

Paice LLC v. Toyota Motors Corp.

Nos. 06-1610, -1631, Federal Circuit (Lourie, Rader, Prost*)

[W]here the district court determines that a permanent injunction is not warranted [and] the parties [fail] to negotiate a license amongst themselves regarding future use of a patented invention [the] district court could step in to assess a reasonable royalty in light of the ongoing infringement.

On October 18, 2007, the Federal Circuit affirmed the district court's judgment that Toyota infringed U.S. Patent No. 5,343,970, which related to drive trains for hybrid electric vehicles. The Federal Circuit, however, vacated and remanded the award of an "ongoing royalty" of \$25 per Prius II, Toyota Highlander, or Lexus RX400h vehicle sold by Toyota during the remaining life of the '970 patent. The Federal Circuit stated:

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.

[35 U.S.C. § 283] limits the scope of activities that may be enjoined. The more difficult question raised by this case, however, is whether an order permitting use of a patented invention in exchange for a royalty is properly characterized as preventing the violation of the rights secured by the patent. Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate. . . . In the context of an antitrust violation, "mandatory sales and reasonable-royalty licensing" of relevant patents are "well-established forms of relief when necessary to an effective remedy, particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated." But, awarding an ongoing royalty where "necessary" to effectuate a remedy, be it for antitrust violations or patent infringement, does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed. In most cases, where the district court determines that a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement.

In this case, the district court, after applying the four-factor test for a permanent injunction and declining to issue one, imposed an ongoing royalty sua sponte upon the parties. But, the district court's order provides no reasoning to support the selection of \$25 per infringing vehicle as the royalty rate. Thus, this court is unable to determine whether the district court abused its discretion in setting the ongoing royalty rate. Accordingly, we think it prudent to remand the case for the limited purpose of having the district court reevaluate the ongoing royalty rate. Upon remand, the court may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty. The district court may determine that \$25 is, in fact, an appropriate royalty rate going forward. However, without any indication as to why that rate is appropriate, we are unable to determine whether the district court abused its discretion. The district court should also take the opportunity on remand to consider the concerns Paice raises about the terms of Toyota's permissive continuing use.

Finally, we address Paice's argument that it was entitled to a jury trial to determine the amount of the ongoing royalty rate. . . . In contending that it was improperly deprived of a jury trial, Paice merely states that "[i]t is well settled that the determination of damages is a legal question which carries a Seventh Amendment right to a jury trial." While Paice may be correct as a general matter, not all monetary relief is properly characterized as "damages." As such, the fact that monetary relief is at issue in this case does not, standing alone, warrant a jury trial. Accordingly, Paice's argument falls far short of demonstrating that there was any Seventh Amendment violation in the proceedings below. . . .

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