

**Keywords:** injunction, ongoing royalty, compulsory license, doctrine of equivalents, expert testimony, damages, equitable relief, Seventh Amendment

**General:** In lieu of an injunction, a district court may impose an “ongoing royalty” that requires future royalty payments from an infringer to a patentee, but allows the infringer to continue its infringing operations.

*Paice LLC v. Toyota Motor Corp.*  
85 U.S.P.Q.2d 1001 (Fed. Cir. 2007)  
Decided October 18, 2007

## I. Facts

Paice owns U.S. patents No. 5,343,970, 6,554,088 and 6,209,672, each directed to drive trains for hybrid vehicles. The ‘970 patent discloses and claims a drive train that employs a microprocessor and a controllable torque transfer unit (“CTTU”) that accepts torque input from both an internal combustion engine and an electric motor. Output shafts from both the combustion engine and the electric motor terminate with bevel gears which mesh with two other bevel gears in a CTTU housing. The other bevel gears are equipped with microprocessor controlled locking devices for setting the rotational freedom of the gears relative to the housing.

The ‘672 and ‘088 patents disclose a drive train that includes a clutch to combine the torque contributions of the internal combustion engine and the electric motor. The electric motor directly transfers torque to a differential, while the internal combustion engine transfers torque indirectly through a clutch. If the clutch is disengaged, the electric motor is the sole source of torque driving the wheels. The ‘672 and ‘088 patents also disclose using “road load” to determine the proper combination of torque from the combustion engine and the electric motor.

Toyota sells hybrid vehicles that have a drive train designed around a “planetary gear unit” having a “sun” gear that meshes with several planetary gears, which in turn mesh with a peripheral ring gear. The output shaft of the internal combustion engine is connected to the planetary carrier (and the planetary gears), whereas the shaft from an electric motor (MG2) is connected to the ring gear. An additional electric motor (MG1) has an output shaft coupled to the sun gear. A microprocessor associated with the drive train is able to control the amount of torque provided by the engine and the motor (MG2), however, the transfer of torque cannot be varied, as 72% of the torque provided by the engine is always transferred to the ring gear, which is combined with torque from the motor (MG2). As such, the microprocessor is only able to vary the amount of torque output to the drive shaft by varying the engine and/or the motor torque inputs.

Paice sued Toyota in the Eastern District of Texas alleging three counts of infringement—one for each patent—and requesting compensatory damages and a permanent injunction. Following a claim construction, wherein the district court construed the CTTU as “a multi-input device or component that is controlled to transfer variable amounts of torque,” a ten day jury trial commenced. Both parties relied heavily on expert testimony to present their cases to the jury.

At the end of evidence, the jury concluded that Toyota’s drive train lacks a literal CTTU, but that claims 11 and 30 of the ‘970 patent were infringed under the doctrine of equivalents. The jury found no infringement of the other two patents. The jury awarded over \$4 million to Paice as a reasonable royalty for past infringement. After the jury decision, both parties filed motions for

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JMOL, which were both denied. Paice also moved for a permanent injunction to prevent Toyota from making, using, offering for sale, and selling within the U.S. the accused vehicles.

The district court followed the four factor test mandated by the recent *eBay* decision in deciding the injunction. After considering the factors, the court denied the motion for the injunction and imposed an ongoing royalty of \$25 per vehicle sold using the infringing drive train for the duration of the life of the patent.

Toyota appealed the denial of the motion for JMOL and Paice appealed the denial of the motion for JMOL and the “ongoing royalty” imposed by the district court.

## II. Issues

- A. Did the district court err in denying the motions for JMOL?
- B. Did the district court err in imposing the ongoing royalty of \$25 per infringing vehicle?

## III. Discussion

- A. No, the district court’s denial of the motions for JMOL by both parties was proper. Toyota argued three separate points with respect to their motion for JMOL. First, they argued that there was insufficient evidence presented by the expert testimony to arrive at a finding of infringement under the doctrine of equivalents. The court disagreed, citing to specific testimony and stating that the jury had ample basis upon which to evaluate the insubstantiality of the differences between the CTTU limitation and the accused structure. Second, Toyota argued that criticisms in the patent application of prior art operate as a disavowal of the drive train on which the Toyota drive train is based. On this point the majority simply rejected that the statements operate as a complete disavowal of the accused devices. Third, Toyota argued that admissions by counsel operate as a binding admission that the Prius I does not infringe. The statement at issue was made during opening arguments and, in essence, suggested that Toyota could avoid paying Paice by using the Prius I design. The majority stated that the court treated the statement by counsel as merely evidential admission and not a conclusive admission. As such, the jury was free to weigh the statement against all the other evidence and the district court acted well within its discretion in its ruling to deny the motion for JMOL.

With respect to Paice’s motion for JMOL, Paice argued that there was insufficient evidence, based on the construction of the claims given by the court, for the jury to reach a verdict of no literal infringement of claims 11 and 39 of the ‘970 patent, claim 15 of the ‘672 patent and claims 1 and 2 of the ‘088 patent. The majority stated that there was sufficient evidence on which the jury based its finding of no literal infringement and, thus, no error in denying the motion for JMOL by Paice.

- B. Yes. Because the district court failed to provide any reasoning to support the order of \$25 per infringing vehicle as an ongoing royalty, the majority is unable to determine if there has been an abuse of discretion. Interestingly, however, the majority does not appear to take issue with the district court’s *sua sponte* imposition of the ongoing royalty. Paice argues that the district court did not have authority to issue the order and even if it did, Paice was denied its right to a jury trial under the Seventh Amendment to determine the amount of the ongoing royalty rate.

The majority starts their analysis by citing to 35 USC § 283 which provides authority to grant injunctions to prevent the violation of any rights secured by patent. Although the majority indicates the difficult question raised in this case is whether an order *permitting* use of a patented invention in exchange for royalty is properly characterized as *preventing* the violation of the rights secured by the patent, they cite to several cases indicating that the court does have authority to award an ongoing royalty in lieu of an injunction under some circumstances. In particular, the court notes that in the context of antitrust violations such arrangements are appropriate forms of relief. However, the majority states, “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.” The parties should first be allowed to negotiate a license and only after discussions fail to result in an agreement should the court step in to assess the reasonable royalty for continuing infringement.

In this case the district court denied the injunction and *sua sponte* ordered the ongoing royalty. The majority appears to only take issue with the fact that the district court failed to provide reasoning for the \$25 per vehicle rate. For this reason, the majority vacated the district court’s final order with respect to the \$25 per vehicle ongoing royalty.

With respect the Seventh Amendment issue raised by Paice, Paice argued that the determination of damages is a legal question which carries the right to a jury. The majority, however, characterized the royalty as an equitable remedy, rather than “damages.” As such, despite the fact that monetary relief is involved, there is no Seventh Amendment issue because it is not related to “damages.”

#### **IV. Concurrence**

In a concurring opinion Judge Rader noted that a “compulsory license” by any other name, i.e., an “ongoing royalty,” is still a compulsory license. Additionally, he indicated that the case should be remanded to allow the parties to negotiate a license independent of the court.

#### **V. Conclusion**

Per this case, a district court has the power to deny an injunction and *sua sponte* set terms for an ongoing royalty. Additionally, because royalties are a form of equitable relief, there is no Seventh Amendment right to a jury trial.