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Debate continues over paid-in-full patent awards

Defendants prefer them, while patent owners seek compensation for willful future infringement.

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The evolving damages issues in patent cases continue to challenge courts and counsel. Perhaps the most unsettled of these issues pertains to damages for future infringement. Now that injunctions are no longer routinely granted, courts wrestle with how to compensate a patent holder for its right to exclude when the remedy of exclusion is unavailable. In light of *Lucent Techs. Inc. v. Gateway Inc.*, 580 F.3d 1301, 1324-26 (Fed. Cir. 2009) (en banc), defendants increasingly have argued for a new form of damages—the paid-in-full, lump-sum award—that ostensibly moots issues over future infringement. Although some district courts have approved of this approach, the U.S. Court of Appeals for the Federal Circuit has not specifically addressed this issue. But as set forth below, it likely is only a matter of time before the court does.

The issue of paid-in-full, lump-sum damages had no reason to arise in the past. Since the early 19th century, courts routinely granted injunctions upon a finding of infringement. *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring). The issue of damages, therefore, was entirely retrospective, because an injunction would address future infringement. *Suffolk Co. v. Hayden*, 70 U.S. 315 (1866) ("A recovery does not vest the infringer with the right to continue the use [of the patent], as the consequence of it


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may be an injunction restraining the defendant from the further use of it.").

The U.S. Supreme Court shifted this paradigm in *eBay*. After the Court decided that patent holders are not entitled to an injunction as a matter of course, the new world of post-verdict damages became ripe for debate. The Federal Circuit addressed part of this issue in *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), allowing district courts to award an ongoing royalty for future infringement. Then the Federal Circuit decided *Lucent Techs. Inc. v. Gateway Inc.* Unlike *eBay* and *Paice*, which dealt with prospective relief under § 283, the issue in *Lucent* was the sufficiency of a jury verdict for past infringement under § 284. The decision, nonetheless, set the stage for a new fight over future damages.

THE LUCENT DECISION

In *Lucent*, the Federal Circuit vacated a $357 million jury verdict against Microsoft Corp. based on insubstantial evidence. From a precedential standpoint, the decision was important because the court required increased scrutiny of the comparability of licenses. The court's dicta in reaching this conclusion, however, garnered the most attention.

The court explained, for instance, why some running-royalty license agreements admitted into evidence were not sufficiently comparable for the jury to rely upon, or lacked substantial evidence to support, the lump-sum verdict in that case. The court identified fundamental differences between running-royalty licenses and lump-sum licenses. For instance, it held: "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.' " Id. at 1326 (citations omitted). The defense bar has seized on this excerpt—among others—to support a new way to curtail damages in patent cases.

Since *Lucent*, accused infringers have increased reliance on a paid-in-full, lump-sum methodology for calculating damages. Defendants have viewed the dicta about lump-sum licenses as judicial acceptance of this methodology. In addition, accused infringers argue that if the goal of the hypothetical negotiation is "to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began," then real-world methodologies, like lump-sum agreements, should be available for the jury to decide. See *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

Some district courts have followed suit and determined that a paid-in-full, lump-sum award is a legally cognizable form of relief that covers future infringement. See *Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp.*, No. 7:09-cv-29-O, 2011 U.S. Dist. Lexis 96148 (N.D. Texas Aug. 26, 2011). In *Lighting Ballast*, the jury returned a verdict of $3 million. The district court, relying on *Lucent*, interpreted this verdict as a paid-in-full, lump-sum award: "[G]iven the evidence adduced at trial, the similarity between the damages verdict and [the defendant's] damages position…the Court finds that the ambiguous damages verdict of '3,000,000.00' should be construed to represent a lump-sum royalty payment, which would grant [the defendant] a license to use the '529 patent from the date of entry through the expiration of the patent." Id. at *74.

Similarly, the defendant in *Telcordia Technologies Inc. v. Cisco Systems Inc.*, 612 F.3d 1365, 1378 (Fed. Cir. 2010), argued that a $6.5 million verdict represented a paid-in-full, lump-sum award, precluding any further relief. The district court ultimately interpreted the verdict as covering past infringement only based on the evidence, which the Federal Circuit determined was not clearly erroneous. But supporters of paid-in-full, lump-sum damages awards still rely on this decision because the Federal Circuit reviewed the district court's interpretation, and not the threshold legal issue of whether paid-in-full, lump-sum awards can cover future infringement.

Despite these decisions, neither the Federal Circuit nor the Supreme Court has specifically addressed whether paid-in-full, lump-sum damages are a legally permissible form of relief. This likely will change soon.

THE RIGHT TO EXCLUDE

Patent holders likely will mount their attack against paid-in-full, lump-sum damages awards on their basic right to exclude future infringement. This right to exclude is identified in the U.S. Constitution and made explicit by statute. U.S. Const., Art. 1, § 8; 35 U.S.C. § 154(a)(1). Based on this right, patent holders will argue that a jury verdict cannot result in an actual, compelled license. The hypothetical negotiation for damages awards, in other words, is just that—hypothetical. This was at least the historical intention of the reasonable royalty: "[T]he reasonable royalty device conjures a willing licensor and licensee, who like Ghosts of Christmas Past, are dimly seen as negotiating a license. There is, of course, no actual willingness on either side, and no license to do anything." *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1159 (6th Cir. 1978). As in the dicta in *Lucent*, therefore, the hypothetical negotiation is just an analytical tool to resolve past infringement.

The legal support for this proposition flows from a distinction between §§ 284 and 283. Section 284 provides compensation for past infringement. See, e.g., *Johns Hopkins Univ. v. Cellpro Inc.*, 152 F.3d 1342, 1367 (Fed. Cir. 1998). The jury makes its determination under § 284 based on a willing licensor-licensee paradigm, presuming that the asserted patent is valid and infringed. The Federal Circuit, in contrast, has interpreted § 283 as addressing prospective infringement through either an injunction or an ongoing royalty. See *Paice*, 504 F.3d at 1314-15.

If an ongoing royalty is appropriate, courts apply a different standard than the willing licensee-licensor approach. The district court on remand in *Paice*, for instance, framed the standard as: "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?" *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 624 (E.D. Texas 2009). The right to exclude, in other words, has a value apart from the compensatory nature of a reasonable royalty for past infringement, and also necessarily accounts for the willfulness of the future infringement.

This standard, thus, crystallizes the vested interests of both parties on this issue. Accused infringers will seek to avoid enhanced damages for future infringement through paid-in-full, lump-sum awards, while patent holders will continue to seek compensation for willful future infringement regardless of the form of the verdict. While the Federal Circuit—and perhaps the Supreme Court—will inevitably address this critical issue, one thing is certain: The fight over paid-in-full, lump-sum damages is just beginning.

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