of increased damages pursuant to the patent statute will be further developed in Part VI.

<sup>27</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326 (Fed. Cir. 2005).

<sup>28</sup> *Id.* at 1325–33.

<sup>29</sup> *Id.* at 1338.

<sup>30</sup> *Id.* at 1339. Additional reasons given by the district court for refusing the injunction were similarly rejected. These were: (i) a general concern at the PTO about business method patents, and (ii) design-around efforts by eBay could lead to frequent motions for contempt sanctions. *Id.*



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refused and infringement is ongoing: "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, *such a dispute would be likely to continue in the form of successive infringement actions* if the patentee believed the defendants' conduct continued to violate its rights."<sup>31</sup>

The court thus recognized one of the proper avenues of relief for ongoing infringement, namely, successive suits, and that the impracticality of that approach might militate in favor of an injunction. The case was remanded with directions to grant the injunction.<sup>32</sup>

The Supreme Court granted certiorari to review the correctness of the general rule favoring injunctive relief. In its decision, the high court took the view that nothing about patent infringement justified a departure from the ordinary practice concerning grant or denial of a permanent injunction to a victorious plaintiff in any kind of civil case.<sup>33</sup> According to the Court, ordinary practice dictated that four factors needed to be weighed in making that decision:

A plaintiff 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.<sup>34</sup>

The Court criticized both the court of appeals and the district court, the former for being too doctrinaire in holding to a general rule favoring injunctions in patent cases,<sup>35</sup> and the latter for being too wooden in seemingly refusing an injunction to any patent owner who did not practice the patent in his business but chose instead to license the patent for money.<sup>36</sup> The case was remanded for further consideration of injunctive relief in light of the four-factor rationale.<sup>37</sup>

As mentioned, the Court's second prong of analysis for injunctive relief was to ask whether damages would be adequate in the circumstances. The

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<sup>31</sup> *Id.* at 1339 (emphasis added).

<sup>32</sup> *Id.*

<sup>33</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) ("These familiar principles apply with equal force to disputes arising under the Patent Act.").

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 393–94.

<sup>36</sup> *Id.* at 393. The verb tenses used to articulate the first two factors of the test are backward-looking: "has suffered." Since we are dealing with the future, the first prong therefore probably should be read as "that the plaintiff *is likely to suffer* an irreparable injury" and the second as "monetary damages *will be* inadequate . . . ." The Court likely intended for these concepts to apply in this way. *See id.* at 391.

<sup>37</sup> *Id.* at 394.

Court gave no example of any other remedy at law that might be pertinent.<sup>38</sup> Certainly nothing in any of the justices' opinions<sup>39</sup> suggests that a district court has the power to authorize or legalize acts of infringement that are made unlawful by the patent statute; or that damages for future infringements should be immune from statutory trebling due to the willfulness of post-judgment infringements; or that the plaintiff should be deprived of an opportunity to argue again for an injunction in a follow-on suit if market conditions should so warrant. These issues will be considered in more detail later herein. Suffice it here to say that the Supreme Court did not signal any departure from traditional common law remedies. On the contrary, the second prong of *eBay* specifies looking at the adequacy of remedies "at law"<sup>40</sup> under "familiar principles."<sup>41</sup> Finally, the Court expressed no disagreement with the Federal Circuit's characterization of successive suits as a possible alternative.

The case was in turn remanded by the Federal Circuit to the district court for new consideration of the injunction question, and Judge Friedman of the Eastern District of Virginia issued a lengthy analysis on that subject, again concluding that the injunction should be denied.<sup>42</sup> He went through the Supreme Court's four prongs in detail, noting that the first two were essentially redundant—the harm might be deemed "irreparable" precisely because it could not be adequately compensable with damages.<sup>43</sup> He found the harm to MercExchange from future infringements by eBay would not likely be irreparable because MercExchange had consistently sought to exploit its patents by licensing them for cash payments. While not conclusive under the Supreme Court's instructions, Judge Friedman found this factor was still entitled to substantial weight.<sup>44</sup> As he put it: "a substantial *damages* award against eBay, apparently the primary infringer on MercExchange's '265 patent, will accomplish precisely such goal."<sup>45</sup> MercExchange had not been using its patents to protect its market share, reputa-

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<sup>38</sup> Other monetary remedies did exist at common law, but none that would be applicable to ongoing patent infringement. A restitution claim in the nature of *assumpsit* is one example. See DOBBS, *supra* note 12, at § 4.2 (2d ed. 1993) (discussing *assumpsit* as law remedy).

<sup>39</sup> Chief Justice Roberts issued a concurring opinion, which Justices Scalia and Ginsburg joined. Justice Kennedy issued a concurring opinion, joined by Justices Stevens, Souter, and Breyer. Neither concurrence addressed the alternative remedies issues under discussion here.

<sup>40</sup> *eBay*, 547 U.S. at 391.

<sup>41</sup> *Id.*

<sup>42</sup> See *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 590–91 (E.D. Va. 2007).

<sup>43</sup> *Id.* at 569 n.11.

<sup>44</sup> *Id.* at 570–71.

<sup>45</sup> *Id.* at 570 (emphasis added).

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tion, or good will, but simply to earn direct revenue.<sup>46</sup> An award of money should therefore suffice.

With respect to the balance of hardships from issuing or withholding the injunction, Judge Friedman found them equally balanced.<sup>47</sup> Working against eBay on this prong was its own assertion that it had successfully designed around the '265 patent. If that were true, there would be no infringement and eBay would not be harmed by the injunction against infringements, save for the inconvenience of having to defend against a possible contempt motion and the risk of an erroneous decision by the court if such a motion were made. As for the public interest, the court found a slight balance against issuing the injunction due to the possible disruption of eBay's online business.<sup>48</sup> All factors having thus been considered, the injunction was refused.<sup>49</sup>

Of importance to our subject is the district court's treatment of alternative remedies in light of its refusal to enjoin eBay. The court correctly saw that this was not a matter of simply applying an adjudicated past reasonable royalty rate into the future. Judge Friedman wrote: "eBay . . . still faces an accounting for post-trial infringement, including the very real potential for enhanced damages."<sup>50</sup> Willfulness of infringement is the touchstone for increased damages under the patent statute. It allows a court, but does not oblige it, to increase the damages up to threefold.<sup>51</sup> Certainly if eBay had persisted in using its adjudicated infringing method without change, the later acts of infringement would have to be ruled willful even if its earlier conduct with the same method was not. In all events, there is nothing in Judge Friedman's decision to suggest that a damages remedy for future acts of infringement would have been limited to single damages, or at compensatory rates found for pre-judgment infringement, or ordered to be paid out slowly over time. MercExchange appealed the refusal

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<sup>46</sup> *See id.*

<sup>47</sup> *Id.* at 585–86.

<sup>48</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 586–87 (E.D. Va. 2007).

<sup>49</sup> *Id.* at 591.

<sup>50</sup> *Id.* at 588. Under current case law, willful infringement is the necessary trigger that allows the court to multiply the damages up to threefold pursuant to the general statutory grant in 35 U.S.C. § 284 (2006) that "the court may increase the damages up to three times the amount found or assessed." *See, e.g.*, *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1461 (Fed. Cir. 1998) (en banc) (finding that willful infringement or bad faith is requisite for multiplying damages); *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 792 (Fed. Cir. 1995) ("Once a finding of willfulness has been made, the decision to enhance damages, up to three times the amount found, is discretionary.").

<sup>51</sup> *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1368 (Fed. Cir. 2007).

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of the injunction, but the case settled in February 2008 with no further decisions on remedies.

**III. SUCCESSIVE ACTIONS VS. AWARD OF FUTURE DAMAGES**

Traditionally, when an injunction was refused the patent owner was left to bring successive actions as and when further infringements occurred.<sup>52</sup> The inefficiency of that scenario was a major impetus toward granting the injunctive remedy.<sup>53</sup> What happens when the injunction is refused? There was some scattered lower court authority suggesting that infringement damages were available only for wrongs committed up to the date of the complaint, or possibly up to the trial date.<sup>54</sup> Such thinking presupposed that an injunction would be granted, in accordance with the prevalent thinking of the time, to deal with future infringements. If it is not granted, there is nothing in the patent statute's damages provision to indicate the damages must look only to the past. Section 284 provides tersely that "[u]pon finding for the claimant the court shall award the claimant

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<sup>52</sup> See, e.g., 6 INTELLECTUAL PROPERTY COUNSELING & LITIGATION § 92.01 (Lester Horwitz et al. eds., 2010) (noting burden of bringing successive infringement actions if injunction is denied); 5 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 30:2 (4th ed. 1996) ("If an injunction were denied [in an unfair competition case], the court would be telling plaintiff to sit by and watch defendant continue to violate the law and infringe upon plaintiff's rights until such time as plaintiff decided to sue again for money damages as compensation for the past injury incurred."); Elizabeth E. Millard, *Injunctive Relief In Patent Infringement Cases: Should Courts Apply a Rebuttable Presumption of Irreparable Harm After Ebay Inc. V. MercExchange, L.L.C.?*, 52 ST. LOUIS U. L.J. 985, 1002 (2008) (pointing out that an alternative to permanent injunction is successive patent infringement lawsuits).

<sup>53</sup> See, e.g., *Terrace v. Thompson*, 263 U.S. 197, 214 (1923) (in order to be adequate, "the legal remedy must be as complete, practical and efficient as that which equity could afford"); *Cragg v. Levinson*, 87 N.E. 121, 125 (Ill. 1908) ("The separate remedy at law for each of such [ongoing] trespasses would not be adequate to relieve the injured party from the expense, vexation and oppression of numerous suits against the same wrongdoer in regard to the same subject matter."); DOBBS, *supra* note 12, at § 2.5(2) (stating that repeated acts or the prospect of multiplicity of suits render legal relief inadequate and justifies equitable intervention with injunctive relief); 1 JOHN NORTON POMEROY, LL.D. & SPENCER W. SYMONS, A TREATISE ON EQUITY JURISPRUDENCE AS ADMINISTERED IN THE UNITED STATES OF AMERICA: ADAPTED FOR ALL THE STATES AND TO THE UNION OF LEGAL AND EQUITABLE REMEDIES UNDER THE REFORMED PROCEDURE § 245 (5th ed. 1941) (stating that continued trespass is an example of a situation where the plaintiff, being "obliged to bring a number of actions against the same wrong-doer," had inadequate remedies at law).

<sup>54</sup> See, e.g., *Rudd v. Electrolux Corp.*, 982 F. Supp. 355, 372 (M.D.N.C. 1997) ("Future damages must be recovered in successive actions."); *Webb v. Virginia-Carolina Chem. Co.*, 87 S.E. 633, 664 (N.C. 1916) ("[P]laintiff can only recover damages to the time of action commenced").

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damages adequate to compensate for the infringement . . . .”<sup>55</sup> The Federal Circuit has at least twice suggested that a lump-sum damages award can take account of future harms,<sup>56</sup> and the Supreme Court has given an expansive interpretation to § 284.<sup>57</sup> Damage recoveries for future infringements should, therefore, at the option of the plaintiff-patentee, be available if supported by non-speculative evidence as to amount.

Support for this view of § 284 and for the future damages remedy can also be seen in the provisions of the Restatement (Second) of Torts, which explicitly addresses the question of what to do when, due to refusal of a court to enjoin the wrongful conduct, a damages remedy is sought that will cover both past and future wrongs. The Restatement view will be treated in detail in Part V.B hereof.

### IV. COMPULSORY LICENSE IS NOT A REMEDY

Real licenses that are compulsory in the sense that they are forced on an unwilling patent owner are not entirely unknown to the law. Courts have sometimes ordered a patentee who has lost an antitrust case to grant patent licenses on reasonable terms to other players in an industry. For example, in the 1940s *National Lead* case,<sup>58</sup> the district court ordered the defendants to license an applicant at a reasonable royalty rate.<sup>59</sup> Such provisions are especially common in antitrust consent decrees.<sup>60</sup> Unlike the situations under discussion in this article,

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<sup>55</sup> 35 U.S.C. § 284 (2006).

<sup>56</sup> *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1581 (Fed. Cir. 1992) (“[P]rojected future losses may be recovered when sufficiently supported”); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1068 (Fed. Cir. 1983) (upholding “award based on projected lost sales”).

<sup>57</sup> *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983) involved the question of whether § 284 was broad enough to encompass prejudgment interest, an exception to the general tort rule that such interest is not recoverable. The Court commented that Congress’s overriding purpose in enacting § 284 was that of “affording patent owners complete compensation.” *Id.* at 655. The same philosophy would suggest that a damages award for future infringement is within the meaning of § 284.

<sup>58</sup> *United States v. Nat’l Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff’d*, 332 U.S. 319 (1947).

<sup>59</sup> *Id.* at 534.

<sup>60</sup> *See, e.g.*, *United States v. Owens-Ill. Glass Co.*, 1946–1947 Trade Cas. (CCH) ¶ 57,498 (N.D. Cal. 1946) (ordering defendant to grant a nonexclusive license “at a uniform reasonable royalty”); *United States v. Bendix Aviation Corp.*, 1946–1947 Trade Cas. (CCH) ¶ 57,444 (D.N.J. 1946) (ordering defendant to grant patent licenses to all applicants without restrictions “except that a reasonable and non-discriminatory royalty may be charged”); *Crosby Steam Gage & Valve Co. v. Manning, Maxwell & Moore, Inc.*, 1944–1945 Trade Cas.

those were situations in which the patent owner had acted unlawfully, and could have thus be regarded as having forfeited the full rights to her patent. Even in such cases of lawbreaking patent owners, the courts have not presumed to dictate the terms of patent licenses beyond ordering that they be reasonable.

Another example of something similar to a compulsory patent license appears in the reissue provisions of the patent statute. When a patent is reissued with broader or narrower claim scope than the original patent,<sup>61</sup> a court is by statute authorized to “provide for the continued manufacture, use, offer for sale, or sale of the thing made . . .”<sup>62</sup> where substantial preparation was made prior to the reissue grant date. This is intended to benefit a possibly unwitting infringer who may have regarded the original claims as invalid or not infringed by her product, enabling her to stay in the market despite the reach of new claims in the reissued patent.<sup>63</sup> The procedure can properly be regarded as a judicial license, but it is one specifically authorized by the patent statute.<sup>64</sup> By contrast, what has happened in the wake of *eBay* has no statutory basis and is being imposed on patent owners who have done nothing wrong, but rather have themselves been wronged.

Compulsory copyright licenses are also provided for in narrow circumstances in the copyright statute. These are the licenses to make new sound recordings of works that have already been recorded and distributed as sound re-

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(CCH) ¶ 57,336 (D. Mass. 1946) (ordering defendant to issue, inter alia, patent licenses “at a reasonable royalty” after World War II and up to Jan. 14, 1947).

<sup>61</sup> Reissue is a procedure whereby a patent owner can go back to the Patent & Trademark Office to correct errors in the claim scope of her patent. 35 U.S.C. § 251 (2006). No new matter can be added to the disclosure portion of the patent. The reissued patent may come as something of a surprise to other players in an industry, so Congress provided power in courts to protect investments made during the period between the original patent grant and the reissue grant by allowing those who infringe only new claims that were not in the original patent to continue doing so. *See id.* § 252.

<sup>62</sup> *Id.* § 252.

<sup>63</sup> The statutory language is “for the protection of investments made or business commenced before the grant of the reissue.” *Id.*

<sup>64</sup> A third situation that some might characterize as something like a judicial license lies in the right of the federal government and its contractors to operate within the scope of any U.S. patent without fearing an injunction. Under 28 U.S.C. § 1498 (2006), the exclusive remedy for government-operations infringement is by suit against the United States in the Court of Federal Claims for compensation. No remedy is allowed against the contractors or users of government-procured equipment. Unlike the present topic, the remedies situation for government infringement is explicitly arranged by statute. Moreover, the courts have made no attempt to use § 1498 to dictate terms of compensation for *future* acts of infringement by the government.

cordings by permission of the composer,<sup>65</sup> and so-called jukebox licenses, permitting public performance of musical works by coin-operated machines under controlled conditions.<sup>66</sup> Unlike the patent licenses now being created by federal courts, these copyright licenses are created by detailed statutory provisions.

## V. IMPLEMENTING THE DAMAGES REMEDY UNDER TRADITIONAL AUTHORITIES

### A. *Restatement (Second) of Torts View on Remedies for Continuing Torts: Lump-Sum Future Damages Remedy as Plaintiff's Option Where Injunctive Relief is Denied*

For guidance on how to implement the remedy at law under *eBay* in a manner consistent with the damages provision of the patent statute, we look first at several provisions of the Restatement (Second) of Torts for ideas about what courts should do where a wrong is ongoing but an injunction has for some reason been refused. The Restatement does not deal specifically with patent infringement, but guidance from the Restatement on what to do about ongoing torts in general could be helpful. Ongoing torts of other types share many common characteristics and cause similar problems for plaintiffs and for the courts. The Restatement views, developed over a long period of time, show what has heretofore been done, or at least what has been thought appropriate to do in those situations.

In the discussion to follow, note that we are not dealing with something akin to a damages award for future pain and suffering or future lost wages in a personal injury case. There, the damages flow from a single completed tort. Here, we are trying to deal with future tortious acts that have not yet occurred but appear highly likely to occur for a prolonged period.

A patent by statute has the attributes of personal property,<sup>67</sup> and acts of infringement are to some extent akin to acts of trespass to personal property. The Restatement (Second) of Torts provisions on trespass to chattels (Sections 216–21) may therefore be enlightening for our purposes in determining how to deal with damage awards for ongoing patent infringement. Section 217 of the Restatement (Second) of Torts tells us “[a] trespass to a chattel may be committed by intentionally (a) dispossessing another of the chattel, or (b) using or in-

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<sup>65</sup> See 17 U.S.C. § 115 (2006).

<sup>66</sup> See *id.* § 116.

<sup>67</sup> 35 U.S.C. § 261 (“Subject to the provisions of this title, patents shall have the attributes of personal property.”).

termeddling with a chattel in the possession of another.”<sup>68</sup> Patent infringement does not fit the first of these because the patent remains in the hands of the owner and can be enforced against others. It does seem, though, that ongoing infringement can be a serious interference with the patent owner’s rights. The Restatement tells us that all but the most fleeting forms of trespass to chattels should be regarded as conversions.<sup>69</sup>

Section 222A specifies that a conversion so seriously interferes with the chattel owner’s dominion or control that it justifies requiring the trespasser to pay the owner the full value of the chattel.<sup>70</sup> The extent and duration of the interference, and the harm done to the chattel, are key factors in determining whether the interference is serious enough to trigger this liability.<sup>71</sup> The remedy for conversion is a single monetary award in the amount of the value of the chattel at the time of its impairment.<sup>72</sup> The remedy is thus a single lump-sum award in the present judgment.<sup>73</sup> However, nothing in the Restatement suggests the plaintiff *must* seek full conversion-type damages in the present action. She might prefer to recover for harms done to date and wait to see what transpires in the future.

In the analogous patent situation, most ongoing patent infringements that have proceeded through a long and expensive litigation are serious impositions on the patent owner’s rights. The Restatement’s plaintiff-option approach therefore comports with the patent statute. Under the statute’s damages provi-

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<sup>68</sup> RESTATEMENT (SECOND) OF TORTS § 217 (1965).

<sup>69</sup> *Id.* § 222 (“One who dispossesses another of a chattel is subject to liability in trespass for the damage done. If the dispossession seriously interferes with the right of the other to control the chattel, the actor may also be subject to liability for conversion.”). The comments make clear that the “may” language is meant to include nearly all trespasses: “[n]ormally any dispossession is so clearly a serious interference with the right of control that it amounts to a conversion; and it is frequently said that any dispossession is a conversion.” *Id.* § 222 cmt. a.

<sup>70</sup> *Id.* § 222A (defining conversion as “an intentional exercise of dominion or control over a chattel which so seriously interferes with the right of another to control it that the actor may justly be required to pay the other the full value of the chattel.”).

<sup>71</sup> *Id.* § 222A(2).

<sup>72</sup> *Id.* § 222A.

<sup>73</sup> *Id.* § 927(1) (1979), provides in pertinent part:

When one is entitled to a judgment for the conversion of a chattel or the destruction or impairment of any legally protected interest in land or other thing, he may recover . . . the value of the subject matter or of his interest in it at the time and place of the conversion, destruction or impairment . . .

*Id.*



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sion, Section 284, a patent owner cannot be forced to claim now for infringements that have not yet occurred, but she may do so.<sup>74</sup>

We should take care not to overextend the analogy between ongoing patent infringement and conversion. Unlike the situation where someone takes someone else's horse, the patent remains for the most part in the control of its owner. Even a long-term infringement does not deprive the patent owner of all the patent's value; it can still be asserted against or licensed to others. Hence, the Restatement's full-value measure of damages is inappropriate in the case of a patent that is being infringed.<sup>75</sup> Instead, the harm to the patent should be calculated by assessing, in light of the ongoing infringement, the decrease in the various components of remaining value, such as ongoing royalty streams from existing licensees, prospective future licenses to others (especially loss of exclusive licensing potential), and future exclusionary power in the event the patent owner itself enters the market.

### **B. The Analogy to Repeated Invasions of Interests in Land**

Further discussion on repetitive torts, specifically regarding the plaintiff's option to choose a monetary remedy in lieu of an injunction rather than have the money award forced upon her by a court, is also found in the Restatement (Second) of Torts, this time in the provisions regarding ongoing invasions of real property. While patents are of course different in that they are personal property, they share with real property a feature of uniqueness that may be helpful here; like a patent, trespass-type invasions do not totally ruin the realty or wholly deprive the owner the use of it. For these reasons, the Restatement provisions regarding repetitive real property invasions may be even more helpful as a guide than the provisions regarding ongoing trespass to a chattel.

Section 930 of the Restatement provides that where another party acts in a way that *repetitively* invades the rights of a real property owner, certain remedies ensue:

- (1) If one causes continuing or recurrent tortious invasions on the land of another by the maintenance of a structure or acts or operations not on the land of the other and it appears that the invasions will continue indefinitely, the

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<sup>74</sup> 35 U.S.C. § 285 (2006). There is a backward-looking limit imposed by Congress. A patent owner cannot recover for acts of infringement occurring more than six years prior to the filing of suit. *See id.* § 286.

<sup>75</sup> The Restatement language does not fit well with intangibles, although some modern courts have extended it to such property. *See* RESTATEMENT (SECOND) OF TORTS § 242 (1965). It is said that actions for converting intangibles have generally not been allowed, except where the rights are embodied in a document, such as a stock certificate. *See id.* § 242 cmts. a & b.

other may *at his election* recover damages for the future invasions in the same action as that for the past invasions.

(2) If the future invasions would not be enjoined because the defendant's enterprise is affected with a public interest, the court in its discretion may rule that the plaintiff must recover for both past and future invasions in the single action.<sup>76</sup>

Section 930 goes on to say that if the reason the injunction was refused is that the defendant's activities are affected with the public interest, then the plaintiff *must* use this method,<sup>77</sup> and hence she cannot proceed by the more traditional device of successive suits. The measure of these damages is given in the third subsection to Section 930, as "either the *decrease in the value of the land caused by the prospect of the continuance* of the invasion measured at the time when the injurious situation became complete and comparatively enduring, or the reasonable cost to the plaintiff of avoiding future invasions."<sup>78</sup>

If a real property owner plaintiff chooses to forego the option to recover a lump-sum diminution award now, the other choice is the more traditional approach of suing sequentially for the future harms as and when they occur. The injunctive remedy is of course much more desirable for such a plaintiff, but the Restatement also recognized, long before *eBay*, that it might not be forthcoming: "But this [injunctive] relief is discretionary, and the burden of convincing the court that an enterprise, perhaps economically beneficial to the community, should be closed down, is a difficult one."<sup>79</sup>

This remark is also apropos of several recent patent cases wherein, as discussed in Part VII hereof, the public interest has played a significant role in the refusal of injunctive relief. Section 930's thinking could therefore be readily applied in patent cases by saying that where the public interest is the main reason for refusing an injunction against ongoing infringement, the court may deprive the patentee of her normal successive-suit option and *require* her to collect a damage award in the present action for future infringements. Providing a patent owner with the normal election (recover now or bring successive suits) where an injunction has been denied should be no more troublesome than that same election for unenjoined ongoing invasions of land.<sup>80</sup>

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<sup>76</sup> *Id.* § 930 (1979) (emphasis added).

<sup>77</sup> *Id.* § 930(1) cmt. a ("[F]or continuing wrongs the injured person can ordinarily bring successive actions for the invasions or series of invasions as they occur.").

<sup>78</sup> *Id.* § 930(3)(b) (emphasis added).

<sup>79</sup> *Id.* § 930(1) cmt. b.

<sup>80</sup> The Restatement (Second) of Judgments assumes such a right generically exists. It provides an exception in the preclusive effect rules for a judgment obtained where

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Following the Restatement philosophy, a patent owner who has been refused an injunction should normally have a right of election to seek a future damages lump-sum award in the present case. A patent owner could also forego that component of damages by seeking damages only for past infringements now and bringing successive actions for later infringements if the parties do not later come to licensing terms on their own. In cases where the reason for denial of injunctive relief was primarily the public interest, the successive-suit option should be cut off, and the sole remedy, apart from possible increase due to willfulness as will be discussed later herein, should be a lump-sum damage award in the first action.

Successive infringement suits will seldom be chosen by plaintiffs having the option. Few patent owners, having been put through the rigors, delays, and costs of patent litigation, will want to choose the successive suits option.<sup>81</sup> In all events, successive actions may not be as burdensome to the courts as might at first appear. The issues of validity, enforceability, and scope will have already been adjudicated and hence will be precluded by the first judgment. Infringement may be a new issue if the product configuration has changed in some significant way, but all the other major issues in a typical patent case will be foreclosed.

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[f]or reasons of substantive policy in a case involving a continuing or recurrent wrong, the plaintiff is given an option to sue once for the total harm, both past and prospective, or to sue from time to time for the damages incurred to the date of suit, and chooses the latter course.

RESTATEMENT (SECOND) OF JUDGMENTS § 26(1)(e) (1982).

<sup>81</sup> According to the most recent economic survey of patent litigation costs, litigating a patent where \$25,000,000 or more is at stake (virtually all cases that proceed to judgment), the median cost is \$5,000,000 per side through judgment in the district court. AIPLA REPORT OF THE ECONOMIC SURVEY 25 (2007). This is undoubtedly one of the major reasons for the high settlement rate of patent infringement suits, eighty-eight percent at the district court level alone. See *2009 Fiscal Year Disposition Modes for Patent Cases*, PATSTATS.ORG, <http://www.patstats.org/Patstats2.html> (follow "2009 fiscal year disposition modes for patent cases" hyperlink) (last visited Sep. 17, 2010). In addition, a substantial number of cases are settled during the appeal process. See, e.g., Tony Dutra, "Michel Gives Final 'State of the Court Report,' Roberts Calls IP Cases Challenging" 80 PAT. TRADEMARK & COPYRIGHT J. (BNA) 119 (2010) (reporting Chief Judge Michel's statement that thirty-one of forty-eight mediated patent appeals were settled in 2009); *BSC Announces Payment Of \$ 1.725 Billion To Settle Drug-Eluting Stent Patent Disputes*, 79 PAT. TRADEMARK & COPYRIGHT J. (BNA) 2010 (describing a patent case as having been settled after an appeal was filed but before the appeal could be heard).

**182**                    *IDEA—The Intellectual Property Law Review***VI. PROCEDURAL AND VALUATION QUESTIONS IN PATENT CASES****A. *Determining the Amount of the Elective Damages Award for Future Infringement***

Given the long time it takes to obtain a final adjudication on the merits of a patent case, the time at which the refusal of an injunction occurs is typically late, normally about six months after the jury verdict. In light of the plaintiff's right to opt for a lump-sum award for future infringements, it would therefore be helpful to have the jury determine, as a separate item in its verdict, the damage estimated to arise from future infringements. If the court later grants the injunction, that part of the verdict becomes moot. If the injunction is refused, the court can arrive at a final judgment without the need to empanel a new jury to determine the future harm.

Estimating the amount of patent damages into the future is not as troublesome or as speculative as it may at first appear. In cases involving single rather than repetitive torts, juries routinely determine amounts of future harms, such as lost wages and future medical costs, and discount them to present value.<sup>82</sup> In the real patent licensing world, lump-sum licensing is increasingly the chosen form;<sup>83</sup> the parties somehow find they are able to estimate the future

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<sup>82</sup> See, e.g., DOBBS, *supra* note 12, at § 3.7 (stating that reduction to present value “can be easily computed”); 3 KEVIN F. O’MALLEY ET AL., FEDERAL JURY PRACTICE & INSTRUCTIONS § 128.21 (5th ed. 2000) (instruction on how jury is to determine future lost wages and reduce the figure to current value).

<sup>83</sup> See, e.g., 1 DRAFTING LICENSE AGREEMENTS § 21.02 (Michael A. Epstein et al. eds., 4th ed. 2008) (indicating that in the semiconductor field lump-sum licensing is often preferred over running royalties); *LaserSight Licenses '504 Scanning Patent to Alcon*, MED. DEVICES & SURGICAL TECH. WK., July 7, 2002, at 9 (describing medical device patent license in exchange for \$2,000,000 lump-sum payment); Linda Moss, *Gemstar and Comcast Are Partners on IPG*, MULTICHANNEL NEWS, Feb. 16, 2004, at 3 (quoting Gemstar's CEO Jeff Shell as stating “The \$250 million really represents ‘just a lump-sum license fee for our patent license’”); *American Power Conversion and SL Industries, Inc. Enter Into Patent License*, PR NEWSWIRE, Feb. 5, 2004, available at <http://www.thefreelibrary.com/American+Power+Conversion+and+SL+Industries%2c+ Inc.+Enter+into+Patent...-a0131546993> (describing an electric power patent license in exchange for four million dollars in cash); Kelsey I. Nix & Heather Schneider, *Supreme Court Reverses Rule That a Patent Licensee In Good Standing Cannot Seek a Declaratory Judgment that the Licensed Patent Is Invalid, Unenforceable, or Not Infringed*, THE METROPOLITAN CORP. COUNS., March 1, 2007, at 3, available at <http://www.metrocorp.counsel.com/pdf/2007/March/16.pdf> (predicting that more lump-sum licensing of patents will result from a recent Supreme Court case on licensee challenges to patent validity); *Q3 2008 MOSAID Technologies Earnings Conference Call*, FAIR DISCLOSURE WIRE, March 6, 2008, [http://www.accessmylibrary.com/coms2/summary\\_0286-34155832\\_ITM](http://www.accessmylibrary.com/coms2/summary_0286-34155832_ITM) (indicating prevalence of lump-sum patent licenses issued by MOSAID);

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value of being able to operate under a particular patent. A jury can do this as well. This is not an exact science, and the plaintiff should not be held to too strict a standard of proof; after all, it is the continuing unlawful conduct of the defendant that has injected uncertainty about the future duration and amount of infringement. Such considerations led the Supreme Court to remark in a private antitrust case:

The wrongdoer is not entitled to complain that [damages] cannot be measured with the exactness and precision that would be possible if the case, which he alone is responsible for making, were otherwise . . . [T]he risk of the uncertainty should be thrown upon the wrongdoer instead of upon the injured party.<sup>84</sup>

In such cases, according to the Court, “while the damages may not be determined by mere speculation or guess, it will be enough if the evidence show the extent of the damages as a matter of just and reasonable inference, although the result be only approximate.”<sup>85</sup> A jury instruction along these lines would be appropriate in a proceeding to establish future damages when sought by a patent owner under her election.

### ***B. Right to a Jury Trial on Future Damages***

In the typical patent infringement complaint, the plaintiff prays for an injunction against continuing infringement and for “an accounting for damages” over an unspecified period of infringement.<sup>86</sup> The first prayer is in equity, the second is at law. If the rules of law advocated were adopted, nothing further would need to be done with respect to pleading. However, at some point the plaintiff will need to make clear that in the event injunctive relief is denied she either wants or does not want a damages award that would include relief for ongoing infringements. Failure to make that clear could lead to complications on the extent of claim preclusion arising from the judgment in the case, a subject that will be further treated later herein. If a future damages award is sought, the issue of whether that award is by a jury arises. The recent cases discussed in

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*VMSI: Hot Stocks*, theflyonthewall.com, Jan. 25, 2008 (describing a lump-sum paid-up license from Cytologix).

<sup>84</sup> *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563 (1931).

<sup>85</sup> *Id.*

<sup>86</sup> *See, e.g.*, FED. R. CIV. P. FORM 18 (complaint for patent infringement, with prayer for injunction and damages). Congress abolished accounting for the defendant’s profits earned by infringement in 1946, leaving only the plaintiff’s damages as the basis for monetary relief. Still, the language of Form 18 and the verbiage used by many lawyers refers to “accounting.”

Part VII have refused jury trials on what they have called compulsory licenses or ongoing royalties. They should not refuse it for the correct remedy, damages.

Preservation of the right to a civil jury trial in the federal courts has occupied a conspicuous place in Supreme Court jurisprudence. The Supreme Court counseled in *Dimick v. Schiedt*<sup>87</sup> that “[m]aintenance of the jury as a fact-finding body is of such importance and occupies so firm a place in our history and jurisprudence that any seeming curtailment of the right to a jury trial should be scrutinized with the utmost care.”<sup>88</sup>

Where legal and equitable claims are blended together in the pleadings, as in the typical patent case, the Court in *Beacon Theatres, Inc. v. Westover*<sup>89</sup> made clear that constitutional jury trial rights are not thereby lost: “[O]nly under the most imperative circumstances, circumstances which in view of the flexible procedures of the Federal Rules we cannot now anticipate, can the right to a jury trial of legal issues be lost through prior determination of equitable claims.”<sup>90</sup>

In the recent patent cases where injunctive relief has been refused and an ongoing royalty decreed, the “utmost care” required by *Dimick*, as well as the “imperative circumstances” mandated by *Beacon Theatres*, were missing. Indeed, in refusing the injunction the courts have found that law remedies were adequate in these cases, but when it came to adjudicating such remedies jury trials were not allowed. For example, in *Paice L.L.C. v. Toyota Motor Corp.*,<sup>91</sup> the district court expressly found: “Irreparable harm lies only where injury cannot be undone by monetary damages. Plaintiff’s losses from Defendant’s sales of infringing products can be remedied via monetary damages.”<sup>92</sup> This finding was not disturbed on appeal; yet, as we shall see, the Federal Circuit panel blended the monetary remedy into one at equity and ruled that there was no right to a jury trial.<sup>93</sup> The appellate opinion contained no discussion of the Su-

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<sup>87</sup> 293 U.S. 474 (1935).

<sup>88</sup> *Id.* at 486.

<sup>89</sup> 359 U.S. 500 (1959).

<sup>90</sup> *Id.* at 510–11 (citation omitted). *Beacon* was a copyright license and contract case. As early as 1891 the Supreme Court held that:

[T]his right [to a federal civil jury trial] cannot be dispensed with, except by the assent of the parties entitled to it, nor can it be impaired by any blending with a claim, properly cognizable at law, of a demand for equitable relief in aid of the legal action or during its pendency.

*Scott v. Neely*, 140 U.S. 106, 109–10 (1891).

<sup>91</sup> No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*1 (E.D. Tex. Aug. 16, 2006).

<sup>92</sup> *Id.* at \*5 (citation omitted).

<sup>93</sup> See *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1316 (Fed. Cir. 2007).

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preme Court precedents against loss of this right by blending claims for relief. The jury trial right was thought to have been lost by viewing the whole situation as being in the realm of "equity." But as *Beacon Theatres* pointed out, prior determination of an equity claim (such as the refusal of an injunction against ongoing patent infringement) will not allow the right to a jury trial to be lost in this way.<sup>94</sup> The remedies at law are still triable to a jury if requested by either party.

There is no special reason why patent infringement cases should be treated differently in according a jury trial on the question of damages for ongoing patent infringement. The scrutiny and utmost care enunciated in *Dimick* lead to the conclusion that the jury trial right is not lost here. Patent cases present no "imperative circumstances" beyond the vision of the Supreme Court in *Beacon Theatres* for why a jury trial cannot be held.

Given that future damages, if elected, are triable by jury, the sequence of happenings in a district court infringement case should be considered with some care. Where infringement is indicated as ongoing, the court could allow the future damages issue to go to the jury as a separate verdict item. In the event the patent owner wins and the court refuses the injunction, that part of the verdict will be added to the judgment. Proceeding this way may slightly lengthen the main trial for all patent infringement cases where infringement is ongoing at the time of trial, and in some of these, the patent owner will lose on the merits—and in the majority of others the injunction will be granted. In both instances the future damages question is mooted.<sup>95</sup> However, these small negatives are more than overcome by the positives: assuring preservation of the plaintiff's jury trial right in the event an injunction is refused and helping the court decide whether this remedy at law is really adequate. Trial of the future damages sum may indicate the unfeasibility of the damages remedy. To date, this point is often decided long after trial, largely in a vacuum of facts and evidence,<sup>96</sup> and at a time when judges are understandably loath to envision the

<sup>94</sup> *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 510–11 (1959).

<sup>95</sup> As noted above, patent-owner victories followed by refusal of an injunction against ongoing infringement happen in fewer than ten cases per year.

<sup>96</sup> Indeed, many early commentators suggested that the primary reason for enjoining any ongoing tort is that successive actions or proof problems render the damages remedy inadequate. See DOBBS, *supra* note 12, at § 2.5(2)(4). Professor Dobbs points out that in some cases, damages, while available, cannot be measured with the needed reasonable certainty, which causes an inadequacy of the damages remedy in those cases. *Id.* He gives trademark infringement as an example. *Id.*; see also *Quality Excelsior Coal Co. v. Reeves*, 177 S.W.2d 728, 733 (Ark. 1944) (noting the inefficiency of follow-on actions, as well as the proof problems, in establishing damages for wrongful use of a subterranean passageway on the plaintiff's property).

prospect of further jury trial proceedings. Determining the future damages as part of the initial verdict would avoid these problems.

### C. Possible Trebling Due to Willful Infringement After Judgment

As established above, in the type of cases under discussion, the damages award generally has two components: (i) infringements that occurred before judgment, which may or may not be willful; and (ii) infringements after the judgment, which are almost certainly willful. Under current law, the jury decides willfulness.<sup>97</sup> Willfulness is the necessary condition for the judge to exercise her discretion about how much, if at all, to augment the damages found. This is appropriate for pre-verdict infringements. However, post-verdict acts of willfulness would appear to be ipso facto present in light of a final judgment in the patent owner's favor. The Federal Circuit, en banc, discussed the subject of willfulness in the recent case *In re Seagate Technology, L.L.C.*,<sup>98</sup> in which it held that a finding of willfulness has an objective component: the circumstances must be such that no reasonable person in the infringer's position could believe she was not infringing.<sup>99</sup> That condition is necessarily present in our scenario once the determinations on validity, infringement, and any affirmative defenses become part of a final judgment. From that point on, a reasonable person could no longer believe her activities were not infringing.<sup>100</sup>

Whether the judge should multiply the damages found is a separate question, one that should be considered in two parts: one for the early infringements if willfulness was found for them, and one for the ongoing acts that are necessarily willful in light of the judgment. Willfulness does not require trebling, or indeed any increase at all.<sup>101</sup> In determining an increase, the judge should

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<sup>97</sup> See, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1250 (Fed. Cir. 1989) (stating that in the patent infringement context, “[w]illfulness of behavior is a classical jury question of intent”).

<sup>98</sup> 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

<sup>99</sup> *Id.* at 1371 (“[P]roof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.”).

<sup>100</sup> We are speaking here only of the situation as it stands in the district court. The entire judgment can of course come unraveled on appeal. If, for example, the finding of infringement is upset, there can be no remedies for anything the defendant has done.

<sup>101</sup> See, e.g., *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1574 (Fed. Cir. 1996) (Cowen, J., dissenting) (case law establishes that “a trial judge may, notwithstanding a jury finding of willful infringement, decline to augment damages because of the closeness of the evidence on the willfulness question”).



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weigh all of the usual factors,<sup>102</sup> plus the additional facts that (a) the defendant will not be enjoined from continuing its unlawful acts, and (b) due to her election to seek monetary relief, the plaintiff's entire set of statutory remedies for future infringements by this defendant are being extinguished by the present judgment.<sup>103</sup>

A wide range of results would be expected on the question of enhancement. In a large-scale study of patent litigation results from 1983 to 2000, Professor (now Judge) Kimberly Moore found that where a jury found willfulness, the judge increased the award in only 37% of the cases.<sup>104</sup> Where the willfulness issue was tried to and found by the judge, the judge increased the award in eighty-seven percent of the cases.<sup>105</sup> Full trebling occurred in only 8.7% of the cases.<sup>106</sup> We would expect similar variations in decisions on enhancing the future infringements component of a damages award.

### VII. HOW THE COURTS DRIFTED INTO IMPOSING "COMPULSORY LICENSES" ON SUCCESSFUL PATENTEES, INSTEAD OF AWARDING A DAMAGES JUDGMENT

Having discussed what should be done about ongoing infringement when an injunction is refused under *eBay*, we now turn to what the courts have actually done in that circumstance. As will be seen, the courts have drifted into thinking a suitable remedy can be a judicially issued compulsory license that converts unlawful activities into licensed ones, with court set periodic royal-

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<sup>102</sup> A non-exhaustive list of factors for increasing damages due to willful infringement is given in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992) (listing factors such as deliberate copying, the defendant's litigation conduct, duration of the infringement, and measures taken to avoid or ameliorate the infringement).

<sup>103</sup> If the infringing product design remains substantially the same in the future, the present judgment will clearly be claim-preclusive. If, however, the defendant develops and markets a different infringing configuration, perhaps more expensive and more profitable, what then? Much will depend on how the court arrived at the initial judgment. If it took a conversion-like approach as recommended here, the present judgment should be fully claim-preclusive. However, this points to the need to make the initial judgment large enough to account for such possibilities. Courts to date have not considered the breadth of the compulsory licenses they have purported to authorize, particularly whether the license applies only to the existing infringing configuration or to all others that might be devised during the remaining term of the patent.

<sup>104</sup> Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 FED. CIR. B.J. 227, 237 n.30 (2004).

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

ty-style payments, whether or not the patent owner wants such a result. However, unenjoined infringement bears little similarity to fully licensed transactions. The sole similarity to the world of licensing is that an entity who does not own the patent is operating commercially within the scope of the patent and no court has told that entity to stop doing so. The dissimilarities, by contrast, are legion. To cite just a few examples:

(i) A true licensee is immune from suit, but an infringer is subject to a new suit every time she makes or sells a patented product, or uses a patented method. Treble damages are possible in such suits.<sup>107</sup>

(ii) A true licensee's customers are also acting lawfully. They are immune, under the first-sale doctrine, from being sued for infringement when they use or resell the item purchased.<sup>108</sup> That is not true of someone who purchases from an infringer.

(iii) In a real license, the scope of permission is invariably set out in the agreement, whether it is for all products covered by the patent's claims or only certain configurations, characteristics, or markets.<sup>109</sup> In court-ordered situations to date, little address has been given to this important subject.

(iv) A real licensee sometimes is given the right to sublicense.<sup>110</sup> A judicial licensee presumably would not have such a right.

(v) If an exclusive license is already outstanding, the patent owner may not issue a conflicting nonexclusive license to someone else. An ongoing infringer in such a situation would be acting in derogation of the prior exclusive licensee's rights.

(vi) In a real license, the licensor may acquire other patents that could also be infringed by the ongoing activity. Is infringement of those patents also within the judicial permission? As far as we know from the court decisions to date, this subject has been wholly unexplored.

There are many other important differences. Suffice it to say that it is clearly wrong to conflate avoidance of an injunction on the one hand with being

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<sup>107</sup> 35 U.S.C. § 284 (2006).

<sup>108</sup> This is the result of the doctrine of patent exhaustion, which holds that once an item is sold by an authorized source (patent owner or licensee), it is thereafter beyond the reach of the patent. Hence, acts of using the item or selling it to someone else are not acts of infringement, even though literally they would appear to be infringements as defined in the statute. For a recent discussion of the doctrine and its operation, see *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008).

<sup>109</sup> See, e.g., 1 DRAFTING LICENSE AGREEMENTS, *supra* note 83, at § 16.02 (discussing variables such as activities licensed, field of use limitations, and geographic limitations).

<sup>110</sup> For a discussion of the meaning and operation of sublicenses, see, for example, 2 DRAFTING LICENSE AGREEMENTS, *supra* note 83, at § 27.06; MARK S. HOLMES, PATENT LICENSING: STRATEGY, NEGOTIATION, FORMS § 2:3.1 (2009).

licensed to commit illegal acts on the other. A court, even when refusing a permanent injunction, has no such magical power to convert unlawful activity into lawful conduct.

We now turn to the cases in detail.

#### A. **Paice L.L.C. v. Toyota Motor Corp. (2006)**<sup>111</sup>

This was one of the first reported cases to apply *eBay*. In the original Final Judgment, the district court did not use the language of “compulsory license,” but set the stage for that phrase by ordering ongoing royalty payments on a quarterly basis over the remaining term of the patent,<sup>112</sup> a result resembling license payments and very much unlike the remedy of damages. Paice L.L.C. was a 1992 startup company funded by the small business incubator operation at the University of Maryland.<sup>113</sup> Its president, Dr. Alex Severinsky, was the inventor named in the three patents in suit in the case, each involving transmissions for hybrid automobiles.<sup>114</sup> The jury found no infringement by Toyota of two of the patents, but that the third was infringed under the doctrine of equivalents.<sup>115</sup> The infringements were found to be non-willful.<sup>116</sup> Damages were assessed at around \$4,270,000,<sup>117</sup> equating to twenty-five dollars per Toyota car involved.

Paice sought an injunction against further sales of cars with the infringing transmissions. Applying the analysis given by the Supreme Court in *eBay*, Judge Folsom refused the injunction.<sup>118</sup> Paice did not manufacture or sell cars or transmissions, but rather made its money in licensing its patents; hence, said the court, a damages remedy would be adequate.<sup>119</sup> The damages should be “monetary damages in accordance with the reasonable royalty set by the jury.”<sup>120</sup> The court said Paice’s ability to license its patents to others was not impeded by

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<sup>111</sup> Paice LLC v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*1 (E.D. Tex. Aug. 16, 2006).

<sup>112</sup> *Id.* at \*19–20.

<sup>113</sup> Brief of Plaintiff Cross-Appellant Paice LLC, Appeal Nos. 2006-1610, 2006-1631, 2006 WL 4045125, at \*6.

<sup>114</sup> Brief of Defendant-Appellant Toyota Motor Corp, Appeal Nos. 2006-1610, 2006-1631, 2006 WL 3508547, at \*11–12.

<sup>115</sup> Paice v. Toyota Motor Corp., 504 F.3d 1293, 1302 (Fed. Cir. 2007).

<sup>116</sup> *Id.*

<sup>117</sup> Paice, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, . at \*19–20.

<sup>118</sup> *Id.* at \*18.

<sup>119</sup> *Id.* at \*13–14.

<sup>120</sup> *Id.* at \*13.

Toyota's infringing conduct<sup>121</sup> and noted that throughout the post-trial motion period Paice had offered to license the patents to Toyota, although on terms unstated in the opinion.<sup>122</sup> On the other side, Toyota would be put to significant business hardship if it were not allowed to sell the cars with the infringing transmissions.<sup>123</sup> Dealers and suppliers would likely be impacted as well.<sup>124</sup>

Continuing with the four-prong inquiry of *eBay*, the court found the public interest was not involved one way or the other.<sup>125</sup> Customers had other choices in buying hybrid vehicles.<sup>126</sup> The balance of factors indicated no injunction should issue.<sup>127</sup> Instead, the court ordered an ongoing royalty of twenty-five dollars per vehicle to be paid by Toyota on a quarterly basis.<sup>128</sup>

The court was right to select damages as a remedy if the plaintiff wanted it, but Paice did not want it. In any event, from what we have seen above the court was not right in choosing the periodic payout method of awarding damages or in setting the amount of damages at the same rate as for the prior acts of infringement, which were not willful.<sup>129</sup> The court did not give any reasons for choosing this low measure. The order, worded in injunctive terms, said nothing about whether the scope of permission being given to Toyota would include future Toyota transmission designs or only the existing ones. Also, the order did not address whether the arrangement was for (i) the entire scope of the claims infringed, (ii) all the claims of the patent, or (iii) the claims of the other two patents in suit which had been found to have not been infringed yet, but which conceivably could be infringed in the future. In short, although the payment terms were somewhat like those of a license, the permissive order was not a license.

Toyota appealed the infringement and validity findings, and Paice cross-appealed the district court's refusal to issue a permanent injunction.<sup>130</sup> Toyota's appeal failed.<sup>131</sup> In Paice's cross-appeal, Paice stated that while it did

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<sup>121</sup> *Id.* at \*14.

<sup>122</sup> *Id.* at \*16.

<sup>123</sup> *Paice*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*16.

<sup>124</sup> *Id.*

<sup>125</sup> *Id.* at \*17.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.*

<sup>128</sup> *Id.* at \*19

<sup>129</sup> *Paice*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*16.

<sup>130</sup> *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1296 (Fed. Cir. 2007).

<sup>131</sup> *Id.* at 1312.

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not challenge the district court's decision to refuse the injunction,<sup>132</sup> the resulting remedy was wrong because: (i) the district court had no authority to authorize future patent infringement or to prejudge the remedies therefor; (ii) Paice was denied a constitutional right to a jury trial on damages, including compensation based on future harms; and (iii) the ruling below was impermissibly incomplete in not specifying the ensuing legal relations that would exist vis-à-vis third parties, the patent marking requirement,<sup>133</sup> as well as other troublesome patent law points.<sup>134</sup> Toyota responded that district courts had "equitable powers" in the case to afford complete relief.<sup>135</sup> Toyota's contention on a jury trial for assessing the ongoing harm was that the proper monetary remedy here was equitable in nature and did not carry a right to a jury trial.<sup>136</sup> These arguments were erroneous. The *eBay* analysis requires assessment of whether a *law* remedy is adequate.<sup>137</sup> If it is, there is no basis for taking it away from the plaintiff and switching to a purported equitable monetary remedy. Such a switch is also inconsistent with the patent statute, which specifies that the monetary remedy for patent infringement is "damages," the classic law remedy, and that the court "shall" award it.<sup>138</sup> The district court found that damages were adequate, but inadvertently failed to award that remedy.

A three-judge Federal Circuit panel reversed and remanded on the monetary remedy.<sup>139</sup> The panel characterized the remedy issue as follows:

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<sup>132</sup> Corrected Brief of Plaintiff-Cross Appellant Paice LLC at 62 n.3, *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007) (Nos. 2006-1610, 2006-1631), 2006 U.S. Fed. Cir. Briefs LEXIS 393, at \*74.

<sup>133</sup> 35 U.S.C. § 287 (2006) (specifying that no damages can be recovered where patent owner or its licensees failed to mark products with the patent number, until such time as affirmative notice of infringement is given).

<sup>134</sup> These included whether or not others in Toyota's distribution chain were immunized from the patent and whether changes in market conditions would bring about changes in the payments required of Toyota. Corrected Brief of Plaintiff-Cross Appellant Paice LLC at 65–66, *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007) (Nos. 2006-1610, 2006-1631), 2006 U.S. Fed. Cir. Briefs LEXIS 393, at \*79–80.

<sup>135</sup> See Reply Brief for Defendants-Appellants at 53–54, *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007) (Nos. 2006-1610, 2006-1631), 2007 U.S. Fed. Cir. Briefs LEXIS 205, at \*66–68.

<sup>136</sup> Reply Brief of Toyota Motor Corp., Appeal Nos. 2006-1610, 2006-1631, 2006 WL 551808, at \*9.

<sup>137</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

<sup>138</sup> 35 U.S.C. § 284 ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement . . .").

<sup>139</sup> *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1316 (Fed. Cir. 2007).

Intertwined with its consideration of irreparable injury was the [district] court's analysis of the adequacy of monetary damages. Given the relatively small reasonable royalty awarded by the jury—which amounted to approximately \$25 per accused vehicle—in comparison to the overall value of the vehicles, the court concluded that monetary damages would suffice. The adequacy of monetary damages was further bolstered, in the court's opinion, by the fact that Paice had offered a license to Toyota during the post-trial period.<sup>140</sup>

So far so good. However, the appellate panel then found that an “equitable” remedy was somehow involved. The majority opinion characterized the district court's order allowing “Toyota to continue using the invention of the '970 patent at a cost of \$25 per accused vehicle”<sup>141</sup> as an equitable remedy *afforded to Paice*, even though Paice opposed it from the start. In a footnote, the court attempted to explain:

We use the term ongoing royalty to distinguish this equitable remedy from a compulsory license. The term “compulsory license” implies that *anyone* who meets certain criteria has congressional authority to use that which is licensed. By contrast, the ongoing-royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court's order for any other auto manufacturer to follow in Toyota's footsteps and use the patented invention with the court's imprimatur.<sup>142</sup>

In switching from a law remedy, found by both courts to be adequate, to an equitable monetary remedy of unclear origins, the court unfortunately departed from *eBay*'s requirement to award a law remedy if adequate. One has to question how this happened. The court's rewording from “compulsory license” to “ongoing royalty” does not address the underlying issues, and the suggestion that the district court had given an “imprimatur” to illegal activity is even more unfortunate.

The appellate panel majority in *Paice* cited two prior cases to support its result. The first, *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*,<sup>143</sup> was stated to be one in which the Federal Circuit “upheld a 5% court-ordered royalty” on future sales.<sup>144</sup> However, neither party in *Shatterproof* objected to the district court's awarding a royalty-bearing license into the future or to the amount thereof,<sup>145</sup> so the situation was in a real sense a voluntary license rather

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<sup>140</sup> *Id.* at 1303 (citation omitted).

<sup>141</sup> *Id.* at 1313.

<sup>142</sup> *Id.* at 1314 n.13 (citation omitted).

<sup>143</sup> 758 F.2d 613 (Fed. Cir. 1985).

<sup>144</sup> *Paice*, 504 F.3d at 1314.

<sup>145</sup> See *Shatterproof Glass*, 758 F.2d at 628. The appellate court remarked:

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than a judicially compelled one. The second case was *United States v. Glaxo Group Ltd.*<sup>146</sup> This case, discussed earlier herein, was an antitrust case in which the patent owner lost.<sup>147</sup> As a sanction for the patentee's unlawful conduct, a compulsory license under the defendant's patents in the field was sought by the government and ordered by the Supreme Court.<sup>148</sup> This had nothing to do with remedies to be awarded to a lawful patentee who has just won a case for infringement. The license sought in *Glaxo* was a sanction for unlawful conduct, not a remedy to one whose rights have been violated. Moreover, in *Glaxo* neither the Court nor the government attempted to dictate the license terms, but simply ordered the patent owner to issue licenses on terms that were "reasonable."<sup>149</sup>

Perhaps sensing that something was wrong with what happened to Paice, the Federal Circuit panel stated that awarding this ongoing royalty form of relief was not justified "as a matter of course whenever a permanent injunction is not imposed."<sup>150</sup> Here, the court's instincts were undoubtedly correct. Still, the court was unprepared to analyze the damages situation in depth, deciding instead to revisit the whole situation in district court. The appellate majority said: "[W]ithout any indication as to why that rate [of twenty-five dollars per car] is appropriate, we are unable to determine whether the district court abused

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LOF also criticizes the court-ordered 5% royalty for the compulsory patent license for continuing operations. This royalty is based on sales, measured as defined in the order, and we do not find the amount of the royalty or its method of measurement to be clearly erroneous or an abuse of judicial discretion.

*Id.* However, the briefing in the case makes clear that neither the judicial authority nor the formulation by the district judge was in issue on the appeal:

The court denied Shatterproof's motion for an entry of injunction and granted LOF a non-exclusive, non-assignable compulsory license to practice under the patents in suit bearing a 5% royalty on all products coated using the infringing apparatus (A2899). Neither party is appealing this order, *therefore, the trial Court's authority to deny the injunction and the reasonableness of a 5% royalty in that order is not at issue.*

Brief for Appellee at 6, *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir. 1985) (Nos. 84-853, 84-883) (emphasis added). The appellate remark therefore has no significance.

<sup>146</sup> 410 U.S. 52 (1973).

<sup>147</sup> *See id.* at 64.

<sup>148</sup> *See id.*

<sup>149</sup> *Id.* at 62.

<sup>150</sup> *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1314–15 (Fed. Cir. 2007).

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its discretion.”<sup>151</sup> The court remanded the case for further proceedings on the monetary remedy.<sup>152</sup>

Use of the term “discretion” signaled again the court’s departure from the realm of remedies at law. In the same vein, the panel majority, ruling that the matter had somehow shifted back to “equity,” found that no jury trial was needed.<sup>153</sup> This unfortunately compounded the difficulties by taking away Paice’s Seventh Amendment right to a jury trial on its legal remedy, something that clearly cannot be squared with Supreme Court precedents, as discussed earlier.<sup>154</sup> On remand in *Paice*, the district court increased the ongoing royalty substantially.<sup>155</sup> This rectified the initial award’s failure to take account of post-judgment willfulness.<sup>156</sup> However, the lump-sum judgment and the right to a jury trial were still missing. These were things the district court could not rectify given the appellate rulings.

On remand, the district court judge in *Paice* did the best he could given the law of the case coming from the court of appeals. Apparently he sensed a problem posed by the fact that all post-judgment infringements are deliberate, because even under the narrow standard enunciated in *In re Seagate Technology, L.L.C.*<sup>157</sup> a reasonable entity would have to know that after final judgment its continued violations of the patent are wrongful.

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<sup>151</sup> *Id.* at 1315.

<sup>152</sup> *Id.* at 1316. Upon remand, the district court recognized that post-judgment compensation should be higher than the royalty rate adjudged for past infringements. *Paice L.L.C. v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009). It held that the hypothetical negotiation involved in setting a reasonable post-judgment royalty must be assumed to occur after judgment. *Id.* at 624. It set the royalty at ninety-eight dollars per vehicle, nearly four times the amount found for pre-judgment infringement. *Id.* at 630.

<sup>153</sup> *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1315–16 (Fed. Cir. 2007). Judge Rader, concurring with a separate opinion in *Paice*, took issue with Judge Prost’s attempt to re-characterize what happened as something other than a compulsory license; he also regarded the remedy as lying in equity. *Id.* at 1316 (Rader, J., concurring). He pointed out that the parties needed an adequate opportunity to address the monetary remedy and perceptively noted that “pre-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.” *Id.* at 1317. Unfortunately he, like the majority, regarded the remedy as a “royalty” rather than a recovery of the value damage done to the patent by the ongoing infringement. *See id.* at 1316–17.

<sup>154</sup> *See supra* Part VI.B.

<sup>155</sup> 609 F. Supp. 2d at 631.

<sup>156</sup> The district court stated: “Toyota’s continued infringement is both voluntary and intentional. Failing to take into account the change in legal relationship between the parties would be manifestly unjust to Paice.” *Id.* at 628.

<sup>157</sup> 497 F.3d 1360 (Fed. Cir. 2007) (en banc).



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Perhaps the most regrettable aspect of what happened in *Paice* is that the whole exercise of treating future infringing acts ahead of their occurrence was unnecessary. The courts could, and should, have let the future take care of itself, or if the *plaintiff* so desired, awarded a damages remedy in the present case to cover future violations of the patent. The court of appeals' rationale in *Paice*, which allowed imposition of a compulsory ongoing royalty on an unwilling patent owner, is apt to encounter difficulty in the Supreme Court if and when a similar ruling gets before that Court. Before and after *eBay*, the Court has overturned what it has seen as efforts by the Federal Circuit to carve out special rules of law for patent cases rather than follow traditional civil case concepts.<sup>158</sup> In such an environment, it might help to look to more traditional notions of tort law for what to do in instances of repetitive violations than to take away a remedy at law that, in the course of denying the injunction, has been found to be fully adequate.

### B. **z4 Technologies, Inc. v. Microsoft Corp. (2006)**<sup>159</sup>

In this post-*eBay* case involving a patent owner who successfully sued for infringement, the district judge refused the injunctive remedy on grounds similar to those employed by the judges in *eBay* and *Paice*, mainly that z4 was not a significant player in the business.<sup>160</sup> Additionally, Microsoft had assured the court that it would shortly be phasing out the offending software from its

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<sup>158</sup> In *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the Court criticized the Federal Circuit's creation of an apprehension-of-suit standard as the sole determinant of standing for a patent licensee to bring a declaratory judgment action to invalidate the patent. *Id.* at 141. In *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), the Court rejected the Federal Circuit's use of the so-called teaching, motivation, or suggestion requirement for an item of prior literature to render a patent claim unpatentable for obviousness. *Id.* at 401. The Federal Circuit's requirement had been that the prior reference must not only disclose something close to the claimed subject matter, but must also, explicitly or implicitly, provide some sort of motivation or suggestion to the skilled artisan as to how to adapt the reference's content so as to come within the scope of the later patent claim. *See Teleflex, Inc. v. KSR Int'l Co.*, 119 F. App'x 282, 288 (Fed. Cir. 2005) (criticizing the district court decision for failing to follow this standard in deciding obviousness on summary judgment).

<sup>159</sup> 434 F. Supp. 2d 437 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007), *cert. dismissed*, 553 U.S. 1028 (2008).

<sup>160</sup> The district court noted that z4 had failed to succeed in efforts to commercialize its invention and that z4 blamed Microsoft for part of this failure. *Id.* at 440.

Windows and Office products.<sup>161</sup> The issue thus boiled down to what to do about monetary relief.

The district court declared: “an efficient method for z4’s recovery of future monetary damages post-verdict is needed.”<sup>162</sup> The court severed the post-verdict infringements for handling in a separate proceeding, which it ordered to be commenced promptly.<sup>163</sup> Meanwhile, the merits issues went up on appeal to the Federal Circuit. The appellate court affirmed the judgment on the merits, but the questions surrounding monetary relief for post-judgment infringement were not before it and were not mentioned.<sup>164</sup> The case subsequently settled without any further rulings on the subject. Unfortunately for scholars, we will not know how the monetary relief would have been formulated, or whether a jury trial should have been accorded.

C. *Finisar Corp. v. DirecTV Group, Inc. (2006)*<sup>165</sup>

In this case involving two patents relating to information systems for video broadcasting through high-speed satellite or cable links, a jury found willful infringement of one of the patents and awarded reasonable royalty damages.<sup>166</sup> Based on the willfulness finding, the court awarded enhanced damages.<sup>167</sup> In the final judgment, the court refused a permanent injunction and undertook to grant a “compulsory license” under the patents, stating:

[T]he Court denied Plaintiff’s motion for injunctive relief and granted a compulsory license. Defendants are hereby ORDERED, for the remaining life of the ’505 patent, to pay Plaintiff an ongoing royalty of \$1.60 per Integrated Receiver Decoder, commonly referred to as a set top box, activated by or on

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<sup>161</sup> *z4 Techs.*, 434 F. Supp. 2d at 442 (stating that functions to be eliminated from Microsoft software by January 2007 and phase-out to be completed within two to three years thereafter).

<sup>162</sup> *Id.* at 444.

<sup>163</sup> *Id.*

<sup>164</sup> *z4 Techs.*, 507 F.3d at 1356.

<sup>165</sup> No. 1:05-CV-264, 2006 WL 2037617, at \*1 (E.D. Tex. July 7, 2006), *modified*, 523 F.3d 1323 (Fed. Cir. 2008).

<sup>166</sup> *Finisar Corp. v. DirecTV Grp., Inc.*, No. 1:05-CV-264, 2006 WL 2709206, at \*1 (E.D. Tex. Sept. 1, 2006).

<sup>167</sup> *See id.* (reporting jury verdict in the amount of \$78,920,250.25 and denying judgment as a matter of law with regard thereto); *Finisar Corp.*, No. 1:05-CV-264, 2006 WL 2037617, at \*1 (stating amount of recovery as \$103,920,250.25 plus prejudgment interest).

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behalf of or for any of the named Defendants or their present or future affiliates or subsidiaries after June 16, 2006.<sup>168</sup>

The court did not provide its rationale in the final judgment or any other published document why it believed it could convert unlawful future activities by judicially granting a license under the patents. On appeal, Finisar complained that the district court had no authority to impose a compulsory license on it, the winning party.<sup>169</sup> However, the appellate panel mooted the issue by reversing in part on the merits, concluding the broadest claim of the patent was anticipated by the prior art and hence invalid.<sup>170</sup> It remanded to have the district court determine the validity of several narrower claims that had also been found by the jury to have been infringed.<sup>171</sup> Hence, the entire verdict had to be set aside for the time being. On remand, the district court found the remaining claims invalid and entered a take-nothing judgment.<sup>172</sup> As a result, we have in this case no appellate holding on the parameters of monetary relief for ongoing infringements.

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<sup>168</sup> *Finisar Corp.*, No. 1:05-CV-264, 2006 WL 2037617, at \*1 The court attempted to flesh out the license terms as follows:

Royalties shall be paid quarterly accompanied by a statement in accordance with the provisions of paragraph 3.8 of the MPEG-2 Patent Portfolio License, dated February 22, 2001, granted to Hughes Network Systems, Inc. Payments shall begin three months after the date of signing of this judgment and shall be made quarterly thereafter. Payments not made within 14 days of the date due shall accrue interest at the rate of 10%, compounded monthly. Finisar shall have the right to request audits in accordance with the provisions of paragraph 3.9 of said MPEG-2 Patent Portfolio License. It is anticipated that, as sophisticated entities with experience in licensing agreements, the parties may wish to agree to more comprehensive or convenient terms. The parties shall promptly notify the court of any such agreement. The court maintains jurisdiction to enforce this portion of the Final Judgment.

*Id.*

<sup>169</sup> See Brief for Cross-Appellant Finisar Corp., *Finisar Corp. v. DirecTV Grp., Inc.*, 523 F.3d 1323 (Fed. Cir. 2008) (Nos. 07-1023, 07-1024), 2007 WL 2139690 at \*76.

<sup>170</sup> *Finisar Corp. v. DirecTV Grp., Inc.*, 523 F.3d 1323, 1338 (Fed. Cir. 2008) (reversing due to incorrect claim construction).

<sup>171</sup> *Id.* at 1339.

<sup>172</sup> *Finisar Corp. v. DirecTV Grp., Inc.*, Final Judgment, No. 1:05-CV-264 (E.D. Tex. May 19, 2009).

**D. Broadcom Corp. v. Qualcomm Inc. (2008)**<sup>173</sup>

When an injunction is granted, courts certainly can shape that remedy to the facts and equities of the situation at hand. This may include provisions suspending the injunctive order's impact for a time and requiring a money payment to compensate the patentee for infringements occurring during that time. For example, a year's grace to complete a design-around of the patent might be appropriate. However, the court may not "permit" or "license" unlawful activity. The role of the court is to determine remedies for such conduct, not to bless it. Some scholars have advocated the suspended-injunction approach;<sup>174</sup> something resembling it was applied in a recent case. In *Broadcom Corp. v. Qualcomm Inc.*, after the patentee had prevailed at trial and on post-trial motions, the parties disagreed on injunctive relief.<sup>175</sup> Broadcom, the patentee, wanted an immediate and unconditional injunction.<sup>176</sup> Qualcomm, the adjudicated infringer, proposed instead paying treble the per-unit damage figure found by the jury, arguing that an injunction would impose great hardships on its customers for cell phone chips and on the network carriers handling signals from such phones.<sup>177</sup> The court found the hardships would indeed be great and would be felt by the user public.<sup>178</sup> The public interest prong of *eBay* induced the judge to refrain from a total and immediate injunctive order, and also induced the judge to protect Broadcom's valid patent position by issuing a carefully crafted injunction that would cause less harm.<sup>179</sup>

Although couched in the permissive language condoned by *Paice*, the district court's resolution of the remedy was thoughtful. The judge ordered an injunction but suspended some of its effects for twenty months following the trial, characterizing that time as a "sunset" period, provided Qualcomm paid

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<sup>173</sup> No. SACV 05-467 JVS (RNBx), 2007 U.S. Dist. LEXIS 97647, at \*1 (C.D. Cal. Dec. 31, 2007), *aff'd*, 543 F.3d 683 (Fed. Cir. 2008).

<sup>174</sup> See Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2037–38 (2007) (advocating suspension clauses in some situations as a suitable remedy following *eBay*).

<sup>175</sup> See *Broadcom*, No. SACV 05-467 JVS (RNBx), 2007 U.S. Dist. LEXIS 97647, at \*5 (Qualcomm proposed an eighteen-month delay in effective date for an injunction, but Broadcom wanted an injunction with immediate effect).

<sup>176</sup> *Id.* at \*6.

<sup>177</sup> *Id.*

<sup>178</sup> *Id.* at \*14–15.

<sup>179</sup> See *id.* at \*28, \*36 (imposing royalty payments during a "sunset" period of eighteen months, followed by an injunction against infringement thereafter).

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Broadcom a specified per-unit royalty.<sup>180</sup> The court recognized the need for caution, lest the infringer come away with more than needed to avoid severe hardship. The judge restricted the unjoined sales to those that (i) involved product configurations that had actually been sold prior to the trial, and (ii) were to customers that Qualcomm had prior to trial.<sup>181</sup> He noted that the partial suspension for a carefully delineated "sunset" period ought to allow Qualcomm enough time to design around the patents involved, or at least to disable the infringing features of its chips in a manner that would not seriously interfere with customers' usage of their cell phones.<sup>182</sup> He ordered Qualcomm to pay a royalty on these unjoined sales,<sup>183</sup> recognizing that "mandatory royalties may be disfavored" but noting that "Broadcom itself recognize[d] the legitimacy of such a royalty in the context of a sunset scenario."<sup>184</sup>

There is much to be commended in *Broadcom*. The district judge recognized the impropriety of allowing an infringer free rein over subject matter that had been found to be validly patented to another. He issued an injunction, but he shaped it to ameliorate excessive harm. However, under the alchemy-like philosophy of *Paice*, the district court ruled that it had authority "to permit continued infringement upon on-going payment of a mandatory royalty."<sup>185</sup> To that extent, the rationale in *Broadcom* was regrettable.<sup>186</sup>

*E. Other Recent Cases*

The issue of judicial licensing of ongoing infringement intruded at least indirectly in three recent cases. *Voda v. Cordis Corp.*<sup>187</sup> involved patents on angioplasty guide catheters. A jury found the patents were not invalid and that Cordis had willfully infringed them.<sup>188</sup> The jury found a 7.5% royalty on in-

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<sup>180</sup> *Id.* at \*7.

<sup>181</sup> *Broadcom*, No. SACV 05-467 JVS (RNBx), 2007 U.S. Dist. LEXIS 97647, at \*21.

<sup>182</sup> *Id.* at \*28.

<sup>183</sup> *Id.*

<sup>184</sup> *Id.* at \*22.

<sup>185</sup> *Id.* at \*8 (citing *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007)).

<sup>186</sup> The court of appeals affirmed on the injunctive issues. *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 701-04 (Fed. Cir. 2008). The court cited its own *Paice* decision only for the proposition that "[u]nder some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate." *Id.* at 701 (citing *Paice*, 504 F.3d at 1314).

<sup>187</sup> No. CIV-03-1512-L, 2006 WL 2570614, at \*1 (W.D. Okla. Sept. 5, 2006), *aff'd*, 536 F.3d 1311 (Fed. Cir. 2008).

<sup>188</sup> *Id.* at \*1.

fringing sales, an appropriate measure of damages under the reasonable royalty rubric.<sup>189</sup> The parties stipulated to a dollar amount represented by that formula.<sup>190</sup> The court doubled it for willfulness,<sup>191</sup> applied the *eBay* factors, and concluded an injunction against further infringement was not warranted, mainly because the patent had been exclusively licensed by the plaintiff, Dr. Voda, to a commercial concern that was not a party to the case.<sup>192</sup> The court found Dr. Voda had not established any irreparable harm *to him* and that he could be adequately compensated in money.<sup>193</sup> It is not entirely clear whether Voda wanted a money remedy in the present case or whether that remedy was forced by the court in exchange for Voda's later rights. The judge remarked "[a]s the court has declined to issue a permanent injunction and defendant has indicated it will continue to infringe the patents-in-suit, the court must fashion a remedy for the continuing harm to plaintiff."<sup>194</sup>

So far, so good. However, the court refused Voda's suggestion to sever future damages for a later proceeding in the same case, saying it saw "no reason for severance of a cause of action for the post-verdict damages as there would be no issues for decision except simple mathematical calculations based on defendant's sales."<sup>195</sup> Future royalties were ordered to be paid periodically, and not in a lump-sum collectible judgment.<sup>196</sup>

Here once again a court found damages to be an adequate remedy but failed to implement that remedy. Instead of collecting his future damages now, Voda would, contrary to the traditional tort view, be forced to collect the court-determined sums when and if they accrued. In addition, the defendant, Cordis, was left free to adopt other catheter designs within the patent claims over time,<sup>197</sup> free of any fear of being sued for infringement or being asked to pay treble damages. Those who aided Cordis in any future infringement were rendered untouchable because of the court's permission and the operation of claim preclusion—the matter has already been taken up and the remedies adjudicated.

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<sup>189</sup> *Id.*

<sup>190</sup> *Id.* at \*1.

<sup>191</sup> *Id.* at \*4.

<sup>192</sup> *Id.* at \*5–6.

<sup>193</sup> *Voda*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5–6.

<sup>194</sup> *Id.* at \*6.

<sup>195</sup> *Id.* at \*6.

<sup>196</sup> *Id.* The court's opinion is unclear as to whether the royalty rate found for past infringing sales was to be left in place for future ones, or increased in some manner.

<sup>197</sup> Most patent claims are drawn as broadly as possible to cover future commercial modifications as well as existing products.

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On appeal, the Federal Circuit affirmed the denial of the injunction under *eBay*, set aside the willfulness finding,<sup>198</sup> and did not address any monetary relief parameters.<sup>199</sup>

The second important peripheral case in this area is *Amado v. Microsoft Corp.*<sup>200</sup> It involved the question of what to do with an escrow fund that had been ordered by the district judge, into which payments were to be made by the defendant pending resolution of its appeal as an alternative to a full and immediate injunction.<sup>201</sup> There is no doubt that a district court can defer the impact of an injunction until appeals are decided and can tailor the injunction to require the enjoined party to take steps, such as escrow payments, to protect the plaintiff's interests in the meantime. Here, the escrow payments were ordered to be two dollars per infringing unit, even though the jury assessed reasonable royalty damages at only four cents per unit.<sup>202</sup> The problem was that after the judgment for the plaintiff-patentee was affirmed by the court of appeals, the district judge assessed the harm stemming from relaxation of the injunction during the appeal at twelve cents per unit.<sup>203</sup> *Amado* contended twelve cents per infringing unit was grossly inadequate for willful infringements committed after the infringer had lost the case.<sup>204</sup> On the other side, Microsoft argued that anything beyond the jury's assessment of four cents per unit would be too high.<sup>205</sup>

Although the district court's figure seems rather clearly to have been based on a trebling of the jury's figure (probably due to the district judge's recognition that the ongoing infringement was willful), the court of appeals said there was insufficient explanation of how the district court arrived at the twelve-cent figure and remanded the case for that purpose.<sup>206</sup> The result was thus similar to that in *Paice*, which was also remanded for a fuller exposition of the calculation method used for future damages. The Federal Circuit in *Amado* correctly pointed out that there is no necessary connection between the formulation for reasonable royalties awarded for prejudgment acts of infringement on the

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<sup>198</sup> The willfulness finding was reversed in light of the new rules for willfulness announced in *In re Seagate Tech., L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007). *Voda v. Cordis Corp.*, 536 F.3d 1311, 1315 (Fed. Cir. 2008).

<sup>199</sup> *Voda*, 536 F.3d at 1315.

<sup>200</sup> 517 F.3d 1353 (Fed. Cir. 2008).

<sup>201</sup> *Id.* at 1355–56.

<sup>202</sup> *Id.* at 1356.

<sup>203</sup> *Id.* at 1355–56.

<sup>204</sup> *See id.* at 1356.

<sup>205</sup> *See id.* at 1357.

<sup>206</sup> *Amado*, 517 F.3d at 1362.

one hand, and the calculation of harms that will occur from acts of post-judgment infringements on the other.<sup>207</sup> The court stated that “[t]here is a fundamental difference, however, between the granting of retrospective relief and the granting of prospective relief. . . . Once a judgment of validity and infringement has been entered . . . the calculus is markedly different because different economic factors are involved.”<sup>208</sup>

The court thus recognized that ordinary single damages are insufficient for post-judgment infringements. It declined, however, to go farther than to say that the correct figure should fall somewhere between the four cents set by the jury for early infringements and the two dollars set by the court for escrow payments after trial and judgment.<sup>209</sup> The case was remanded for a new monetary determination.<sup>210</sup> This conceivably left room for the plaintiff to choose a true damages trial.

There is unfortunately a negative note to *Amado*. Having noted that the district court’s formulation seemed keyed to treble damages for willfulness, the panel commented that “willfulness, as such, is not the inquiry when the *infringement is permitted* by a court-ordered stay.”<sup>211</sup> This comment reflects the idea, criticized throughout this article, that a court’s declining to issue full injunctive relief can somehow equate to “permitting” unlawful infringement. As has been developed herein, that is really not the case when an injunction is refused, and it was not the case in *Amado* where the district judge stayed the injunction pending appeal. The court was not authorizing or blessing unlawful acts, something that would have been beyond its power to do. Rather, it was trying to figure out how best to deal with unlawful acts when they occurred at the hands of the wrongdoer. The case should have been left in that posture in the appellate decision.

The third case of interest is *Innogenetics, N.V. v. Abbott Laboratories*.<sup>212</sup> Here, the patentee at trial chose a damages model that included an upfront pay-

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<sup>207</sup> *Id.* at 1360, 1362.

<sup>208</sup> *Id.* at 1362.

<sup>209</sup> *Id.* at 1362 n.2.

<sup>210</sup> *Id.* at 1362.

<sup>211</sup> *Id.* (emphasis added).

<sup>212</sup> 512 F.3d 1363, 1381 (Fed. Cir. 2008) (directing the lower court “to delineate the terms of the compulsory license,” whereby the infringer would pay a running royalty of five to ten Euros per infringing product through the year 2019 when the patent presumably was due to expire). The “compulsory license” language used by the court is unfortunate. The court should have expressed this situation as a voluntary waiver of injunctive relief by collecting advance lump-sum damages based in part on the later manufacture and sale of these particular goods.



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ment to cover, at least in part, all future sales.<sup>213</sup> The jury went along with that model in arriving at its verdict, apparently including such a figure in the award.<sup>214</sup> Under these circumstances, the Federal Circuit held that injunctive relief was improper.<sup>215</sup> I have no quarrel with that ruling. Established law has held that collection of a damages judgment by the patentee for particular infringing units frees up those infringing products from the reach of the patent.<sup>216</sup> Those units can be used and resold without further tribute to the patent owner. The patent owner, by electing the remedy of damages for future units, has in effect given up patent control over them. Such voluntary action is much akin to a license, but not one forced on the patent owner by a court. The damages remedy for future infringements was thus foreclosed by the plaintiff's choice of remedy in the instant action, and the problems inherent in ongoing royalty and compulsory license thinking were avoided.

### *F. Pre-Federal Circuit Era Cases*

Prior to the cases of this decade discussed above, there was scant mention of how to deal with ongoing infringements. Then, injunctions were the established norm. However, numerous rulings indicated that it may be prudent to stay an injunction pending an appeal,<sup>217</sup> and some refused the injunction out-

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<sup>213</sup> *Id.* at 1380–81.

<sup>214</sup> *Id.*

<sup>215</sup> *Id.*

<sup>216</sup> *See* *Transclean Corp. v. Jiffy Lube Int'l, Inc.*, 474 F.3d 1298, 1301 (Fed. Cir. 2007) (holding that obtaining a damage judgment for earlier-made infringing articles precludes any action against subsequent sale of those articles).

<sup>217</sup> Several examples from high-visibility patent cases will illustrate the normal practice, prior to 1985, of staying permanent injunctions in patent cases pending appeal. *See, e.g.*, *Ill. Tool Works, Inc. v. Cont'l Can Co.*, 397 F.2d 517 (7th Cir. 1968); *Landis Tool Co. v. Ingle*, 286 F. 5 (3d Cir. 1923); *Union Carbide & Carbon Corp. v. Graver Tank & Mfg. Co.*, 106 F. Supp. 389, 390 (N.D. Ind. 1951) (indicating that injunction was entered after appeals to Supreme Court were decided). The Sixth Circuit even indicated that such stays should be the normal practice in patent litigation. *See* *Vacuum Oil Co. v. Grabler Mfg. Co.*, 53 F.2d 975, 976 (6th Cir. 1931) (“[I]n the usual case, this court should suspend this particular type of injunction pending the appeal, unless it appears that the patentee’s substantial rights will be injured if the injunction is not continued in force.”). In 1985, the Federal Circuit signaled a shift in the exercise of this discretion, refusing to stay pending appeal the powerful injunction issued in the instant-photography litigation between Polaroid and Kodak even though the refusal meant Kodak would have to remove all its instant cameras and film from outlets nationwide. *See* *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556, 1557 (Fed. Cir. 1986) (reciting appellate court’s refusal to stay injunction pending appeal).

right for various reasons.<sup>218</sup> I have been able to find only one case in that time frame dealing with the question of what to do, other than to wait for follow-on actions, if an injunction were totally denied. *Foster v. American Machine & Foundry Co.*<sup>219</sup> was a Second Circuit patent case decided in 1974. The patentee was an individual (actually a patent attorney) who had never done any business involving the patent, either directly or through licensees.<sup>220</sup> For that reason, the district court declined to enjoin AMF against further infringement and decided instead to compensate Foster by what the court of appeals characterized as a “compulsory license with royalties.”<sup>221</sup> The district court decision is not reported; we do not know what the royalty terms were or how they were determined. What survives is this characterization from the court of appeals:

[The injunctive remedy] is not intended as a club to be wielded by a patentee to enhance his negotiating stance. Here, as the District Court noted, the appellee manufactures a product; the appellant does not. . . .

. . . [T]he District Court avoided ordering a cessation of business to the benefit of neither party by *compensating appellant in the form of a compulsory license with royalties*. This Court has approved such a “flexible approach” in patent litigation. Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair.<sup>222</sup>

*Foster* stands in contradiction to my thesis about what the rules of law should be in such cases. After refusing the injunction, a point on which I have no quarrel, the court should have left things alone, or if the decision was based on public interest, then the court should have awarded lump-sum damages. The “flexible approach” cited by the court had no precedential basis at that time, and until the recent spate of attempted ongoing royalty cases, *Foster* remained the only case to approve such a course.

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<sup>218</sup> These outright refusals were usually based on health or safety concerns. See *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (reversing injunction where city would otherwise have had to dump raw sewage into Lake Michigan). However, they were sometimes based only on business hardships. See, e.g., *Hoe v. Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (stating that where the only result of an injunction would be to strengthen the bargaining hand of the plaintiff in negotiating a settlement, the injunction should not issue).

<sup>219</sup> 492 F.2d 1317 (2d Cir. 1974).

<sup>220</sup> *Id.* at 1319.

<sup>221</sup> *Id.* at 1324. The characterization is that of the court of appeals. The district court’s ruling on this subject is not reported.

<sup>222</sup> *Id.* (emphasis added) (citation omitted).

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The court in *Foster* cited as authority *Royal-McBee Corp. v. Smith-Corona Marchant, Inc.*<sup>223</sup> *Royal-McBee* was inapposite. There, the plaintiff had misled the defendant into ongoing infringements, and had long delayed bringing suit.<sup>224</sup> With the plaintiff facing a laches defense, the court refused to enjoin the defendant but did not order “a license.”<sup>225</sup> Rather, the injunction refusal was made contingent upon the defendant’s paying a certain sum for infringing acts in the future.<sup>226</sup> *Royal-McBee* could presumably have elected to forego the tendered payments and bring follow-on actions for infringement.<sup>227</sup> Its statutory rights remained intact.

The only later case to cite *Foster*’s “flexible approach” is *Medtronic Inc. v. Catalyst Research Corp.*,<sup>228</sup> a 1982 District of Minnesota case. Catalyst Research owned the patents in suit; Medtronic was found to have infringed them.<sup>229</sup> By virtue of an earlier agreement, Catalyst had apparently bargained away any right to a permanent injunction against Medtronic.<sup>230</sup> Damages having been assessed for past infringements, Medtronic, citing *Foster*, sought to avoid a permanent injunction by asking the court to confer a judicial license for the sev-

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<sup>223</sup> 295 F.2d 1 (2d Cir. 1961).

<sup>224</sup> *Id.* at 5.

<sup>225</sup> *Id.* at 5–6.

<sup>226</sup> As quoted by the court of appeals, the district court ruled:

The assurances to defendant, while not causing such disastrous results as to justify refusal of all relief on grounds of estoppel, undoubtedly are responsible for a great portion of the expense, embarrassment and loss of prestige now facing the defendant, and lead the Court to *deny injunctive relief upon the payment of a fair royalty* for continued use of the device during the relatively short period remaining of the life of the patent.

*Id.* at 6 (emphasis added).

<sup>227</sup> An issue to be reckoned with whenever remedies are sought in different but related actions involves the doctrine of claim preclusion and the prohibition on “splitting” causes of action. This prohibition sometimes applies even where new wrongs have occurred. The Restatement (Second) of Judgments indicates that the judgment in a first action can extinguish claims “with respect to . . . [a] series of connected transactions.” RESTATEMENT (SECOND) OF JUDGMENTS § 24 (1982). There is, however, an exception where “[t]he court in the first action has expressly reserved the plaintiff’s right to maintain the second action” or where “[f]or reasons of substantive policy in a case involving a continuing or recurring wrong, the plaintiff is given an option to sue once for the total harm . . . or to sue from time to time for the damages incurred.” *Id.* § 26. Both of these exceptions would apply if the rules of law advocated here were adopted.

<sup>228</sup> 547 F. Supp. 401 (D. Minn. 1982).

<sup>229</sup> *Id.* at 403, 417.

<sup>230</sup> *Id.* at 416.

en years remaining on the patents' term.<sup>231</sup> The district judge refused that request, stating that the circumstances were "not as extreme" as those in *Foster*, which he said necessitated the imposition of a judicial license.<sup>232</sup> The judge in *Medtronic* concluded: "the Court declines to impose any future license arrangements at this time: if the parties themselves fail to negotiate a license agreement, CRC may bring another action to collect those damages that it may be able to establish . . . ."<sup>233</sup> This case was correctly decided.

### VIII. CONCLUSIONS: AVAILABLE AND UNAVAILABLE REMEDIES IN CASES OF ONGOING PATENT INFRINGEMENT WHERE AN INJUNCTION HAS BEEN REFUSED

#### A. Character of a Follow-on Action, If Brought

Even though few plaintiffs are expected to choose the follow-on suit option for collecting future damages, we must consider what a follow-on action would look like. Although often decried as judicially inefficient, such an action will be relatively narrow in terms of the issues to be decided. As mentioned earlier, validity, enforceability, and scope will have been foreclosed by the prior judgment. Infringement will be in issue only if there has been a substantial change in the accused product or method; otherwise, that issue too will be foreclosed by the earlier judgment. Injunctive relief may be up for reconsideration if the circumstances underlying the *eBay* four-prong analysis have changed in the meantime. Damage calculations for the later acts of infringement may, if the economic circumstances have changed, be based on a higher or lower measure of reasonable royalty. Whatever the good faith of the infringer may have been up to the point of the first judgment, the future infringements will have been willful since good faith cannot exist after an adverse final judgment unless the accused product or process has changed.<sup>234</sup> Where willfulness is found, the court may increase the damages but is not obliged to do so.<sup>235</sup>

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<sup>231</sup> *Id.*

<sup>232</sup> *Id.* In addition to *Foster* and *Royal-McBee*, the court mentioned *Allied Research Products, Inc. v. Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1969). There, a compulsory license was imposed upon a patentee found guilty of discriminatory licensing practices.

<sup>233</sup> *Medtronic*, 547 F. Supp. at 416.

<sup>234</sup> In *In re Seagate Technology, Inc.*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit undertook an en banc review of willfulness law. It held, inter alia, that "to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. Even under that standard, post-final judgment would inescapably be will-

### B. *Some Factors Involved in the Future-Damage Award*

We now delineate some of the factors likely to be involved in the calculation of a future-damage award in a first action, if the plaintiff chooses that option.

#### 1. Possible loss of payments from existing licensees

If existing royalty-bearing licenses are outstanding at the time of the future-damages trial, the default assumption should be that those royalties will continue to be paid to the patentee, unaffected by the ongoing infringer's actions.<sup>236</sup> However, the evidence in some cases could show a probable reduction in those royalty streams due to the presence of the infringer in the market and possible future expansion of the infringer's activities. In such cases the reduction would have to be included in the damages award.

#### 2. Possible loss of revenue from new licensees

The presence of an ongoing infringer in any of the markets affected by the patent of course means the loss of any possibility of broad-based *exclusive* licensing.<sup>237</sup> This lost value will need to be assessed by expert testimony. With respect to future nonexclusive licensing, the plaintiff-patentee may be hampered in acquiring royalty-paying nonexclusive licensees in the future due to the presence of the ongoing infringer in the market.

#### 3. Possibility that the patent owner may itself enter the market

Most refusals of permanent injunctions under *eBay* are in cases where the plaintiff is at present a non-producing entity.<sup>238</sup> However, this could change

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ful. The likelihood of infringement of a valid patent is 100% absent very unusual circumstances such as fraud in procuring the judgment.

<sup>235</sup> See, e.g., *Juicy Whip, Inc. v. Orange Bang, Inc.*, 382 F.3d 1367, 1373 (Fed. Cir. 2004) (stating that where willfulness is found, a court may enhance the damage award but is not obliged to do so); *Modine Mfg. Co. v. Allen Grp., Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990) (stating that where willfulness is found, a court may enhance the damage award but is not obliged to do so).

<sup>236</sup> In a few rare instances this would not be the case. A license may have a stop-paying provision in the event of unjoined infringement by a third party, while the license continues to immunize the licensee from an infringement claim.

<sup>237</sup> Meaning for the full scope of the patent claims, and in all markets. Narrower exclusive licensing might still be possible, limited by field-of-use, geography, etc., outside the realm of operations of the infringer.

<sup>238</sup> See Petersen, *supra* note 5, at 198–99 (indicating a strong preference of district courts to grant injunctive relief in post-*eBay* patent cases where the plaintiff and defendant are competitors in the product area of the litigation and to refuse it where they are not competitors).

at any time during the remaining term of the patent,<sup>239</sup> and in that event the measure of damages could shift to lost profits rather than a mere reasonable royalty.<sup>240</sup> This factor should perhaps be a problem left with the plaintiff as part of the decision on whether to choose the future-damages-now option or to bring successive suits. If the plaintiff has no present capability or plan for entering the market, she should be put to the choice of seeking a preclusive monetary judgment now or waiting to bring a follow-on action at a later time by which the economic conditions may be clearer.

#### 4. Possibility that the infringer will stop infringing

We now consider the possibility that the infringer may cease infringing before the patent expires. This can happen in any of several ways, the two most apparent being (i) the infringer's adoption of a design-around, or (ii) the infringer's exit from the market entirely. While broadly written patent claims can have commercial significance for many years, market demand for subject matter within a patent's claim language is often brief or even nonexistent.<sup>241</sup> This would be the case, for example, when it is commercially feasible to compete while staying outside the effective reach of the patent's claim language.<sup>242</sup>

The default presumption should be that the infringer will continue with the present design for the full remainder of the patent term. Volume will need to be estimated by expert evidence.

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<sup>239</sup> Patent term under current law is variable, averaging about eighteen years. The term begins on the grant date and ends twenty years from the effective filing date. 35 U.S.C. § 154 (2006).

<sup>240</sup> The patent statute specifies a floor for infringement damages; they must be not less than a reasonable royalty. *See id.* § 284. For the lost-profits measure of damages to apply, the plaintiff's and defendant's products must be de facto competitive. *See BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218–19 (Fed. Cir. 1993) (stating that lost profits are not recoverable on account of sales of non-competitive sailboard models, because “but-for” causation is missing for such losses). In this regard, whether the plaintiff's own products are covered by the patent is not relevant. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1543 (Fed. Cir. 1995) (en banc) (stating that lost profits recovery allowed where plaintiff's own product, while competitive with defendant's product, was not covered by plaintiff's patent in suit). Patent claims are usually written broadly, covering a myriad of possible design configurations, some commercially competitive with each other and some not.

<sup>241</sup> This may not have anything to do with the merits of what an inventor has devised (i.e., “invented” in the narrow sense), but rather with the claim scope written by a patent attorney who focuses too much on the currently devised structure and not enough on covering future possibilities.

<sup>242</sup> The effective reach includes the literal scope of the broadest valid claim, and sometimes equivalents of structures recited in the claim. For an explanation of the doctrine of equivalents and limits on its availability, see DONALD CHISUM, *CHISUM ON PATENTS*, § 18.04 (2010).

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**C. *Election of a Future-Damage Award Will Bar Future Actions for Infringement***

Where a patent owner opts to seek future damages due to ongoing infringement, the judgment will be a bar to any future infringement suits against the current defendant or those in privity with her, under the patent in suit.<sup>243</sup> Opting to recover damages for future wrongs eliminates any possibility of such actions. The full loss will be assessed against the infringer now, so future actions are precluded. This result needs to be kept in mind when calculating the amount to be awarded.

**D. *Other Supportable Solutions Are Possible***

The rules of law herein proposed are not the only paths the courts could properly take to extricate themselves from the morass of judicial ongoing royalty decrees in which they now seem caught. One choice is simply to follow the traditional course and do nothing about the future when the injunction is refused. Follow-on actions can be brought if the plaintiff sees fit and the parties cannot come to terms. Given the costs of modern litigation—even when circumscribed by preclusions on the main merits issues, leaving only remedies to be tried—few such follow-on cases are apt to be filed or pursued. It is my belief that, properly administered, a jury determination of lump-sum future damages will not only be simpler to handle, but also will actually entail greater judicial efficiency than undertaking to administer monetary recovery on a periodic basis long into the future by indulging in “ongoing royalties” set by a court. When the reason for denial of the permanent injunction is mainly the public interest in the continuation of the defendant’s acts, under the rules here proposed, the plaintiff *must* proceed by the future-damages-now path. Such situations will likely be fairly rare, arising mainly in cases involving public health or safety.

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<sup>243</sup> Under the Restatement (Second) of Judgments, the bar to future actions is against actions that involve a “series of connected transactions.” RESTATEMENT (SECOND) OF JUDGMENTS § 24 (1982). If the plaintiff’s theory of recovery in the first infringement action is that her patent has diminished in value and she is seeking a damages recovery to compensate for that loss, the future wrongs are taken care of in her first judgment. Conversely, as stated in § 26(e) of the same Restatement, if in a case of continuing wrongs the plaintiff chooses to recover only for the wrongs done to date, there is no bar to follow-on actions. *Id.* § 26(e).