



10-1982

## General Motors Corporation v. Devex Corp.

Lewis F. Powell Jr.

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John - 'et al.' OK?  
All OK - ju

D

all three

Patent infringement suit -  
fact specific in most respects  
Involves pre-judgment interest -

Preliminary Memo

April 30, 1982 Conference  
List 1, Sheet 3

No. 81-1661

GENERAL  
MOTORS CORP.

v.

DEVEX CORP.,  
et al.

Cert to CA 3  
(Gibbons,  
Hunter  
& Stern [DJ])  
Federal/Civil

Timely

No. 81-1718

DEVEX CORP.,  
et al.

v.

GENERAL  
MOTORS CORP.

Cert to CA 3  
(Gibbons,  
Hunter  
& Stern [DJ])  
Federal/Civil

Timely

No. 81-1865

DEVEX CORP.,  
et al.

v.

GENERAL  
MOTORS CORP.

Cert to CA 3  
(Gibbons,  
Hunter  
& Stern [DJ])  
Federal/Civil

Timely

Dany. See note on reverse ju

1. SUMMARY: Both parties in a patent infringement suit begun in 1956 challenge aspects of the final judgment as to the scope of the patent and the award of damages.

2. FACTS: The patent involved is a process of working metal using phosphate, soap, and borax. This process improves the lubricity of the metal during the shaping process and the cleanability of the metal after its formation. The issues of the validity and infringement themselves have a lengthy procedural history, which includes two denials of cert from this Court. Only issues involving accounting are before the Court at this time.

The DC assigned the accounting to a Special Master. After a 53-day-hearing, he issued his report. The Special Master held that accused practices which involved the use of borax-based lubricants in cold-forming bumpers and non-bumpers infringed the patent, if the use of those lubricants led to cleanability in conjunction with lubricity and where GM used those advantages. He also ruled that the patent was infringed when certain chemicals were substituted for borax. He held that practices which do not involve cleaning did not infringe the patent. Similarly, he held processes in which borax was used solely to neutralize acid and not to lubricate or aid in cleaning did not infringe the patent. He refused to award damages for non-bumper infringements, because alternatives were available to GM that would not have been infringing.

Noting that plaintiffs were not themselves the manufacturers, he held that damages would take the form of a

reasonable royalty ascertained by reference to hypothetical negotiations. He accepted a figure of .75% as an opening offer, but ultimately reduced the figure to .50%. He awarded interest as a matter of fact, as part of the hypothetical bargain.

The DC adopted most of these findings. However, rather than ruling that none of the accused rinse practices infringed the patent, it ruled that rinse practices which involve cleaning do infringe the patent. It rejected the reduction in the reasonable royalty rate and restored the .75% figure.

3. PROCEEDINGS BELOW: The CA affirmed, basing its affirmance on many of the findings based on its earlier opinions in the case. It agreed with the DC that rinses in which cleanability and its effects are put to use in the actual process did infringe the patent. It agreed that the patent was useful but not essential in the cold forming of bumpers. Thus plaintiffs' contention that its damages should be based on the cost of producing bumpers by hot forging or contour polishing is not reasonable because it assumes that GM could not efficiently cold form bumpers without use of the patent.

There was evidence in the record to support the figure of .75%. The facts establish that the patent was relatively unimportant in non-bumper cold forming. Thus, the court below was correct not to award damages for those processes.

Under the facts of this case, the award of interest was not error. Although 35 U.S.C. §284 does not make clear when interest, if awarded, shall be calculated, both the language of the statute and Aro Manufacturing Co. v. Convertible Top Co., 377

U.S. 476 (1976), support the award of interest from the date of infringement here. As amended in 1946, the statute permits a court to award "such costs, and interest, as may be fixed by the court." Aro quoted a House Report that stated that the object of that statutory language was to give "not less than a reasonable royalty, together with interest from the time infringement occurred. . . ." Not to award interest here would be to give the defendant a windfall in the form of the use of the royalty money it should have paid to plaintiffs. The result is consistent with that in most other cases, although Wahl v. Carrier Manufacturing Co., 511 F.2d 209 (CA 7 1975), did rule that "interest should run from the date damages are liquidated." Other cases state the court has discretion regarding the date from which interest begins to run. See Georgia-Pacific Corp. v. U.S. Plywood Champion Papers, Inc., 446 F.2d 295 (CA 2), cert. denied, 404 U.S. 879 (1971); Milgo Electronic Corp. v. United Business Communications, Inc., 623 F.2d 645 (CA 10), cert. denied, 447 U.S. 982 (1980).

4. CONTENTIONS: In No. 81-1661, GM challenges the award of interest when there has been no finding of bad faith, the DC's rejection of the royalty the Special Master determined to be reasonable, and the alleged expansion of the claim to included process that do not use the vitalizing ingredient, not shown to have the same coalition, and not producing the same result.

Prior to the revision of the statute, prejudgment interest had been awarded on unliquidated reasonable royalty damages only where there was a finding that the infringer had acted in bad



faith. Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936). There is a now a split in the circuits as to whether the revision changed the law on prejudgment interest. Unlike the court here and possibly CA 4, see Marvel Specialty Co. v. Bell Hosiery Mills, Inc., 386 F.2d 287 (1967), cert. denied, 390 U.S. 1030, other circuits require findings of "special circumstances" based on reckless or bad faith conduct of the infringer before the court is permitted to exercise its discretion and award prejudgment interest on unliquidated reasonable royalty damages. See Ellipse Corp. v. Ford Motor Co., 614 F.2d 775 (CA 7 1979); Russell Box Co. v. Grant Paper Box Co., 203 F.2d 177 (CA 1 1953), cert. denied, 346 U.S. 821, rehearing denied, 346 U.S. 905; Wm. Bros. Boiler & Mfg. Co. v. Gibson-Stewart Co., 312 F.2d 385 (CA 6 1953); Radiator Specialty Co. v. Micek, 395 F.2d 763 (CA 9 1968). The circuits are also split on the meaning of the language from the House Report quoted in Aro. CA 2, CA 6, CA 7 and CA 10 have concluded that the quotation was inadvertently taken from language in an earlier version of the bill, language which was objected to and deleted from the statute and is not a controlling holding by this Court. See Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc., 446 F.2d 295 (CA 2 1971), cert. denied, 404 U.S. 870; Wm. Bros. Boiler & Mfg. Co., supra, Wahl v. Carrier Mfg. Co., Inc., 511 F.2d 209 (CA 7 1975); Maloney-Crawford Tank Corp. v. Sauder Tank Co., Inc., 511 F.2d 10 (CA 10 1975).

The Special Master here followed the approach of CA 2 in Foster v. American Machine and Foundry Co., 492 F.2d 1321 (1974),

in reducing what would be an exorbitant initial license offer to what would be reasonably expected at the end of bargaining. The refusal of CA 3 here to follow that approach and instead to accept the initial figure produces a conflict between the circuits.

CA 3's treatment of equivalents goes so far as to undermine the statutory requirement that patent claims point out and particularly claim the invention. In upholding the validity of the claim, CA 7 stressed the borax coaction, but CA 3 here permitted recovery for other processes. This Court must rule that judicial interpretation and application of patent claims comply with the statutory language.

Devex answers that this is the third time GM has asked the Court to review its question pertaining to the 35 U.S.C. §112 requirement that a patent "particularly point out and distinctly claim" the inventions. GM misstates the findings of the courts below to support its argument. The record fully supports the .75% figure. Indeed, when the patent holder in 1964 offered to license the industry at this rate, the offer was one depressed by GM and open industry infringement. The Special Master's one-third reduction, in contrast, was based on nothing more than pure speculation. The process saved GM \$1.53 per bumper.

GM has not shown a clear abuse of discretion under all the facts of the case in the award of pre-judgment interest. The statutory history, as explained in Aro, supports the timing of the award. It is necessary to give adequate compensation. District courts in all the circuits that have spoken since Aro

have ruled that pre-judgment interest on a reasonable royalty award is appropriate to compensate the patent holder adequately (citing district court cases). Only CA 7 in Wahl requires that the DC find special circumstances to make such an award. Even CA 7 has recently permitted pre-judgment interest in a different act, a Death Act, calling for "fair and just compensation," in order to compensate adequately. As the CA in this case pointed out,

"Where, as here, the interest is as much or more than the royalties, a failure to award interest from the date of the infringement would mean that the losing defendant actually gains from the infringement and the lengthy litigation."

Defendant here had the benefit of the reasonable royalties wrongfully withheld since 1952, some thirty years ago. It is likely that CA 7's requirement of special circumstances could be met here. There is not a sharp conflict on the exercise of such discretion.

In No. 81-1865 (cross-petition), Devex asserts that the award should have taken account of "savings and gains" in establishing the royalty. It also asserts the one accused process was erroneously found not to be infringing. The courts below departed from the established rule of Filghman v. Proctor, 125 U.S. 136 (1888); Gordon Form Lathe Co. v. Ford Motor Co., 133 F.2d 487 (CA 6 1943), in refusing to consider savings.

GM replies that these assertions depend on facts which have no support in the record.

In No. 81-1718, Devex challenges the failure to award compensation for infringement of non-bumper parts. GM gained an



advantage from using the patented process and it flies in the face of the statute not to compensate for such wrongful use.

GM replies that no "savings and gains" can be relevant to the reasonable royalty unless they are attributable to the patented process and relate to comparable noninfringing alternatives. The courts below properly found these criteria not to be met here.

5. DISCUSSION: Most of the issues raised are fact-specific and thus not appropriate for this Court's review. The one possible exception is the alleged conflict on pre-judgment interest. CA 3 itself recognized that the result in this case was inconsistent with CA 7 in Wahl. As described by GM, the circuits do disagree about the effect of Aro's citation of language from the Committee Report. This Court, however, has already denied cert on a case rejecting Aro's reading of the statutory language. Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc., 446 F.2d 295 (CA 2), cert. denied, 404 U.S. 870 (1971). Given the unusual and lengthy history of this case, as well as the latitude afforded trial courts in assessing damages in patent infringement actions, I do not think the award of interest was an abuse of discretion and would recommend denial.

There is a response to each petition and a reply brief for each case.

not  
abuse  
of  
discretion

April 21, 1982

April 1

Opinion in Appendix

[illegible]

On the prejudgment issue argument, petr's supposed conflict is founded on the argument that the CA3 here thought prejudgment interest is mandatory in these type of cases. This theory does not conform completely with the language of the CA3 opinion: "We . . . hold that under the facts of this case the award of interest as the yearly royalty payments became due was not an abuse of discretion." App. 335a (emphasis added). Other portions of the opinion do tend toward a more mandatory tone, however, and at one point the CA3 states that its resolution is "inconsistent" with a CA7 case. See id. at 336a-339a. Given the narrowness of the issue -- availability of prejudgment interest under 35 U.S.C. §284 -- I recommend that the Court await a more severe conflict before devoting its resources to this problem.

The memo author correctly notes that all other issues rely heavily on factual interpretations of an ancient record (the complaint in this case was filed in 1956!).

ju

yes

John take another  
Voted on..... look

Voted on.....look....., 19...  
Assigned .....19...  
Announced .....R. D. W. &....., 19...

No. 81-1661

say Q #1  
is of great  
importance

**VS.**

DEVEX CORP.

9 may join  
B R W

Relent  
for BRW  
to write.

[illegible]



jsw 05/08/82

*5 Lile Deny all their  
Award of pre-judgment  
interest in this case was  
probably justified in view of  
Memorandum to Justice Powell  
protracted trial (53 days), &  
Re: Nos. 81-1661, etc.: Devex*

*discretion of D.C. There was  
split - but I'd leave it  
for awhile*  
Justice White does have a point. As my earlier  
comments on this case stated, the CA3 in this case does at  
one point label its holding as "inconsistent" with the CA7  
case that BRW mentions. And the holding below is in indi-  
rect conflict with a number of other decisions, as BRW also  
observes.

I nevertheless continue to believe that cert is not  
warranted in this case . The Court's increasingly crowded  
docket means that some cases that would have been heard pre-  
viously must now be passed over -- unless the lag in this  
Court's docket is simply to continue to grow. Given that  
some cases must lose out, this one exemplifies the type that  
should. The issue of the availability of prejudgment inter-  
est under 35 U.S.C. §284 is a very narrow question. The  
conflict is not hopelessly irreconcilable, because the CA3  
did award prejudgment interest "under the facts of this  
case" rather than on an utterly automatic basis -- as the  
petr claims. And this suit has been going for more than 25  
years. That's ridiculous!



9 Denied  
at last conference  
Still Deny.

There is conflict,  
but prejudgment  
interest seems OK  
in this protracted case.

To: The Chief Justice  
Justice Brennan  
Justice Marshall  
Justice Blackmun  
Justice Powell  
Justice Rehnquist  
Justice Stevens  
Justice O'Connor

From: Justice White

Circulated: 5/7/82

Recirculated: \_\_\_\_\_

Conflict is tolerable  
5/9/82

Nos. 81-1661, 81-1718, 81-1865: Deny all three

General Motors Corporation v. Devex

Justice White, dissenting from denial of certiorari in No. 81-1661.

In this case, the Court of Appeals for the Third Circuit recognized that its decision to award prejudgment interest for patent infringement under 35 U.S.C. §284 without a finding of special circumstances conflicts directly with the holding of the Court of Appeals for the Seventh Circuit in Wahl v. Carrier Manufacturing Co., 511 F.2d 209 (1975). Its approach also conflicts with that announced in Radiator Specialty Co. v. Micek, 395 F.2d 763 (CA9 1968); Wm. Bros. Boiler & Mfg. Co. v. Gibson-Stewart Co., 312 F.2d 763 (CA6 1953); Russell Box Co. v. Grant Paper Box Co., 203 F.2d 177 (CA1 1953), cert. denied, 346 U.S. 821, rehearing denied, 346 U.S. 905. Moreover, its reading of

language in Aro Manufacturing Co. v. Convertible Top. Co., 377 U.S. 476 (1976), is inconsistent with that of other circuits. See Wahl, supra, Wm. Bros. Boiler & Mfg. Co., supra, Georgia-Pacific Corp. v. Plywood-Champion Papers, Inc., 446 F.2d 295 (CA2 1975), cert. denied, 404 U.S. 870; Maloney-Crawford Tank Corp. v. Sauder Tank Co., Inc., 511 F.2d 10 (CA10 1975). Because it is this Court's duty to resolve conflicts among the circuits, I respectfully dissent from denial of certiorari.

*Voted on....., 19...*

*Assigned* . . . . ., 19...

No. 81-1661

*Announced* . . . . ., 19...

GMC

vs.

DEVEX CORP.

Grant  
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take another  
test

[illegible]

Voted on....., 19...

Assigned . . . . ., 19...

No. 81-1661

*Announced* . . . . ., 19...

GMC

vs.

DEVEX CORPORATION

Grant  
Q1 only

[illegible]



*Reviewed hurriedly 12/06 (must read more carefully)*

job 12/06/82

*Jim would app'm.  
Subject to more careful review  
& oral arguments, I am inclined  
to agree*

BENCH MEMORANDUM

To: Mr. Justice Powell

From: Jim

Re: GMC v. Devex Corp., No. 81-1661

Question Presented

Does 35 U.S.C. §284 require the award of prejudgment interest on unliquidated, reasonable royalty patent infringement damages where there has been no finding of bad faith or other exceptional circumstances against the infringer but rather a finding (approved by the court below) that the infringer "acted in good faith and not recklessly"?



Background

(Good)

Resp brought a patent infringement suit. It is settled that <sup>CM</sup> petr infringed resps' patent. Section 284 of title 35 provides in <sup>infringe</sup> relevant part: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no even 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 Master found that "[t]he only rational way to determine reasonable royalties is by reference to the hypothetical negotiations." He found, further, "as a matter of fact" that "the results" of such hypothetical negotiations would have been an agreement providing for periodic <sup>royalty</sup> payments based on a percentage of petr's sales of infringing bumpers. To this would have been added "interest to the patentee to compensate for the postponed enjoyment of the pecuniary benefits of the invention." Referring to that combination of principal and interest the Master <sup>Master</sup> stated: "I find that to be the measure of the reasonable royalty due from defendant on account in the infringement." Resps' expert testified to the periodic payments as part of the hypothetical license. Petr offered no contrary testimony and did not take exception to the Master's finding of fact that the reasonable royalty here had to include compensation for delay in payment. Petr did argue that the license might not itself contain an express interest provision, but this is immaterial because, as the Master found, and petr did not challenge, "where the contractual breach consists of a failure to pay a fixed or ascertainable monetary value...interest is recoverable from the date payment is due"; and

specifically in the case of an agreed patent royalty interest runs from the date of nonpayment.

Even though he included delay compensation as an integral part of the reasonable royalty, the Master also stated that he:

would rule both as a matter of law and of discretion that interest should run from the date of infringement without regard to whether defendant's behavior warranted multiple damages or attorneys' fees. Any other result would frustrate the compensatory purpose of §284 and would be inconsistent with the result in other legal settings which are virtually indistinguishable.

MS  
Master

The Master set forth four considerations in support of his conclusion: (i) that patentees receiving actual or established royalties get prejudgment interest and that to deny plaintiffs such interest would put them in a worse position "for no discernable reason," concluding that "[s]uch apparent arbitrariness of treatment is unfair and makes no sense"; (ii) that 35 U.S.C. 284 should yield a result consistent with that under 28 U.S.C. §1498 which, even in the absence of any express provision for interest, has long been judicially interpreted to call for pre-judgment interest so as to make the compensation "entire," see Waite v. United States, 282 U.S. 508, 509 (1931); (iii) that prejudgment interest "is more consistent with the contractual rationale of a 'reasonable royalty' than would be a rule disallowing such interest"; and (iv) that the compensatory purpose of §284 is not well-served by a rule that would deny prejudgment interest, except where the deft has acted wilfully or in bad faith, from the mid-1950's to now.

four reasons

The DC affirmed the Master's award of prejudgment interest on the royalty award, stating that petr must be charged a premium for the additional benefit it has enjoyed from retaining the use of the

royalty money over the many years since its first infringement. The DC found that, to do otherwise would systematically undercompensate patentees and encourage their infringers to continue fighting lawsuits long after the disappearance of any justification for doing so for the sole purpose of gathering in generous interest money that rightfully belongs to someone else.

The CA3 affirmed, holding "that under the facts of this case the award of interest as the yearly royalty payments became due was not an abuse of discretion." The CA affirmed that interest here was a necessary element in the reasonable royalty for the patent holder. The CA cited Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S.476, 505-506 (1964), which held that "[t]he object of the [1946 Amendment of 35 U.S.C. §284 was to award] 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." (quoting H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946)). The CA then stated that "in a case such as this one, 35 U.S.C. 284 itself supports the award of interest from the date of infringement," because it requires that the damages be "adequate to compensate for the infringement." The CA noted that the complaint was filed in 1956 and that interest was awarded "for infringement which took place in that year": failure to award such interest would be to "give defendant a windfall in the form of the use of the royalty money it should have paid to plaintiffs, and would deprive plaintiffs of money they should have had." Moreover, the CA continued, "a failure to award interest as of the date of



infringement would encourage defendants to draw out litigation for as long a period as possible. The only sufferer from such a result would be the prevailing plaintiff--the innocent party." (emphasis in original).

The CA stated that "[p]olicy likewise dictates this result: failure in a case like this one to award interest as of the date of infringement rewards infringers where those infringers refused to accept or negotiate a royalty and discourages the amicable licensing of patents." Moreover, the CA cited the parallel §1498 under which pre-judgment interest is awarded for patent use by the Government to "'accomplish complete justice as between plaintiff and the United States.'" The CA concluded that "[t]he failure to award interest to plaintiffs here would penalize the prevailing party and reward the infringer for its wrongdoing, and we decline to reach such an inequitable result...."

#### Summary of the Parties' Contentions

##### I. ✓ Petr

Petr argues that, before 1946, courts disallowed interest on infringer's profits or reasonable royalties damages until judgment was liquidated, so long as the defense was in good faith and not reckless. The controlling decision on reasonable royalty judgments was Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936). This Court there held that, in the absence of "exceptional circumstances," interest on such a judgment does not start until the date damages are liquidated. From the Duplate facts, and other decisions of this Court, it was clear that "exceptional

circumstances" could not exist in the absence of a finding the defendant acted in bad faith or was reckless.

Interest was first referred to in the patent statutes in 1946. As passed by the House, the bill leading to the 1946 Patent Act required interest "from the time the infringement occurred." 92 Cong. Rec. 1857 (1946). The Senate deleted this mandatory interest provision and substituted "such costs, and interest, as may be fixed by the court." 92 Cong. Rec. 9187-9188. The House then accepted the Senate version of the bill. See 92 Cong. Rec. 9881.

Petr's arguments turn on the critical assumption that the 1946 Patent Act categorically rejected mandatory prejudgment interest and adopted in its place language consistent with Duplate. yes

Considerations unique to patent cases gave Congress special reason to adhere to Duplate. The Patent Office cannot avoid issuing invalid patents. Court surveillance is essential before a patent becomes an established monopoly--especially where there is a good faith nonreckless defense. But court review cannot materialize unless the accused infringer defends. There are strong incentives on the accused infringer to license or otherwise avoid the litigation. The presumption of validity favors the patentee, litigation expense is unavoidable, key personnel are tied up in litigation. Advance notice that interest will not be assessed, provided the defense is in good faith and not reckless, tends to offset these obstacles, particularly since interest is normally substantial. Mindful of this consideration, Congress declined to tilt the scales still further in favor of the patentee.



Congress again addressed the interest provision when 35 U.S.C. §284 was enacted as a part of the 1952 Patent Code. The Code is the carefully crafted result of an in-depth review of the patent statutes. Where Congress thought guidelines to the courts were desirable, they were expressed. See Graham v. John Deere Co., 383 U.S. 1, 17 (1966) (stating that §103 was a codification of judicial precedents). Where the Congress intended to change the law, as in §271, it did so. See Dawson Chemical Co. v. Rohm & Haas, 448 U.S. 176, 213-216 (1980) (w/POWELL, J.); id., at 238 (WHITE, J., dissenting). As enacted, §284 left the law where it stood by repeating almost exactly the language of the 1946 Patent Act. This language excludes mandatory interest. But, consistently with Duplate, it permits discretionary award of interest after there has been a finding of bad faith or reckless conduct by the infringer.

Petr contends that the courts have continued to follow Duplate. A few decisions, however, notably the CA2's decision in Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc., 446 F.2d 295, 302 (1971), have indicated by dictum that §284 permits a somewhat broader exercise of discretion "although the question is not free from doubt." But where interest has been allowed in these cases, "exceptional circumstances" have been present and the exercise of discretion has been within the framework of the Duplate rule.

Petr argues that, if §284 should be broadened in accordance with the dictum in Georgia-Pacific "to grant the trial court its traditional discretionary power in equity," prejudgment interest would still be improper in this case. The trial court's "traditional discretionary power in equity" requires a balancing of

the equities for and against each party. As shown by the found facts and indisputable record facts, these equities are overwhelmingly in petr's favor.

Petr urges that the CA3's judgment be reversed and interest allowed only from the date the damages were liquidated by the master's report.

## II. Resps

Resps start with the statute: under §284, the court "shall" award "damages adequate to compensate for the infringement." Damages must not be not less than "a reasonable royalty" with "interest and costs as fixed by the court." The plain meaning of the statute, therefore, supports the award of interest from the date of infringement, both for "adequate compensation" and as "interest."

Resps argue that this Court approved this interpretation of §284, as amended in 1946 and reenacted in 1952, in Aro. The Court quoted approvingly from the congressional reports that the basis of recovery was to be "not less than a reasonable royalty, together with interest from the time infringement occurred, rather than profits and damages." Both House and Senate Committess reporting the bill enacted in 1946 stated that its object was to provide adequate compensation, not less than a reasonable royalty, to include "interest from the date of infringement." See H.R. Rep. 1587, 79th Cong., 2d Sess. (1946). No spokesman for the bill in either body ever indicated a change in this legislative intent.

Resps argue that petr "makes up out of whole cloth" its contention that Congress had special reasons for not changing the interest rule in 1946. Congress struck the balance when it

eliminated profits, but awarded interest. It thereby removed the penalty against the good-faith infringer by letting him keep his profits but also abolished the penalty against the patent holder by giving him prejudgment interest to make him whole.

Resps argue that the authorities since Aro further support the CA3's judgment. In Georgia-Pacific, the CA2 sustained an interest award from date of last infringement as within the DC's discretion, under the 1946 amendment, even in the absence of a finding of exceptional circumstances. In Marvel Specialty Co. v. Bell Hosiery Mills, Inc., 386 F.2d 287, 290 n.3 (CA4 1967), the court stated that "[t]he legislative history of the 1946 Amendment, as recited in the Aro case, [] shows that the sponsors of the bill contemplated the allowance of interest from the time of infringement." (emphasis in original).

Resps defend the award here as necessary to give adequate compensation in view of the long delay in their receiving any payment at all, to avoid penalizing the innocent patent holder, and to avoid giving the infringer-wrongdoer a windfall. Accordingly, the Master, the DC, and the CA3 overruled the defense of good faith, as the prejudgment interest award was not imposed as a penalty, but awarded as delay compensation. Petr adamantly refused to take a license on any basis although the patent owner gave it notice it was infringing in 1955 and commenced suit in 1956. Petr could have negotiated a license at any time before 1956, from which the interest award dates, since, as the Master held, licenses were the only potential source of income from the patent.

Policy reasons also support petr's interpretation of §284. As the CA3 noted, the denial of interest "discourages the amicable licensing of patents" which is against the "policy" of the patent system. Such denial is also unsound administration of justice, because it encourages the infringer to delay merely to enjoy the use of the money before the day of reckoning.

Resps argue that, under these circumstances, there is no reason for this Court to disturb the findings, conclusions, and careful exercise of discretion by the Master, the DC, and the CA3.

### Discussion

#### I. Pre-1946 Law

A. Statute. Petr correctly describes the law before 1946. In its pre-1946 version of §284, then known as §70, Congress provided merely for "a reasonable sum as profits or general damages for the infringement." See Deller's Walker on Patents 2d, at 551. Thus, the statute provided for a multiple of damages "in its [the court's] discretion." Omitted was any reference to "interest" or to "adequate compensation not less than a reasonable royalty." See Tiligham v. Proctor, 125 U.S. 136, 160 (1888).

B. Case Law. In Duplate, the Court held that, "if...an award of damages upon the basis of a reasonable royalty becomes appropriate again, we think that interest should run from the date when the damages are liquidated, and not, as by the present decree, from the date of last infringement," because there "are no exceptional circumstances justifying a departure from what is at least the general rule." 298 U.S., at 459. "Exceptional

circumstances" meant lack of "earnest controversy and of uncertain issue." See Tilgham v. Proctor, 125 U.S. 136, 161 (1888).

C. Policy Basis for Duplate Rule. There is some justification for such a rule in that reasonable royalty damages for patent infringement are unpredictable. They cannot be known and are not liquidated until each royalty-bearing product or process is identified and the reasonable royalty rate is ascertained. Duplate was a recognition of the unliquidated character of a reasonable royalty.

Patent litigation is not just a matter of private rights. Good faith, nonreckless defenses to patent charges are an essential element of the patent system. The Patent Office is compelled to accept every patent application. Proceedings are ex parte. It must examine as best it can, strained by its limited resources, the prior art. Pertinent information, such as prior invention and prior public uses, is usually unknown to the Patent Office. Inevitably, there is a "notorious difference between the standards applied by the Patent Office and by the Courts" in determining patentability. Graham v. John Deere Co., 383 U.S. 1, 18 (1966). Patents issue for a "shadow of a shade of an idea." Atlantic Works v. Brady, 107 U.S. 192, 200 (1882).

This Court observed in Pope Mfg. v. Gormully, 144 U.S. 224, 234 (1892), that it is "as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly." This court surveillance of patents cannot materialize unless accused infringers challenge dubious patents and questionable infringement



charges. Such challenge is not automatic: business enterprise acts in its own self-interest. The expenses--and difficulty--of a patent defense are never lightly assumed. See 35 U.S.C. 282 (presumption of patent validity); Blonder-Tongue Labs v. University of Illinois Resources Foundation, 402 U.S. 313, 335 (1971) ("[P]atentees are heavily favored as a class of litigants by the patent statute."). Further, the prospective deft must undertake an expensive prior art search and its scarce technical and management personnel are tied up in unproductive court activities. These obstacles generate a strong stimulus to take a license or just not to compete.

It is clear that there is a disincentive to challenge, but it is not clear that providing prejudgment interest will effect the decision to challenge. The use of "royalty" money is a cost from the moment of the infringement notice, regardless whether the alleged infringer pays that interest then by foregoing the use of that money and paying some set royalty, or whether he pays it later in a damage award to the patent owner. It is clear, however, that not providing for prejudgment interest provides an incentive to challenge, thus encouraging court action rather than negotiations. Selective allowance of interest (for bad faith challenges) merely reduces that incentive to litigate where the defense is totally without merit.

In Funkhouser v. J.B. Preston Co., 290 U.S. 163, 168 (1933), the Court stated:

It has been recognized that a distinction, in this respect, simply as between cases of liquidated and unliquidated damages, is not a sound one. Whether the case is of the one class or the other, the injured party has suffered a loss which may be regarded as not fully compensated if he is confined to the amount found to be

recoverable as of the time of breach and nothing is added for the delay in obtaining the award of damages. Because of this fact, the rule with respect to unliquidated claims has been in evolution.... "The disinclination to allow interest on claim of uncertain amount seems based on practice rather than theoretical grounds." Williston on Contracts, vol. III, §1413.

D. Conclusion. Although prejudgment interest was clearly not allowed before 1946, there seems no particular reason to continue such a rule unless it is clear that Congress intended such a result.

## II. The 1946 Statute

A. "Adequate to Compensate." Because §284 mandates damages adequate to compensate for an infringement and not less than a reasonable royalty, it clearly arguable that the provision encompasses delay compensation where the courts find that such compensation is in fact a proper part of "adequate compensation" and an integral part of the "reasonable royalty." Both the DC and the CA did just that. An award of interest in this case was not a punitive device: interest represents damages for delay in payment and compensation for use of resps' money that should have been included in withheld annual royalty statements if such had been rendered by the infringer. Adequacy of compensation and the amount of the reasonable royalty are questions of fact, and thus not subject to review by this Court where they have been affirmed by the CA3 as not "clearly erroneous." (It also should be noted that Judge Caleb Wright--known as one of the best patent judges in the country--was the DC Judge).

Such view has been taken by the Court in applying 28 U.S.C. §1498, under which the U.S. Government pays compensation for patent use. In Waite v. United States, 282 U.S. 508, 509 (1931): "The

statute grants 'recovery of his reasonable and entire compensation for such use.' We are of opinion that interest should be allowed in order to make the compensation 'entire.' [W]e cannot doubt that it was intended to accomplish complete justice as between the plaintiff and the United States." See Catalano, Inc. v. Target Sales, Inc., 446 U.S. 643, 648 (1980) ("It is virtually self-evident that extending interest-free credit for a period of time is equivalent to giving a discount [from the purchase price] equal to the value of the use of the purchase price for that period of time."); Jacobs v. United States, 290 U.S. 13 (1933) (holding that interest from time of the taking is necessary to constitute "just compensation" under the 5th A). See also ALI, Restatement of Restitution §157, at 627 ("In actions for restitution brought because of a conversion of chattels, the measure of restitution is the value of the chattels, together with, ordinarily, interest from the time of the conversion."); ALI, Restatement of Torts 2d §913, at 488 (calling for interest to be awarded for "harms to pecuniary interest from the time of the accrual of the cause of action to the time of judgment, if the payment of interest is required to avoid an injustice").

Despite the logic of such an approach, it is probably true that Congress would not have placed the clause on "interest" also in §284 if it intended to include interest in "adequate to compensate." An interpretation to the contrary should be avoided, else the clause on "interest" is redundant. Thus, the Court should not embrace this view of the CA3.

B. "Interest." The face of the 1946 statute also permits "interest and costs as fixed by the court." A plain reading of the

statute would indicate that the award of "interest" is not left to the discretion of the court, but the amount is.

C. Aro. In Aro, the Court quoted the House Report also adopted by the Senate. It is clear that the sole purpose of the Aro quotation was to confirm that the 1946 Act eliminated recovery of the infringer's profits, and the Court was not concerned with prejudgment interest and did not discuss it. Thus, Aro does not compel the result in this case.

D. Conclusion. Congress clearly did not draw any distinction between liquidated and unliquidated claims on the face of the statute. Unless there is something in the legislative history that indicates otherwise, it is difficult to conclude but that Congress in 1946 meant to change the existing law as to interest on unliquidated infringement damages. The fairest reading of the statute is that interest is mandatory, but separate from the award of royalties "adequate to compensate." The amount of interest is left to the discretion of the court.

### III. Legislative History

A. Patent Act of 1946. The major change in the 1946 Patent Act was the elimination of the infringer's profits as a basis for a money award, thus limiting the patentee to his damages. See Aro, 377 U.S., at 504-507. The statute codified this Court's earlier decision in Dowagiac Mfg. Co. v. Minnesota Moline, 235 U.S. 641, 648 (1915). Senator Pepper explained this change on the floor of the Senate, after which Senator Revercomb asked: "Mr. President, do I correctly understand that the explanation the Senator has made covers all the changes which the bill proposes to make?" Senator



Pepper answered: "That is correct, except for the changing of the word 'decree' to the word 'judgment.'" 92 Cong. Rec. 9187-9188 (1946).

This statement is poor support for petr's argument that Congress did not intend to change the Duplate rule, because clearly Senator Pepper did not recall all the wording changes made in the Act. The truth is that it is not clear why the Senate changed the language of the House bill or whether the substituted language really differs in meaning from that deleted. It should be emphasized, however, that the Senate Committee expressly adopted the House Committee Report, even though the Senate Committee did not agree to make an attorney's fee award mandatory nor to the limiting of that award to the patent holder. See S. Rep. No. 1503, 79th Cong., 2d Sess. (1946). The Sen. Rep. made clear that the purpose of the change was to render the award of attorney's fees discretionary. There is no indication that the Senate intended to change the interest provision of the House bill other than that the language of the bill itself was changed. Indeed, when the bill came back to the House, Congressman Lanham, who managed the bill, explained: "The Senate amendments do not interfere with the purport of the bill. There is a provision with reference to attorneys' fees and how they shall be paid." Cong. Rec. 9881.

It seems clear that Congress meant to change the Duplate rule. The real issue is whether Congress intended to make interest awards mandatory or discretionary. Given the wording change in the bill, the fairest interpretation of the legislative history is that Congress meant to make the amount of the interest award (from when

it would run) discretionary with the Court, but the award itself discretionary.

B. Patent Act of 1952. In 1952, Congress rewrote §284 to provide its present language, with very little change in the pertinent provision. Although it is clear that Congress changed many parts of the patent laws in 1952, see, e. g., 35 U.S.C. §271 (overruling Mercoide v. Mid-Continent Inv. Co., 320 U.S. 661 (1944)), the relevant congressional intent behind §284 should be considered that of the 1946 Congress. It is interesting to note, however, that Congress in 1952 specifically provided for an award of attorney's fees only in "exceptional cases," 35 U.S.C. §285, thus seriously undermining petr's argument that §284 was meant to codify the Duplate rule.

C. Conclusion. The legislative history, if anything, supports resps' contention that the award of prejudgment interest is mandatory. There is no basis for the conclusion that Congress had "special reasons" for not changing the interest rule when it amended the patent statute in 1946. If anything is discretionary, it is when interest will be considered to start running.

The <sup>✓</sup>point of Aro's quotation from the legislative history, if it is at all relevant, is that Congress struck the balance in 1946 when it eliminated profits but awarded interest. It thereby removed the penalty against the good-faith infringer by letting him keep his profits, but also abolished the penalty against the patent holder by giving him interest to make him whole. Award of an infringer's profits was a windfall to the patent holder, but a failure to award interest was a windfall to the infringer. Thus, the old system

violated the statute's new principle of indemnification in both respects. It is not surprising, then, that Duplate was not continued by the 1946 Congress.

#### IV. Policy Rationale for Interest Awards

The policies clearly support mandatory interest awards. "Special circumstances" is a concept germane to a penalty award, not to adequate compensation for appropriation of plaintiffs' property. Interest is an essential ingredient of adequate compensation. As the Master correctly noted, the present situation is not different from the situations where a license provides for royalties that become defaulted; where there is an established royalty; where the Government is the user; where a contract is breached; where a deft receives a benefit, but tortiously withholds the price from pltf. In all these cases, interest is proper from the date of the breach, use, or wrong.

It is a safe assumption that petr put the money withheld for royalties to some use. The issue is simply who should get the earnings of that money. It makes little sense to give resps the money but not its earnings. Moreover, the failure to award interest not only discourages amicable licensing of patents, it encourages infringers to continue fighting lawsuits, perhaps brought in good faith, long after the justification for doing so is obviously gone. Finally, inflation must be considered to make a pltf whole, and prejudgment interest is an appropriate way to take inflation into account.

Petr could have taken a license with provision for interest on late payments and still challenged the validity of the patent, so

there is no more connection between allowing challenges to patents and interest than there is between such challenges and any other element of indemnification of the patent holder for infringement of his patent. The system should certainly protect challenges to dubious patents, but by the same token, it should encourage invention by protecting valid patents and by treating infringement of a valid patent as a property tort, with the patent holder entitled to full indemnification. See Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27, 33 (1931).

#### V. Discretion

The primary equity in petr's favor is that resps represented in the CA7, in which circuit this suit began, that, if petr wanted to avoid infringement, all it need do is leave out the borax. Resps apparently, however, changed their mind and continued the suit. Presumably, petr would have switched to a non-damages-creating bumper process if it had not relied on resps' statement. There is not, however, much in the way of factual findings to support petr's assertions of overreaching by resps.

This "equity" goes more to Duplate's "special circumstances" requirement than it does to the discretion of the court to award interest from the date of infringement. More relevant to that inquiry is the fact that the interest here is as much as or more than the royalties. Clearly, petr came out a big winner for litigating rather than paying periodic royalty if it does not have to pay prejudgment interest. Notice of infringement was given in 1955; petr took a chance on litigating. He "loses" nothing by paying over the earnings on what was not his from the date of that



infringement. It cannot be said that the lower courts' abused their discretion in beginning the computation of interest from the date of infringement. The Court "cannot say that the [award] was either so unfair or son inequitable as to require [the Court] to upset it."

Blau v. Lehman, 368 U.S. 403, 411 (1962).

#### Summary

1. I think the evidence and policies support making prejudgment interest mandatory under §284. It is not as clear that such interest must run from the date of infringement. That consideration should be left to the discretion of the court. Here, it cannot be said that the court abused its discretion in awarding prejudgment interest from the date of infringement.

2. Affirm.

\* But not clear that interest must run from date of infringement

Jim  
~~Handwritten signature~~

81-1661 GENERAL MOTORS v. DEVEX CORP.

Argued 12/7/82

Is pre-judg. interest allowable  
where patent infringement has been found  
but ~~is a case~~ where D acted in good faith?

The Master, DC & CA3 all said  
"yes", relying primarily on the express  
language of 35 U.S.C. ~~§ 334~~ 5284

that (G.M.)

Case filed in 1956 - in litigation  
re: Patent long since expired.

2A3 held that § 284 requires  
pre-judgment interest.

1946 Act (amending § 284) was

first time "interest" was mentioned.

"Interest as may be fixed by court"

was added after language that would  
have required pre-judgment interest. G.M.

relied on this as ev. of intent

to retain the discretionary rule that

allowed interest only when there

was bad faith or some other

equitable circumstances.

There is clearly a lapse of time

bet. ~~discretionary~~ discretion

of merit & the judge.

Argument even by CH below was

construing § 284 as mandatory.

BRW: Ltr. House & Senate Reports  
do indicate intent to change Discretion  
rule.



Trust (cont)

As to equities:

Applicant delayed case for 10 yrs by its venue litigation. The claim in patent was re-written, resulting in further delay

Reuter (Roth)

CA 3 quoted from App

5<sup>th</sup> Circuit language - "clear"

market cannot manufacturing.

The language "in many or fixed by court" relates only to the rate of interest.

There is another mistake on

post-judgment interest. 9% per rate as provided by law. Then it is

corrected (?) that 3284 per annum

only to pre-judgment interest. [3284's

purpose is to provide equivalent of

reasonable royalties that owner of

patent would have received absent

[enfranchisement]

CA 4 followed App on pre-judgment

interest. See Rmt. Also CA 2 in

CA 2 case.





~~John~~ *Jim*

Supreme Court of the United States

Memorandum

-----, 19-----

Which theory for  
affirm?

1. § 284 mandating  
or

2. § 284 confers  
discretion on DC  
in war law  
under Duplate

Deleted ~~to~~ critical  
language

12/8

81-1661 GM v Devex

Prior to 1946 - Deplate  
allowed pre-judg. interest  
only when there had been  
"bad faith" or "exceptional  
circumstances".

1946 Act - provided for  
damages equal to  
"reasonable royalties"  
plus "interest & costs."

Congressional intent -  
Clearly intended to  
change Deplate rule.  
Committee Reports.

Degree of discretion  
Not clear as to  
when pre-judg interest commences<sup>3</sup>  
Maj. of CAs say: "date of infringe-  
ment." Discretion remains



The Chief Justice Affm

Purpose of § 284 was to make the owner of patent "whole" - in the position he would have been in if reasonable royalties had been paid.

G.M. had use of patent & show pay, Would read § 284 as confers "discretion" - but could agree it is mandatory.

Justice Brennan Affm

Requirement is "mandatory".

(After discussion - can go with "discretion".

Justice White Affm.



Justice Marshall *Aff'm*

*discretion*

*OK*

Justice Blackmun *Aff'm*

*Discretionary*

Justice Powell *Aff'm*

*Discretion*

*remains & should be emphasized,*

Justice Rehnquist

*Affirm*

*(no mention as to*

Justice Stevens

*Affirm*

*Discretion remains.*

*Normal rule usually applies*

Justice O'Connor

*Affirm*

*Agree strongly some discretion  
remains*



: The Chief Justice  
Justice Brennan  
Justice White  
Justice Blackmun  
Justice Powell  
Justice Rehnquist  
Justice Stevens  
Justice O'Connor

LJP

From: **Justice Marshall**

Circulated: APR 26 1983

Recirculated: \_\_\_\_\_

1st DRAFT

**SUPREME COURT OF THE UNITED STATES**

No. 81-1661

**GENERAL MOTORS CORPORATION, PETITIONER v.  
DEVEX CORPORATION ET AL.**

**ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE THIRD CIRCUIT**

[April —, 1983]

JUSTICE MARSHALL, delivered the opinion of the Court.

This case concerns the proper standard governing the award of prejudgment interest in a patent infringement suit under 35 U. S. C. § 284.

**I**

In 1946 respondent Devex Corporation (Devex) filed a suit for patent infringement against petitioner General Motors Corporation (GMC) in the United States District Court for the Northern District of Illinois.<sup>1</sup> Devex alleged that GMC was infringing Reissue Patent No. 24,017, known as the "Hendricks" or "Devex" patent. The patent covered a lubricating process used in the cold-forming of metal car parts by pressure.<sup>2</sup> On June 29, 1962, the District Court

<sup>1</sup>The suit also named Houdaille Industries as a defendant. After the case against GMC was transferred to the United States District Court for the District of Delaware, the case against Houdaille Industries was tried separately, see *Devex Corp. v. Houdaille Ind.*, 382 F. 2d 17 (CA7 1967), and eventually settled.

<sup>2</sup>Claim 4 of the Patent covers:

"The process of working ferrous metal which comprises forming on the surface of the metal a phosphate coating and superimposing thereon a fixed film of a composition comprising a solid meltable organic binding material containing distributed there through a solid inorganic compound meltable

Renewed  
4/27

join

?

Join - GJB

held the Devex patent invalid and entered judgment for GMC. On appeal the United States Court of Appeals for the Seventh Circuit reversed the finding of invalidity and remanded for further proceedings. *Devex Corp. v. General Motors Corp.*, 321 F. 2d 234 (CA7 1963), cert. denied, 375 U.S. 971 (1964).

✓ The case was then transferred to the United States District Court for the District of Delaware. After a trial the District Court ruled that there had been no infringement. 316 F. Supp. 1376 (D. Del. 1970). The United States Court of Appeals for the Third Circuit reversed, holding that the patent was infringed by GMC's use of certain processes in the production of bumpers and cold-extruded non-bumper parts. 467 F. 2d 257 (1972), cert. denied, 411 U. S. 973 (1973).

On remand the case was referred to a Special Master for an accounting. The Special Master ruled that three major divisions of GMC had used infringing processes in the manufacture of bumper parts, and selected a royalty rate "by reference to hypothetical negotiations" that it found would have taken place if GMC had sought to obtain a license from Devex. Special Master's Report at 71.<sup>3</sup> The District Court modified the royalty rate selected by the Special Master and entered judgment pursuant to 35 U. S. C. § 284, awarding

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at a temperature below the melting point of the ferrous metal phosphate of said coating and having a hardness not exceeding 5 on the Mohs' hardness scale, and thereafter deforming the metal." ✓

In less technical terms, the Devex process employed "phosphate, soap and borax . . . to lubricate the pressure-forming operation, preventing harmful contact between the metal products and the machinery with which they are formed. . . . [T]he phosphate, soap and borax combination is especially beneficial because it may be easily cleaned from the metal product following its formation." *Devex Corp. v. General Motors Corp.*, 494 F. Supp. 1369, 1372 (D. Del. 1980).

<sup>3</sup>The Special Master also ruled that multiple damages and attorney's fees, which are authorized by 28 U. S. C. §§ 284 and 285, would be inappropriate in this case. These findings were adopted by the District Court and affirmed by the Court of Appeals and are not before us.



Devex \$8,813,945.50 in royalties, \$11,022,854.97 in prejudgment interest, and post-judgment interest at the rate allowed by State law. The court determined what the annual royalties payments would have been, and calculated prejudgment interest on each payment from the time it would have become due. The Court of Appeals affirmed. 667 F. 2d 347 (1981). The court held that "the award of prejudgment interest as the yearly royalty payments became due was not an abuse of discretion." *Id.*, at 363. We granted certiorari to consider the standard applicable to the award of prejudgment interest under 35 U. S. C. § 284, — U. S. — (1982), and we now affirm.

## II

Prior to 1946 the provision of the patent laws concerning a plaintiff's recovery in an infringement action contained no reference to interest.<sup>4</sup> The award of interest in patent cases was governed by the common law standard enunciated in several decisions of this Court. *E. g.*, *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U. S. 448 (1936); *Tilghman v. Proctor*, 125 U. S. 136 (1888). Under the *Duplate* standard, prejudgment interest was generally awarded from the date on which damages were liquidated, and could be awarded from the date of infringement in the absence of liquidation only in "exceptional circumstances," such as bad faith on the part of the infringer. 298 U. S., at 459.<sup>5</sup>

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<sup>4</sup>R.S. § 4921, as amended, 42 Stat. 392, 35 U. S. C. 70, provided in relevant part:

"[U]pon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby."

<sup>5</sup>Under the common law rule a plaintiff's damages were often treated as liquidated if they were relatively certain and ascertainable by reference to established market values. See generally *Miller v. Robertson*, 266 U. S. 243, 258 (1924); D. Dobbs, *Law of Remedies* § 3.5 (1973); C. McCormick, *Law of Damages* §§ 51, 54-56 (1935); "Prejudgment Interest: An Element



✓In 1946 Congress adopted amendments to the provision of the patent laws governing recovery in infringement actions. Act of August 1, 1946, c. 726, § 1, 60 Stat. 778, 35 U. S. C. (1946 ed.), §§ 67, 70.<sup>6</sup> One of the amended provisions, which has since been recodified as 35 U. S. C. § 284, states in relevant part:

“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”

The Courts of Appeals have reached differing conclusions as to whether § 284 incorporates the *Duplate* standard and more generally as to the standard governing the award of prejudgment interest under § 284.<sup>7</sup>

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of Damages Not to be Overlooked,” 8 Cumberland L. Rev. 521, 522–523 (1977). Thus a plaintiff whose damages were determined by reference to an established royalty that the plaintiff charged for the use of the patent was entitled to prejudgment interest. In contrast, where a plaintiff’s damages, as here, were based on a reasonable royalty determined by the court, they were unliquidated and not entitled to prejudgment interest absent exceptional circumstances.

<sup>6</sup> In the 1952 codification, §§ 67 and 70 of the 1946 Code were consolidated in § 284, which has remained unchanged through the present day. The stated purpose of the codification was merely “reorganization in language to clarify the statement of the statutes.” H. R. Rep. No. 1923, 82d Cong., 2d Sess., at 10, 29 (1952).

<sup>7</sup> Compare *Columbia Broadcasting System, Inc. v. Zenith Radio Corp.*, 537 F. 2d 896 (CA7 1976) (no prejudgment interest absent exceptional circumstances); *Radiator Specialty Co. v. Micek*, 395 F. 2d 763 (CA9 1968) (same) (dictum), with *Georgia-Pacific Corp. v. U. S. Plywood-Champion Papers, Inc.*, 446 F. 2d 294 (CA2) (§ 284 does not incorporate *Duplate* standard), cert. denied, 404 U. S. 870 (1971); *Trio Process Corp. v. L. Goldstein’s Sons, Inc.*, 638 F. 2d 661 (CA3 1981) (same); *General Electric Corp. v. Sciaky Bros. Inc.*, 415 F. 2d 1068 (CA6 1969) (same); *Milgo Electric Corp. v. United Business Communications, Inc.*, 623 F. 2d 645 (CA10) (same), cert. denied, 449 U. S. 1066 (1980).



We have little doubt that § 284 does not incorporate the *Duplate* standard. Under that standard, which evolved as a matter of federal common law, prejudgment interest could not be awarded where damages were unliquidated absent bad faith or other exceptional circumstances. By contrast, § 284 gives a court general authority to fix interest and costs. On the face of § 284, a court's authority to award interest is not restricted to exceptional circumstances, and there is no warrant for imposing such a limitation. When Congress wished to limit an element of recovery in a patent infringement action it said so explicitly. With respect to attorney's fees, Congress expressly provided that a court could award such fees to a prevailing party only "in exceptional cases." 35 U. S. C. § 285.<sup>8</sup> The power to award ~~of~~ interest was not similarly restricted. ✓

There is no basis for inferring that Congress' adoption of the provision concerning interest merely incorporated the *Duplate* standard. This is not a case in which Congress has reenacted statutory language that the courts had interpreted in a particular way. In such a situation, it may well be appropriate to infer that Congress intended to adopt the established judicial interpretation. See, e. g., *Herman & MacLean v. Huddleston*, — U. S. —, — (1983); *Lorillard v. Pons*, 434 U. S. 575, 580–581 (1978). In this case, however, the predecessor statute did not contain any reference to interest, and the 1946 amendments specifically added a provision concerning interest in patent infringement actions. We cannot agree with petitioner that the only significance of Congress' express provision for the award of interest

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<sup>8</sup> Section 285 provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." The phrase "exceptional cases" was not contained in the 1946 amendments, but was added by the 1952 compilation for purposes of clarification only. See note 6, *supra*. The language of the 1946 amendments provided in relevant part that "the Court may in its discretion award reasonable attorney's fees to the prevailing party." 35 U. S. C. § 70 (emphasis added).



was the incorporation of a common law standard that developed in the absence of any specific provision concerning interest.

✓ Having decided that § 284 does not incorporate the *Duplate* rule, we turn to a consideration of the proper standard for awarding prejudgment interest under that provision. Although the language of § 284 supplies little guidance as to the appropriate standard, for the reasons elaborated below we are convinced that the underlying purpose of the provision strongly suggests that prejudgment interest should ordinarily be awarded where necessary to afford the plaintiff full compensation for the infringement.

Both the background and language of § 284 provide evidence of this fundamental purpose. Under the pre-1946 statute, the owner of a patent could recover both his own damages and the infringer's profits. See *Aro Mfg. Co. v. Convertible Top Co.*, 377 U. S. 476, 505 (1964); n. 4, *supra*. A patent owner's ability to recover the infringer's profits reflected the notion that he should be able to force the infringer to disgorge the fruits of the infringement even if it caused him no injury. In 1946 Congress excluded consideration of the infringer's gain by eliminating the recovery of his profits, *Aro Mfg.*, *supra*, at 505, the determination of which had often required protracted litigation. H. R. Rep. No. 1587, 79th Cong., 2d Sess., 1-2 (1946); S. Rep. No. 1503, 79th Cong., 2d Sess., 2 (1946); 92 Cong. Rec. 9188 (1946) (remarks of Senator Pepper). At the same time, 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. See H. R. Rep., *supra*, at 1 ("any damages the complainant can prove"); S. Rep., *supra*, at 2 (same). Accordingly, Congress expressly provided in § 284 that the court "shall award the claimant damages *adequate to compensate* for the infringement." (Emphasis added.)<sup>9</sup>

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<sup>9</sup>The wording of the amendment passed by Congress in 1946 was slightly different. It provided that the claimant "shall be entitled to re-



The standard governing the award of prejudgment interest under § 284 should be consistent with Congress' overriding purpose of affording patent owners complete compensation. In light of that purpose, we conclude that prejudgment interest should ordinarily be awarded. In the typical case an award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement.<sup>10</sup> An award of interest from the time that

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cover general damages which shall be *due compensation*" for the infringement. 35 U. S. C. § 70 (emphasis added). See note 6, *supra*.

Section 284 derived from a House bill which specifically provided for an award of interest "from the time the infringement occurred." H. R. 5311 (1946), see H. R. Rep. 1587, 79th Cong., 2s Sess., Pt. 2, p.1. The bill as modified by the Senate Committee and enacted into law replaced this language with the language currently contained in § 284. The legislative history suggests that the language substitution was intended solely to make the award of attorney's fees discretionary rather than mandatory; there was no indication that the Senate Committee intended any substantive change in the treatment of interest. See S. Rep., *supra*, at 2. The passage of the Senate bill in the House was preceded by an assurance by Rep. Lanham, who managed the bill, that the only substantive modification of the House bill concerned the attorney's fees provision. 92 Cong. Rec. 10649 (1946).

<sup>10</sup> See *Waite v. United States*, 282 U. S. 508, 509 (1931); *Jacobs v. United States*, 290 U. S. 13, 16 (1933) (interest from time of the taking is necessary to constitute adequate compensation under the Fifth Amendment); *Miller v. Robertson*, 266 U. S. 243, 258 (1924) (prejudgment interest required for "full compensation"); A.L.I. Restatement of Restitution, § 157, at 627 ("In actions for restitution brought because of a conversion of chattels, the measure of restitution is the value of the chattels, together with, ordinarily, *interest from the time of the conversion*." (Emphasis added.)). The traditional view, which treated prejudgment interest as a penalty awarded on the basis of the defendant's conduct, has gradually given way to the view that prejudgment interest represents "delay damages" and should be awarded as a component of full compensation. See D. Dobbs, *Law of Remedies* § 3.5, at 174; C. McCormick, *Law of Damages* § 51, at 206-211 (1935); "Prejudgment Interest: An Element of Damages Not To Be Overlooked," 8 *Cumberland L. Rev.* 521 (1977). The denial of prejudgment not only undercompensates the patent owner but may also grant a



the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of infringement and the date of the judgment.

This very principle was the basis of the decision in *Waite v. United States*, 282 U. S. 508 (1931), which involved a patent infringement suit against the United States. The patent owner had been awarded unliquidated damages in the form of lost profits, *id.*, at 508, but had been denied an award of prejudgment interest. This Court held that an award of prejudgment interest to the patent owner was necessary to ensure "complete justice as between the plaintiff and the United States," *id.*, at 509, even though the statute governing such suits did not expressly provide for interest. Just as § 284 provides that the court shall award "damages adequate to compensate for the infringement," the statute at issue in *Waite* provided that the patentee shall receive "reasonable and entire compensation." 28 U. S. C. § 1498. In addition, § 284 contains a specific provision concerning interest. *Waite* thus provides strong support for our conclusion that prejudgment interest should ordinarily be awarded under § 284.

We do not construe § 284 as requiring the award of prejudgment interest whenever infringement is found. That provision states that interest shall be "fixed by the court," and in our view it leaves the court some discretion in awarding prejudgment interest. For example, it may be appropriate to limit prejudgment interest, or perhaps even deny it altogether, where the patent owner has been responsible for undue delay in prosecuting the lawsuit.<sup>11</sup> There may be

windfall to the infringer and create an incentive to prolong litigation. There is no reason why an infringer should stand in a better position than a party who agrees to pay royalty and then fails to pay because of financial difficulties.

<sup>11</sup> See, e. g., *Board of Commissioners v. United States*, 308 U. S. 343,



other circumstances in which it may be appropriate not to award prejudgment interest. We need not delineate those circumstances in this case. We hold only that prejudgment interest should be awarded under § 284 absent some justification for withholding such an award.<sup>12</sup>

### III

Because we hold that prejudgment interest should ordinarily be awarded absent some justification for withholding such an award, a decision to award prejudgment interest will only be set aside if it constitutes a clear abuse of discretion. The District Court held that GMC infringed Devex's patent over the course of a number of years and awarded Devex a reasonable royalty as compensation. While GMC contends that Devex was guilty of causing unnecessary delay, the District Court rejected this contention when it concluded that "Devex has done no worse than fully litigate its claims achieving a large judgment in its favor" and awarded Devex costs on the basis of this conclusion. 494 F. Supp., at 1380.<sup>13</sup> On these facts, we agree with the Court of Appeals that the award of prejudgment interest was proper.

Accordingly, the judgment of the Court of Appeals for the Third Circuit is

*Affirmed.*

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352-353 (1939); *Redfield v. Bartels*, 139 U. S. 694, 701 (1891); *First National Bank of Chicago v. Material Serv. Corp.*, 597 F. 2d 1110, 1121-1121 (CA7 1979). See generally *C. McCormick, supra*, at 220-221, 228-229 (cases cited therein); 8 *Cumberland L. Rev., supra*, at 534 (cases cited therein).

<sup>12</sup> Of course, if a patentee's award includes treble damages or attorney's fees, an award of prejudgment interest may not be necessary to provide full compensation.

<sup>13</sup> The District Court's decision to award costs rested on its conclusion that Devex did not cause "unnecessary delay or [obtain] only slight success." 494 F. Supp., at 1380. The Court of Appeals affirmed the award of costs, and that issue is not before us.

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE WM. J. BRENNAN, JR.

April 27, 1983

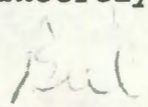
Re: General Motors v. Devex, No. 81-1661

Dear Thurgood:

I agree.

I do have one suggestion to make. Your footnote 12 suggests that a court might, in its discretion, decide to award no interest if adequate compensation is provided by attorney's fees or treble damages. This seems to me to under cut the deterrent and punitive purposes of the fees and treble damages; they can't accomplish their statutory purpose unless they are assessed on top of whatever ordinary compensatory damages (including interest) are awarded. May I suggest, instead, noting simply that interest should not be awarded on attorney's fees and the non-compensatory portion of treble damages?

Sincerely,

  
WJB, Jr.

Justice Marshall

Copies to the Conference



Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE BYRON R. WHITE

April 27, 1983

✓

Re: 81-1661 - General Motors Corporation  
v. Devex Corporation

---

Dear Thurgood,

Please join me.

Sincerely,

*Byron*

Justice Marshall

Copies to the Conference

cpm

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE HARRY A. BLACKMUN

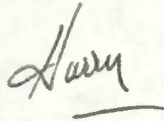
✓  
April 28, 1983

Re: No. 81-1661 - General Motors Corp. v. Devex Corp.

Dear Thurgood:

Please join me. I shall leave to your good judgment the response to Bill Brennan's suggestion about footnote 12.

Sincerely,



Justice Marshall

cc: The Conference

April 28, 1983

81-1661 General Motors v. Devex Corporation

Dear Thurgood:

Please join me.

Sincerely,

Justice Marshall

lfp/ss

cc: The Conference

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE SANDRA DAY O'CONNOR

April 28, 1983



No. 81-1661 General Motors Corp. v.  
Devex Corp.

Dear Thurgood,

Please join me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra", is written below the word "Sincerely".

Justice Marshall

Copies to the Conference



Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE WILLIAM H. REHNQUIST

April 29, 1983

Re: No. 81-1661 General Motors Corp. v. Devex Corp.

Dear Thurgood:

I agree with almost all of your opinion, and will be joining if you could make changes along two lines. First, the opinion relies on authorities from a few non-patent contexts in arriving at its interpretation of §284. See, e.g., p. 7 n.10, citing A.L.I. Restatement of Restitution, D. Dobbs; Law of Remedies, and so forth. The evidence that you have set out regarding Congress' intent in enacting §284 seems more than adequate to support the result in this case, without discussion of the way the law has evolved in other areas unrelated to the federal patent laws. I would be much more comfortable if you could eliminate the references in note 10 to nonpatent cases.

I would also hope that the opinion will not be read as an invitation to litigate interest awards in patent cases. While you go a long way toward this result by making it quite clear that an award of prejudgment interest will be reviewed on an abuse of discretion basis, see, e.g., p. 10, you do not make quite as clear the fact that a refusal to award interest will be judged by a similar standard. A sentence at the end of footnote 11 would satisfy my concerns.

Since you have a court in the present draft, I would understand if you were reluctant to make any changes. If you decide not to, I might write a brief concurrence along those lines.

Sincerely,



Justice Marshall

cc: The Conference

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE WILLIAM H. REHNQUIST

May 3, 1983

Re: No. 81-1661 General Motors Corp. v. Devex Corp.

Dear Thurgood:

Please join me.

Sincerely,



Justice Marshall

cc: The Conference

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
JUSTICE JOHN PAUL STEVENS

May 6, 1983

Re: 81-1661 - General Motors Corp. v. Devex Corp.

Dear Thurgood:

Although I have difficulty in describing it with any precision, I am inclined to believe that there may be another category of cases in which it may be appropriate to limit or to deny entirely prejudgment interests. I have in mind a case in which there is especially strong reason to believe that an untested patent may in fact be invalid, and in which there would be an especially strong public interest in having the patent tested. I wonder if you would consider adding at the end of the last sentence on page 8, the following additional language together with the following additional footnote:

" , or where the infringer in good faith had especially strong reasons for questioning the patent's validity."\*/

*consider*

\*/In other contexts we have noted that the public interest is served by challenges to the validity of patents. "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; ..." Pope Manufacturing Co. v. Gormully, 144 U.S. 224, 234 (1892). In Lear, Inc. v. Adkins, 395 U.S. 653, 670 (1969), we wrote:

"A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to

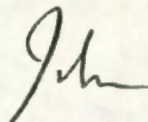


which reasonable men can differ widely. Yet the Patent Office is often obliged to reach its decision in an ex parte proceeding, without the aid of the arguments which could be advanced by parties interested in proving patent invalidity. ..."

There may well be a limited number of cases in which the infringer, although ultimately unsuccessful in litigation, may have been sufficiently justified in its conduct to make it appropriate for the District Court to deny prejudgment interest."

If you can incorporate this thought in your opinion, without necessarily adopting my suggested language, I will be happy to join you.

Respectfully,

A handwritten signature in dark ink, appearing to be "John", written in a cursive style.

Justice Marshall

Copies to the Conference

Supreme Court of the United States  
Washington, D. C. 20543

CHAMBERS OF  
THE CHIEF JUSTICE

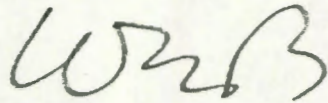
May 11, 1983

Re: 81-1661 - General Motors Corporation v. Devex Corporation

Dear Thurgood:

I join.

Regards,

A handwritten signature in dark ink, appearing to be "WB", likely representing William Brennan.

Justice Marshall

Copies to the Conference

job 05/12/83

To: Mr. Justice Powell

From: Jim

Re: GMC v. Devex Corp., No. 81-1661

✓

9 agree

It is my understanding that, before 1946, courts disallowed interest on infringer's profits or reasonable royalties damages until judgment was liquidated, so long as the defense was in good faith and not reckless. See Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936). The Court there held that, in the absence of "exceptional circumstances," interest on such a judgment does not start until the date damages are liquidated. From the Duplate facts, it was clear that "exceptional circumstances" could not exist in the absence of a finding the deft acted in bad faith or was reckless. JUSTICE STEVENS is trying to move back in part to Duplate.

Section 284, at issue here, states that the court "shall" award "damages adequate to compensate for the infringement." Damages must not be less than "a reasonable royalty" with "interest and costs as fixed by the court." It thus seems clear from the face of the statute that Congress in 1946 meant to change the existing law as to interest on unliquidated infringement damages. The fairest reading of the statute is that interest should be treated like costs: they are by rule awarded with the amount fixed by the court. The legislative history, if anything, supports the contention that the award of prejudgment interest is mandatory. In any case, discretion was

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greatly limited. The policy arguments are strongly in favor of prejudgment interest in this area of the law.

JUSTICE STEVENS would reduce the effect of the 1946 amendments by making it merely a presumption that the court will award prejudgment interest in the ordinary case. I do not think, however, that "the nature of the patent and the strength of the defendant's challenge" are at all relevant to the limited exercise of discretion that the court has not to award prejudgment interest. While patent litigation may serve the public interest (and I agree with him on this point), prejudgment interest does not "repress" it beyond the point that the litigation should be discouraged. Special circumstances, such as those identified by JUSTICE STEVENS, are germane to a penalty award, but not to "adequate compensation" for appropriation of pltf's property. Interest from the date of breach is an essential ingredient of adequate compensation.

It is a safe assumption that corporate infringers put the money that they otherwise would pay in royalties to some use. The issue in this case, then, is simply who should get the earnings of that money. It makes little sense to give the patent owner the money, but not the earnings. More important, the failure to award interest not only discourages amicable licensing of patents, but it encourages infringers, even those operating in good faith, to continue fighting lawsuits, long after the justification for doing so is obviously gone. I do not think public policy demands that patent owners subsidize their challengers' lawsuits.

I would not join JUSTICE STEVENS's concurring opinion.

CHAMBERS OF  
JUSTICE JOHN PAUL STEVENS

*Jim. What do you*  
Supreme Court of the United States  
Washington, D. C. 20543  
*think*  
*about*  
*my*  
*joining*  
*John?*

May 12, 1983

Re: 81-1661 - General Motors Corp. v.  
Devex Corp.

Dear Thurgood:

Please join me.

Respectfully,



Justice Marshall

Copies to the Conference

*Jim thinks*  
*not. He*  
*probably*  
*is right.*



To: The Chief Justice  
Justice Brennan  
Justice White  
Justice Marshall  
Justice Blackmun  
Justice Powell  
Justice Rehnquist  
Justice O'Connor

81-1661 - General Motors Corp. v. Devex Corp.

From: Justice Stevens

Circulated: NOV 12 '83

Recirculated: \_\_\_\_\_

JUSTICE STEVENS, concurring.

The 1946 amendments to the patent laws replaced the Duplate standard with a presumption favoring the award of prejudgment interest in the ordinary case. As the Court correctly holds, however, §284 does not automatically require an "award of prejudgment interest whenever infringement is found." Ante, at 8. In exercising its discretion to deny such interest in appropriate cases, the trial court may properly take into account the nature of the patent and the strength of the defendant's challenge.

In other contexts we have noted the public function served by patent litigation. In Lear, Inc. v. Adkins, 395 U.S. 653, 670 (1969), Justice Harlan, writing for the Court, explained:

"A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to which reasonable men can differ widely. Yet the Patent Office is often obliged to reach its decision in an ex parte proceeding, without the aid of the arguments which could be advanced by parties interested in proving patent invalidity."

Hence, a patent challenge in the courts permits a more informed



decision regarding the merits of a particular patent. And, as we have long recognized, "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; ..." Pope Manufacturing Co. v. Gormally, 144 U.S. 244, 234 (1892).

Of course, the general public interest in patent litigation does not justify denial of prejudgment interest in the typical case in which infringement is found. Wisely today the Court does not attempt to define precisely the category of cases in which an infringer, although ultimately unsuccessful in litigation, may have been sufficiently justified in its challenge to a particular patent to make it appropriate for the District Court to exercise its discretion to deny prejudgment interest. But the existence of that category of cases should not be overlooked.

[illegible]