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UNJUST ENRICHMENT FOR PATENT INFRINGEMENT: A NOVEL IDEA?

A person who has been unjustly enriched at the expense of another is required to make restitution to the other.¹

I. INTRODUCTION

Damages for patent infringement are determined under 35 U.S.C. § 284, which states, "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."² Federal courts, in struggling to determine the meaning of this provision, have produced confusing and uncertain case law. Some cases have limited a patentee to a reasonable royalty, while, on indistinguishable facts, others have allowed lost profits. The recent Federal Circuit cases of Rite-Hite Corp. v. Kelley Co.³ and King Instruments Corp. v. Perego⁴ further muddied the waters and caused more debate. In both cases, the Federal Circuit expanded lost profits awards to situations where such recovery was previously unavailable. Thus, at the outset of litigation, parties to a patent infringement suit lack indications of what their rights and obligations may be.

The objective of this Note is to identify the problem as it exists in the federal courts and to propose an alternative means of calculating damages based on principles of restitution. Restitutionary recovery is based on a premise that unearned benefits should not be kept by those who unlawfully acquire them.⁵ Similarly, patent infringement remedies seek to restore the patentee and infringer to the status quo ante the infringement. In light of these...

¹ Restatement of the Law of Restitution § 1 (1936).
similar aims, the law of restitution, not surprisingly, contains concepts analogous to such patent law recovery premises as "reasonable royalty" and "lost profits."

The law of restitution will be a return to "first principles" and will provide a concrete methodology of ascertaining when certain types of recovery are appropriate. Most importantly, the law of restitution will illustrate and justify recovery by a patentee of the infringer's profits. Specifically, when one infringes on a patent, one commits a tort; the retention of a tortiously acquired benefit is unjust. Damages as derived from restitutionary principles are consistent with the language of § 284, which states that damages shall be "adequate to compensate for the infringement." Further, restitution, the policy behind § 284, and the history of § 284 will justify the awarding of an infringer's profits.

Part II addresses the confusion that exists in American courts. This Note will argue that the case law is inconsistent and haphazard. Part III discusses the history and development of the law of restitution. Much of the discussion is theoretical. Rarely do scholars on the topic discuss the underpinnings of the law of restitution, and a treatment here may help the reader understand the connection between patent infringement and restitution. Part IV argues for the award of an infringer's profits as a remedy for patent infringement. This Note will show that making a restitutionary award does not require amending the statute but, rather, requires that judges and practitioners understand the law of unjust enrichment and that they take a second look at the reasons why § 284 reads as it does today.


"Damages" here will be used generically. The term will refer to any loss suffered by the patentee, as well as to profits gained by the infringer. The concept of what constitutes the infringer's "profits" will be discussed infra.


One question that remains unsettled in patent law is whether patent infringement sounds in tort or in restitution. While some cases explicitly hold the former, some courts have awarded damages in the latter. The law of restitution explains this inconsistency. Emory University Professor Andrew Kull argues that, in practice, the distinction is irrelevant. Interview with Andrew Kull, Professor of Law, Emory University, in Atlanta, Ga. (Mar. 10, 1996).

See Kull supra note 5.
II. THE CONFUSION IN AMERICAN PATENT LAW

Under current law, a patentee in a patent infringement suit may obtain three basic types of relief: an injunction, a reasonable royalty, and lost profits. Each form of relief addresses a different harm and stems from a different source. Courts normally grant injunctions to terminate the harm altogether. The United States Code provides explicitly for reasonable royalties, which represent an amount equal to a royalty the infringer would have paid the patentee had they negotiated a licensing agreement. Finally, lost profits refer to the profits that the patentee would have made "but for" the infringement.

A. REASONABLE ROYALTIES

Section 284 provides that damages recovered by a patentee shall be "in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." The Federal Circuit has interpreted that phrase to mean "that the statute provides only the 'reasonable royalty' floor below which no damages can fall in compensating the patentee." In other words, courts must award reasonable royalties as the minimum compensation.

In determining a reasonable royalty, courts apply the "willing buyer - willing seller test." A reasonable royalty constitutes the

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18 Panduit Corp., 575 F.2d at 1157-58.
amount an entrepreneur would willingly pay to produce and market a patented item in order to achieve a reasonable profit.\textsuperscript{19} That is, the courts assume that the reasonable royalty is the market royalty. Where a patentee is licensing to all those that seek a license, the royalty method suffices to give the patentee what he would have received had the infringer lawfully negotiated: the reasonable royalty would be what the patentee charges to all its licensees.\textsuperscript{20}

However, the patent holder who chooses not to manufacture or license the device, but only seeks to horde the technology, presents a problematic scenario.\textsuperscript{21} The result is a legal anomaly: a fiction is created whereby the willing buyer - willing seller test has no relationship to the "willingness" of either party to reach an agreement.\textsuperscript{22} Where the patentee chooses to horde the technology, he opts not to license at any price. Further, limiting an award to royalties rests on the "pretense that the infringement never happened."\textsuperscript{23} Yet, the infringement in itself gives the patentee a cause of action; had there been no infringement, the patentee would not have standing to sue. In the landmark decision of \textit{Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.},\textsuperscript{24} the Federal Circuit properly noted that "the 'reasonable royalty' device conjures a 'willing' licensor and licensee, who like Ghosts of Christmas Past, are dimly seen as 'negotiating' a 'license.' There is, of course, no actual willingness on either side, and no license to do anything."\textsuperscript{25}

Practically speaking, courts award reasonable royalties to those patentees who are unable to show their actual damages,\textsuperscript{26} thus


\textsuperscript{20} Filardi, supra note 17, at 80.

\textsuperscript{21} Id. at 83.


\textsuperscript{23} Id. at 112.

\textsuperscript{24} Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978).

\textsuperscript{25} Id. at 1159.

\textsuperscript{26} Fredrick A. Lorig & David J. Meyer, Maximizing Patent Damages, 321 PRAC. L. INST. 367, 388 (Oct.-Nov. 1991). This rationale is inherently flawed because it places the burden on the patentee to show his damages; the principle that "doubts are to be resolved against the infringer" appears to be ignored in favor of resolution of doubts against the patentee.
relegating the patent holder to receiving statutory damages only.\textsuperscript{27} Such plaintiffs include, as previously mentioned, those who choose not to exploit their patents, and to remedy this situation, courts have inflated the royalty award.\textsuperscript{28}

This type of artifice poses three inconsistencies that elude satisfactory explanation. First, acceptance of this definition of “reasonable royalty” undermines the definition of “reasonable.” That is, the royalty is actually punitive in nature and is not market based. Second, the phrase “adequate to compensate” is read out of the statute since the non-licensing patentee can never be compensated by a royalty. If royalties represent adequate compensation, the patentee would have gone to the market to license his invention on his own initiative. Third, such an inflated royalty, by definition, cannot stem from the “willing buyer - willing seller” test.

Accepting, arguendo, that the notion of reasonable royalty is based properly on a “willing buyer - willing seller” scenario, an award of only a reasonable royalty is still inadequate because it fails to discourage the infringer.\textsuperscript{29} Royalties simply force the patentee to issue a retroactive license,\textsuperscript{30} something the infringer could not obtain in the marketplace. The reasonable royalty also undermines the “strategic bargaining” position between parties. In other words, because the patentee and infringer are the only two in the market, there is an incentive for the license-seeker to infringe.\textsuperscript{31}

*TWM Mfg. Co. v. Dura Corp.*\textsuperscript{32} illustrates one assessment of “reasonable royalties.”\textsuperscript{33} There, an inventor discovered that Dura had infringed on his patent for a “Wheeled Vehicle Suspension”

\begin{itemize}
  \item \textsuperscript{27} Filardi, *supra* note 17, at 80.
  \item \textsuperscript{28} “In any event, the award should be greater than the ordinary royalty in the particular industry—otherwise the infringer would have nothing to lose by infringing.” Lorig, *supra* note 26, at 389.
  \item \textsuperscript{29} Filardi, *supra* note 17, at 80.
  \item \textsuperscript{30} Id.
  \item \textsuperscript{31} Coleman, *supra* note 22, at 115. Even if there is more than one infringer, the rationale would not change; in such a case, courts apply a market share theory. See, e.g., Lorig, *supra* note 26, at 378-79.
  \item \textsuperscript{33} See also Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc. 446 F.2d 295, 170 U.S.P.Q. (BNA) 369 (2d Cir. 1971), cert. denied, 404 U.S. 870 (1971) (discussing factors to be considered in determining reasonable royalties).
\end{itemize}
that enabled trucks to add axles to carry heavy loads. Upon discovering this, the patentee offered a license to Dura, but negotiations between the parties terminated when Dura stated a belief that the patent was invalid. The inventor's assignee, TWM, then sued Dura. The court stated that because no royalty had been assigned (in any licensing agreement), the special master must calculate the royalty. The master took Dura's projected profit of 52.7%, allowed Dura an allowance for overhead costs, subtracted an industry standard net profit, and awarded the remainder to TWM, a 30% royalty. The master further determined that the infringement was willful and accordingly trebled the award.

On appeal, Dura contended that the royalty was excessive. Finding the argument to be without merit, the Federal Circuit emphasized that no limitations exist on the permissible analytical approaches to determining reasonable royalties and stated that § 284 allows courts to calculate the amount of the royalty in any manner that compensates for the infringement. Furthermore, the court mentioned that a willing licensor and licensee certainly might agree to a 30% royalty.

The result in this case is troubling. First, the court used the projected profits of the infringer as the basis for calculation, which does not indicate what the infringer's actual profits would have been. In other words, there may not necessarily be a relationship between projected and actual profits. Also, the use of projected profits is inconsistent with the patent holder's actual harm; actual harm is hindsight damage, whereas projected profits are prospective. In 1989, the Federal Circuit shied away from this approach and stated that royalties should be based not on profit margins but

34 TWM Mfg. Co., 789 F.2d at 897.
35 Id.
36 Id.
37 Id. at 899.
38 Id.
40 Id. at 899.
41 Id. (citing Am Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964)).
42 Id. at 900.
rather on the hypothetical negotiations at the time of infringe-
ment.43

Second, use of the projected profits indicates that the court is
looking at the infringer’s profit as a proxy for the harm to the
patentee. Consider a hypothetical scenario where the infringer
may have enjoyed economic success because of manufacturing
efficiency while the patentee was actually an inefficient producer.
Thus, had the patentee been in the marketplace, his profits would
be lower, and such a plaintiff’s award is artificially inflated.

Third, by allowing Dura to keep its industry standard profits, the
company has been allowed to profit from the infringement44
despite its willful wrongdoing. Fourth, the court’s statement that
the only limitation on the calculation of royalties is that the figure
must constitute adequate compensation assumes a 30% ceiling on
what the patentee would have charged for a license, thereby
ignoring the previous illusion of buyer-seller negotiations.

Fifth, in the above manner of awarding a 30% royalty, the court
actually applies unjust enrichment principles and makes Dura
disgorge most of its profits. Thus, the court is not true to the
reasonable royalty concept. Finally, the court seems to imply that
its reason for taking this approach is punitive in nature and that
making Dura disgorge all of its excess profits constitutes a just
response to the finding of willful infringement.45 Such punitive
motives are inconsistent with the premise behind the “willing buyer-
-willing seller” approach.

B. LOST PROFITS

In some patent infringement cases, the patentee seeks to recover
his lost profits. The justification for such an award begins with §
284 which states, “[u]pon finding for the claimant the court shall
award the claimant damages adequate to compensate for the
infringement . . . .”46 Those “damages” are “full compensation for

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43 State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1580, 12 U.S.P.Q.2d (BNA)
MTD Prod., Inc. 788 F.2d 1554, 1557, 222 U.S.P.Q. (BNA) 431 (Fed. Cir. 1986)).
44 TWM Mfg. Co., 789 F.2d at 900.
45 Id.
‘any damages’ [the patentee] suffered as a result of the infringement. 47 “Lost profits is an appropriate measure of damages only where it can be shown that, ‘but for’ the infringement, the patent owner would have made the infringing sales and, perhaps, could have charged higher prices or incurred lower expenses.” 48 Simply stated, the patentee seeks traditional tort compensatory damages for his harm.

Whether a patentee can receive his lost profits is an evidentiary matter 49 in that the patentee recovers lost profits if he can show the quantum of those profits. 50 Where the plaintiff cannot prove lost profits with respect to all the products sold by the infringer, “lost profits [are] awarded where the proof is sufficient, and a reasonable royalty [is] awarded for the remainder.” 51

1. **Panduit.** 52 In Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 53 the Federal Circuit enunciated a four prong test to determine if a plaintiff may recover lost profits. 54 In order for the patentee to present a prima facie case for a lost profits demand, “a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.” 55 Simply stated, “the patentee must first show a causal relationship between the infringement and the lost sales, as well as show the amount of profits that would have been made on those sales.” 56

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49 Lorig, supra note 26, at 370 (citing Water Technologies Corp. v. Calco, Ltd., 850 F.2d at 671-72).

50 Id.

51 Id. at 387.

52 For a recent treatment of Panduit and related cases see Cox, supra note 17, at 327.


54 Filardi, supra note 17, at 74.

55 Panduit Corp., 575 F.2d at 1156 (citing 3 R. White, PATENT LITIGATION: PROCEDURE AND TACTICS § 9.03(2)).

56 Cox, supra note 17, at 332 (citing King Instrument Corp. v. Otari Corp., 767 F.2d 853, 863 (Fed. Cir. 1985), cert. denied, 475 U.S. 1016 (1986)).
The terms “damages” and “causation” are subject to some qualification. 57 Basically, money made by the infringer constitutes “profits,” while money lost by the patentee as a result of the infringement constitutes “damages.” 58 With respect to the burden of proof on causation, the patentee need only prove “to a reasonable probability that the sale would have been made but for the infringement.” 59 Difficulties that arise in the determination of damages are “resolved against the infringer.” 60

Panduit has caused confusion, has been criticized widely, and has been qualified repeatedly. For example, while some scholars feel that the test is difficult for a patent holder to meet, 61 others have suggested that the burden is easily satisfied. 62 Most likely, the former view is correct, 63 particularly where the patentee has multiple licensees, 64 chooses not to exploit the technology, or restricts market availability of its product in order to inflate prices.

The first requirement of Panduit is that “demand for the patented product” must exist. 65 Simply stated, the consuming public must actually desire the patented product that the infringer appropriated. A plaintiff may initially satisfy the requirement by showing that the infringer in fact sold the patented product. 66 The defendant, however, may successfully defend by asserting a “market expansion defense.” 67 In such a case, the infringer argues that sales resulted from an additional feature that he himself

57 Note that the qualification for “damages” is a judicially developed qualification and is not clear from § 284. The validity of this qualification will be examined infra. See discussion infra part IV.
60 Id. at 371 (quoting Ryco v. Ag-Bag, 857 F.2d 1418, 1428, 8 U.S.P.Q.2d (BNA) 1323 (Fed. Cir. 1988)).
61 Filardi, supra note 17, at 73-74.
62 Lorig, supra note 26, at 371 (“The Federal Circuit has made it relatively easy for the patent owner to establish his entitlement to lost profits”).
63 See, e.g., Panduit Corp., 575 F.2d 1152.
64 Filardi, supra note 17, at 73-74.
65 Panduit Corp., 575 F.2d at 1156.
66 Filardi, supra note 17, at 75.
incorporated into the product. In other words, "but for" this additional noninfringing feature, few, if any sales, would have been realized.

The second requirement of the Panduit test is "an absence of acceptable noninfringing substitutes"—no other manufacturers simultaneously produced a product that could substitute for the invention infringed upon. Thus, if noninfringing substitutes do not exist in the marketplace, a defendant may not successfully mitigate his liability by arguing that customers would not have purchased the patented invention anyway because other manufacturers made acceptable, noninfringing, alternative products.

The viability of the "noninfringing substitutes" requirement is questionable because some authority holds that where the substitute product does not incorporate all of the patented features, the substitute is not acceptable. That aside, there remains intuitive difficulty with the requirement: the inventor obtains legal protection by seeking a patent, and the requirement that his recovery be based on the existence of noninfringing products reduces his incentive to seek a patent, thereby undermining the purpose of the patent laws. Further, the requirement places an unjustifiable burden on the patentee, who must now demonstrate once again that his invention is unique. The patentee already has done so during the patent prosecution when he demonstrated that his invention was not prior art.

In order to mitigate this burden, some courts employ a market share analysis. Under this approach, the court pro-rates the plaintiff's recovery based upon its percentage of dominance in the existing market. This system, however, fails to protect the

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68 Id.
69 Id.
70 Panduit Corp., 575 F.2d at 1156.
71 Lorig, supra note 26, at 376. See also Filardi, supra note 17, at 76.
72 Lorig, supra note 26, at 376 (citing Radio Steel & Mfg. Co. v. MTD Prods., Inc., 788 F.2d 1554, 1556 (Fed. Cir. 1986)).
73 In this discussion of damages, it is assumed that the patent is valid and infringement exists.
inventor who did not choose to exploit his invention.\textsuperscript{76}

The third requirement of Panduit mandates that the patentee have the "manufacturing and marketing capability to exploit the demand."\textsuperscript{77} The patentee need only have the potential to produce enough product to meet demand, if he so desires.\textsuperscript{78} In one case, a court stated that a manufacturer had to "establish by a preponderance of the evidence that it would have added the necessary manufacturing capability."\textsuperscript{79}

This standard poses some difficulty when one considers elementary economic principles. Consider that the prevailing market price for any product is determined where supply equals demand. In some cases, the patentee will limit its own production to keep prices high. Thus, because the inventor has a monopoly on the market by virtue of the patent, he need not expand his manufacturing capacity. In such a case, this requirement forces the patentee who does not want to meet market demand and thus does not desire to add manufacturing capacity to accept a "reasonable royalty." At the other end, even if he does not intend to satisfy the demand, a patentee may need to develop plans, and perhaps even build capacity, just to meet this requirement in a suit. This situation yields an inherently inefficient result because the patentee will have idle production capacity.

At this point, one may appropriately address the exploitation factor that this third requirement creates. The exploitation requirement necessarily implies that those inventors who do not exploit their patents can only receive a reasonable royalty.\textsuperscript{80} Further, at the time of invention, the plaintiff must contemplate the defendant's use of the product.\textsuperscript{81} That is, a defendant must be someone from whom the plaintiff would have sought payment ab

\textsuperscript{76} See Sindell v. Abbott Lab., 26 Cal. 3d 588 (1980) (for another application of market share analysis).

\textsuperscript{77} Panduit Corp., 575 F.2d at 1156.

\textsuperscript{78} Lorig, supra note 26, at 381 (citing King Instrument v. Otari Corp., 767 F.2d 853, 864 (Fed. Cir. 1985)).

\textsuperscript{79} Id. (citing Polaroid Corp., 16 U.S.P.Q.2d at 1511).

\textsuperscript{80} Filardi, supra note 17, at 58.

In Foster v. American Machine & Foundry Co., the Second Circuit held that a plaintiff who did not manufacture can receive only a reasonable royalty. As late as 1994, the Federal Circuit held that manufacture of the item is necessary to lost profits recovery. In that case, the plaintiff was unable to fulfill this requirement and could not receive lost profits.

The final requirement is that the patent holder must establish the profits he would have made. While this requirement is facially valid, the courts have not clarified the method of calculation. At the threshold, lost profits computation should be approximations and should provide the defendant with an allowance for fixed costs. Some authority states that "[l]ost profits include not only actual sales lost to an infringer, but foregone price increases, price erosion damages, and loss of sales dependent on the sale of the patented article." In Kalman v. Berlyn Corp., the Federal Circuit allowed compensation where the infringer's activities caused the patentee to reduce his prices. Previously, in Panduit, the same court had held otherwise by reasoning that the price reduction ultimately did not result in lost profits, because, in response to decreased prices, the overall volume of sales had increased, thereby compensating the plaintiff for any price reduction.

That appears to be unfair. Not allowing recovery for the price erosion essentially penalizes the patentee for mitigating his damages. Also, the patentee's capacity to mitigate his damages should not provide a basis for allowing the infringer to benefit.

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82 Gordon, supra note 81, at 189.
84 Id. at 1320-21.
86 Id. at 1551-52.
87 Panduit Corp., 575 F.2d at 1156.
88 Lorig, supra note 26, at 383.
89 Filardi, supra note 17, at 78.
90 Lorig, supra note 26, at 383.
91 914 F.2d 1473, 1485 (Fed. Cir. 1990).
92 Lorig, supra note 26, at 384 (citing Kalman v. Berlyn Corp., 914 F.2d 1473, 1485 (Fed. Cir. 1990)).
93 Panduit Corp., 575 F.2d at 1157 (quoting special master's report).
2. Undoing Panduit. Two recent cases appear to have undermined, or even annihilated, the Panduit test. While other cases have refined the test, these cases, Rite-Hite Corp. v. Kelley Co., Inc. and King Instruments Corp. v. Perego, involved an award of lost profits in a manner that questions the underlying premises of the Panduit test. Even though the cases have significantly expanded the instances where lost profits may be awarded, they also have dramatically increased the confusion surrounding the particular circumstances where a patentee may recover lost profits. More importantly, an infringer will be unable to know the true scope of potential recovery by the patentee.

a. Rite-Hite. In Rite-Hite, Rite-Hite, the patentee, held a patent for an automated vehicle restraint device, model ADL-100. Rite-Hite also produced a manual device, model MDL-55, which was also patented. Kelley, seeking to compete with Rite-Hite, attempted to design around the patent for the MDL-55 and make an automated competing device, which was intended to compete not with the MDL-55, but with the higher line ADL-100. Despite its efforts, Kelley infringed on the MDL-55's patent. Even though Rite-Hite did not assert that Kelley had infringed the ADL-100's patent, Rite-Hite sought lost profits with respect to both the MDL-55 and the ADL-100. The company argued that, had Kelley's automated device not been manufactured, Rite-Hite would have sold more of its manual device (which was infringed) and would have realized more sales on the automated device (which was not infringed). Rite-Hite is unique in that "the court extended the scope of compensable lost profit damages to include lost profits from the sale of devices not covered

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94 For a thorough discussion of the refinements, see Cox, supra note 17, at 333-37.
98 Id.
99 Id.
100 Id.
101 Id. at 1544.
102 Rite-Hite Corp., 56 F.3d at 1543.
103 Id.
by the patent at issue in the suit."\textsuperscript{104}

A reader of the opinion quickly sees an apparition of Justice Cardozo and his opinion in \textit{Palsgraf v. Long Island R.R.}\textsuperscript{105} and immediately recalls nightmares from the first year of law school. The \textit{Rite-Hite} court stated that, absent countervailing factors, a foreseeable injury is compensable.\textsuperscript{106} The court rejected Kelley's view that, at most, Rite-Hite should only receive reasonable royalties.\textsuperscript{107} Kelley made the obvious argument when one considers \textit{Panduit} in the background: "that to recover damages in the form of lost profits a patentee must prove that, 'but for' the infringement, [Rite-Hite] would have sold a product covered by the patent in suit to the customers who bought from the infringer."\textsuperscript{108}

In rejecting this argument, the Federal Circuit stated that \textit{Panduit} is a helpful but non-exclusive test for the determination of lost profits.\textsuperscript{109} Rite-Hite argued and the court appeared to accept that there is no limit on lost profits awards so long as there is a sufficient showing of causation-in-fact.\textsuperscript{110} With these statements in mind, one wonders if \textit{Panduit} is still a useful test.

The court significantly expanded the "but for" test. Though the court did not explicitly say so, the test now resembles something of a "substantial factor"-type test. First, the court said that "[t]o recover lost profits damages, the patentee must show a reasonable probability that, 'but for' the infringement, it would have made the sales that were made by the infringer."\textsuperscript{111} Second, by use of the term "reasonable probability," the court seemed to mitigate the forcefulness of the "but for" test. Third, the use of the two terms in the same sentence is contradictory. That is, this "reasonable probability" appears to refer to the burden of proof. If so, then does that heighten the "preponderance of the evidence" standard for recovery in civil cases? Rather, the "reasonable probability"

\textsuperscript{104} Cox, \textit{supra} note 17, at 327 (emphasis added) (citing \textit{Rite-Hite Corp.}, 56 F.3d at 1543).
\textsuperscript{105} 162 N.E. 99 (N.Y. 1928).
\textsuperscript{106} \textit{Rite-Hite Corp.}, 56 F.3d at 1546.
\textsuperscript{107} \textit{Id.} at 1545.
\textsuperscript{108} \textit{Id.} at 1544.
\textsuperscript{109} \textit{Id.} at 1545.
\textsuperscript{110} \textit{Id.} at 1544.
\textsuperscript{111} \textit{Rite-Hite Corp.}, 56 F.3d at 1545 (citing State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577 (Fed. Cir. 1989), \textit{cert. denied}, 493 U.S. 1022 (1990)).
apparently refers to the "but for" test. Does that, in effect, transform the "but for" test into a "substantial factor" test?

In what appears to be an effort to rein in damage recovery, the court proceeded to discuss proximate causation. The court stressed that some limits on the patentee’s recovery may exist\textsuperscript{112} and referred to such unforeseeable consequences as an inventor’s heart attack or a drop in the value of the patent owner’s corporate stock as “not compensable.”\textsuperscript{113} Suddenly, Mrs. Palagraf is hit with the scales. The court held that “foreseeability” and “proximate causation” had been satisfied here:

Rite-Hite’s lost sales of the ADL-100, a product that directly competed with the infringing product, were reasonably foreseeable . . . . Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress . . . while staying well within the traditional meaning of proximate cause. Such lost sales should therefore clearly be compensable.\textsuperscript{114}

After all but repudiating Panduit, the court still felt the need to show how the facts continued to satisfy the Panduit test.\textsuperscript{115} The court stated that the only condition arguably not satisfied was the second condition (noninfringing substitutes)\textsuperscript{116} and pointed to the fact that the only competing and acceptable substitute came from the plaintiff.\textsuperscript{117} The court stated, “[s]uch a substitute was not an ‘acceptable, non-infringing substitute’ within the meaning of Panduit because, being patented by Rite-Hite, it was not available to customers except from Rite-Hite . . . Rite-Hite therefore would not have lost sales to a third party.”\textsuperscript{118}

The result in Rite-Hite is probably fair. What is troubling, however, is the Federal Circuit’s failure to articulate a uniform

\textsuperscript{112} Id. at 1546.
\textsuperscript{113} Id.
\textsuperscript{114} Id.
\textsuperscript{115} Id. at 1548-49.
\textsuperscript{116} Rite-Hite Corp., 56 F.3d at 1548.
\textsuperscript{117} Id.
\textsuperscript{118} Id.
basis for awarding lost profits. Notice the similarity between this case and *TWM*, discussed supra, where the plaintiff received only reasonable royalties. An infringer can only wonder "what is the next test the court will announce?" Only three months after the *Rite-Hite* decision, another decision took lost profit recovery one step further.

b. *King Instruments*. In *King Instruments Corp. v. Perego*, the Federal Circuit awarded lost profits on an invention that had never been marketed or sold. The facts were quite similar to *Rite-Hite*, except that the patentee never sold the patented invention. Nonetheless, the patentee sought to recover, and did recover, his lost profits on a machine that was not infringed.

The court began with the *Rite-Hite* proposition "that a patent owner who has suffered lost profits is entitled to lost profits damages regardless of whether the patent owner has made, used, or sold the patented device." The rationale was that a defendant may foresee that the infringement would result in lost profits on other uninfringed products sold by King Instruments. The court found any gain or loss by the defendant irrelevant to the plaintiff's recovery because the plaintiff sought to recover only his own lost profits. The court thus reaffirmed the test of "had the infringer not infringed, what would the Patent Holder-Licensee have made?"

In calculating the plaintiff's damages, the court suggested that the defendant's profits be used as a proxy for the plaintiff's lost profits. This "proxy" for calculation, however, cannot be justified. Earlier in its analysis, the court stated, incorrectly, that

114 65 F.3d at 947.
115 Id.
117 Id. at 948 n.3.
118 *King Instrument Corp.*, 65 F.3d at 948.
120 Id.
121 The proposition that the statute does not allow the defendant's profits will be criticized and shown not to be true, infra. See discussion infra part IV.
the patent statute was not to be construed so as to award the infringer's profits. Nonetheless, when the court uses the defendant's profits as a proxy, the court appears to adopt a method that contradicts its own position. In effect, the court does award the defendant's profits.

The proposition for which the court cited Rite-Hite, that exploitation is irrelevant to lost profits recovery, is a misrepresentation of Rite-Hite. In fact, the Rite-Hite court stated only that a patentee's sale of the invention is not dispositive in calculating lost profits, even though, "by definition," refusal to sell a patented product prevents lost profits. There, however, the plaintiff did sell the inventions in question. At most, the Rite-Hite court reserved deciding the issue until another case; the "exploitation" requirement was not explicitly repudiated by Rite-Hite. By virtue of the distinguishing facts of Rite-Hite, the so-called holding of Rite-Hite is in fact dicta.

The King Instruments case, despite its misstatement, actually constitutes the case that rejects the exploitation requirement for lost profits recovery. Given that the patentee invests in his invention with the expectation of reward, "[p]roviding lost profits compensation in this case preserves those constitutional incentives." To allow only a reasonable royalty for unexploited technology may mean that some technology will not be disclosed by inventors. When an inventor considers whether to profit (or not) from his invention, his potential award in an infringement suit should not drive his decision.

Whether lost profits or reasonable royalties are awarded when the plaintiff does not exploit the invention is a matter of proof as to the quantum of damages. Foreseeability and causa-

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128 King Instruments Corp., 65 F.3d at 947-48.
129 See supra note 122 and accompanying text.
130 Rite-Hite Corp., 56 F.3d at 1548.
131 Id.
132 See supra note 122 and accompanying text.
133 King Instruments Corp., 65 F.3d at 950. Even if the patentee chooses not to exploit, he has sought the protection of the patent laws and all accompanying rights.
134 Id.
135 Id.
136 Id.
137 Id. at 951.
tion\textsuperscript{139} appear to be the only requirements to establish a prima facie claim for recovery of both types of damages.

The court proposed a hypothetical to demonstrate that the exploitation requirement is fallacious.\textsuperscript{140} Suppose a plaintiff can supply all its demand but does not want to license.\textsuperscript{141} A license seeker would be unable to get a license.\textsuperscript{142} "Willing negotiators . . . would not agree to any royalty"\textsuperscript{143} because "[t]he value of exercising the right to exclude is greater than the value of any economically feasible royalty."\textsuperscript{144} In this scenario, the "reasonable royalty" would not represent adequate compensation.\textsuperscript{145} To allow only reasonable royalties would enable the defendant to profit from his wrongdoing. The \textit{King Instruments} court identified the problem of reasonable royalty awards by stating that, if the patentee desired to license, he would have done so, and the award of a reasonable royalty serves only to "give the infringer what the market denied—a license."\textsuperscript{146}

The court further justified the award of lost profits on the ground that a reasonable royalty is not punitive enough.\textsuperscript{147} In order to remedy this disparity, courts have awarded treble damages, attorney's fees, pre-judgment interest, and discretionary awards that far exceed "reasonable royalties."\textsuperscript{148} Thus, "where plaintiffs establish lost profits with reasonable probability, a lost profits award reflecting actual damages is preferable to an essentially arbitrary increase in a reasonable royalty."\textsuperscript{149} As such, to compensate the plaintiff adequately, "lost profits on competing products not covered by the infringed claims" are justified.\textsuperscript{150}

While this case is interesting in that the Federal Circuit correctly

\textsuperscript{138} \textit{King Instruments Corp.}, 65 F.3d at 948 n.3.
\textsuperscript{139} Id. at 951.
\textsuperscript{140} This is an argument we heard before. See supra discussion of Panduit.
\textsuperscript{141} \textit{King Instruments Corp.}, 65 F.3d at 951.
\textsuperscript{142} Id.
\textsuperscript{143} Id.
\textsuperscript{144} Id.
\textsuperscript{145} Id.
\textsuperscript{146} \textit{King Instruments Corp.}, 65 F.3d at 951.
\textsuperscript{147} Id. at 951 n.6.
\textsuperscript{148} Id.
\textsuperscript{149} Id.
\textsuperscript{150} Id. at 952.
recognized the need to provide the plaintiff with more than reasonable royalties, some of its rationale is suspect. First, a plaintiff cannot be said to have lost profits if he did not manufacture the patented device. The court evades this problem by permitting the use of the defendant’s profits as a proxy.

This premise presents a second flaw: what if the defendant is extraordinarily efficient in its production? The court does not adequately justify why the plaintiff should be allowed to recover the fruits of efficiency that he would not have realized had he produced the item himself. Further, what if the defendant is extraordinarily inefficient so that the defendant realizes no profits? In such a case, the plaintiff has not manufactured the device, and the defendant’s net profits are zero, so is the plaintiff left to recover only reasonable royalties?

Third, the hypothetical proposed by the court—involving the patentee who is unwilling to license—is inherently flawed for what the court seeks to demonstrate. In the hypothetical, the manufacturer did manufacture the patented product. Thus, while demonstrating that a reasonable royalty would be inadequate because the manufacturing plaintiff does not want to license, the hypothetical does not adequately address why a non-manufacturing plaintiff should obtain “lost profits.”

Fourth, by endorsing the other possible statutory remedies, such as treble damages and attorney’s fees, the court tries to prevent the defendant from profiting from his own wrongdoing. In effect, the court is forcing the defendant to disgorge his ill-gained benefits. This type of recovery, however, sounds in unjust enrichment, which this court explicitly rejected for patent infringement recovery. 151

III. RESTITUTION

A. BACKGROUND

Academics in the United States largely ignore the law of restitution. 152 Not a single textbook canvasses the subject. 153

151 King Instruments Corp., 65 F.3d at 947-48, 957 (Nies, J., dissenting-in-part).
152 Laycock, supra note 6, at 1277; see also Kull supra note 5, at 1195 (arguing that American lawyers do not understand restitution).
Few schools teach courses dedicated to it, and those that do tend to lump restitution with the law of remedies or contracts. The American Law Institute's Restatement of Restitution evidences this neglect as it remains unrevised since its initial publication in the 1930's, and Professor George E. Palmer's treatise, published in 1978, presents the only recent comprehensive treatment.

English authorities Goff & Jones tell us, "[t]he law of restitution developed more quickly in the U.S.A. than in England, and was undoubtedly helped to do so by the publication of the Restatement of Restitution in 1937." Even though English law matured more slowly than its American counterpart, the English have recently managed to rid, judicially, their law of common law fictions and are left with a relatively clear body of law. Today, the Commonwealth has such scholars as Lord Goff, Gareth Jones, Peter Birks, and Andrew Burrows who all have authored books on the subject and have shed much light on the law of restitution. We gain from them an extremely helpful example in decrypting restitution, its nature and objectives. The most obvious justification for looking towards English law lies in the common legal heritage shared by the United States and the Commonwealth.

B. HISTORY AND BASIC CONCEPTS

As stated previously, scholars commonly group the law of restitution with the law of remedies. Such a classification is erroneous because restitution has both remedial and substantive aspects. Restitution has its own cause of action: unjust enrichment. (Some scholars use terms such as "quasi-contract" or

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154 Laycock, supra note 6, at 1277. See also Kull supra note 5, at 1195. Perhaps the closest casebook is Professor Leavell's Equitable Remedies, Restitution and Damages. ROBERT N. LEAVELL ET AL., EQUITABLE REMEDIES, RESTITUTION AND DAMAGES (6th ed. 1994).
155 See Laycock, supra note 6, at 1277. See also Kull supra note 5, at 1195.
156 LEAVELL, supra note 153.
157 RESTATEMENT OF RESTITUTION (1937).
"implied contract" to refer to the same idea.)\textsuperscript{160} "A [claim for unjust enrichment] is for the benefit, the enrichment, gained by the defendant at the plaintiff's expense; it is not one for loss suffered."\textsuperscript{161} In other words, unjust enrichment occurs when the plaintiff has conferred a benefit on the defendant which justice dictates that the defendant should return.\textsuperscript{162} Benefits may include money,\textsuperscript{163} services,\textsuperscript{164} goods,\textsuperscript{165} land,\textsuperscript{166} or use of someone's assets.\textsuperscript{167}

Every inquiry into a restitutionary problem should pass through these stages: (1) Has the defendant been enriched? (2) If so, was that enrichment at the plaintiff's expense? (3) If so, which sense of "at the expense of" is relied upon, and, in particular, is it (3a) "by subtraction from" the plaintiff, or (3b) "by committing a wrong to" him? (4) If the latter, namely (3b), is the wrong done to the plaintiff one for which a restitutionary remedy lies? (5) If so, is there nonetheless some countervailing factor which requires that restitutionary remedy to be withheld? (6) If the former, namely (3a), is there a ground for restitution - a factor which the law recognises as

\textsuperscript{160} "One approach above all has traditionally led to restitution being pushed into the shade of contract and tort: the 'implied contract' theory. According to this, most of the common law part of restitution (which comprises the bulk of the subject) is satisfactorily explained as resting on an implied promise by the defendant to pay the plaintiff. This area of the law is therefore seen merely as an adjunct to the law of contract: hence the label 'quasi-contract.' " ANDREW BURROWS, THE LAW OF RESTITUTION 2 (1993). Clearly, the quasi-contract rationale is improper since there is not even a contract of which to speak. These situations lack a "promise" as well as any "bargaining." PETER BIRKS, AN INTRODUCTION TO THE LAW OF RESTITUTION 29-39 (rev. 1989). As such, "[w]here the law imposes an obligation to pay for benefits conferred in the absence of contract, the ordinary measure of recovery is therefore defendant's gain, not plaintiff's cost." Kull supra note 5, at 1201.

\textsuperscript{161} GOFF & JONES, supra note 158, at 16. "[T]he concept of benefit is in English law not synonymous with that of objective enrichment (in the sense that the wealth of the defendant has increased), but also embraces expense saved." Id.

\textsuperscript{162} Id. at 12.

\textsuperscript{163} Id. at 17.

\textsuperscript{164} Id. at 18.

\textsuperscript{165} GOFF & JONES, supra note 158, at 27.

\textsuperscript{166} Id.

\textsuperscript{167} Id.
rendering the enrichment unjust? (7) If so, is there nonetheless some countervailing factor which requires that restitution be disallowed? 168

The distinction between substantive and remedial restitution is based on the answer to this question: What is our basis for finding that the defendant was enriched at the plaintiff's expense?169 In making this determination, one must remember that enrichment may occur in two ways: in a subtractive sense and an additive sense. The "subtractive" form occurs when the plaintiff has lost wealth that the defendant now possesses. 170 The "additive" form arises when the defendant has received a benefit by committing a tort and restitution is remedial. 171

Substantive restitution is commonly known as "unjust enrichment." Here, the basis of the plaintiff's claim sounds not in tort, but rather in something outside the law of torts or contracts, something that makes retention of a benefit by the defendant unjust. 172 These sub-categories include payment by mistake, compulsion, and failure of consideration. 173

To this day, many American cases use the language of action for money had and received, assumpsit, indebitatus assumpsit, replevin, quantum meruit, quantum valebant, and the like to describe various causes of action in unjust enrichment. 174 These terms are nothing more than fictions developed in the common law for the purposes of pleadings—words that hide the nature of the claim. 175 In fact, the English Common Law Procedure Act of 1852 "provided that it should no longer be necessary to mention any form or cause of action in the writ." 176 Yet, attorneys continued to cling to the familiar language lest they be considered to have

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168 BIRKS, supra note 159, at 41. For a similar formulation, see BURROWS supra note 160, at 7.
169 BIRKS, supra note 159, at 1.
170 Id. at 1-2.
171 Id.
173 GOFF & JONES, supra note 158, at 3.
174 BIRKS, supra note 159, at 88-89.
175 GOFF & JONES, supra note 158, at 5.
176 Id. at 5 n. 9.
improperly pleaded a complaint.\textsuperscript{177} \textit{Goff} & \textit{Jones} argue that such fictions should not obscure claims grounded in unjust enrichment.\textsuperscript{178} Once those forms of action were deleted, litigants needed to devise a method for classifying their claims. "This they found in the dichotomy of contract and tort; and the apparently intractable quasi-contractual claims were relegated to the status of an appendix of the law of contract."\textsuperscript{179}

Remedial restitution, on the other hand, addresses "whether the victim of a wrong can obtain restitution of gains made by the wrongdoer through the wrong."\textsuperscript{180} The recovery is remedial in the sense that this form of restitution does not create a cause of action but rather identifies which civil wrongs may be remedied through restitution.\textsuperscript{181} Thus, "it is not the business of the law of restitution to define the tort of conversion, but \textit{it is its business to find out whether and why that tort gives rise not merely to compensation but also to restitution.}"\textsuperscript{182}

In this context, the common law developed the fiction of "waiver of tort" that likewise should be eliminated. As stated previously, when a tort is committed, a plaintiff can pursue a cause of action in tort or in unjust enrichment. However, the common law had held that one who sued in unjust enrichment waived the tort.\textsuperscript{183} "But the tort is not extinguished. Indeed it is said that it is a sine \textit{qua non} of both remedies that [the plaintiff] should establish that

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{177} Oxford University Professor Peter Birks vigorously argued against the fictions: Although [these fictions] did draw from . . . a body of law recognising non-contractual restitutionary obligations in respect of value received other than in money, the shadow of the allegation of request, and the almost underhand means of escaping it, had the effect of producing law that was virtually impossible to match up with the law derived from the action for money had and received. In the result common lawyers have never managed to habituate themselves to the relatively straightforward proposition that there can be only one law for all value received and that the facts which trigger restitution of value received in the form of money must equally trigger restitution of value received in other forms.

\textit{Birks, supra} note 159, at 90-91.

\item \textsuperscript{178} \textit{Goff} \& \textit{Jones, supra} note 158, at 5.

\item \textsuperscript{179} \textit{Id.} at 9.

\item \textsuperscript{180} \textit{Birks, supra} note 159, at 1.

\item \textsuperscript{181} \textit{Id.}

\item \textsuperscript{182} \textit{Id.} (emphasis added).

\item \textsuperscript{183} \textit{Id.} at 11.
\end{enumerate}
\end{footnotesize}
a tort has been committed."^{184}

The matter should have been settled in 1941 when United Australia Ltd. v. Barclays Bank Ltd.^{185} held that by first bringing a suit for money had and received, and later amending to sue only for the tort, a plaintiff did not waive the tort.

The cause of action remained unchanged. The tort of conversion had two remedial strings. As Lord Atkin pointed out, it was therefore not a matter of opting between inconsistent rights but only of choosing between alternative remedies, a choice which remained open until judgment: a plaintiff could not have judgment for both restitution and compensation.^{186}

In 1984, however, Dean Prosser's hornbook retained the "waiver" concept.^{187} The analysis appears to emanate from a confusion between contract and restitution. Dean Prosser did not seem to accept the idea that restitution and contract are wholly separate.^{188} His argument is grounded in the old case of Lamine v. Dorrell,^{189} which first advanced the "waiver of tort"; but, as Professor Birks stated, the matter should have been settled after United Australia.^{190}

Two justifications can be offered for the distinction between subtractive and tort based cases of unjust enrichment. First, the defenses normally available to a defendant against whom a restitution claim is asserted, like change of position, estoppel, and bona fide purchaser, are not usually available under the tort based cause of action. Theoretically, since such defenses are based on

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^{184} GOFF & JONES, supra note 158, at 714.
^{186} BIRKS, supra note 159, at 11.
^{188} Id.
^{189} 92 Eng. Rep. 303 (1705). "If a man takes goods to which he has no right, and sells them, the owner may waive the tort, and recover the price for which they were sold in an indebitatus assumpsit for money had and received." Id. at 303.
^{190} BIRKS, supra note 159, at 11.
"good faith," they cannot be available to a tortfeasor. Second, as has been demonstrated, describing them along these two branches makes "restitution" easier to understand.

One of the leading American scholars on the subject, Professor Andrew Kull, takes issue with the distinction. He begins by saying that the law of restitution is exclusively the law of unjust enrichment. He asserts that the guiding principles are: (i) that no restitution liability exists other than that attributable to the defendant's unjust enrichment; and (ii) that the defendant's enrichment provides the sole measure of recovery. As such, for a restitution claim, the benefit to the defendant, not the plaintiff's cost (harm to the plaintiff), is the basis for recovery.

Therefore, "[w]here a defendant has committed a profitable wrong, the essential thing is to recognize that the law offers the plaintiff a choice of remedies, among them a monetary recovery measured either by harm to the plaintiff or benefit to the defendant." The "substantive-remedial" distinction advanced by Professor Birks is unduly rigid and nothing more than a relic left behind by the common law. The distinction should have been expunged with the waiver of tort.

Professor Kull states that so long as the plaintiff seeks to recover the unjust enrichment, the basis of the remedy does not matter—whether it sounds in tort or in the defendant's unfair gain at the plaintiff's expense. He further rejects the proposition that the availability of defenses should justify the distinction; he argues that so long as the defendant must show good faith to have the defenses, then, naturally, such a showing would not be likely in a tort based case. So long as the election for a restitutionary recovery is based on unjust enrichment, the distinction is unnecessary.
With this historical and conceptual backdrop, one can begin to consider the analysis that should take place in a particular claim.

C. AVAILABLE DAMAGES

At common law,

It is well known that, both in trade-mark cases and patent cases, the plaintiff is entitled, if he succeeds in getting an injunction, to take either of two forms of relief; he may either say, 'I claim from you the damage I have sustained from your wrongful act,' or 'I claim from you the profit which you have made by your wrongful act.'

Where the defendant does not act wilfully, a reasonable rental value of the patent is appropriate recovery. In all cases, an accounting should be discretionary, and the court should retain discretion to deny such recovery even with respect to a wilful wrongdoer.

There are some considerations that are worth noting. First, Goff & Jones state that in the case of patent infringement, the courts often apportion profits in recognition of the infringer's "contribution, ideas and financial input." The courts recognize Lord Watson's idea that a patentee should only recover those profits "earned by use of his invention." Second, a plaintiff should be able to claim the amount that the tortfeasor saves by, for example, not engaging in research and development. Third, the unconscious infringer should have to pay only "the reasonable

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203 Interview with Andrew Kull, supra note 9.
204 Goff & Jones, supra note 158, at 727. This provision appears to provide a safety valve in the law of restitution. It helps to preserve the maxim ex aequo et bono.
205 Id. at 34 (quoting United Horse Shoe and Nail Co. Ltd. v. Stewart & Co., 5 R.P.C. 260, 266-67 (1888)). A court might have to consider an allowance to the defendant for his skills in getting those profits and whether he should be compensated for his expenses. Id. at 32.
206 Id.
207 Goff & Jones, supra note 158, at 17 & 726. See also Gordon, supra note 81, at 239.
value” for the use of the patent. Fourth, restitution is improper where its application makes the defendant, in the net, worse off than he would have been absent the infringement. To allow otherwise would undermine the market and burden the courts.

D. CULPABILITY

One frustrated author wrote, “[t]oo many instances have arisen where infringers, secure in the knowledge that nothing more than a compulsory license at an established royalty rate will be the price of infringement, have deliberately forced the burden and expense of litigation upon patent owners.” The law of restitution concurs and addresses the author’s concern by ensuring that the defendant’s culpability determines the type of award that a plaintiff receives. Goff & Jones state the general rule: while an innocent tortfeasor most frequently needs to pay only a reasonable licensing fee, in the most exceptional cases, the courts may require an accounting of even that innocent tortfeasor’s profits “in order to dissuade other[s] . . . from the temptation of profiting [unfairly].”

In the case of the wilful patent infringer, a plaintiff can either sue and claim his own damages, or he can sue on a restitution based theory and seek the infringer’s profits. The patent laws currently allow for treble damages, pre-judgment interest, and attorneys fees. Those damages are awarded to punish and only where the defendant was culpable or exercised bad faith.

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206 Interview with Andrew Kull, supra note 9. While courts admit that such a figure is inflated in order to compensate the plaintiff properly, under a restitution theory, this value should be a true reflection of the price of a license.
209 Gordon, supra note 81, at 219.
210 Id. at 219-20.
211 See also Filardi supra note 17, at 58.
212 Goff & Jones, supra note 158, at 727. Professor Dawson disagrees and argues that culpability is irrelevant. Coleman, supra note 22, at 110. This view represents a minority opinion and is virtually foreign to the law of restitution. For example, Professor Palmer disagreed: “[f]or an unintended wrong, restitution of profits is often a harsh remedy.” Id. at 110 n.120 (quoting Palmer, supra note 157, at § 2.12, at 164-66).
214 Id.
215 Id. § 285 (1994).
216 Filardi, supra note 17, at 84.
On the other hand, "the honest defendant may be required to make restitution, but not necessarily to account for profits."\textsuperscript{217} Another authority agrees and states that, where a defendant does not act willfully, a court should be sympathetic.\textsuperscript{218} Further, the English patent statute distinguishes between willful and innocent infringers.\textsuperscript{219} Clearly, the rationale for the distinction is that the honest infringer cannot be deterred since he did not intend to infringe in the first place.

However, the culpability of the infringer is an evidentiary matter. For example, a defendant might show proof of diligent consultation with a patent lawyer.\textsuperscript{220} Also, one could construct an argument that infringers are on notice by the mere existence of the patent system.\textsuperscript{221} Goff & Jones recognize such an exception to the general rule where a court may require an accounting by the innocent infringer: "the plaintiff may have an interest which the courts wish to protect. These include such economic interests as title to property and, in other common law jurisdictions, the right to exploit one's own personality. A court may then, for this reason deprive even an innocent wrongdoer of his profits."\textsuperscript{222} Whether the courts should adopt such a rule is a policy matter that exceeds the scope of this Note.\textsuperscript{223}

\textit{Edwards v. Lee's Administrator}\textsuperscript{224} is often cited as the prototypical restitution case. It involved litigation about the "Great Onyx Cave,"\textsuperscript{225} where Edwards and his wife discovered a cave beneath their property.\textsuperscript{226} Seeking to capitalize on their discovery, they

\textsuperscript{217} Goff & Jones, supra note 158, at 31.
\textsuperscript{218} Gordon, supra note 81, at 206-07.
\textsuperscript{220} Lorig, supra note 26, at 391-92. Note that such a showing may necessitate a waiver of the attorney-client privilege. \textit{Id}.
\textsuperscript{221} A constitutional argument would be especially appropriate.
\textsuperscript{222} Goff & Jones, supra note 158, at 32.
\textsuperscript{223} The English copyright statute treats less harshly "the infringer who did not know and had no reason to believe that he was infringing copyright; it is a defense solely to an action for damages, not any other remedy, that he did not know and had no reason to know that he was infringing copyright. If these common law and statutory analogies are followed, then the extent of the wrongdoers liability, and in particular that of tortfeasors, may depend on the court's characterization of the conduct of the wrongdoer." \textit{Id}.
\textsuperscript{224} 96 S.W.2d 1028 (Ky. 1936).
\textsuperscript{225} \textit{Id.} at 1028.
\textsuperscript{226} \textit{Id}.
solicited tourists.\textsuperscript{227} Lee, however, discovered that a portion of the cave was below his land, and Lee sued\textsuperscript{228} seeking an accounting of the net profits that Edwards received.

The court found that the trespass was willful\textsuperscript{229} and held that "[a] person who tortiously uses a trade name, trade secret, profit à prendre, or other similar interest of another, is under a duty of restitution for the value of the benefit thereby received."\textsuperscript{230} The court further held an accounting to be the proper measure of recovery,\textsuperscript{231} and reasoned that, even though "there may be no tangible loss other than the violation of a right[,]... [a] wrongdoer shall not be permitted to make a profit from his own wrong."\textsuperscript{232}

The role of culpability is thus simple. Where the defendant's behavior indicates bad faith, there is a stronger nexus between the plaintiff's award and the defendant's wrongdoing.\textsuperscript{233} Further, it is a given that the defendant's sales are known and that no one can determine the number of sales the plaintiff would have generated absent the infringement.\textsuperscript{234} Those two factors, together, balance in favor of placing the onus on the defendant and forcing him to disgorge his intentionally and tortiously acquired gains. Thus, the deterrent effect of restitution is realized.

E. APPLICATION

For reference, consider this hypothetical: Jane Owner has a large vegetable garden. Jane grows tomatoes, far more than she can ever consume. She leaves the extra tomatoes on the vines and they rot. One day, Tommy Trespasser comes onto her property, walks carefully so as not to damage any of Jane's property and takes bushels of tomatoes that Jane was planning on leaving to rot. Tommy goes to the market and sells the tomatoes for $100. Jane

\textsuperscript{227} Id. at 1028-29.
\textsuperscript{228} Edwards, 96 S.W.2d at 1029.
\textsuperscript{229} Id.
\textsuperscript{230} Id. at 1032 (quoting \textsc{Restatement of Restitution and Unjust Enrichment, Part I, § 136 (Proposed Final Draft 1936)}).
\textsuperscript{231} Id. at 1032.
\textsuperscript{232} Id.
\textsuperscript{233} Laycock, supra note 6, at 1289.
\textsuperscript{234} Id. at 1287.
finds out about Tommy's trespass and decides to sue.\footnote{The criminal implications are irrelevant for the purposes of this discussion.}

Jane has several alternatives. She may sue in tort for trespass or conversion and seek compensation for the damages and any accompanying punitive damages. She may also sue in unjust enrichment under the substantive and remedial species.\footnote{We will utilize Professor Birks's paradigm for demonstrative purposes. Regardless of whether one accepts Professor Birks's view or Professor Kull's distinctionless scheme, the results are the same.} Her substantive claim might be that Tommy took her tomatoes (an asset) without her knowledge and added to his wealth unjustly. Her remedial claim would be based in the tort of trespass or conversion for which she now seeks renumeration.

Suing in tort might be unwise. Jane would receive only compensation for the damages proximately caused by Tommy's wrongful act. Recall that there was no damage to her land because Tommy was careful in his trespass and because Jane was planning to leave the tomatoes to rot. Her only claim would be for the damage caused by the theft; and because she suffered no actual damages, her recovery would be nominal. Also, punitive damages would be minimal considering that the actual harm was negligible.\footnote{It is true that she might receive punitive damages in substantial excess of the cost of the tomatoes.}

In order to analyze her unjust enrichment claims we consider Professor Birks's recommended process.\footnote{See supra note 168, 169 and accompanying text.} First, the court must determine whether the defendant has been enriched.\footnote{BIRKS, supra note 159, at 41.} Here, Tommy has been enriched by the amount of $100. The next question is whether Tommy was enriched "by subtraction from" Jane.\footnote{Id. at 41.} The answer is yes; he took Jane's property, an asset. When we ask the next question—if there is a basis that causes this enrichment to be unjust—again, the answer is yes. The tomatoes were taken without her knowledge and during a trespass. She would not have chosen to give them to him, and he had no right to them. That she would have let the tomatoes rot is irrelevant; her title to the property is the basis for her claim.\footnote{GOFF & JONES, supra note 158, at 41-42.} Thus, Jane has now stated a prima facie case that "Tommy gained at her expense."
Possible damages would be either the wholesale value of the tomatoes (being analogous to the rental value) or their retail value.

Tommy may now answer question (7) in Professor Birks's process, regarding countervailing factors, by arguing that he did not know that Jane owned the tomatoes. We may also inquire into what might be called "set-offs." For example, consider that Tommy spent $20 to advertise for the sale of the tomatoes. Tommy is entitled to that set-off against his liability. Consider, further, that Tommy spent the $100 on an investment that he has now lost. This might be termed a "change of position" defense.

Consider now a claim grounded in the tort of conversion. We would answer the first and second questions the same way. With respect to the third question—did Tommy commit a tort?—the answer is yes. He stole tomatoes that did not belong to him and sold them. Once again, Tommy may state that he thought he had a right to the tomatoes, and that would be relevant to mitigating his liability. With respect to defenses, Tommy's options become more limited.

As previously noted, Tommy might answer question (7) by saying that he thought he had a right to the tomatoes; that is, that he did not act willfully. "[T]he honest defendant may be required to make restitution, but not necessarily to account for profits." If a court finds that Tommy knew or should have known that he was trespassing, then he did not act in good faith and must disgorge all his profits. Goff & Jones give the example of someone who commits a breach of confidence: only if the defendant acted

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242 This is relevant with respect to whether Jane will be able to get an accounting.
243 If not for the advertising, Tommy may not have realized any profit.
244 The right of a person to restitution from another because of a benefit received is terminated or diminished if, after the receipt of the benefit, circumstances have so changed that it would be inequitable to require the other to make full restitution. RESTITUTION, supra note 1, at § 142(1).
245 See supra notes 191 and 200 and accompanying text (discussing available defenses). There is authority that, for a tortfeasor, some defenses are not available. See, e.g., GOFF & JONES, supra note 158, at 31 et seq.
246 Id. at 31.
247 As illustrated by Jane and Tommy, a plaintiff does not have a right to an account. It is an equitable remedy granted at the court's discretion. GOFF & JONES, supra note 158, at 28.
knowingly should he account.248 If a court finds that Tommy did not know and had no reason to know that this was Jane's property, the measure of recovery would be, by process of elimination, compensation to Jane for her loss measured by the wholesale price of the tomatoes. Presumably, the price to Tommy would be lower than the $100 he earned.

IV. THE CASE FOR RESTITUTION

A. HISTORY

Decisions of the United States Supreme Court in the nineteenth century established that in a suit in equity for infringement of patent or copyright, the patent or copyright holder was entitled to recover the profits made through the infringement. Although the Court sometimes explained this as a method for measuring the plaintiff's damages, it was clear that the relief was based on unjust enrichment, as the Court later recognized.249

In an action in equity, an independent basis for an injunction exists alongside potential monetary awards.250 That basis forces the defendant to cease the infringing behavior. Otherwise, the plaintiff could only pursue an action at law where the defendant's profits could not be recovered.251 Prior to 1946, the statute stated that "the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby."252 35 U.S.C. § 284, as it is known today, eliminated the distinction between actions at law and

248 Id. at 727. Note, English intellectual property statutes make this distinction. Id. Section 284 does not make an explicit distinction but intellectual property case law seems to acknowledge the distinction.
249 PALMER, supra note 157, § 2.7 at 87-88 (citations omitted).
250 Id. at 88 (citing Stevens v. Gladding, 58 U.S. (17 How.) 447, 455 (1854) ("The right to account for profits is incident to the right to an injunction in copy and patent-right cases.").
251 Id. at 90.
those in equity. The amendments raised the issue of whether courts could still allow recovery based on unjust enrichment.

The case law seems to have embraced the incorrect view that the amendment sought to eliminate recovery based on unjust enrichment. The most often quoted case for this proposition is the 1964 case *Aro Manufacturing Co. v. Convertible Top Replacement Co.* Prior to this case, judges, lawyers, and academics took for granted that a patentee could recover the infringer's profits. As late as 1963, one court stated that "an infringer's profits are a traditional measure of damages." However, in *Aro*, the Supreme Court stated, "[t]he purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only." The Court relied on the literal language of the statute to distinguish between the two types of recovery: "in patent nomenclature what the infringer makes is 'profits'; what the owner of the patent loses by such infringement is 'damages.'"

The Supreme Court, in another case, cited a House Report to further justify its position that recovery should not include the defendant's profits and stated, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement." The Court noted that the amendment intended to eliminate time-consuming litigation required for the plaintiff to prove the quantum of the defendant's profits.

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253 PALMER, supra note 157, § 2.7 at 90-91 & n.21.
254 Id. at 91.
256 312 F.2d 52 (1st Cir. 1962), modified, 377 U.S. 476 (1964).
257 Interview with Andrew Kull, supra note 9.
258 PALMER, supra note 157, § 2.7 at 91 (quoting Zysses v. Popeil Brothers, 318 F.2d 701, 707 (7th Cir. 1963), cert. denied, 376 U.S. 913. (1964)).
260 Id. (quoting Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448, 451 (1936)).
262 Id. at 654.
B. JUSTIFICATION

Central to this Note is the fact that Congress did not intend this result. In fact, the very House Report that the Supreme Court cited did not mention an intent to eliminate recovery of the defendant's profits.\(^\text{263}\)

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

... 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.\(^\text{264}\)

Congress uses the word "damages" generically. Congress did not appear to intend for the term to be interpreted as simply traditional tort damages or lost profits. If there is any doubt, then the last sentence in the quoted excerpt should dispel it. Even there, the infringer's profits are referred to as "an element of general damages."\(^\text{265}\)

Congress's reformation of the patent law intended to eliminate some peculiarities in the then existing statute. Since the patentee was able to recover damages and profits, there was an unfair element of double counting.\(^\text{266}\) This double counting is contrary to the concept of unjust enrichment. In fact, some courts have suggested that such double recovery was used as a method of


\(^{264}\) Id. at 1-2 (emphasis added).

\(^{265}\) Id. at 2.

\(^{266}\) Kori Corp., 761 F.2d at 654.
harassing defendants. 267

The House Report indicated that the amendment was necessary because plaintiffs had difficulty recovering for infringement because of the time-consuming litigation. 268 This delay was caused by the difficulty that plaintiffs had in showing the extent of the defendant's profits. 269 Thus, Congress enacted the amendment to facilitate patentees' recovery, not to lower their recovery.

In his treatise, The Law of Restitution, Professor Palmer was likewise puzzled by the judicial interpretation of § 284. He criticized Justice Brennan's statement in Aro "that the statute 'allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes 'damages' for the infringement.' " 270 He wrote that the statute clearly referred to unjust enrichment, for "reasonable royalty" stems from restitution principles—"the fair market value of the interest wrongfully used or misappropriated by a tortfeasor." 271 He added that the use of the label "damages" is not dispositive because courts and legislatures have, on other occasions, referred to unjust enrichment awards as "damages." 272

In the case of the willful infringer, the plaintiff should be entitled to the defendant's profits, 273 yet courts have interpreted the change to preclude profits. 274 Interestingly, our copyright infringement law has consistently allowed for recovery of profits, 275 and in 1946, Congress allowed recovery of profits for trademark infringement. 276 Professor Palmer goes on to say that, even though the rationale for the amendment is unclear, it appears that "the amendment was approved without adequate consideration or understanding of the then existing law or the changes intended to

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267 Id.
269 Id.
270 PALMER, supra note 157, § 2.7 at 93 (quoting Aro Mfg. Co., Inc., 377 U.S. at 505).
271 Id. at 94.
272 Id. at 93-94.
273 PALMER, supra note 157, § 2.7 at 94.
274 Id.
be effected.\footnote{277}

In an interview with the Author, Professor Kull expressed similar disapproval of the case law.\footnote{278} He stated that, so long as double counting is not allowed in a recovery, a patentee should be able to recover a willful infringer's profits or, at a minimum, reasonable royalties.\footnote{279} Where the defendant is not acting willfully, a patentee should recover reasonable royalties or lost profit damages.\footnote{280} Essentially, a plaintiff would elect either to pursue a tort based theory of recovery or an unjust enrichment theory of recovery,\footnote{281} and neither of these alternatives should run afoul of the statutory language.\footnote{282}

At the outset, the exclusive enjoyment of intellectual property rights is the basis for restitutionary recovery.\footnote{283} "These property rights prohibit exploitation without consent even if the property owner is unwilling or unable to exploit the right for himself."\footnote{284} By its very nature, intellectual property law does stifle competition to some extent.\footnote{285} Nevertheless, such stifling is desirable if inventors and authors are to be encouraged to create. One observer stated that even though patent rights are by their nature anti-competitive, an infringer's violation of the law is similarly anti-competitive.\footnote{286} Thus, while the patent laws deter unfair competition, "it must be observed that the competition at issue is certainly unfair in nature; the infringer violates a lawful right of the patentee. The profits wrongfully obtained can only be thought of in terms of unjust enrichment."\footnote{287} Another observer wrote, "[i]nherent in the right to exclusive enjoyment is the entitlement to the benefits derived from the property. Therefore, an appropriation of the benefits consists of a compensable wrong because this
appropriation gives rise to an enrichment to the wrongdoer that is necessarily at the expense of the owner’s right.”

Likewise, an unjust enrichment award also possesses a deterrent aspect. Here, the focus is on the unfairness of allowing a defendant to retain his wrongfully acquired gains. Further, the courts are reaching the same result as in an unjust enrichment award, more or less, by awarding treble damages and other enhanced damages for willful infringement. If courts were to accept a restitutionary recovery based theory, whether enhanced damages should still be allowed would be a policy issue. That is, one can easily see an argument that the constitutional mandate for intellectual property protection, coupled with a desire of the patent system to foster invention, may justify a further award of such damages. Perhaps it would be wise to allow trebling only in the most egregious willful infringement cases.

V. CONCLUSION

The American courts have improperly interpreted 35 U.S.C. § 284 to allow a plaintiff in a patent infringement case either the plaintiff’s lost profits or a reasonable royalty. While the courts have exercised suspect methodology, theoretically, the result is acceptable. What is unacceptable is how courts have managed to read the 1946 amendment of the patent code as eliminating the traditional remedy of an accounting for the infringer’s profits. Such a reading is without basis. In fact, Congress appears to have intended to preserve the option of a restitutionary recovery. One author even suggested that § 284 be amended to provide explicitly for unjust enrichment recovery. That is not necessary.

288 Coleman, supra note 22, at 103.
289 Id. at 104.
290 Id.
291 Id. at 116.
292 Filardi, supra note 17, at 87. “Section 284 of 35 U.S.C. should be amended to enable the patent owner to recover directly that portion of the infringer’s profits which are unjust. While a party entitled to lost profits should not be permitted to obtain double recovery, the unjust profit enrichment of the infringer should be directly recoverable as the cost of unfair competition, i.e., wrongful infringement, even if not willful.” Id. Though otherwise accurate, such a provision is contrary to the laws of unjust enrichment if it does not consider culpability.
Professor Kull argues that patent law is part of the law of restitution, per se.\textsuperscript{293} In fact, one would have difficulty locating a book on the law of restitution that does not address patent infringement. So long as the defendant gains a benefit,\textsuperscript{294} restitution for patent violations should be available even where the defendant’s gain bears no relation to the plaintiff’s loss.\textsuperscript{295} Judge Posner poignantly stated in a copyright case,

It is true that if the infringer makes greater profits than the copyright owner lost, because the infringer is a more efficient producer than the owner or sells in a different market, the owner is allowed to capture the additional profit even though it does not represent a loss to him. It may seem wrong to penalize the infringer for his superior efficiency and give the owner a windfall. But it discourages infringement. By preventing infringers from obtaining any net profit it makes any would-be infringer negotiate directly with the owner of a copyright that he wants to use, rather than bypass the market by stealing the copyright and forcing the owner to seek compensation from the courts for his loss. Since the infringer’s gain might exceed the owner’s loss, especially as loss is measured by a court, limiting damages to that loss would not effectively deter this kind of forced exchange. This analysis also implies that some of the “windfall” may actually be profit that the owner would have obtained from licensing his copyright to the infringer had the infringer sought a license.\textsuperscript{296}

\textsuperscript{293} Interview with Andrew Kull, \textit{supra} note 9.
\textsuperscript{294} \textit{GOFF & JONES, supra} note 158, at 716.
\textsuperscript{295} Gordon, \textit{supra} note 81, at 239.
\textsuperscript{296} Coleman, \textit{supra} note 22, at 115-16 (quoting Taylor v. Merick, 712 F.2d 1112-1120 (7th Cir. 1983)). The Author takes issue with the suggestion that there is a windfall with restitutionary recovery. What the plaintiff receives in such a case is the amount to which he is entitled. His constitutional protections have been violated by an infringer, and all that the plaintiff seeks is what is rightfully his ab initio.
Professor Kull states that a great number of recently reported American restitution cases are presented by lawyers and judges who do not understand its fundamental concepts.\(^{297}\) Perhaps that is the reason why unjust enrichment has fallen from favor in the patent context. Hopefully, this Note will shed some light on the subject and offer a paradigm for analysis of claims. This Note does not offer a novelty, but rather a rediscovery of unjust enrichment. “With renewed accessibility and corresponding professional attention, the [law of restitution] might flourish again in the United States as it now does elsewhere in the common-law world.”\(^{298}\)

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\(^{297}\) Kull, supra note 5, at 1241.

\(^{298}\) Id. at 1197.

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