

WHEN “EXCLUSIVE” IS NOT “EXCLUSIVE” AND “COMPULSORY” NOT “COMPULSORY:”
eBay v. MercExchange AND *Paice v. Toyota*

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The source of American patent law, Article I, section 8, of the U.S. Constitution, empowers Congress 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.”¹ But what does it mean to grant inventors the “exclusive Right” over their respective inventions (albeit for limited times)? And have Congress and the courts been faithful to that grant of power?

In a series of recent cases, the Court of Appeals for the Federal Circuit, the district courts, and the Supreme Court of the United States have all given cause to question whether inventors indeed have “the exclusive Right” to their respective discoveries, even for limited times.²

I. THE STATUTORY FRAMEWORK

The current U.S. Patent Code, the Patent Act of 1952, mandates that the courts award compensatory damages upon a finding of infringement, but merely permits the courts to grant injunctions in accordance with traditional principles of equity. In its entirety, the first paragraph of section 284 of the Patent Act provides: “Upon finding for the claimant the court shall award the claimant 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, together with interest and costs as fixed by the court.”³ In pertinent part, section 283 provides: “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.”⁴

Just on the face of it, this statutory language presents a problem. First, the well-established “principles of equity” that section 283 explicitly incorporates require a plaintiff seeking a permanent injunction to demonstrate, in part, that “remedies available at law, such as monetary damages, *are inadequate to compensate for that injury*.”⁵ But because section 284 requires the court to award damages “*adequate to compensate for the infringement*,”⁶ and the infringement is the injury to be compensated, sections 283 and 284 would seem to be mutually exclusive.⁷

One way to harmonize this apparent contradiction is to interpret section 284 to require the award of damages for “the [past] use made of the invention by the infringer” and to permit an injunction under section 283 to prevent “the [future] violation of any right secured by patent....”⁸ This would in effect require courts to insert words that Congress did

not include—but that is precisely what courts have generally done in the past. Patent holders that have proven infringement have typically received damages awards for past infringement, plus permanent injunctions against future infringement.⁹ The parties are of course free to negotiate other arrangements, and frequently do; depending on the circumstances, many parties settle infringement suits with the grant of a license to the defendant to continue to practice the patented invention, subject to geographic and temporal limitations.

This linguistically unsatisfactory scenario at least secures to inventors the “exclusive Right to their respective... Discoveries” by enjoining others, for the duration of the patent, from exploiting the patented rights without the permission of the patent holder. But “exclusive,” it seems, does not always mean “exclusive.”

II. TENSIONS ON THE SYSTEM –
PATENT TROLLS AND BUSINESS METHOD PATENTS

Recognized nearly contemporaneously with the first patent statute in 1790, “business method” patents have become more widespread since the Court of Appeals for the Federal Circuit (CAFC) decided in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*¹⁰ that it was no longer necessary for the courts or the Patent Office to distinguish between “technology-based” and “business-based” patents.¹¹ Although the Federal Circuit has recently signaled its willingness to revisit this holding, the increased acceptability in recent years of business method patents and the increasing reliance by businesses on computers and the Internet have led to the realization that patents can be as valuable to owners that do not directly practice them as to owners that do, giving rise to patent holding companies.¹²

Sometimes disparaged as “patent trolls,” patent holding companies typically own patents, but do not actually manufacture or sell a product or use the patented process. Instead, they license the rights to do so to others, sometimes after first charging others with infringement.¹³ As the name “patent troll” implies, some view patent holding companies as illegitimate abusers of the patent system, waiting like trolls under the bridge to exact a toll. Others point out that patent holding companies are simply doing what the law and the Constitution permit. Regardless, the perceived inequity of permitting one who does not use an invention—and may not even be the inventor of that invention—to prevent others from using the invention has helped shape current efforts at patent law reform. Because injunctions are ultimately equitable remedies, this perceived inequity influences the grant of injunctions.

Legislation is currently pending before Congress, for example, that would change existing patent law in part by limiting the remedies available for infringement.¹⁴ Proposals include limiting damages for the two-year period before actual notice of infringement for inventions not actually incorporated in articles made, offered for sale, or imported in or into the U.S.

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(including but not limited to business methods)—i.e., patents held by patent holding companies—as compared to upwards of six years for other inventions.¹⁵ At the same time, the courts in general, and the Supreme Court in particular, have begun to approach the grant of injunctions in patent infringement cases more cautiously.

III. *eBay Inc. v. MercExchange L.L.C.*

In *eBay Inc. v. MercExchange L.L.C.*, plaintiff MercExchange obtained a jury verdict against online auction house eBay for willfully infringing three MercExchange patents, which eBay then appealed to the U.S. Court of Appeals for the Federal Circuit.¹⁶ The CAFC affirmed the judgment of willful infringement and granted a permanent injunction against eBay, and eBay then took an appeal to the U.S. Supreme Court.¹⁷

A. Majority Opinion and Justice Roberts Concurrence

On May 15, 2006, the U. S. Supreme Court repudiated the notion that a prevailing patent infringement plaintiff is automatically entitled to a permanent injunction. Instead, the High Court redirected lower courts to consider carefully, in deciding whether to enjoin infringing conduct, the four traditional equitable factors: (1) adequacy of remedy at law, (2) likelihood of success on the merits, (3) balancing of harms, and (4) the public interest.¹⁸ In a unanimous opinion by Justice Clarence Thomas, the Court found that the Patent Act did not replace traditional equitable principles with an “automatic injunction” rule, but also noted that a district court still has discretion to order a permanent injunction, even if a patent holder unreasonably declines to use its patent.¹⁹

Concurring separately and joined by Justices Ginsburg and Scalia, Chief Justice Roberts agreed that equitable considerations indeed govern the grant of injunctions, but cautioned that a patent holder’s right to exclude all others cannot be protected through monetary damages that allow continued use of the patent, and that a major departure from a long history of equity should not be “lightly implied.”²⁰

B. Justice Kennedy Concurrence

Also concurring separately, Justice Kennedy strongly suggested that part of the Court’s concern in *eBay* stems from the emergence of business method patents and patent holding companies, and that a twin-tiered system may therefore be appropriate. “In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases,” he began.²¹ The difference, he noted, has been the emergence of patent holding companies:

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.... For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.²²

As a result, Justice Kennedy continued, instead of an injunction, continuing damages in the form of a royalty may be the appropriate remedy:

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.²³

But if a patent holder—including a patent holding company—is not automatically entitled to enjoin a proven infringer from continuing to infringe, then in what sense have Congress and the courts secured for the inventor the “exclusive rights” to the invention? In a case with no injunction, the patent holder is left with only its damages remedy for continuing infringement. That means, in practice, either the patent holder has to bring multiple lawsuits to recover damages for what in the future will become past infringement or, more sensibly, the court will have to impose an ongoing royalty.²⁴ In either case, however, the patent owner loses the “exclusive right” to exploit the patent and is merely compensated for the partial taking of that right. In effect, then, in derogation of the general disapproval in the United States of compulsory licensing,²⁵ a court that does not enjoin future infringement compels the patent holder to license its patent to the infringer.²⁶

IV. APPLYING THE EQUITIES

In some cases, a compulsory license seems fair and equitable, but in others it appears less so. Suppose, for example, that a researcher holds the patent on a life-saving drug, but either chooses not to produce the drug or lacks the resources to do so. Assume further that a pharmaceutical company is willing and able to produce the drug, but that the patent holder irrationally refuses to license the patent. After balancing the harms, even assuming the plaintiff’s likely success on the merits, the public interest would fairly clearly call for denying a permanent injunction and instead awarding damages in the form of a lump sum or a continuing royalty—in effect, a compulsory license.

In practice, of course, the equities are rarely so stark. One can imagine, perhaps, a hypothetical situation in which an inventor motivated enough to invent a life-saving drug would be irrational enough to refuse to license its production, but that is rarely the way the world works. Even if the inventor for some reason disliked the drug company that approached him or drug companies in general, a competitor that did not share those disabilities would likely arise and the drug would eventually find its way to market.

On the other hand, suppose an online shopping innovator has a patent that permits repeat shoppers to store their payment and shipping information online in order to make subsequent purchases with a single mouse click, and that the patent holder refuses to share it with other merchants. Does the resulting inconvenience and annoyance to thousands, perhaps millions, of shoppers, together with the attendant value of their lost time, justify compelling the owner to license the patent to competitors?

Or suppose instead a patent holder has invented a new technology that enables cars to run more cleanly, and that a car company has infringed the patent, either because it was unaware of the patent or because it took a different interpretation of its claims. Should the court, upon finding infringement, enjoin the car company's production of infringing models, knowing that doing so will put autoworkers out of work, disrupt the supply chain, and increase pollution of the environment? Or do the public interest and the balancing of harms once again justify compelling the patent owner to license it?

In either case, supposing that the patent owner did not want to share the patent at any price, should the court that compels the patent holder to license the patent also force the parties to set the price, or should the court directly set the price? To what extent, in other words, is the court justified in ignoring market incentives in the name of the public good? Or does the answer depend on whether, in general, the patent holder has shown a willingness to license the patent to others?

A. Commercializing vs. Licensing

Even though the Supreme Court in *eBay* admonished lower courts to evaluate each case individually, post-*eBay* experience suggests that the result of applying those equities may still be in practice a two-tiered system.²⁷ In part, post-*eBay* cases have found that the patent-holder's willingness to license its patents and its failure to commercialize the patented invention itself—that is, whether the patentee is a patent holding company—mitigate in favor of deciding that damages are adequate.²⁸ Post-*eBay* cases also suggest that, on the other hand, district courts are more likely to grant permanent injunctions against continuing infringement, where the infringers compete directly with the patent holders in manufacturing and selling the patented invention.²⁹ In effect, what is emerging in the post-*eBay* world is a two-tiered system in which patent holders that manufacture or sell their inventions are more likely to obtain injunctions, and patent holders that merely license their inventions are more likely to get continuing royalties instead.

B. Relative Contribution of Patent to Product

Justice Kennedy's concurrence in *eBay* also noted that legal damages may "well be sufficient" to compensate for the infringement when "the patented invention is but a small component" of the accused infringing product, and both Congress and the lower courts have followed suit.³⁰ For example, both S. 1145 and H.R. 1908 would require courts to take into account, in assessing a reasonable royalty, the economic value of the infringing product or process that is attributable to the claimed invention's specific contribution over the prior art.³¹

District courts have also begun to emphasize the relative contribution of the patented invention to the infringing product. In *IMX, Inc. v. LendingTree, LLC*, for example, the District Court of Delaware found that the infringing product was based primarily on the asserted patent, which weighed in favor of granting an injunction.³² But in *z4 Technologies, Inc. v. Microsoft Corp.*, the Eastern District of Texas denied an injunction where it found that Microsoft, the accused infringer, "only uses the infringing technology as a small component of its own software, and it is not likely that any consumer... purchases these products for the [patented] functionality."³³

C. Treble Damages and Injunctions

The U.S. Supreme Court did not address the potential relationship between an injunction and treble damages in *eBay*, but in the context of patent infringement actions both are properly considered equitable remedies.³⁴ In deciding whether to award enhanced damages under section 284, courts balance equitable considerations, *SRI International, Inc. v. Advanced Technology Labs., Inc.*,³⁵ and their award is not subject to the Seventh Amendment right to a jury trial.³⁶

In the context of willful patent infringement, therefore, a court might still order an ongoing "treble royalty" as "equitable relief" for future infringement that in most cases might have the practical effect of an injunction.³⁷ This approach would mitigate the harshness of an injunction against infringement, while still providing patent holders with an equitable remedy. Infringers with substantial non-patented interests at stake could also still infringe and pay enhanced damages without risking contempt of court, and would not face potentially exorbitant demands by a hold-out patent owner. It appears, however, that no court has yet awarded a patent owner treble damages based on future infringement.

V. Paice LLC v. Toyota Motor Corp.

A. The District Court

Among the most prominent post-*eBay* cases to deal with forced licensing in a patent infringement case is *Paice LLC v. Toyota Motor Corp.*, involving a transaxle used in Toyota Motor Company's environmentally friendly "hybrid" vehicles: the Prius II, the Highlander, and the Lexus RX400h.³⁸ After a jury found that Toyota had infringed certain Paice patents for hybrid electric vehicle transaxles, the district court nonetheless denied an injunction against future infringement. Instead, on its own initiative, the district court imposed an "ongoing royalty" of \$25 per infringing vehicle, with specified payment terms, while leaving the parties free to negotiate other terms if they wished.³⁹

At trial, the district court rejected the customary equitable arguments in favor of an injunction. Regarding irreparable injury, the district court found that not granting an injunction would not adversely affect Paice's ability to practice or to license the patented technology, because Paice had allegedly adduced only "vague testimony" that it had been "sidelined" in its business dealings during litigation, and because Paice did not actually manufacture any goods.⁴⁰ Given the relatively small royalty awarded by the jury in relation to the overall value of the vehicles, and the fact that Paice had offered a license to Toyota during the post-trial period, the court also concluded that monetary damages provided an adequate remedy.⁴¹ The district court further found that the public interest favored neither party, and that the balance of hardships favored Toyota because an injunction would disrupt "related business, such as dealers and suppliers," could have an adverse effect on the "burgeoning hybrid market," and might damage Toyota's reputation.⁴²

B. The Court of Appeals

On appeal, the Federal Circuit upheld the jury's finding of infringement, the district court's denial of an injunction, and the district court's order of an ongoing royalty without affording Paice a right to a jury trial, but remanded the case because the

“order provides no reasoning to support the selection of \$25...” as the ongoing royalty.⁴³ On remand, the CAFC observed that the district court might consider additional necessary evidence to account for economic factors arising out of an imposed ongoing royalty and “may determine that \$25 is, in fact, an appropriate royalty rate going forward,” but “without any indication as to why that rate is appropriate, we are unable to determine whether the district court abused its discretion.”⁴⁴

The CAFC began its analysis by observing that “the most apparent restriction imposed” by the statutory language of 35 U.S.C. § 283 was not that injunctions be granted in accordance with the principles of equity, but that “injunctions granted thereunder must ‘prevent the violation of any right secured by patent.’”⁴⁵ “The more difficult question raised by this case,” the court therefore said, “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”—in effect asking whether a patent indeed gives an inventor “the exclusive right” to the invention “for limited times.”⁴⁶

Under some circumstances, the court continued, “awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate,” citing its own precedent of *In Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, in which the court had upheld a 5% court-ordered royalty on sales “for continuing operations.”⁴⁷ The Court also relied on precedents in the field of antitrust law, in which “‘mandatory sales and reasonable-royalty licensing’ of relevant patents are ‘well-established forms of relief... particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated.’”⁴⁸ But awarding an ongoing royalty “where ‘necessary’ to effectuate a remedy,” the *Paice* court concluded, “does not justify... such relief as a matter of course whenever a permanent injunction is *not* imposed.”

Instead, in most cases, the court continued, “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.”⁴⁹ The *Paice* majority’s focus, in other words, was not on whether to grant an injunction, or even whether to compel an ongoing license, but merely whether the parties or the court should set the terms of that license.

1. “Compulsory” License?

Majority View

With considerable disagreement in a concurring opinion from Judge Rader, the CAFC nonetheless insisted that the court-ordered royalty of \$25 per vehicle that it upheld was not a “compulsory” license. Unlike, for example, a compulsory license under the copyright laws, the CAFC observed, the license that the district court had compelled Paice to grant to Toyota was restricted to Toyota rather than being generally available on demand to other parties:

The term “compulsory license” implies that *anyone* who meets certain criteria has congressional authority to use that which is licensed. See, e.g., 17 U.S.C. § 115...⁵⁰ 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.⁵¹

2. “Compulsory” License? – Judge Rader View

In a separate concurrence, Judge Rader emphatically disagreed: “calling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.”⁵² Rather, he said, “this court should require the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself.”⁵³ Not even Judge Rader, however, would require the district court to enjoin future infringement; his only concern seemed to be that the parties have a chance to negotiate an ongoing royalty rate before the district court imposed the rate itself.

“District courts have considerable discretion in crafting equitable remedies,” Judge Rader continued, “and in a limited number of cases, as here, imposition of an ongoing royalty may be appropriate.... [But to] avoid many of the disruptive implications of a royalty imposed as an alternative to the preferred remedy of exclusion, the trial court’s discretion should not reach so far as to deny the parties a formal opportunity to set the terms of a royalty on their own.”⁵⁴

3. Unanswered Questions

But suppose, knowing the district court has already ordered a \$25 per unit rate, either Paice or Toyota refuses to agree to anything else? Can the district court then not safely reinstate a \$25 per unit royalty rate, after explaining in sufficient detail to satisfy the court’s majority why it finds that rate appropriate? Will the CAFC then not sustain the award as well-reasoned? And if that should happen, then has not the court, in fact as well as in theory, imposed a compulsory license?

VI. POST-*Paice v. Toyota*

Since the CAFC decided *Paice v. Toyota*, it has vacated a trial court’s grant of a permanent injunction where the jury had already awarded a “reasonable royalty” that included an amount equal to what plaintiff’s damages expert had testified would, over time, amount to a reasonable licensing fee.⁵⁵ In *Inmogenetics N. V. v. Abbott Laboratories*, as in *Paice*, the plaintiff did not actually sell or distribute any products employing the patented invention, and had shown a willingness to license its patents. The patent holder made arguments at trial from which the court could infer that the jury’s award of damages included the cost of future infringement.⁵⁶ The CAFC therefore vacated as an abuse of discretion the trial court’s grant of a permanent injunction against future infringement, and remanded the case to the district court to determine the terms of a “compulsory license,” such as conditioning sales on the payment of a running royalty.

CONCLUSION

So when under current law is a “compulsory” license not “compulsory”? Not, in the opinion of the *Toyota v. Paice* majority, when the equities of permitting the infringer to continue infringing the patent outweigh the interests of the patent owner, such as possible damage to the infringer’s reputation.⁵⁷ And not, in the concurring opinion of Judge Rader, when the patent holder is given a chance to negotiate a royalty rate for future infringement before the court unilaterally imposes one, for “[w]ith such an opportunity in place, an ongoing royalty would be an ongoing royalty, not a compulsory license.”⁵⁸

And what of the Patent Clause of the Constitution? The *Toyota* majority pays lip service to the right to exclude others in asking whether permitting an infringer to use a patented invention in exchange for paying a royalty is properly characterized as preventing the violation of rights secured by a patent.⁵⁹ Although Judge Rader recognized exclusion of infringers as “the preferred remedy,” he also recognized a patent owner’s “opportunity to negotiate its own ongoing royalty [as providing at least] a minimal protection for its rights extending for the remainder of the patent term.”⁶⁰

Perhaps, in the end, the best that can be said is that the Constitution empowers Congress to grant inventors the exclusive rights to their inventions, but on its face does not require it.⁶¹

Endnotes

1 U.S. CONST., art. I, § 8, cl. 8. We generally understand today that the Founders used “Science” to mean “knowledge,” “useful Arts” to mean “science,” and “Discoveries” to mean “inventions.” Cf. Application of Joliot, 270 F.2d 954, 959 (C.C.P.A. 1959) (Rich, J., concurring) (“This might be a good time to point out that the purpose of the patent system is to promote the progress of the useful arts, which is done by granting patents for completed inventions.... It might also be well to note that, as pointed out in the House and Senate reports on the bill which became the Patent Act of 1952 (82nd Cong., House Report No. 1923, May 12, 1952, p. 4; Senate Report No. 1979, June 27, 1952, p. 3, to accompany H.R. 7794), it is quite unlikely that the authors of the Constitution had patents, inventors or inventions in mind when in Art. 1, section 8 they referred to ‘science.’ What we now know as ‘science’ did not exist when the Constitution was written.”).

2 547 U.S. 388 (2006).

3 35 U.S.C. § 284 (emphasis added).

4 *Id.* § 283 (emphasis added).

5 eBay Inc. v. MercExchange L.L.C., 547 U.S. 388 (2006), emphasis added. In addition, the plaintiff must show: (1) that it has suffered an irreparable injury; (2) that the balance of hardships favors the plaintiff; (3) that the public interest “would not be disserved” by the injunction. *Id.*

6 35 U.S.C. § 284 (emphasis added).

7 *E.g.*, Paice LLC v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 WL 2385139 at *1, *5 n.3 (E.D. Tex. Aug. 16, 2006) (denying injunction on grounds that “[i]rreparable harm lies only where injury cannot be undone by monetary damages” and stating that “sales of infringing products can be remedied via monetary damages in accordance with a reasonable royalty set by the jury.”).

8 35 U.S.C. §§ 283, 284, *supra* nn. 3, 4.

9 Although the Court of Appeals for the Federal Circuit in eBay stated the “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances,” 401 F.3d 1323, 1339 (2005), the point is actually in some dispute. According to one empirical study, “[p]ermanent injunctions are most commonly found in consent judgments and even formal settlements, most likely as a mechanism for formalizing the agreement. They are also sometimes employed in default judgments as a way of controlling an infringing party who has not presented himself in court. However, they are rare in adjudicated cases: only 19% of cases ending in trials and only 4% of those terminating in summary judgments included an injunction.” Jay P. Kesan, & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 279 (2006), available at SSRN: <http://ssrn.com/abstract=808347>.

10 149 F.3d 1368, 47 USPQ 2d 1596 (Fed. Cir. 1998).

11 Wikipedia reports that the USPTO granted the first financial patent on March 19, 1799, for an invention for “Detecting Counterfeit Notes,” the details of which were lost in the great Patent Office fire of 1836, and that the first financial patent for which any detailed written description survives

is for “A Mode of Preventing Counterfeiting,” granted Apr. 28, 1815. (This at least shows that counterfeiting has long been a recognized problem.) See http://en.wikipedia.org/wiki/Business_method_patent, visited Jan. 17, 2008. Perhaps the most famous “business method” patent in the world today is U.S. Pat. No. 5,960,411, granted in Sept. 1999 to Amazon.com for its “one-click” Internet shopping method.

12 On February 15, 2008, the Federal Circuit set for May 8, 2008, a rehearing en banc in *In re Bilski*, No. 2007-1130, 2008 WL 417680 (Fed. Cir. Feb. 15, 2008) to determine the extent to which “business methods” are eligible for patent protection under U.S. law. Specifically, the Federal Circuit invited amici to address the following five sets of questions: (1) whether a claim of the application at issue addressed to a method practiced by a commodity provider for hedging the “consumption risks” associated with a commodity sold at a fixed price claims is patent-eligible subject matter under 35 U.S.C. § 101 (“Section 101”); (2) what standard should govern in determining whether a process is patent-eligible subject matter under Section 101; (3) whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process, and when a claim that contains both mental and physical steps creates patent-eligible subject matter; (4) whether a method or process must result in a physical transformation of an article, or be tied to a machine, to be patent-eligible subject matter under Section 101; (5) whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), and *AT&T Corp. v. Excel Commun., Inc.*, 172 F.3d 1352 (Fed. Cir. 1999) and, if so, whether those cases should be overruled in any respect. In *State Street Bank*, the CAFC had held that a method of transforming data representing discrete dollar amounts into a final share price was patentable where the claims recited computer processor means, storage means, and other means corresponding to an arithmetic logic unit. In *Excel*, the Court had found that claims directed to a method of generating a message record and including in the message record an indicator of a “primary interexchange carrier” for use in a telecommunications system were patent-eligible subject matter. *Excel* in turn had specifically referred to the Court’s own en banc understanding expressed in *In re Alappat*, 33 F.3d 1526, 1543 (Fed. Cir. 1994), that the Supreme Court had “never intended to create an overly broad, fourth category of subject matter excluded from § 101,” but rather simply “to explain a rather straightforward concept, namely, that certain types of mathematical subject matter, standing alone, represent nothing more than abstract ideas until reduced to some type of practical application, and thus that subject matter is not, in and of itself, entitled to patent protection.” But in a dissent in *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 126 S.Ct. 2921, 2928 (2006), Justices Breyer, Souter, and Stevens suggested that the Federal Circuit may view patentability too broadly: “[State Street Bank] does say that a process is patentable if it produces a ‘useful, concrete, and tangible result.’ But this Court has never made such a statement and, if taken literally, the statement would cover instances where this Court has held the contrary.” (citation omitted)

13 A patent holding company can be anything from a garage inventor who lacks the capacity to manufacture the patented product to a large company or foundation that holds many patents, sometimes buying them from others; in between are many a university or research institute. Among the most famous is Jerome Lemelson, who went from garage inventor to founding The Lemelson Foundation in roughly twenty years. See http://www.lemelson.org/about/bio_jerry.php, visited January 21, 2008. Supreme Court Justice Bradley both anticipated and disparaged the existence of patent holding companies over a century earlier, warning in *Atlantic Works v. Brady*, 107 U.S. 192, 200 (1882) that “an indiscriminate creation of exclusive privileges... creates a class of speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts.”

14 S. 1145, 110th Cong. (as reported out of S. Comm. on the Judiciary, July 19, 2007); H.R. 1908 (as passed by the H. of Reps., Sept. 7, 2007).

15 S. 1145, § 4; H. R. 1908, § 5.

16 401 F.3d 1323 (Fed. Cir. 2005).

17 126 S. Ct. 1837.

18 126 S. Ct. at 1839.

19 126 S. Ct. at 1839-40.

20 126 S. Ct. at 1841-42 (“a page of history is worth a volume of logic”) (quoting *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

21 *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

22 *Id.*

23 *Id.*

24 In other areas of the law, the Supreme Court has long recognized the equitable ability of a court to hear a suit based on “future damages” in order to avoid the burden of multiple future actions. *E.g.*, *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 207 (1881); *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 211 (2002) (quoting *Bowen v. Massachusetts*, 487 U.S. 879, 918 (1988) (Scalia, J., dissenting)).

25 See, e.g., Colleen Chien, *Cheap Drugs at What Price to Innovation: Does The Compulsory Licensing Of Pharmaceuticals Hurt Innovation?*, 18 BERKELEY TECH. L.J. 853, 862-64 & n.35 (2003) (noting that “courts have emphatically resisted compulsory licenses merely because a patent holder chooses not to use her invention”). For an interesting discussion of conflicting policy arguments for and against compulsory licensing of patents, sometimes by the same party, see James Love, “Brazil Puts Patients Before Patents,” (May 4, 2007), at http://www.huffingtonpost.com/james-love/brazil-puts-patients-befo_b_47651.html; James Love, “Recent Examples of the Use of Compulsory Licenses on Patents,” KEI Research Note 2001:2[1] (Mar. 8, 2007, revised May 6, 2007), at http://www.keionline.org/index.php?option=com_content&task=view&id=41&Itemid=1; and James Love, “Abbott Recently Sought Compulsory License in U.S. Patent Dispute,” (May 1, 2007), at http://www.keionline.org/index.php?option=com_content&task=view&id=43&Itemid=1.

26 See *IMX, Inc. v. Lending Tree, LLC*, 469 F. Supp. 2d 203, 226 (D. Del. 2007) (referring to compulsory license as a possible result); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 WL 3813778, at *5 (S.D. Tex. Dec. 27, 2006) (failure to enter a permanent injunction “will force a compulsory license”).

27 *eBay*, 126 S. Ct. at 1840.

28 See, e.g., *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742 at *2 (E.D. Mich. Jan. 4, 2007); *IMX, 469 F. Supp. 2d* at 225 (successful licensing weighs against injunction); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440-442 (E.D. Tex. 2006), but see *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology, Inc.*, No. 6:06-324, 2007 U.S. Dist. LEXIS 43832 (E.D. Tex. June 15, 2007) (granting permanent injunction in favor of patent holding company).

29 See *Transocean*, 2006 WL 3813778 at *3 (defendant “has not cited any case in which a continuing infringer in direct competition with a patent holder has not been permanently enjoined from using the patented invention”); *Tivo Inc. v. Echostar Commun’s Corp.*, 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006) (*revid in part by* No. 2006-1574, 2008 WL 249155 (Fed. Cir. Jan 31, 2008)) (direct competition weighs in favor of an injunction; on reversal and remand, awarding additional damages for period that permanent injunction was stayed pending appeal).

30 126 S.Ct at 1842; see *supra* note 21.

31 S. 1145, § 4; H.R. 1908, § 5, *supra* note 15.

32 469 F. Supp. 2d at 225.

33 434 F. Supp. 2d at 440.

34 See e.g., *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1316 (Fed. Cir. 2007); but see *Tull v. United States*, 481 U.S. 412, 426 (1987); *Swofford v. B&W, Inc.*, 336 F.2d 406, 412-413 (5th Cir. 1964).

35 127 F.3d 1462, 1468 (Fed. Cir. 1997).

36 *Swofford*, 336 F.2d at 410.

37 See, e.g., *id.*, 336 F.2d at 411 (recognizing that a court could award “compensatory damages incidental to an injunction to avoid multiplicity of suits”); see also, *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 243 F. Supp. 500, 517 (S.D.N.Y. 1965) (discussing Patent Act of 1870).

38 No. 2:04-CV-211-DF, 2006 WL 2385139, at *5 (E.D. Tex. Aug. 16, 2006).

39 In part, the district court ordered that Toyota pay quarterly royalties, accompanied by an accounting of infringing product sales, beginning three months after the judgment was signed; that the first payment include royalties for all infringing vehicles sold and not accounted for in the jury’s verdict; that payments not made within fourteen days of the due date accrue interest at 10%, compounded monthly; and that *Paice* could request audits, although

“[i]t is anticipated that the parties may wish to agree to more comprehensive and convenient terms.” *Paice*, 504 F.3d at 1314.

40 *Id.* at 1302.

41 *Id.* at 1303.

42 *Id.*

43 *Id.* at 1293.

44 The CAFC seems perhaps unduly uncharitable towards the District Court, which manifestly had based its ongoing royalty on what the jury had found reasonable for past infringement. In its August 16, 2006 Order, the District Court noted that the jury had, “based on the entire record, determined an appropriate reasonable royalty rate that can be easily calculated on future sales of the accused devices thereby removing uncertainty from future damages calculations,” *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at *5 (E.D. Tex. Aug. 16, 2006). This suggests at least implicitly that (a) the District Court found the jury’s determination of a reasonable royalty for past infringement adequately supported by the record at trial, and (b) the District Court believed that the same royalty should apply to both past and future infringement. What the CAFC seems to criticize is step (b), the District Court’s failure to explain why Toyota should compensate *Paice* for past and future infringement at the same rate. *Cf. Paice*, 504 F.3d at 1315 (“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.”). But perhaps this was merely an excuse to let the parties negotiate their own royalty rate, as the concurrence had suggested. See *Paice*, 504 F.3d at 1315, n.15 (“This process will also, presumably, allow the parties the opportunity to present evidence regarding an appropriate royalty rate to compensate *Pace* and the opportunity to negotiate their own rate prior to the imposition of one by the court, as the concurrence suggests.”).

45 504 F.3d at 1314 (citing *Joy Techs. v. Flakt, Inc.*, 6 F.3d 770, 777 (Fed. Cir. 1993) (for the proposition that non-infringing acts may not be enjoined)).

46 *Id.* (emphasis added).

47 Although the parties in that case had contested the amount of the royalty, which the court had styled a “compulsory license,” the parties did not dispute the district court’s authority to impose it. See *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985).

48 504 F.3d at 1314 (citing *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 59 (1973)).

49 *Id.* at 1314-15 (emphasis added).

50 Under the copyright laws, musicians who record and distribute their works thereby give up exclusive performance rights. 17 U.S.C. §115 provides “When phonorecords of a nondramatic musical work have been distributed... under the authority of the copyright owner, any other person... may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work.”

51 504 F.3d at 1313 n. 13.

52 *Id.* at 1316.

53 *Id.*

54 *Id.*

55 *Innogenetics N.V. v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008).

56 512 F.3d 1363, at *12-13.

57 504 F.3d at 1303.

58 *Id.* 1316.

59 *Id.* at 1313 n.13; see *supra* note 45.

60 *Id.* at 1317.

61 “The exclusive right which Congress is authorized to secure to authors and inventors owes its existence solely to the acts of Congress securing it, from which it follows that the rights granted by a patent or copyright are subject to such qualifications and limitations as Congress, in its unhampered consultation of the public interest, sees fit to impose.” *The Constitution of the United States of America, Analysis and Interpretation*, Sen. Doc. No. 92-82 (Library of Congress, 1972) at 317 (citing *Sears, Roebuck and Co. v. Stiffel Co.*, 376 U.S. 225 (1964)); *Compco Corp. v. Day-Brite Lighting, Inc.* 376 U.S. 234 (1964); *Wheaton v. Peters*, 8 Pet. (33 U.S.) 591, 662 (1834); *Evans v. Jordan*, 9 Cr. (13 U.S.) 199 (1815).