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# General Motors Corp. v. Devex Corp.: Prejudgment Interest - The Rule Rather than the Exception In Patent Infringement Awards

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## **General Motors Corp. v. Devex Corp.: Prejudgment Interest — The Rule Rather than the Exception in Patent Infringement Awards**

Although prejudgment interest has been awarded infrequently and inconsistently in the past in patent infringement cases, the Supreme Court's holding in *General Motors Corp. v. Devex Corp.*<sup>1</sup> changes that result. In *Devex*, the Court determined that 35 U.S.C. Section 284<sup>2</sup> establishes as a general rule that prejudgment interest be awarded in addition to damages in patent infringement cases.<sup>3</sup> If exceptional circumstances would make an award of prejudgment interest undesirable, however, the lower courts would still have the discretion to deny it.<sup>4</sup> The decision clarifies those circumstances under which prejudgment interest should be awarded by the lower courts, but does not discuss what special circumstances would prevent it from being awarded. Nevertheless, it should help straighten out the inconsistency among the circuits in awarding prejudgment interest.

The affirmation of the award of prejudgment interest was the culmination of many years of litigation in *Devex*. In 1956, Devex Corporation filed a complaint in the U.S. District Court for the Northern District of Illinois, and one year later filed a companion suit against Houdaille Industries, Inc.<sup>5</sup> Both complaints alleged that a lubricating process used by General Motors (GM) and Houdaille infringed upon a patent owned by

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<sup>1</sup> 103 S. Ct. 2058 (1983).

<sup>2</sup> 35 U.S.C. § 284 (1976). Title 35 of the United States Code contains the general and permanent laws relating to patents. Section 284, entitled Damages, states:

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.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

<sup>3</sup> The term "prejudgment interest" is used to denote the interest on a claim computed from the time it was originally due until the date of the final judgment. D. DOBBS, *LAW OF REMEDIES* § 3.5 (1973). "It is the interest on a sum of money which, until the rendering of the final judgment, has not been declared as damages for the plaintiff." Note, *Prejudgment Interest: An Element of Damages Not to be Overlooked*, 8 CUM. L. REV. 521 (1977).

<sup>4</sup> The Court specifically stated, "We do not construe § 284 as requiring the award of prejudgment interest whenever infringement is found . . . and in our view it leaves the court some discretion in awarding prejudgment interest." *Devex*, 103 S. Ct. at 2063.

<sup>5</sup> *Id.* at 2059-60.

Devex<sup>6</sup> (hereinafter the Henricks patent). The cases were consolidated in order to adjudicate the validity of the Henricks patent. The district court held the patent invalid, but the Seventh Circuit Court of Appeals reversed and remanded, finding it valid, but in a narrower context than had been set forth.<sup>7</sup>

The suit against GM was transferred to the U.S. District Court for the District of Delaware, and the Houdaille suit remained in the U.S. District Court for the Northern District of Illinois.<sup>8</sup> The Delaware district court found for GM, holding that Devex had not met its burden of proof in establishing the validity of its patent.<sup>9</sup> The Third Circuit Court of Appeals reversed, holding that GM had infringed the patented process.<sup>10</sup> The issue of the proper damages to be awarded for infringement arose for the first time on remand,<sup>11</sup> where the report of the Special Master set damages at \$12.2 million.<sup>12</sup> The Master used Devex's industry-wide offer to license for a royalty of 0.75 percent of the value of the products manufactured using the patent and multiplied it by the value of GM's parts which infringed the patent, arriving at a figure of \$8,607,183.70. The Master then reduced that figure by one-third to \$5.7 million, finding that the parties would have so reduced it in subsequent negotiations. The Master also held that GM would have agreed to pay interest for the use of the royalty monies over the years and increased the damages figure by \$6.5 million, resulting in a final figure of \$12.2 million.<sup>13</sup> The Master did not find GM's infringement to be such as to per-

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<sup>6</sup> Claim 4 of Reissue Patent No. 24017 (the Henricks patent) covers in part:

The process of working ferrous metal which comprises forming on the surface of the metal a phosphate coating and superimposing thereon a fixed film of a composition comprising a solid meltable organic binding material containing distributed there through a solid inorganic compound meltable at a temperature below the melting point of the ferrous metal phosphate of said coating and having a hardness not exceeding 5 on the Mohs' hardness scale, and thereafter deforming the metal.

Devex Corp. v. General Motors Corp., 494 F. Supp. 1369, 1372 (D. Del. 1980), *aff'd*, 667 F.2d 347 (1981), *aff'd*, 103 S. Ct. 2058 (1983).

The patent expired in 1969; thus, only damages issues, as opposed to injunctive relief, were before the Court. Devex Corp. v. General Motors Corp., 667 F.2d 347, 349 (3d Cir. 1981), *aff'd*, 103 S. Ct. 2058 (1983).

<sup>7</sup> Devex Corp. v. General Motors Corp., 321 F.2d 234 (7th Cir. 1963), *cert. denied*, 375 U.S. 971 (1964).

<sup>8</sup> The companion suit was tried separately. See Devex Corp. v. Houdaille Industries, Inc., 148 U.S.P.Q. 74 (N.D. Ill. 1965), *reversed*, 382 F.2d 17 (7th Cir. 1967). The case was subsequently settled out of court.

<sup>9</sup> Devex Corp. v. General Motors Corp., 316 F. Supp. 1376 (D. Del. 1970), *rev'd*, 467 F.2d 257 (3d Cir. 1972), *remanded*, 494 F. Supp. 1369 (D. Del. 1980), *aff'd*, 667 F.2d 347 (3d Cir. 1981), *aff'd*, 103 S. Ct. 2058 (1983).

<sup>10</sup> Devex Corp. v. General Motors Corp., 467 F.2d 257 (3d Cir. 1972), *remanded*, 494 F. Supp. 1369 (D. Del. 1980), *aff'd*, 667 F.2d 347 (3d Cir. 1981), *aff'd*, 103 S. Ct. 2058 (1983).

<sup>11</sup> *Devex*, 494 F. Supp. at 1372.

<sup>12</sup> *Id.* at 1373. A presumption of validity normally attaches to a Master's factual findings. Unless such findings are shown to be clearly erroneous, they must be accepted. *Id.* FED. R. CIV. P. 53(e)(2). See 5A J. MOORE & J. LUCAS, MOORE'S FEDERAL PRACTICE ¶ 53.12[4]-[5] (2d ed. 1982).

<sup>13</sup> *Devex*, 494 F. Supp. at 1372.

mit an award for multiple damages or attorney's fees.<sup>14</sup>

Following objections from both parties as to the amount of damages allowed by the Master,<sup>15</sup> the district court refused to reduce Devex's royalty figure by one-third as suggested by the Master, stating that there was no evidence to indicate that Devex would have accepted such a reduced royalty.<sup>16</sup> The court held that the Master's refusal to allow multiple damages and attorney's fees was proper since Devex had not shown sufficient evidence of inequitable dealings by GM, as was usually required for additional damage awards.<sup>17</sup> Finally, the court upheld the award of prejudgment interest in order to compensate Devex for the benefit GM received from retaining the use of the royalty monies over the years, stating that Devex would be undercompensated if the interest award was not permitted to stand.<sup>18</sup>

The Third Circuit affirmed both the infringement and damages holdings.<sup>19</sup> The court upheld the award of prejudgment interest, finding that there was no abuse of discretion by the trial judge and that the award was permitted under Section 284. The court stated that to deny interest in this case would give the defendant a windfall, and would also encourage defendants to draw out patent infringement litigation for as long as possible.<sup>20</sup>

The Supreme Court addressed solely the issue of prejudgment interest and upheld the award.<sup>21</sup> Although the courts of appeal had reached different conclusions as to whether Section 284 incorporated the common law standard set out in *Duplate Corp. v. Triplex Safety Glass*,<sup>22</sup> which restricted awards of prejudgment interest to cases involving exceptional circumstances or bad faith, the Supreme Court held that prejudgment interest should ordinarily be awarded and that there must be special justification for such an award not to be made.<sup>23</sup>

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<sup>14</sup> *Id.* at 1373.

<sup>15</sup> Devex sought a higher royalty rate, stating that the Master should not have used Devex's industry-wide offer in 1964 to license Claim 4 at 0.75% of the value of the products manufactured as the basis for his calculations. Devex also sought multiple damages and attorney's fees, as well as damages for GM's use of Claim 4 to produce non-bumper parts. GM asserted that the Master's royalty assessment was overly generous and that prejudgment interest should not have been awarded. *Id.* at 1373-79.

<sup>16</sup> *Id.* at 1377. The reduction by the Master could not be allowed here without some proof that Devex would have accepted it. Royalty calculations must be based upon evidence and cannot be merely speculative. *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 533 F.2d 126 (3d Cir. 1976).

<sup>17</sup> *Devex*, 494 F. Supp. at 1378.

<sup>18</sup> *Id.* at 1379.

<sup>19</sup> *Devex*, 667 F.2d 347.

<sup>20</sup> "The only sufferer from such a result would be the prevailing party — the innocent party." *Id.* at 364 (Footnote omitted).

<sup>21</sup> *Devex*, 103 S. Ct. 2058.

<sup>22</sup> 298 U.S. 448 (1936).

<sup>23</sup> *Devex*, 103 S. Ct. at 2062-63. Reluctance to award prejudgment interest appears to have its roots in religious thinking from medieval times when interest was viewed as usurious and evil. D. DOBBS, *LAW OF REMEDIES* § 3.5 (1973); Comment, *Prejudgment Interest: Survey and Suggestion*, 77 NW. U. L. REV. 192, 195 (1982).

The *Devex* Court stated that there was no warrant for exercising the *Duplate* limitation on awards of prejudgment interest, and no basis for inferring that Congress' adoption of Section 284 incorporated the *Duplate* holding. The Court stated

This is not a case in which Congress has reenacted statutory language that the courts had interpreted in a particular way . . . . The predecessor statute did not contain any reference to interest, and the 1946 amendments specifically added a provision concerning interest in patent infringement actions. We cannot agree with petitioner that the only significance of Congress' express provision for the award of interest was the incorporation of a common law standard that developed in the absence of any specific provision concerning interest.<sup>24</sup>

After stating that the *Duplate* standard had not been incorporated into Section 284, the Court held that prejudgment interest should ordinarily be awarded where it is necessary to afford the plaintiff full compensation for the infringement.<sup>25</sup> Prejudgment interest is normally necessary to fully compensate the patent owner who was deprived of the use of royalty monies from the time the infringement began. To allow only an award of damages for royalties would ignore the value of the foregone use of that money, which, as in this case, can extend over a number of years.<sup>26</sup>

The Court did not, however, hold that an award of prejudgment interest must be made in all cases where infringement is found.<sup>27</sup> There may be circumstances where it is appropriate to limit or deny prejudgment interest, but these are now related more to the conduct of the injured party than to that of the infringer. The Court noted that a case where the patent owner has been responsible for undue delay in litigating the lawsuit may be an example where limitation or denial should apply.<sup>28</sup> The Court also left open the possibility that there could be other circumstances which would warrant such treatment, but it refused to delineate those instances.<sup>29</sup>

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<sup>24</sup> *Devex*, 103 S. Ct. at 2061-62.

<sup>25</sup> *Id.* at 2062.

<sup>26</sup> *Id.* at 2063. The district court had specifically addressed this issue, stating that GM must now be charged a premium for the additional benefit it has enjoyed from retaining the use of the royalty money over the many years since its first infringement. To do otherwise would systematically undercompensate patentees and encourage their infringers to continue fighting lawsuits long after the disappearance of any justification for doing so for the sole purpose of gathering in generous interest money that rightfully belongs to someone else.

*Devex*, 494 F. Supp. at 1379. See also, Craft, *Prejudgment Interest Under 35 U.S.C. Section 284*, 64 J. PAT. OFF. SOC'Y 266, 290 (1982) (patentee has been damaged to the extent that he has not been able to use the royalty money).

<sup>27</sup> *Devex*, 103 S. Ct. at 2063.

<sup>28</sup> *Id.* The determination whether the plaintiff had unduly delayed prosecution is committed to the discretion of the trial court and would be reviewable on appeal only for abuse of discretion. *Id.*, n.11.

<sup>29</sup> "[I]t may be appropriate to limit prejudgment interest, or perhaps even to deny it altogether. . . . We hold only that prejudgment interest should be awarded under § 284 absent some justification for withholding such an award." *Id.* at 2063.

The *Duplate* decision involved an accounting to the patent owner by the infringer for sales of patented shatterproof glass. The infringer was found to have acted in good faith, and the complainant was unable to prove the actual damages.<sup>30</sup> The Court in *Duplate* refused to allow prejudgment interest, noting that "there are no exceptional circumstances justifying a departure from what is at least the general rule."<sup>31</sup> The *Duplate* Court relied on *Tilghman v. Proctor*,<sup>32</sup> which involved a bill in equity brought by the owners of a patent against the patent infringers. Equity courts based damages on the infringer's profits and considered the profits to be a measure of unliquidated damages, which could not bear interest until their amount had been judicially determined.<sup>33</sup> Departure from this general rule was justified only if there were special circumstances.<sup>34</sup> In *Duplate*, however, a reasonable royalty,<sup>35</sup> as opposed to the infringer's profits, had been established for the period of infringement.<sup>36</sup> The Court, extending the scope of *Tilghman*, held that to be insufficient to bring the case under the special circumstances exception.<sup>37</sup> Therefore, prejudgment interest was not awardable, and interest could run only from the date damages were set by the court even if a reasonable royalty had been established by the injured party.<sup>38</sup>

The Supreme Court had previously recognized that, in certain cases, awards of prejudgment interest were essential to achieve justice. These awards of interest, however, were dependent on the special circumstances of a particular case, and were the exception rather than the rule even before *Duplate*.

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<sup>30</sup> *Id.* at 450.

<sup>31</sup> *Id.* at 459.

<sup>32</sup> 125 U.S. 136 (1888).

<sup>33</sup> "The profits . . . are the measure of damages, though called profits, they are really damages, and unliquidated until the decree is made. Interest is not generally allowable upon unliquidated damages." *Mowry v. Whitney*, 81 U.S. (14 Wall.) 620, 653 (1872). If the suit was at law, however, the measure of damages was the actual damages sustained by the plaintiff as determined by the jury. In a suit in equity, if the gains and profits of the infringer were not sufficient to compensate the complainant fully, damages sustained could also be recovered if proven. *Birdsell v. Coolidge*, 93 U.S. 64, 69 (1876).

<sup>34</sup> *Mowry*, 81 U.S. (14 Wall.) at 653.

<sup>35</sup> "A reasonable royalty is the license rate that plaintiff and defendant would have agreed upon at the time infringement began had they been reasonably and voluntarily negotiating the license agreement." *Trio Process v. L. Goldstein's Sons, Inc.*, 612 F.2d 1353 (3d Cir. 1980), *cert. denied*, 449 U.S. 827 (1980). The actual license rate is an important factor in the determination of a reasonable royalty, at least when those royalties prove or tend to prove an established royalty. *Georgia Pacific Corp. v. U.S. Plywood-Champion Papers*, 446 F.2d 295 (2d Cir. 1971). It is possible, however, that the license rate established in the market may have been artificially depressed by an ongoing infringement. The reasonable royalty rate may be set higher than the actual license rate if there is evidence submitted to determine that the license rate had been artificially depressed by the infringement. *General Motors Corp. v. Blackmore*, 53 F.2d 725, 727 (6th Cir. 1939). For further discussion, see Fitzpatrick, *Damages in Trademark and Patent Infringement Litigation*, 8 AM. PAT. L.A. 29, 40-41 (1980).

<sup>36</sup> *Duplate*, 298 U.S. at 459.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

In *Clark v. Wooster*,<sup>39</sup> a suit in equity, the Supreme Court ruled that the established royalty is the best measure of damages, but further stated that there could be damages beyond that.<sup>40</sup> Such things as expense and inconvenience to the plaintiff could be reasons for court-exercised authority to increase damages.<sup>41</sup> In *Miller v. Robertson*,<sup>42</sup> the plaintiff sued to recover on a contract for the sale of ore in which all damages had accrued prior to the demand, leaving nothing dependent on any future event. The *Miller* Court stated that while interest was not generally allowed on unliquidated damages, it, or an equivalent element of damages, could be awarded at the discretion of the court when necessary for fair compensation.<sup>43</sup>

In *Waite v. United States*,<sup>44</sup> the Court found that interest should have been awarded to make the compensation complete and in order to "accomplish complete justice."<sup>45</sup> This case involved a suit to recover for unlicensed use of a patented invention. The liability of the United States was not disputed, and the United States, while not formally confessing error, stated its belief that interest should have been allowed.<sup>46</sup> There was also no dispute that the profits the plaintiffs would have made were the proper measure of damages. Finally, the Court in *Board of Commissioners v. United States*,<sup>47</sup> while denying a request for an award of interest, stated that interest "is given in response to considerations of fairness. It is denied where its exaction would be inequitable."<sup>48</sup> This was a case in which a county had taxed land based on a fee patent that was later cancelled. The Court noted that the County had every practical justification for collecting the tax at the time and refused to apply interest to the judgment.<sup>49</sup>

These cases reveal that the Court recognized the need to be able to make awards of prejudgment interest in addition to liquidated damages, but they also show that the Court did not make awards of prejudgment interest lightly. The *Duplate* decision reinforced this approach, and subsequent statutory provisions were interpreted as strengthening it.

In a 1946 amendment to Title 35 of the United States Code, Section 70 was codified.<sup>50</sup> While similar to the pre-1946 common law standard,

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<sup>39</sup> 119 U.S. 322 (1886).

<sup>40</sup> *Id.* at 326.

<sup>41</sup> *Id.*

<sup>42</sup> 266 U.S. 243 (1924).

<sup>43</sup> *Id.* at 258.

<sup>44</sup> 282 U.S. 508 (1931).

<sup>45</sup> *Id.* at 509.

<sup>46</sup> *Id.* at 508.

<sup>47</sup> 308 U.S. 343 (1939).

<sup>48</sup> *Id.* at 352.

<sup>49</sup> *Id.* at 345.

<sup>50</sup> Section 70, entitled "Power of court to grant injunctions; recovery of general damages; assessment; elements of general damages; increase of damages; limitations; note to Commissioner of suits and judgments rendered," stated in part:

it eliminated recovery of the patent infringer's profits<sup>51</sup> and provided that a reasonable royalty, together with costs and interest that the court may allow, should be awarded as recovery of damages. Because the amendment allowed interest and costs to be fixed by the court, however, several circuits continued to apply the special circumstances test of the common law to determine whether interest from the date of the infringement should be awarded.<sup>52</sup> This had the frequent effect of limiting recovery to the amount of the royalties plus interest from the date the damages were liquidated.<sup>53</sup>

In 1952, as part of a revision of Title 35, Sections 67<sup>54</sup> and 70 were

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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 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 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.

35 U.S.C. § 70 (1946) (current version at 35 U.S.C. § 284 (1976)).

The House Committee on Patents report, subsequently adopted as the report of the Senate Committee, stated, in part, regarding 35 U.S.C. § 70:

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 the infringement occurred, rather than profits and damages.

S. Rep. No. 1503, 79th Cong., 2d Sess., *reprinted in* 1946 CODE CONG. SERV. 1386, 1387.

For a thorough discussion of the legislative history of Section 70, see Craft, *supra* note 26, at 272-80; *Georgia Pacific* 446 F.2d at 300-01.

<sup>51</sup> Recovery of the infringer's profits reflected the idea that the patent owner should be able to force the infringer to "disgorge the fruits of the infringement" even if it had caused no injury to the owner. Determination of the infringer's gain, however, often required lengthy litigation. *Devex*, 103 S. Ct. at 2062.

<sup>52</sup> *See, e.g.*, *Columbia Broadcasting System v. Zenith Radio Corp.*, 537 F.2d 896, 897 (7th Cir. 1976); *Wahl v. Carrier Manufacturing Co.*, 511 F.2d 209, 215 (7th Cir. 1975); *Radiator Specialty Co. v. Micek*, 395 F.2d 763, 764 (9th Cir. 1968); *Wm. Bros. Boiler and Manufacturing Co. v. Gibson-Stewart Co.*, 312 F.2d 385, 387 (6th Cir. 1963).

<sup>53</sup> *See* cases cited at note 52.

<sup>54</sup> Section 67, entitled "Infringement of patent; damages for," stated:

Damages for the infringement of any patent may be recovered by action on the case, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict is rendered for the plaintiff, the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with costs.

Section 67 had paralleled the legal remedies while Section 70 paralleled the equitable remedies available. Craft, *supra* note 26, at 273. The purpose of the consolidation of Sections 67 and 70 in 1952 was to clarify the statement of the statutes. S. Rep. No. 1979, 82d Cong., 2d Sess., *reprinted in* 1952 U.S. CODE CONG. & AD. NEWS 2394, 2403.



consolidated into the present Section 284, and some minor changes were made in the language of the section for clarification. In part, Section 284 now states:

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.<sup>55</sup>

In 1964, the Supreme Court addressed the purpose of the consolidation of Sections 67 and 70 in *Aro Manufacturing Co. v. Convertible Top Co. (Aro II)*,<sup>56</sup> a case involving contributory infringement. While the damages issue was not before the Court, it stated that pursuant to the consolidated statute a claimant could recover for damages, but not for both damages and the profits of the patent infringer.<sup>57</sup> The Court did not address the language of the consolidated statute which refers to interest as a means of providing adequate compensation for the infringement. As a result of the *Aro II* dicta,<sup>58</sup> several lower courts have continued to interpret the award of prejudgment interest as discretionary, and have continued to strictly apply the special circumstances standard. Several other courts, however, have viewed Section 284 as giving discretion to the courts that they had not had earlier.

In *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers*<sup>59</sup> the Second Circuit upheld a decision in which the district court had awarded interest from the date of the last infringement in addition to damages. Georgia-Pacific had requested a declaratory judgment regarding three patents held by U.S.P. One of the patents was declared valid and was found to have been infringed. The Court specifically noted that "Congress did not purport to require interest from the dates on which royalties would normally have been paid,"<sup>60</sup> and went on to state that the "change in statute was intended to grant the trial court its traditional discretionary power in equity."<sup>61</sup> The Second Circuit's decision, although not strictly following the *Duplate* standard of allowing interest only from the date damages were fully determined, did not provide complete relief to the injured party. The court recognized this, stating, "Indeed, USP has a persuasive argument that the equities require GP to pay interest from the dates on which royalties would have been paid."<sup>62</sup> The

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<sup>55</sup> 35 U.S.C. § 284 (1976).

<sup>56</sup> 377 U.S. 476 (1964).

<sup>57</sup> *Id.* at 502.

<sup>58</sup> The portion of the opinion dealing with the question of the proper basis for damages was neither briefed nor argued by the parties. This part of the opinion is preceded by a footnote stating that it represents the views of only four justices. The fifth justice, who had joined to form a majority in the other parts of the opinion, did not join in the portion relating to damages as he did not consider it appropriate to address that issue at the time. Consequently, this portion of the opinion is not binding authority. Craft, *supra* note 26, at 280-81.

<sup>59</sup> 446 F.2d 295 (2d Cir. 1971).

<sup>60</sup> *Id.* at 301.

<sup>61</sup> *Id.* at 302.

<sup>62</sup> *Id.*

court, however, continued to view the award of interest as discretionary in the trial court and found no abuse of discretion.<sup>63</sup>

The Third Circuit, in *Trio Process v. L. Goldstein's Son's, Inc.*,<sup>64</sup> upheld an award of interest from the date of infringement, viewing the award as proper when applied to primary, but not punitive, damages.<sup>65</sup> The infringed patent was a process of removing insulation from copper wires for salvage purposes. A license rate had been established by Trio in the market, and the court found that the rate had not been lower than reasonable because of Goldstein's ongoing infringement.<sup>66</sup> In *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*,<sup>67</sup> the Fourth Circuit also allowed interest from the date that royalty payments should have been made.<sup>68</sup> The infringed patent was for use of a method and machine for repairing "pulled threads" in knitted fabrics. The court held that the patentee was entitled to damages on the basis of gross rental per month for the period of infringement with interest from the date the royalty payments should have been made.<sup>69</sup> The court also noted that the legislative history of Section 284 showed that allowance of interest from the time of each infringement had been contemplated and was expected.<sup>70</sup>

In *Milgo Electronic Corp. v. United Business Communications, Inc.*,<sup>71</sup> a case involving intentional and willful disregard of the patentee's rights, the Tenth Circuit stated that while interest could normally be awarded only from the date a claim was liquidated, this was not true in patent cases.<sup>72</sup> The court held that Section 284 gave the trial court discretion to award interest from the date of the last infringement and upheld the award of interest in the case as UBC had not shown abuse of discretion.<sup>73</sup> The Sixth Circuit has also viewed interest awards as being within the discretion of the district court. In *General Electric Co. v. Sciaky Bros., Inc.*<sup>74</sup> the court found no abuse of discretion by the trial court when interest was allowed to run from the date of the filing of the Master's report.<sup>75</sup> The Master had found willful and deliberate infringement by GE of patents

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<sup>63</sup> *Id.*

<sup>64</sup> 638 F.2d 661 (3d Cir. 1981).

<sup>65</sup> *Id.* at 662-63. Damages based on a reasonable royalty are primary damages. Punitive damages are those determined by applying a multiplier, based on such things as the willfulness or bad faith of the infringer, to the primary damages. Increases in the primary damages can, however, serve a remedial, rather than only a punitive purpose in some circumstances. Prejudgment interest can be allowed on primary or remedial damages, but not on punitive damages. *Id.*

<sup>66</sup> 612 F.2d 1353, 1358-59 (3d Cir. 1980), *cert. denied*, 449 U.S. 827 (1980). See discussion at note 35 *supra*.

<sup>67</sup> 386 F.2d 287 (4th Cir. 1967), *cert. denied*, 390 U.S. 1030 (1968).

<sup>68</sup> *Id.* at 290-91.

<sup>69</sup> *Id.* at 290.

<sup>70</sup> *Id.* at 290, n.3.

<sup>71</sup> 415 F.2d 1068 (6th Cir. 1969).

<sup>72</sup> *Id.* at 667-68.

<sup>73</sup> *Id.* at 668.

<sup>74</sup> 623 F.2d 645 (10th Cir. 1980), *cert. denied*, 449 U.S. 1066 (1980).

<sup>75</sup> *Id.* at 1077.

relating to welding machine manufacturing.<sup>76</sup>

While these courts did not hold rigidly to the *Duplate* standard, neither did they achieve consistent results as to when prejudgment interest should be awarded. Moreover, at least two circuits have continued to follow the *Duplate* standard in its entirety.

The Ninth Circuit, in *Radiator Specialty Co. v. Micek*,<sup>77</sup> stated that while the question of interest from the date of infringement was not before the court, it felt compelled to reiterate that the general rule regarding interest from the date of liquidation, the *Duplate* rule, was still the law of that circuit.<sup>78</sup> The Seventh Circuit also continued to apply the *Duplate* rule. In *Wahl v. Carrier Manufacturing Co.*,<sup>79</sup> the court upheld a decision in which interest was to run from the date damages were liquidated.<sup>80</sup> The court specifically stated that the *Duplate* rule should be applied.<sup>81</sup> In *Columbia Broadcasting System v. Zenith Radio Corp.*,<sup>82</sup> the Seventh Circuit additionally noted that under *Duplate*, “[e]xceptional circumstances justifying an award of prejudgment interest have been found in relatively few cases,” and “require a clear showing of bad faith or fraud, which would constitute a gross injustice if not remedied.”<sup>83</sup> The court also stated that it would decline to change the law of the circuit to be consistent with other circuits regarding interest awards prior to the date of liquidation.<sup>84</sup>

The trial courts that have allowed interest to be awarded from the date of infringement have held that the decision is within their discretion, and few of these decisions have been overturned by appellate courts.<sup>85</sup> Even though some of the circuits permitted prejudgment interest, it was seldom awarded. Prejudgment interest was viewed by only a few courts as essential to “accomplish complete justice,” or to provide fair or entire compensation to a recovering plaintiff. It is this view that was changed by the decision in *Devex*.

The *Devex* decision serves to provide complete and just compensation to patent owners whose patents have been infringed. It is based primarily on economic interests and policy considerations for the purpose of encouraging proper patent licensing and use. It recognizes the abuses

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<sup>76</sup> *Id.*

<sup>77</sup> 395 F.2d 763 (9th Cir. 1968).

<sup>78</sup> *Id.* at 764.

<sup>79</sup> 511 F.2d 209 (7th Cir. 1975).

<sup>80</sup> *Id.* at 215.

<sup>81</sup> *Id.*

<sup>82</sup> 537 F.2d 896 (7th Cir. 1976).

<sup>83</sup> *Id.* at 897.

<sup>84</sup> *Id.*

<sup>85</sup> See, e.g., *General Electric*, 623 F.2d at 1077 (no abuse of discretion when interest was allowed to run only from the date the Master's report was filed); *Georgia-Pacific*, 446 F.2d at 302 (no abuse of discretion when no interest allowed); *Milgo Electronic*, 415 F.2d at 668 (award of interest upheld as being within discretion of the trial court). But see *Marvel Specialty*, 386 F.2d at 291 (appellate court awarded interest from date gross royalty was payable rather than from date Master's report was filed).

that occur because of the courts' refusals to grant awards of prejudgment interest as a matter of course.

Prejudgment interest had earlier been viewed as a penalty based on the infringer's conduct, rather than as a component of damages. With the *Devex* decision, however, the Supreme Court has made it clear that prejudgment interest is no longer to be tied to the infringer's conduct, but instead can be viewed as "delay damages" and should be awarded in order to effect full compensation to the patentee.<sup>86</sup> Under the common law standard, where both the infringer's profits and the injured party's damages could be awarded to the injured party, awarding the infringer's profits had the practical effect of compensating the injured party for at least part of the loss of use of the royalties. Even if the infringement caused no injury, the pre-1946 standard forced the infringer to disgorge the fruits of the infringement, thus preventing him from being in a better position after the infringement than he had been before it.<sup>87</sup> The *Devex* decision should insure that similar results are consistently reached in future patent infringement cases.

The Court's refusal to set out more clearly the instances in which prejudgment interest should not be awarded may result in some confusion, but it may also be a significant indication that the Court intends the threshold for establishing exceptional circumstances to be a high one. The Court has shifted the burden of proof of establishing exceptional circumstances from the injured plaintiffs onto the infringers.

The *Devex* holding should encourage to plaintiffs to bring suit and to fully litigate their claims.<sup>88</sup> An award of prejudgment interest can add substantially to the total award for a patent infringement and may serve as an incentive to pursue litigation. Indeed, in this case the award of prejudgment interest was larger than the damages figure for royalties.<sup>89</sup> The decision will encourage early settlement of cases in order to avoid large awards of prejudgment interest. Alleged patent infringers will now have to weigh seriously the possibility of an award of prejudgment interest in deciding what course of action to follow when faced with a complaint.

The *Devex* decision strengthens the position of patent owners, but by allowing for consideration of exceptional circumstances it does not overbalance decisions in their favor. Moreover, the initial costs of bringing

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<sup>86</sup> *Devex*, 103 S. Ct. at 2062-63 n.1; see also D. DOBBS, *supra* note 3; Note, *supra* note 3.

<sup>87</sup> See *Devex*, 103 S. Ct. at 2062; *Tilghman*, 125 U.S. at 145-46.

<sup>88</sup> A public function is served by patent litigation. *Devex*, 103 S. Ct. at 2064 (Stevens, J., concurring). It protects valuable inventions and prevents worthless patents from repressing competition. *Pope Manufacturing Co. v. Gormully*, 144 U.S. 224, 234 (1892). It also provides "full and free competition in the use of ideas which are in reality a part of the public domain." *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

<sup>89</sup> See *Devex*, 103 S. Ct. at 2060. The Third Circuit had noted, "Moreover, where, as here, the interest is as much as or more than the royalties, a failure to award interest from the date of infringement would mean that the losing defendant actually gains from the infringement and the lengthy litigation." *Devex*, 667 F.2d at 364 n.17.

suit and the usual need for a report by a special master regarding infringement and damages issues prior to final adjudication make it unlikely that frivolous patent infringement suits would be brought in hopes of a settlement prior to trial.

The Supreme Court's decision in this case, which alters the rule regarding prejudgment interest in most circuits, is a sound and well-reasoned one. By allowing prejudgment interest awards once infringement is found, it places the burden on the infringer to show why prejudgment interest should not be awarded, rather than penalizing the already injured party by refusing to make an award.

—JANE E. GWINER