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The assistance of John Scheibeler in the preparation of this article is gratefully appreciated and acknowledged. This article reflects only the present considerations and views of the author, which should not be attributed to White & Case or to any of his or its former or present clients.

Edward V. Filardi*

INTRODUCTION

The increasing notoriety during the past two decades of the large monetary infringement awards recovered by United States patent owners has helped to maintain and foster a positive public image of an efficient domestic patent system. The general impression is that our patent laws constitute a well-formulated instrument to ensure adequate relief against unauthorized and unlicensed infringement. By and large, that view is accurate. The relief provided by our current patent statutes, specifically 35 U.S.C. §§ 283, 284, and 285, includes a wide range of remedies, such as injunctive relief, damages/costs/interest, and attorney fees.

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3. "[C]ourts ... may grant injunctions in accordance with the principles of equity . . . ." 35 U.S.C. § 283.

4. "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." 35 U.S.C. § 284. The statute also provides that the court may treble the amount found by the jury or assessed by the court. Id.

Notwithstanding the refinement of these statutory provisions through many decades of litigation, situations continue to arise in practice where the monetary relief awarded is clearly inadequate to compensate the patent holder to the full value of his invention's contribution.

The present law permits an award of money damages and "profits" only to the extent of the patent holder's lost profits and only under certain commercial conditions, e.g., where there are no non-infringing substitutes. In the absence of these conditions, the patent holder's only remedy is royalty payments. The "Damages" section of the current patent statute, 35 U.S.C. § 284, has been judicially construed to limit patent holders who do not themselves commercially practice their invention to a "reasonable royalty." Too many instances have arisen where infringers, secure in the knowledge that nothing more than a compulsory license at an established royalty rate will be the price of their infringement, have deliberately forced the burden and expense of litigation upon patent owners.

The language of 35 U.S.C. § 284 is the product of several amendments dating back to the Patent Act of 1870, although the most significant amendments have been adopted since 1922. In broad perspective, the amendments over the past seventy years have sought to ensure that patent holders are awarded the fairest compensation possible and to ensure that patent holders' ability to prove the just amount of any award is not encumbered by an obstructive infringer. Under 35 U.S.C. § 284, the patent holder is entitled to recover all damages to compensate for the resulting loss, not less than a reasonable royalty. The underlying theory of law applied in patent cases is the general tort theory of compensation, the goal of which is to render the complainant whole. Based upon the historical evolution of the statute, the patent holder cannot directly recover any portion of the infringer's profit. While once permitted, any award based upon the unjust enrichment of the infringer—even as a deterrent to further wrongful infringement or

7. Id.
to enable an economically disadvantaged patent holder to share justly in the profits of wrongful infringement—is no longer an available form of monetary relief under the present statutory provisions.

While the language of 35 U.S.C. § 284 otherwise permits a fairly wide variety of bases for damages recovery, the patent owner is basically awarded either lost profits or a reasonable royalty, depending upon the owner’s commercial status. As a result, there have been huge differences in awards. In view of the growing disparity among certain patent infringement awards, amendments to 35 U.S.C. § 284, which has been in existence since the 1952 patent statute was enacted, continue to be contemplated in an effort to ensure just and adequate infringement compensation. These contemplated amendments seek the return of the remedy of profit disgorgement. In a proper case, they would permit the recovery of an equitable portion of infringers’ unjust gains.


Shortly after the enactment of the Patent Act of 1870 (the “1870 Act”), the Supreme Court, in the 1876 decision in *Birdsall v. Coolidge*, summarized the origins of the 1870 Act pertaining to a patent owner’s remedial rights:

Prior to the passage of the act of the 8th of July, 1870, two remedies were open to the owner of a patent whose rights had been infringed, and he had his election between the two: he might proceed in equity and recover the gains and profits which the infringer had made by the unlawful use of his invention, the infringer in such a suit being regarded as the trustee of the owner of the patent as respects such gains and profits; or the owner of the patent might sue at law, in which case he would be entitled to recover, as damages,

10. 93 U.S. 64, 68-69 (1876).
compensation for the pecuniary injury he suffered by the infringement, without regard to the question whether the defendant had gained or lost by his unlawful acts—the measure of damages in such case being not what the defendants had gained, but what the plaintiff had lost.

The impact of the 1870 Act was to amend the law such that a patent owner was no longer required to elect between his own damages and the infringer’s profits. Section 55 of the 1870 Act provided that, upon a finding of infringement, courts were empowered to award, “in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby.”\(^1\) By providing for an award of damages as well as profits (both in addition to injunctive relief), the 1870 Act afforded the successful patent owner a clear statutory basis for a double-edged recovery on the issues of validity and infringement. The balance of equities tipped clearly in favor of the patent owner and against the infringer. Moreover, under section 59 of the 1870 Act, courts further possessed the discretionary power to increase any damages portion of a judgment up to three times the amount awarded.\(^2\) While a court could increase the amount assessed as the complainant’s damages, its power to treble was specifically limited to the amount of “the actual damages sustained.”\(^3\) No power, discretionary or otherwise, was granted under the 1870 Act to increase the amount ascertained to be the infringer’s gains or profits. As such, the “dichotomy in the 1870 Act between ‘the [unjust] profits to be accounted for by the defendant’ and ‘the damages the complainant had sustained’ by the [wrongful] infringement was sharply drawn in language and in consequences.”\(^4\)

The remedies provisions of the 1870 Act were not significantly amended for over forty-five years until the Patent Act of 1922\(^5\) (the “1922 Act”) focused upon aiding the patent owner with regard

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12. Id. § 59, 16 Stat. at 207.
13. Id. § 59, 16 Stat. at 207.
to proof of damages. The 1922 Act continued to provide that, where infringement liability was proven, the plaintiff was entitled to recover both “the profits to be accounted for by the defendant”

16. Section 4921 of the revised statutes was amended to provide:

The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement: Provided, That this provision shall not affect pending litigation. And the court shall have the same power to increase such damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but in any suit or action brought for the infringement of any patent there shall be no recovery of profits or damages for any infringement committed more than six years before the filing of the bill of complaint or the issuing of the writ in such suit or action, and this provision shall apply to existing causes of action. And it shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the patent laws to give notice thereof in writing to the Commissioner of Patents, setting forth in order so far as known the names and addresses of the litigants, names of the inventors, and the designating number or numbers of the patent or patents upon which the action, suit, or proceeding has been brought, and in the event any other patent or patents be subsequently included in the action, suit, or proceeding by amendment, answer, cross bill, or other pleading, the clerk shall give like notice thereof to the Commissioner of Patents, and within one month after the decision is rendered or a decree issued the clerk of the court shall give notice thereof to the Commissioner of Patents, and it shall be the duty of the Commissioner of Patents on receipt of such notice forthwith to indorse the same upon the file wrapper of the said patent or patents and to incorporate the same as a part of the contents of said file or file wrapper; and for each notice required to be furnished to the Commissioner of Patents in compliance herewith a fee of 50 cents shall be taxed by the clerk as costs of suit.
as well as "the damages the complainant has sustained" by the wrongful infringement. The courts' power to treble the amount of the actual damages awarded was also continued. The 1922 Act made "evidentiary amendments" for determining the amount of damages. The amendments brought by section 4921 of the 1922 Act provided for an award of "a reasonable sum as profits or general damages for the infringement" and, for the first time, permitted "opinion or expert testimony" to be received on the issue of the quantum of either profits or general damages.

The legislative intent was to deal with those situations where the evidence shows that "the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty."

The 1922 evidentiary amendments, which exist to the present day, are rooted in a longstanding awareness that a patent owner who painstakingly succeeds in proving infringement often faces difficulties not of the owner's making in proving the amount of actual damages or the infringer's profits "with reasonable certainty," as is required by law. In the Georgia-Pacific case the trial court focused upon this very issue:

The line of demarcation, which rules of quality of proof required to sustain a claim for damages, is between the speculative and the probable. The reasonably predictable, not the conjectural, is the standard by which the proof must be appraised. In an early case, Seymour v. McCormick, [57 U.S. 480] (1853), the court said (p. 490):

"Actual damages must be actually proved, and

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17. Id.
19. Id.
cannot be assumed as a legal inference from any facts which amount not to actual proof of the fact. What a patentee 'would have made, if the infringer had not interfered with his rights,' is a question of fact and not 'a judgment of law.' The question is not what speculatively he may have lost, but what actually he did lose ***.

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Also, Story Parchment Co. v. Paterson Parchment Paper Co., [282 U.S. 555, 562-63] (1931), where the court said:

"The rule which precludes the recovery of uncertain damages applies to such as are not the certain result of the wrong, not to those damages which are definitely attributable to the wrong and only uncertain in respect of their amount."

"In such case, while the damages may not be determined by mere speculation or guess, it will be enough if the evidence show [sic] the extent of the damages as a matter of just and reasonable inference, although the result be only approximate". [sic] 24

The 1946 amendments to the patent statute did not disturb the stated rules of evidence which permit the use of expert or opinion evidence. 25 The amendments further extended the use of such evidence to determine "due compensation" in the context of general damages or a reasonable royalty. 26 The evidentiary rule was again carried forward into the 1952 Act. 27

While Congress did not draw a distinction between profits and damages on an evidentiary basis, the distinction in law and equity between profits and damages was—and remains—clear and distinct.

26. Id.
Although the 1922 Act continued to permit the owner of an infringed patent to recover an amount equal to the damages he had sustained plus the defendant’s profits,\(^2\) it was clear that Congress did not intend, as an evidentiary matter, to permit a patent owner to substitute an infringer’s profits for the patent holder’s actual damages (as for example, in an effort to obtain an increase of the monetary award portion of the judgment).\(^2\) The court in Georgia-Pacific noted that “[f]or purposes of the law of damages, the two concepts are basically different; they cannot be treated as equivalent.”\(^3\) Moreover, while the provisions of the 1922 Act literally continued to authorize a double recovery, judicial interpretation came to bar an award of both the amount of the infringer’s profits and the amount of the patentee’s monetary loss as a matter of fairness and equity.\(^3\)

The concept of a “reasonable sum” or royalty to compensate a patent owner for infringement first appeared in the 1922 Act.\(^3\) According to the Act the court was empowered to “adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement.”\(^3\) The apparent origin of the concept was a belief that it provided a flexible and equitable basis upon which to compensate the patent owner who succeeded in proving infringement but who would have difficulty proving the amount of damages.\(^3\) Even prior to the enactment of the 1922 Act, however, the concept of a “reasonable royalty” as a measure of the patent owner’s damages had been developed.\(^3\) In the 1946 amendments to the patent statute,\(^3\) Congress first omitted all reference to the recovery of

29. Id.
31. Id.
33. Id.
The several courts vested with jurisdiction of cases arising under the patent
the infringer's profits and enacted language providing merely that, upon a judgment of infringement, the patent owner's recovery shall be "general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty." In some sense, Congress cured the disease of patent suit laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.

The court is hereby authorized to receive expert or opinion evidence upon which to determine in conjunction with any other evidence in the record, due compensation for making, using, or selling the invention, and such expert or opinion evidence is hereby declared to be competent and admissible subject to the general rules of evidence applicable thereto.

The court shall assess said damages, or cause the same to be assessed, under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but recovery shall not be had for any infringement committed more than six years prior to the filing of the complaint in the action. And it shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the patent laws to give notice thereof in writing to the Commissioner of Patents, setting forth in order so far as known the names and addresses of the litigants, names of the inventors, and the designating number or numbers of the patent or patents upon which the action, suit, or proceeding has been brought, and in the event any other patent or patents be subsequently included in the action, suit, or proceeding by amendment, answer, cross bill, or other pleading, the clerk shall give like notice thereof to the Commissioner of Patents, and within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the Commissioner of Patents, and it shall be the duty of the Commissioner of Patents on receipt of such notice forthwith to endorse the same upon the file wrapper of the said patent or patents, and to incorporate the same as a part of the contents of said file or file wrapper.

This Act shall take effect upon approval and shall apply to pending causes of action in which the taking of the testimony has not been concluded: Provided, however, That pending causes of action in which the taking of the testimony has been concluded are to be governed by the statute in force at the time of approval of this Act as if such statute had not been amended.

abuse but killed the patient of just recovery. The court in

Cong., 2d Sess. 2 (1946); see Georgia-Pacific Corp., 243 F. Supp. at 528.

38. See Georgia-Pacific Corp., 243 F. Supp. at 525 n.23 (citing Letter dated Jan. 9, 1929, from Mr. Fish to Mr. Howson, members of the patent bar, read by Conder C. Henry, Assistant Commissioner of Patents, before the House Committee on Patents, 1946 House Hearings 2-3 [text of letter available at id. at 522-23 n.22]). Assistant Commissioner Henry went on to give the following testimony:

Now, how has this present act been administered and what has been its effect on party litigants?

The relief that a patent owner needs against an infringer to protect his rights in his patent and to compensate him for past infringement is an injunction to prevent future invasion of his right and damages for past infringement. This the law now accords him in addition to the profits made by the infringer which are attributable to the unauthorized use and sale of the infringed invention. It is just at this point, that is, the determination of profits and damages and the manner of proving the same before masters, that difficulties and injustices arise in the adjudication of claims for patent infringements.

Frequently a suit for patent infringement involves the infringement of only an improvement in a complex machine, and it is impossible to apportion profits due to the improvement. In such circumstances the proceedings before masters, which are conducted in accordance with highly technical rules and are always expensive, are often protracted for decades and in many cases result in a complete failure of justice.

I fully agree with Judge Evan A. Evans, senior judge of the Seventh Circuit Court of Appeals, in his speech before the Patent Law Association in Pittsburgh, in 1944, when he said, that the rule holding an infringer liable as a wrongful trustee for the patent owner— is not workable or practicable and is used by plaintiffs and their counsel to beat and bludgeon a competitor until he, or it, be exterminated. It is not damages that are sought, but the extermination of a competitor.

By making it unnecessary to have proceedings before masters and eliminating the element of profits except as an element of general damages in patent infringement suits and empowering equity courts to assess general damages, the measure represents proposed legislation which in my judgment is long overdue.

Id. at 525 n.23 (quoting testimony of Conder C. Henry, Assistant Commissioner of Patents, before the House Committee on Patents, 1946 House Hearings 7-10). The court continued:

The legislative history indicates that the most troublesome abuses of the then existing statute occurred when the infringement was of an improvement patent on a complex machine. However, as was already noted, Congress seems to have provided a sweeping resolution to the problem by eliminating the recovery of profits qua profits in all cases. The statute does not authorize a different remedy for the owner of an infringed item which was patented and sold as an entirety, or which provides the entire market value of the article of which it is a part, than it authorizes for the owner of an improvement patent.
Georgia-Pacific observed:

It does not seem plausible to argue that Congress sought by this amendment to expand the definition of damages, and to expand it so broadly as to incorporate within its folds what had thitherto been both historically and conceptually, a separate standard of recovery, i.e., the infringer's profits. Even if it be thought that such an expansive reading can be given to the term "general damages," how can it be given to the stark "damages" used in section 284 of the 1952 Act which, if anything, seems more narrowly circumscribed than the 1946 phrasing?

* * * *

Thus, the conspicuous omission of any mention of "profits" with regard to ordinary patents in the 1946 amendment and in section 284 of the 1952 Act takes on heightened significance when compared to the specific provision for the recovery of profits in the prior patent statutes and the specific provision for the recovery of profits in section 35 of the Lanham Act (trademark infringement) and in section 289 of the 1952 codification (design patent infringement). The ineluctable inference is that Congress, in 1946, altered the traditional remedy available to the owner of an infringed ordinary patent.39

The court's reference in Georgia-Pacific to the Lanham Act prompts further comment here. The Lanham Act expressly provides that a "plaintiff shall be entitled, . . . subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action."30 These provisions are clearly and intentionally cumulative.41 The award of both damages (lost profits) and the infring-

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er’s profits does not amount to an impermissible double recovery. The two forms of relief in the context of the Lanham Act and trademark law serve different purposes. The award of plaintiff’s damages serves to compensate plaintiff for “diverted sales or damage to its reputation, or other harm stemming from unfair competition.” An accounting of defendant’s profits properly serves to deter those who “would willfully infringe a competitor’s mark.” The award of defendant’s profits also prevents the infringer’s unjust enrichment.

Where the plaintiff proves both that it has suffered actual damages, including lost sales, and that defendant has profited from its willful infringement, recovery of both types of damages is proper.

The statutory language “damages adequate to compensate for the infringement,” as found in section 284 of the 1952 Act, has clearly and unequivocally been interpreted and construed, in view of the legislative history, to mean compensatory damages—i.e., “an amount, though difficult to ascertain precisely, which indemnifies the plaintiff for the injury and damage suffered by him.”

The court in Georgia-Pacific observed that the relevant legislative history underlying the 1952 Act as currently in force was “not entirely free of ambiguity” and went on to explain the following:

In the light of the grave concern expressed in the legislative history over the problem of apportionment of the

47. Georgia-Pacific Corp., 243 F. Supp. at 521 (citation omitted).
infringer’s profits and the delay and expense which arise during the ascertainment of profits, and in view of the specifically expressed purpose of attempting to eliminate such accountings, it seems clear that the legislature had a more ambitious goal than the mere elimination of mandatory accountings for profits. This goal was the avoidance of all, or nearly all, accounting of profits before masters; and it was to be accomplished by doing away with their basic raison d’être, i.e., by eliminating the infringer’s profits as an independent measure of the patent owner’s recovery.48

No matter what name the successful patent owner ultimately applies to his recovery (whether “profits” or “damages”), if it is to be measured by the amount of the infringer’s profits, it would require the ascertainment of those profits. This in turn would necessitate an accounting for profits, whether before a master or before the court, which would be open to all the criticisms which were leveled at such proceedings in the testimony before the House Committee on Patents—the often insuperable problem of apportioning the infringer’s total profits on the sale of a product between the patented and nonpatented features, the injustices sometimes visited on infringers on whom the burden of making the apportionment had fallen, and the length and expense of the hearings.

* * * * 

It is the court’s considered opinion that, under the 1946 amendment and section 284 of the 1952 Act, the patent owner’s sole measure of recovery, other than a reasonable or established royalty, was to be his lost profits resulting from the invasion of his patent right. In a case in which the patent owner is unable to establish, in the conventional way, the amount of his lost profits, he would be relegated to the recovery of a reasonable royalty, unless he could utilize the amount of profits which accrued to the infringer

48. Id. at 525-26.
as an evidentiary factor in ascertaining the amount of his own lost profits.\textsuperscript{49}

The relative size of an infringer's profits is often an influential factor in the determination of the amount of a reasonable royalty.\textsuperscript{50} This is presently the only way in which the infringer's profits may function factually as an evidentiary element of the patent owner's damages. The potential inequity of the infringer's unjust enrichment is now simply ignored because it does not find judicial or legislative basis in law.

With regard to the issue of the infringer's unjust enrichment, the trial court in \textit{Georgia-Pacific} observed:

The doctrine of unjust enrichment is most dramatically exemplified in those cases dealing with the misappropriation of inventive ideas and trade secrets; that is, cases of nonpatent torts. In this particular area, common-law principles control. Illustratively, the measure of damages has been either quantum meruit for the use value of the property (\textit{Strubbe v. Sonnenschein}, 299 F.2d 185, 97 A.L.R.2d 1386 (2d Cir. 1962)) or the malefactor's profits (\textit{Franke v. Wiltschek}, 209 F.2d 493 (2d Cir. 1953)). While the doctrine of unjust enrichment has an ethical appeal and harmonizes with the modern trend "of enforcing increasingly higher standards of fairness or commercial morality in trade," 3 Restatement, Torts 540 (1938), the case at bar is governed by a specific statute and not by general principles of the common law. The controlling effect of this statute is emphatically demonstrated by the meaningful legislative history of the statute which has been directly concerned with the measure of recovery.\textsuperscript{51}

The measure of recovery under section 284 of the 1952 Act and the distinction historically drawn between the patent holder's actual

\textsuperscript{49} Id. at 528-29 (citation omitted).
\textsuperscript{50} Id. at 528; see also Faulkner v. Gibbs, 199 F.2d 635, 640 (9th Cir. 1952); Hartford Nat'l Bank & Trust Co. v. E.F. Drew & Co., 188 F. Supp. 353, 363 (D. Del. 1960), aff'd, 290 F.2d 589 (3d Cir.), cert. denied, 368 U.S. 825 (1961).
\textsuperscript{51} \textit{Georgia-Pacific Corp.}, 243 F. Supp. at 531.
damages and the infringer's profits was fully addressed by the Supreme Court in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*\(^{52}\) In *Aro Manufacturing*, the first true judicial analysis was rendered of the possible function of infringer's profits to compensate for patent infringement under the 1946 patent statute amendment or § 284 of the 1952 Act.\(^{53}\)

Whatever debate may have raged before *Aro Manufacturing* as to the proper role of infringer's profits in compensation under § 284, it was completely put to rest by Mr. Justice Brennan's opinion:

In patent nomenclature what the infringer makes is 'profits'; what the owner of the patent loses by such infringement is 'damages.'" *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448, 451 []. Profits and damages have traditionally been all-inclusive as the two basic elements of recovery. Prior to 1946, the statutory precursor of the present § 284 allowed recovery of both amounts, reading as follows:

"Upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby * * *." R.S. § 4921, as amended, 42 Stat. 392.

By the 1946 amendment, Act of August 1, 1946, c. 726, § 1, 60 Stat. 778, 35 U.S.C. (1946 ed.), §§ 67, 70, the statute was changed to approximately its present form, whereby only "damages" are recoverable. The purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only.

"The object of the bill is to make the basis of recovery in patent-infringement suits general damages,

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\(^{52}\) 377 U.S. 476 (1964).


There can be no doubt that the amendment succeeded in effectuating this purpose; it is clear that under the present statute only damages are recoverable. See, e.g., RicWil Co. v. E.B. Kaiser Co., 179 F.2d 401, 407 (C.A. 7th Cir. 1950), cert. denied, 339 U.S. 958 []; Livesay Window Co. v. Livesay Industries, Inc., 251 F.2d 469, 471-472 (C.A. 5th Cir. 1958); Laskowitz v. Marie Designer, Inc., 119 F.Supp. 541, 554-555 (D.C.S.D. Cal. 1954); Cullen, 28 J. Pat. Off. Soc. 838 (1946); Wolff, 28 J. Pat. Off. Soc. 877 (1946).54

II. 35 U.S.C. § 284—THE RULE IN PRACTICE

As outlined in Section II and its recount of the relevant history, patent damages under 35 U.S.C. § 284 are awarded solely to compensate pecuniary losses of the patent holder. The fact that the infringer may have profited or may have failed to profit from the infringement is irrelevant.55 As previously discussed, in Aro Manufacturing the United States Supreme Court held that “[t]he present statutory rule is that only ‘damages’ may be recovered. These have been defined by this Court as ‘compensation for the pecuniary loss [the patentee] has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.”56 In determining the patentee’s

54. Aro Mfg., 377 U.S. at 505-06.
56. Aro Mfg., 377 U.S. at 507 (citations omitted).
damages, the primary inquiry must focus under the present law on what the patent owner would have earned if the infringer had not infringed.\textsuperscript{57}

Since patent infringement is a tort, the damages law for utility patents\textsuperscript{58} has been modified to conform to the general tort law proposition that damages are intended to compensate and, as such, the patentee has the burden of proving actual damages to a reasonable certainty. The courts, in implementing this approach to patent infringement since 1952, have devised various methods for determining just and adequate compensation. The preferred manner of measuring such damages is an award of the patentee’s lost profits.\textsuperscript{59} If lost profits cannot be proved, the court will award, as a minimum, what it finds to be a reasonable royalty. Significantly, the burden of proof encountered by a patent holder who is practicing his invention commercially, who is otherwise entitled to claim lost profits, and who would prove a lost profits claim is substantial. The statute indicates clearly that an award of damages is based upon a royalty computation.

\textbf{A. Entitlement to Lost Profits—A Heavy Burden}

Lost profits is an appropriate measurement of damages only where it can be shown that, “but for” the infringement, the patent owner would have made the infringing sales and, perhaps, could have charged higher prices or incurred lower expenses.\textsuperscript{60} In effect, this causation element of a lost profits claim requires a showing of a two-supplier market, or what economists may refer to as a “duopoly.” Where the patentee has licensed others to sell

\textsuperscript{57} \textit{Id.} (citations omitted).

\textsuperscript{58} In the special case of infringement of a design patent under 35 U.S.C. § 289, an infringer may be additionally liable to the patentee for the infringer’s total profit. Under 35 U.S.C. § 289 and subsequent case law, when a party infringes a design patent by selling a product embodying the patented design, the infringer “shall be liable to the owner to the extent of his total profit, but not less than $250 . . . .” This remedy is in addition to, rather than exclusive of, the remedies of lost profits and a reasonable royalty.


\textsuperscript{60} Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 671 (Fed. Cir. 1988).
the product, it becomes more difficult to prove that the patentee would have necessarily made the sales had there been no infringement, and damages are more likely linked to a reasonable royalty.

It is important under 35 U.S.C. § 284, as presently worded, to focus on compensation for the harm done to the patentee. In *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, the Federal Circuit emphasized that:

The general rule for determining the actual damages to a patentee that is itself producing the patented item, is to determine the sales and profits lost to the patentee because of the infringement. Although the statute states that the damage award shall not be "less than a reasonable royalty," 35 U.S.C. § 284, the purpose of this alternative is not to provide a simple accounting method, but to set a floor below which the courts are not authorized to go.

Courts have evolved a demanding four-prong test for determining whether lost profits is an appropriate basis for a damage award. A patent owner seeking lost profits must prove the following four elements: *(1) a demand for the protected product during the period of infringing sales; (2) an absence of acceptable, noninfringing substitutes; (3) the patent owner had an ability to meet the demand for the products covered by the patent; and (4) the amount of profit the patent owner would have made.* The Federal Circuit has stressed on numerous occasions, however, that this so-called *Panduit* test is not exclusive and that district courts have the discretion to choose any methodology for assessing and computing damages.

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61. 836 F.2d 1320 (Fed. Cir. 1987).
62. *Id.* at 1326 (citations omitted).
63. This four-part test was originally articulated by the Sixth Circuit in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978) (Markey, C.J., sitting by designation), and has been approved since then in numerous cases in the Federal Circuit. *See, e.g.*, *Ryco Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1427 (Fed. Cir. 1988); *Paper Converting Mach. Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 21 (Fed. Cir. 1984); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir. 1984).
64. *Ryco Inc.*, 857 F.2d at 1427.
65. *See, e.g.*, *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 864 n.9 (Fed. Cir. 1985) ("The four part test in *Panduit* has been approved by this court as one method of
1. Demand for the Patented Invention

Demand for the patented product can be demonstrated in a number of ways, most often by simply showing the sales of the patented product by the patent owner, its licensees, or (most likely) the infringer. In most cases, the issue of demand is not the subject of great controversy. For example, in *SmithKline Diagnostics, Inc. v. Helena Laboratories Corp.*, the Federal Circuit found that a substantial number of sales of the infringing slides by defendant Helena Laboratories was compelling evidence of demand for SmithKline's patented HBMMOCULT slides. Similarly, in *Gyromat Corp. v. Champion Spark Plug Co.*, the Federal Circuit determined that the substantial number of sales of infringing products containing the patented features was compelling evidence of the demand for the patented product.

Interestingly, in *State Industries, Inc. v. Mor-Flo Industries, Inc.*, the patentee's market share was deemed sufficient evidence that it would have made at least that percentage of the infringer's sales if there had been no infringement. A reasonable royalty was then applied to the remainder of the infringer's sales.

2. Absence of Acceptable, Noninfringing Substitutes

The most controversial issue surrounding a claim for lost profits is whether there is an absence of acceptable, noninfringing substitutes. The patentee seeking lost profits must show that there
are no products available which are noninfringing and which are acceptable to purchasers such that purchasers could only buy from either the patentee or the infringer. It then logically follows that the illicit sales made by the infringer would have been made by the patentee "but for" the infringement. This analysis is not only a legal determination, but one very much factually rooted in practical economic realities. One might interpret "non-infringing" as a patent law determination, and "acceptable" as an economic determination.

In the _Panduit_ case, the Sixth Circuit found that "a product lacking the advantages of that patented can hardly be termed a substitute 'acceptable' to the customer who wants those advantages."73 Also, in _Radio Steel & Manufacturing Co. v. MTD Products, Inc._,74 the Federal Circuit held that substitute wheelbarrows incorporating some, but not all, of the elements of the patent could not constitute an acceptable substitute. The court reasoned that the totality of the wheelbarrow elements and their interaction was patented and, as such, some lesser assembly could not be regarded as "acceptable."75

This "legal" standard for evaluating "acceptable" substitutes has more recently given way to an "economic" standard. In _Smith-Kline_,76 the Federal Circuit, relying upon the evidence adduced at trial of the "real market" conditions, affirmed the district court's rejection of arguments for a two-supplier market in view of significant, acceptable, non-infringing substitutes.77 The district court had expressly rejected testimony that there were no acceptable, non-infringing substitutes as "pure conjecture and as totally contrary to the great weight of the evidence and the commercial realities of the marketplace and not credible . . . . [The SmithKline expert] . . . had no knowledge of marketing."78 In _SmithKline_, the

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73. 575 F.2d at 1162.
74. 788 F.2d 1554 (Fed. Cir. 1986).
75. Id. at 1556.
77. 926 F.2d at 1166-67.
78. Id. at 1166 (citing the district court opinion, 12 U.S.P.Q.2d (BNA) at 1377).
Federal Circuit affirmed the district court’s rejection of a lost profits claim as the basis for patent damages and found that significant acceptable non-infringing substitutes existed in the real marketplace. The patentee argued, apparently based upon prior Federal Circuit holdings, that the non-infringing products must have beneficial characteristics of the invention in order to be acceptable. Chief Judge Nies, writing for the Court, stated that:

[B]y definition, noninfringing products do not represent an embodiment of the invention. Thus, the district court properly considered the realities of the marketplace in connection with an assertion that “but for” the infringing activities, the patent owner would have made the sales . . . . If purchasers are motivated to purchase because of particular features of a product available only from the patentee and infringers, products without such features would obviously not be acceptable noninfringing substitutes. On the other hand, if the realities of the market are that others would likely have captured sales made by the infringer, despite a difference in the products, it follows that the “but for” test is not met. The district court found the latter was the market situation here. 79

3. Patent Owner’s Ability to Meet the Demand

This third prong of Panduit, the patentee’s ability to meet the demand, is yet another difficult requirement for lost profits to be recovered. However, the patentee’s “ability” does not necessarily equate only to having immediate plant capacity. 80 This requirement of Panduit has been satisfied by a patentee’s showing that it could have subcontracted the work, or by testimony that the patentee’s facilities were adequate or could be made adequate. The evidence has been held sufficient where the patentee showed that he bought the product from an outside source, had developed the market for it, was aggressively protecting that market and intended

79. *Id.* (citations omitted).
to meet demand even if his supplier failed to meet his contractual supply obligations.

Thus, the patentee's manufacturing and marketing ability to meet the demand for the sales made by the infringer involves an analysis of the patentee's existing capacity, its potential capacity (by possible expansion and/or subcontracting), and its conversion capability (from manufacturing other products to the patented product).


This fourth Panduit factor involves a detailed, often complex, analysis of the actual amount, in dollars and cents, of the profits lost by the patentee due to the infringer's illicit sales. In Del Mar Avionics, Inc. v. Quinton Instrument Co., the Federal Circuit described the approach to be taken in fixing damages:

The determination of a damage award is not an exact science, . . . and "the amount need not be proven with unerring precision." . . . The trial court is required to approximate, if necessary, the amounts to which the patent owner is entitled. "In such case, while the damages may not be determined by mere speculation or a guess, it will be enough if the evidence show[s] the extent of the damages as a matter of just and reasonable inference, although the result be only approximate." 

In Paper Converting Machine Co. v. Magna-Graphics Corp., the Federal Circuit held that the profits to which the patentee was entitled were incremental profits, i.e., those which exclude fixed costs. As explained by the court:

[This] approach recognizes that it does not cost as much to produce unit N+1 if the first N (or fewer) units produced already have paid the fixed costs. Thus, fixed costs—those

81. 836 F.2d 1320 (Fed. Cir. 1987).
82. Id. at 1327 (citations omitted).
83. 745 F.2d 11 (Fed. Cir. 1984).
costs which do not vary with increases in production, such as management salaries, property taxes, and insurance—are excluded when determining profits.\textsuperscript{84}

With such a formula excluding fixed costs, lost profits are easily increased by huge orders of magnitude.

In addition, if the patentee had to lower its sales price in order to compete with the infringer, the patentee may be able to recover for price erosion.\textsuperscript{85} While a lost sales claim focuses on the sales made by the infringer, a price erosion claim focuses on the sales made by the patentee. The price erosion component of a lost profits claim is a recovery from the infringer for the measure of profit lost by the patentee due to the lower prices at which the patentee was unfairly compelled to sell its patented goods due to the infringer’s illicit presence in the market.

Under the “entire market value rule,” a patentee can recover damages based on the value of an entire product, which comprises unpatented as well as patented features, as long as the feature which is patented is essentially the basis for customer demand.\textsuperscript{86} Under this rule, courts look to the “financial and marketing dependence on the patented item under standard marketing procedures” to determine if the unpatented features of a machine should be included in calculating compensation for infringement.\textsuperscript{87} For example, in \textit{Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.},\textsuperscript{88} the Federal Circuit upheld the district court’s award of damages based upon the entire price of the infringing amphibious marsh craft (which had unpatented components), rather than just the patented pontoon structure.\textsuperscript{89} Moreover, spare parts and accessories may also be encompassed within the rule.\textsuperscript{90}

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\textsuperscript{84} \textit{Id.} at 22. \\
\textsuperscript{85} \textit{See} \textit{Amstar Corp. v. Envirotech Corp.}, 823 F.2d 1538, 1543 (Fed. Cir. 1987); \textit{Lam, Inc. v. Johns-Manville Corp.}, 718 F.2d 1056, 1065 (Fed. Cir. 1983).


\textsuperscript{87} \textit{King Instrument Corp. v. Otari Corp.}, 767 F.2d 853, 865 (Fed. Cir. 1985), \textit{cert. denied}, 475 U.S. 1016 (1986).


\textsuperscript{89} \textit{Id.} at 655-56.

\textsuperscript{90} \textit{See}, e.g., \textit{Kalman v. Berlyn Corp.}, 9 U.S.P.Q.2d (BNA) 1191, 1196-97 (D. Mass.)
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if the patentee can anticipate the sale of such unpatented—as well as patented—components, the court will allow damages under the entire market value rule.91

C. Reasonable Royalty

Where the patent holder cannot show its lost profits due to inadequate proof, because it does not itself manufacture the patented product, or because it licenses under the patent to nonexclusive licensees, the patent holder is left to an award of a "reasonable" royalty as a statutory minimum compensation. There are essentially two accepted and recognized methods to determine a reasonable royalty: the analytical method and the hypothetical method.

The analytical method for determining a reasonable royalty is based upon the infringer's own projections of profits which would result from the infringing acts. This is indeed difficult to estimate, because it requires knowledge of the infringer's internal profit projections and marketing motives.

The hypothetical method is based upon the classic rule that a reasonable royalty is what a "willing licensor and willing licensee would have agreed at the time the infringement began."92 The courts, however, have more recently recognized that strict adherence to this maxim may lead to injustice. As the Sixth Circuit in Panduit observed, "the infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid."93

The hypothetical "willing licensor/licensee" method involves many factors. The district court in Georgia-Pacific Corp. v. United States Plywood Corp.,94 enunciated a comprehensive list of

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91. King Instrument Corp., 767 F.2d at 865.
93. Panduit, 575 F.2d at 1158.
evidentiary factors relevant to determining reasonable royalty:

(1) The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

(2) The [royalty] rates paid by the licensee for the use of other patents comparable to the patent in suit.

(3) The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

(4) The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

(5) The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

(6) The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or conveyed sales.

(7) The duration of the patent and the term of the license.

(8) The established profitability of the product made under the patent; its commercial success; and its current popularity.

(9) The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

(10) The nature of the patented invention; the character of the commercial embodiment of it as owned and produced

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by the licensor; and the benefits to those who have used the invention.

(11) The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

(12) The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

(13) The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

(14) The opinion testimony of qualified experts.

(15) The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement.95

At one time, if the industry was found to have an established royalty for the product or a similar product, that was often the sole basis for determining the reasonable royalty within the meaning of the statute. The law of patent damages continues to be refined, and thus in *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*,96 the Federal Circuit confirmed its view that an established royalty, even if found, does not establish a ceiling.97 In *Bio-Rad*, the industry standard was found to be approximately 3-10%, yet a 33% rate was found to be reasonable.98 Likewise, in *Hanson v. Alpine Valley Ski Area, Inc.*,99 evidence of a 2.5% established royalty was rejected in favor of a reasonable royalty based upon one-third of the savings experienced by the infringer in using the patented

97. *Id.* at 617.
98. *Id.*
99. 718 F.2d 1075 (Fed. Cir. 1983).
snowmaking machine. 100

The law in this area has really always been that a "reasonable royalty," while a statutory minimum, is still intended to be a measure of general damages, i.e., damages which will make the patentee whole. The Federal Circuit cases make this point repeatedly. For example, in SmithKline, the patentee argued for a 48% royalty based on the fact that the patented product enjoyed a 50% profit margin. 101 The court found that argument "not credible." 102 Defendant Helena, on the other hand, argued for a 3% rate in view of the established royalty of 3-5% on related pharmaceutical products. The district court found 25% as its own just and reasonable rate, and this was upheld by Federal Circuit:

However, it is undisputed that SKD was an unwilling licensor, and that it had never licensed the '970 patent technology. . . . SKD's '970 patent achieved immediate commercial success . . . . It satisfied a long felt need . . . [and] SKD intended to maintain its exclusivity of the technology . . . by refusing to grant licenses under the patent. The district court correctly considered the factors enumerated in Panduit and Georgia-Pacific Corp. v. United States Plywood Corp. [citation omitted], in finding what it considered a reasonable royalty and Helena has not persuaded this court that the 25% figure "is, in view of all the evidence, either so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonable royalty." 103

In Deere & Co. v. International Harvester Co., 104 the Federal Circuit held that a single license to a minor competitor at 1% royalty and two offers at a lower rate to the accused defendant infringer did not preclude a 15% reasonable royalty finding. 105

100. Id. at 1078, 1080.
101. 926 F.2d at 1163.
102. Id. at 1168.
103. Id. (citing Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 (Fed. Cir. 1990)).
104. 710 F.2d 1551 (Fed. Cir. 1983).
105. Id. at 1557-58.
In sum, the district court may reject the extreme figures proffered by the litigants as incredible and substitute an intermediate figure as a matter of its judgment from all of the evidence—but still it will be guided by the rule of general tort damages and not the infringer's profits.

D. Enhanced Damages

A damage award may be increased up to three times the actual amount if the infringement is found, by clear and convincing evidence, to be willful, or if bad faith litigation is shown. The court will consider the totality of the circumstances in assessing the appropriateness of enhanced damages, including the following factors: the infringer's knowledge of the patent, the lack of a good faith effort to design around the patent, and the failure to seek and obtain an infringement opinion by competent counsel.

Enhanced damages are "awarded only as a penalty for an infringer's increased culpability, namely willful infringement or bad faith," rather than as compensation for the patentee. Thus, an award of enhanced damages cannot be granted as a means of bolstering an otherwise inadequate damages award. Prejudgment interest is not calculated on an increased portion of an award.

III. A Patent Infringer's Unjust Enrichment—The Patent Holder's Share

A. The Reasons that Had Once Counseled Against Awarding Infringer's Profits as a Relief Basis are No Longer Viable

In the discussion in Section II of this article, it was noted that

109. Id.
110. Id. at 1580.
111. Id.
there were two driving forces that compelled Congress in the 1946 patent statute amendments to eliminate infringer’s profits as a basis for relief. On the one hand, Congress believed that such a remedy gave a patentee the ability to squelch competition; on the other hand, infringer’s profits were difficult to prove, particularly where the invention was merely a part of an overall production device and the profits had to be apportioned. The Senate Report on the 1946 amendments stated in relevant part as follows:

The object of the bill is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, together with interest from the time infringement occurred, rather than profits and damages.

The relief that a patent owner needs against an infringer to protect his right in his patent and to compensate him for past infringement is an injunction to prevent future invasion of his right and general damages as due compensation for infringing either or any of the rights secured to the patent owner by his patent. Instead of general damages, Section 4921 of the Revised Statutes now authorizes a complainant in whose favor a verdict has been rendered in an infringement suit to recover “in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby.” The evil attendant upon “the law’s delay” and the difficulty of adducing convincing proof of necessary facts is peculiarly exemplified in patent-infringement suits where profits are claimed.

Frequently a suit for patent infringement involves the infringement of only an improvement in a complex machine, and it is impossible to apportion profits due to the improvement. In such circumstances the proceedings before masters, which are conducted in accordance with highly technical rules and are always expensive, are often protracted for decades and in many cases result in complete failure of justice.

Although the bill would not preclude the recovery of profits as an element of general damages, yet by making it
unnecessary to have proceedings before masters and empowering equity courts to assess general damages irrespective of profits, the measure represents proposed legislation which in the judgment of the committee is long overdue.\textsuperscript{112}

It is somewhat interesting that the patent laws are in a sense legally anti-competitive since a "limited monopoly" is permitted to promote invention. But in a similar sense, the competition which is forbidden is that which is contrary to law and as such unfair. The patent laws are essentially a deterrent against unfair competition. With regard to the first underlying reason for eliminating recovery of infringer's profits—because this type of recovery served to squelch competition—it must be observed that the competition at issue is certainly unfair in nature; the infringer violates a lawful right of the patentee. The profits wrongfully obtained can only be thought of in terms of unjust enrichment.

With regard to the relative difficulty of proving the infringer's profits, and in particular the alleged impossibility of apportioning profits due to an improvement, the standard of proof has always been "reasonable certainty." Absolute proof of damages has never been required. In the face of the prospect of unjust enrichment to a competitor who is essentially competing unfairly, the logical step would not have been to eliminate the remedy, but to make the burden more reasonable to carry. It seems far more sensible to improve the statute than to eliminate the remedy.

\textbf{B. Amendment of 35 U.S.C. § 284—A Sensible Solution}

The language of the current statute is problematic in that it can lead to inequitable results where the patent owner is either unable to prove the four factors of \textit{Panduit} or is otherwise not entitled to lost profits. In a recent case,\textsuperscript{113} the Federal Circuit elaborated on these inequitable results:

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Historically, the methodology has been problematic as a mechanism for doing justice to individual, non-manufacturing patentees. Because courts routinely denied injunctions to such patentees, infringers could perceive nothing to fear but the possibility of a compulsory license at a reasonable royalty, resulting in some quarters in a lowered respect for the rights of such patentees and a failure to recognize the innovation-encouraging social purpose of the patent system.\textsuperscript{114}

A practicing patent owner who cannot prove the \textit{Panduit} factors can only expect to recover a royalty which may or may not prove adequate in the light of the commercial importance of the invention to the infringer. The basic premise of the patent right is to exclude others from making, using, or selling the invention.\textsuperscript{115} That right is frustrated if an unauthorized party can essentially dictate or compel a license. An infringer might use the patent owner's invention in combination with other products and make an enormous profit with nothing to fear but the possibility of a compulsory license at a reasonable royalty. In addition, the heavy and expensive burden and risk of proving lost profits may alone force the patent owner to accept a reasonable royalty.

Section 284 of 35 U.S.C. should be amended to enable the patent owner to recover directly that portion of the infringer's profits which are unjust. While a party entitled to lost profits should not be permitted to obtain a double recovery, the unjust profit enrichment of the infringer should be directly recoverable as the cost of unfair competition, i.e., wrongful infringement, even if not willful. The award of infringer's profits will serve to deter further infringement. A more rewarding 35 U.S.C. § 284 can only encourage further invention.

\textsuperscript{114} \textit{Id.} at 1574.
\textsuperscript{115} 35 U.S.C. § 271.