

**THE PAID-IN-FULL, LUMP-SUM DAMAGE AWARD:
A PERVERSION OF GEORGIA-PACIFIC, LUCENT V. GATEWAY AND THE
RIGHT TO EXCLUDE**

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I. BACKGROUND: THE PATENT SYSTEM IS PREMISED ON GRANTING INVENTORS THE RIGHT TO EXCLUDE OTHERS FROM PRACTICING THEIR CLAIMED INVENTIONS

The most basic right in a patent is the right to exclude.¹ The Founding Fathers recognized this fact when they drafted the constitutional provision authorizing Congress to enact patent laws: “Congress shall have the power to . . . promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors *the exclusive Right* to their respective Writings and Discoveries.”² Congress codified this right to exclude in the patent laws, recognizing that a patent is a property right,³ which carries with it “the right to exclude others from making, using, offering for sale, or selling the invention.”⁴ The courts have never wavered from this principle.⁵ Indeed, as recently as December 19, 2012, the United States Court of Appeals for the Federal Circuit stated: “[o]f course the axiomatic remedy for trespass on property rights is removal of the trespasser.”⁶

The purpose of this right to exclude is not only to encourage inventors to invent and disclose their inventions to the public; it is also essential to entice the investment often needed from third parties to research, test, manufacture, and market products that embody the invention.⁷ Similarly, just as securities markets

¹ Cont’l Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405, 423-24 (1908).

² U.S. CONST. art. I, § 8, cl. 8 (emphasis added).

³ 35 U.S.C. § 261 (2006) (“Subject to the provisions of this title, patents shall have the attributes of personal property.”).

⁴ 35 U.S.C. § 154(a)(1) (2006).

⁵ See Robert Bosch LLC v. Pylon Mfg. Corp., 659 F.3d 1142, 1149 (Fed. Cir. 2011) (explaining that, notwithstanding the decision in *eBay*, courts must not “ignore the fundamental nature of patents as property rights granting the owner the right to exclude. Indeed, this right has its roots in the Constitution, as the Intellectual Property Clause of the Constitution itself refers to inventors’ ‘*exclusive Right* to their respective . . . Discoveries.”) (citation omitted).

⁶ Presidio Components, Inc. v. Am. Technical Ceramics Corp., 702 F.3d 1351, 1362 (Fed. Cir. 2012).

⁷ See, e.g., Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599, *modified on other grounds*, 771 F.2d 480 (Fed. Cir. 1985) (“The encouragement of investment-based risk is the fundamental purpose of the patent grant, and is based directly on the right to exclude.”); Amgen, Inc. v. F. Hoffman-La Roche Ltd.,

are necessary to provide the liquidity that encourages investment in companies, the courts have recognized that the same is true with respect to patents and, therefore, have enabled patents to be assignable without loss of the right to exclude.⁸ Fairly protecting the right to exclude benefits the public by encouraging investment-based risk in innovation.⁹

A. *Courts Protected the Right to Exclude by Enjoining Future Infringement*

Until the Supreme Court's decision in *MercExchange, L.L.C. v. eBay, Inc. (eBay)*, courts routinely awarded injunctions once a patent holder successfully proved infringement, regardless of whether the patent holder competed with the infringer or practiced the invention.¹⁰ Early in the 20th century, the Supreme Court explained that injunctions were a proper remedy even in cases of "nonuse" because of the right to exclude:¹¹ "We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor."¹²

581 F. Supp. 2d 160, 227 (D. Mass. 2008), *aff'd in part, vacated in part*, 580 F.3d 1340 (Fed. Cir. 2009) ("As Adam Smith observed in 1776, '[i]t is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.'").

⁸ See, e.g., *Genetic Implant Sys., Inc. v. Core-Vent Corp.*, 123 F.3d 1455, 1458 (Fed. Cir. 1997); see also 35 U.S.C. § 154(a)(1) (2006) (extending right to exclude to "heirs and assigns").

⁹ See *Sanofi-Synthelabo v. Apotex, Inc.* 470 F.3d 1368, 1383 (Fed. Cir. 2006) (acknowledging "the importance of the patent system in encouraging innovation"). President Thomas Jefferson, the first patent examiner, remarked: "the issuing of patents for new discoveries has given a spring to invention beyond my conception." Letter from Thomas Jefferson to Benjamin Vaughan (June 27, 1790), in 8 WRITINGS OF THOMAS JEFFERSON 50 (Andrew A. Lipscomb et al. eds. 1903), *cited by* U.S. v. Line Material Co., 333 U.S. 287, n. 12 (1948).

¹⁰ See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated and remanded*, 547 U.S. 388 (2006) (explaining long-standing rule that injunctions would issue except in "rare instances" to protect the public interest); *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (noting general rule that once infringement had been adjudged, an injunction would issue, absent a sound reason for denying it).

¹¹ *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 422-30 (1908).

¹² *Id.* at 429.

Furthermore, the Court said, “[i]t hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.”¹³

B. *Courts Also Awarded Damages for Past Infringement*

Courts could not award injunctions to remedy past infringement because the trespass had already occurred; the only remedy available for past infringement was monetary damages.¹⁴ Past damages took various forms: lost profits or “actual damages,” an established royalty, or a reasonable royalty.¹⁵ Courts traditionally determined a reasonable royalty by “considering the nature of the invention, its utility and advantages, and the extent of the use involved,” or, in other words, “the value of what was taken.”¹⁶

In *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, Judge Tenney suggested a list of considerations for determining a reasonable royalty, concluding with a hypothetical “willing buyer and willing seller rule,” which he called “more a

¹³ *Id.* at 430; *see also* *Suffolk Co. v. Hayden*, 70 U.S. 315, 320 (1865) (the award of damages for past infringement does not give the infringer the right to continue the use, and an injunction may issue to prevent such continuing infringement).

¹⁴ *See, e.g., Cont'l Paper Bag Co.*, 210 U.S. at 430 (noting that an injunction is needed for future violations because damages do not address future conduct: “If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action.”).

¹⁵ *See, e.g., Hunt Bros. Fruit-Packing Co. v. Cassidy*, 64 F. 585, 587 (9th Cir. 1894) (“The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty, the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid.”); *Suffolk Co.*, U.S. at 320 (allowing a jury “to ascertain the damages, or, in other words, the loss to the patentee or owner, by the piracy, instead of the purchase of the use of the invention.”).

¹⁶ *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915). *See also* *Suffolk Co.*, 70 U.S. at 320; *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1117 n.1 (S.D.N.Y. 1970) (noting that Congress codified the right to “not less than a reasonable royalty” by enacting section 284 of the patent act in 1946).

statement of approach than a tool of analysis.”¹⁷ The rule “requires consideration not only of the amount that a willing licensee would have paid for the patent license, but also of the amount that a willing licensor would have accepted.”¹⁸ Judge Tenney listed fourteen nonexclusive factors addressing past conduct,¹⁹ and a fifteenth factor that proposed a “hypothetical negotiation” between a prudent licensor (the patentee) and a prudent licensee (the infringer), assumed to take place on the date of the first infringement, as an approach for determining a

¹⁷ *Georgia-Pacific, Corp.*, 318 F. Supp. at 1121.

¹⁸ *Id.*

¹⁹ *Id.* at 1120. The factors articulated by Judge Tenney are: (1) the royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty; (2) the rates paid by the licensee for the use of patents comparable to the patent in suit; (3) the nature and scope of the license as exclusive, non-exclusive, restricted, or non-restricted in terms of territory or with respect to whom the manufactured product may be sold; (4) the licensor's policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under conditions designed to preserve that monopoly; (5) the commercial relationship between the licensor and licensee; whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter; (6) the effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of these derivative or convoyed sales; (7) the duration of the patent and the term of the license; (8) the established profitability of the product made under the patent; its commercial success; and its current popularity; (9) the utility and advantages of the patent property over old modes or devices that had been used for working out similar results; (10) the nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention; (11) the extent to which the infringer has made use of the invention, and any evidence probative of the value of that use; (12) the portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions; (13) the portion of the realizable profit that should be credited to the invention rather than to non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer; and (14) the opinion testimony of qualified experts.

reasonable royalty.²⁰ Judge Tenney applied these factors in a detailed analysis of the evidence and determined “a fair reasonable royalty” for the product in question, from which he calculated an award of \$800,000 for all past infringement.²¹

The “hypothetical negotiation at the date of first infringement” analysis has been widely adopted as an approach for determining reasonable royalty patent damages for past infringement.²²

II. THE APPEARANCE OF THE PAID-IN-FULL, LUMP-SUM DAMAGES THEORY

A. *The Supreme Court's eBay Decision*

As noted above, in 2006, the Supreme Court decided in *eBay* that the right to exclude does not create a *per se* right to an injunction as a remedy to prevent future infringement.²³ Instead, patent holders must satisfy the traditional

²⁰ *Id.* (“The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee -- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention -- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.”).

²¹ *Id.* at 1123-43; *see also* *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 258 F.2d 124, 126 (2d Cir. 1958) (reversing a previous judgment that the asserted patent was invalid, issuing an injunction barring any future infringement, and tasking Judge Tenney with determining a reasonable royalty).

²² *See* GORDON V. SMITH & RUSSELL L. PARR, *INTELLECTUAL PROPERTY: VALUATION, EXPLOITATION, AND INFRINGEMENT DAMAGES* 648 (2005). The author believes that counsel and the courts have put more weight on the hypothetical negotiation prescribed in *Georgia-Pacific* than was intended by the court, warranted by the Patent Act, or is desirable; but that issue goes beyond the scope of this article.

²³ *eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388, 393-94 (2006) (plurality opinion). Prior to *eBay*, a permanent injunction generally would issue as the remedy against future infringement once infringement and validity had been adjudged. *See, e.g.,* *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (noting general rule that once infringement had been adjudged, an injunction would issue, absent a sound reason for denying it).

four-factor test to receive an injunction.²⁴ The holding of *eBay* was a shift away from the established practice of presumptively awarding injunctions to victorious patent holders.

Nevertheless, the Supreme Court's plurality decision in *eBay* did not give any guidance as to how to apply the four-part test to patent infringement cases. Chief Justice Roberts, joined in his concurring opinion by Justices Scalia and Ginsburg, described the historical practice of routinely issuing injunctions in patent cases and its implication for post-*eBay* cases:

From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of cases. This "long tradition of equity practice" is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee's wishes – a difficulty that often implicates the first two factors of the traditional four-factor test.²⁵

The Supreme Court in *eBay* did not address what courts were to do when they denied an injunction to the owner of a valid, infringed, and enforceable patent. Nothing in the *eBay* decision indicated, however, that an alternative remedy recognizing the patent holder's right to exclude could not be provided if an injunction were denied.²⁶ Indeed, in its relatively recent decision in *Bosch v. Pylon Manufacturing*, the Court of Appeals for the Federal Circuit made clear that, although *eBay* jettisoned the *presumption* of irreparable harm as it applies to determining the appropriateness of injunctive relief,²⁷ the right to exclude should not be ignored:

Although *eBay* abolishes our general rule that an injunction normally will issue when a patent is found to have been valid and infringed, it does not swing the pendulum in the opposite direction. In other words, even though a successful patent

²⁴ *eBay*, 547 U.S. at 391.

²⁵ *Id.* at 395 (Roberts, C.J., concurring). The Chief Justice notes that the plurality opinion "rightly rests on the proposition that 'a major departure from the long tradition of equity practice should not be lightly implied.'" The second concurring opinion, authored by Justice Kennedy, is discussed *infra* pp. 213-14.

²⁶ *See id.* at 393-94 (plurality opinion).

²⁷ *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1149 (Fed. Cir. 2011).

infringement plaintiff can no longer rely on presumptions or other short-cuts to support a request for a permanent injunction, it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude. Indeed, this right has its roots in the Constitution, as the Intellectual Property Clause of the Constitution itself refers to inventors' "exclusive Right to their respective . . . Discoveries."²⁸

B. *In Response to the Potential Practical Consequences of eBay, the Federal Circuit Determined that Courts May Award an "Ongoing Royalty" to Compensate a Patent Holder for Giving Up Its Right to Exclude When an Injunction Is Unavailable*

After the *eBay* decision, district courts were left with the task of implementing *eBay* without guidance from a majority opinion.²⁹ In looking for a reasonably bright line rule for determining when an injunction should issue, most district courts began to deny injunctions to any patent owner who was not a direct competitor of the alleged infringer, citing to Justice Kennedy's separate concurring opinion (joined by Justices Stevens, Souter and Breyer) in *eBay*.³⁰ Justice Kennedy's opinion emphasized that in the current economy, there are firms that use patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."³¹ Justice Kennedy suggested that where the patented invention was a small component of the ultimate product, but the patent holder could use the threat of an injunction for "undue leverage in negotiations," legal damages may be sufficient, and an injunction might not serve the public interest.³²

The result was that most patent owners were unable to obtain an injunction and, therefore, the courts needed to determine the proper monetary

²⁸ *Id.* (quoting U.S. Const. art. I, § 8, cl. 8).

²⁹ See James Boyle, *Open Source Innovation, Patent Injunctions, and the Public Interest*, 11 DUKE L. & TECH. REV. 30, 37 (2012).

³⁰ *Id.* at 36-38. The Federal Circuit recently suggested that it could be possible for a non-competitor to obtain an injunction if it could satisfy the four-part injunction test. See *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312, 1337-38 (Fed. Cir. 2012).

³¹ *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

³² *Id.*

relief for the great majority of patent holders who were not direct competitors.³³ The courts could have permitted successive suits for any continuing infringements,³⁴ but that is not what happened. Instead, the Federal Circuit addressed this issue in *Paice LLC v. Toyota Motor Corp.*, after the district court denied the patent holder an injunction and issued an ongoing royalty at the same rate the jury had awarded for past infringement.³⁵ The Federal Circuit considered whether the district court had authority to grant such relief for future infringement,³⁶ and held that the district court had properly invoked its equity power to award an ongoing royalty.³⁷ The Federal Circuit, however, vacated the amount awarded, because the trial court had provided no analysis (aside from using a rate that was approximately the same as the jury's award for past infringement) to justify its determination of an ongoing royalty rate.³⁸ In remanding, the Federal Circuit noted that the trial court could, if necessary, take any evidence it needed to account for additional economic factors arising out of the imposition of an ongoing royalty, and also suggested that the parties should be given the opportunity to present other evidence as to the appropriate ongoing royalty rate.³⁹

Although the Federal Circuit in *Paice* left judges in future cases to flesh out the standard for determining ongoing royalties, the court did send a clear message that damages for future infringement are fundamentally different from compensatory damages for past infringement.⁴⁰ This principle was made even clearer in the Federal Circuit's subsequent decision in *Amado v. Microsoft Corp.*, in which the Federal Circuit rejected Microsoft's argument that the award for future infringement was limited to the amount the jury had found was a reasonable royalty for past infringement.⁴¹ The Federal Circuit held: "[t]here is a

³³ Boyle, *supra* note 29, at 9.

³⁴ See *infra* Part C.1. pp. 229-31 (this is a common remedy for continuing torts).

³⁵ *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1302-03 (Fed. Cir. 2007).

³⁶ See *id.* at 1314.

³⁷ *Id.* at 1315. In the author's opinion, this holding is incorrect and a violation of the Seventh Amendment right to a jury trial; but that also exceeds the scope of this article.

³⁸ *Id.* at 1316.

³⁹ *Id.* at 1315.

⁴⁰ See *id.*

⁴¹ *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1361 (Fed. Cir. 2008).

fundamental difference . . . between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement.”⁴² The Federal Circuit recently reaffirmed this principle in *Activevideo Networks, Inc. v. Verizon Communications, Inc.*, noting that the adjudication of validity and infringement had substantially shifted the bargaining position of the parties.⁴³ Thus, even after *eBay*, the Federal Circuit has made clear that the circumstances that exist after a jury verdict in favor of a patent holder are not the same as those that exist at the hypothetical negotiation around the date of first infringement described in *Georgia-Pacific*.

C. A Related Development—Shortly After Paice, the Federal Circuit Began to Focus More on Damages Awards

Between 2009 and 2011—the years following the *Paice* decision—the Federal Circuit issued a number of key opinions examining and ultimately reversing damages awards for ongoing infringement.⁴⁴ The decision that laid the foundation for these cases was *Lucent v. Gateway*, where the Federal Circuit reviewed a \$358 million jury verdict against Microsoft.⁴⁵ At trial, Lucent offered a damages analysis based on a running royalty theory, which tied the amount of money payable directly to how often the licensed invention was later used by the licensee.⁴⁶ Microsoft, on the other hand, sought to limit damages to a \$6.5 million lump-sum amount.⁴⁷ In the end, the jury awarded a lump-sum, paid-in-full

⁴² *Id.* at 1361.

⁴³ *ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 694 F.3d 1312, 1342 (Fed. Cir. 2012).

⁴⁴ *See Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1319-22 (Fed. Cir. 2010) (finding record insufficient to support a conclusion that the offered licenses were comparable from an economic perspective); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869-73 (Fed. Cir. 2010) (finding insufficient record to support a conclusion that the offered licenses involved comparable technology); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312-15 (Fed. Cir. 2011) (holding that 25% rule-of-thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation, and overturning a \$388 million jury verdict).

⁴⁵ *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1308 (Fed. Cir. 2009).

⁴⁶ *Id.* at 1325-26.

⁴⁷ *Id.* at 1325.

royalty of approximately \$358 million.⁴⁸ On appeal, the Federal Circuit vacated the damages for lack of substantial evidence.⁴⁹

From a precedential standpoint, the *Lucent* decision is most important for its discussion of the comparability of license agreements.⁵⁰ Nonetheless, the portion of the opinion explaining the concept of a lump-sum license attracted the attention of potential defendants. Specifically, the court, in dicta, identified fundamental differences between running-royalty licenses and lump-sum licenses, explaining that although a running royalty is dependent on the level of sales or usage by the licensee (which the licensee can often control):

[a] lump-sum license 'benefits the patentholder in that it enables the company to raise a substantial amount of cash quickly and benefits the target [i.e., the licensee] by capping its liability and giving it the ability, usually for the remainder of the patent term, to actually use the patented technology in its own products without any further expenditure.'⁵¹

Defendants have since seized on this and related excerpts, contending that the discussion of a paid-in-full, lump-sum royalty license authorizes juries to award a paid-in-full, lump-sum *verdict* that can result in a compulsory license for future infringement for the life of the patent.

D. *Since Lucent, Defendants Have Sought to Modify the Hypothetical Negotiation Analysis so that the Jury Can Award a Paid-in-Full, Lump-Sum Verdict Covering Both Past and Future Infringement Determined as of the Date of First Infringement*

Defendants, particularly after *Lucent*, have seized the opportunity to argue to district courts that the hypothetical negotiation from *Georgia Pacific* (which only dealt with past damages) should be combined with *Lucent's* dicta regarding lump-sum licenses. This combination, they argue, would allow a jury to compel the patent owner to license the infringer to continue to infringe for the full life of the patent, based on a hypothetical negotiation assumed to have taken

⁴⁸ See *id.* at 1325.

⁴⁹ See *id.* at 1335.

⁵⁰ See *id.* at 1325-32.

⁵¹ *Id.* at 1326 (emphasis added) (citation omitted).

place when the patent was first infringed.⁵² These arguments have had some success.⁵³

In *Lighting Ballast Control v. Philips Electronics*, the jury returned a verdict of \$3 million.⁵⁴ The district court, relying on the dicta in *Lucent*, interpreted this verdict to act as a paid-in-full, lump-sum award, rather than as establishing a running royalty rate:

[G]iven the evidence adduced at trial, [and] the similarity between the damages verdict and [defendant's] damages position . . . the Court finds that the ambiguous damages verdict of '3,000,00[0].00' should be construed to represent a lump-sum royalty payment, *which would grant [defendant] a license* to use the . . . patent from the date of entry through the expiration of the patent.⁵⁵

The district court in *Telcordia Technologies, Inc. v. Cisco Systems, Inc.* undertook a similar analysis, but reached a different result.⁵⁶ The court determined that the jury did *not* award a paid-in-full, lump-sum award, but instead awarded damages only for past infringement.⁵⁷ The Federal Circuit affirmed this conclusion.⁵⁸ One could argue that the Federal Circuit has impliedly acknowledged the propriety of a jury awarding a lump-sum license. In neither decision, however, did the court specifically address the threshold question of whether a jury could be permitted, absent consent by both parties, to use a *Georgia-Pacific* hypothetical negotiation on the date of first infringement to award a paid-in-full, lump-sum license authorizing future infringement.

⁵² See, e.g., *Lighting Ballast Control, LLC v. Philips Electronics, N. Am. Corp.*, 814 F. Supp. 2d 665, 692 (N.D. Tex. 2011).

⁵³ See, e.g., *id.*

⁵⁴ *Id.* at 670.

⁵⁵ *Id.* at 693 (emphasis added).

⁵⁶ See *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1378 (Fed. Cir. 2010).

⁵⁷ See *id.*

⁵⁸ *Id.*; see also *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 35 (Fed. Cir. 2012) (rejecting argument that jury, whose verdict form was silent, had awarded a paid-in-full, lump-sum verdict).

The district court in *Personal Audio, LLC v. Apple, Inc.*, however, did address this threshold issue. It concluded that no controlling law authorized such relief: “[T]here is no binding authority explicitly authorizing a fully paid up lump sum compensating for both past and future infringement for the life of the patent as a permissible form of damages, particularly with respect to products that were not considered by the jury.”⁵⁹ The *Personal Audio* court nonetheless concluded that paid-in-full, lump-sum verdicts were permissible and that the verdict in that case resulted in an actual license for the defendant.⁶⁰ The court relied solely on the discussion of lump-sum licenses in *Lucent* to reach this conclusion.⁶¹ Despite reaching this conclusion, the court recognized that the issue of paid-in-full, lump-sum verdicts would be ripe for appellate review.⁶² The Federal Circuit has not yet directly decided this issue.⁶³

III. ANALYSIS

A. *The Law Does Not Allow Paid-in-Full, Lump-Sum Damages Awards That Include a License to Continue to Infringe*

Neither the United States Supreme Court nor the Federal Circuit has ever held that a paid-in-full, lump-sum damages award could serve as a license authorizing future infringement of an asserted patent, and they should not do so.⁶⁴

⁵⁹ *Personal Audio, LLC v. Apple, Inc.*, No. 9:09-cv-111, 6 (E.D. Tex. Aug. 22, 2011) (order denying plaintiff’s motion for an ongoing royalty).

⁶⁰ *See id.* at 6.

⁶¹ *See id.*

⁶² *See id.* (“[T]his [paid-in-full, lump-sum verdict] issue will be ripe for the higher court to squarely decide.”).

⁶³ *But see LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 70 (Fed. Cir. 2012) (“LaserDynamics overlooks that a per-unit running royalty is not the only form of a reasonable royalty that the parties might have agreed to in a hypothetical negotiation. An alternate form is evidenced by the many license agreements to the . . . [p]atent in the record for lump sum royalties that are not calculated as a percentage of *any* component or product, which immediately belies the argument that using a laptop computer as the royalty base is ‘necessary.’”).

⁶⁴ *See Personal Audio*, No. 9:09-cv-111 at 6.

1. The Patent Act Provides No Basis for a Jury to Award a License for Future Infringement

a. Section 284 Only Covers Past Damages

Patent law has long recognized that compensation for past infringement does not authorize an infringer to continue infringement in the future.⁶⁵ More than 145 years ago, the Supreme Court explicitly stated: “A recovery does not vest the infringer with the right to continue the use [of the patent], as the consequence of it may be an injunction restraining the defendant from the further use of it.”⁶⁶ That principle was the law when Congress passed section 284 of the Patent Act. Thus, when Congress stated that the patent owner shall be awarded “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer,”⁶⁷ it did so knowing that the courts were granting injunctions prohibiting future infringement. Congress was referring only to damages for past infringement, and that is how the courts have consistently applied section 284.⁶⁸

⁶⁵ See, e.g., *Suffolk Co. v. Hayden*, 70 U.S. 315, 320 (1866).

⁶⁶ *Id.* (emphasis added); see also *Ernie Ball, Inc. v. Earvana, LLC*, No. 5:06-cv-00384-JHN-OPx, 2011 WL 201816, at *4 (C.D. Cal. Jan. 21, 2011) (citing *Suffolk* for same rule of law).

⁶⁷ 35 U.S.C. § 284 (2006) (emphasis added).

⁶⁸ See, e.g., *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1320 (Fed. Cir. 2010) (“[A] patentee must seek compensation for past infringement under 35 U.S.C. § 284.”); *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1367 (Fed. Cir. 1998) (“The section under which a litigant must seek compensation for past infringement is Section 284.”); *Affinity Labs of Tex., LLC v. BMW N. Am., LLC*, 783 F. Supp. 2d 891, 905 (E.D. Tex. 2011) (explaining that section 284 “governs the award of past damages.”). *But see* *Creative Internet Adver. Corp. v. Yahoo! Inc.*, 674 F. Supp. 2d 847, 861 (E.D. Tex. 2009) (applying section 284 to ongoing royalties without analysis); Paul M. Janicke, *Implementing the “Adequate Remedy at Law” for Ongoing Patent Infringement After eBay v. MercExchange*, 51 IDEA 163, 176 (2011); Mark A. Lemley, *The Ongoing Confusion over Ongoing Royalties*, 76 MO. L. REV. 695, 697 (2011) (“[S]ection 284 arguably gives courts the authority to award forward-looking as well as backward-looking damages.”) (emphasis added).

The *Georgia-Pacific* hypothetical negotiation analysis guiding damages awards under section 284 also focuses only on past events.⁶⁹ As noted above, the *Georgia-Pacific* case had nothing to do with future infringement because the infringement had ended in 1958, after the Second Circuit entered an injunction and remanded to the trial court solely on the issue of past damages.⁷⁰ The “hypothetical negotiation” is just that—hypothetical. It does not actually result in a license. “*There is, of course, no actual willingness on either side, and no license to do anything.*”⁷¹ A jury’s verdict awarding damages under section 284, therefore, is binding only to the extent it encompasses past infringement.⁷²

b. *Section 283 Protects a Patent Holder’s Right to Exclude Only By Authorizing the Court to Enjoin Future Infringement*

Section 283 is very short and very clear: “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”⁷³ The section permits the court to grant an *injunction*; no basis can be found in this language to authorize a jury (or a judge) to grant a *license*. The section, like the majority opinion in *eBay*, does not address what happens if the court exercises its equitable powers not to grant an injunction. If there is authority to permit the court to award an ongoing royalty in lieu of an injunction, or for the court to permit the jury to award damages in the form of a license for infringement that has not yet occurred, it cannot be based on section 283.

⁶⁹ See *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

⁷⁰ *Id.* at 1143; *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 258 F.2d 124, 126 (2d Cir. 1958).

⁷¹ *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1159 (6th Cir. 1978) (emphasis added); see also *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1575 (Fed. Cir. 1988) (describing hypothetical negotiation as “fantasy” because the analysis “requires a court to imagine what warring parties would have agreed to as willing negotiators.”).

⁷² *Oracle Am., Inc. v. Google Inc.*, 798 F. Supp. 2d 1111, 1117 (N.D. Cal. 2011) (explaining that “the license reached in the hypothetical negotiation must compensate the licensor for the actual infringement that took place—no more and no less.”).

⁷³ 35 U.S.C. § 283 (2006).

c. *The Court's General Equitable Power*

Because injunctions under section 283 post-*eBay* are difficult to obtain unless the patent holder is a direct competitor of the infringer, courts have been faced with the question of what remedy would be available for future infringement if an injunction was not entered. Courts were undoubtedly concerned that they could be subjected to successive suits based on infringement that occurred after the first finding of infringement. The Federal Circuit's solution in *Paice v. Toyota*—deciding that district courts could impose an ongoing royalty pursuant to the courts' general equity power⁷⁴—was incorrect. For the purposes of this article, however, the importance of *Paice* is that the Federal Circuit understood that there was something wrong with permitting the jury verdict on past damages to control the amount of the ongoing royalty for future infringement. A year later in *Amado*, the Federal Circuit explained its holding in *Paice* by stating that the relationship of the parties had changed because of the jury verdict:

There is a fundamental difference . . . between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement. Prior to judgment, liability for infringement, as well as the validity of the patent, is uncertain, and damages are determined in the context of that uncertainty. Once a judgment of validity and infringement has been entered, however, the calculus is markedly different because different economic factors are involved.⁷⁵

Post-verdict royalties are different because the patents are no longer just *presumed* valid and infringed; they *are* valid and infringed. Increased damages, moreover, are necessary to protect the patent holder's right to exclude because:

⁷⁴ See *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed Cir. 2007). In fact, the Supreme Court expressly refused to adopt compulsory licensing in patent cases. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("Compulsory licensing is a rarity in our patent system, and we decline to manufacture such a requirement."). Despite repeated proposals to do so, Congress has also refused to provide for compulsory licensing of patents. *Id.*

⁷⁵ *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1361-62 (internal citations omitted).

[T]he law must ensure that an adjudged infringer who voluntarily chooses to continue his infringing behavior must adequately compensate the patent holder for using the patent holder's property. Anything less would be manifestly unjust and violate the spirit, if not the letter, of the U.S. Constitution and the Patent Act.⁷⁶

Enhanced damages are also appropriate because they take into account the willfulness of the infringement.⁷⁷ Anything less than enhanced damages for post-verdict infringement just incentivizes litigation. "Without the risk of a post-judgment enhancement, a defendant would be encouraged to bitterly contest every claim of patent infringement, because in the end, only a reasonable royalty would be imposed and there would essentially be no downside to losing."⁷⁸

The Federal Circuit's instinct in *Paice* was right, and what it wrote was correct, but its rationale provides guidance beyond the mere principle that damages should be enhanced because of likely willfulness. The Federal Circuit explained that the purpose of an ongoing royalty is to protect a patent holder's right to exclude, even when an injunction is unavailable.⁷⁹ The ongoing royalty

⁷⁶ *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009).

⁷⁷ *See id.* at 626-27 (stating that "[o]nce judgment is entered, ongoing infringement by the adjudged infringer is willful."); *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d 1171, 1193 (Fed. Cir. 2012) (affirming district court's enhanced ongoing royalty over reasonable royalty for past damages because the infringer "voluntarily chose to continue its post-verdict infringement unabated."), *reaff'd in relevant part*, 682 F.3d 1003, 1005, n.1 (Fed. Cir. 2012) (*en banc*), *cert. denied*, 133 S.Ct. 932 (Jan. 14, 2013).

⁷⁸ *Affinity Labs of Tex., LLC v. BMW N. Am., LLC*, 783 F. Supp. 2d 891, 898 (E.D. Tex. 2011); *see also Paice*, 609 F. Supp. 2d at 628 ("Failing to consider the parties' changed legal status would create an incentive for every defendant to fight each patent infringement case to the bitter end because without consideration of the changed legal status, there is essentially no downside to losing."); *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312, 1343 (Fed. Cir. 2012) (stating that the change in parties' bargaining power, following adjudication of validity and infringement, becomes even stronger after appeal and should be considered by the trial court, on remand, in determining appropriate ongoing royalty).

⁷⁹ *See Paice*, 609 F. Supp. 2d at 630 (stating that "an ongoing royalty rate must still adequately compensate a patentee for giving up his right under the law

protects the right to exclude by determining “what amount of money would reasonably compensate a patentee for giving up his right to exclude yet allow an ongoing willful infringer to make a reasonable profit...”⁸⁰ Put another way, if an injunction is not issued to remedy the right to exclude because money damages would be adequate relief, the amount the patentee should receive increases by the monetary value of the right to exclude, not because the infringement was willful. That measure usually, but not always, will result in a royalty larger than the one the jury imposed for past damages. Under these circumstances, the ongoing royalty should not be “enhanced” damages, but rather should reflect the price the infringer would be willing to pay not to be excluded from the market as of the date an injunction otherwise would have been entered.⁸¹ This date is very different from the date of first infringement evaluated in the *Georgia-Pacific* hypothetical negotiation. Thus, if judges continue to award “ongoing royalties,” aside from willfulness, the essential question left to be decided is what amount the infringer would have agreed to pay not to be excluded from the market.⁸²

to exclude others from making, using, selling, offering for sale or importing his invention.”).

⁸⁰ *Id.* at 624.

⁸¹ The issue of the significance, in determining the forward-looking royalty, of the price the infringer should be willing to pay to prevent exclusion from the market, and willfulness, is presently before the Federal Circuit in *Mondis Technology LTD. v. Chimei Innolux Corp.*, No.2012-1304,-1429. There, a jury awarded Mondis back damages, and the trial judge awarded an ongoing royalty based on a rate that was a multiple of the rate awarded by the jury. The defendant argues on appeal that the court did so by wrongly applying willfulness to the forward-looking award. Mondis argues that the court must base the ongoing royalty on a new hypothetical negotiation, which would have occurred after the jury verdict, and that the court can enhance the award for willfulness. Brief for Plaintiff-Appellee at 3-4, 14, *Mondis Tech. Ltd. v. Chimei Innolux Corp.*, No. 2012-1304,-1429 (Fed. Cir. Aug. 23, 2012).

⁸² *Id.*

2. ***Lucent* Does Not Authorize Jury Verdicts to Serve as Paid-in-Full, Lump-Sum Licenses for Future Infringement**

Proponents of paid-in-full, lump-sum verdicts rely on *Lucent* as the main premise of their argument,⁸³ and the district courts that have allowed this form of relief have relied on *Lucent* to support their conclusion.⁸⁴ Although *Lucent* discusses lump-sum licenses, the court did not address whether lump-sum verdicts, which are perfectly appropriate as a remedy for past infringement, could become lump-sum licenses for future infringement.

The Federal Circuit held that the damages evidence presented by *Lucent* did not meet the “substantial evidence” threshold to justify the jury award.⁸⁵ There was no holding that a jury could award a lump-sum license for future infringement.

Additionally, both parties on appeal sought damages in a lump-sum award. The infringer, Microsoft, argued for a low lump-sum verdict, while the patent holder, *Lucent* sought to sustain the jury’s \$358 million verdict on a lump-sum basis.⁸⁶ Neither party raised, nor did the court discuss, the issue of what effect a lump-sum verdict would have on the parties going forward. The en banc court did not address this issue, either. The court did not mention future damages or whether a lump-sum verdict serves as a license in the future. The Federal Circuit also never mentioned the right to exclude. Had the court intended to establish such an important principle, which goes to the heart of the constitutional and statutory right to exclude and has never before been addressed by statute or case law, it surely would not have done so in this manner. The case was about past damages, nothing more.

⁸³ See, e.g., Reply Brief for Plaintiff-Appellant at 7, *Laserdynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012) (No. 2011-1440, 1470).

⁸⁴ See, e.g., Memorandum and Order Re: Lump Sum Damages at 16, Pers. Audio, LLC v. Apple, Inc., No. 9:09CV111, 2011 WL 3269330 (E.D. Tex. July 29, 2011).

⁸⁵ See *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1335 (Fed. Cir. 2009).

⁸⁶ See *id.* at 1325.

B. *Public Policy Weighs Heavily Against Paid-in-Full, Lump-Sum Damages Awards, Which Permit Future Infringement*

The fundamental basis of the patent system is that a patent holder gets a fixed period of exclusion in return for disclosure of the invention. As part of that agreement, the patent holder is entitled to sell or license the patent rights to whomever it wants, and is free not to sell or license the patent for any reason.⁸⁷ This is true even if the reason for refusing to license is economically irrational or motivated by animus toward the party seeking the license.⁸⁸

There are many rational reasons why a patentee would not want to grant a license to a particular company at a particular time. For example, a company may seek a license to a patent in order to make a product, but the patentee wants to delay licensing for a few years with the intention of licensing it to a different company at a more propitious time. Should the first company be able to infringe the patent and then obtain the license through a jury verdict? Permitting any person or company to infringe a patent and then, in a trial, impose upon the patent owner a paid-up, lump-sum license, is to entirely vitiate the patent holder's right to choose. This course also precludes the patent holder

⁸⁷ See, e.g., *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1379 (Fed. Cir. 2000) ("A patent represents the legal right to exclude others from making, using, selling, or offering to sell a patented invention in the United States, and from importing the invention into the United States. Implicit in the right to exclude is the ability to waive that right, i.e., to license activities that would otherwise be excluded, such as making, using and selling the patented invention in the United States.") (citation omitted).

⁸⁸ See *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429 (1908) ("The right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor. The only qualification ever made was against aliens in the act of 1832."); *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 294-95 (6th Cir. 1896) ("If [a patentee] sees fit, he may reserve to himself the exclusive use of the invention or discovery. If he will neither use his device nor permit others to use it, he has but suppressed his own . . . His title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself or permit others to use it."); *Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions.").

from granting an exclusive license to any other third party that the patent holder may deem more capable of exploiting the patented technology.

In addition to impropriety and bad public policy, another negative consequence results from permitting juries to compel patent owners to license infringing parties for post-verdict infringement. If courts were to compel a full license to the asserted patents, the infringer would be allowed to release new products, more than colorably different from the accused products, that were never at issue in the trial. Paid-in-full lump-sum verdicts that cover future products thus prevent juries from appropriately determining the “reasonable royalty for the use made of the invention by the infringer,” as required by section 284.⁸⁹

Most importantly, the Founders of the United States, the Congress, and the courts have repeatedly stated that the public benefits from a strong and robust patent system.⁹⁰ “There is a strong interest in the promotion of respect for the patent laws and the deterrence of infringing activities in general.”⁹¹ This strong interest stems from the fundamental quid pro quo of the patent system, which drives innovation.⁹² As President Lincoln famously recognized, the patent

⁸⁹ 35 U.S.C. § 284 (2006).

⁹⁰ See, e.g., THE FEDERALIST No. 43 (James Madison) (“The utility of this power will scarcely be questioned. The copy right of authors has been solemnly adjudged in Great Britain to be a right at common law. The right to useful inventions, seems with equal reason to belong to the inventors. The public good fully coincides in both cases, with the claims of individuals.”); 157 CONG. REC. S5356 (daily ed. Sept. 07, 2011) (statement of Sen. Klobuchar) (“I see firsthand the importance of success of a robust patent system whenever I am visiting Minnesota companies and talking with business leaders in our State, as I did many times over the past month. Minnesotans have brought the world everything from the pacemaker to the Post-It-Note. These innovations would not have been possible without the protection of the patent system. This strong commitment to innovation and development is why our State ranks sixth in the Nation in patents per capita, and we are No. 1 per capita for Fortune 500 companies.”); *Affinity Labs of Tex., LLC v. BMW N. Am., LLC*, 783 F. Supp. 2d 891, 898 (E.D. Tex. 2011) (“The public benefits of protecting intellectual property have long been recognized in American law.”).

⁹¹ *Affinity Labs*, 783 F. Supp. 2d at 905.

⁹² See, e.g., *Sanofi-Synthelabo v. Apotex, Inc.* 470 F.3d 1368, 1383 (Fed. Cir. 2006); 1 WILLIAM C. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS

system “added the fuel of *interest* to the *fire* of genius.”⁹³ The entire society benefits when patent rights are vigorously protected.⁹⁴ Not only does a strong patent system incentivize invention, it also enables investors to have the confidence to invest the vast sums of money often needed to test, develop, manufacture, and distribute the invention.⁹⁵ Investors will not likely invest in inventions unless they are confident that the invention that is the basis of their investment will be adequately protected against infringement. Moreover, “one of the benefits of a patent system is its so-called ‘negative incentive’ to ‘design around’ a competitor’s products, even when they are patented, thus bringing a steady flow of innovations to the marketplace.”⁹⁶

Paid-in-full, lump-sum damages awards, which permit future infringement, weaken the patent system and deny the public these benefits. Instead of encouraging respect for patent rights, paid-in-full, lump-sum verdicts incentivize litigation. With these verdicts, an infringer has nothing to lose by infringing. If a jury finds that he has infringed, he will only have to pay a reasonable lump-sum license fee for a compulsory, paid-up license. In other words, infringers are in no worse a position by proceeding to trial than they would be in if they negotiated a license before or during litigation. “The infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid . . . [T]he infringer would be in a ‘heads-I-win, tails-you-lose’ position.”⁹⁷ Not only does the infringer have nothing to lose, the infringer also has the ability to obtain a license in situations where the patentee may not want to grant it a license.

305 (1890) (“The consideration for the grant of [an inventor’s] exclusive privilege is the benefit which he confers upon the public by placing in their hands a means through the use of which their wants may be supplied.”).

⁹³ Abraham Lincoln, *Second Lecture on Discoveries and Inventions* (1859) in 3 THE COLLECTED WORKS OF ABRAHAM LINCOLN 363 (Roy P. Basler et al. eds., 1953).

⁹⁴ See, e.g., *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1362-63 (Fed. Cir. 2008).

⁹⁵ See e.g., Patrick Gattari, *The Role of Patent Law in Incentivizing Green Technology*, 11 NW. J. TECH. & INTELL. PROP. 41, 42 (2013); Robert M. Sherwood, *Intellectual Property Systems and Investment Stimulation: The Rating of Systems in Eighteen Developing Countries*, 37 IDEA 261, 352 (1996-97).

⁹⁶ See, e.g., *State Indus. Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985).

⁹⁷ *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) (quoting *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978)).

This is a stake in the heart of the patent system. “The public policy behind granting a patent monopoly is vitiated if infringers are permitted, under the court’s tacit permission, to take out a ‘litigation license’ for which the patentee never negotiated or bargained.”⁹⁸ The Federal Circuit recently cautioned, in the context of reversing the denial of an injunction, that “a calculating infringer may thus decide to risk a delayed payment to obtain use of valuable property without prior negotiation or the owner’s permission.”⁹⁹ This risk is amplified if the infringer anticipates the possibility of obtaining a “litigation license.”

In short, paid-in-full, lump-sum awards allow the infringer to obtain through litigation what it otherwise was unable to obtain through negotiation—a compulsory license arising from a “hypothetical negotiation” with a “willing licensor.” The hypothetical has become a destructive fantasy, where the licensor who was never “willing” is now nominated the “willing licensor,” not just for the purpose of calculating past damages, but also for the purpose of permitting an ongoing trespass.

C. *When an Injunction Is Unavailable, the Only Way to Protect a Patent Holder’s Right to Exclude Is to Compensate the Patent Holder for the Right to Exclude*

1. *Courts Generally Should Compensate Patent Holders for Losing Their Right to Exclude by Allowing Successive Lawsuits for Past Infringement, with Willfulness Presumed*

The Federal Circuit is concerned with the possibility of excessive and repetitive lawsuits. This concern has driven the Federal Circuit to give district court judges the authority to award ongoing royalties pursuant to their equitable powers and to permit juries to award licenses to infringe in the future. Excessive and repetitive lawsuits are not the only alternative to the present arrangement, and there likely will not be the excessive burden the Federal Circuit fears.

⁹⁸ *Lawman Armor Corp. v. Winner Int’l, Inc.*, No. CIV.A. 01-1605, 2002 WL 123342, at *20 (E.D. Pa. Jan. 28, 2002) (citing *Augat, Inc. v. John Mezzalingua Assocs., Inc.*, 642 F. Supp. 506, 508 (N.D.N.Y. 1986)).

⁹⁹ *Presidio Components, Inc. v. Am. Technical Ceramics Corp.*, 702 F.3d 1351, 1362-63 (Fed. Cir. 2012).

Once a patent holder prevails at the first trial and the jury has awarded past damages, the infringer will either implement a design-around, if there is a viable one, or negotiate with the patent owner for a license. The alternative, assuming the product is the same or not more than colorably different from the infringing product, is to face a subsequent suit with a virtual certainty of a finding of willfulness and an award of increased damages in the subsequent trial.¹⁰⁰ Additionally, in the rare instance where there is a second trial, well-developed principles of collateral estoppel will bar infringers from re-litigating the core issues in a patent—such as infringement, validity, and enforceability.¹⁰¹ The only new issue in the second suit, other than infringement if there is a new product that is claimed to be more than colorably different from the product accused in the first trial, will be damages.¹⁰² As the best alternative to an injunction, the threat of successive suits would better protect the patent holder's right to exclude because it will force the infringer to negotiate with the patent owner if it wants to stay in the market.¹⁰³ Finally, such an approach would

¹⁰⁰ See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (explaining that the patentee “could in a case of willful or bad-faith infringement recover punitive or ‘increased’ damages under the statute’s trebling provision.”); *In re Seagate Tech., LLC*, 497 F.3d 1360, 1381 (Fed. Cir. 2007) (Gajarsa, J., concurring) (explaining that a finding of willful infringement may subject the infringer to treble damages); 35 U.S.C. § 285 (2006) (court may, in an exceptional case, award reasonable attorney fees to prevailing party).

¹⁰¹ “A fundamental precept of common-law adjudication, embodied in the related doctrines of collateral estoppel and *res judicata*, is that a ‘right, question or fact distinctly put in issue and directly determined by a court of competent jurisdiction . . . cannot be disputed in a subsequent suit between the same parties or their privies’ Under collateral estoppel, once an issue is actually and necessarily determined by a court of competent jurisdiction, that determination is conclusive in subsequent suits based on a different cause of action involving a party to the prior litigation.” *Montana v. United States*, 440 U.S. 147, 153 (1979).

¹⁰² *Applied Med. Res. Corp. v. U.S. Surgical Corp.* 435 F.3d 1356, 1360-62 (Fed. Cir. 2006) (rejecting infringer’s claim that collateral estoppel barred the patent holder from seeking a higher royalty for a new product than the royalty awarded by the jury in an earlier case involving a similar product made by the same infringer).

¹⁰³ Indeed, in his concurring opinion in *Paice*, Chief Judge Rader stated that ongoing royalties should be imposed in only a “limited number of cases.” *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1316 (Fed Cir. 2007).

incentivize infringers to seek an effective design-around rather than continue to infringe. This could potentially lead to the development of improved products and thereby accomplish the counterpart of patent law's disclosure requirement and a period of exclusivity granted to the patentee.

This successive-suit approach, as opposed to a paid-in-full, lump-sum license, or an ongoing royalty, is consistent with the Patent Act. The plain language of section 283 permits district courts to *prevent* future infringement, it does not allow district courts to *authorize* future infringement:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity *to prevent the violation of any right secured by patent*, on such terms as the court deems reasonable.¹⁰⁴

The "right secured by patent" is the right to exclude secured by the Patent Act.¹⁰⁵ The plain language of the statute—both with respect to section 283 and the Patent Act as a whole¹⁰⁶—provides no support for ongoing royalties that authorize future infringement. Thus, patent holders should have the ability to bring successive suits to assert their right to exclude if any infringer chooses to continue infringing after a verdict.¹⁰⁷

¹⁰⁴ 35 U.S.C. § 283 (2006) (emphasis added).

¹⁰⁵ See 35 U.S.C. § 154(a)(1) (2006).

¹⁰⁶ Courts interpret specific provisions within a statute to be consistent with the statute as a whole. See, e.g., *Chowdhury v. I.N.S.*, 249 F.3d 970, 973 (9th Cir. 2001); *United States v. Pacheco*, 225 F.3d 148, 154 (2d Cir. 2000); *Jean-Louis v. Att'y Gen. of U.S.*, 582 F.3d 462, 475, n.18 (3d Cir. 2009). When the Patent Act is considered as a whole, which includes an explicit grant of a right to exclude to patent holders, then section 283 cannot be interpreted to disregard that right to exclude and authorize future infringement.

¹⁰⁷ This issue is presently pending before the Federal Circuit in the case of *Mondis Technology, Ltd. V. ChiMei InnoLux Corp.*, #12-1304. See *supra* note 81. On appeal, the defendant challenged the propriety of using willfulness as the basis for the ongoing award. Mondis' attorney responded by stating that, if such a remedy is not permitted, "companies may file new complaints rather than continuing to seek reasonable royalties if judges can't consider future willfulness when setting the awards." Erica Teichert, *InnoLux Asks Fed. Circ. To Nix Enhanced Mondis Royalties*, LAW360 (Jan. 08, 2013, 7:40 PM), <http://www.law360.com/articles/405423/innolux-asks-fed-circ-to-nix-enhanced-mondis-royalties>.

Such successive suits are not uncommon in the law. For example, in tort law, when a nuisance is permanent, the injured party receives compensation for the permanent nuisance. But when a nuisance is continuing in character, the injured party may bring successive suits when an injunction is denied.¹⁰⁸ A nuisance is continuing in character if it is “a use which may be discontinued at any time.”¹⁰⁹ This test plainly applies to patent infringement: an infringer may choose to stop infringing at any time in the future. No reason exists to treat patent rights in a different manner than any other property right. Indeed, according to statute, patent rights have all the attributes of personal property.¹¹⁰ The same law on successive suits should apply.

2. As an Alternative to Successive Suits, Juries Should Award Ongoing Royalties that Measure the Patent Holder’s Right to Exclude the Infringer from Using its Invention After the Jury Verdict

An alternative solution is to *fully* compensate the patent owner in the first case for the loss of the right to exclude. If an injunction is denied, it usually is because the court finds that money damages are adequate and there is no irreparable harm. In other words, the court believes that money can be awarded in lieu of an injunction. But to serve in lieu of an injunction that otherwise remedies the trespass on the right to exclude, the alternative must be the money equivalent of the right trespassed.¹¹¹ Thus, rather than permitting a hypothetical negotiation at the time of first infringement to determine the appropriate

¹⁰⁸ *Baker v. Burbank-Glendale-Pasadena Airport Auth.*, 705 P.2d 866, 870 (Cal. 1985) (“[I]f a nuisance is a use which may be discontinued at any time, it is considered continuing in character and persons harmed by it may bring successive actions for damages until the nuisance is abated.”); *Reichert v. City of Mobile*, 776 So. 2d 761, 764-65 (Ala. 2000) (“For an abatable nuisance the cause of action does not arise until the harmful consequences occur, and each occurrence or recurrence of such damages constitutes a separate cause of action.”); RESTATEMENT (SECOND) OF TORTS § 930(1) cmt. A (2008) (“[F]or continuing wrongs the injured person can ordinarily bring successive actions for the invasions or series of invasions as they occur.”).

¹⁰⁹ *Baker*, 39 P.2d at 870.

¹¹⁰ See 35 U.S.C. § 261 (2006).

¹¹¹ In the relatively rare case where an injunction is denied because of the public interest, the infringer, rather than the patent owner, should bear whatever loss arises from the lack of an injunction. The standard set forth above also applies to that circumstance.

monetary compensation, there needs to be a second hypothetical negotiation. This second negotiation is presumed to take place after the jury award, and would allow the patent owner and the adjudged infringer to negotiate the royalty for the infringer to be able to remain in the market.¹¹²

Thus, there would be a typical patent infringement trial. If the patent owner prevails, the court would allow the parties an opportunity to negotiate a license for future use of the patent before the court addresses any request for an injunction. If the parties fail to reach an agreement, then the court would decide whether to grant an injunction. If the court denies an injunction, or if the patent holder does not seek one, then the jury would decide the amount the infringer should be willing to pay to avoid exclusion from the market at the time the injunction otherwise would have been granted.¹¹³

This standard explicitly compensates the patent holder for giving up its right to exclude. It is also consistent with the principle that the money damages to be awarded are in lieu of an injunction—the principle that money damages are the financial equivalent of the value of the right to exclude. This standard not only protects the patent holder’s right to exclude, but also provides a disincentive to infringe rather than a disincentive to negotiate before litigation.

IV. CONCLUSION

Paid-in-full, lump-sum awards that allow future infringement are not supported by the Constitution, by statute, or by appellate case law. From its inception, the hypothetical negotiation—a legal fiction created by the judiciary—has dealt only with past damages. But the defense bar is now attempting to pervert the hypothetical negotiation into a new creature that would address all past and future relief. This would benefit patent infringers while injuring patent holders and the public interest. Indeed, such hybrid relief would vitiate the patent holder’s constitutionally-based and statutorily-guaranteed right to

¹¹² As noted *supra* note 81, this is precisely the position taken by Mondis before the Federal Circuit.

¹¹³ See Ronald J. Schutz & Patrick M. Arenz, *Unchartered Waters: Determining Ongoing Royalties for Victorious Patent Holders Denied an Injunction*, 11 SEDONA CONF. J. 75, 78-80 (Fall 2010) (articulating why a Seventh Amendment right attaches to an ongoing royalty determination). There is a significant issue about when the ongoing royalty should be determined and whether it should be decided by a new jury or by the jury that decided past damages. This article does not address that issue.

exclude and to choose to whom it is willing to license the patent. Courts at all levels should reject the defense bar's newest tactic in the legal battle over patent infringement remedies.

