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Notes

Rite-Hite Corp. v. Kelley Co.: The Federal Circuit Awards Damages for Harm Done to a Patent not in Suit

I. INTRODUCTION

Intellectual properties, such as patents, trademarks, and copyrights, are big business in the United States. Part of their allure is that they provide a government-sanctioned means of excluding competitors from particular market niches by allowing the holder of a property to exclusively market and sell a product. Additionally, if a competitor trespasses into a protected niche by, for instance, infringing the property and diverting sales from the owner, the owner may seek injunctive relief as well as an award of monetary damages caused by the infringement.

In Rite-Hite Corp. v. Kelley Co., ("Rite-Hite") the Court of Appeals for the Federal Circuit sitting en banc ruled that the Patent Code allowed a patentee, Rite-Hite, to recover as damages lost profits caused by lost sales of its devices, which competed with devices that infringed its patent. This ruling, characterized by the court as a matter of first impression, upheld an award of damages for lost sales of Rite-


2. See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 151 (1989) (noting that "free exploitation of ideas will be the rule, to which the protection of a federal patent is the exception").


6. Rite-Hite, 56 F.3d at 1543.

7. Id. at 1548 n.7.
Hite's cross-competing devices that were not protected by the patent in suit.\textsuperscript{8}

The \textit{Rite-Hite} decision thus replaced the requirement common to tort actions: that the defendant should be liable for its tortious conduct, but only for the foreseeable consequences of that conduct.\textsuperscript{9} Specifically, under tort law, a plaintiff can recover damages only for injuries that meet a two-step test: (1) "but for" the wrong, the injury would not have occurred;\textsuperscript{10} and (2) the wrong proximately caused the injury.\textsuperscript{11} In \textit{Rite-Hite}, the Federal Circuit held that "but for" the infringement, Rite-Hite would have sold more goods, and lost sales to the infringing goods.\textsuperscript{12} Further, the court found that the infringement proximately caused the lost sales of Rite-Hite's goods, even though they were not protected by the patent in suit.\textsuperscript{13}

The majority of the \textit{Rite-Hite} court first examined the phrase "damages adequate to compensate" the patentee, prescribed by section 284 of the Patent Code.\textsuperscript{14} The court explained that this phrase must be interpreted expansively to cover a large variety of injuries, in order to make the patentee whole.\textsuperscript{15} These compensable injuries now include lost profits from lost sales of goods competing with the infringing goods, if these competing goods are allegedly protected by some other patent.\textsuperscript{16}

By interpreting the damages statute this expansively, the Federal Circuit exceeded its authority "to bring uniformity to the law" in ignoring established law regarding patents.\textsuperscript{17} On the other hand, the major-

\begin{itemize}
  \item \textsuperscript{8} \textit{Id.} at 1542.
  \item \textsuperscript{9} \textit{W. PAGE KEeton et al., PROSSER AND KEETON ON THE LAW OF TORTS} § 43, at 281 (5th ed. 1984). "In so far as the defendant is held liable for consequences which do not lie within the original [reasonably foreseeable] risk which the defendant has created, a strict liability without fault is superimposed upon the liability that is logically to be attributed to the negligence itself." \textit{Id.}
  \item \textsuperscript{10} \textit{KEETON, supra} note 9, § 41, at 266 (stating that "[t]he defendant’s conduct is a cause of the event if the event would not have occurred but for that conduct") (emphasis added).
  \item \textsuperscript{11} \textit{KEETON, supra} note 9, § 42, at 273 (explaining that "[t]he term ‘proximate cause’ is applied by the courts to those more or less undefined considerations which limit liability even where the fact of causation is clearly established").
  \item \textsuperscript{12} \textit{Rite-Hite, 56 F.3d} at 1548-49.
  \item \textsuperscript{13} \textit{Id.}
  \item \textsuperscript{14} \textit{Id.} at 1545 (citing 35 U.S.C. § 284 (1994)).
  \item \textsuperscript{15} \textit{Rite-Hite, 56 F.3d} at 1545. \textit{See infra} notes 224-37 and accompanying text (detailing the court’s analysis of lost profits in \textit{Rite-Hite}).
  \item \textsuperscript{16} \textit{Id.} at 1548-49. \textit{See infra} notes 224-51 and accompanying text.
  \item \textsuperscript{17} \textit{Id.} at 1578 (Nies, J., dissenting). \textit{See Glenn L. Archer, Jr., Introduction, 44 AM. U. L. REV. 2109, 2110 (1995) (explaining that “[t]he [Federal Circuit] court takes a case in banc [sic] only when there is a conflict in precedent or if the question presented is of}
ity clarified its earlier holdings regarding the application of the Entire Market Value Rule.\textsuperscript{18} The Federal Circuit held that Rite-Hite could not recover lost sales of a package containing an unpatented device as well as a patented device because the two types of devices did not make up a single functional unit.\textsuperscript{19}

This Note first reviews the system of patents and their enforcement in the United States.\textsuperscript{20} Next, this Note surveys the remedies, both legal and equitable, available to a patent owner whose patent is infringed,\textsuperscript{21} and specifically reviews the statutory provisions for damages.\textsuperscript{22} This Note then examines the standards of proof for awarding a reasonable royalty\textsuperscript{23} and for awarding lost profits.\textsuperscript{24} Next, this Note reviews what injuries are compensable under the patent statutes.\textsuperscript{25} Specifically, this Note considers case law relating to compensation for lost sales of competitive goods\textsuperscript{26} and for collateral or convoyed goods.\textsuperscript{27}

This Note then discusses the facts and opinions of Rite-Hite, paying particular attention to the court's analysis of liability and damages.\textsuperscript{28} This Note reviews the Federal Circuit majority opinion\textsuperscript{29} and the dissents written by Judge Nies\textsuperscript{30} and Judge Newman.\textsuperscript{31} This Note then analyzes Rite-Hite in the context of the patent damages statute and related precedent.\textsuperscript{32} Next, this Note discusses the implications of Rite-Hite for patentees seeking recovery of damages from lost sales of
competing goods not protected by the patent in suit, as well as from convoy sales of other goods sold in conjunction with the patented goods. Finally, this Note concludes that: (1) the Federal Circuit ignored Supreme Court precedent limiting awards for harm done to patents not in suit and wrongly characterized *Rite-Hite* as a matter of first impression, but (2) the Federal Circuit's clarification of the limits conferred by the Entire Market Value Rule provided a needed bright line rule for the scope of recovery for lost convoy sales.

II. BACKGROUND

A. Overview of the Patent System

The United States system of patents is authorized by the Constitution's mandate that Congress "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Congress has implemented this mandate in several ways over the last two hundred years, but the current patent statutes allow an inventor to exclude others from making, using, importing, selling or offering for sale the patented invention during the entire term of the patent. The current law also requires that, in exchange, the inventor must provide a description of the invention sufficient to enable others to practice the invention once the patent's term expires.

Adjudication of a case or controversy involving a patent usually involves three steps. First, the court determines if the patent is valid. Second, the court decides if the patent has been infringed. Finally, the court ascertains what remedies are appropriate to compensate for the infringement.

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33. See infra part V.
34. See infra part VI.
37. 35 U.S.C. § 112 (1994). See Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-51 (1989) (explaining that "[t]he federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years").
38. See infra notes 41-44 and accompanying text.
39. See infra notes 45-54 and accompanying text.
40. See infra notes 55-66 and accompanying text.
A court begins its analysis by presuming that the patent is valid. The burden of proving invalidity by clear and convincing evidence rests on the patent's challenger. Although this burden is heavy, the Federal Circuit, which retains exclusive jurisdiction over patent cases, has found patents invalid in nearly one-third of the cases it has decided on appeal.

If a person other than the patentee practices the patented invention during the term of the patent, then that person is liable as an infringer. To determine whether a party infringed a patent, courts examine the list of claims that must be included in a patent. A claim specifically states the particular aspects of an invention that the patentee claims as unique, and which others may not use. Claims are sometimes referred to as the "metes and bounds" of the patent, because they determine when others are trespassing on the property protected by the


43. See infra note 140 and accompanying text.


The Federal Circuit has found patents to be unenforceable because of inequitable conduct 19% of the time. Id. at 173. These numbers, of course, do not measure the proportion of unappealed judgments; also, they do not measure those patents which are acknowledged by patentees as invalid or unenforceable before a court becomes involved.


46. 35 U.S.C. § 112 (1994) (defining "specification" and "claims"). The patent laws require that patents include "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." Id.

47. Id.
patent. Infringement may be literal, i.e., falling exactly within the claims, or may be found by applying the doctrine of equivalents.

The scope of a patent owner's protection against an infringer is measured in part by the importance of the invention. Patents may be divided into two types: pioneer or basic patents, and improvement patents. Pioneer patents generally cover inventions that open up a new line of technology. Improvement patents, on the other hand, modify existing technologies. A pioneer patent usually provides broader protection than an improvement patent. An owner of an improvement patent who does not own the underlying pioneer patent cannot practice the improvement patent without the authorization of the pioneer patent owner. Similarly, the pioneer patent owner is excluded from practicing the improvement patent.

If a patent is found to be valid, enforceable, and infringed, then the court must determine what remedies are appropriate. A patentee may be entitled to equitable or legal remedies, or both.

50. For a detailed explanation of this doctrine, see generally Hilton Davis Chem. Co. v. Warner-Jenkinson Co., 62 F.3d 1512, 1518 (Fed. Cir. 1995) (en banc) (holding that the doctrine of equivalents is used to objectively measure "the substantiality of the differences between the claimed and accused products or processes"; if the differences are insubstantial, then the patent is infringed), cert. granted, 116 S. Ct. 1014 (1996); Gary M. Hoffman & Eric Oliver, With Hilton Davis the Federal Circuit Takes the Doctrine of Equivalents Back to Its Roots, 77 J. PAT. & TRADEMARK OFF. SOC'Y 763 (1995) (explaining the impact of the Hilton decision on the doctrine of equivalents).
51. A "pioneer" patent is "one of such novelty and importance as to mark a distinct step in the progress of the art, as distinguished from a mere improvement or perfecting of what has gone before." BLACK'S LAW DICTIONARY 1125 (6th ed. 1990). Compare with note 52 (defining improvement patent).
52. An improvement patent is defined as "an addition to, or modification of, a previous invention or discovery, intended or claimed to increase its utility or value." BLACK'S LAW DICTIONARY 757 (6th ed. 1990). Compare with note 51 (defining pioneer patent).
54. DONALD S. CHISUM, 4 PATENTS § 16.02[1] (1995). See also Cantrell v. Wallick, 117 U.S. 689, 694 (1886) (stating that "[t]wo patents may both be valid when the second is an improvement on the first, in which event, if the second includes the first, neither of the two patentees can lawfully use the invention of the other without the other's consent").
B. Overview of Patent Remedies

1. Available Remedies

Current statutory remedies for utility patent infringement\(^\text{56}\) include injunctive relief,\(^\text{57}\) money damages,\(^\text{58}\) and, in exceptional cases, attorney fees\(^\text{59}\) and costs.\(^\text{60}\) If the infringement was willful, then the damages award may be enhanced—up to three times the actual damages.\(^\text{61}\)

The patent statutes do not require that courts grant injunctive relief in all patent infringement cases.\(^\text{62}\) If the public interest would be harmed by an injunction, the court has discretion to refuse to enjoin the infringement.\(^\text{63}\) Preliminary injunctions may also be granted in order to protect both parties.\(^\text{64}\) The general rule is that a permanent injunction is required once a patent is found valid and infringed,\(^\text{65}\) but

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56. There are currently three types of patents: utility patents, described at 35 U.S.C. § 101 (1994); design patents, described at 35 U.S.C. § 171 (1994); and plant patents, described at 35 U.S.C. § 161 (1994). Currently, utility patents comprise the vast majority of patents that have been issued. See Off. Gaz. U.S. Patent & Trademark Office, Jan. 2, 1996, at 11, 13, 293, 477, 729 (stating that as of the week of January 2, 1996, more than 5 million utility patents had been issued, compared with fewer than 400,000 design patents and fewer than 10,000 plant patents). In addition, the Rite-Hite decision involved a utility patent. Rite-Hite, 56 F.3d at 1542; see infra part III.A.1. This Note will therefore focus on damages relating to utility patents.


60. Id. § 288.

61. Id. § 289.

62. Id. § 283 (instructing courts to “grant injunctions in accordance with the principles of equity”).

63. See Hybritech, Inc. v. Abbott Labs., 4 U.S.P.Q.2d 1001, 1015 (C.D. Cal. 1987) (refusing to enjoin immediately an apparent infringer when the patentee was not producing hepatitis test kits), aff'd, 849 F.2d 1446 (Fed. Cir. 1988).


injunctive relief is available only during the term and to the extent of the patent. 66

2. Damages

Section 284 of the Patent Code provides for damages "adequate to compensate" for the infringement; this requires at least a "reasonable royalty." 67 The scope and meaning of the term "damages" in patent law has been defined through nearly two hundred years of legislation and case law. 68 During this time, Congress expanded the concept of damages to include the term "reasonable royalty." 69 A reasonable royalty serves as an alternative to a nominal award when a patent is infringed, but the infringement has not harmed the patentee's sales—for instance, when the patentee is not practicing the patent. 70

Statutory provisions for the award of damages for patent infringement have existed since the early 1800s, 71 but the 1870 Patent Act was the first to allow recovery of monetary and equitable relief in the same court. 72 The 1870 Patent Act created two types of monetary remedies that defined the two basic elements of recovery: 73 (1) damages, which has since been interpreted to include the patentee's lost profits, an

66. See Joy Technologies, Inc. v. Flakt, Inc., 6 F.3d 770, 772 (Fed. Cir. 1993) (noting that injunctive relief is limited to the extent of the rights in the patent).
68. See infra notes 69-159 and accompanying text.
69. See infra note 74.
70. See infra part II.B.2.a. It has been suggested that the reasonable royalty is a replacement of the award of the infringer's profits, removed in the 1946 amendments. Daniel C. Munson, The Equitable Profits and Reasonable Royalty Remedies—An Economic Connection, 76 J. PAT. & TRADEMARK OFF. SOC'Y 887, 889 (1994).
72. Revised Statutes § 4921 (1878). See also Revised Statutes § 4919 (1878) (providing remedies in cases at law); see generally Munson, supra note 70, at 889-913 (reviewing the historical division of jurisdiction over patent cases between courts of law and equity).
existing royalty, or a reasonable royalty, and (2) the infringer's profits.

The 1946 amendments to the 1870 Patent Act provided for an award of "general damages ... not less than a reasonable royalty." The current provision, "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty," has not been modified since the 1952 codification of patent law. In codifying the

74. The 1870 Act limited monetary relief in § 4921 to "damages" or "profits to be accounted for by the defendant." Revised Statutes § 4921.

The courts initially interpreted this relief as limited to one of three categories: (1) profits illicitly gained by the infringer, (2) actual profits lost by the patentee, or (3) an existing royalty rate. See, e.g., Clark v. Wooster, 119 U.S. 322, 326 (1886) (noting that "established license fees are the best measures of damages that can be used"); Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 553 (1886) (awarding lost profits caused by price reduction); Seymour v. McCormick, 57 U.S. 480, 490-91 (1853) (limiting the award to infringer's profits in cases where elements two or three cannot be proven).

Eventually, courts recognized that a reasonable royalty could be calculated, even in the absence of an established royalty rate, with enough certainty to fall within the "actual damages" proofs, and therefore added the reasonable royalty to the three previously accepted categories. United States Frumentum Co. v. Lauhoff, 216 F. 610, 617 (6th Cir. 1914). See infra note 83 (defining reasonable royalty).

The reasonable royalty was then codified in the 1922 Act. 42 Stat. 392 (1922). The infringer's illicit profits were removed as an element of recovery by the 1946 amendments. See infra note 76.

75. Georgia-Pacific Corp., 243 F. Supp. at 517. Despite the conjunctive language of the pre-1946 statutes, the patentee was not given a double recovery of both profits and damages because the patentee would then be made more than whole. Mathey v. United Shoe Mach. Corp., 54 F. Supp. 694, 697 (D. Mass. 1944). "A patentee in an equity suit may not recover profits plus damages, but he has the choice of what in substance is the same, the profits plus any damages in excess thereof." Id.

76. 35 U.S.C. §§ 67, 70 (1946). Section 70, as amended in 1946, reads in relevant part:

[U]pon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.

... The court shall assess said damages, or cause the same to be assessed, under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case.


law, Congress expressed its intent to retain the meaning of "damages" as defined in the 1946 amendments.\(^7\) In addition, the 1946 amendments, which simply removed infringer's profits from the calculation of what a patentee could recover, did not affect the definition of damages under pre-1946 law.\(^7\) Therefore, pre-1946 cases interpreting the damages provision of the patent statutes remain good law.\(^8\)

Section 284 of the Patent Code\(^8\) mandates the award of damages

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78. 35 U.S.C. § 284 (1994). The Historical and Revision Notes accompanying § 284 state: "This section consolidates the provisions relating to damages in R.S. 4919 and 4921, with some changes in language." Id. "Section 284 relates to the damages which may be recovered by a patentee and consolidates provisions in two sections of the old statute with some changes in language." Federico, supra note 77, at 216.

79. See 69 C.J.S. § 357 (1957) (stating that under the prior statute, "defendant's profits and complainant's damages were distinct from, and independent of, each other and were governed by different principles"). See also infra note 80 for examples of post-1946 cases relying on pre-1946 interpretations of damages as providing appropriate definitions of damages.

80. Courts still cite cases defining damages under the 1870 Patent Act. See, e.g., Aro Mfg., 377 U.S. at 507:

But the present statutory rule is that only "damages" may be recovered. These have been defined by this Court as "compensation for the pecuniary loss he [the patentee] has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts." They have been said to constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred."

Id. (alterations in original) (quoting Coupe v. Royer, 155 U.S. 565, 582 (1895); Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886)). See also Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 761 F.2d 649, 654 (Fed. Cir. 1985) (noting that the 1946 amendments eliminated recovery of infringer's profits, while continuing to allow the recovery of damages as defined in Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448, 451 (1936)). See supra note 75.

81. The text of 35 U.S.C. § 284 on damages is as follows:

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

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

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

Id. The section resulted from the consolidation of former §§ 67 and 70. Cf. supra note 77. Section 284 has not been amended since 1952.
for patent infringement, which are calculated in either of two ways.\textsuperscript{82} Namely, if a patentee can prove lost profits, then the court must award them. Otherwise, the court will award a reasonable or an actual royalty.\textsuperscript{83}

\textit{a. Awarding a Reasonable Royalty}

Until the Federal Circuit affirmed \textit{Rite-Hite}\textsuperscript{84} and its companion case, \textit{King Instruments Corp. v. Perego},\textsuperscript{85} a company which “did not compete in the sale of its invention in the United States” could receive only a reasonable royalty rather than lost profits for the infringer’s sales.\textsuperscript{86} A “reasonable royalty may be based upon an established royalty, if there is one, or, if not, upon a hypothetical royalty resulting from arm’s length negotiations between a willing licensor and a willing licensee.”\textsuperscript{87} In calculating a reasonable royalty, the judge may con-

\textsuperscript{82} Unlike the general patent damages statute which provides for an award to the patentee of “damages adequate to compensate,” 35 U.S.C. § 284, the patentee will recover from the United States “his reasonable and entire compensation” if the United States unlawfully infringes a patent, copyright, or plant variety certificate. 28 U.S.C. § 1498(a) (1994). Section 1498 was enacted in 1947 and was not part of Title 35’s codification. \textit{Id.} The provision has been interpreted as requiring fairness, but the court must “avoid excessive compensation.” \textit{Tektronix, Inc. v. United States}, 552 F.2d 343, 351 (Ct. Cl. 1977) (en banc).

\textsuperscript{83} “A reasonable royalty is an amount ‘which a person, desiring to manufacture and sell a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to make and sell the patented article, in the market, at a reasonable profit.’” \textit{Panduit Corp. v. Stahlin Bros. Fibre Works}, 575 F.2d 1152, 1157-58 (6th Cir. 1978) (Markey, C.J., sitting by designation) (quoting \textit{Goodyear Tire & Rubber Co. v. Overman Cushion Tire Co.}, 95 F.2d 978, 984 (6th Cir. 1937)).

\textsuperscript{84} 56 F.3d 1538 (Fed. Cir.) (en banc), cert. denied, 116 S. Ct. 184 (1995).

\textsuperscript{85} 65 F.3d 941 (Fed. Cir. 1995) [hereinafter \textit{Perego I}]. \textit{See infra part V.}

\textsuperscript{86} Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990). \textit{See also} \textit{Trell v. Marlee Elec. Corp.}, 912 F.2d 1443, 1445 (Fed. Cir. 1990) (holding that the failure to sell the patented invention in the United States precludes an award of lost profits).

\textsuperscript{87} Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983). “‘There is, of course, no actual willingness on either side . . . .’” \textit{Id.} at 1081 (quoting \textit{Panduit}, 575 F.2d at 1159). \textit{See also Cincinnati Car Co. v. New York Rapid Transit Corp.}, 66 F.2d 592, 595 (2d Cir. 1933) (L. Hand, J.) (stating that the willing licensor/licensee concept is “a device in the aid of justice, by which that which is really incalculable shall be approximated”); Wesley Kobylak, \textit{Factors to Be Considered in Determining a “Reasonable Royalty” for Purposes of Calculating Damages for Patent Infringement Under 35 U.S.C.S. § 284, 66 A.L.R. Fed. 186 (1984) (setting out as the article’s scope relevant portions of § 284 as incorporating case law that recognized reasonable royalty for measuring damages).
sider several factors, including actual\textsuperscript{88} as well as anticipated\textsuperscript{89} net profits of the infringer, estimated savings,\textsuperscript{90} and expected increases in sales of unpatented items.\textsuperscript{91}

\textit{b. Awarding Lost Profits}

The prevalent, but non-exclusive, test to determine whether the patentee should be awarded lost profits was described in \textit{Panduit Corp. v. Stahlin Fibre Works, Inc.}\textsuperscript{92} The \textit{Panduit} test requires the patentee to show "(1) demand for the patented product, (2) absence of acceptable non-infringing substitutes [for the patented product], (3) [the] manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made."\textsuperscript{93}

In applying the \textit{Panduit} test, courts established the type of proof by which the patentee could satisfy each of these elements.\textsuperscript{94} Regarding the first element, a plaintiff can establish demand for the patented product simply by introducing evidence of the infringer's sales.\textsuperscript{95} Similar-higher royalty because of the claimed good's established worth. \textit{See} Wang Lab., Inc. v. Toshiba Corp., 993 F.2d 858, 870 (Fed. Cir. 1993).

\textsuperscript{88} Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552, 1568 (Fed. Cir. 1984). Actual profits are "probative of his anticipated profits." \textit{Id.}

\textsuperscript{89} \textit{Lindemann}, 895 F.2d at 1408. In negotiating a reasonable royalty, alleging that the infringer would agree to a royalty exceeding its anticipated net profit is "absurd." \textit{Id.}

\textsuperscript{90} Deere & Co. v. International Harvester Co., 710 F.2d 1551, 1558 (Fed. Cir. 1983); \textit{Hanson}, 718 F.2d at 1081.

\textsuperscript{91} \textit{Trans-World Mfg. Corp.}, 750 F.2d at 1568 (increasing sales of other products could increase amount of royalties licensee willing to pay). \textit{See} TWM Mfg. Co. v. Duva Corp., 789 F.2d 895, 901 (Fed. Cir. 1986) (assuming the patented feature creates consumer demand). If the infringer made, but did not sell, infringing goods, the patentee still suffers a statutorily recognized harm. 35 U.S.C. § 271(a) (1994). At least one commentator has suggested that "an equitable solution would be to award damages on a reasonable royalty basis." Gary M. Ropski & Marc S. Cooperman, \textit{Damages in USA Intellectual Property Litigation}, 72 J. PAT. & TRADEMARK OFF. SOC'Y 181, 186 (1990).

However, the hypothetical negotiation should not be conducted with the benefit of hindsight. \textit{Hanson}, 718 F.2d at 1081; \textit{TWM Mfg. Co.}, 789 F.2d at 899. This instruction is easier given than implemented. Indeed, the profits earned by the infringer may be used to determine the measure of a reasonable royalty or as a means of confirming the patentee's asserted lost profits. Kori Corp. v. Wilco Marsh Buggies & Draglines Inc., 761 F.2d 649, 654-55 (Fed. Cir. 1985). The court concluded that what actually happened is a guide as to what would have happened. \textit{Id.} at 655.

\textsuperscript{92} 575 F.2d 1152, 1156 (6th Cir. 1978) (Markey, C.J.). Judge Markey, then Chief Judge of the Court of Customs and Patent Appeals and future Chief Judge of the Federal Circuit, was sitting by designation. \textit{Id.} at 1152.

\textsuperscript{93} \textit{Id.} at 1156 (citing 3 R. WHITE, \textit{PATENT LITIGATION: PROCEDURE & TACTICS} § 9.03(2)). The \textit{Panduit} test has been approved by the Federal Circuit. \textit{Central Soya Co. v. George A. Hormel & Co.}, 723 F.2d 1573, 1579 (Fed. Cir. 1983).

\textsuperscript{94} \textit{See infra} notes 95-100 and accompanying text.

\textsuperscript{95} Smithkline Diagnostics v. Helena Lab. Corp., 926 F.2d 1161, 1165 n.3 (Fed. Cir. 1991).
ly, manufacturing and marketing capability may be easily shown by demonstrating the patentee’s ability to subcontract for it.\textsuperscript{96} The amount of lost profits, however, is usually calculated as incremental income and may be more complicated to prove.\textsuperscript{97}

In contrast, courts have faced difficulty in consistently articulating the standard for analyzing the second element of the Panduit test, which requires the absence of acceptable non-infringing substitutes for the patented product. On the one hand, a device protected by a patent is inherently different from all other devices, and similar devices may therefore be unacceptable substitutes.\textsuperscript{98} On the other hand, in some cases, a device lacking the patented advantage may still constitute an acceptable non-infringing substitute, unless users specifically want the patented advantage.\textsuperscript{99} However, in all cases, the device proffered as an acceptable non-infringing substitute must be commercially available.\textsuperscript{100}

Additionally, if a third party holds the patent on the proposed substitute, it is presumed to be unavailable to the infringer.\textsuperscript{101} Specifically, if two entities, A and B, own patents for competing devices, and A’s patent is infringed by C, C cannot dispute an award of lost profits by arguing that B’s patented device is an acceptable non-infringing substitute. This is because A is entitled to a presumption of validity of B’s patent, as well as a presumption that if C had instead practiced B’s patent, C would have been liable to B.\textsuperscript{102} C could rebut the presum-

\begin{itemize}
\item \textsuperscript{96} Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 826-27 (Fed. Cir. 1989), cert. denied, 493 U.S. 1024 (1990).
\item \textsuperscript{98} Radio Steel & Mfg. Co. v. MTD Prods., 788 F.2d 1554, 1556 (Fed. Cir. 1986).
\item \textsuperscript{99} Slimfold Mfg. Co. v. Kinkead Indus., 932 F.2d 1453, 1458 (Fed. Cir. 1991); SmithKline Diagnostics, 926 F.2d at 1166. If, as in Slimfold, the advantage of the invention is not particularly desired by purchasers, then the lost profits may be limited to the value of the advantage, and not based on the lost profits of the entire device. Slimfold, 932 F.2d at 1459. This award could be considered as based on the difference between an improvement patent and a pioneer patent. See supra notes 51-54 and accompanying text.
\item \textsuperscript{100} Minnesota Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 976 F.2d 1559, 1578 (Fed. Cir. 1992).
\item \textsuperscript{101} State Indus. v. Mor-Flo Indus., 883 F.2d 1573, 1581 (Fed. Cir. 1989).
\item \textsuperscript{102} See McCreary v. Pennsylvania Canal Co., 141 U.S. 459, 467-68 (1891), stating:
\end{itemize}

We do not wish to be understood as expressing an opinion whether, if there had been an earlier patent for [related devices] outstanding at the date of this infringement, and owned by a third person, defendant could claim that the device described in such patent was open to it. In such case it might perhaps be held that the plaintiff was entitled to stand upon the \textit{prima facie} validity of the earlier patent, and that presumptively the defendant would be bound to pay
tion, however, by showing that B’s patent was available to the pub-
lic.103

While courts apply the Panduit test in most patent damages cases, courts may, in the alternative, use a second test to determine whether the patentee should be awarded lost profits.104 Under this analysis, the patentee must demonstrate that the market is a two-supplier market, consisting of the patentee and the infringer.105 This demonstration subsumes the first two elements of the Panduit test, in which the patentee establishes demand and the absence of non-infringing substitutes.106 After establishing the two-supplier market, the patentee must then satisfy the third and fourth Panduit requirements.107

Both of these tests assume that the patentee and the infringer are competing in the same market.108 Once a patentee satisfies one of these tests, it may recover lost profits resulting from lost sales, price erosion or increased advertising costs, which were caused by the infringer’s entry into the market.109

It is true that a royalty to the patentee, and, having elected to make use of the plaintiff’s invention, would be bound to pay a like royalty to him.

Id.

103. State Indus., 883 F.2d at 1579 (approving award of market share of lost profits when infringer failed to show third party’s patent available to practice); Rite-Hite Corp. v. Kelley Co., 774 F. Supp. 1514, 1539 n.21 (E.D. Wis. 1991) (recognizing that “[i]f, hypothetically, Rite-Hite had patents covering only the MDL-55 and a third party had patents covering the ADL-100, Rite-Hite’s remedy would be limited to no more than either (1) a reasonable royalty on the use of the ‘847 patent or (2) lost profits on the lost MDL-55 sales”), aff’d, 56 F.3d 1538 (Fed. Cir.), cert. denied, 116 S. Ct. 184 (1995).

104. See infra notes 105-09 and accompanying text.


106 If a customer buys the infringing product, and his only other choice is to purchase the patentee’s product, then the patentee may use the purchase to establish the demand element, because the customer desired the benefits of the patented product. Kaufman, 926 F.2d at 1143. In addition, if there are only two competing products, the patented product and the infringing product, then an acceptable non-infringing substitute does not exist. Id. at 1142.


108. Bic Leisure Prods. v. Windsurfing Int’l, Inc., 1 F.3d 1214, 1219 (Fed. Cir. 1993) (reversing lower court’s award of lost profits because the infringer did not compete with the patentee when the infringer’s goods were much lower in price than were the patentee’s).

109. Otari, 767 F.2d at 864; Lam, 718 F.2d at 1067. But see Bic Leisure, 1 F.3d at 1220 (finding that other market forces besides infringement caused patentee’s lowered prices). Until Rite-Hite, most patent experts believed that a patentee could receive lost profits only on lost sales of goods that either directly exploited the patent, or were convoyed with those goods. See Ropski & Cooperman, supra note 91, at 184. “Awards of lost profits are appropriate only when the patent owner or an exclusive licensee
C. Compensable Patent Infringement Injuries

Courts face little difficulty in calculating damages once the patentee proves the extent of its injuries. What has been less clear, however, is what injuries trigger compensation under the patent statutes.

1. Competitive Goods

a. United States Supreme Court Cases

Several pre-1946 Supreme Court cases measured the scope of injuries caused by patent infringement that triggered the need for compensation, while two post-1946 cases considered patent damages under the codified statute.

In *McCreary v. Pennsylvania Canal Co.*, the Court ruled that, under the 1870 Patent Act, a patentee could not recover damages caused by the infringement of a patent not in suit. In *McCreary*, the plaintiff appealed from the lower court's decision not to award damages or profits, despite its holding that the defendant infringed an improvement patent. The patent owner argued that the invention of the...
earlier patent was not an acceptable alternative in determining damages because it also owned that patent, and that the defendant therefore "had no more right to use this invention than the other."\textsuperscript{113} The Supreme Court rejected this contention, asserting that the plaintiff could not raise this argument.\textsuperscript{114}

To prove its point, the \textit{McCreary} Court devised a hypothetical situation in which a plaintiff filed suit and, realizing that an acceptable non-infringing patented technology existed, bought this technology to preclude the defendant from claiming that it was an alternative available to the defendant.\textsuperscript{115} The Court noted that such a situation would unfairly force the defendant to pay damages for harm done to a subsequently purchased patent not in suit, because the defendant could never anticipate being held responsible for damages relating to a subsequently purchased patent.\textsuperscript{116}

The \textit{McCreary} Court also analogized to its previous decision in \textit{Seymour v. McCormick}.\textsuperscript{117} The \textit{Seymour} Court had limited the award of damages to include only the improvement patent in suit, and therefore reversed the award of damages caused by the infringement of a pioneer patent not in suit.\textsuperscript{118} McCormick, the patentee, had originally sued for infringement of two patents, but later dropped the second patent.\textsuperscript{119} The jury awarded "an enormous and ruinous verdict" for

\begin{itemize}
  \item To hold that it had not [that right] is to assume that the plaintiff owned the earlier patent, that it was a valid patent, and that defendant had infringed it. This was a question that could not be raised upon an assessment of damages in this case. . . . These were issues which could only be determined upon a bill framed for this purpose, and could not be made the subject of contest in a collateral proceeding. For the purposes of this suit the master was bound to assume that this patent was open to the defendant, otherwise he might be led into inquiries entirely foreign to the subject of his investigation.
  \item The damages portion of the suit, much like \textit{Rite-Hite}, took an unusually long time to resolve—11 years from the finding of infringement of a valid patent to the Supreme Court opinion affirming the unreported award of no damages. \textit{Compare McCreary}, 141 U.S. at 459 (decided in 1891) \textit{with McCrary}, 5 F. at 367 (decided in 1880).
  \item \textit{McCreary}, 141 U.S. at 464-65.
  \item Id. at 465.
  \item To hold that it had not [that right] is to assume that the plaintiff owned the earlier patent, that it was a valid patent, and that defendant had infringed it. This was a question that could not be raised upon an assessment of damages in this case. . . . These were issues which could only be determined upon a bill framed for this purpose, and could not be made the subject of contest in a collateral proceeding. For the purposes of this suit the master was bound to assume that this patent was open to the defendant, otherwise he might be led into inquiries entirely foreign to the subject of his investigation.
  \item Id.
  \item Id.
  \item \textit{McCreary}, 141 U.S. at 466. Note that no damages were available in an equity action under the 1836 statute. \textit{Birdsall v. Coolidge}, 93 U.S. 64, 68-69 (1876); \textit{Chisum}, supra note 71, at § 20.02[1][d] n. 29. \textit{See supra} note 74 and accompanying text.
  \item \textit{Seymour}, 57 U.S. at 491. \textit{See supra} notes 51-54 and accompanying text for definitions of pioneer and improvement patents.
  \item \textit{Seymour}, 57 U.S. at 485. Both patents were directed to various improvements
McCormick, as if the patent in suit incorporated the second patent not in suit. The Seymour Court reversed this award and suggested that the plaintiff could recover only for the patent in suit.

The McCreary Court reasoned that if a patentee could not recover for a patent dropped from a suit under Seymour, a patentee could not recover for a patent never in suit. The McCreary Court thus affirmed the lower court's refusal to award damages, finding that the patent not in suit must be considered to be available to the defendant as a non-infringing alternative.

In Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co., the Supreme Court held that a patentee need not show that it practiced the infringed patent to be awarded the infringer's profits. The Court noted, however, that the patentee must have marketed the goods "embodying the patented invention" to be entitled to an award of lost profits.

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120. Id.
121. Id.
122. McCreary, 141 U.S. at 467. The Court declared:
If plaintiff be unable to recover damages for the infringement of a patent originally included in a suit, but upon which he elects not to proceed, it is difficult to see how he can recover for the infringement of one not made the basis of any action at all. . . . If it be for a different device, then plaintiff could not recover damages for its infringement without making it the basis of suit.

123. Id. The consideration of the availability of a patent to be practiced appears to be a precursor of the Panduit factor, availability of acceptable non-infringing alternatives. See supra notes 93-103 and accompanying text. "We think, therefore, that for the purposes of this suit the earlier patent must be deemed open to the defendant, and no damages having been proved for the infringement of the improvement under the later patent, considered separately, the finding of the court below was correct." McCreary, 141 U.S. at 467.

124. 141 U.S. 441 (1891).
125. Id. at 452. "[I]t is immaterial whether or not the plaintiff itself employed" the patent which the defendant infringed. Id.
126. Id. The Court stated:
If there had been an award of damages, and the loss of trade by the plaintiff, in consequence of the competition by the defendant, had been an element entering into those damages, it would have been a material fact to be shown by the plaintiff that it was putting on the market goods embodying the [patented] invention; but as the plaintiff recovers only the profits made by the defendant in using its business the [patented] invention, it is immaterial whether or not the plaintiff itself employed that invention.

Id. See also Perego II, 65 F.3d at 954-55 ("The Supreme Court stated the principle over 100 years ago in Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co. that, to recover for loss of trade, a patentee must prove it was 'putting on the market
Only two post-1946 Supreme Court decisions, *Aro Manufacturing Co. v. Convertible Top Replacement Co.* and *General Motors Corp. v. Devex Corp.*, address the issue of patent damages. Neither decision relates directly, however, to the proper measure of damages for sales of goods not protected by the patent in suit. In *Aro*, a plurality criticized the notion of the patentee’s double recovery of damages from the actual infringer and the contributory infringer for the lost sales of goods. The plurality stated that, in this case, such an award “would enable the patentee to derive a profit not merely on unpatented rather than patented goods—an achievement proscribed . . . but on unpatented and patented goods . . . thus doubling the number of rewards to which a patentee is entitled.” In reaching this issue, the plurality cited decisions under the 1870 Patent Act interpreting the Act’s damages provision.

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129. In *Aro*, the plurality relied on its pre-1946 definitions of “damages” to suggest to the lower court on remand that the damages recoverable by the patentee should be limited to those “sufficient to put him in the position he would have occupied had there been no infringement.” 377 U.S. at 512 (plurality) (precluding a patentee from collecting actual damages from both a contributory infringer and a direct infringer).
130. *Aro*, 377 U.S. at 510 (plurality).
131. Id. at 502, 502 n.18. Justices Brennan, Stewart, White, and Goldberg joined in the damages portion of the opinion. Id. Justice Harlan considered the issue of damages not ripe for decision. Id.
132. Id. at 503 (plurality).
133. Id. (plurality) (noting the patentee’s “pecuniary position was not made one cent worse by the total infringement to which *Aro* contributed”). The plurality asserted: “The question to be asked in determining damages is ‘how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?’” Id. at 507 (plurality) (alterations in original) (quoting Livesay Window Co. v. Livesay Indus., 251 F.2d 469, 471 (5th Cir. 1958)).
134. Id. at 507 (plurality). The plurality cited the Court’s earlier holdings under the 1870 Act as to “damages,” stating:

> But the present statutory rule is that only “damages” may be recovered. These have been defined by this Court as “compensation for the pecuniary loss he [the patentee] has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.” They have been said to constitute “the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.”

Id. (alterations in original) (quoting *Coupe v. Royer*, 155 U.S. 565, 582 (1895); Yale
In Devex, the Supreme Court held that prejudgment interest may be awarded even if no exceptional circumstances, such as willfulness, are found. In so holding, the Court asserted that the purpose of the patent damages statute was to afford full compensation to the patentee. The Devex Court noted that because the predecessor statutes did not refer to prejudgment interest, "[t]his is not a case in which Congress has reenacted statutory language that the courts had interpreted in a particular way." Thus, the Court implicitly acknowledged that some facets of the Patent Code were unaffected by the 1952 codification.

In summary, the Supreme Court has taken the position that a remedy for lost sales of patented goods is appropriate when all patents are in suit and the monetary award need not be apportioned between them. In contrast, if only one of two patents for which lost sales are asserted is in suit, as in McCreary, or the patentee is not marketing the patented invention, an award of plaintiff's damages is inappropriate.

b. Lower Court Cases

The Federal Circuit, created in 1982, has exclusive jurisdiction over cases involving patents. In addition to the Federal Circuit, lower courts, both before and after 1982, have considered the remedies for

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Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1896)).
135. Devex, 461 U.S. at 657.
136. Id. at 655.
137. Id. at 653.
138. Id. at 654.
139. In both McCreary and Crosby Steam Gage, the lower court ordered an account of profits and damages under pre-1946 statutes, but the patentee failed to prove damages. Specifically, in McCreary, the master also awarded no profits. McCreary, 141 U.S. at 461. In Crosby Steam Gage, the master awarded the defendant's profits. Crosby Steam Gage, 141 U.S. at 452.
140. The Federal Circuit is the first and only federal circuit court to have national jurisdiction over particular subject matter, including cases or controversies relating to patents. See supra note 4; Mark J. Abate & Edmund J. Fish, Supreme Court Review of the United States Court of Appeals for the Federal Circuit 1982-1992, 2 FED. CIRCUIT B.J. 307, 308 (1992). Prior to its creation, patent appeals from the district courts were heard in the regional circuits. Fred Warshofsky, The Patent Wars 64-65 (1994). The Federal Circuit is explicitly bound by precedent developed in its predecessor courts, the United States Court of Claims and the United States Court of Customs and Patent Appeals. South Corp. v. United States, 690 F.2d 1368, 1369 (Fed. Cir. 1982) (en banc). The Federal Circuit is additionally bound by its Congressional mandate to bring uniformity to patent law—not to create new law. See S. Rep. No. 275, 97th Cong., 2d Sess. 1, 5 (1982), reprinted in 1982 U.S.C.C.A.N. 1, 15. See also supra note 17 (citing the legislative goal to have uniformity of the nation's patent laws). Therefore, it is expected to draw from the case law developed in the regional circuits and overturn regional precedent only when it can identify non-uniformity in the precedent. Howard T. Markey, The Federal Circuit and Congressional Intent, 2 FED. CIRCUIT B.J. 303, 303-04 (1992).
lost sales in two situations: (1) lost sales of goods protected by an infringed patent and (2) lost sales of goods not protected by an infringed patent.\textsuperscript{141}

Unprotected goods fall into two categories: (1) those which compete with the infringing goods, and (2) those whose sales depend on or are convoyed\textsuperscript{142} with the sale of patented goods.\textsuperscript{143} Lost profits can always be recovered when they result from lost sales of goods embodying the patent in suit.\textsuperscript{144} In contrast, if the patentee does not manufacture the claimed invention, then it traditionally\textsuperscript{145} has not been awarded lost profits.\textsuperscript{146} In such cases, damages are limited to a reasonable royalty.\textsuperscript{147}

\textsuperscript{141} See infra notes 143-44 and accompanying text.
\textsuperscript{142} Convoied sales result from the sale of a patented or infringing product, but are not the product itself. For instance, sales of parts, supplies, or accessories may be convoied with a patented product. See Chisum, supra note 54, § 20.03[3][vi].
\textsuperscript{143} See infra part II.C.2.
\textsuperscript{144} See, e.g., supra note 109 and cases cited therein.
\textsuperscript{145} This tradition began with Carter v. Baker, 5 F. Cas. 195, 207 (C.C.D. Cal. 1871) (No. 2,472), in which the court instructed the jury that plaintiffs could not recover for lost sales of goods made under other patents. Id. at 207. "The plaintiffs are not entitled to recover, as a part of the damages, any loss sustained by reason of their inability to sell . . . any other patents than those made under or embodying the patent infringed." Id. Carter predates the Supreme Court's opinion in McCreary by 20 years. See William C. Robinson, 3 The Law of Patents For Useful Inventions § 1053, at 321 (1890) (noting that damages are "to be measured by the direct and immediate evil consequences to the plaintiff of the wrongful act of the defendant").
\textsuperscript{146} Standard Mailing Machines Co. v. Postage Meter Co., 31 F.2d 459, 469 (D. Mass. 1929) (holding that lost sales of machines not embodying the claimed invention are not recoverable as damages); Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 F. 315, 323 (2d Cir.), cert. denied, 257 U.S. 650 (1921) (affirming the district court's finding that failure to manufacture the tire embodying the claimed feature prevented recovery of lost sales of tires); Trilogy Communications, Inc. v. Comm Scope Co., 754 F. Supp. 468, 511 (W.D.N.C. 1990); Saf-Gard Prods., Inc. v. Service Parts, Inc., 491 F. Supp. 996, 1001 (D. Ariz. 1980) (considering whether the patent holder manufactured and sold goods made under the patent was an important factor in choosing to award lost profits).
\textsuperscript{147} Velo-Bind, Inc. v. Minnesota Mining & Mfg. Co., 647 F.2d 965, 972 (9th Cir. 1981) (excluding from award of lost profits any losses due to lost sales of unpatented consumables, noting that "[a]s in so much of patent law, we observe here the tension between the law's desire to protect the patentee and its desire to preserve competition"); Ellipse Corp. v. Ford Motor Co., 461 F. Supp. 1354, 1359 (N.D. Ill. 1978).

Like the regional courts, the Federal Circuit has also affirmed that a reasonable royalty is the appropriate measure of damages when the patentee has not manufactured goods under the patent. Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990).
2. Collateral Goods

The Entire Market Value Rule provides that only some sales of unpatented goods linked, or convoyed,¹⁴⁸ with the patented good, can be eligible for inclusion in damage calculations.¹⁴⁹ The Entire Market Value Rule bases an award of damages on the value of the entire apparatus, if it was purchased because of the patented feature.¹⁵⁰ In contrast, unpatented consumables that are sold with patented goods are generally not included in an award of lost profits.¹⁵¹

The Entire Market Value Rule evolved from the recognition that sometimes a patent may cover only a small part of a machine, but nevertheless will confer most of the value of the machine.¹⁵² In cases in which consumers would not buy the machine but for the patented part, the court bases the patentee’s award of damages on the value of the entire machine.¹⁵³ If, on the other hand, the machine is almost as valuable to consumers without the patented part, then the court bases the award on the value of the part.¹⁵⁴

In the case of assemblies of machines, only one of which is patented, the Federal Circuit extended the Entire Market Value Rule to cover the entire assembly if there is “financial and marketing dependence on the patented item under standard marketing procedures for the

¹⁴⁸. See supra note 142 for a definition of convoyed sales.
¹⁴⁹. See LIPSCOMB, supra note 18, § 27:35.
¹⁵⁰. Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11, 22 (Fed. Cir. 1984). Usually, the apparatus is a single machine. Kori Corp. v. Wilco Marsh Buggies and Draglines, 761 F.2d 649, 655-56 (Fed. Cir.), cert. denied, 474 U.S. 902 (1985). A group of machines sold together or convoyed, however, sometimes also qualifies for an award of damages. Paper Converting, 745 F.2d at 23 (awarding lost profits for auxiliary units, each having separate utility, when less than 2% of the patent holder’s sales of the patented unit was for the patented unit alone).
¹⁵¹. Velo-Bind, 647 F.2d at 973.
¹⁵⁴. Smithkline Diagnostics, Inc. v. Helena Lab. Corp., 926 F.2d 1161, 1166 (Fed. Cir. 1991). When the infringer and others sold noninfringing competing products with success, a patentee cannot successfully argue “in effect that the noninfringing products lacked one or more features of the patented invention and, therefore, would not be deemed part of the market.” Id.
goods in question. The extent of dependence required, however, was not clearly delineated until Rite-Hite.

As for convoyed sales of unpatented consumables or spare parts, damages are not ordinarily available for spare parts sold as part of a package with the patented machine. The appropriateness of awarding damages for unpatented accessories is measured by whether the patentee could normally anticipate the sale of these accessories with the patented machine.

III. DISCUSSION

After the Supreme Court decided McCreary and Crosby Steam Gage in 1891, more than a hundred years passed during which a court never awarded lost profits for lost sales of goods that were protected by patents not in suit, but which the patentee owned. Indeed, it appears that the patentee only rarely tried to recover such profits. In Rite-Hite Corp. v. Kelley Co., the Federal Circuit changed the law by allowing a patentee to recover damages for such lost sales. Additionally, the Federal Circuit limited the recovery of damages in convoyed sales to instances in which the unpatented component works with the patented component to produce a functional unit.


156. See infra part III.B.1.b.


158. Otari, 767 F.2d at 865. “The controlling touchstone in determining whether to include the non-patent spare part in a damage award is whether the patentee can normally anticipate the sale of the non-patented component together with the sale of the patented components.” Id. (citations omitted). “In defining those spare parts for which a patent owner may recover, . . . parts for such items that experience had shown might be destroyed during the normal use of a device should be distinguished from parts which derive their existence and value from the patent.” Id. at 865-66 (citation omitted).

159. Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1144 (Fed. Cir. 1991) (affirming the district court’s denial of damages to the plaintiff on the sale of plastic wrap convoyed with sale of machines for stretch wrapping film around boxes because the plaintiff failed to present evidence sufficient to prove the connection between the two sales).

160. See supra part II.C.1.a.

161. See supra part II.C.1.b.

162. See supra part II.C.1.b.


164. Id. at 1548-49.

165. Id. at 1550.
A. The Facts and the Earlier Opinions

1. The Facts

Rite-Hite and Kelley Company dominated the market for the sale of vehicle restraints. These restraints prevent trucks from inadvertently moving away from a loading dock and causing harm to forklift trucks or their operators. The district court found that Rite-Hite had "invented and marketed two different patented vehicle restraint hook technologies, both of which achieved commercial success." The patent in suit, United States Patent Number 4,373,847 (the "'847 patent") relates to "a new approach to a vehicle locking device or vehicle restraint for securing a parked vehicle to adjacent stationary upright structure such as a dockwall." This device marked an improvement over the earlier "pivoted hook" technology. Rite-Hite named its commercial embodiment of the '847 patent the Manual Dok-Lok-55 (the "MDL-55").

Rite-Hite also sells an automatic restraint, the Automatic Dok-Lok-100 (the "ADL-100"). The ADL-100 is purportedly protected by an earlier issued United States Patent Number 4,264,259 (the "'259 patent"), which covers the pivoted hook technology. The '259 patent was not at issue in this suit.

[T]he unpatented components must function together with the patented component in some manner so as to produce a desired end product or result. All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit.

Id.


170. The '847 device has "a vertically traveling hook assembly" which engages trucks better than earlier "pivoted hook" designs. Id. at 1050. See infra note 188 for the broadest claim of the '847 patent.

171. Id. at 1051.

172. Id. at 1049.

173. Id.

174. Rite-Hite I, 629 F. Supp. at 1049. According to the United States Patent & Trademark Office, another lawsuit filed by Rite-Hite, which has been stayed pending resolution of this suit, asserts infringement of the '259 patent by Kelley. Rite-Hite Corp. v. Kelley Co., No. 89-C-1274 (E.D. Wis., filed Oct. 10, 1989). See Rite-Hite III, 774 F. Supp. at 1525 n.5 (stating that "Kelley had developed and was selling other
Kelley's infringing restraints were sold under the name Truk-Stop.\(^{175}\) Truk-Stops were automatic restraints that competed most effectively with ADL-100s.\(^{176}\) Rite-Hite asserted that the Kelley's automatic Truk-Stops infringed upon the '847 patent, which protects Rite-Hite's manual MDL-55.\(^{177}\) Rite-Hite further asserted that Kelley's infringement caused lost sales of both the manual MDL-55 and, because Kelley's Truk-Stop was an automatic restraint and competed directly with Rite-Hite's automatic restraint, the ADL-100.\(^{178}\)

Both Rite-Hite and Kelley often coupled sales of vehicle restraints with sales of dock levelers, although they sold most dock levelers separately.\(^{179}\) Dock levelers act to "automatically or semi-automatically bridge the gap between a truck and a dock so that forklift trucks can safely pass over that gap during the loading or unloading process."\(^{180}\) Both Rite-Hite and Kelley established themselves as the dominating competitors in the sale of dock levelers before developing vehicle restraints.\(^{181}\)

The history of Rite-Hite extended approximately twelve years\(^{182}\) from the filing of the suit\(^{183}\) until the Federal Circuit finally issued its opinion regarding damages in June 1995.\(^{184}\) The lower court bifur-

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\(^{175}\) Rite-Hite I, 629 F. Supp. at 1051.
\(^{176}\) Rite-Hite III, 774 F. Supp. at 1522.
\(^{177}\) Rite-Hite I, 629 F. Supp. at 1051. Although Kelley's Truk-Stop was automatic, the district court found it used the vertically traveling hook assembly of the '847 patent. Id. at 1058. Kelley began selling Truk-Stops nearly a year before the patent issued. Id. at 1060.
\(^{178}\) Rite-Hite III, 774 F. Supp. at 1525-56.
\(^{179}\) Id. at 1530.
\(^{180}\) Id. at 1519.
\(^{181}\) Id. Both Rite-Hite and Kelley were established in the dock leveler market long before the restraints were developed. Rich Kirchen, Despite Decade of Fightin' Words, Rite-Hite, Kelley Deny They're Feuding, 9 BUS. J.-MILWAUKEE, § 2 at 10 (Jun. 6, 1992). Rite-Hite and Kelley accounted for more than 80% of dock leveler sales from 1983-1990. Rite-Hite III, 774 F. Supp. at 1519.
\(^{182}\) Because the term of the patent in suit will expire May 4, 2001, the vast majority of the patent's term has been spent in litigation. U.S. Pat. No. 4,373,847. A patent whose validity has been questioned is a wounded patent of uncertain worth. Morton Int'l, Inc. v. Cardinal Chem. Co., 5 F.3d 1464, 1472 (Fed. Cir. 1993) (Mayer, J., concurring). Thus, the patentee should be interested in a speedy resolution of at least the validity issues.
\(^{183}\) Rite-Hite I, 629 F. Supp. at 1049. Rite-Hite's application, filed on May 4, 1981, matured into a patent and issued on February 15, 1983. Id. The suit was initially filed in the Eastern District of Wisconsin just five weeks after the patent in suit issued. Id.
\(^{184}\) Rite-Hite, 56 F.3d at 1538.
cated the case, determining liability in the first phase, and calculating damages incurred by the infringement in the second phase.

2. The Liability Phase

In May 1985, Chief Judge Reynolds heard the liability phase of the case in a bench trial. In the liability phase, the court found that the Truk-Stop infringed all asserted claims of the '847 patent. The court, however, determined that Kelley's infringement was not willful, and declined to award enhanced damages. The court enjoined Kelley from further infringement, but stayed the injunction pending appeal. A three-judge panel of the Federal Circuit affirmed the district court's judgment of non-willful infringement of a valid patent.

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188. Id. at 1066. The asserted claims were found to be not invalid. Id. The broadest of the asserted claims is claim 1, which is as follows:
   1. A releasable locking device for securing a parked vehicle to an adjacent relatively stationary upright structure, said device comprising
      (a) a first means mountable on an exposed surface of the structure,
      (b) a second means mounted on said first means for substantially vertical movement relative thereto between operative and inoperative modes,
      (c) the location of said second means when in an inoperative mode being a predetermined distance beneath the location of said second means when in an operative mode and in a non-contacting relation with the vehicle,
      (d) and third means for releasably retaining said second means in an operative mode,
      (e) said second means including a first section projecting outwardly a predetermined distance from said first means and the exposed surface of the structure, one end of said first section being mounted on said first means for selective independent movement relative thereto along a predetermined substantially vertical path, and a second section extending angularly upwardly from said first section and being spaced outwardly a substantially fixed distance from said first means and the exposed surface of the structure,
      (f) said second means, when in an operative mode, being adapted to interlockingly engage a portion of the parked vehicle disposed intermediate to second section and said first means,
      (g) said second means, when in an inoperative mode, being adapted to be in a lowered nonlocking relation with the parked vehicle.

Id. at 1056-57.
189. Id. at 1066. See supra note 61 and accompanying text for a discussion of enhanced damages.
191. Rite-Hite II, 819 F.2d at 1120. Judges Smith, Newman, and Bissell sat on the panel, with Judge Newman writing the opinion for the court. Id. at 1121.
192. Id.
3. The Damages Phase

In 1990, Judge Reynolds heard the damages phase of the case in a bench trial. The district court held that Rite-Hite, as a wholesaler, had proven damages for the sales of vehicle restraints protected by the '847 patent, as well as for the sales of restraints assertedly protected by an other patent and dock levelers that were convoyed with the restraints. The district court also found that Rite-Hite’s independent sales organizations (“ISOs”) had standing to recover damages, and that the ISOs and Rite-Hite should recover damages for retail sales. The court then addressed the issue of damages.

Kelley conceded that Rite-Hite could recover damages for the lost sales of goods protected by the '847 patent in suit, such as Rite-Hite’s MDL-55, and that Kelley’s sales of infringing restraints could be eligible for an award to Rite-Hite of a reasonable royalty. Rite-Hite, however, claimed two other types of damages caused by its lost sales, which Kelley contested: lost profits from the lost sales of goods protected by other patents, such as Rite-Hite’s ADL-100, and lost sales of convoyed goods such as dock levelers.

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194. *Id.*
195. *Id.* at 1523. The district court held that the ISOs were exclusive licensees of the '847 patent and thus were eligible for an award of damages. *Id.* The Federal Circuit reversed, finding that the licensees were not exclusive. *Rite-Hite*, 56 F.3d at 1551. Chief Judge Archer, Senior Judge Smith, and Judges Nies and Mayer concurred in the result. *Id.* at 1547. Judge Newman would have found standing for the ISOs as sales agents of Rite-Hite and as the “principal victim[s] of the infringement, for they and Rite-Hite sold the goods whose sales were lost due to the infringement.” *Id.* at 1583 (Newman, J., concurring in part, dissenting in part).
196. *Rite-Hite III*, 774 F. Supp. at 1523. The Federal Circuit reversed the award for the ISOs, holding that lost retail profits are available if the retailer owns the patent or has the exclusive right to practice the patent within a territory. *Rite-Hite*, 56 F.3d at 1552. Thus, although the ISOs were not eligible for damages, Rite-Hite was eligible for retail damages. *Id.* Judges Newman and Rader dissented, asserting that the ISOs had standing to recover as sales agents of Rite-Hite. *Id.* at 1578 (Newman, J., dissenting).
197. *Rite-Hite III*, 774 F. Supp. at 1518. The total damages awarded for lost sales of the ADL-100 and the MDL-55 at the wholesale level amounted to nearly four million dollars, excluding prejudgment interest. *Id.* at 1534. The automatic Kelley Truk-Stop directly competed with the automatic Rite-Hite ADL-100, yet infringed on the patent protecting the manual Rite-Hite MDL-55. *Id.* Thus, without Kelley’s infringing, Rite-Hite would have sold 3,243 more ADL-100 units and 80 more MDL-55. *Id.* at 1529. The district court used the Panduit test to determine whether Rite-Hite had proven damages in each of the categories considered. *Id.* at 1541. *See supra* part II.B.2.b for the elements of the Panduit test.
199. *Id.* at 1536-37.
200. *Id.* at 1541-42. *See supra* part II.C.2 for a review of the Entire Market Value Rule and convoyed goods.
The district court held that Rite-Hite could recover lost profits from the lost sales of ADL-100 units. The court found that such an award afforded "complete compensation" as required by the statute. In addition, the court found that Kelley, although not a willful infringer, anticipated taking ADL-100 sales from Rite-Hite and thus should have reasonably foreseen an award of lost profits on those lost sales. Finally, the court found that limiting the award to a reasonable royalty on Kelley's sales of the Truk-Stop would not adequately compensate Rite-Hite.

The district court next determined whether Rite-Hite should recover damages for the lost sales of dock levelers convoyed with its ADL-100 units. Applying the Entire Market Value Rule, the court found that they, too, should be included in the damage award. The court reasoned that the Rule applied "because the proper test of the entire market value rule is not whether the items have any economic value independent of the restraint, but whether the sale of levelers is highly dependent upon the sale of restraints under the standard procedure for marketing restraints."
For some of the restraint or convoyed restraint-leveler sales, the district court held that Rite-Hite did not prove lost profits. The court found the '847 patent to be a pioneer patent with known commercial success, and that no suitable non-infringing substitutes were available to Kelley. Furthermore, the court determined that Rite-Hite would not ordinarily license its patents to Kelley, its strong competitor. The district court awarded damages totalling $6,483,553, excluding prejudgment interest. Kelley subsequently filed for bankruptcy.

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209. Rite-Hite did not prove that Rite-Hite contacted the customer before Kelley made the sale. Id. at 1534.
210. Id. The Federal Circuit, Judges Newman and Rader concurring, affirmed this award. Rite-Hite, 56 F.3d at 1555.

Judge Nies dissented, maintaining that an award of a reasonable royalty based on Rite-Hite's lost profits, ignoring Kelley's side of the negotiation, was improper and amounted to an award of Rite-Hite's lost profits. Id. at 1576-77 (Nies, J., dissenting) (stating that "where a patentee is not entitled to lost profit damages, lost profits may not, in effect, be awarded by merely labelling the basis of the award a reasonable royalty"). She noted that no licensee would have assented to a royalty which amounted to more than the cost of Rite-Hite's manual restraints made under the patent and more than thirty times Kelley's net profits on the entire device. Id. at 1576 (Nies, J., dissenting).
211. See supra notes 51-54 and accompanying text (explaining pioneer and improvement patents).
212. Rite-Hite III, 774 F. Supp. at 1535.
213. Id.
214. Id. at 1534, 1536. The district court awarded prejudgment simple interest at prime, calculated for both lost profits and reasonable royalty damages. Id. at 1543. Rite-Hite unsuccessfully challenged the award of simple interest instead of compound interest on appeal. Rite-Hite, 56 F.3d at 1555 (noting that the decision whether to award simple or compound interest is largely within the discretion of the district court).

The court awarded "a royalty equal to no less than one half of the per unit profits that it was foregoing" or $770 per restraint. Rite-Hite III, 774 F. Supp at 1536. The total awarded for the 502 restraints was $386,540, excluding prejudgment interest. Id. Kelley sold the Truk-Stop for $2000 to $3000, while Rite-Hite sold the ADL-100 for $2500 to $3000. Id. at 1529. Rite-Hite's manual dock leveler, the MDL-55, listed for one-half to one-third of the automatic levelers. Id. at 1520.
215. Rite-Hite, 56 F.3d at 1575 (Nies, J., dissenting). The judgment was for more than Kelley's net worth at the time of judgment. Interview with Tom Elliott, Rockey, Rifkin & Ryther, in Chicago, Ill. (October 24, 1995).
B. The Federal Circuit Court Decision

1. The Majority Opinion

The Federal Circuit affirmed the district court's award of damages for the lost sales of restraints that were not protected by the '847 patent, but which competed with restraints that infringed the patent. In contrast, the court reversed the award of damages to Rite-Hite for the lost sales of levelers convoyed with sales of restraints. The court held that the Entire Market Value Rule did not apply to the levelers, because the levelers and restraints did not comprise a single functional unit.

Judge Nies dissented from the award of damages for competing restraints, but joined the majority's decision to refuse an award of damages for the levelers. Judge Newman dissented from the majority's decision to limit the award to directly competing goods and not awarding damages for convoy sales.

a. Lost Profits on Goods Protected by Other Patents Awarded

In affirming the award of lost profits on the ADL-100 restraints, the majority noted the district court's concern with cross-competing devices. For instance, consider what happens if Item A competes with Item C, but infringes a patent protecting Item D, while Item B infringes a patent protecting Item C, but competes with Item D. Under this scenario, the district court had found that, but for a decision such as the present one, the owner of the patents would be limited to a re-

216. The Federal Circuit decided sua sponte to hear Rite-Hite, 56 F.3d at 1538, and Perego II, 65 F.3d at 941, en banc simultaneously. En Banc CAFC Will Review Scope of Lost Profits Awards, 47 Pat. Trademark & Copyright J. (BNA) 560 (1994). Perego II was subsequently remanded to its original three judge panel, composed of Judges Nies, Newman and Rader, and is discussed infra notes 374-86 and accompanying text.

Amicus briefs were submitted by Grain Processing Corp., Stanley L. Amberg, Harrie R. Samaras, and Otari Manufacturing Corp. Rite-Hite, 56 F.3d at 1541. Otari was interested in the outcome of the Perego case, having previously unsuccessfully contested the validity of some of the patents in suit. Otari, 767 F.2d 853.

217. Rite-Hite, 56 F.3d at 1549. Judges Newman and Rader joined this portion of the opinion. Id. at 1542.

218. Id. at 1549.

219. Id. Chief Judge Archer, Senior Judge Smith, and Judges Nies and Mayer concurred in the result of this part of the opinion. Rite-Hite, 56 F.3d at 1575 (Nies, J., concurring in part, dissenting in part).

220. See infra part III.B.2.a.

221. See infra part III.B.2.b.

222. Rite-Hite, 56 F.3d at 1546.
covery of a reasonable royalty, which is "inconsistent with the under-
lying policy of 'complete compensation.'"223

The court first reviewed section 284 of the Patent Code, which calls
for damages "adequate to compensate for the infringement, but in no
event less than a reasonable royalty."224 The court interpreted this pro-
vision, as well as case law construing it, as setting a lower limit for
damage awards, but providing no specific upper limit.225 The court
therefore applied rules derived from traditional tort law in fashioning
some limitations on the amount of damages that could be recovered.

First, the court required that Rite-Hite show that the damages were
in fact caused by the infringement.226 That is, "but for" the infringe-
ment, the patentee would have made the infringer's sales.227 To deter-
dine whether Rite-Hite met this requirement, the Federal Circuit ap-
plied the Panduit test.228 On appeal, the Federal Circuit found that the
only Panduit element in question was whether acceptable non-infring-
ing substitutes were available.229 Because Rite-Hite owned the patent
for the only other device available, the ADL-100, it was not available
to Kelley as an acceptable substitute.230 Thus, the Federal Circuit
affirmed that Rite-Hite met the Panduit test.231

The Federal Circuit then placed a second limitation on damages by
stating that as part of establishing proximate cause, Rite-Hite must es-
ablish that Kelley could reasonably foresee that its actions would
result in lost sales.232 The court explained that such a rule was neces-
sary, because otherwise, infinite liability for all wrongs could result

223. Id. ("Being responsible for lost sales of a competitive product is surely
foreseeable; such losses constitute the full compensation set forth by Congress, as
interpreted by the Supreme Court, while staying well within the traditional meaning of
proximate cause."). See Rite-Hite Ill, 774 F. Supp. at 1540.
for the text of the statute.
225. Rite-Hite, 56 F.3d at 1544.
226. Id. at 1545.
227. Id.
228. Id. See supra part II.B.2.b for the elements of the Panduit test.
229. Rite-Hite, 56 F.3d. at 1548.
230. Id.
231. Id.
232. Id. at 1546. "Such labels have been judicial tools used to limit legal
responsibility for the consequences of one's conduct that are too remote to justify
compensation." Id.
from committing a single wrong.\textsuperscript{233} The court noted, however, that patent laws did not limit damages to sales of goods covered by the patent in suit.\textsuperscript{234} While "remote consequences" caused by patent infringement, such as loss in stock value or physical harm to the inventor, are not proximately caused by infringement,\textsuperscript{235} the lost sales of competing goods were reasonably foreseeable and thus compensable by Kelley.\textsuperscript{236}

Therefore, because Rite-Hite would have earned its lost profits on its competing goods but for the infringement (the infringing automatic Kelley Truk-Stop competed with the automatic Rite-Hite ADL-100, which was not in suit), and because these lost sales were reasonably foreseeable by Kelley, the Federal Circuit affirmed the district court's award of lost profits to Rite-Hite for the lost sales of the ADL-100s.\textsuperscript{237}

\textit{b. Lost Profits on Convoyed Sales Limited}

The Federal Circuit also clarified the application of the Entire Market Value Rule.\textsuperscript{238} The court noted that courts usually applied this rule when a single device contained both patented and unpatented components, and the patented portion substantially created the value of the device.\textsuperscript{239} In this case, however, the district court awarded damages for lost sales of unpatented goods that were convoyed with patented goods.\textsuperscript{240}

Reversing the district court, the Federal Circuit found that the Entire Market Value Rule did not apply, and that Rite-Hite could not recover damages for the lost sales of dock levelers.\textsuperscript{241} The court stated that the Entire Market Value Rule applies only in cases where the unpatented component works with the patented component to produce a functional

\textsuperscript{233} Id.
\textsuperscript{234} Id. at 1547 (noting that antitrust cases which condemn the expansion of a patent grant to cover unpatented goods are inapposite). "The present case does not involve expanding the limits of the patent grant in violation of the antitrust laws; it simply asks, once infringement of a valid patent is found, what compensable injuries result from that infringement, \textit{i.e.}, how may the patentee be made whole." Id.
\textsuperscript{235} Id. at 1546.
\textsuperscript{236} Id. "Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress, as interpreted by the Supreme Court, while staying well within the traditional meaning of proximate cause." Id.
\textsuperscript{237} Id. at 1549.
\textsuperscript{238} Id. at 1549-50.
\textsuperscript{239} See supra part II.C.2.
\textsuperscript{240} See supra notes 206-08 and accompanying text.
\textsuperscript{241} Rite-Hite, 56 F.3d at 1551.
The court noted that in the present case, packaging the unpatented dock levelers with the patented restraints did not create a functional unit, in part because Rite-Hite had been selling the levelers individually for years before it even developed the restraints.243

The Federal Circuit reiterated that lost sales of goods, which were convoyed with patented goods for convenience or business advantage, do not qualify for an award of damages.244 In other words, while the court in previous decisions appeared to expand the Entire Market Value Rule to allow damages for goods convoyed "only as a matter of convenience or business advantage,"245 the Rule does not apply unless the goods form a "single assembly."246

The Rite-Hite court distinguished its award of damages for lost sales of the competing ADL-100 restraints, which similarly were not covered by the patent in suit.247 The court noted that the lost sales of the ADL-100s, however, were directly caused by Kelley's infringement of the patent in suit.248 The court stated that awarding those damages satisfied the purpose of the patent law, which is to compensate for losses resulting from infringement.249 In contrast, the court explained that the dock levelers did not compete with Kelley's infringing prod-

242. Id. at 1550.

[T]he unpatented components must function together with the patented component in some manner so as to produce a desired end product or result. All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit.

Id.

243. Id. at 1551. "The dock levelers were thus sold by Kelley with the restraints only for marketing reasons, not because they essentially functioned together." Id.

244. Id. The court stated that it was not persuaded that liability should extend to sales in which the patented and unpatented components have only financial or marketing interdependence. Id.

245: Id. at 1550 (referring to Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11, 22-23 (Fed. Cir. 1984)).

246. Id.

Our precedent has not extended liability to include items that have essentially no functional relationship to the patented invention and that may have been sold with an infringing device only as a matter of convenience or business advantage We are not persuaded that we should extend that liability. Damages on such items would constitute more than what is 'adequate to compensate for the infringement.'

Id.

247. Id. at 1551. See supra note 237 and accompanying text.

248. Rite-Hite, 56 F.3d at 1551.

249. Id. "It is a clear purpose of the patent law to redress competitive damages resulting from infringement of the patent, but there is no basis for extending that recovery to include damages for items that are neither competitive with nor function with the patented invention." Id.
uct, and were "merely items sold together with restraints for convenience and business advantages." The court therefore concluded that Rite-Hite could not recover damages from the lost sales of the dock levelers.

2. The Dissenting Opinions

In her opinion dissenting in part, Judge Nies argued that the majority decision went too far in awarding damages for injuries to goods not protected by the patent, but which were competitive with the infringing good. Judge Nies concurred, however, in the majority's decision to exclude recovery for lost sales of dock levelers under the Entire Market Value Rule. She asserted that she would have denied recovery because consumers did not purchase levelers based on the demand for the features of the restraints. On the other hand, Judge Newman, in her dissenting opinion, argued that in limiting the award to damages relating only to restraints and not levelers, the majority did not go far enough in awarding damages.

a. Judge Nies's Dissenting Opinion

Judge Nies's dissent distinguished between the legal injury suffered by the patentee when its patent is infringed and the amount of compensation available under the patent statute for damages caused by the infringement, whether the damages consisted of lost profits or a reasonable royalty. She asserted that some injuries that satisfy the "but for" standard are not legally compensable. Specifically, Judge Nies stated that the ability to trace economic injuries to the infringement, such as lost sales of devices that compete with infringing goods, would not alone establish that the injury is one which should be redressed.

250. Id.
251. Id.
252. Id. at 1556 (Nies, J., dissenting).
253. Id. (Nies, J., dissenting).
254. Id. at 1557 (Nies, J., dissenting).
255. Id. at 1579-82 (Newman, J., concurring in part and dissenting in part).
256. Judge Nies was joined by Chief Judge Archer, Senior Judge Smith, and Judge Mayer, dissenting in part. Id. at 1556 (Nies, J., dissenting).
257. Id. at 1557 (Nies, J., dissenting). "Patent 'damages' are limited to legal injury to property rights created by the patent, not merely causation in fact." Id. (Nies, J., dissenting).
258. Id. at 1559-60 (Nies, J., dissenting). "A 'but-for' test tells us nothing about whether the injury is legally one which is compensable." Id. at 1559 (Nies, J., dissenting).
259. Id. at 1560 (Nies, J., dissenting).
Judge Nies disagreed with the majority’s interpretation of the term “damages,” arguing that Kelley’s diversion of sales from Rite-Hite’s restraints, which were not protected by the patent in suit, did not constitute “an injury to patentee’s property rights granted by the . . . patent.”

Judge Nies noted that these property rights were limited to “an exclusive market in the patented goods.”

She reviewed the common law principles relating to damages, other federal commercial tort statutes, the statutory history of section 284, and precedent from before and after 1946 that related to damages to the patentee’s market.

Judge Nies determined that the patent laws were never intended to protect products other than the patented invention being reviewed by the court, even if they were protected by other patents. She therefore concluded that Rite-Hite should be allowed to recover lost profits for lost sales of the MDL-55, which was covered by the patent in suit, but not for the ADL-100, which was covered by a separate patent.

In her view, this conclusion was supported by the Supreme Court’s recent mandates that to recover damages, the plaintiff must show not only that the injury alleged is causally related to the statutory tort, but also that the injury is of a type intended to be prevented by the statute.

Further, Judge Nies noted prior Supreme Court holdings

260. Id. at 1556 (Nies, J., dissenting).
261. Id. at 1561 (Nies, J., dissenting).
262. Id. at 1558-59 (Nies, J., dissenting).
263. Id. at 1559-60 (Nies, J., dissenting).
264. In connection with a tort created by a federal statute, the public purpose of the statute and the likely intent of Congress are the overriding considerations respecting the types of injuries for which damages may legally be awarded. Courts must be careful to discern and not exceed the purpose which the legislature intended.


266. Id. at 1563-69 (Nies, J., dissenting). Many of the cases cited by Judge Nies are reviewed infra at part IV.A.

267. Id. at 1565 (Nies, J., dissenting).

268. Id. at 1559 (Nies, J., dissenting). In addition, under pre-1946 law, the Supreme Court limited patent damages to those caused by the infringer’s interference with the patentee’s marketing of its goods protected by the patent in suit. Id. at 1560 (Nies, J., dissenting).
that lost sales of goods not protected by the patent are not intended to be protected.\footnote{269}{Id. at 1563 (Nies, J., dissenting).}

Judge Nies then examined the majority's interpretation of section 284\footnote{270}{35 U.S.C. § 284 (1994). See supra note 81 for the relevant section of the Patent Code.} of the Patent Code.\footnote{271}{Rite-Hite, 56 F.3d at 1560. See supra notes 224-27 and accompanying text for a discussion of the majority's interpretation of this provision.} Judge Nies asserted that "[t]he majority construes 'adequate' as an expansive term. If anything the term 'adequate' suggests moderation, the standard definition of the term being 'reasonably sufficient,' or even 'barely sufficient.'"\footnote{272}{Id. at 1560 n.7 (Nies, J., dissenting) (quoting WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY 56 (9th ed. 1983) and THE AMERICAN HERITAGE DICTIONARY 15 (10th ed. 1981)).} Judge Nies disagreed with the majority's contention that the patent statute itself provides no ceiling to an award of damages.\footnote{273}{Id. at 1560-61 (Nies, J., dissenting).} "[W]here infringement of the patent interferes with that indirect benefit from the patent, the injury has heretofore been held to be an indirect consequential loss and not recoverable."\footnote{274}{Id. at 1572 (Nies, J., dissenting).}

Judge Nies explained that there is a seemingly irreconcilable conflict between (1) awarding lost profits when the patentee's device does not include the patented improvement, and (2) awarding only a reasonable royalty, not lost profits, when the patentee's device does include the improvement, unless the patentee proves that consumer demand is based on the patented improvement.\footnote{275}{Id. at 1565 (Nies, J., dissenting).} Judge Nies maintained that the likelihood that the demand for the ADL-100s, which were not protected by the patent in suit and with which Kelley's automatic Truk-Stops effectively competed, was in large part due to consumer preference for automatic, not manual, restraints.\footnote{276}{Id. (Nies, J., dissenting).} Including lost profits for the ADL-100s in the calculation of compensable damages, Judge

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\textsuperscript{269} Id. at 1563 (Nies, J., dissenting).


\textsuperscript{271} Rite-Hite, 56 F.3d at 1560. See supra notes 224-27 and accompanying text for a discussion of the majority's interpretation of this provision.

\textsuperscript{272} Id. at 1560 n.7 (Nies, J., dissenting) (quoting WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY 56 (9th ed. 1983) and THE AMERICAN HERITAGE DICTIONARY 15 (10th ed. 1981)).

\textsuperscript{273} Id. at 1560-61 (Nies, J., dissenting).

\textsuperscript{274} Id. at 1565 (Nies, J., dissenting).

\textsuperscript{275} Id. at 1572 (Nies, J., dissenting).

The majority agrees that if a patented improvement is used in a device of the patentee with which the infringer competes, to recover lost profits on the entire device, the patentee must prove that the patented feature is the basis for consumer demand for the entire product; but if the patentee substitutes other unprotected technology for the patented improvement, then the patentee is entitled to all of its lost profits. Surely this negates the stimulus for a patentee to put out products with the improvement.

\textit{Id.} (Nies, J., dissenting).

\textsuperscript{276} Id. (Nies, J., dissenting).
Nies explained, amounted to rewarding Rite-Hite for unpatented features and for features not protected by the patent in suit. 277

Judge Nies also disputed the majority’s assumption that ADL-100s were protected by other patents. She argued that this assumption allowed the majority to assume the validity of other patents for assessing damages relating to the ’847 patent, without giving Kelley the opportunity to contest the validity of the other patents. 278 If the patents were invalid, Judge Nies reasoned, then Rite-Hite would have had no right to exclude others from practicing those patents and thus, the ADL-100s would have been acceptable non-infringing alternatives. 279

Because one of the purposes of the patent system is to promote the useful arts, the patent laws provide a period of exclusivity to enable a patentee to recoup its capital after it discloses its invention, and before others can practice the invention. 280 Judge Nies acknowledged that a patentee is not required to practice the invention in order to receive a patent. 281 She maintained, however, that awarding lost profits on an established product such as the ADL-100, which are normally higher than for new products, for an infringement of a new patent, nullified the policy of exclusivity aimed at enabling commercialization by the patentee. 282

Furthermore, because the ADL-100s are purportedly protected by other patents, Judge Nies maintained that allowing recovery for the lost sales of the ADL-100s caused by infringement of a different patent skewed the terms of the patents covering the ADL-100s by expanding (1) the term of patents as well as (2) the basis for protection. 283 Judge Nies noted that marking the ADL-100 with the patents under which it is protected 284 would not put Kelley on notice of potential infringement.

277. Id. (Nies, J., dissenting).
278. Id. at 1573 (Nies, J., dissenting). Because the Truk-Stop was not alleged to have infringed the other patents, Kelley had no chance to contest the validity of the other patents in this case. Id. (Nies, J., dissenting). If the stayed action is resumed, Kelley may have the opportunity to contest some of the other patents. See supra note 174. A subsequent finding of invalidity will not affect the damages awarded in this case. Cf. Allen Archery, Inc. v. Browning Mfg. Co., 819 F.2d 1087, 1091 (Fed. Cir. 1987) (noting that a previous finding of validity does not estop others from challenging validity).
279. Rite-Hite, 56 F.3d at 1573 (Nies, J., dissenting). “If those patents are invalid, the majority’s analysis collapses.” Id. (Nies, J., dissenting).
280. Id. at 1563 (Nies, J., dissenting).
281. Id. (Nies, J., dissenting).
282. Id. (Nies, J., dissenting).
283. Id. at 1573 (Nies, J., dissenting).
284. Id. at 1571 (Nies, J., dissenting) (noting that the marking statute, 35 U.S.C. § 287(a) (1994 and Supp. 1995), provides that no damages are recoverable in the absence of marking until actual notice is given to the infringer).
of the ’847 patent. Moreover, she asserted that marking would generate “absurd results when applied to damages tied to products not made under the patent in suit.” In fact, Kelley studied the patents that were asserted as protecting the ADL-100, in order to effectively design around them in manufacturing the Truk-Stop. Judge Nies declared that the majority has essentially created a new rule, in which avoiding the patents which protect a device no longer prevented the recovery of damages for lost sales of that device.

b. Judge Newman’s Dissenting Opinion

Judge Newman’s dissent argued that almost any showing of pecuniary harm related to infringement causes a compensable harm. Judge Newman concurred with the majority in allowing lost profits of the sale of ADL-100 restraints not protected by the ’847 patent. She dissented, however, from the portion of the majority decision that refused to award damages for lost convoyed sales of levelers, packaged with the restraints, under the Entire Market Value Rule. She reasoned that, if the levelers and restraints were bid and sold in packages, then the sale of packages that include infringed restraints caused actual damages in lost sales of the whole package. Thus, Judge

285. Id. (Nies, J., dissenting). Judge Nies also pointed out that Rite-Hite couldn’t “mark its ADL restraints with notice of the ’847 patent,” because it would constitute false marking in violation of 35 U.S.C. § 292. Id. (Nies, J., dissenting).

286. Id. (Nies, J., dissenting).

287. Rite-Hite I, 629 F. Supp. at 1052. At the time the Truk-Stop was first available for sale, the patent was still a year from issuance. Id. at 1049, 1053.

288. Rite-Hite, 56 F.3d at 1571 (Nies, J., dissenting).

289. Judge Rader joined Judge Newman’s dissent. Id. at 1578 (Newman, J., concurring in part and dissenting in part).

290. Id. at 1578 (Newman, J., concurring in part and dissenting in part). She stated: In holding that those injured by the infringement shall not be made whole, the value of the patent property is diminished. The majority’s half-a-loaf award, wherein the patentee and the other plaintiffs are denied recovery of a significant portion or all of their proven damages, is an important policy decision.

Id. (Newman, J., concurring in part and dissenting in part).

291. Judge Newman was the author of the initial Federal Circuit opinion affirming the district court’s finding of infringement. Rite-Hite II, 819 F.2d at 1121. Judges Smith and Bissell comprised the rest of the panel. Id. Judge Bissell was no longer on the bench by the time the appeal on damages was decided. Rite-Hite, 56 F.3d at 1542. Judge Smith joined Judge Nies’s dissent. Id. at 1556.


293. Id. at 1578 (Newman, J., concurring in part and dissenting in part).

294. Id. (Newman, J., concurring in part and dissenting in part).
Newman did not agree on the basis for which the damages should be awarded.\textsuperscript{295}

In concluding that lost sales of levelers should be included in calculating damages under the Entire Market Value Rule, Judge Newman began by reviewing damages principles.\textsuperscript{296} After reviewing the leading cases\textsuperscript{297} and the leading hornbooks,\textsuperscript{298} she concluded that the question should not have been whether the restraints and levelers sold in convoyed sales had separate, independent functions,\textsuperscript{299} but whether the unpatented levelers depended financially and in marketing on the sales of the patented restraints, whether protected by the patent in suit or by other patents.\textsuperscript{300} She found that, in this case, Rite-Hite proved that the sales of levelers depended on the sales of restraints, and that Rite-Hite should therefore have been allowed to recover for the lost sales of levelers.\textsuperscript{301}

\begin{itemize}
\item \textsuperscript{295} Id. at 1578-79 (Newman, J., concurring in part and dissenting in part).
\item \textsuperscript{296} Id. at 1579 (Newman, J., concurring in part and dissenting in part).
\item The basic principle of damages law is that the injured party shall be made whole. On the facts on which the district court awarded damages for certain lost sales of dock levelers, the relationships were direct, causation was proved, the scope of recovery was narrow, and the circumstances were unusual. \textit{Id.} (Newman, J., concurring in part and dissenting in part).
\item \textsuperscript{299} \textit{Rite-Hite}, 56 F.3d at 1582 (Newman, J., concurring in part and dissenting in part). “The correct question is not whether the infringing truck restraint was part of a larger combination whereby the truck restraint could not function without the dock leveler, or whether the truck restraint or the dock leveler also had an independent market and use.” \textit{Id.} (Newman, J., concurring in part and dissenting in part).
\item \textsuperscript{300} \textit{Id.} (Newman, J., concurring in part and dissenting in part).
\item “[I]t is not the physical joinder or separation of the contested items that determines their inclusion in or exclusion from the compensation base, so much as their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question.” The sales of dock levelers and truck restraints met this criterion. \textit{Id.} (Newman, J., concurring in part and dissenting in part) (quoting Leesona Corp. v. United States, 599 F.2d 958, 974 (Cl. Ct.), cert. denied, 444 U.S. 991 (1979)).
\item \textsuperscript{301} \textit{Id.} at 1581-82 (Newman, J., concurring in part and dissenting in part).
\end{itemize}
IV. ANALYSIS

By awarding lost profits on the sale of goods not protected by the patent in suit, the Federal Circuit ruled contrary to the Supreme Court decisions *Seymour*, *McCreary*, and *Crosby Steam Gage*, which instructed courts that a patent owned by the patentee must be assumed to be available to an accused infringer unless that patent is adjudicated valid in the same case. These cases, although decided under earlier statutes, use the same meaning for damages as the current statutes, because Congress has not shown any intent to change the meaning of damages in enacting either section 284 or its predecessor statutes. Indeed, the Supreme Court continues to rely on its interpretation of patent damages before the 1946 amendments in its post-1946 cases. The 1946 amendments merely eliminated from damages calculations the infringer’s profits, and added pre-judgment interest to damages calculations.

On the other hand, the *Rite-Hite* majority sensibly created a bright line limitation of damages to items that “constitute a functional unit.” This limitation harkens back to the requirement that the patentee establish that the patented feature is demanded by the buyer before it can be awarded lost profits. Applying this rule, if the unpatented item does not function with the patented item, then it is properly ineligible for any award of damages.

This latter portion of the majority opinion reflects the tension between the desire to preserve free competition and the desire to protect the patentee. If goods that are convoyed with patented goods are not eligible for damages, then why should goods that do not contain the patented feature, and are not sold with goods containing the patented feature, be eligible for damages?

302. See supra part II.C.1.a.
303. See supra notes 67-80 and accompanying text.
304. See supra notes 79-80 and accompanying text.
305. See supra note 80.
306. *Rite-Hite*, 56 F.3d at 1550 (declining to extend liability to items having “essentially no functional relationship to the patented invention”). See supra part III.B.2.
307. See, e.g., Slimfold Mfg. Co. v. Kinkead Indus., Inc., 932 F.2d 1453, 1458-59 (Fed. Cir. 1991) (stating that the failure to show a changed market share of patentee or infringer while practicing the patent is probative of buyer’s apathy toward patented advantage).
308. See supra note 246.
309. See supra notes 147 and 249.
A. Lost Profits Incorrectly Allowed for Goods Not Protected By Patent In Suit

In Rite-Hite, the Federal Circuit held that a patentee may recover lost profits resulting from lost sales of goods protected by some patent in its portfolio diverted to goods in competition with these patented goods and infringing another patent, even if the infringer has no opportunity to contest the patent’s validity, once the patentee proves that infringement caused the lost sales. In this case, the infringer, Kelley, successfully designed around Rite-Hite’s previously issued patents, and manufactured an automatic restraint which competed with Rite-Hite’s automatic restraints. Unfortunately, Kelley infringed a patent that would not issue until nearly a year after its devices reached the market. Rite-Hite’s manual restraints were protected by the claims of this later patent. As a result of this infringement, Rite-Hite proved lost sales of eighty manual restraints and about 3200 automatic restraints. Because Rite-Hite had protected both types of restraints with patents, and because Kelley had competed for the customers of the automatic restraints, the Federal Circuit incorrectly concluded that Kelley should be required to compensate Rite-Hite for “lost sales of a competitive product,” stating that such a result is “surely foreseeable.”

The mere foreseeability of lost sales should not have been enough to justify an award of lost profits. Although the Supreme Court has indicated that the patent damages statute instructs that a patentee should be fully compensated for infringement, the statute directs that this compensation should be “adequate.” As Judge Nies argued in her dissent, “adequate” does not require an expansive reading, but rather means “reasonably sufficient” or “barely sufficient.” This compensation should be, like that afforded to patentees who have been harmed by the United States government’s infringement, no more than

310. Rite-Hite, 56 F.3d at 1550-51.
314. Id. at 1525.
315. Rite-Hite, 56 F.3d at 1546.
"reasonable and entire." The Federal Circuit has exceeded what is "reasonable" in its quest to fully compensate patentees.

Significantly, Rite-Hite had another remedy available for the injury caused by Kelley's sales of patented goods, namely, a reasonable royalty. The reasonable royalty was not recognized until after the turn of the century. Previously, harm done to a patentee who neither sold nor licensed an invention could only be remedied by a nominal award. The availability of the reasonable royalty militates against expanding the award of lost profits to cover goods not protected by the patent in suit, because a patentee's failure to exploit the market for the patented goods no longer results automatically in an award limited to nominal damages.

In concluding that lost sales of a competitive product are foreseeable and thus compensable, the Federal Circuit failed to consider the Supreme Court's instructions in *McCreary v. Pennsylvania Canal Co.* that a patentee cannot recover damages for goods protected by a patent not in suit. Not only did the Federal Circuit fail to reconcile *McCreary*, the *Rite-Hite* opinions failed to even cite *McCreary*. The *McCreary* decision predates both the recognition of the reasonable royalty and the abolition of the award of the infringer's profits. Its holding, however, should be controlling, because in that case the Supreme Court stated that predicking any sort of monetary award to the patentee for a patent that is not in suit, and which is owned by the patentee, is unacceptable, in part because the infringer has no opportunity to challenge its presumed validity. The Supreme Court

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319. See supra note 82 and accompanying text.
320. See supra notes 69-70, 74-76, and accompanying text.
321. See supra note 70 and accompanying text.
323. 141 U.S. 459 (1891). See supra part II.C.1.a. for a discussion of the Supreme Court opinions on this issue.
326. See supra note 74.
327. See supra note 74.
328. See supra notes 113-14 and accompanying text.
has more recently acknowledged, in instructing the Federal Circuit to decide validity if it is challenged—even if no infringement is found, that rewarding a patentee for a device which is not patentable is anomalous.

As Judge Nies correctly acknowledged in her Rite-Hite dissent, the Seymour and Crosby Courts also instructed the Federal Circuit that damages caused by patent infringement should be limited to sales of the actual goods embodying the patent invention, whether these sales are the patentee’s (in which case lost profits are appropriate), or the infringer’s (in which case a reasonable royalty may be appropriate). When the patentee cannot demonstrate that it lost sales of the patented goods because of the infringement, the court should turn to a reasonable royalty as an adequate measure of damages.

The Devex Court’s requirement that the patentee receive “full” compensation does not contradict this instruction. Consideration of analogous federal tort law indicates that the Rite-Hite majority misunderstood the meaning of full compensation. The Supreme Court has stated that intellectual property statutes providing for recovery in trademark and copyright contexts must be strictly construed. The Court has considered damages under federal law in other commercial tort contexts, including the Clayton Act and the Racketeer Influ-

330. "Although recognizing the patent system’s desirable stimulus to invention, we have also viewed the patent as a monopoly which, although sanctioned by law, has the economic consequences attending other monopolies. A patent yielding returns for a device that fails to meet the congressionally imposed criteria of patentability is anomalous." Id. at 1977-78 n.24 (quoting Blonder-Tongue Lab., Inc. v. University of Ill. Found., 402 U.S. 313, 342-43 (1971)).
331. Rite-Hite, 56 F.3d at 1563-64 (Nies, J., dissenting).
333. Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 719 (1967) (noting that "in the Lanham Act, Congress meticulously detailed the remedies available to a plaintiff who proves that his valid trademark has been infringed"). The Fleischmann Court held that attorney fees under the 1967 version of the statute were not available because "[w]hen a cause of action has been created by a statute which expressly provides the remedies for vindication of the cause, other remedies should not readily be implied." Id. at 720. The Lanham Act was subsequently amended in 1975 to provide for recovery of attorney fees. See supra note 57 and accompanying text.
334. Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 408 (1940) (limiting recovery to the profits "attributable to the use of the copyrighted play"). The Sheldon Court noted that apportionment of profits in such a copyright case is analogous to apportionment of profits in "cases in which the plaintiff’s patent covers only a part of a machine and creates only a part of the profits" under the pre-1946 Patent Act. Id. at 402.
335. Fleischmann, 386 U.S. at 721.
enced and Corrupt Organizations Act ("RICO").

A common thread uniting these analyses is a strict reliance on both the language of the statutes and the common law interpretation of the words within the statutes. The Federal Circuit sidestepped these instructions and incorrectly decided that the award of lost profits for competing goods fell within the statutory remedy of the patent statute.

The lower court decisions also indicate that an award of lost profits relating to competing goods is improper. Until Rite-Hite, the courts had instructed patentees that they must be manufacturing goods, and that those goods must embody the claims of the patent, in order to be awarded lost profits. Rite-Hite removed that obstacle to recovery.

As Judge Nies noted, the requirement that a patentee must be a manufacturer to recover lost profits reflects Congress' intent to encourage the patentee to exploit the patent after disclosing the invention.

Judge Nies's position that lost sales of goods not protected by the patent in suit are not the type of injury Congress intended to be remedied by the patent statutes contrasts with the majority opinion. The majority sidestepped the requirement that the injury be legally compensable by deciding that if the injury were foreseeable, then it must be compensable.

nally enacted in 1890 and provides that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee." 15 U.S.C. § 15(a) (1994). In Associated Gen. Contractors, the Court took into account the common law background of the antitrust damages statute in determining that the statute should not be interpreted literally to allow recovery of damages for every harm. Associated Gen. Contractors, 459 U.S. at 533. "Congress simply assumed that antitrust damages litigation would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation." Id.

337. Holmes v. Securities Investor Protection Corp., 503 U.S. 258, 268 (1992). The damages provision of RICO reads: "[a]ny person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor . . . and shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee." 18 U.S.C. § 1964(c) (1994). In Holmes, the Court, noting the similarity between this language and the Clayton Act damages provision, held that Congress did not intend the RICO damages provision to be interpreted literally, but rather intended that the violation be both a "but for" cause and a proximate cause of the injury. Holmes, 503 U.S. at 268. In defining "proximate cause," the Court stated that the elements included a "direct relation between the injury asserted and the injurious conduct alleged." Id. at 259. The Court noted that anything less would be "simply unjustified by the general interest in deterring injurious conduct, since directly injured victims can generally be counted on to vindicate the law as private attorneys general." Id. at 269-70.

338. See supra part II.C.1.b.

339. See supra note 282.


341. See supra note 238 and accompanying text.
Even if the determination of whether an injury is compensable was limited to whether it is foreseeable, mere competition should not be the measure of foreseeability. Although patent law provides for damages relating to patents not practiced, the damages were measured by a reasonable royalty, in which the interests of both parties are weighed. Additionally, patents that are practiced are eligible for damages only if the infringer received constructive or actual notice. After _Rite-Hite_, the risk is increased for competitors because they not only must avoid practicing the patents which are being used in the marketplace, but must search out and avoid practicing patents which are not being used by others.

Finally, the implications of a court's ability to award damages for harm done to the sale of goods protected by a patent not in suit are significant. As Judge Nies noted, the accused infringer has no opportunity to contest the validity of the other patent when there are no allegations that it has been infringed. If that patent were invalid, then the _Panduit_ analysis would collapse because those goods become acceptable non-infringing substitutes. Indeed, _McCreary_ indicates that such a patent must be considered to be available to the infringer.

B. The Entire Market Value Rule Was Correctly Limited to Functional Units

The Federal Circuit correctly held that the facts of _Rite-Hite_ prevented the patentee from recovering its lost profits on sales of unpatented goods not functionally related to the patented goods. In clarifying the holding of _Paper Converting Machine Co. v. Magna-Graphics Corp._, by requiring more than financial convenience or

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342. See supra part II.B.2.a.
343. See supra note 284.
344. See _Perego II_, 65 F.3d at 941 (awarding lost profits "regardless of whether the patent owner has made, used, or sold the patented device"); see also _Rite-Hite_, 56 F.3d at 1571 (Nies, J., dissenting) (noting that infringement of an unmarketed patent now may result in the patentholder being rewarded for not marketing the invention).
345. Id. at 1573 (Nies, J., dissenting).
346. See supra note 279 and accompanying text.
347. _McCreary_, 141 U.S. at 467. The _McCreary_ Court pointed out that awarding damages relating to a market protected by another patent would assume, _inter alia_, that the other patent was valid. Id. This assumption could not be tested in a suit which did not concern the other patent. Id. at 465.
348. _Rite-Hite_, 56 F.3d at 1549.
349. 745 F.2d 11 (Fed. Cir. 1984).
marketing convenience, the Federal Circuit provides a brighter line for calculating damages on convoyed sales.

Prior to *Rite-Hite*, the Entire Market Value Rule had been extended beyond the traditional consideration of a single machine, of which only a portion was protected by a patent, to include physically separate components when they were part of an assembly or functional unit. The Federal Circuit appeared to expand the rule in *Paper Converting* by stressing the “financial and marketing dependence” of the two types of components; however, the *Rite-Hite* court limited that apparent expansion to the facts of that case, by interpreting that case to imply that the unpatented components had “no useful purpose independent of the patented [component].”

In *Rite-Hite*, patented restraints, which prevent trucks from inadvertently leaving the loading dock, were packaged or convoyed with unpatented levelers, which bridge the gap between the loading dock and the truck. The market for levelers predated the market for restraints by many years. Kelley sold unpatented levelers with infringing restraints about 45% of the time, while the patentee in *Paper Converting* made similar convoyed sales about 98% of the time. Thus, the Federal Circuit purported to have set no new limits, but it could have distinguished *Paper Converting* by finding that Rite-Hite failed to show that the sales of levelers really depended financially on the sales of restraints. Instead, the Federal Circuit went one step further in declaring that the patented and unpatented components must comprise a single assembly or a functional unit in order to be eligible for an award of damages under the Entire Market Value Rule.

This clarification was both necessary and legitimate because an award of damages for items which are neither patented nor functioning

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350. See [*supra* notes 242-46 and accompanying text.]
351. See [*infra* notes 352-63 and accompanying text.]
352. See *Rite-Hite*, 56 F.3d at 1549-50 for a discussion of the evolution of the rule.
353. *Paper Converting*, 745 F.2d at 22-23.
354. *Rite-Hite*, 56 F.3d at 1550.
357. See *Rite-Hite III*, 774 F. Supp. at 1530 (stating that of 3825 infringing restraints, 1692 were sold in conjunction with levelers).
358. See *Paper Converting*, 745 F.2d at 23 (noting that of 572 sales, only 9 were not convoyed).
359. The Federal Circuit could, for instance, have decided that Rite-Hite’s assertion that only 45% of its sales were linked was insufficient to meet the burden of proof for financial dependence, especially when the leveler market predated the restraint market by decades. See [*supra* note 181.
360. *Rite-Hite*, 56 F.3d at 1550.
with patented items falls outside any construction of the patent damages statute.361 The limitation does, as Judge Nies notes, seem to conflict with the majority’s affirming the award of lost profits for sales of competing devices not protected by the patent in suit.362 If articles which are bought because they happen to be packaged or ordinarily purchased with patented articles were included as part of the damages calculation, then one could imagine absurd results. Should Rite-Hite be awarded for lost sales of levelers (convoyed with restraints not embodying the patent in suit) which had an independently developed market years before restraints were invented?363

V. IMPACT

Because the Supreme Court rarely grants certiorari in patent cases, the Federal Circuit has essentially become the court of last resort for patent appeals.364 Therefore, the Rite-Hite decision has effectively become the law of the land and is unlikely to be overturned in the near future.

The Rite-Hite decision will broaden the scope of recovery for patentees with large patent portfolios beyond anything dreamed of in the two hundred years of patent protection in the United States. Allowing the recovery of damages for lost sales of goods not protected by the patent in suit deprives the accused infringer of its day in court, while allowing the patentee to unlawfully extend the term and scope of protection of its patents.365 An infringer is now responsible for lost sales of goods protected by potentially invalid patents with no mechanism to invalidate these patents.366 Litigation will become more complicated as every marketed technology protected by patents which might compete with the technology at hand will be asserted as resulting in lost sales to the infringer.367

361. Id. at 1551.
362. See supra note 277 and accompanying text.
363. See supra note 277.
364. See Abate & Fish, supra note 140, at 307 n.1 (noting that the Supreme Court granted certiorari in only 19 of 586 petitions covering all topics originating from the Federal Circuit’s first seven years). The Supreme Court granted certiorari to only four cases relating to patents between 1982 and 1992. Id. at 330.
365. See supra note 283 and accompanying text.
366. See supra notes 280-83 and accompanying text.
367. See Perego II, 65 F.3d at 941, 951 (Nies, J., dissenting). In Perego II, Judge Nies in dissent posited that, under such a scope of damages, a patent “hangs like the sword of Damocles over competition,” and, further, could even be used as a means of extortion. Id. at 959 (Nies, J., dissenting).
An accused infringer will have to consider the entire patentee’s portfolio relating in any way to the accused item in determining the stakes of pursuing litigation or settling, whether before or after infringement is found. An accusing patentee will have to survey its portfolio for all related patents and determine the measure of the market. What will be the limitations of competing goods? The Federal Circuit indicates that the relevant market is to be “broadly defined.” Will the battle over the relevant market definition be as protracted as is now the case for antitrust cases?

Even the district court opinion has already influenced other courts. In *Scripto-Tokai Corp. v. Gillette Co.*, the district court cited *Rite-Hite* in allowing Gillette to seek to prove lost profits caused by lost sales of products covered by a second patent not in issue.

Judge Nies, in her dissent, noted that litigation regarding lost profits will increase, referring to another case “already waiting in the wings.” This case is *King Instrument Corp. v. Perego*, which was taken *en banc* the same day that *Rite-Hite* was taken, but remanded to its original three-judge panel after *Rite-Hite* was issued. As in *Rite-Hite*, King proved lost sales of goods competing with infringing goods. Unlike Rite-Hite, King was not practicing the in-
fringing patent and thus could give no constructive notice to infringers of the existence of the patent.\textsuperscript{377} Nevertheless, the district court awarded King its lost profits because its goods were purportedly protected by other patents.\textsuperscript{378} While the Federal Circuit affirmed, Judge Nies again dissented, stating that the \textit{Perego} opinion expanded the \textit{Rite-Hite} opinion even further by holding 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."\textsuperscript{379}

Judge Rader, writing for the majority, reviewed the history of the patent act, noting that exploitation of the invention is not necessary to recover damages,\textsuperscript{380} and the policy of the patent act is "[t]o promote the Progress of . . . useful Arts."\textsuperscript{381} The majority asserted that awarding lost profits in a fact situation in which the patentee did not sell goods falling within the claims of the infringed patent promotes this policy.\textsuperscript{382} Judge Nies relied on her \textit{Rite-Hite} dissent in asserting that "[a] patent grants the patentee a legal right to a protected market only for patented goods."\textsuperscript{383}

The proof of damages will be pushed to the limit as well, with only the assurance that falling stock prices and heart attacks are not foreseeably related to the act of infringement.\textsuperscript{384} Judge Nies declared that the \textit{King} majority improperly affirmed an award for lost profits when the patentee did not even sell a counterpart to the infringed part.\textsuperscript{385} That the Federal Circuit is willing to extend \textit{Rite-Hite} so far so quickly suggests that it will be lenient in defining competitive products for the purposes of measuring lost profits. The scope of patent protection for

\textsuperscript{377} P. \textit{Perego II}, 65 F.3d at 947.
\textsuperscript{378} P. \textit{Perego I}, 737 F. Supp. at 1241. The "machine may be covered by other extant, expired or invalidated patents in King's portfolio." \textit{Perego II}, 65 F.3d at 954 (Nies, J., dissenting).
\textsuperscript{379} \textit{Perego II}, 65 F.3d at 947.
\textsuperscript{380} \textit{Id.}
\textsuperscript{381} \textit{Id.} at 949 (alteration in original) (quoting U.S. CONST. art. I, § 8 cl. 8.).
\textsuperscript{382} \textit{Id.} at 950.
\textsuperscript{383} \textit{Id.} at 954 (Nies, J., dissenting). "The court has now twice declared that the remedy Congress has provided of damages calculated as a reasonable royalty are inadequate and judicially fashions a better one for patentees which conforms to the majority's view of the public interest." \textit{Id.} at 953 (Nies, J., dissenting).
\textsuperscript{384} \textit{Rite-Hite}, 56 F.3d at 1546. The \textit{Rite-Hite} majority explicitly listed these two events as unforeseeable. \textit{Id.}
\textsuperscript{385} \textit{Perego II}, 65 F.3d at 961 (Nies, J., dissenting).
competitive products is thus extended and broadened with no clearly delineated limits.

In contrast, the limits placed by the Federal Circuit on the Entire Market Value Rule may reduce the uncertainty of patent litigation. By restricting damages to sales of goods which are functioning units instead of referring to marketing and financial dependence, the Federal Circuit has limited compensable damages to ones which are more readily foreseeable and easier to justify. A recent decision by the Federal Circuit suggests that the sale of unpatented spare parts may satisfy the functional unit test.\(^{386}\)

VI. CONCLUSION

In *Rite-Hite*, the Court of Appeals for the Federal Circuit ignored Supreme Court precedent and improperly expanded the damages for patent infringement recoverable by a patentee to include lost profits from the sale of goods not covered by the patent in suit. With this decision, the Federal Circuit has pushed the envelope of damages available under section 284 of the Patent Code beyond the scope intended by Congress and dictated by the Supreme Court in *McCreary v. Pennsylvania Canal Co.* The court also wrongly characterized *Rite-Hite* as a matter of first impression.

On the other hand, the court did provide some valuable guidance as to the damages recoverable for the convoyed sales of goods packaged as a single unit under the Entire Market Value Rule. By limiting the recovery of damages for the sale of packaged goods under the Entire Market Value Rule to those goods constituting a single “functioning unit,” the court has ensured that a patentee will not wrongfully recover sales lost of unpatented goods which were sold with patented goods for convenience.

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386. Carborundum Co. v. Molten Metal Equip. Innovations, Inc., 72 F.3d 872 (Fed. Cir. 1995). The Federal Circuit affirmed a permanent injunction precluding the future sale of spare parts when the district court had found that the patentee had proven entitlement to lost profits for the past sale of these spare parts. *Id.* at 882. The Federal Circuit further clarified the term of art “convoyed sales,” explaining that it is preferably used to describe “sales made simultaneously with a basic item.” *Id.* at 881 n.8. Non-contemporary sales, such as the later sale of spare parts here, are better referred to as “derivative sales.” *Id.* Carborundum did not cite *Rite-Hite*. 