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A Short History of Patent Remedies

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WILLIAM MITCHELL
COLLEGE OF LAW

A SHORT HISTORY OF PATENT REMEDIES

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I. INTRODUCTION

Judge Kathleen O'Malley of the United States Court of Appeals for the Federal Circuit has recently called for reconsideration of when a patentee can recover enhanced damages from a willful infringer.¹ This is in light of two unanimous Supreme Court decisions, both issued on April 29, 2014, which overturned the Federal Circuit's handling of attorney fees in patent cases.² These decisions call into question the Federal Circuit's understanding of Supreme Court precedent³ that has been the basis for attorney fees and enhanced damages.⁴ This paper provides guidance on how enhanced damages and the entire subject of patent remedies (in both law and equity) should be reassessed. History shows that there is an interdependent and intricate relationship of law and equity in patent remedies that has been missing in most of the current literature. This paper argues that the current applications of reasonable royalties, lost profits, enhanced damages, injunctions, and ongoing royalties should all be reevaluated in light of this history.

The first part of this article is a brief history of patents and their remedies in English law. The second part of this article reviews the early patent statutes with a focus on treble damages and their relationship with equity. The third part of the article discusses the evolution of various remedies prevalent in the 19th century, both at law and in equity. Finally, this article reviews reasonable royalties and ongoing royalties.

¹ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1385 (Fed. Cir. 2014) (O'Malley, J., concurring).

² See *Octane Fitness, L.L.C., v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1752–53 (2014); *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1747–48 (2014).

³ See *Octane Fitness, L.L.C.*, 134 S. Ct. at 1752–53, 1757 (overturning the “objective baselessness” standard for attorney fees); *Highmark, Inc.*, 134 S. Ct. at 1747 (holding that an appellate court should review the award of attorney fees in patent cases for abuse of discretion).

⁴ See *Halo Elecs., Inc.*, 769 F.3d at 1385.

II. PATENTS IN EARLY ENGLISH LAW

English history shows the politics of patents and the distinction between law and equity. In the 14th century, England granted “Letters Patent” to those who brought new industry to England.⁵ These were not monopolies, but rather a license to foreign businessmen to come to England and practice their trade.⁶ It was not until the 15th century that the grantees of these patents began to use the power of the Crown to develop monopolies.⁷ Later, these monopolies were granted to basic items of commerce.⁸ From the Crown’s perspective, granting these monopolies was an easy way to gain favor with patent holders and was also a means to increase the Crown’s treasury by way of fees.⁹ Patentees often used equity courts (the English Court of Chancery, which has historically had a close relationship to the Crown¹⁰) and sometimes coercion to enforce their monopolies.¹¹ Because the Letters Patent covered basic commodities that the public had no choice but to buy, the

⁵ See Ramon A. Klitzke, *Historical Background of the English Patent Law*, 41 J. PAT. OFF. SOC’Y 615, 623 (1959).

⁶ *Id.* at 623 (“The Letters Patent of protection granted . . . at this time were like passports which allowed [foreigners] to come to England and practice their trade.”); Edward C. Walterscheid, *The Early Evolution of the United States Patent Law: Antecedents (Part 2)*, 76 J. PAT. & TRADEMARK OFF. SOC’Y 849, 850 (1994).

⁷ See 1 R. CARL MOY, *MOY’S WALKER ON PATENTS* § 1:4 (4th ed. 2013).

⁸ *Id.*

⁹ *Id.* The word “patent” was not used until later. Edward C. Walterscheid, *The Early Evolution of the United States Patent Law: Antecedents (Part 1)*, 76 J. PAT. & TRADEMARK OFF. SOC’Y 697, 700 (1994).

¹⁰ The Court of Chancery was derived from the King’s Courts. D. M. KERLY, *AN HISTORICAL SKETCH OF THE EQUITABLE JURISDICTION OF THE COURT OF CHANCERY* 7–9 (Fred B. Rothman & Co. 1986) (1890).

¹¹ See 4 DAVID HUME, *THE HISTORY OF ENGLAND* 345 (1778), available at <http://oll.libertyfund.org/titles/hume-the-history-of-england-vol-4> (“Such high profits naturally begat intruders upon their commerce; and in order to secure themselves against encroachments, the patentees were armed with high and arbitrary powers from the council, by which they were enabled to oppress the people at pleasure, and to exact money from such as they thought proper to accuse of interfering with their patent.”).

prevention of continued infringement by way of an injunction (an equitable remedy) to preserve the monopoly was the relief sought. Rarely did patentees use common law courts, as these courts shared the public's disdain for the monopolization of basic commodities; therefore, patentees could not hope to find relief in common law courts.¹²

The recognition of social harm placed on the English citizens resulted in the passage of the Statute of Monopolies in 1623, which voided all patents.¹³ However, the statute allowed the grant of new patents to those who created new inventions.¹⁴ Though patents for inventions fared better in common law courts than those patents that monopolized basic commodities, patents and their enforcement by the Court of Chancery were still treated with distrust. James I, who sought to limit patents early in his reign¹⁵ (20 years before the Statute of Monopolies was passed¹⁶) had confided jurisdiction to the courts of common law and excluded chancery jurisdiction from determining a patent's force or validity.¹⁷ This would delay any equitable relief to patentees until, and only if, the validity of the patent was confirmed and legal relief was inadequate.¹⁸ Though the validity and enforcement of a patent resided in courts of law in theory,¹⁹ eventually this divide

¹² MOY, *supra* note 7, § 1.5; Klitzke, *supra* note 5, at 645. An excellent example is the case of Edward Darcy's license for making and importing playing cards. E. Wyndham Hulme, *The History of the Patent System Under the Prerogative and at Common Law*, 16 L.Q. REV. 44, at 51 (1900) reviewed in Klitzke, *supra* note 5, at 645. Darcy's decision to bring an infringement action is described as a "disastrous mistake" because challenges to the validity of his license were prohibited, that is until he brought the case in front of the common law court. Klitzke, *supra* note 5, at 645.

¹³ See Statute of Monopolies, 21 Jac. 1, c. 3, § I (1623) (Eng.).

¹⁴ See *id.* § VI.

¹⁵ MOY, *supra* note 7, § 1:4.

¹⁶ Klitzke, *supra* note 5, at 647–48.

¹⁷ See 3 WILLIAM C. ROBINSON, *THE LAW OF PATENTS FOR USEFUL INVENTIONS* §§ 932, 1081 (1890).

¹⁸ *Id.* § 1081.

¹⁹ *Id.*

was eroded when chancellors granted preliminary injunctions to accompany the suits at law.²⁰ This was but one example of the Court of Chancery resisting any interference of the Crown's prerogative (the grant of patents) from common law courts.²¹

There are important points to be made from this early history that contextualize the rest of this paper: First, it was understood early on that the value of the patent is the monopoly pricing.²² Second, there is a social cost to monopoly pricing, which leads to resistance of granting equity to patentees.²³ Third, the dual system of courts of law and courts of equity, and the rivalry between those courts, which was influential in early United States politics. Finally, notice the theoretical divide between law and equity, and the tendency to ignore it. These points are all relevant to understanding patent remedies in the United States.

III. EARLY PATENT REMEDIES

Modern scholarship treats early patent remedies as an artifact not deserving much attention. But if we listen to Judge O'Malley's call to reassess enhanced damages, then the history of early statutes should be given more attention. First, a discussion of the early U.S. patent statutes with a focus on mandatory treble damages and inadequate explanations of its origin from

²⁰ *Id.*

²¹ See ROBINSON, *supra* note 21, § 932 n.3 (citing *Wilson v. Tindal*, (1841), 1 Web. P.C. 730 (Eng.) (noting where the judge treated the trial at law as within the chancery court). Eventually, Parliament conferred all equity powers to the courts of law in patent cases in 1854.

²² ROBINSON, *supra* note 17, § 932 (“The redress afforded by an action at law consisting simply in an award of damages for past infringements was early found to be inadequate for the protection of the patentee.”). It is important to note that this article does not assert that a patent and a monopoly are synonymous, as doing so is highly controversial. See ALBERT WALKER, TREATISE ON LAW AND INVENTIONS § 12 (6th ed. 1929). The assertion is that a patentee has exclusive control of pricing, which is not necessarily a monopoly “in the old sense of the word.” *Id.* § 12, p. 17.

²³ Critiques of the monopoly system surfaced in English Parliament as early as 1571. Klitzke, *supra* note 5, at 644.

contemporary analysis. Second, equity will be discussed, which explains the origin of the mandatory treble damages. Third, a discussion of the manner in which damages were awarded before 1836, which would go on to influence the law of patent damages for the rest of the 19th century.

A. Damage Provisions 1790–1800

Article I, Section 8 of the U.S. Constitution confers to Congress the power to grant patents in order to promote the useful arts.²⁴ It took just one year for Congress to exercise that power with the 1790 Patent Act.²⁵ The 1790 statute allowed the plaintiff to recover damages (determined by a jury) and possession of the infringing device.²⁶ While this provision might seem to be the default award, comparatively it was weak because the copyright statute of the same year²⁷ allowed a penalty of fifty cents per copied sheet in addition to damages and possession of the copied material.²⁸ The lack of a punitive remedy illustrates an overall distrust of patents.

The 1790 Patent Act had several problems and was not controlling for long. One issue was that an application for a patent had to be approved by a panel consisting of the Secretary of State, Secretary of War, and Attorney General.²⁹ Presumably these esteemed men had much to do, and the 1793 patent statute released these officers of their patent obligations.³⁰ This is the most well known change, but not the only one, as the damages provision was

²⁴ U.S. CONST. art. I, § 8, cl. 8.

²⁵ See 1 Stat. 109 (1790).

²⁶ *Id.* § 4.

²⁷ See generally Copyright Act of 1790, 1 Stat. 124.

²⁸ See 1 Stat. 109 (1790).

²⁹ *Id.* § 1.

³⁰ Patent Act of 1793, 1 Stat. 318 (1793), reprinted in EDWARD C. WALTERSCHEID, TO PROMOTE THE PROGRESS OF USEFUL ARTS: AMERICAN PATENT LAW AND ADMINISTRATION 1787-1836, at 479 app. VIII (1998).

also amended.³¹ The 1793 act mandated that infringers pay at least three times the amount the patentee usually received for either selling the patented invention or licensing the invention.³² The purpose of this change must be made by inference because there is no record of who recommended this change or why it was done.³³

The change in remedies in 1793 is often attributed to Joseph Barnes, who published a pamphlet criticizing the 1790 statute and the proposed H.R. 166, both of which provided that the damages allowed would be determined by juries.³⁴ Barnes distrusted juries, whom he felt would refuse to award damages to monopolists.³⁵ However, these facts only answer why Barnes wanted the change; why Congress made the change is still not answered. It is unlikely that Congress simply read Barnes's pamphlet and voted accordingly without question. Thomas Jefferson, who held juries in high regard,³⁶ would not agree with Barnes's distrust of juries. Yet, it is widely held that Jefferson was influential in the passage of the 1793 statute.³⁷ Furthermore, patent monopolies were a "bugaboo"

³¹ Patent Act of 1793, 1 Stat. 318 § 5 (1793), reprinted in WALTERSCHEID, *supra* note 30, at 481 app. VII.

³² *Id.*

³³ H.R. 121, 1st Cong. (1791) (enacted) reprinted in WALTERSCHEID, *supra* note 34, at 109 app. VI; H.R. 166, 1st Cong. (1792).

³⁴ WALTERSCHEID, *supra* note 30, at 209–10.

³⁵ *Id.* at 109 (citing J. BARNES, TREATISE ON THE JUSTICE, POLICY, AND UTILITY OF ESTABLISHING AN EFFECTUAL SYSTEM OF PROMOTING THE PROGRESS OF USEFUL ARTS, BY ASSURING PROPERTY IN THE PRODUCTS OF GENIUS, 4-5 (1972)).

³⁶ Thomas Jefferson wrote, "I consider trial by jury as the only anchor ever yet imagined by man, by which a government can be held to the principles of its constitution." THOMAS JEFFERSON ON POLITICS & GOVERNMENT, <http://famguardian.org/subjects/politics/thomasjefferson/jeff1520.htm> (last visited Mar. 1, 2015).

³⁷ Some, including the Supreme Court, even believe that Thomas Jefferson wrote the statute himself, though this belief is likely mistaken. See Edward C. Walterscheid, *The Use and Abuse of History: The Supreme Court's Interpretation of Thomas Jefferson's Influence on Patent Law*, 39 IDEA 195, 209–10 (1999); *Diamond v. Chakrabarty*, 447 U.S. 303, 308–09 (1980); Graham

for Jefferson and his Republicans who would have welcomed jury interference.³⁸ Unless we are to believe that Congress ignored Jefferson's view of patents but listened attentively to Barnes, Barnes cannot be the sole explanation of the treble damages provision.³⁹

Subsequent amendments to the 1793 statute demonstrate that juries were not the motivation for the treble damages provision. The 1800 amendment to the patent statute provided that an infringer should pay "a sum equal to three times the actual damage sustained."⁴⁰ The jury, then, would determine the actual damage. If there was a distrust of juries to handle patent cases, that distrust was soon forgotten. Still, the courts were obligated to treble the amount found by the jury.⁴¹

It is unlikely that the treble damages provision was instituted with juries in mind because the treble provision did not rise and fall with the proposed "distrust of juries" sentiment. The more likely reason is clear when one recalls the significant division between law and equity during that time.

v. John Deere Co., 383 U.S. 1, 7 (1966); *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 128 n.1 (1938) (Black, J., dissenting).

³⁸ See WALTERSCHEID, *supra* note 30, at 430.

³⁹ It is also unlikely a court decision at that time influenced Congress. See WALTERSCHEID, *supra* note 30, at 157 (citing P.J. Federico, *The Patent Trials of Oliver Evans*, 27 J. PAT. OFF. SOC'Y 586, 603 (1945)).

⁴⁰ Patent Act of April 17, 1800, 2 Stat. 37 § 3 (1800) reprinted in WALTERSCHEID, *supra* note 30, at 490–91 app. XI).

⁴¹ WILLARD PHILLIPS, *THE LAW OF PATENTS FOR INVENTIONS; INCLUDING THE REMEDIES AND LEGAL PROCEEDINGS IN RELATION TO PATENT RIGHTS*, at 435 (1837), available at <https://ia902508.us.archive.org/28/items/lawofpatentsfori00phil/lawofpatentsfori00phil.pdf>.

B. *The Early History of Equity in Patent Remedies*

1. *The Relationship Between Treble Damages and Equity*

Treble damages were in place in 1793 not to punish the infringer but to adequately compensate the patentee because equity jurisdiction was almost non-existent at the time. This becomes apparent when one considers the history of equity in the United States.

The passage of the Federal Judiciary Act in 1789 created the federal courts, but the federal judicial power was still limited to only those cases in which the parties were of diverse citizenship.⁴² The early patent statutes of 1790 and 1793 allowed federal courts jurisdiction only over actions at law.⁴³ Congress deliberately excluded equitable jurisdiction in federal courts prior to the passage of the 1790 statute.⁴⁴ Federal courts were therefore limited to what remedies they could offer patentees.

Recalling that the true value of the patent was (and still is) the exclusivity of the market that the new invention creates, the inability to issue injunctions against patent infringers (save for cases of diverse citizenship) was a sharp limitation for federal courts in enforcing the patent statute.⁴⁵ The reason for this

⁴² An Act to Establish the Judicial Courts of the United States, 1 Stat. 73, § 9; ROBINSON, *supra* note 18, § 1083.

⁴³ Compare Patent Act of 1793, 1 Stat. 318 § 5 (actions on the case are available to courts that have *competent* jurisdiction) with Patent Act of 1800 § 3 (courts have *original* jurisdiction) (emphasis added). Competent jurisdiction, apparently, means the persons were of diverse citizenship in the context of 1793. ROBINSON, *supra* note 17, § 1083.

⁴⁴ Three weeks before passage of the 1790 act, a bill proposed that a patentee could seek remedies by, “action of debt, *bill*, plaint or information.” Patents Bill, H.R. 41, 1st Cong. § 4 (1790) (emphasis added) (reproduced in WALTERSCHEID, *supra* note 30, at 445 app. III). “Bill” would indicate “equity” at the time. BLACK’S LAW DICTIONARY 194 (10th ed. 2014).

⁴⁵ See *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853) (“[E]xperience began to show that some inventions or discoveries had their chief value in a monopoly of use by the inventor, and not in a sale of licenses, the

limitation is that many feared that courts sitting in equity would become as powerful as the English Court of Chancery. Congress debated the extent to which equitable remedies were available in federal courts during the passage of the Federal Judiciary Act.⁴⁶ Jefferson remarked that equity was not to be overused:

If the legislature means to enact an injustice, however palpable, the court of Chancery is not the body with whom a correcting power is lodged. That it shall not interpose in any case which does not come within a general description and admit of redress by a general and practicable rule . . .⁴⁷

This important issue in early American politics was not limited to just patent law. The same Congress that passed the 1793 Patent Act also passed the Anti-injunction Act that prevented federal courts from meddling with state courts by way of equity.⁴⁸

With prospective damages⁴⁹ and injunctions available only in rare circumstances, a patentee would have to continually sue for actual damages against infringers to stop continued infringement. Therefore, it was necessary that the legal damages be trebled to prevent duplicative cases.

2. Application of Equity in Early American Law

The nature of intellectual property rights was too tempting for judges to refuse equity altogether, to the point that courts may have

value of a license could not be made a universal rule, as a measure of damages.”).

⁴⁶ MOY, *supra* note 7, § 23:4 (citing Charles Warren, *New Light on the History of the Federal Judiciary Act of 1789*, 37 HARV. L. REV. 49 (1923); Moschzisker, *Equity Jurisdiction in the Federal Courts*, 75 U. PA. L. REV. 287 (1927)); *see generally* An Act to Establish the Judicial Courts of the United States, 1 Stat. 73 (1789).

⁴⁷ Letter from Thomas Jefferson to Phillip Mazzei (Nov. 1785), <http://founders.archives.gov/documents/Jefferson/01-09-02-0056>.

⁴⁸ *See* Anti-Injunction Act, 1 Stat. 333 (1793).

⁴⁹ *See* ROBINSON, *supra* note 18, § 1089.

exercised equity *ultra vires*.⁵⁰ The fluidity of equitable jurisdiction is apparent in two relevant cases. In *Morse v. Reid*, a copyright case,⁵¹ equity was granted in the form of an injunction and payment of all the profits made by the defendant.⁵² The judge might have awarded these equitable remedies based on diversity of citizenship—the only correct legal ground to do so.⁵³ Even still, equity should have been reserved until statutory remedies had been applied. Inexplicably, judges ignored the 1790 statute altogether before administering equity⁵⁴ and failed to reserve equitable jurisdiction until remedies at law were exhausted.

In *Livingston v. Van Ingen*, the proposition that equity applies only in cases where damages at law are inadequate was directly challenged. After a long discussion of English cases, the court wrote:

An injunction is an appropriate remedy for a violation of all statute rights. They are granted of course. The numerous cases decided before the revolution are conclusive on this point, and binding on this court. The remedy is contemporaneous and concurrent with the grant itself, and cannot be separated from it. The right and the remedy passed

⁵⁰ Ultra Vires is defined as “Unauthorized; beyond the scope of power allowed or granted by a corporate charter or by law.” BLACK’S LAW DICTIONARY 1755 (10th ed. 2014).

⁵¹ The Federal Register mistakenly asserts *Morse* is a patent case, as well as incorrectly stating the caption, date, and relief sought. John D. Gordan III, *Morse v. Reid: The First Reported Federal Copyright Case*, 11 LAW & HIST. REV. 21 (1993); see *Morse v. Reed*, 17 F. Cas. 873 (C.C.D.N.Y. 1796) (No. 9,860).

⁵² See Gordan, *supra* note 51, at 33.

⁵³ *Root v. Ry. Co.*, 105 U.S. 189, 192 (1881) (“Of course, in those cases the jurisdiction of the court depended on the citizenship of the parties.”).

⁵⁴ See Copyright Act of 1790, 1 Stat. 124, §§ 2, 5.

to the appellants at the same time. The remedy is a part of the grant and cannot be taken away.⁵⁵

This case was overruled by *North River Steamboat Co. v. Livingston* over a decade later, but on the grounds that the monopoly granted by the State of New York was unconstitutional according to the landmark case *Gibbons v. Ogden*.⁵⁶ The question of when equity is appropriate was not resolved.

In those instances where federal courts were allowed equity, Congress had assumed that the courts would award damages or equity according to the tradition of the respective courts.⁵⁷ As *Morse* and *Livingston* illustrate, however, the tradition of these courts was not agreed upon.⁵⁸ In context of patent law, it is likely that equity was available to only some patentees but not others, and the basis for that determination was inconsistent.

This inconsistency might have led to Congress to allow Federal courts equitable jurisdiction in all patent cases in 1819.⁵⁹ As a result of this new jurisdiction, a patentee now had available to him or her equitable remedies in federal court. This included injunctions and equitable accounting, but courts sitting in equity

⁵⁵ *Livingston v. Van Ingen*, 9 Johns. 507, 536 (N.Y. 1812), *overruled by* *N. River Steamboat Co. v. Livingston*, Lock. Rev. Cas. 104, 726 (N.Y. 1825).

⁵⁶ *N. River Steamboat Co.*, Lock. Rev. Cas. 104, 726; *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1 (1824).

⁵⁷ See MOY, *supra* note 7, § 23:4 (citing An Act to establish the Judicial Courts of the United States, 1 Stat. 73 (1789)); An Act to Regulate the Processes in the Courts of the United States, 1 Stat. 93 (1789).

⁵⁸ Compare Letter from Thomas Jefferson to Phillip Mazzei, (Nov. 1785), <http://founders.archives.gov/documents/Jefferson/01-09-02-0056> (“But this court whilst developing and systematising it’s [sic] powers, has found, in the jealousy of the nation and it’s [sic] attachment to certain and impartial law, an obstacle insuperable beyond that line [that limits the applicability of equity].”) with THE FEDERALIST NO. 80 (Alexander Hamilton) (“There is hardly a subject of litigation between individuals, which may not involve those ingredients of *fraud, accident, trust, or hardship*, which would render the matter an object of equitable rather than of legal jurisdiction.”).

⁵⁹ 3 Stat. 481, *reprinted in* WALTERSCHEID, *supra* note 30, at 491 app. XII.

could not award damages since that power belonged exclusively to courts sitting at law. Though courts sitting in equity could not award damages (until 1870),⁶⁰ the patentee now was able to obtain injunctions and a monetary award through accounting. Both remedies are discussed in more detail later.⁶¹ Briefly, an injunction preserves the exclusivity of the market for the plaintiff by prohibiting the infringer from using the invention in the future, while accounting awards the defendant's profits "wrongfully obtained from use of the plaintiff's property."⁶² Both are powerful remedies.

Why then were the treble damages kept in 1819 if equity was now available? Perhaps because these remedies were still *practically* unavailable, as only the jurisdictional obstacle for patentees was removed. The difficult procedural rules that accompanied bills in equity were still in place,⁶³ leaving these remedies difficult to obtain. This led some in Congress in the early 1820s to attempt to amend the damages provision, for example, by making it easier to recover court costs.⁶⁴ These amendments failed because, while some may have still struggled to recover compensation, it became apparent that the remedies favored patentees too much at the time.⁶⁵ The difficulties associated with obtaining equity would have to wait for several decades.⁶⁶

⁶⁰ See, e.g., *Birdsall v. Coolidge*, 93 U.S. 64, 68–69 (1876).

⁶¹ See *infra* Part IV.B.

⁶² Joel Eichengrun, *Remedying the Remedy of Accounting*, 60 IND. L.J. 463, 463 (1985).

⁶³ See DONALD S. CHISUM, 7 CHISUM ON PATENTS § 20.02[1][b] n.20, § 20.02[1][c] (2014).

⁶⁴ See WALTERSCHEID, *supra* note 30, at 341 ("[Treble damages] did not allow him to recover costs in the case, so that, though gaining his cause, the patentee might in reality be a loser in the end." (quoting Representative John Taylor of New York)).

⁶⁵ See, e.g., *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 230 (1832) (syllabus of the court) ("Under the direction of the court he has recovered a verdict for three thousand two hundred and sixty-six dollars; and is entitled, of course, to have

Difficulty in obtaining equity, no matter how necessary to compensate patentees, does not mean that the divide between law and equity should be ignored.⁶⁷ The 1819 act did not make legal and equitable jurisdiction concurrent, nor did any subsequent patent act.⁶⁸ The divide between law and equity remained,⁶⁹ as well as the long-tested analysis of when to grant equity, such as whether the injured party had gained adequate remedies at law.⁷⁰ The 1836 patent act preserved this divide. Section 14 of the 1836 act allowed “actions on the case” to recover actual damages⁷¹ while Section 17 allowed for suits in equity, “according to the course and principles of courts of equity.”⁷² The point is worth emphasizing, as the Supreme Court addressed this issue at length in *Root v. Lake Shore & M.S. Ry. Co.* in 1881⁷³ and 125 years later in *eBay v. MercExchange*.⁷⁴

this *trebled*, and the defendants are ruined. *Is this legal?* A bill in equity is pending also, to stop the defendants' factory.”).

⁶⁶ See *infra* Part IV.B.

⁶⁷ This point is particularly important when considering the future of ongoing royalties, which is discussed in Part IV.B.

⁶⁸ See ROBINSON, *supra* note 17, § 1084.

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ Patent Act of 1836, 5 Stat. 117 § 14 (1836).

⁷² *Id.* § 17; see CHISUM, *supra* note 6e, § 20.02[1][d] (“[The 1836 Act] fostered a cleavage as to monetary recovery which a patent owner could obtain from an infringer . . .”). Note that Chisum uses the word “foster” rather than “create.”

⁷³ 105 U.S. 189 (1881). After much discussion of the past law, the Court concluded, “[i]t does not appear from the allegations of the bill in the present case that there are any circumstances which would render an action at law for the recovery of damages an inadequate remedy for the wrongs complained of; and, as no ground for equitable relief is presented, we are of opinion that the Circuit Court did not err in sustaining the demurrer and dismissing the bill.” *Id.* at 216–17.

⁷⁴ 547 U.S. 388, 394 (2006) (“We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”). The Court overruled *MercExchange v. eBay*, 401 F.3d 1323 (Fed.

C. *Award of Damages in Early Patent Cases*

The absence of equity to most patentees explains the mandatory treble provision from 1790 to 1836. The treble provision had perhaps an unexpected influence on how damages were assessed during that time, and (as the common law system often goes) would influence later decisions after the statute was amended.

Take, for example, Justice Joseph Story's influential jurisprudence. In *Whittemore v. Cutter*, Justice Story rejected any argument that a small infringement is no infringement at all: "For where the law has given a right, and a remedy for the violation of it, such violation of itself imports damage."⁷⁵ However, in such cases where infringement was minimal, the patentee would receive little money for compensation. Story continues, "and in the absence of all other evidence, the law presumes a nominal damage to the party."⁷⁶ Therefore, the patentee was entitled to some sort of damage if the defendant infringed the patent. The important determination is what type of damages should be awarded.

Justice Story did not hesitate to award mere nominal damages, even if the infringement was blatant. Story was adamant that actual damages be only what the plaintiff suffered and could prove. In *Whittemore*, Story dismissed the plaintiff's request that damages be the estimated cost for the making of the infringing machine, or the price of the machine, reasoning that both are costs suffered only by the defendant and would compound the value of the

Cir. 2005), which held that injunctions are granted in patent cases absent exceptional circumstances.

⁷⁵ *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601). However, Justice Story said that mere making for experimental or philosophical use is not an infringement, but required the making it for sale, use or profit. Making it for use or sale, without actually making a sale or use, is still an infringement, but only a nominal damage is awarded. *Id.*

⁷⁶ *Id.*

materials and workmanship.⁷⁷ Therefore, only nominal damages (most likely less than a dollar) were awarded in the case.

Justice Story explained his reasoning as to why nominal damages could only be given in those instances that the plaintiff was unable to prove his damages.

By the term “actual damages,” in the statute, are meant such damages as the plaintiffs can actually prove, and have, in fact, sustained, as contradistinguished to mere imaginary or exemplary damages, which, in personal torts, are sometimes given. The statute is *highly penal*, and the legislature meant to limit the single damages to the real injury done, as in other cases of violation of personal property, or of incorporeal rights.⁷⁸

Therefore, calculation of actual damages needed to be precise because the damages would be trebled. The passage continues, (the following being used by many courts and commentators that damages cannot be speculated or expanded):⁷⁹

In mere personal torts, as assaults and batteries, defamation of character, etc., the law has, in proper cases, allowed the party to recover not merely for any actual injury, but for the mental anxiety, the public degradation and wounded sensibility, which honorable men feel at violations of the sacredness of their persons or characters. But the reason of the law does not apply to the mere infringement of an incorporeal right, such as a patent, and the legislature meant to confine the damages to such a

⁷⁷ PHILLIPS, *supra* note 41, at 439. *Whittemore*, 29 F. Cas. at 1125.

⁷⁸ *Whittemore*, 29 F. Cas. at 1125 (emphasis added).

⁷⁹ *See, e.g.*, ROBINSON, *supra* note 18, § 1053 n.6.

sum that would compensate the party for his actual loss.⁸⁰

The early reason for treble damages (to adequately compensate patentees in lieu of equity) and the effect on patent remedies (confining damages to what could be proven) has been almost entirely lost in scholarly work. For example, Robinson, a late 19th-century patent expert, noted, “vindictive damages are not permitted, power being conferred upon the court to increase the amount fixed by the jury in cases of malicious or persistent injury.”⁸¹ Robinson errs on this point insofar as he discusses patent law before 1836 because trebling the damages was mandatory, no matter whether infringement was malicious or unintentional.⁸²

Without the treble provision, courts might have allowed more than just the damages that were proven. Story suggests that he might have approached damages differently, and might have included “exemplary or imaginary damages” if not for the “highly penal” nature of the statute.⁸³ Before his decision in *Whittemore*, he opined, “damages [should] be estimated as high, as they can be, consistently with the rule of law on this subject, if the plaintiff’s patent has been violated; that wrong doers may not reap the fruits of the labor and genius of other men.”⁸⁴ Justice Story admitted that the entire question should be left to the jury, rather than impose special rules:

I rather incline to believe [leaving the jury to estimate the actual damages] to be the true course . . .
. The price of machine, the nature, actual state and extent of the use of the plaintiff’s invention, and the

⁸⁰ *Whittemore*, 29 F. Cas. at 1125.

⁸¹ ROBINSON, *supra* note 18, § 1053.

⁸² See *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488–89 (1853) (describing the mandatory treble damages “manifestly unjust”).

⁸³ See *Whittemore*, 29 F. Cas. at 1125.

⁸⁴ *Lowell v. Lewis*, 15 F. Cas. 1018, 1018 (C.C.D. Mass. 1817) (No. 8568); PHILLIPS, *supra* note 41, at 440.

particular losses to which he may have been subjected by the piracy, are all proper ingredients to be weighed by the jury in estimating the damages, *valere quantum valeant*.⁸⁵

This included considering (but not necessarily awarding) the profits received by the defendant.⁸⁶

However, determining actual damages by the indirect evidence of the defendant's profits was not preferred because of the penal nature of the statute. Instead, an established license fee by the plaintiff was favored. This was for two reasons. First, the computation was easier and therefore more reliable and second, it was assumed that the license rate would still compensate the patentee because damages would be trebled.⁸⁷ It can be concluded that the emphasis on determining and proving the actual damage was out of concern of the highly penal nature of the statute and to avoid subjugating unintentional infringers to an overly-harsh penalty—the penalty mandated by the statute was enough.⁸⁸

Even with the careful calculation of damages and hesitation to estimate damages, the law in many minds was too favorable to patentees. On a bill that would have made it easier for plaintiffs to win attorney fees, Representative Robert Vance of North Carolina said the bill would encourage fraudulent patentees to threaten litigation, and the user of the invention, “dreading a suit, prefers to pay the unjust demand of a mere adventurer.”⁸⁹ A similar bill that

⁸⁵ Earle v. Sawyer, 8 F. Cas. 254, 258 (C.C.D. Mass. 1825) (No. 4247); PHILLIPS, *supra* note 41, at 443–44.

⁸⁶ PHILLIPS, *supra* note 41, at 444.

⁸⁷ *Id.* at 444–45.

⁸⁸ See Seymour v. McCormick, 57 U.S. (16 How.) 480, 488–89 (1853) (stating the 1836 Patent Act confined actual damages to limit the court's power to treble the damages).

⁸⁹ WALTERSCHEID, *supra* note 30, at 342 (citing 18 ANNALS OF CONG. 808–09 (1823)).

would have awarded court costs was challenged in the House on the same grounds.⁹⁰ A Congressman attempted to compromise with repealing the treble damages provision and instead allowed costs in all cases.⁹¹ The bill was returned to committee to discuss repealing the treble damages and instead awarding double costs.⁹² The bill was defeated, and despite rampant fraud (there was no real examination of applications in the patent system, but mere a registration system)⁹³ and predatory litigation, nothing was done on the matter until the entire system was revised in 1836.⁹⁴

The treble damages provision was amended in 1836. The statute provided:

[T]hat whenever, in any action for damages for using or selling the thing whereof the exclusive right is secured by any patent heretofore granted, or which shall hereafter be granted, a verdict shall be rendered to a plaintiff in such action, it shall be in the power of the court to render judgment for any sum above the amount by such judgment as the actual damages sustained by the plaintiff, not exceeding three times the amount thereof, according to the circumstances of the case.⁹⁵

The treble provision was no longer the floor, but the ceiling. In such an environment where patent abuse was rampant,⁹⁶ it was not

⁹⁰ WALTERSCHEID, *supra* note 30, at 342.

⁹¹ *Id.* at 343.

⁹² *Id.*; 18 ANNALS OF CONG. 932–37 (1823).

⁹³ See MOY, *supra* note 7, § 1:18.

⁹⁴ See WALTERSCHEID, *supra* note 30, at 343–44.

⁹⁵ Patent Act of 1836, ch. 357, 5 Stat. 117 § 13, reprinted in WALTERSCHEID, *supra* note 30, at 497 app. XV; see also PHILLIPS, *supra* note 41, at 435–36.

⁹⁶ See, e.g., *Evans v. Jordan*, 13 U.S. (9 Cranch) 199 (1815) (allowing an extension of a patent that had already expired); see also *McGaw v. Bryan*, 16 F. Cas. 96, 102 (S.D.N.Y. 1821) (No. 8793). In *McGaw*, Judge Van Ness, frustrated that he could not void an obviously illegal patent because he was not

surprising to see the mandatory nature of the treble damages revoked. Still, the treble damages remained, even after equity was available, which invites the question as to why it was kept. The reason for this is discussed in a subsequent section.⁹⁷

To summarize thus far, the first patent act contemplated that juries would determine actual damage. In 1793, the damage awarded to a patentee was now a mandatory trebling of the price of the invention or the license fee to use the invention. The treble provision, as such, was added because of the uncertainty surrounding a patentee's access to equity in federal court. In 1800, the patent act was amended to mandate trebling of actual damages, which in turn meant courts awarded damages according to contract principles rather than tort principles.⁹⁸ In 1836, treble damages were no longer mandatory, but within the discretion of the district court.⁹⁹

D. *Analysis of Damages and Equity 1790–1836*

The true value of the patent is the exclusive control over the market. With equity only available on an unequal basis (as the *Morse* and *Livingston* cases illustrate), a patentee must continually sue for actual damages against infringers if they hope to stop infringement. Mandatory treble damages were necessary in these circumstances.¹⁰⁰ Even after equity became available in 1819, the treble damages provision remained to provide an adequate remedy for those patentees who chose to bring actions at law.¹⁰¹ To avoid

empowered by the statute, wrote an opinion containing an extraordinary amount of sarcasm (the first paragraph is illustrative). *Id.*

⁹⁷ See *infra* Part IV.A.3.

⁹⁸ See *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601).

⁹⁹ How the courts handled this new discretion is discussed in Part IV.A.3.

¹⁰⁰ Sen. John Ruggles, S. Report Accompanying Senate Bill No. 239, at 6 (Apr. 28, 1836) (explaining that pre-1836 patent law “offer[ed] an inadequate remedy for the [infringement] injury, by giving an action of damages.”).

¹⁰¹ One judge, noting that treble damages are present only at law and not in equity, recognized that the reason for the treble damages provision is that law is,

over-penalizing infringers, judges required that the patentee to prove damages as precisely as possible or be awarded nominal damages.

In 1819, equity jurisdiction was available to patentees in federal court. However, the procedural difficulties in obtaining equitable remedies remained, which explains why the treble damages provision was kept and why some in Congress wished to allow plaintiffs to recover costs as part, or in replacement, of damage awards.

IV. THE DEVELOPMENT OF PATENT REMEDIES AFTER 1836

Determining the precise actual damage to the plaintiff was still an emphasis after 1836,¹⁰² even after treble damages were no longer mandatory. This is because, first, some habits are hard to break, and second, damages were still calculated from a contracts perspective. Damages were limited to the direct and immediate harm to the plaintiff from the date of the infringement to the institution of the suit.¹⁰³ This had a profound influence on patent remedies, both at law and equity.

First, the three available damages at law will be discussed. Then, how treble damages were used in conjunction with these remedies will be reviewed. Finally, equity during this period will be discussed.

by its nature, inadequate to compensate the patentee. *Motte v. Bennett*, 17 F. Cas. 909, 910 (C.C.D. S.C. 1849) (No. 9884) (“Indeed, if any one thing could show more plainly than another, that a trial by a jury in a patent cause was not thought the best way to compensate a patentee for an infringement of his patent, it is this legislative authority given to the court to give three-fold amount over the sum found by the verdict of a jury.”).

¹⁰² See, e.g., *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 489 (1853).

¹⁰³ ROBINSON, *supra* note 18, § 1053.

A. Remedies Available at Law

1. Established Royalty

As mentioned before, the preferred measurement of damages by a court sitting at law is the established royalty for which the patentee had licensed his patent.¹⁰⁴ This is the probable reason why the 1793 patent act expressly stated that such would be the actual damage.¹⁰⁵ The form of the license can come in any manner, so long as it shows that the owner “has put his own price upon the exercise of the right, and offered it to all who are disposed to pay the price for its enjoyment.”¹⁰⁶ However, the royalty is rarely established.¹⁰⁷ The Supreme Court laid out five criteria in *Rude v. Wescott* to determine if the patent owner had fixed the value of the patent. The royalty must be 1) paid or secured before the infringement; 2) paid by such a number of persons as to indicate a general acquiescence in its reasonableness; 3) uniform at the place where the licenses are issued; 4) not paid under threat of suit or in settlement of litigation; and 5) for comparable rights or activity under the patent.¹⁰⁸ There are numerous defenses that both parties could invoke.¹⁰⁹

The infringer could challenge that too few persons had paid a royalty before the infringement.¹¹⁰ The royalty must have been paid by sufficient persons to demonstrate that the royalty was uniform. One expert explains:

¹⁰⁴ See, e.g., WALKER, *supra* note 23, §§ 599, 601 (“The primary method [of finding damages] consists in using the plaintiff’s established royalty as a the measure of those damages.”); CHISUM, *supra* note 64, § 20.02[2] (citing *Clark v. Wooster*, 119 U.S. 322, 326 (1886) (“It is a general rule in patent causes, that established license fees are the best measure of damages that can be used.”)).

¹⁰⁵ Patent Act of 1793, ch. 11, 1 Stat. 318 § 5 (1793), reprinted in WALTERSCHEID, *supra* note 31, at 481 app. VIII.

¹⁰⁶ ROBINSON, *supra* note 18, § 1056.

¹⁰⁷ CHISUM, *supra* note 64, § 20.06[2].

¹⁰⁸ *Rude v. Westcott*, 130 U.S. 152 (1889).

¹⁰⁹ WALKER, *supra* note 23, §§ 601–06.

¹¹⁰ *Id.* § 601.

The unanimous opinion of twelve average men is thought to be most reliable criterion of guilt or innocence; but no reasonable person [say the same] of the opinion of any one of the twelve. In like manner, the unanimous acquiescence of a considerable number of men in a particular royalty, is evidence of substantial justice, while the acquiescence of one only of the same men would have no convincing force.¹¹¹

Additionally, the patentee could not establish a royalty by threatening litigation against a large number of persons because such practice artificially raised the price.¹¹² The royalty must have been actually paid to prevent collusion between patentees and licensees against third parties.¹¹³ Furthermore, there must have been a uniform royalty in the same geographical area.¹¹⁴

The plaintiff has available many defenses, as well, if he thought a royalty would be too low. He, too, could argue that established royalties in other geographic areas were inapplicable, with the difference being that the defendant was infringing in a market that the patentee intended to keep for himself.¹¹⁵ He might also argue that the patent had increased in value since the royalty was established, and that the patent was valued low because of inability to produce or lack of commercial value.¹¹⁶

Both plaintiff and defendant have several common defenses to the established royalty. An important consideration (especially in context of reasonable royalties that are given today)¹¹⁷ is that a settlement agreement for past infringement “[did] not establish *nor*

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ *Id.* The requirement of actually paid is of evidentiary importance. An oath from licensees works for this requirement. *See id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.* § 602.

¹¹⁶ *Id.*

¹¹⁷ *See infra* Part V.A.

tend to establish a royalty.”¹¹⁸ The other defenses to be made against an established royalty are: a royalty for purchase price of the patented invention may be too high or low for use of the device,¹¹⁹ a royalty to make and use cannot be used to establish the royalty to make and sell,¹²⁰ and the extent the patented invention is used in the other royalties must be factored in.¹²¹ These defenses, collectively, are all grounds that will, inarguably and absolutely, undermine the major premise of using established royalties in the first place—that the established royalty was the value that the patentee has fixed for all to enjoy.

It is not difficult to believe, then, that the standard set by *Rude* is rarely met.¹²² The reason that established royalties are not often the measure of damages is not because of *Rude* or because of the numerous defenses, but rather because of the truth and persuasiveness of the reasons behind the defenses. If it is important that damages be calculated precisely, established royalties should not be the measure of damages when the plaintiff has not set the value of the patent in that manner. The value of the patented invention is its market exclusivity. When a patentee chooses to take advantage of the market by making the invention, the value of the patent cannot be realized in licenses. Accordingly, licensees do not want to pay a uniform patent rate because each granted license has diminishing returns to the licensee as the exclusivity of the market share is eroded. Therefore, the established royalty rarely exists, not because of a difficult Supreme Court rule or the numerous defenses against such a rule, but because the patent’s

¹¹⁸ WALKER, *supra* note 23, § 603 (emphasis added); *see Rude v. Westcott*, 130 U.S. 152, 164 (1889).

¹¹⁹ WALKER, *supra* note 23, § 604.

¹²⁰ *Id.* § 605.

¹²¹ *Id.* § 606.

¹²² CHISUM, *supra* note 64, § 20.06[2]; *Rude v. Westcott*, 130 U.S. 152 (1889). The *Rude* Court remanded the case for nominal damages rather than an established royalty. *Rude*, 130 U.S. at 167.

value is most often its exclusive nature, which is not realized in the grant of non-exclusive licenses.¹²³

2. *Lost Profits*

Lost profits are the best monetary compensation at law for the lost value of the patent due to infringement. Such compensation is aimed to remedy the harm to the patentee when the patentee:

Is able to supply the whole demand for the article it covers, and where the whole demand would go to him, in the absence of infringement; the losses inflicted upon him by an infringer, may consist in reducing his sales, or in reducing his prices, or in both those injurious ways.¹²⁴

In the 19th century, there were several different manners in which a defendant could prove lost profits, either directly or indirectly.¹²⁵ A plaintiff could directly show the sales and prices before the injury and the resulting effect done by the defendant.¹²⁶ In such cases, it did not matter exactly how infringement eroded the plaintiff's profits, only that the harm came by way of the infringement.¹²⁷ Additionally, price erosion, a decrease in demand and resulting sale of the product, or harm to reputation of the patentee or the patentee products, would all constitute direct evidence of lost profits.¹²⁸ Though defendant's profits could not be considered *direct* evidence of the plaintiff's harm, it could be used *indirectly*.¹²⁹

¹²³ In fact, an established royalty would preclude the patentee from claiming lost profits. See *Yale Lock Co. v. Sargent*, 117 U.S. 536, 552 (1885).

¹²⁴ WALKER, *supra* note 23, § 607.

¹²⁵ See ROBINSON, *supra* note 18, §§ 1061–1064.

¹²⁶ *Id.* § 1061.

¹²⁷ *See id.*

¹²⁸ *Id.*

¹²⁹ *Id.* § 1062 (“There is no presumption, either of law or fact, that the plaintiff has lost all that the defendant has gained, or that the defendant's advantage is equal to the plaintiff's loss. But the pecuniary benefit which the defendant has

However, *Seymour v. McCormick*¹³⁰ curbed the use of that indirect evidence. Cyrus McCormick invented a reaping machine used to harvest wheat.¹³¹ Having patented a first version in 1834, he sought a new patent in 1845 for relatively small improvements.¹³² The improvements in the latter patent were a seat and an improved reel, both of which were relatively inexpensive to make.¹³³ The district court judge instructed that the profit for the old machine disclosed in the then-expired 1834 patent could be recovered, and thus the jury awarded both the profit of the use of the old machines and the price of the improvement.¹³⁴

Without doubt the trial court instructed the jury incorrectly, as the effect of his instructions amounted to a renewal of the 1834 patent.¹³⁵ The Court's dicta, however, is riddled with unfortunate errors that would do great harm to the future of patent remedies. First, the Court incorrectly stated that the jury could increase damages if the infringement was "wanton or malicious" to punish the defendant, when that power had only, and ever, resided with the Court.¹³⁶ Pursuant to that, the categorical dismissal of treble damages pre-1836 influenced how enhanced damages would be applied in the future.¹³⁷ Second, the Court suggested established

derived from the unlawful use of the invention . . . the jury may infer the amount by which the plaintiff's sales and prices have been reduced through the infringement."); *see also* Philp et. al. v. Nock 84 U.S. (17 Wall.) 460, 462 (1873). Routinely the jury instructions highlighted the difference. *See, e.g.*, *McComb v. Brodie*, 15 F. Cas. 1290, 1294–95 (C.C.D. La. 1872).

¹³⁰ 57 U.S. (16 How.) 480 (1853).

¹³¹ *Id.* at 480.

¹³² *Id.*

¹³³ *Id.* at 480–81.

¹³⁴ *Id.* at 481.

¹³⁵ *Id.* at 482.

¹³⁶ *Id.* at 489; *see* ROBINSON, *supra* note 18, § 1069 ("[Increasing the damage award] is distinctively the province of the court, and confers no authority upon the jury, on any ground, to transcend the limits of the actual damages which have been established by the evidence."); *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601).

¹³⁷ *See Seymour*, 57 U.S. at 488; *infra* Part IV.A.3.

royalties were favorable,¹³⁸ even though the reasons for favoring established royalties were outdated with the passage of the 1836 statute.¹³⁹ As a result, lost profits were confined to instances when the patent covered a new machine and therefore infringement “would destroy the whole value of the monopoly,”¹⁴⁰ setting a legal standard that must be met before a jury could award lost profits.

Again, the holding in *Seymour* was not controversial, as it cannot be said that small improvements in a train engine would entitle “whole profits arising from skill, labor, and capital” of the entire railroad industry.¹⁴¹ But the Court, while noting that in some instances the jury could award a fraction of the profits based on the fraction of the improvement, only allowed this when there was evidence for such a fraction.¹⁴² Otherwise, a patent for an improvement in an old machine was confined to an established royalty.

Seymour's detrimental effect on lost profits was evident in the several cases that involved William Burdell and Augustus Denig.¹⁴³ The case began in 1865 when the plaintiff, Burdell, assignee of a patent for a sewing machine, sued Denig and William Lee for damages at law for patent infringement.¹⁴⁴ Burdell argued for lost profits because the defendants infringed his close monopoly in the county of his residence.¹⁴⁵ Burdell further proved

¹³⁸ See *Seymour*, 57 U.S. at 490 (“It is only where, from the peculiar circumstances of the case, no other rule can be found, that the defendant's profits become the criterion of the plaintiff's loss.”).

¹³⁹ See text accompanying notes 85–88 (established royalties preferred because of the mandatory treble damages).

¹⁴⁰ *Seymour*, 57 U.S. at 489.

¹⁴¹ *Id.* at 490.

¹⁴² *Id.*; cf. text accompanying notes 78–81 (damages must be actually proved because of the mandatory treble damages).

¹⁴³ *Burdell v. Denig*, 4 F. Cas. 695 (S.D. Ohio 1865) (No. 2142), *vacated*, *Burdell v. Denig*, 92 U.S. 716 (1875).

¹⁴⁴ *Burdell v. Denig*, 4 F. Cas. at 697.

¹⁴⁵ *Id.*

that his patent mentioned a particular sewing machine, the Singer model, which the defendants had used to make their profits.¹⁴⁶ Burdell's patent covered a feeding machine to be used with the Singer model.¹⁴⁷ These facts convinced the jury to award him the profits it thought the plaintiff *might have gained* if not for infringement, but the circuit court overturned the jury verdict because the Singer sewing machine "had nothing whatever to do" with the damages that the plaintiff suffered.¹⁴⁸ The Court cited *Seymour*, noting the small improvement in the railroad engine does not unfairly entitle the patentee to the "entire amount of profits made by the railroad."¹⁴⁹ Thus the effect of *Seymour*: the jury's conclusion that the patented mechanism was not a mere small improvement (akin to the facts in *Seymour*) but one of a substantial nature, was thrown out because the court concluded that the defendant's profits could not be used as indirect evidence of the plaintiff's lost profits. Burdell would plead the same question in subsequent proceedings, but to no avail.¹⁵⁰

Seymour's dicta eroded lost profits, a plaintiff's most valuable remedy in a court of law. Ironically, *Seymour*'s dicta did not stop the nightmare scenario of a patentee gaining entire profits of a business for small improvements. It only prevented that nightmare scenario in actions at law, not bills of equity.¹⁵¹

Today, the use of indirect evidence to prove lost profits was reinstated with the *Panduit* case and later *Rite-Hite*.¹⁵² A plaintiff

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*; *Burdell v. Denig*, 92 U.S. 716, 722 (1875).

¹⁴⁸ *Burdell*, 4 F. Cas. at 698.

¹⁴⁹ *Id.* at 699.

¹⁵⁰ *Burdell v. Denig*, 92 U.S. at 722.

¹⁵¹ *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 620 (1912) ("On established principles of equity, and on the plainest principles of justice, the guilty trustee cannot take advantage of his own wrong. The fact that he may lose something of his own is a misfortune which he has brought upon himself. . . .").

¹⁵² *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995); *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

must prove that all the infringing sales would have been made by the plaintiff if not for infringement, quantify the profits displaced, and demonstrate that the plaintiff was able to make those sales.¹⁵³ Though it may now be proved indirectly, such indirect evidence is controversial.¹⁵⁴ Additionally, lost profits are sometimes considered in calculation of a reasonable royalty, which is also controversial.¹⁵⁵ It is this indeterminate calculation that is at the heart of the controversy, both past and present.

3. *Application of Treble Damages after 1836*

When discussing treble damages, this article has thus far focused on the mandatory nature of damages from 1793 to 1836.¹⁵⁶ To reiterate, the treble damages were placed so as to ensure adequate compensation to patentees,¹⁵⁷ many of whom did not have access to equity.¹⁵⁸ The 1836 statute no longer mandated treble provisions,¹⁵⁹ as patentees had more than enough access to remedies after the 1819 act allowed patentees access to equitable remedies in federal court regardless of the citizenship of the parties.¹⁶⁰ The statutory language, which remains fundamentally the same today, gives district courts sole discretion to enhance damages.¹⁶¹ The application of enhanced damages after 1836 will be the focus of this section.

Courts were quick to limit enhanced damages to particular facts that focused on the infringer's conduct. This was a natural

¹⁵³ *Panduit*, 575 F.2d at 1156.

¹⁵⁴ See Amy L. Landers, *Liquid Patents*, 84 DENV. U. L. REV. 199, 256 (2006).

¹⁵⁵ See Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655, 667–68 (2009).

¹⁵⁶ *Supra* Part III.A, B.1.

¹⁵⁷ See *supra* note 106.

¹⁵⁸ *Supra* Part III.B.1.

¹⁵⁹ Patent Act of 1836, 5 Stat. 117 § 14, reprinted in WALTERSCHEID, *supra* note 31, at 505 app. XV.

¹⁶⁰ Patent Act of 1819 Act, 3 Stat. 481, reprinted in WALTERSCHEID, *supra* note 35, at 491 app. XII.

¹⁶¹ See 35 U.S.C. § 284 (2012).

reaction to the principle critique of mandatory treble damages—that it was unjust to penalize an “innocent” infringer.¹⁶² Courts, however, struggled to determine which particular facts warrant enhanced damages.

One court contemplated that many conditions must be met: that the invention had to be valuable, the infringement wanton, the litigation expensive, and the verdict wholly inadequate.¹⁶³ Some judges required that only the infringement be wanton.¹⁶⁴ These courts err to the extent that these cases interpreted *Seymour v. McCormick* as requiring willful or wanton infringement rather than the four-element test.¹⁶⁵ The passage often cited states:

Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant, who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust. For there is no good reason why taking a man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages.¹⁶⁶

¹⁶² *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853) (“Experience had shown the very great injustice of a horizontal rule equally affecting all cases without regard to their particular merits.”).

¹⁶³ *Schwarzel v. Holenshade*, 21 F. Cas. 772, 773 (D.C.S.D. Ohio 1866) (No. 12,506).

¹⁶⁴ *See Brodie v. Ophir Silver Min. Co.*, 4 F. Cas. 202, 204 (C.C.D. Cal. 1867) (No. 1919) (citing *Seymour*, 57 U.S. at 488).

¹⁶⁵ *See, e.g., In re Seagate*, 497 F.3d 1360, 1368 (Fed. Cir. 2007). *In re Seagate* also cited a Supreme Court case which asserted that the treble damages provision was linked to willful infringement, but that assertion was mere dicta and did not cite any support. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964).

¹⁶⁶ *Seymour*, 57 U.S. at 488–89.

This passage says nothing of infringers squarely in the middle of innocent infringers and wanton pirates. The Supreme Court addressed this question in later cases and did not limit the power of the district courts to use their discretion. In *Clark v. Wooster* (1886), the Court suggested that enhanced damages could be used for compensatory purposes.¹⁶⁷ Again, in *Topliff v. Topliff*, the Court seemed to suggest it would not disagree with the district court, one way or another, in the district court's use of enhanced damages.¹⁶⁸

Indeed, in the 19th century there were at least two such cases that made considerations other than willfulness of the infringer. In *Russell v. Place*, the court thought it was proper to enhance damages if the jury did not compensate the plaintiff enough against any willful infringer.¹⁶⁹ The court suggested that willful infringers are not limited to “wanton or malicious pirate[s]”,¹⁷⁰ but those who made an “erroneous estimate of the plaintiff's rights.”¹⁷¹ In *Peek v. Frame*, the court considered price erosion and the approximated lost profits in a decision to increase damages.¹⁷²

Willfulness became an important consideration only when district courts balanced the behavior of the parties. A patentee who did not practice his invention was not allowed enhanced damages.¹⁷³ Good faith was enough to avoid enhanced damages, and in one case lowered the singular damage proven by the plaintiff.¹⁷⁴ These considerations are indicative of law on damages

¹⁶⁷ *Clark v. Wooster*, 119 U.S. (16 How.) 322, 326 (1886) (“There may be damages beyond this . . . but these are more properly the subjects of allowance by the court under the authority given to it to increase damages.”); CHISUM, *supra* note 64, § 20.03[4][b][ii].

¹⁶⁸ See 145 U.S. 156, 174 (1892); CHISUM, *supra* note 64, § 20.03[4][b][ii].

¹⁶⁹ 21 F. Cas. 57, 58 (C.C.N.D.N.Y. 1871) (No. 12,161); see also ROBINSON, *supra* note 21, §1069 n. 3.

¹⁷⁰ See *Seymour*, 57 U.S. at 489.

¹⁷¹ *Russell*, 21 F. Cas. at 58.

¹⁷² 19 F. Cas. 97, 98 (C.C.S.D.N.Y. 1871) (No. 10,903).

¹⁷³ ROBINSON, *supra* note 23, § 1069.

¹⁷⁴ *Hogg v. Emerson*, 52 U.S. (11 How.) 587, 607 (1850).

in general. As one judge recognized, when charging the jury to determine damages:

[T]he question of damages being one of compensation, of which it is always, in such cases, difficult to fix a standard, much must depend upon the discretion of the jury, who may sometimes properly take the conduct and motives of a defendant into consideration.¹⁷⁵

Just as the jury might take into account the parties' behavior, judges will do the same when charged with a power to increase damages.

There are two problems, however, with balancing party equities, both made apparent by the current state of the law today. First, the original purpose of the treble provision, which was to provide adequate remedy for those who try their case at law rather than equity, is lost when behavior is the sole criteria.¹⁷⁶ As of this publication, courts may no longer use enhanced damages to better compensate patentees,¹⁷⁷ and therefore must rely on equity in some way to be fully compensated. Willful infringement is required even though it has never been a statutory requirement for enhanced damages.¹⁷⁸

The second problem is that the Court of Appeals for the Federal Circuit, which has appellate jurisdiction over all patent cases,¹⁷⁹ has struggled to create standards that allow district courts to apply enhanced damages consistently. *In re Seagate* articulates

¹⁷⁵ Parker v. Hulme, 18 F. Cas. 1138, 1144 (C.C.E.D. Pa. 1849) (No. 10,740).

¹⁷⁶ See *In re Seagate Tech.*, 497 F.3d 1360, 1378–80 (Fed. Cir. 2007) (Gajarsa, J., concurring) (describing when a district court might use enhanced damages for remedial purposes).

¹⁷⁷ *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996).

¹⁷⁸ See *Seagate*, 497 F.3d at 1377 (Gajarsa, J., concurring).

¹⁷⁹ 28 U.S.C. § 1295(a)(4)(A) (2012).

the current standard, which is “objective recklessness.”¹⁸⁰ This standard brings with it a certain consistency (in a way) but has effectively discouraged the exercise of the court’s discretion in awarding enhanced damages. The Federal Circuit was persuaded by Supreme Court precedent unrelated to patent law,¹⁸¹ without accounting for the history of the patent statute.¹⁸²

The current test for enhanced damages cannot be correct when one considers how attorney fees are awarded. Attorney fees in patent suits may be granted in “exceptional cases,” language that is not present in the damages provision.¹⁸³ Despite the differences in language, the Federal Circuit has required essentially the same test.¹⁸⁴ However, two Supreme Court decisions in 2014 have made it easier to win attorney fees.¹⁸⁵ If “objective recklessness” is a harsh standard for attorney fees, then it is a necessary conclusion

¹⁸⁰ See *Seagate*, 497 F.3d at 1371 (opinion of the court) (raising the threshold for enhanced damages from what was “akin to negligence” to a heightened “objective recklessness” standard).

¹⁸¹ *Id.* at 1370 (citing *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007) (interpreting the Fair Credit Reporting Act)).

¹⁸² *Id.* at 1377–78 (Gajarsa, J., concurring) (recounting the history of the treble damages provision and noting that “actual damages provable at law—though not ‘inadequate’ in the equitable sense—could nevertheless be less than sufficient to compensate the patentee. In such a case, a discretionary enhancement of damages would be appropriate for entirely remedial reasons, irrespective of the defendant’s state of mind.”); WALKER, *supra* note 23, § 613 (“Increased damages may properly be awarded by a Court, where it necessary . . . to prevent a defendant infringer from profiting from his own wrong, whether that wrong was intentional or was unwitting.”).

¹⁸³ 35 U.S.C. § 285 (2012) (attorney fees); *cf. id.* § 284 (damages).

¹⁸⁴ See *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1376–77 (Fed. Cir. 2011) (noting that the objective recklessness standard applied for both § 284 and § 285, once again only allowing an award of attorney fees “when there has been some material inappropriate conduct related to the matter in litigation”).

¹⁸⁵ *Octane Fitness, LLC v. Icon Health & Fitness*, 134 S. Ct. 1749, 1758 (2014) (objective recklessness standard rejected as it “would appear to render § 285 largely superfluous”); *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 (2014) (award of attorney fees should be reviewed for abuse of discretion). Both of these decisions were issued on April 29, 2014. See *Octane Fitness*, 134 S. Ct. 1749; *Highmark*, 134 S. Ct. 1744.

that it is too harsh a standard for enhanced damages. It is on this matter that Judge O'Malley of the Federal Circuit has called for reconsideration of the standard for enhanced damages in light of recent Supreme Court decisions.¹⁸⁶

B. Equity in Patent Law

There were two forms of equitable remedies available to patentees in the 19th century: injunction and accounting of profits. The substantive¹⁸⁷ and procedural¹⁸⁸ rules of equitable remedies are not from any statute, patent or otherwise. Rather, they hail from the traditions of the English Court of Chancery, which were incorporated in the United States by way of the Federal Judiciary Act of 1789.¹⁸⁹ These procedural rules were largely discarded with the merger of law and equity in the 1938 Federal Rules of Civil Procedure,¹⁹⁰ but the substantive rules have remained unaffected by a recent reorganization of the Judiciary Act.¹⁹¹ This section will first discuss the history and application of injunctions, followed by the grant of profits by equitable accounting.

¹⁸⁶ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1384–85 (Fed. Cir. 2014).

¹⁸⁷ *Robinson v. Campbell*, 16 U.S. (3 Wheat.) 212, 221–22 (1818) (substantive equitable rules inherited from England).

¹⁸⁸ *Hayburn's Case*, 2 U.S. (2 Dall.) 409, 413–14 (1792) (“The Court considers the practice of the Courts of King's Bench and Chancery in England as affording outlines for the practice of this Court, and that it will from time to time make such alterations therein as circumstances may render necessary.”), available at <https://supreme.justia.com/cases/federal/us/2/409/case.html>.

¹⁸⁹ H. Tomás Gómez-Arostegui, *Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases*, 78 *FORDHAM L. REV.* 1661, 1691 (2010).

¹⁹⁰ *Id.* at 1692; *Stainback v. Mo Hock Ke Lok Po*, 336 U.S. 368, 382 n.26 (1949) (“Notwithstanding the fusion of law and equity by the Rules of Civil Procedure, the substantive principles of Courts of Chancery remain unaffected.”).

¹⁹¹ *See* Gómez-Arostegui, *supra* note 194, at 1692.

1. Injunctions

A patentee's best remedy for infringement is an injunction, as this preserves market exclusivity.¹⁹² Conceptually, instituting preliminary injunctions is very different than permanent injunctions because the preliminary injunction is granted without full knowledge of the merits of the controversy, whereas the permanent injunction is meant to stop activity that is decidedly illegal.¹⁹³ However, the evolution of preliminary and permanent injunctions has been identical, albeit not contemporaneous.

The English practice of instituting a preliminary injunction to accompany the suit at law¹⁹⁴ was inherited in kind by the United States.¹⁹⁵ In the early 19th century, the preliminary injunction was granted on the same conditions as in England—that is, if the patentee signed an affidavit¹⁹⁶ and there were no “glaring defects” to the patent.¹⁹⁷ The only apparent difference between the applications of these injunctions was the frequency of the applications filed by patentees.¹⁹⁸ Phillips, in his 1830 treatise on patent law, theorized that patentees were satisfied with remedies at law (apparently impressed with the treble damages provision),¹⁹⁹ but one contemporary treatise points out that equity was not readily available.²⁰⁰ The latter should be more convincing, considering that

¹⁹² ROBINSON, *supra* note 23, § 1168 (“The exercise of its preventive jurisdiction . . . is the most potent and most valuable of all methods provided by the law for the protection of the owner of a patent.”).

¹⁹³ *Id.* § 1169.

¹⁹⁴ *See supra* text accompanying note 26.

¹⁹⁵ PHILLIPS, *supra* note 42, at 453–54 (citing, as examples, Justice Washington's opinions in *Ogle v. Ege*, 18 F. Cas. 619 (C.C.D. Pa.1826) (No. 10,462), *Isaacs v. Cooper*, 13 F. Cas. 153 (C.C.D. Pa. 1821) (No. 7,096)).

¹⁹⁶ PHILLIPS, *supra* note 42, at 454.

¹⁹⁷ *Isaacs*, 13 F. Cas. At 154. As to defects to the patent, the older the patent, the more it was presumed valid. *See Sullivan v. Redfield*, 23 F. Cas. 357 (C.C.D.N.Y. 1825) (No. 13,597).

¹⁹⁸ PHILLIPS, *supra* note 42, at 454.

¹⁹⁹ *Id.*; *see Patent Act of 1800*, 2 Stat. 37, § 3, *reprinted in WALTERSCHEID*, *supra* note 35, at 489 app. XI.

²⁰⁰ CHISUM, *supra* note 67, § 20.04[1][a][i].

the “most potent” remedy for a patentee is an injunction²⁰¹ and that damage awards were often never proved.²⁰²

As preliminary injunctions became more accessible after 1819,²⁰³ the requirements to obtain them became more stringent. Validity of the patent was no longer the sole consideration.²⁰⁴ A preliminary injunction was granted only after considering the traditional considerations of the balance of harms to the plaintiff,²⁰⁵ the behavior of the parties,²⁰⁶ and the public interest.²⁰⁷ In one case, there was no harm to a plaintiff’s exclusive market because the invention was only for a small improvement.²⁰⁸ In *Bliss v. City of Brooklyn*, an injunction was denied because the invention was necessary for public use in case of fires; this was despite certainty of validity and infringement.²⁰⁹ Still, Robinson in his 1890 treatise found the principal question to be the validity of the patent when granting injunctions:

Though it may work hardship to the defendant or other parties, and though the defendant offers such security against future losses as the plaintiff may require it, the infringement will not be permitted to continue to the manifest and injurious violation of the patent [The other considerations] may avail

²⁰¹ See ROBINSON, *supra* note 23, §1168.

²⁰² See *supra* Part III.A.

²⁰³ Patent Act of 1819, 3 Stat. 481, reprinted in WALTERSCHEID, *supra* note 35, at 491 app. XII.

²⁰⁴ Although, it is still a prominent consideration. As an illustrative example, Robinson’s treatise spends seventeen sections discussing the different types of evidence that would show a patent valid. See ROBINSON *supra* note 21, § 1173–90.

²⁰⁵ *Id.* § 1193.

²⁰⁶ *Id.* § 1194–97 (preliminary injunctions not granted in cases of estoppel, laches, improper purpose, or the defendant’s good faith).

²⁰⁷ *Id.* § 1200.

²⁰⁸ *Batten v. Silliman*, 2 F. Cas. 1028, 1030 (C.C.E.D. Pa. 1855) (No. 1106).

²⁰⁹ *Bliss v. City of Brooklyn*, 3 F. Cas. 706, 707 (C.C.E.D.N.Y. 1871) (No. 1544).

the [defendant] where principal questions are in doubt . . . but where the plaintiff's case is clear, and his injury imminent, the court will never hesitate to grant the desired relief.²¹⁰

Yet, before this soliloquy, Robinson acknowledges the importance of other equitable considerations.²¹¹ Preliminary injunctions in all areas of the law, generally, have been granted inconsistently.²¹² But this is a necessary evil, because preliminary injunctions are of such importance that certainty on the merits is not the only consideration. The interests of justice and fairness are also considered, and therefore should be within the discretion of the district court when considering equitable remedies.²¹³

The evolution of permanent injunctions to consider “outside” factors in patent remedies mirrors that of preliminary injunctions, but at a substantially slower rate. As courts slowed the pace of granting preliminary injunctions out of caution,²¹⁴ there was no reason for hesitation in the case of permanent injunctions. When a patentee petitioned the court for a permanent injunction, validity and infringement were already established. It was presumed that injunctions should be granted as a matter of course.²¹⁵ Other than inequitable conduct or perhaps a substantial social harm, no equitable principles were weighed against granting the

²¹⁰ ROBINSON, *supra* note 18, § 1201 (internal citations omitted).

²¹¹ *See id.*

²¹² *See generally* John Leubsdorf, *The Standard for Preliminary Injunctions*, 91 HARV. L. REV. 525 (1978).

²¹³ *See Rice & Adams Corp v. Lathrop*, 278 U.S. 509, 514 (1929) (the district court decision to grant or deny the injunction was in its discretion); *Mayview Corp. v. Rodstein*, 480 F.2d 714, 715 (9th Cir. 1973) (“[O]nce validity is established . . . and infringement shown, general equitable principles apply to the remaining prerequisites to an injunction.”).

²¹⁴ *See* CHISUM, *supra* note 64, § 20.04[1][a][iii] (contemporary rule is that preliminary injunctions should only be issued on strong evidence of both validity and infringement).

²¹⁵ ROBINSON, *supra* note 18, § 1170.

injunction.²¹⁶ Whether these injunctions were granted with no consideration made of the remedy available at law,²¹⁷ or granted because monetary remedies were inherently inadequate,²¹⁸ it was clear that district courts almost always granted the patentee a permanent injunction.²¹⁹ In 2006, the Supreme Court unanimously held that traditional equitable principles should be considered when granting an injunction,²²⁰ thus the substantive rules for granting permanent injunctions are now substantially the same as for preliminary injunctions.²²¹

2. Accounting

Accounting is an equitable remedy in which the defendant pays the plaintiff for profits that the defendant had unlawfully acquired.²²² The remedy is available when the defendant had legal rights of something that should have belonged to the plaintiff,²²³ and therefore the defendant is made to pay whatever gains it made through use of the plaintiff's property back to the plaintiff.

²¹⁶ Gómez-Arostegui, *supra* note 189, at 1665–66.

²¹⁷ See *Livingston v. Van Ingen*, 9 Johns. 507, 536 (N.Y. 1812) (No. 8420) *overruled on unrelated grounds by* *N. River Steamboat Co. v. Livingston*, 1825 WL 1859 (N.Y. 1825) (“An injunction is an appropriate remedy for a violation of all statute rights. They are granted of course.”); ROBINSON, *supra* note 17, § 1220 (“[Injunctions are] granted irrespective of his right to profits or damages or any other form of relief”); Gómez-Arostegui, *supra* note 190, at 1665.

²¹⁸ See *eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring) (“From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. This ‘long tradition of equity practice’ is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes—a difficulty that often implicates the first two factors of the traditional four-factor test.”); see also DAN B. DOBBS, 1 LAW OF REMEDIES 58 (2d ed. 1993) (asserting that legal rights have traditionally taken into account remedies available at law).

²¹⁹ Gómez-Arostegui, *supra* note 190, at 1665.

²²⁰ *eBay*, 547 U.S. at 391 (opinion of the Court).

²²¹ See Gómez-Arostegui, *supra* note 190, at 1665.

²²² See DOBBS, *supra* note 219, at 588.

²²³ *Id.* at 587.

Accounting is, essentially, a disgorgement of the defendant's profits.

Before accounting was precluded by a statute change in 1948, it was the most potent remedy for monetary awards, either in law or in equity. The remedy became unacceptable in patent law as it became procedurally untenable.

For example, a farmer harvests crops with a machine, but the machine was invented and patented by another. The farmer used this machine without permission of the inventor, and therefore infringed.²²⁴ Although the farmer, who read about the patent and made the machine based on that knowledge, has legal title to the machine itself, the concept of the machine belongs to the inventor. Therefore, the title to the machine should have belonged to the inventor, and the farmer used the invention in a "constructive trust."²²⁵ The profits or income from use of the machine therefore belong to the inventor.²²⁶ Unlike lost profits, the inventor is entitled to the profits even if he could not possibly exploit the market himself.²²⁷

The Patent Act of 1819 conferred jurisdiction to federal courts sitting in equity to exercise the remedy of accounting in all patent cases.²²⁸ There were three obstacles the plaintiff had to overcome to receive an accounting. First, because courts of equity did not traditionally decide questions of fact, accounting required complex procedural maneuvers.²²⁹ The equity court sometimes acted as a

²²⁴ See 35 U.S.C. § 271(a) (use of a patented machine constitutes infringement).

²²⁵ See DOBBS, *supra* note 218, at 587.

²²⁶ *Id.* at 588.

²²⁷ ROBINSON, *supra* note 18, § 1136 ("[Accounting includes] all the benefits which the defendant has derived from the invention, without reference to the amount which the plaintiff might otherwise have received.").

²²⁸ Patent Act of 1819, 3 Stat. 481, *reprinted in* WALTERSCHEID, *supra* note 30, at 491 app. XII.

²²⁹ See, e.g., *Van Hook v. Pendleton*, 28 F. Cas. 998, 999–1000 (C.C.S.D. N.Y. 1848) (discussing the equitable rules in creating a factual record).

court of law and paneled a jury,²³⁰ or it would require the plaintiff to file a complaint in law as well as equity.²³¹ The second obstacle was that, in situations where the infringer made no profits from the infringement, the patentee had no remedy available.²³² Finally, a bill for accounting required the patentee to file for an injunction as well,²³³ because the infringer was not literally a trustee.²³⁴ If an injunction was not available, say, because the patent had expired,²³⁵ then equitable accounting was closed off to the patentee—otherwise plaintiffs needed only make a general prayer of relief in equity.²³⁶

These limitations, however, were minor compared to the requirements to receive damages at law²³⁷ for two reasons: first, the obstacles to equitable remedies were applied inconsistently;²³⁸ second, the complex procedural maneuvers were substantially reduced in the 1875 patent act when courts in equity were expressly empowered to empanel a jury in patent cases,²³⁹ and they were fully relieved when law and equity merged in 1938.²⁴⁰ Additionally, the 1870 patent act allowed a patentee to recover

²³⁰ This is the “feigned issue.” See CHISUM, *supra* note 63, § 20.02[1][c].

²³¹ *Id.*

²³² *City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126, 139 (1877) (“[T]hough the defendant's general business be ever so profitable, if the use of the invention has not contributed to the profits, none can be recovered.”).

²³³ *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 194, 215–216 (1881).

²³⁴ *Id.* at 214.

²³⁵ See, e.g., *Parks v. Booth*, 102 U.S. 96, 107 (1880) (denying injunction because patent had expired).

²³⁶ *Stevens v. Gladding*, 58 U.S. (17 How.) 447, 453 (1854).

²³⁷ For the difficulties of winning an award for legal damage, see *supra* Part III.A.

²³⁸ The *Root* opinion presents indirect evidence that the case law was inconsistent. See *Root*, 105 U.S. at 191 (“An examination of the practice and opinions of the Circuit Courts undoubtedly shows much diversity, incapable of reconciliation . . .”).

²³⁹ Act of Feb. 16, 1875, ch. 77, § 2, 18 Stat. 315, 316.

²⁴⁰ See *Ross v. Bernhard*, 396 U.S. 531, 539–540 (1970) (“Purely procedural impediments to the presentation of any issue by any party, based on the difference between law and equity, was destroyed.”).

legal damages (royalties or lost profits) if equitable accounting proved insufficient.²⁴¹ Finally, the requirement that an accounting action be accompanied by an infringement action was relaxed.²⁴²

Still, there were several problems with accounting. The process was—and still is—excruciatingly slow,²⁴³ taking years to determine damages.²⁴⁴ Depending on which party could benefit from dragging out the proceeding, a plaintiff or defendant could use the delay as leverage for a settlement.²⁴⁵ There were substantial questions of proof and apportionment. Courts struggled to determine who had the burden of proof, and how to correctly apportion the profits.²⁴⁶ Such problems occurred because the infringer was not, in the tradition of accounting, a trustee for an account, and therefore accounting was an imperfect test for patent remedies.²⁴⁷ Collectively, these problems too often resulted in a “denial of justice because of delay of justice.”²⁴⁸

Courts today interpret the passage of the 1946 act as disallowing accounting procedures, and therefore, a plaintiff

²⁴¹ Act of July 8, 1870, Ch. 230, § 55, 16 Stat. 198, 206 (1870); *Birdsall v. Coolidge*, 93 U.S. 64, 69 (1876) (“Gains and profits are still the proper measure of damages in equity suits, except in cases where the injury sustained by the infringement is plainly greater . . .”). Note, however, that the inverse was not true—an action of law could not recover the infringer’s profits by way of accounting. *E.g.*, *Coupe v. Royer*, 155 U.S. 565, 582 (1895).

²⁴² See *Clark v. Wooster*, 119 U.S. 322, 323–25 (1886) (noting equity jurisdiction established though the patent expired just 15 days before the complaint was filed); CHISUM, *supra* note 63, § 20.02[1][e].

²⁴³ Eichengrun, *supra* note 63, at 471.

²⁴⁴ See Vincent P. Tassinari, *Compiled Legislative History of 35 U.S.C. § 284: The Patent Compensation Statute*, 31 UWLA L. REV. 45, 70 (2000).

²⁴⁵ See *id.* at 69–70 (discussing testimony reporting to Congress a case that took twenty years for awards to be granted). Notice that the “delay of justice” does not indicate it favors plaintiffs or defendants. *Id.* at 70.

²⁴⁶ See generally CHISUM, *supra* note 64, § 20.02[3] (describing the “intricacies” of determining the account).

²⁴⁷ Cf. Eichengrun, *supra* note 63, at 477–81 (offering clarity on the burden of proof in traditional accounting when the defendant is a trustee).

²⁴⁸ Tassinari, *supra* note 245, at 70.

cannot recover the profits made by the infringers by accounting.²⁴⁹ However, whether this was Congress's intent is debatable: Congress may have simply put it in the Court's power to award the infringer's profits immediately with a reasonable royalty.²⁵⁰ It was the Supreme Court in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, (1964)²⁵¹ that eliminated the use of accounting.²⁵² However, this particular holding should carry little precedential value. The issue of damages was not before the Court, and the part of the opinion discussing accounting was not part of the majority opinion.²⁵³ Yet, even if *Aro* is unpersuasive, lower courts are likely to avoid accounting when other remedies are available because the accounting would still substantially delay justice.

C. Analysis of Damages and Equity after 1836

Prior to 1836, legal damages were automatically trebled so as to provide adequate compensation because equity was largely unavailable. Courts found it necessary to calculate the damages award precisely because any mistake in the calculation would be trebled. The assumption was that the treble provision was enough to provide adequate compensation without the need to estimate damages.

²⁴⁹ Eric E. Bensen, *Apportionment of Lost Profits in Contemporary Patent Damages Cases*, 10 VA. J. L. & TECH. 8, 27 (2005).

²⁵⁰ *Georgia-Pacific Corp. v. United States Plywood Corp.*, 243 F. Supp. 500, 521–22 (S.D.N.Y. 1965); *see also*, Tassinari, *supra* note 245, at 81 (“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.”). Notice that the report fails to distinguish recovery of lost profits from the infringer's profits.

²⁵¹ 377 U.S. 476, 506-07 (1964) (plurality opinion).

²⁵² Benson, *supra* note 250, at 28.

²⁵³ *Id.*

However, if damages could not be proved by either an established royalty or lost profits, then the plaintiff could only recover nominal damages. Royalties were rarely established because royalties did not realize a patent's true value. Lost profits were unavailable to most patentees unless they created and fostered a new market with their invention. As a result, nominal damages were the singular damages, and trebled nominal damages were still nominal.

The Patent Act of 1836 amended the treble provision from a mandatory calculation to place it within the discretion of the court. Rather than allowing damages to be estimated by the jury, it still required that the singular damages be calculated precisely as before. The lack of compensation at law for many patentees continued after 1836—that is until the advent of the reasonable royalty, discussed in the section below.

While patentees at law were undercompensated, they could find more fertile ground in courts of equity. For established patents, preliminary injunctions were increasingly granted, which placed the patentee in an excellent position for settlement negotiation. Likewise, permanent injunctions were granted as a matter of course. Because equity did not demand the sort of precision in calculation of damages, patentees could even recover substantial monetary damages by way of accounting, such as the entire profit made by the infringer for use of the product. In stark contrast with *Seymour*, a patentee could recover the profits of a defendant even if the defendant's infringement constituted a small improvement for a machine or product. As a result of substantially better remedies, patentees were eager to bring actions in equity.²⁵⁴

But even if the possible award was substantial, receiving a monetary award in equity was impracticable. Accounting was extremely time consuming and often contentious, resulting in

²⁵⁴ *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1567 (Fed. Cir. 1995), *rev'd*, 520 U.S. 17 (1997) (Nies, J., dissenting) (noting that there were virtually no jury cases in patent law after the 1870 amendment).

litigation for damages long after the initial suit—a substantial delay of justice. In 1946, accounting procedures were scratched, but patentees are now offered reasonable royalties as the measure of minimum recovery.

V. REASONABLE ROYALTIES AND ONGOING ROYALTIES

A. *The History of Reasonable Royalties*

Courts increasingly tried to avoid awarding nominal damages in patent suits and instead began to award a reasonable royalty for the past use of the patented invention. The reasonable royalty is markedly different from other legal remedies in that precision is no longer required for this damage to be awarded. It is by far the most prevalent award today.²⁵⁵

Perhaps the first use of the reasonable royalty was in the case of *Hayden v. Suffolk Mfg. Co.*²⁵⁶ The district court instructed that the jury could consider an amount based on a license to a third party and the value that the defendant had derived from use of the invention.²⁵⁷ The Supreme Court affirmed, stating, “There being no established patent or license fee in the case, in order to get at a fair measure of damages, or even an approximation to it, general evidence must necessarily be resorted to.”²⁵⁸

Coupe v. Royer went in a different direction.²⁵⁹ While recognizing that district courts have been inconsistent in the application of damage rules, the Supreme Court held that damage calculations could not be guesswork.²⁶⁰ The case involved a

²⁵⁵ See Chris Barry et. al. *2011 Patent Litigation Study: Patent Litigation Trends As The "America Invents Act" Becomes Law*, PRICEWATERHOUSECOOPERS, at 14 (2011), available at <http://www.aipla.org/resources2/intlip/Documents/Other-International-Events/US-Bar-JPO-Liaison-Council-2012/2011-patent-litigation-study.pdf>.

²⁵⁶ 11 F. Cas. 900 (C.C.D. Mass. 1862).

²⁵⁷ *Id.* at 907.

²⁵⁸ *Suffolk Mfg. Co. v. Hayden*, 70 U.S. (3 Wall.) 315, 319 (1866).

²⁵⁹ 155 U.S. 565 (1895).

²⁶⁰ *Id.* at 581–83.

machine that supposedly improved the quality of leather.²⁶¹ The defendants argued that the machine was useless.²⁶² While the plaintiff testified that the invention increased the price of the hide by three or four dollars, he conceded that the jury should only award one dollar per hide.²⁶³ The jury agreed and accepted the estimation by the plaintiff of the cost.²⁶⁴ The Supreme Court reversed, suggesting that the plaintiff must show what the defendant had gained before it could be used as indirect evidence.²⁶⁵

Courts would later distinguish these two cases. While it is true that the plaintiff in *Hayden*, unlike the plaintiff in *Coupe*, had more proof of the actual value of the patented invention, recall that a single license “does not tend to establish”²⁶⁶ the value of a patent; the rule set by *Rude v. Wescott* in 1889²⁶⁷ should have effectively overturned *Hayden*.

However, the law has moved away from *Rude* and *Coupe*. The Supreme Court in the 1915 decision *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*²⁶⁸ changed the momentum, permanently, in favor of a reasonable royalty. The Court changed its approach, treating infringement as a tort on property interests²⁶⁹ rather than a breach of contract, therefore allowing more flexibility.²⁷⁰ Likewise, two

²⁶¹ *Royer v. Coupe*, 29 F. 358, 368 (C.C.D. Mass. 1886), *rev'd*, *Coupe v. Royer*, 155 U.S. 565 (1895).

²⁶² *Id.* at 372.

²⁶³ *Id.* at 371.

²⁶⁴ *Id.* at 360 (syllabus of the court).

²⁶⁵ *Coupe v. Royer*, 155 U.S. 565, 583 (1895).

²⁶⁶ See text accompanying note 123.

²⁶⁷ 130 U.S. 152, 167 (1889) (damages must be shown by “clear and definitive proof.”).

²⁶⁸ 235 U.S. 641 (1915).

²⁶⁹ *Id.* at 648.

²⁷⁰ See RESTATEMENT (SECOND) OF TORTS § 912 cmt. c (1979) (noting that expert estimations on the value of land can be “far from certain”); see also John C. Jarosz & Michael J. Chapman, *The Hypothetical Negotiation and Reasonable Royalty Damages: The Tail Wagging the Dog*, 16 STAN. TECH. L. REV. 769, 786 (2013) (“[R]easonable royalty damages are a form of *general damages* intended

preceding cases from the circuit courts, both cited in *Dowagiac*,²⁷¹ characterized infringement as tortious conduct.²⁷² Despite *Dowagiac*'s attempt to say that reasonable royalties were consistent with precedent,²⁷³ this case marked a fundamental shift from how patent damages were approached just twenty years earlier.²⁷⁴

Congress tried to codify this change in 1922, amending the statute to provide that “reasonable compensation” would be awarded, with the assistance of experts, in cases where damages could not be determined with “reasonable certainty.”²⁷⁵ The major issue with the 1922 act is that reasonable royalties were available only in actions of equity, not law, which meant that accounting was still necessary.²⁷⁶ The error was reversed in 1946, when the patent statute was amended to state that patentees were entitled “at least to a reasonable royalty,” eliminating nominal damages.²⁷⁷ Reasonable royalties are still the floor today.²⁷⁸

The modern application of reasonable royalties is a hotly debated topic.²⁷⁹ To review briefly, a court uses a legal fiction. To

to compensate for the *tort* of patent infringement. They are not, and were not intended to be, a form of contract damages, retroactive or otherwise.”).

²⁷¹ *Dowagiac*, 235 U.S. at 650.

²⁷² *Bemis Car Box Co. v. J G Brill Co*, 200 F. 749, 754 (3d Cir. 1912); *U.S. Frumentum Co. v. Lauhoff*, 216 F. 610, 615 (1914).

²⁷³ *See Dowagiac*, 235 U.S. at 648.

²⁷⁴ Recall that Justice Story explicitly stated that infringement was not a tort. *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601).

²⁷⁵ Act of February 18, 1922, Pub. L. No. 147, ch. 58, 42 Stat. 389, 393 § 8.

²⁷⁶ *Id.*; *see Tassinari, supra* note 245, at 57 (“When the court enters a decree finding infringement, the practice is to . . . take an accounting . . .”).

²⁷⁷ Act of August 1, 1946, 79 Pub. L. 587, ch. 726, 60 Stat. 778.

²⁷⁸ 35 U.S.C. § 284 (2012).

²⁷⁹ *See, e.g., Mark A. Glick, The Law and Economics of Patent Infringement Damages*, 10 UTAH B.J. 11, 15 (1997) (“One of the most confusing areas of patent damage law is the calculation of a reasonable royalty.”); *Jarosz & Chapman, supra* note 270; *Layne S. Keele, “ResQ”ing Patent Infringement Damages after ResQNet: The Dangers of Litigation Licenses as Evidence of a Reasonable Royalty*, 20 TEX. INTELL. PROP. L.J. 181 (2012).

determine the reasonable royalty, the court must imagine the parties are willing partners negotiating a royalty.²⁸⁰ Expert testimony is accepted, concentrating on the so-called *Georgia-Pacific* factors.²⁸¹ The fifteen factors were not meant to be an exhaustive list,²⁸² but nevertheless, many courts have used them to determine the royalty.²⁸³ The factors are a mix of the same considerations that are used to determine established royalties, lost profits, and accounting.²⁸⁴ The method has been sharply criticized, with critics mostly agreeing that royalties have been estimated too high in light of the entire market value rule, which states that a patentee is entitled to the entire profit of an infringing product if the patented improvement drove the market of the product.²⁸⁵

It is important to note, however, the nature and rationale of reasonable royalty. Precision was the controlling concern in the 19th century. Reasonableness, not precision, is the controlling concern today. Despite valiant efforts in economic models to bring precision to the calculation of reasonable royalties,²⁸⁶ there is no reconciliation between the principles of reasonableness and precision.

²⁸⁰ CHISUM, *supra* note 64, § 20.07[1].

²⁸¹ See *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

²⁸² *Id.*

²⁸³ CHISUM, *supra* note 64, § 20.07[1][d].

²⁸⁴ For example, royalties received by the patentees (the first factor) are viewed much like established royalties, except established royalties would not consider license agreements settled under threat of litigation. *Georgia-Pacific*, 318 F. Supp. at 1120; see generally Keele, *supra* note 279 (discussing the dangers of using settlements in calculation of a reasonable royalty). The attempt by the patentee to keep a close monopoly (factor three) is considered just as in lost profits. *Georgia-Pacific*, 318 F. Supp. at 1120.

²⁸⁵ See, e.g., Lemley, *supra* note 156, at 659.

²⁸⁶ See, e.g., Thomas F. Cotter, *Four Principles for Calculating Reasonable Royalties in Patent Infringement Litigation*, 27 SANTA CLARA COMPUTER & HIGH TECH. L.J. 725 (2011).

B. The (Short) History of Ongoing Royalties

In 2006, *eBay v. MercExchange*,²⁸⁷ overturned the old rule of granting permanent injunctions as a matter of course. Naturally, some successful patent litigants will find it more difficult to obtain injunctions. In those situations, what remedies are available if an injunction is denied?

The Federal Circuit has held that a district court may award ongoing royalties.²⁸⁸ The court defined ongoing royalties as, “a reasonable royalty in light of the ongoing infringement.”²⁸⁹ For authority, the court relied on a previous 1985 Federal Circuit case²⁹⁰ and a 1973 Supreme Court case that stated ongoing royalties are “well-established forms of relief when necessary to an effective remedy, particularly where patents have provided the leverage for . . . antitrust violation adjudication.”²⁹¹ This is thin support, especially the use of the Supreme Court case, because there the United States had express statutory authority for an ongoing royalty.²⁹²

Ongoing royalties are a form of equitable relief, as legal damages are confined to harm actually inflicted.²⁹³ Because the award of ongoing royalties was not practiced in England before

²⁸⁷ 547 U.S. 388, 390 (2006).

²⁸⁸ *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1314–15 (Fed. Cir. 2014).

²⁸⁹ *Id.* at 1315.

²⁹⁰ *Shatterproof Glass Corp. v. Libbey-Owens Ford. Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985).

²⁹¹ *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 93 (1973).

²⁹² *See* 15 U.S.C. § 4 (2012) (United States attorneys have duty to institute proceedings in equity antitrust cases, and may “bring forth the case and praying the case and praying that such violation shall be enjoined *or otherwise prohibited*”) (emphasis added).

²⁹³ *See Paice*, 504 F.3d at 1313 n.13, 1314; *Bos. Sci. Corp. v. Johnson & Johnson*, No. C 02-0790 SI, 2009 WL 975424, at *5 (N.D. Cal. April 9, 2009); *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601) (damages are what the plaintiff had in fact sustained, that is, no prospective damages); ROBINSON, *supra* note 17, § 1088.

1789,²⁹⁴ Congress must either expressly or implicitly allow courts to award ongoing royalties.²⁹⁵ Scholarly articles have debated whether courts have the authority to issue ongoing royalties.²⁹⁶ On one hand, the sections for remedies in preceding patent statutes have increasingly allowed legal damages during equitable proceedings,²⁹⁷ which might indicate that all equitable remedies should be available to fully compensate the patentee.²⁹⁸ However, it is arguable that subsequent changes to the statute purposely avoided compulsory licenses (that is, government-forced ongoing royalties).²⁹⁹ It is a question that the Supreme Court may need to answer in the near future, though some justices on the Court have hinted at rejecting a court's ability to issue ongoing royalties.³⁰⁰

Assuming, *arguendo*, that courts have the power to issue ongoing royalties under the theory of equity, the question of how to determine that royalty remains.³⁰¹ In light of the history of preliminary and permanent injunctions, it is important to remember that ongoing royalties serve an equitable purpose. Therefore, the four-factor test historically employed by courts of equity should be

²⁹⁴ See Gómez-Arostegui, *supra* note 190, at 1699–1708 (concluding there was no such equity practice in England).

²⁹⁵ *Id.* at 1685.

²⁹⁶ See, e.g., *id.* at 1661 (arguing courts lack authority). *Contra* Mark A. Lemley, *The Ongoing Confusion Over Ongoing Royalties*, 76 MO. L. REV. 695, 697 (2011) (arguing courts have authority).

²⁹⁷ See Patent Act of 1870, ch. 230, 16 Stat. 198-217, § 55; Act of February 18, 1922, Pub. L. No. 147, ch. 58, 42 Stat. 389, 393 § 8.

²⁹⁸ See 35 U.S.C. § 284 (2012).

²⁹⁹ See Gómez-Arostegui, *supra* note 190, at 1724 (“[I]t is impossible to argue that Congress contemplated and incorporated a judicially imposed compulsory license . . .”).

³⁰⁰ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement . . .”).

³⁰¹ The Federal Circuit currently holds that there is no right to jury for this equitable remedy. *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1315-16 (Fed. Cir. 2007).

applied to ongoing royalties,³⁰² and courts should refrain from considering the same factors that were used to determine past damages.³⁰³

If courts do not have the power to issue ongoing royalties, courts may still compensate patentees by enhancing damages by way of the treble provision.³⁰⁴ The purpose of the treble damages provision was to provide adequate remedies to those who do not have access to equity.³⁰⁵ District courts could simply use this provision to compensate patentees if district courts were given more discretion to access treble damages than is currently permitted by the Federal Circuit.

But it is also important to remember why plaintiffs are seeking ongoing royalties in the first place. It is because the patentee was denied a permanent injunction. Since *eBay*, permanent injunctions have usually been denied to non-practicing entities (“NPEs”).³⁰⁶ NPEs are extremely controversial. Much debate has surrounded reforming the patent code to prevent some of the entities, derisively called “patent trolls,” from coercing license agreements by threatening litigation.³⁰⁷ In light of the history recounted in this article, the solution to these NPEs might be found without reform.

³⁰² See *eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

³⁰³ *Contra* Lemley, *supra* note 156, at 702–3 (arguing that reasonable royalties should be used to determine ongoing royalties, and stating, “[c]uriously . . . Federal Circuit panels addressing the issue seem to believe that the question is entirely different from the issue of past damages.”). *But see* ROBINSON, *supra* note 18, § 1050 (“The principles adopted in the courts of equity cannot be imported into the courts of law, or those into equity, without *serious confusion and inevitable mistake* It is . . . of primary importance that in discussing damages at law, or profits and damages in equity, each topic should be kept free from the special doctrines appertaining to the other”) (emphasis added).

³⁰⁴ 35 U.S.C. § 284 (2012).

³⁰⁵ *Supra* Part III.B.1.

³⁰⁶ Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 89 J. PAT. & TRADEMARK OFF. SOC’Y, 631, 632–33 (2007).

³⁰⁷ See generally Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings*, 87 N.C. L. REV. 1571 (2009).

Before 1946, NPEs could not recover enhanced damages.³⁰⁸ Furthermore, these speculators were not likely to prove actual harm during litigation because they did not choose to enjoy the monopoly.³⁰⁹ Courts simply award the statutory minimum and refuse to grant enhanced damages (which is consistent with history) and refuse ongoing royalties (because those who do not act equitably receive none) if the district court feels that the NPE has acted contrary to the purpose of the patent system. With only a reasonable royalty available, bad-behaving NPEs (“trolls”) could not use litigation to coerce licenses.

VI. CONCLUSION

Calculation of damages and equity are persistently difficult in every area of the law.³¹⁰ Accordingly, the history presented here shows that remedies have been inconsistent. This inconsistency in patent remedies reflects competing policy interests. For example, businesses that have worked, developed, and depended on their patents deserve protection. However, speculators do not invoke sympathy when they indiscriminately threaten infringement suits. Granting both the same royalty does little to advance policy goals.

History may be an invaluable guide on how to effectuate desired policy goals. Juries should determine the award that it believes would fully compensate the patentee. If such award is too small given the facts of the case, district courts should use their discretion to increase damages pursuant to the patent statute. Equity (injunctions and ongoing royalties) should be granted to those who practice their patents equitably. Such practices would be consistent with history and provide much needed flexibility in patent enforcement.

³⁰⁸ ROBINSON, *supra* note 18, § 1069.

³⁰⁹ *See id.* § 1062.

³¹⁰ 11-55 CORBIN ON CONTRACTS § 55.1 (“The law of remedies has probably always involved a greater degree of uncertainty than has the system of rules by which rights and duties are determined.”).