

## The Ongoing Confusion Over Ongoing Royalties<sup>1</sup>

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In *eBay Inc. v. MercExchange LLC*, the Supreme Court correctly concluded that courts had both the power and the responsibility to decide whether a successful patent owner needed injunctive relief, and whether the imposition of that relief would unduly harm either the defendant or the public.<sup>3</sup> The application of the traditional four-factor equity test has led, for the first time, to a significant number of cases in which courts find patent infringement but refuse to enjoin continued infringement. That in turn has raised the question “what happens then?”

The basic answer seems clear as a matter of policy: while the patentee can’t enjoin infringement, the infringer should have to pay for the right to continue infringing. But that basic answer conceals three subsidiary issues: do courts have the authority to award an ongoing royalty, who decides what that royalty should be, and how should that royalty be calculated. To date, courts have largely ignored the first and second questions. While they have addressed the third, they haven’t done so in a particularly satisfactory manner. In this article I endeavor to answer these questions.

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<sup>3</sup> 547 U.S. 388 (2007).

## I. Authority to Order Ongoing Royalties

Section 283 provides that upon a finding of infringement, a court “may grant injunctions in accordance with the principles of equity.”<sup>4</sup> Section 284 provides that the court shall award damages “adequate to compensate for the infringement, but in no event less than a reasonable royalty.”<sup>5</sup> The traditional understanding of these remedial provisions is that section 283 operates prospectively, while section 284 operates retrospectively. That is, patentees are entitled to damages to compensate them for past acts of infringement, but to an injunction that prevents any future infringement.

*eBay* throws that basic remedial structure into disarray. In the wake of *eBay*, injunctive relief has largely been granted to plaintiffs who practice the patent or otherwise participate in the market, but not to non-practicing entities (NPEs).<sup>6</sup> So what happens to NPEs who win their patent suits?

One possible answer is: nothing. Paul Janicke has suggested that courts have no statutory authority to award ongoing royalties to prevailing patentees in the form of a compulsory license.<sup>7</sup> Tomas Gomez-Arostegui has argued in an historical tour-de-force that under the old English system, equity courts did not grant prospective financial rewards, and that under some recent Supreme Court decisions federal courts exercising their equity power

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<sup>4</sup> 35 U.S.C. § 283.

<sup>5</sup> *Id.* §284.

<sup>6</sup> See <http://www.thefireofgenius.com/injunctions/> (collecting cases in the first year after *eBay*). The Court in *eBay* warned against the creation of bright-line rules regarding entitlement to injunctive relief, 547 U.S. at \_\_\_, making it a bit ironic that the effect of *eBay* has been so categorical. But the results have come not from the application of a bright-line rule, but rather from the fact that non-practicing entities have not been able to come up with a plausible theory for why they cannot be adequately compensated by money damages.

<sup>7</sup> Paul M. Janicke, *Implementing the “Adequate Remedy at Law” for Ongoing Patent Infringement After eBay v. MercExchange*, \_\_ *Idea* \_\_ (forthcoming 2011). *But cf.* Daniel A. Crane, *Intellectual Liability*, 88 *Tex. L. Rev.* 253, 256-57 (2009) (discussing ongoing royalties as a form of liability rule regime).

cannot order any awards that were not available in traditional English equity.<sup>8</sup> Gomez also points out that courts applying a related statute that involves patent suits against the government<sup>9</sup> have read it to award only retrospective relief.<sup>10</sup> Combining the work of these scholars, one might conclude that patentees who cannot obtain injunctive relief have no recourse in either law or equity, at least in their current lawsuit. While some may use this as a reason to argue for injunctive relief (on the theory that otherwise plaintiffs get nothing), taking this approach seriously in the wake of *eBay* may in fact present a bleak prospect for prevailing patent plaintiffs: no injunction and no ongoing royalty.

One possible workaround if courts in fact have no authority to grant ongoing royalties is to file successive lawsuits to obtain past damages for each new period of infringement.<sup>11</sup> One district court has taken this approach, declining to award ongoing royalties in lieu of damages but ordering the plaintiff to file a new lawsuit for damages based on the ongoing infringement.<sup>12</sup> Since remedies for future infringement become remedies for past infringement with the passage of time, the filing of a successive array of suits could allow the award of damages for each new period. And it would have the advantage of providing courts an opportunity to revisit the decision to deny an injunction should circumstances have changed. Still, it seems odd to say that the only possible solution is to doom the parties, Zeno-like, to an

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<sup>8</sup> H. Tomas Gomez-Arostegui, *Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases*, 78 **Fordham L. Rev.** 1661 (2010). More on this theory and its limitations below.

<sup>9</sup> 28 U.S.C. § 1498 (patentees are entitled to “reasonable and entire compensation” from government infringers).

<sup>10</sup> Gomez-Arostegui, *supra* note \_\_\_, at \_\_\_.

<sup>11</sup> For a discussion of how this might work, see Janicke, *supra* note \_\_\_.

<sup>12</sup> *z4 v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

endless array of recurring lawsuits presenting exactly the same issue and leading (hopefully, at least) to the same outcome.

In fact, however, I don't think courts necessarily need resort to such a trick. Ongoing royalty awards should be available under one of two different theories. First, section 284 arguably gives courts the authority to award forward-looking as well as backward-looking damages once infringement has been found. That statute not only permits but requires courts to award "damages adequate to compensate for the infringement."<sup>13</sup> In *General Motors Corp. v. Devex Corp.*, the Supreme Court gave that statute a broad reading, finding Congress's purpose to have been "affording patent owners complete compensation."<sup>14</sup> The statute does not identify what "the infringement" is. Gomez-Arostegui assumes that the term refers only to past infringement, but it isn't necessarily so limited. It is at least possible to conclude that if a defendant infringes over a period of ten years, seven before the judgment and three after, the statute requires that all the defendant's sales of the same product are "the infringement" for which the patentee must be compensated. While damages are generally backward-looking, the law in a number of circumstances gives forward-looking damages based on estimates of losses caused by acts of infringement. Courts will in appropriate circumstances grant damages based on the consequences for future market relationships of past acts of patent infringement, compensating patent owners for future lost sales resulting from the inability to grow fully because of past infringement.<sup>15</sup> Tort law in general does something similar, compensating

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<sup>13</sup> 35 U.S.C. § 284.

<sup>14</sup> 461 U.S. 648, 656 (1983).

<sup>15</sup> See, e.g., *Brooktree Corp. v. Advanced Micro Devices*, 977 F.2d 1555, 1581 (Fed. Cir. 1992); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1058 (Fed. Cir. 1983) (both permitting lost profits awards based on projected future as well as past losses).

plaintiffs exposed to toxic chemicals for an increased risk of cancer rather than requiring plaintiffs to wait and see if they develop cancer before suing.<sup>16</sup>

It is not that large a step from compensating patentees for predicted future consequences of patent infringement to compensating patentees for actual future infringement when it occurs. Trade secret law does this expressly,<sup>17</sup> as does real property law,<sup>18</sup> and it seems reasonable to think that patent law can as well, using section 284 as authority.<sup>19</sup> Even the routine grant of post-verdict interest in patent cases is an example of a monetary award based on future losses, albeit ones caused by past infringement.<sup>20</sup>

Whether or not the Federal Circuit will embrace this authority is more doubtful, given the rejection of ongoing damages in patent suits against the government. But I think it is a fair reading of section 284.

Second, courts have the general power in equity to order accountings and constructive trusts. Patent law is no exception. Courts have recognized and applied this authority in a number of circumstances, for instance requiring an individual who wrongly patented an invention actually made by another to hold the profits from that patent in constructive trust for

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<sup>16</sup> Cite case.

<sup>17</sup> Uniform Trade Secrets Act §2(b).

<sup>18</sup> See Restatement (Second) Torts §930(1), which permits (and in some cases even requires) a land owner faced with repeated trespasses to recover damages for future as well as past invasions of his property.

<sup>19</sup> Changes in a defendant's product present a different issue. It is reasonable to conclude that the sale tomorrow of a product identical to one determined to infringe yesterday is itself an infringement of the patent. By contrast, courts should not generally predict that products will infringe a patent if those products differ in any substantial way from ones that have previously been found infringing. *Cf.* *TiVo Inc. v. EchoStar Corp.*, 376 Fed. Appx. 21 (Fed. Cir. 2010) (order rehearing case en banc to consider when a modification of an infringing product is sufficiently substantial that it does not constitute contempt of an injunction).

<sup>20</sup> See, e.g., *Transmatic, Inc. v. Gulston Indus., Inc.*, 180 F.3d 1343 (Fed. Cir. 1999).

the true inventor.<sup>21</sup> This equity power could easily justify the award of ongoing royalties.

Strictly speaking such equity awards are not damages, but they serve the same purpose: to compensate the patentee for injury that would otherwise go unremedied.<sup>22</sup>

In short, while the question is not free from doubt, I think there are reasonable arguments for treating ongoing royalties as within either the law or the equity power of the courts.

## II. Who Sets the Ongoing Royalty?

Courts that deny injunctive relief overwhelmingly award an ongoing royalty in its place. These awards are almost always set by the district judge as part of post-trial briefing. The Federal Circuit has endorsed the idea in general terms in both *Paice v. Toyota Corp.* and *Amado v. Microsoft Corp.*<sup>23</sup> The Federal Circuit has not addressed the issue of the source of their authority to do so, whether in law or in equity.

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<sup>21</sup> *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574, 1578 (Fed. Cir. 1991) (approving equitable accounting under patent law); *Tronzo v. Biomet*, 156 F.3d 1154, 1161 (Fed. Cir. 1998) (approving constructive trust under patent law); *Papazian v. American Steel & Wire Co.*, 155 F. Supp. 111, 117 (N.D. Ohio 1957)):

An owner of the equitable title may seek redress against an infringer in a court of equity. If he has been fraudulently induced to part with this title, he may sue in equity for rescission of the transfer and if successful may obtain full redress for infringement by way of injunction, accounting, declaration of trust, or other forms of equitable relief.

<sup>22</sup> While Gomez-Arostegui argues that there were no precise analogues to ongoing royalty awards in English chancery law, that is not the right question even under *Grupo Mexicano de Desarrollo v. Alliance Bond Fund*, 527 U.S. 308 (1999), the most restrictive Supreme Court case concerning equity. Rather, the question is whether the equitable remedy is one of the type traditionally granted in equity, as opposed to an entirely new sort of remedy. Accountings for profits and constructive trusts were well-established in equity, and indeed an accounting for profits was a statutory remedy in patent law until 1946. See, e.g., *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 673 (Fed. Cir. 1988).

<sup>23</sup> *Paice v. Toyota Corp.*, 504 F.3d 1293 (Fed. Cir. 2007); *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008).

In fact, however, the source of authority bears directly on the question of who should set the ongoing royalty. Patent damages are legal remedies that are subject to the Seventh Amendment.<sup>24</sup> Those remedies must therefore be set by the jury, assuming one is requested (and one virtually always is).<sup>25</sup> So if the basis for awarding ongoing royalties lies in section 284, those royalties must be assessed by the jury.<sup>26</sup> By contrast, if the question is one of equity, courts have the power (and indeed ultimately the responsibility) to set the award. While courts can convene advisory juries on equitable questions,<sup>27</sup> they cannot abdicate their ultimate decision-making responsibility to that jury.

Ongoing royalties today are almost always awarded by district courts, not by juries. Perhaps this reflects an (unexpressed) conclusion that the award of ongoing royalties is within their equity power rather than a measure of damages. But I think it more likely reflects the practical realities of timing. The jury awards damages in most cases as part of an overall ruling on patent validity and infringement. Then they go home. By the time the judge rules on whether the patentee is entitled to an injunction, it is too late to send the ongoing royalties question back to the same jury. Judges may simply be reluctant to convene a second jury just to decide the ongoing royalty question.

### III. Calculating the Ongoing Royalty

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<sup>24</sup> U.S. Const., 7<sup>th</sup> am.

<sup>25</sup> *Accord* Janicke, *supra* note \_\_\_. Almost every patent case today is tried to a jury. The notable exceptions are pharmaceutical cases against generics under 35 U.S.C. § 271(e)(2), where damages are not at stake and so no jury trial right is implicated, and cases against the federal government. In 2004, only 18% of patent trials were to a judge rather than a jury. [http://www.patstats.org/editors\\_page.rev4.html](http://www.patstats.org/editors_page.rev4.html).

<sup>26</sup> Indeed, as we will see, there is a reasonable argument that they would have to be assessed by the same jury that awarded past damages.

<sup>27</sup> *See, e.g., Transmatic*, 180 F.3d at 1345.

Setting an ongoing royalty might seem at first glance an impossible task – a prediction of the future. It is true that measuring damages based on projected future sales requires a certain amount of speculation. But patent damages regularly involve even more speculative conclusions. Lost profits awards require the recreation of a hypothetical world in which the court uses economic evidence to try to predict what would have happened but for the infringement. Lost profits cases consider not just provable sales lost to the infringer, but also issues such as how an infringer’s customers would split between different suppliers, whether the patentee would have made sales of unpatented products normally associated with the patented invention, and even how the patentee’s cost structure or market share would have changed but for the infringement and how that change would have affected future sales. Reasonable royalty awards too involve speculation: what would the plaintiff and defendant have agreed to as a royalty if they had decided to agree rather than spending \$5 million per side in legal fees to litigate the case all the way to trial.<sup>28</sup>

Further, there are ways to limit the speculative nature of ongoing royalty awards. A lump-sum royalty award for future infringement does indeed require significant speculation: it requires a prediction of how many infringing products will be sold in the remaining life of the patent, the price at which they will be sold, and the percentage of that price the patentee would be willing to pay. Because each of those things can change over time, a forward-looking lump-sum award is least likely to accurately capture the future injury to the patentee. A per-unit dollar royalty is somewhat better, because there is no need to accurately estimate how many products the defendant will sell; the defendant simply pays a dollar amount each quarter

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<sup>28</sup> **American Intellectual Property Law Association, Report of the Survey on Economic Activity 2009** at 21.



based on what they actually did sell.<sup>29</sup> But a per-unit dollar royalty is still vulnerable to changes over time in the price or value of the product; a \$25 royalty on a \$1000 product becomes rather more onerous if the price of the product drops to \$200 over time (and vice versa). Best of all is an ongoing percentage royalty, which obviates the need to predict either the quantity sold or the price. It is still a prediction – the relative value of the patented technology to the other components of the defendant’s product may change over time – but it is the best prediction we have. And compared to an endless stream of lawsuits between the same parties, it seems logical for courts to use their authority to award ongoing royalties if they refuse to award an injunction.

Finally, a court setting an ongoing royalty after a finding of infringement is not writing on a blank slate. A jury has already set a reasonable royalty for past damages.<sup>30</sup> According to black-letter patent law, that reasonable royalty represents the rate a willing buyer and a willing seller would have agreed upon if they had known that the patent was valid and infringed.<sup>31</sup> Conveniently, that is precisely what an ongoing royalty in lieu of an injunction is supposed to

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<sup>29</sup> This has the further advantage of taking full account of design-around possibilities, since a defendant that has already paid damages up front will have no incentive to design around the patent, while a defendant who must pay a royalty for future infringing products will internalize the true marginal cost of making those products, and so will have an incentive to design around the patent if it is efficient to do so.

On the other hand, quarterly payments based on actual sales require continuing court oversight and depend on the ability of the patentee or the court to obtain accurate sales information from the defendant.

<sup>30</sup> Essentially every non-Hatch-Waxman case involves a past damage award, because it is almost unheard-of for a defendant to stop producing its product pending trial merely because it has been sued, and even if it did, it would frequently owe damages for sales made after constructive notice of the patent but before it ceased production.

While some damage awards involve lost profits, not reasonable royalties, those cases all involve patentees that participate in the market, and so they are likely to lead to injunctions rather than ongoing royalties.

<sup>31</sup> See, e.g., *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).

represent: what the parties would be willing to agree on now that they know that the patent is valid and infringed. Thus, the answer to how to set the ongoing royalty seems straightforward: it is precisely the royalty the jury set for past damages assuming validity and infringement. Ideally, the jury will have given a percentage royalty, and we should encourage awards in that form, but even if it hasn't, it will usually be possible to back out a royalty rate from the testimony and the dollar award actually given.<sup>32</sup>

One complication is whether the defendant, having lost the suit, is now a willful infringer, so that the judge should have the discretion to treble the ongoing royalty rate. The district court did this in *Amado v. Microsoft*.<sup>33</sup> The logic seems straightforward: if I now know that I am infringing a valid patent, and I continue to do it, surely I am a willful infringer. Nonetheless, the Federal Circuit rejected that conclusion in *Amado*, and I think it was probably right to do so. If the court has decided that the defendant should be allowed to continue to sell the infringing product because enjoining it imposes too great a hardship on either the defendant or the public, it seems a bit odd to then punish the defendant for doing the very thing the court just permitted it to do. The question is not free from doubt; awarding ongoing royalties but increasing that amount might be a middle ground between merely compensating the patentee and shutting the defendant down altogether, and therefore encourage the defendant to design around the patent.<sup>34</sup> And if the defendant was a willful infringer before trial, it would be odd to undo that finding in setting ongoing royalties. But if a patentee can be

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<sup>32</sup> That is certainly true of per-unit royalties, where the calculation is simply the per-unit royalty divided by the cost of the unit.

<sup>33</sup> 517 F.3d 1353 (Fed. Cir. 2008).

<sup>34</sup> Cf. Tim Carlton, *The Ongoing Royalty: What Remedy Should a Patent Holder Receive When a Permanent Injunction is Denied?*, 43 **Ga. L. Rev.** 543 (2009) (arguing that the existing royalty rate undercompensates patent owners, and that a new, higher rate should be awarded).

adequately compensated by money damages, increasing those damages can only serve a deterrent purpose. And in a case in which we have decided we don't want to deter because the patentee doesn't need that deterrence or because it will work a hardship on the defendant, we probably shouldn't be trebling damages.

Awarding ongoing royalties, then, seems a straightforward exercise. Curiously, however, the Federal Circuit opinions that address the issue seem to believe that the question is entirely different from the issue of past damages. In *Paice v. Toyota*, the Federal Circuit vacated a district court award of an ongoing royalty of \$25 per unit, identical to the jury's award of past damages.<sup>35</sup> The Court said that the question of post-verdict royalties was different from pre-verdict royalties, and that the parties should have an opportunity to negotiate an agreement post-verdict before the court sets the ongoing royalty. And in *Amado v. Microsoft*, in which the court rejected an ongoing royalty that was triple the past damages award, the court in a footnote suggested that an entirely new calculus was required.<sup>36</sup> Neither court set a rule for how ongoing royalties were to be calculated in this new calculus; the closest the Federal Circuit came was a footnote in *Amado* suggesting that the ongoing royalty calculation should use the jury's damage award as a floor and what the plaintiff asks for as a ceiling.<sup>37</sup>

District courts have tried to apply this "new calculus" suggestion, but the results have not been encouraging. In *Paice*, for instance, the district court, told not to use the jury's \$25-per-car damages award, fell back on the most-reviled patent damages theory in history, the so-

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<sup>35</sup> *Paice v. Toyota Corp.*, 504 F.3d 1293 (Fed. Cir. 2007).

<sup>36</sup> *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008).

<sup>37</sup> *Id.* at \_\_\_.

called 25% rule of thumb.<sup>38</sup> It awarded 25% of the value of the component covered by the patent, raising the post-verdict rate to \$98 per car. In other words, because of the Federal Circuit's instruction, the court on remand replaced a more reliable calculation of damages with a notoriously unreliable one that quadrupled the original damages award.

The Federal Circuit has offered two reasons to redo the pre-verdict calculation. First, *Paice* suggests that the parties should be given an opportunity to settle the case now that they know the jury's verdict, and a separate damages calculation gives them the opportunity to do so. Second, *Amado* suggests that the royalty will be different now that the parties know the patent is valid and infringed.

Neither argument is persuasive. It is of course true that the parties may reassess their positions on the basis of new information – the jury verdict. And they may decide they want to settle as a result. But we don't need a second damages trial to cause them to do so. Parties can settle cases at any time; the vast majority of them do so, often on the courthouse steps but sometimes on appeal.<sup>39</sup> They settle cases even in the face of a clear damages number that the defendant would have to pay absent settlement.<sup>40</sup> And in any event the significant possibility

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<sup>38</sup> 609 F. Supp. 2d 620 (E.D. Tex. 2009). There is no such rule of thumb. The myth of the 25% "rule of thumb" came from a single small study of licenses in the 1950s that has long since been debunked. Fortunately, the Federal Circuit has since laid that "rule" to rest. *Uniloc v. Microsoft Corp.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. Jan. 4, 2011).

<sup>39</sup> See, e.g., John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, \_\_\_ **Geo. L.J.** \_\_\_ (forthcoming 2011) (finding 84-91% of patent cases settle depending on case type); Jay Kesan & Gwendolyn Ball, *How are Patent Cases Resolved? An Experimental Examination of the Adjudication and Settlement of Patent Disputes*, 84 **Wash. U. L. Rev.** 237 (2006) (finding over 80% settlement rate).

<sup>40</sup> See, e.g., Mark A. Lemley, *Contracting Around Liability Rules* (vaporware 2011).

of reversal on appeal<sup>41</sup> gives the parties plenty of uncertainty over which to bargain even if it is clear what damages the defendant will face if it loses the appeal.

The second idea, that ongoing royalties reflect an entirely different calculus from past damages, makes no sense. The ongoing royalty question is the very same question the jury has just resolved – what would a willing buyer and a willing seller who know the patent is valid and infringed have agreed to as a royalty rate. *Amado's* suggestion that the jury would have come to a different number had it known the patent was valid and infringed simply ignores the black letter law of reasonable royalties. Juries *already* are required to assume that the patent is valid and infringed in setting past damages.<sup>42</sup> There is no reason to think that asking the same question twice should produce different answers in most cases.

Indeed, doing so may even be unconstitutional. The Seventh Amendment guarantees a right to jury trial on questions of law, including patent damages. So if the basis for ongoing royalties is section 284, ongoing royalties are patent damages, which presumably must be set by the jury.<sup>43</sup> But the less-known reexamination clause of the Seventh Amendment provides that “no fact tried by a jury, shall be otherwise re-examined in any Court of the United States,

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<sup>41</sup> On the Federal Circuit reversal rate, see, e.g., Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 **Lewis & Clark L. Rev.** 231 (2005) (finding claim construction reversal rate over 40%); David L. Schwartz, *Pre-Markman Reversal Rates*, 43 **Loyola L.A. L. Rev.** 1073 (2010) (finding that the reversal rate has increased over time).

<sup>42</sup> See, e.g., *Lucent Techs. v. Gateway*, 580 F.3d 1301, 1325 (Fed. Cir. 2009).

It may be that while courts pay lip service to the assumption that the licensed patent was valid and infringed, in practice they ignore that requirement. I have suggested elsewhere that too much reliance on actual licenses poses this risk, for instance. Daralyn J. Durie & Mark A. Lemley, *A Structured Approach to Calculating Reasonable Royalties*, 14 **Lewis & Clark L. Rev.** 1627 (2010). But if so, the solution is to correct the error artificially depressing past damage awards, not to create a disconnect between past and future royalties.

<sup>43</sup> Paul Janicke makes this point, criticizing cases that have let district judges rather than juries set the ongoing royalty award. Janicke, *supra* note \_\_\_, at \_\_\_.

than according to the rules of the common law.”<sup>44</sup> That means that if I am right that the factual question is the same for both past and ongoing royalties, the constitution prohibits having either the court or a second jury reexamine the facts decided by the first jury.<sup>45</sup>

The reexamination issue makes convening a second jury problematic. As noted above, however, that’s not how courts have generally handled ongoing royalties. Instead, they have ordered them as a court, perhaps using their equity authority to do so. But the fact that courts are awarding an equitable accounting rather than money damages entirely doesn’t free them from the dictates of the Seventh Amendment. Courts may have separate authority to award an equitable accounting, but in doing so they cannot reexamine facts found by the jury in the past damages award.<sup>46</sup> And since as I have noted the factual question the jury is answering is the very same question the court is supposed to answer, a court ordering an accounting cannot lawfully engage in a “separate calculation” designed to replicate the first.

Notably, this reexamination clause problem should infect even the series of subsequent lawsuits that Gomez-Arostegui concludes are the only legitimate alternative. The jury in that second lawsuit would be reexamining the damages question, just as a factfinder assessing an ongoing royalty would be. The result would be truly odd – a new trial in which every issue has already been determined in a legally binding way in a prior trial.

One possible point of difference is that past damages reflect a reasonable royalty calculated based on the state of affairs at the time infringement began. Perhaps ongoing royalties should

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<sup>44</sup> U.S. const., 7<sup>th</sup> am.

<sup>45</sup> See, e.g., *In re Rhone-Poulenc-Rorer*, 51 F.3d 1293 (7<sup>th</sup> Cir. 1995). But see Patrick Woolley, *Mass Tort Litigation and the Seventh Amendment Reexamination Clause*, 83 **Iowa L. Rev.** 499 (1998) (criticizing expansive use of the reexamination clause to prevent bifurcation of liability and damages).

<sup>46</sup> Cf. *Shum v. Intel Corp.*, 499 F.3d 1272 (Fed. Cir. 2007) (reversing district court ruling on inventorship, an equitable issue, because it prejudged facts in common with state law claims that were legal issues).

be calculated based on the parties' knowledge as of a later time.<sup>47</sup> But as a practical matter courts in damages cases allow consideration of subsequent developments in setting their reasonable royalty under the so-called "book of wisdom," so this distinction is largely illusory.<sup>48</sup> Nonetheless, the Federal Circuit has on occasion found that different circumstances compel different royalty rates.<sup>49</sup> The fact that sometimes circumstances will change provides a reason to make the past damages measure a presumptive rather than a required basis for the ongoing royalty. But to depart from the jury's award, the factfinder should have to determine that circumstances have in fact changed.

Instead of recalculating royalties, a court setting ongoing royalties should do one of two things: (1) ask the jury in its special verdict form to specify the percentage royalty rate, and use that rate for an ongoing royalty, or (2) set a royalty rate derived from the trial testimony and the jury's lump-sum damages award.<sup>50</sup> In either event, the judge's obligation is to conform the ongoing royalty to what the jury awarded, not to depart from it, absent proof of circumstances that differ going forward from those the jury considered in setting past damages. The jury's

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<sup>47</sup> See Carlton, *supra* note \_\_\_, at 571-72.

<sup>48</sup> See *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698 (1933) (permitting developments occurring after the date of the hypothetical negotiation to inform the damages calculation):

[A] different situation is presented if years have gone by before the evidence is offered. Experience is then available to correct uncertain prophecy. Here is a book of wisdom that courts may not neglect. We find no rule of law that sets a clasp upon its pages, and forbids us to look within.

<sup>49</sup> *Applied Medical Resources Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356 (Fed. Cir. 2006).

<sup>50</sup> There is a reasonable argument that if a jury given the choice between a royalty rate and a lump-sum damages number chooses the latter, that lump sum payment represents the patentee's entire compensation for the period of patent infringement. After all, when parties to a license agreement negotiate a lump sum payment rather than an ongoing royalty, they generally intend that lump sum payment to represent complete compensation for the term of the patent. No license agreement I have ever read involves a lump sum payment for a period of years and then converts to a running royalty. On this theory, in any case in which the jury concludes that a lump sum payment would be the appropriate royalty, the ongoing royalty rate should be zero.

past damages award should be the presumptive basis for the ongoing royalty; a party that wants to depart from that number should have to show why changed circumstances require it. Alternatively, we could ask the jury to set both past and future royalty rates, though again there must be some justification for setting two different rates.

#### **IV. Conclusion**

Law professors love to write papers explaining why the law imposes obstacles to doing either the right thing or the easy thing. This is not such a paper. In this case, the easy solution is not only the right one, but may actually be legally compelled. Patentees who do not qualify for injunctive relief are entitled to ongoing royalties to compensate them for future infringement. Those ongoing royalties for future infringement should be set at the same rate as damages for past infringement. That's easiest to do if the jury actually awards a royalty percentage, but even if they don't, district courts should award a royalty that gives effect to the jury's findings, not one that disregards them.