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MONOPOLY, COMPETITION AND OTHER FACTORS IN DETERMINING PATENT INFRINGEMENT DAMAGES

ALLAN N. LITTMAN *

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The statutory remedies for patent infringement include injunctions, n1 compensatory damages, which may be trebled by the court, n2 interest and attorneys' fees. n3 This article discusses compensatory damages and the factors of monopoly, competition, post-infringement facts and licenses to others that relate to their determination. Its basic theme is that decisions of the Federal Circuit Court of Appeals have expanded damage recoveries for patent infringement by disregarding

[*2] competition in the market and the nature of a patent monopoly's limited exception to free andcompetitive markets.

I. The Historical Background

Under the first Patent Act enacted in 1790, a patent holder could recover infringement damages and the forfeiture of the thing or things devised, made, constructed, used, employed or vended. n4 Under the Patent Act of 1793, a patent holder had the right to recover at least three times the price for which the patentee usually sold or licensed the use of the patented invention. n5 The 1800 Act gave the patent holder the right to recover three times the actual damages suffered. n6

In Whitemore v. Cutter, Mr. Justice Story, sitting as a trial judge, held that damages meant "such damages as the plaintiffs can actually prove and have in fact sustained, as contradicted to mere imaginary or exemplary damages, which in personal torts are sometimes given." n7 The mandatory trebling of specific damages allowed under the 1800 Act was modified by the 1836 statute to give the Court discretion to increase the damages up to three times. n8

In Seymour v. McCormick, n9 a leading case on the recovery of damages at law for patent infringement, patents were issued to McCormick in 1834, 1845 and 1847. The defendant had taken a license for $ 30 per machine under the original 1834 patent and all subsequent improvements. The defendant paid the license fee on all machines it made and sold, except for the last three hundred. It ceased paying the license fee because it had concluded that McCormick was not the original inventor of the seat covered by the third patent.

[*3]

In Seymour, the jury was instructed that the defendant's customers would have bought those three hundred machines from the patent holder and he would have made his net profit on such machines, and it did not matter that the defendant had only infringed the patented improvement, a seat on an agricultural raker. The jury awarded the patent holder $ 50 per machine. The Court reversed because the instructions were erroneous. The Court reasoned that "[t]he mode of ascertaining actual damages must necessarily depend on the peculiar nature of the monopoly granted." n10

An inventor who exercises

his monopoly by selling licenses to make or use his improvement, has himself fixed the average of his actual damages. . . . If he claims anything above that amount, he is bound to substantiate his claim by clear and distinct evidence. . . . . It is only where, from the peculiar circumstances of the case, no other rule can be found, that the defendant's profits become the criterion of the plaintiff's loss. Actual damages must be actually proved, and cannot be assumed as a legal inference. . . . What a patentee "would have made, if the infringer had not interfered with his rights" is a question of fact not "a judgment of law." The question is not what speculatively he may have lost, but what he actually did lose. n11

An 1819 statute established federal equity jurisdiction in patent cases. n12 In a suit in equity for an injunction, a patent holder was entitled to recover the infringer's profits which were actually received by the infringer from the unlawful use, but not those it only might have

[*4] realized. n13 Until the Act of 1870, a patent holder who wished to sue an infringer had tochoose between suing in equity for an injunction and profits, or suing at law for damages. n14 The Patent Act of 1870 enabled a court to award the infringer's profits and any additional damages sustained by the patent holder. n15 The discretion to increase the damages up to threefold applied only to an award at law of the damages actually sustained; it did not apply to an award in equity of the infringer's profits. n16

In administering the equitable remedy of an award of the infringer's profits, courts struggled with the problem of apportionment of the profit attributable to the patent as distinct from other parts of the product that had been sold. n17 In 1922, the Patent Act was amended to provide that where damages had been suffered or profits realized, but the amounts were not susceptible of calculation and determination with reasonable certainty, the court may "on evidence tending to establish the same, in its discretion, receive opinion or expert testimony . . . and upon such evidence and all the other evidence in the record the court may adjudge and decree the payment of a reasonable sum as profits or general damages for the infringement." n18

In 1946, the patent statute was amended to provide for recovery of "general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor . . . ." n19 The purpose of the 1946 amendment was "precisely to eliminate the

[*5] recovery of profits as such and allow recovery of damages only." n20 It was also to "eliminatethe necessity of the traditional accounting to determine the infringer's profits in all damage determinations, and to deter the use of such proceedings by successful patentees to harass the infringer." n21

In 1952, section 284 of the Patent Act n22 was amended to its present language which provides that a patent owner is entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty . . . together with interest and costs as fixed by the court." n23 Section 284 has been held to entitle the patent holder to recover the "difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." n24 In addition, "[t]he phrase adequa te to compensate for the infringement' in section 284 of the 1962 [sic] Act [has been held to] mean nothing other than compensatory damages, i.e. an amount which . . . indemnifies the plaintiff for the injury and damage suffered by him.'" n25 Section 284 also provides that whether the damages are found by a jury or assessed by a judge "the court may increase the damages up to three times the amount found or assessed." n26 Section 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." n27

Although the right to recover the infringer's profits had been abolished, evidence of an infringer's profits might still have been admissible in determining the lost profits or royalties recoverable by the patent holder as damages. In Georgia-Pacific, the court held that admissibility was "governed by ordinary standards of relevancy in the

[*6] context of the particular case," but the potential admissibility of such evidence was not to be used tomake the infringer's profits recoverable as damages "through a process of word-play and fiction." n28 The court determined that the patent holder had failed to prove that it had lost a measurable quantity of sales of the infringing plywood made by defendant and that the infringer's profits bore no evidentiary relationship to the amount of profits lost by the patent holder. The court took into account the fact that the patent holder's products and the infringing products "were not the only entries in the competition for a larger share of the decorative panel market." n29

II. Patents Are Legal Monopolies the Value of Which Depends on the Marketplace

Since at least 1852, the Supreme Court has referred to patents as monopolies. n30 In 1853 it spoke of patent monopolies in relation to the

[*7] measure of damages. n31 It has continued to use the term up to the present in a variety ofcontexts: in connection with the "notorious" laxity of the Patent Office in enforcing the statutory standards for patentability, and the general rule that "[o]nly inventions and discoveries which furthered human knowledge and were new and useful justified the special inducement of a limited private monopoly;" n32 in restating the duty of good faith imposed on patent applicants and their attorneys in proceedings before the Patent Office; n33 in preventing improper extensions of patent rights; n34 in forbidding both private contract and estoppel from being used to permit the patent holder to enjoy the "benefit of an expired monopoly" or prevent any member of the public "from enjoying rights which it is the policy of the patent laws to free from all restrictions;" n35 in prohibiting a state law from preventing copying of an unpatented and uncopyrighted article or awarding damages for such copying because to do so would provide "the equivalent of a patent monopoly;" n36 in holding that a patent licensee cannot preclude itself from challenging the validity of a patent; n37 and in speaking of the public interest in adjudicating the validity of a challenged patent

[*8] notwithstanding the determination that it had not been infringed. n38 These decisions span theperiod from 1852 to 1995.

Within this continuous flood of Supreme Court precedent two unsuccessful attempts to qualify the description of patents as monopolies n39 have gone unheeded in the Court's subsequent holdings. n40 In the leading case of Graham v. John Deere Co., the Court held that Congress

may not overreach the restraints imposed by the stated constitutiona1 purpose. Nor may it enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby. Moreover, Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command "must promote the Progress of . . . useful Arts." n41

[*9]

Competition had been irrelevant to the former awards in equity of the infringer's actualprofits, n42 but as the Supreme Court held as early as 1853 in Seymour v. McCormick, "Actual damages must be actually proved" and the proof required consideration of the "peculiar nature of the monopoly," the manner of its exploitation by the patent holder and its "market value." n43 A similar point was made in Dowagiac Manufacturing Corp. v. Minnesota Plow Co.:

During the period of infringement several other manufacturers [sic] were selling drills in large numbers in the same localities in direct competition with the plaintiff's drill, and under the evidence it could not be said that, if the sales in question had not been made, the defendants' customers would have bought from the plaintiff rather than from the other manufacturers. n44

The Court in Seymour and Dowagiac recognized the important distinction between a legal monopoly granted by the patent and the market value of that patent. The importance of both concepts and the difference between them were well understood at the time of the enactment of section 284 of the 1952 Patent Act. Judge Rich, n45 one of the principle draftsmen of the 1952 Act, stated in a 1953 article:

It is essential to keep in the forefront of our thinking the fact that a patent is a monopoly because its only value as an incentive depends upon securing to its owner monopoly power over the invention. That is the only thing that gives the possibility of profit. The economic power of monopoly is the mainspring of the patent system, a system whose ultimate purpose is the public good. Weaken or destroy the monopoly and you weaken or destroy the system. n46

The distinct concepts "monopoly power over the invention" and "economic power of monopoly" in Judge Rich's article paralleled the

[*10] distinct concepts of the "monopoly granted" and its "market value" used in Seymour v. McCormick. Oneconcept defined the legal power of monopoly. The other presented the factual question of the market value or economic power of the particular patent monopoly.

Twenty-five years later, Judge Markey n47 stated in Panduit Corp. v. Stahlin Co., an opinion much discussed later in this article, that "[t]he loose application of the pejorative term monopoly' to the property right of exclusion represented by a patent, can be misleading. Unchecked, it can also destroy the constitutional and statutory scheme reflected in the patent system." n48

As the Supreme Court had been using the term monopoly to describe patents for over 125 years and Judge Rich had urged that we should keep the concept of monopoly in the "forefront of our thinking," the Panduit criticism appears anomalous. The anomaly is heightened when one notes that the court in Panduit, quoting from the Georgia-Pacific decision, stated on the question of damages that "[the patentee] was enjoying the profits of a readily salable product [and] . . . was in a position to retain the entire market . . . for itself. The result of defendant's infringement was to interfere with that monopoly." n49

Within three pages, the Panduit court's opinion went from characterizing the word monopoly as something that could destroy the patent system to using the word as a fulcrum for its reversal of a royalty award for being too low. Subsequent Federal Circuit cases have amplified the Panduit court's criticism of the term monopoly into an instruction to counsel not to refer to patents as monopolies. n50 Such rulings have been defended on the following grounds: (1) the patent statute does not use the word "monopoly;" (2) a patent is just like any other property right which may be used to violate the antitrust laws; (3) the antitrust laws were enacted long after the patent laws and deal with the appropriation of what should belong to others while a valid patent gives the public what it did not earlier have; (4) it is an "obfuscation" to describe a patent as an exception to the general rule against monopolies; and (5) the description

[*11] of a patentee as a monopolist is pejorative and should be avoided because the term monopoly is used in adifferent sense in the patent and antitrust laws. n51

In addition to the anomaly that Panduit itself referred to the patent as a monopoly for purposes of damages while criticizing its usage as a danger to the patent system, none of the reasons for discontinuing describing patents as monopolies is persuasive. A patent does grant a legal monopoly over the making, using and selling of the patented article or method. To deny that is to tilt at windmills. A patent is not like any other property right. If valid, it gives the public new information, but it also confers on the patent holder statutory privileges of exclusivity far beyond those that could be exercised by keeping the information secret. That various kinds of property rights may be used to violate the antitrust laws is irrelevant to whether some kinds of property rights are legal monopolies granted by statute, and it is just as irrelevant that the antitrust laws were enacted after the patent laws.

Patents can be used to appropriate what belongs to others in various situations which do not amount to antitrust violations. A patent holder who attempts to enforce an invalid patent in any manner is usurping monopoly power. A patent holder attempts to enlarge the scope of its legal monopoly whenever it seeks to enforce a valid patent: 1) against non-infringing products or processes; 2) after the expiration of the patent; 3) to obtain lost-profits infringement damages for sales of unpatented articles; or 4) to obtain speculative damages. The description of a patent as a monopoly emphasizes that patents are limited exceptions to the inherently free nature of ideas. It alerts the deciding body to the dangers of extending the patentee's rights into the public domain on questions of patent validity, infringement and damages. Banning use of the term tends to conceal those dangers.

Many patent infringement cases have resulted in damage awards which rest on a basis of a market value of a patent far in excess of the 5% margin which under the Joint United States Department of Justice and Federal Trade Commission Guidelines n52 ("Guidelines") would indicate antitrust control of a market. n53 In antitrust cases such power has to be

[*12] proved. As will be seen, that is often not the case in patent infringement actions.

The Federal Circuit's position on the use of the term monopoly isthe reverse of what it should be. Instead of recognizing a patent as a statutory legal monopoly and requiring that damages for infringement be related to the market value of the patent, it has censored the use of "monopoly" to describe the legal powers granted to a patentee. As will be seen, it has permitted economic power and market value of patents to be assumed rather than proved - things that, incidentally, would never be permitted in antitrust cases.

As Judge Rich wrote, a patent monopoly provides only "the possibility of profits." n54 A patent monopoly provides a potential for market value and economic power, but it may result in degrees of market value and economic power ranging from nothing up to what are described as market power and antitrust monopoly power. It is the actual operation of the market which determines the extent to which, if any, a patent has any value or gives its owner economic power. A patent holder who seeks to recover more than nominal damages for patent infringement necessarily asserts that the making, using or selling of the patented article or method has generated or would be expected to generate profits greater than those which otherwise were or could have been made. The issue in patent infringement damage actions is whether and to what extent a patent holder should be permitted to assume rather than prove the additional profit margin. If infringement damages are awarded on the basis of assumed rather than proven economic power, the patentee's legal monopoly has been expanded and given economic power by judicial fiat rather than as a result of the merit of the patent in the marketplace.

There is no good reason why concepts of economic monopoly and competition which have been developed under the Sherman and Clayton Acts n55 should not also apply in the determination of compensatory patent litigation. Such concepts are relatively clear. In

[*13] the leading case of United States v. E.I. du Pont de Nemours & Co., the Supreme Court held that controlof a relevant market

depends upon the availability of alternative commodities for buyers: i.e., whether there is a cross elasticity of demand between cellophane and the other wrappings. This interchangeability is largely gauged by the purchase of competing products for similar uses considering the price, characteristics and adaptability of the competing commodities. n56

Competition in the market embraces both patented and unpatented products which the conduct of buyers shows are acceptable substitutes within generally competitive price ranges. Products may be competitive even when they do not have all the advantages of the patented product. Thus, cellophane's advantages over other products did not require that it be held to be outside the market for the other products.

It may be admitted that cellophane combines the desirable elements of transparency, strength and cheapness more definitely than any of the other [flexible wrapping materials] . . . [b]ut, despite cellophane's advantages it has to meet competition from other materials in every one of its uses . . . [t]hus, cellophane shares the packaging market with others. . . . [it] accounts for 17.9% of flexible wrapping materials. . . . . [A] very considerable degree of functional interchangeability exists between these products . . . except as to permeability to gases, cellophane has no qualities that are not possessed by a number of other materials. . . . . An element for consideration as to cross-elasticity of demand between products is the responsiveness of the sales of one product to price changes of the other. If a slight decrease in the price of cellophane causes a considerable number of customers of other flexible wrappings to switch to cellophane, it would be an indication that a high cross-elasticity of demand exists between them; that the products compete in the same market. n57

Cellophane cost two to three times as much, per surface measure, as its chief competitor, but the Court held: "We cannot say that these differences in cost gave du Pont monopoly power over prices in view of the findings of fact . . . [i]t is the variable characteristics of the different flexible wrappings and the energy and ability with which the manufacturers push their wares that determine choice." n58 The Court concluded by holding that [t]he market is composed of products that have

[*14] reasonable interchangeability for the purposes for which they are produced - price, use and qualitiesconsidered." n59 Commercial reality, not theory, determines markets and market power. n60 Moreover, under the antitrust laws, a private plaintiff seeking to recover damages

must prove antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive acts . . . made possible by the violation. It should be . . . "the type of loss that the claimed violations . . . would be likely to cause." n61

The general statutory provision for the recovery of treble damages by a person injured by reason of violation of the antitrust laws n62 has been held to have incorporated judge-made rules concerning remoteness. The provision

circumscribed the availability of damages recoveries in both tort and contract litigation-doctrines such as foreseeability and proximate cause, directness of injury, certainty of damages. . . . [These] frequent references to common-law principles imply that Congress simply assumed that antitrust damages litigation would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation. n63

The same economic principles are applicable to the determination of damages in patent infringement actions. An antitrust plaintiff seeks to recover damages for an injury caused by an illegal restraint on competition that would not otherwise exist. A patent plaintiff seeks to recover damages for an injury caused by an infringement of a legal monopoly right to exclude others. In each case, however, illegal conduct has interfered with an economic market, and the purpose of the law is to provide compensation for the distortion without doing harm to lawful competition. The hypothesized market without the antitrust violation and the hypothesized market without the infringement

[*15] of the patent may differ, but the methods for measuring the distortion would seem to be identical and torequire the same ruler.

Similarly, it may readily be conceded that the types of injury suffered by antitrust and patent plaintiffs and the problems of defining remoteness are different, but the need to relate the damages claimed to the hypothetical market without the violation is similar. Antitrust damages must relate to the types of injury contemplated by the antitrust laws and patent infringement damages must relate to the types of injuries contemplated by the patent statute. When such relational limits are not observed, both antitrust and patent plaintiffs recover compensation for the results of legitimate competition rather than the statutorily prohibited activity.

III. The Law on the Eve of the Creation of the Federal Circuit

Competition had to be taken into account. The determination of a reasonable royalty required examination of "the nature of the invention, its utility and advantages, and the extent of the use involved" in relation to what the parties would have agreed upon if both were reasonably trying to reach an agreement. n64 What would have been a reasonable royalty was a question of fact. It was stated that "court should be conservative in fixing the amount, because of the inevitable uncertainty of the computation.' The gross receipts and profits of the infringer were considered, along with royalties paid in more or less similar circumstances, although the weight of such evidence in any particular case might be slight." n65

A. Other Licenses

Rude v. Westcott involved a patent holder who had never manufactured the patented product and who relied on "a fixed license fee or royalty as the measure of damages." n66 The Court rejected the attempt to secure a benefit more than competition would allow and reversed a judgment for $ 1,800 plus costs. In doing so, the Court stated the prerequisites for the use of compromise licenses to prove an established

[*16] royalty and remanded with directions to enter a judgment for nominal damages. n67

Licenses to others were often used to determine a reasonable royalty. In Columbia Broadcasting System Inc. v. Zenith Radio Corp., the court with an immaterial exception, affirmed a judgment for royalties on the opinion of the district judge, who held as to one of the parties in suit: "In granting licenses and settling litigation with other American tube manufacturers, CBS based its calculations on a forty cent rate." n68 In Saulnier v. United States, on a claim for royalties on aircraft canopy mechanisms permitting pilots to bail out of airplanes the court held that "settlement between plaintiff and the British government does establish a guide." n69 In Calhoun v. United States, Calhoun claimed to be entitled to more than the established royalty set by the patentee on the theory that the established royalty had been offered to the trade to avoid litigation. n70

The court held that "there [was] nothing in the evidence to show . . . that [it] was set beneath fair market value with a view to avoiding litigation. This license rate was used widely and offered freely to everyone; there were many takers' at that price." n71

In Pitcairn v. United States, Pitcairn claimed that the royalty rate agreed upon by United Aircraft and other helicopter manufacturers could not serve as an established royalty rate because it was the product of compromise to avoid litigation, and mere offers by the patentee are inadmissible to prove value. n72 The court held there was not "the slightest

[*17] hint that Autogiro felt that the United agreement (or the like agreements proffered to the othermanufacturers) was unfair or afforded it less than its due in the period now at issue." n73 The court went on to hold:

[N]or is it a sign of invalidating compromise that, especially where a packet of patents is involved, there may have been some doubts as to the validity of some of the claims. Autogiro probably had some of those doubts itself and adjusted its rates accordingly. For these reasons the 2% United agreement seems to us highly probative under the rule we reiterated in Calhoun. Calhoun teaches that mere surmise that a bargained license may possibly include some discount for litigation-avoidance does not per se preclude use of an accepted commercial rate as establishing reasonable and entire compensation. n74

The Pitcairn court distinguished eminent domain cases rejecting evidence of offers made by or to condemnees because

[t]hey do not involve an effort by the condemnor to rely on an offer made by the condemnee as proof of the value of the property. It is obvious that, although the inherent defects of offers made by condemnee-owners prevent the opposite party, the condemnor, from being bound by such offers, there is no reason why the owner himself should not be held to his own offer. In this instance, the post-1946 offers were not casual or ad hoc but were circulated "fairly widely" in the industry. It is appropriate to take them into account and to give them great weight. n75

On the other hand the court discounted "in the absence of any expression of contentment" an Autogiro grant "to United, at [United's] strong insistence, of a paid-up license in 1949" because the expert testimony did not consider what the parties might have agreed upon if Autogiro had been free of this one-sided litigation pressure. n76

In dissent, Judge Nichols stated that

[c]onsidering the casualties that patents suffer by invalidity determinations in the Federal Courts, a bargained license under any patent not yet litigated would possibly show some discount for litigation avoidance, but . . . this mere surmise does not per se preclude use of a widely accepted commercial rate to establish reasonable and entire compensation. . . The case before us is very different from Calhoun. There is conclusive evidence in the record that the parties considered the costs of litigation in negotiating the license

[*18] agreements. . . . [T]herefore, the . . . agreements . . . were not valid reflections of the patents'fair market value. n77

Judges Kashiwa and Bennett, dissenting, stated that they would have held that the agreement was not clearly the result of "one-sided litigation pressure." n78

In Saulnier, n79 the Court of Claims, which decides royalty claims against the United States in the manner of a jury, held that it was only one-sided litigation that required the trier of fact to discount licenses. In Pitcairn, where the licensee was the source of the pressure, the evidence was discounted but still received.

B. Post-First-Infringement Facts

In Faulkner v. Gibbs, the court did not limit the royalty inquiry to the date of the first infringement. Nor did it make post-first-infringement licenses irrelevant. n80 And it did not hold evidence of other licenses to be inadmissible, either on the ground that they were entered into after the first infringement by defendant or on the ground that they were compromises. On the compromise point, the Faulkner court cited Dunkley Co. v. Central California Canneries. n81 In Dunkley, the post-first-infringement licenses were held to be of little help in the circumstances of the case. n82 But the Dunkley court cited A. Mecky Co. v. Garton Toy Co.,

[*19] where the trial court reduced the royalty recommended by a master from one dollar to forty cents pervelocipede. The Mecky court stated that reasonableness had to be ascertained "as of the time and under the circumstances attending the commencement and duration of the infringement, but wholly regardless of circumstances, which though doubtless existing and possibly of an aggravating character, are merely personal to the parties." n83

The reference to the duration of the infringement was inconsistent with any absolute rule that evidence of the reasonableness of a royalty must be restricted to the time of the first infringement. n84 Post-first-infringement facts were admissible. n85 In the leading case of Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc., n86 the trial court listed fifteen factors which "mutatis mutandis" were seemingly pertinent

[*20] in determining reasonable royalties. n87 The last factor, and the one most frequentlyparaphrased in later cases as a requirement was as follows:

The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee - who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention-would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license. n88

The trial judge in Georgia-Pacific cited Faulkner v. Gibbs in holding that the very definition of a reasonable royalty assumed that

[*21] after payment "the infringer will be left with a profit," and that it was "necessary" to consider thatfactor." n89 The court of appeals, in reversing, held that the fact that the royalty exceeded the infringer's profit was irreconcilable with a finding that it was necessary to leave the infringer with a reasonable profit. n90

On the issue of the admissibility of post-first-infringement evidence, the Georgia-Pacific trial court had held that although the date of the hypothetical negotiation was to be taken at the time of the first infringement (1955) it had taken into account "the modifying effect of the facts developed subsequent to 1955 and has assessed them together with all other probative evidence so far as they bear upon the reasonableness of the assumptions and expectations of the parties in the hypothetical negotiations in 1955." n91 On appeal, the court of appeals specifically noted that the trial court had taken later events into account, that it was not reversible error to give greater weight to the time of the suppositious negotiations and that the defendant may be correct in assuming that relevant factors occurring after the infringement began should be considered. n92 In Georgia- Pacific, the post-first-infringement evidence n93 benefited the patent holder and was admitted although more weight was given to the time of first infringement. n94

[*22]

C. Competition

In Georgia-Pacific, the patent holder had been held not entitled to recover lost profits damages because the relevant market was decorative plywood panels and a customer would not necessarily buy the patented plywood made by plaintiff. n95 Competition was also recognized to be a factor in the determination of reasonable royalties. In Devex Corp. v. General Motors Corp., n96 the master fixed a reasonable royalty at two-thirds of Devex's offered license (0.75% of the sale price) to a patent on a method of making automobile bumpers. The trial court found the reduction speculative, and set the royalty at the rate Devex offered, 0.75%. The court of appeals agreed that the use of the patented process was useful but not essential to the cold forming of bumpers. The patent holder had argued that it was entitled to a portion of General Motors' saving in cost. The court of appeals held that it was unreasonable and erroneous to assume that General Motors could not use other processes. n97

D. Panduit

Because Panduit v. Stahlin Manufacturing Co. n98 has been the source of much of the damages jurisprudence of the Federal Circuit, it is discussed and criticized at length. After losing an interference proceeding, Panduit bought the patent from the winner and sued the defendant for infringement. At the time of the court of appeals' opinion, the case had been in litigation for fourteen years. Panduit claimed lost profits from March 1962 through 1970, and, in the alternative, a reasonable royalty. The trial court found that (1) Panduit had failed to prove its profits with reasonable certainty; n99 (2) there were acceptable substitutes for the

[*23] patented product during the 1962-70 period; n100 and (3) the reasonable royalty wasapproximately $ 44,000. n101 The first finding was affirmed. n102 The others were reversed. n103

The circuit court left undisturbed the trial court's finding that Panduit had profited from a 1963 price cut by the infringer and could not have maintained the 30% price differential it claimed. n104 In its finding of a 2.5% royalty, the trial court relied on expert testimony that such a royalty was reasonable, an inference that hypothetical negotiations for a reasonable royalty in March 1962 would have taken into account a potential price cut of the kind that actually occurred on January 1, 1963, and the fact that the infringer's profit was only 4%. The court of appeals reversed and overturned the factual findings as clearly erroneous. n105

The grounds of the reversal were: (1) in the hypothetical negotiations, the patent holder would have been justified in taking the position that it would not accept a royalty significantly less that the profit it was making by its policy of licensing no one; (2) the key element was the necessity to return to the date when the first infringement began; (3) the element of licensee profit was only one of the applicable factors; and (4) the royalty should be based on the customary profit allowed licensees in the industry at the time. n106

The opinion also commented on matters admittedly not before the court: the willfulness of the infringement; the $ 400,000 in attorneys fees; the trial; the contempt proceeding; the hearing on damages; and the three appeals. The court then stated: "For all of this, the damages adequate to compensate for the infringement'. . . have thus far been found to total $ 44,709.50." n107 Those comments were irrelevant to an award of a reasonable royalty. They could only relate to matters cognizable under the trial court's power to increase a damage award and award attorneys fees.

With respect to what was relevant - compensatory damages - in view of the fundamental premise of hypothetical negotiation, the balance of the first and third Panduit factors mentioned above would

[*24] appear to be one that would normally have been made by the trial court and not interfered with by anappellate court unless the trial court's findings were clearly erroneous and it had abused its discretion.

In reversing the award, the court held that

[i]f there had been no infringement, and if Stahlin had actually agreed to pay a royalty in March 1962, and if that royalty rate had then proven onerous, Stahlin might have renegotiated the royalty rate or canceled the license. But those options are no longer available to Stahlin and their consideration in a formula for setting the royalty rate which would have been reasonable in March, 1962 was error. n108

Certainly prior precedents gave priority to the time of first infringement, but they did not exclude later facts on the issue of reasonabless. In the passage quoted above, the court seems to be laying down a rigid rule against post-infringement facts. Similarly, prior precedents had indicated that in determining a reasonable royalty, a reasonable profit to the licensee was a factor. Here, the court seemed to be laying down a rule to the contrary. The Panduit court also stated that

[a] royalty, if any, resulting from settlement of an infringement suit between Panduit and a third party, should not be considered evidence of an "established" royalty and thus a measure of adequate damages here. License fees negotiated in the face of a threat of high litigation costs "may be strongly influenced by a desire to avoid full litigation." n109

In this passage, the court sidestepped the issue of the bearing of the license on a reasonable royalty. It went beyond disregarding the royalty in the particular case to appear to lay down a rule of non- admissibility. If its "may be" language was intended, implicitly, to preserve the Pitcairn n110 court's holding to the contrary, n111 the meaning was obscure.

Competition between the patent in suit and other products or methods, whether patented or not, is relevant both to the determination of the market's valuation of a reasonable royalty and to the determination of what, if any, profits have been lost by the patent holder as a result of the infringement. The Panduit opinion, however, stated a four part test for the recovery of lost profits from an infringing defendant which seems studiously to avoid using the word competition. The court stated that plaintiff must show: "(1) demand for the patented

[*25] product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketingcapability to exploit the demand, and (4) the amount of the profit he would have made." n112 On the issue of what was an "acceptable substitute," the court stated

[a] product lacking the advantages of that patented can hardly be termed a substitute "acceptable" to the customer who wants those advantages. The post-hoc circumstance that Stahlin, when finally forced to obey the court's injunction, was successful in "switching" customers to a noninfringing product, does not destroy the advantage-recognition attributable to the patent over the prior 15 years. Those preferred advantages were recognized by Stahlin itself, by other infringers, by customers, by the district court, and by this court. That Stahlin's customers, no longer able to buy the patented product from Stahlin, were willing to buy something else from Stahlin, does not establish that there was on the market during the period of infringement a product which customers in general were, in the master's words, "willing to buy in place of the infringing product." Moreover, Stahlin's "switching" occurred years after the date on which the determination of available substitutes must focus, i.e., the date of first infringement. n113

There are major problems with the Panduit opinion as precedent in addition to those alreadynoted. First, caution should be used in applying the Panduit court's statements on what constitutes an acceptable substitute (whatever that means) outside the reasonable royalty area because the court's holding turned on contrasting the date at which the infringer switched to a substitute with the date of first infringement. The date of first infringement is the important date of the hypothetical negotiation for determining a reasonable royalty. It has

[*26] very little significance in the determination of lost profits damages which may be claimed for theentire period of infringement, and which, as in Panduit, just begin to accrue on the date of first infringement.

Second, the Panduit court's emphasis on the preferred advantages of the patent tends to equate the concept of an acceptable substitute with concepts of patentability rather than with competition and implies a meaning different from competition in the marketplace without specifying the difference or the basis for it.

Third, although the date of first infringement is highly significant in determining a reasonable royalty, the Panduit court failed to note that later occurring facts can well be relevant on the issue of reasonableness even in connection with reasonable royalties. n114

Fourth, as has been noted, the Panduit court took into account matters relevant only to the potential multiplication of damages once they had been determined.

IV. Federal Circuit Decisions on Reasonable Royalties, Acceptable Substitutes and Lost Profits

A. Non-Compensatory Additions to Reasonable Royalties

In 35 U.S.C.

284, Congress confined the enhancement of compensatory damage awards to the discretion of the court, and established a ceiling of an additional three times the damages for such enhancement. It is well settled that damages cannot be enhanced unless there has been "willful infringement or bad faith," n115 or some "wanton disregard of the patentee's patent rights." n116 The Panduit court's discussion, in determining compensatory damages, of admittedly irrelevant factors was followed in Stickle v. Heublein, Inc., n117 where the court stated that, in order to make the award adequate to compensate for the infringement, a trial court may award damages greater than a reasonable royalty by stating the award "either as a reasonable royalty for an infringer (as in Panduit) or as an increase in the reasonable royalty determined by the court." In Fromson v. Western Lithographic Plate &

[*27] Supply Co., n118 Chief Judge Markey, while likening the determination of a reasonable rate ofroyalty to "conjuring" n119 and "fantasy," n120 condemned abuses of non-manufacturing patent holders by infringers, n121 denounced the idea of compulsory licensing thought to be implicit in a royalty award, expressed sympathy for the impecunious individual inventor n122 and then reversed a lower court finding that a willing licensee would have paid one third of the infringer's profits apportioned to the invention. n123 It was not enough. The court held that there should be no apportionment and the reasonable royalty should be recalculated. n124 It invited the lower court to measure the royalty as "a percentage of . . . gross or net profit . . . or as a set amount per infringing plate, or as a percentage of the gross or net price for each infringing plate." n125

Another approach has been the so-called analytical approach. In TWM Manufacturing Co. v. Dura Corp., n126 the infringer argued that the

[*28] Georgia-Pacific factors had been ignored, the product was unproven at the date of the hypotheticallicense, the patent holder was desperate to license the patent to the infringer, there was an established non-infringing product, and that actual profits were less than projected. The court of appeals swept aside the arguments as seeking a de novo appeal. n127 This abstemious scope of review in affirming an award in favor of the patent holder argued to be too high should be contrasted with that applied in Panduit and Fromson in reversing awards that the court of appeals thought too low. n128

Stickle, Fromson and TWM invite punitive damage concepts into the compensatory damage computation. n129 Mahurkar v. C.R. Bard, Inc., n130 was a welcome corrective for it reversed, as an abuse of discretion, the trial court's addition of a 9% "Panduit kicker" to a compensatory royalty rate of 25.88%, holding that "Panduit does not authorize additional damages or a kicker' on top of a reasonable royalty because of heavy litigation or other expenses." n131 Unfortunately, the decision of a later panel in Hebert v. Lisle Corp., n132 quoting Stickle, held the trial court could have awarded the patent holder more than the amount of a reasonable royalty even in the absence of a lost profits award. n133

Such language implies that the "reasonable royalty" to which Congress referred in 35 U.S.C.

284 can by judicial construction be made into more than a reasonable royalty. It invites punitive awards under the label of reasonable royalties and their multiplication beyond the threefold limitation imposed by statute. To suggest an increase in the compensatory award because of the infringer's conduct contradicts the fundamental distinction between compensatory and enhanced or punitive

[*29] damages. In jury trials, it confuses the separate functions of the jury to render a compensatory awardand the judge to consider an enhanced award. It can result in the multiplication of reasonable royalties beyond the threefold maximum, first by increasing them and then by multiplying the increased total.

B. Competition and Acceptable Substitutes

In Radio Steel Manufacturing Co. v. MTD Products, Inc., the court upheld a finding of no acceptable substitutes with the statement: "[t]he various wheelbarrows to which MTD refers incorporate only some, but not all, of the elements of the patent. They do not establish that the district court's findings that they were not acceptable substitutes is clearly erroneous." n134 In TWM Manufacturing Co. v. Dura Corp., the court in an opinion by Chief Judge Markey stated: "[m]ere existence of a competing device does not make that device an acceptable substitute. The special master committed no error in noting that none of the alleged substitutes had all beneficial characteristics of the patented device." n135 In addition to relying on Panduit, the TWM court relied on Central Soya Co. v. Geo. A. Hormel & Co., n136 for support of its statement. Central Soya, however, does not hold that an acceptable substitute has to have all the characteristics of the patented device. n137

In Kaufman Co. v. Lantech, Inc., n138 the trial court awarded lost profits on only eight out of forty-four sales by the infringer, and awarded reasonable royalties on the remaining thirty-six sales. In reversing, the Federal Circuit held that lost profits should be awarded on the basis of all forty-four sales. It stated that a patentee:

need not negative every possibility that the purchaser might not have bought another product than his [the patent holder's] absent the infringement.

[*30] Instead, the patentee need only show that there was a reasonable probability that the sales would havebeen made "but for" the infringement. n139

After referring to the inference drawn in Lam, Inc. v. Johns-Manville Corp., n140 the Kaufman court stated: "[c]onsequently, when the fact situation compels the reasonableness of the inference via both courses, the inference approaches conclusiveness." n141

In Kaufman, the trial court had decided that the inference drawn by the patent holder was not more probable than that drawn by the infringer. n142 The court of appeals failed to recognize that the reasonableness of an inference offered by a patent holder does not mean that the trier of fact must conclude that it is more probable than not. Compounding the problem, the court held that: (1) "The ability to customize' is irrelevant to the availability of acceptable noninfringing substitutes;" n143 (2) even though 28-38% of the patent holder's sales were from powered and conventional substitutes, the district court's inference that such machines were acceptable noninfringing substitutes was clearly erroneous, because to be deemed acceptable the substitute "must not have a disparately higher price than or possess characteristics significantly different from the patented product;" n144 (3) Kaufman's reputation for performing customized work, its competitive pricing and accommodating attitude did not show Lantech would not have made the sale because without the infringement there would have been no other supplier of the

[*31] film-driven machines; n145 (4) despite Lantech's admission that it would not have tried tosell to Kaufman's distributors:

Lantech did present evidence indicating that a machine sold to a distributor is typically purchased by a third party within one year from the initial purchase. Therefore, it is quite possible that these infringing sales from Kaufman to its distributors ultimately resulted in infringing sales to customers. This end result effectively usurps Lantech's sales and, therefore warrants lost profits damages . . . the fact that Lantech would not have competed for every infringing sale does not indicate that the inference that Lantech probably would have made the sale absent the infringement is unreasonable; n146

and (5) because of Lantech's other evidence Kaufman had the burden of showing Lantech's inference as to the nine sales was unreasonable, and the court "conclude[d] that Kaufman did not establish that it is unreasonable." n147

The Kaufman court confused the basic question: whether the customer would have bought the conventional machines from Kaufman. It disregarded findings made by the trial court based on evidence of customer preference. It imposed a burden on the infringer to introduce evidence not merely sufficient for a reasonable inference in its favor, but which establishes that the patent holder's inferences are unreasonable. Kaufman did not have to show Lantech's inference to be unreasonable. n148 The trier of fact, whether judge or jury, should be free to accept whichever reasonable inferences it wishes to draw from the evidence as a whole.

The Kaufman opinion also declared that a two-supplier market is by itself enough to show causation as to lost profits:

[*32]

However, the satisfaction of all four Panduit requirements compels us to find that it is reasonable to infer that the patentee probably would have made the sale but for the infringing sale. The same inference can be compelled by another course. When the patentee and the infringer are the only suppliers present in the market, it is reasonable to infer that the infringement probably caused the loss of profits. Consequently, when the fact situation compels the reasonableness of the inference via both courses, the inference approaches conclusiveness. n149

The two supplier rule, referred to in Del Mar and Kaufman appears to have originated in Lam, Inc. v. Johns-Manville Corp., n150 in which the court, citing Livesay Window Co. v. Livesay Industries, Inc., n151 held that "[w]here, as here, the patent owner and the infringer were the only suppliers of the product, causation may be inferred." n152 Neither Livesay nor Lam hold that acceptable substitutes cannot be shown in a two "supplier" market. The Lam court's opinion noted that "[a]lthough there were other competitors in the market, as evidenced by the 1980 reduced-price sales, they were insignificant." n153 The Livesay court actually cited du Pont in determining that the market was confined to a specific product on the facts of that case. n154 Livesay merely involved the affirmance of a trial court decision on the facts.

Kaufman was followed on the adequate substitute question in Standard Havens Products v. Gencor Industries, affirming a judgment on a jury verdict and stating: "[t]hus, to prove that there are no acceptable noninfringing substitutes, the patent owner must show either that (1) the

[*33] purchasers in the market place generally were willing to buy the patented product for its advantages or(2) the specific purchasers of the infringing product purchased on that basis." n155 The same reasoning crops up in Uniroyal, Inc. v. Rudkin-Wiley Corp. where the court increased the trial court's award of lost profits on 80% of the infringer's sales to 100%, and affirmed a finding of no acceptable substitutes by stating: "[a] purchaser unable to obtain the Uniroyal deflector is presumed to seek an acceptable substitute, an item that was manufactured only by Rudkin-Wiley." n156

A different view of adequate substitutes and competition appears in two cases where the infringer sold both infringed patented and a competing product, and it was argued that competition from the unpatented products may prevent or limit the claim for lost profits. In SmithKline Diagnostics v. Helena Laboratories Corp., n157 during the period of infringement, an infringer had marketed two types of specimen test slides, only one of which was covered by plaintiff's patent. The court affirmed the trial court's decision that the plaintiff had failed to prove it "actually lost sales or at least that such inference is reasonable from all of the evidence." n158 The reason was that the non-infringing version of defendant's slides was present in the market for part of the infringement period and was acceptable to customers. n159

The court in SmithKline declared a test for recovery of lost profits in a patent infringement case which it derived from some of the Panduit language. The court stated that a plaintiff must prove

(1) a demand for the patented product, (2) the absence of an acceptable non-infringing substitute for the patented product, (3) the patent owner's manufacturing and marketing capability to exploit the demand for the patented product, and (4) the amount of profit the patent owner would have expected to make if the patent owner had made the infringer's sales. n160

In addition, the court held that a patentee "is not entitled to lost profits if the patentee fails to establish any of the above requirements." n161

In Slimfold Manufacturing Co. v. Kinkead Industries, n162 an infringer sold competing products, only one of which included the

[*34] patented product. The trial court held that the patent holder could not recover lost profits damagesbecause it failed to establish "that the alleged infringer would not have made a substantial portion or the same number of sales had it continued with its old hardware . . . ." n163 The court of appeals affirmed, noting not only that the patent holder had failed to prove that "consumers specifically want a device with [the] advantages of [the patented assembly]," but also that the "market share[s had not] changed significantly after the introduction of the new doors." n164

The importance of competition in determining lost profits is illustrated by the situation in which the patent holder does not manufacture or sell either the patented product or any product competitive with it, or who sells both that product and a competing product. Prior to the recent decision in Rite- Hite Corp. v. Kelley Co., n165 there were conflicting decisions in the district courts on the question, although none of them contained extensive analyses of the problem. n166 In Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., the court had held: "[b]ecause Lindemann did not compete in the sale of

[*35] its invention in the United States, it did not, as it could not, seek damages on the basis of lostprofits." n167

Competition was also a factor in pre-Federal Circuit holdings denying recovery of lost profits damages for the patentee's lost sales of competitive products which were not covered by the patent which had been infringed. n168 Patent holders were not permitted to recover lost profits on sales of non-patented products except where the entire marketable value of such products was dependent on the patented product. The rationale was that, beyond the exception, such recovery would permit the use of the patent to invade the domain of free competition. n169

As SmithKline and Slimfold hold that an infringer's sales of competing non-infringing products are to be counted in the calculus, it would seem that a patent holder's sale of competing non-infringing products should, a fortiori, diminish if not defeat lost profits recovery. From the point of view of the market it would seem to be immaterial whether it was the infringer or the patent holder or someone else who sold or reasonably could have sold competing unpatented products during the infringing period. But as long ago as Seymour v. McCormick, n170 it had been recognized that the manner in which a patentee chose to exploit its patent could constrain its attempts to recover lost profits. If a wrongdoer's competition with non-infringing products are taken into account, how can a patent holder's competition with non-infringing products not be taken into account?

It is submitted that a claim for lost profits presupposes an economic model of what would have occurred had the patent infringement not occurred. Such an economic model would exclude the infringing sales but includes all competing forces, everyone who would have been in the market, the patent holder, the infringer and whatever

[*36] competitive impact would have been present in the light of those competitive forces. The fact that theinfringer chose to use the patented product or process exclusively does not, by itself, mandate a finding of fact that the infringer could not have substituted another product or process.

C. The Rite-Hite Decision

The recent en banc decision in Rite-Hite Corp. v. Kelley Co. n171 partially affirming and partially reversing the trial court's award is a very important case. If the majority opinion continues to be the law, it will have greatly expanded recoverable damages for patent infringement. Rite-Hite involved a patent holder who marketed one product containing the patented and infringed component and another containing another patented but not infringed component. The case produced three widely disparate opinions by Judges Lourie, Nies and Newman. Six judges were represented in Judge Lourie's opinion, n172 four in Judge Nies' opinion n173 and two in Judge Newman's opinion. n174 The holdings were that: (1) the patent holder could recover lost profits on its lost sales of patented but non-infringed products sold competitively with the infringing products because such lost sales and profits were foreseeable; n175 (2) the patent holder could not recover lost profits on lost sales of unpatented articles (automatic dock levelers ("ADLs"); n176 and (3) independent sales organizations ("ISOs") had no standing to recover lost profits on lost sales. n177 All except the ISO holding are discussed below.

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1. The Opinions in Rite-Hite on Lost Profits

The award of lost profits on Rite-Hite sales of ADLs involved both the type of injury and damages that may be claimed in a patent infringement action and the meaning of the no adequate substitute rule. The parties sold competing automatic vehicle restraints used at loading docks. Rite-Hite also sold a manual restraint which competed with the automatic restraints. It was Rite-Hite's manual restraint, not its automatic restraint that contained the patented component. Kelley's automatic restraint, however, contained a component which, under *35 U.S.C. § 112,* was held to have infringed the Rite-Hite patent in suit. Rite-Hite's automatic restraint contained another separately patented component which was not alleged to have been infringed by Kelley and the validity of which was not litigated.

Judge Lourie's opinion allowing lost profits damages on lost sales of ADL restraints was based on: (1) statements concerning the statutory requirement for "adequate compensation" in Aro Manufacturing Co. v. Convertible Top Replacement Co.; n178 (2) the Panduit factors; (3) the alleged absence of adequate non-infringing substitutes; and (4) the subsuming limitations relating to the type of injury and to proximate cause under a test of "objective foreseeability." n179 Arguments that precedent and the policy of the law were to the contrary, and that the holding would restrict competition and encourage the suppression of inventions, were rejected. n180

[*38]

Judge Nies' dissent asserted that lost profits on lost ADL sales were not a legal injury to Rite- Hite's property rights in its '847 patent, and, therefore, were not recoverable. n181

The dock levelers sold by both parties did not contain and were not competitive with the patentedproduct, nor were they generally sold with vehicle restraints (although some were so sold).

In Rite-Hite, lost profits on alleged lost sales of dock levelers were denied as a matter of lawunder the "entire market value" rule, because they did not have a "functional relationship" to thepatented component. n182 Judge Nies' opinion concurred in the result, but rejected the"functional relationship" to the "entire market value" rule and would have applied a rule of "commercial magnetism." n183

[*39]

The Rite-Hite case illustrates the wide difference in estimates of potential damage exposure by the parties, depending on the principles that are applied. The infringement was held not to have been willful. From Kelley's point of view it must have appeared to be a small case. Rite-Hite had lost only eighty sales of the patented and infringed product. Kelley made an average of less than three percent net profit ($ 30-$ 45 per unit) on sale of its Truk Stops which were priced between $ 1,000 and $ 1,500. n184 The judgment, however, was for $ 6.8 million, an average of $ 1,695 (Kelley's gross price) per unit. n185

2. A Critique of the Rite-Hite Majority Opinion on Lost Profits

a) The Conflicting Rationales for the ADL and Dock Leveler Decisions

The "functional relationship" and the "commercial magnetism" limitation of the "entire market value" rule implicitly recognize boundaries within either a "but-for" or an "objective foreseeability" test. Judge Nies' opinion n186 would have denied and Judge Newman's opinion n187

[*40] would have allowed lost profits recovery on both ADL and dock leveler sales. Judge Lourie's majorityopinion, however, allowed lost profits on claims for ADLs but denied them for dock levelers. The rationale for the difference was that Kelley's Truk Stop was

competitive with the ADL-100's, whereas the dock levelers were merely items sold together with the restraints for convenience and business advantage. 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 nor function with the patented invention. Promotion of the useful arts, see U.S. Const., art. I,

8, cl. 8, requires one, but not the other. n188

The different formulations of the boundaries of the "entire market value" rule manifest three different philosophies governing the recovery of lost profits damages. Judge Lourie, for the majority, allowed lost profits on lost sales of products competitive with the patented product. n189 Judge Nies would have limited such recovery to products reflecting consumer demand for the invention. n190 Judge Newman would have allowed damages that were a direct foreseeable consequence of the infringement. n191

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b) The Lack of Precedent for the Majority Decision Allowing Lost Profits on Non-Infringing Sales

No appellate case prior to Rite-Hite had held that a patent holder may recover damages for lost profits on lost sales of non-infringed articles, whether patented or unpatented, unless they came within the "entire market value" rule. The absence of any such decision in over 150 years of jurisprudence before the 1952 Act and in over forty years since then was some indication that such profits were not permitted. The proposition that the words "adequate compensation" in the 1952 statute were intended to produce a different result is unproven. The attempt to base recovery on the statement in Aro Manufacturing Co. v. Convertible Top Replacement Co. "had the infringer not infringed, what would the Patentee Holder-Licensee have made" misunderstands the Supreme Court holding. n192 In the Aro context, the Supreme Court did not establish a "but-for" rule at all nor did it define such a rule in the sense that the majority opinion in Rite-Hite expressed it. n193

c) The Importation of a "Third Party" Requirement

The Rite-Hite majority opinion did not apply a true "but-for" analysis. It excluded a substitute for the patented infringed product that was actually in the market and would have been in the "but-for" projection: namely, the ADLs made and sold by the patent holder itself. The majority acknowledged that the Panduit test had previously been applied only to profits claimed to have been lost on sales of a product containing the patent in suit. However, the Rite-Hite court held that the intrinsic value of the infringed patent was not the only proper basis for a lost profits award, nor was Panduit the sine qua non for proving "but-for"

[*42] causation. n194 The substitute that existed in the market was avoided by arbitrarilypropounding a rule that the "absence of an acceptable non-infringing substitute" related to proof "that the patentee would not have lost the sales to a non-infringing third party rather than to the infringer." n195

No reason was given for the importation of the third party requirement. Such a requirement is inconsistent with SmithKline Diagnostics, Inc. v. Helena Laboratories Corp. n196 and Slimfold Manufacturing Co. Inc. v. Kinkead Industries, Inc., n197 both of which held that the acceptable non-infringing substitute could be sold by the infringer. An infringer is not a third party. It is also inconsistent with the broader holdings of du Pont. n198

The basic requirement that the patent holder show the "absence of an acceptable non-infringing substitute" implies an object for which the substitution is made (the patented method or process) and meaning for the word "substitution." That meaning ought to be competition in the marketplace. nl99 As the ADLs were competitive both with the MDL and the Truk-Stop it is difficult to see the basis for the court's conclusion that they were not an adequate substitute for the Truk-Stop under either a "but-for" or foreseeability test. The competitive product (ADLs) demonstrated the negligible value of the '847 patent. By inserting the requirement that the substitute had to be sold by a third party, the opinion seems to have assumed its conclusion, excluded an acceptable substitute which was in the market and transformed what should have

[*43] been a minus factor which reduced or eliminated profits hypothesized for the patent n200 intoan independent source of a lost profits claim.

d) The Nature of the Injury

Having excluded the ADLs as adequate substitutes, by disregarding what had been thought to be limitations to the Panduit formulation, the majority opinion referred to the four-factor Panduit test as giving a useful non-exclusive basis for a reasonable inference of "but for causation," shifting the burden to the infringer to show that "inference is unreasonable for some or all of the lost sales," n201 but it did recognize that "there may also be a background question whether the asserted injury is of the type for which the patentee may be compensated." n202

The majority's response to this formulation was to adopt a test of "objective foreseeability . . . absent a persuasive reason to the contrary" as the standard for determining that question. n203 According to the opinion, application of that test permitted the award of lost profits damages on products not covered by the patent in suit. It "does not involve expanding the limits of the patent grant in violation of the antitrust laws . . . ." n204 "Rite-Hite is not attempting to exclude its competitors from making, using, or selling a product not within the scope of its patent." n205 "Allowing compensation for such damage will Promote

[*44] the Progress of' . . . the useful arts by providing a stimulus to the development of new products andindustries." n206

The majority opinion conceded, however, that:

If, on the other hand, the ADL-100 had not been patented and was found to be an acceptable substitute, that would have been a different story, and Rite-Hite would have had to prove that its customers would not have obtained the ADL-100 from a third party in order to prove the second factor of Panduit. n207

This series of statements ignores the requirements of patent law, independent of antitrust violations, that a patent should not be used to restrict competition in the sale of unpatented products. n208 In addition, under an objective foreseeability test it was demonstrated that the ADL product in the market was competitive with and had reduced the value of the patented product. Moreover, in the above quotations the court relied entirely on the patented feature of the ADL as a reason for holding that a third party would not have obtained the ADL and used it to compete.

As pointed out in the dissenting opinion of Judge Nies, the majority opinion assumed the foreseeability of the later issued patent, n209 its validity and its infringement. n210 She stated that the majority had put

[*45] Rite-Hite in a more favorable position than if it had used the infringed patent in the ADL units andlost sales. In that case, it would have had to prove that the demand for ADL-100s was created by the invention in order to recover lost profits for lost ADL-100 sales. In this suit "none of the lost profits on the ADL-100s are the fruit of the 847 invention. It cannot be the law that they are recoverable." n211 The dissenting opinion further pointed out that:

If damages are awardable based on lost sales of a patentee's business in established products not protected by the patent in suit, the patentee not only has an easier case as a matter of proof, but also would receive greater benefits in the form of lost profits on its established products than if the patentee had made the investment necessary to launch a new product. . . . .

The old rule stimulated a patentee's commerce in patented goods. The new rule makes it more profitable to the patentee to protect the status quo. The status quo is not "progress in the arts." n212

In addition to Judge Nies' comments, it is submitted that the Rite-Hite "objective foreseeability" test is an inadequate concept to determine the legal boundaries for a patent holder's claims to recover lost profits damages on products not covered by the patent in suit and not infringed. It does not tell us from whose point of view we are to look at the matter - the patent holder's, the infringer's or the public's. Even more fundamentally, it attempts to convert an essentially legal question into a factual one, but then excludes competition which the patent in fact faced in the market independent of the infringement.

It is submitted that Judge Nies was correct when she urged that a patent holder's rights to damages from patent infringement must be limited to interference with the patent's "market in goods embodying the invention of the patent in suit," n213 and in the case of goods sold with the patented article, to those the demand for which was "created by the advantages of the patented invention." n214

[*46]

3. Post Rite-Hite Decisions on Lost Profits Recoveries

In the post-Rite-Hite climate, the Federal Circuit has continued to expand lost profits recoveries. In King Instruments Corp. v. Perego, n215 a manufacturer of tape loaders that cut, replace and wind magnetic tape in closed cassettes sued another manufacturer of such tapes for infringement of three patents. Two of the patents were held not to have been infringed. The accused product spliced magnetic to magnetic tape. It was found to infringe the third patent, because that patent was held not to be confined to splicing magnetic to leader tape. The trial court awarded King lost profits on lost sales of a King product that competed with the accused machine but did not include the infringed patent. The court of appeals affirmed on the grounds that the statute required an award of adequate compensation, gave the patentee the right to exclude without itself marketing the product, and did not expressly require the patentee to make the patented invention in order to recover lost profits. n216

Dissenting in King Instruments, Judge Nies reiterated her dissent from the Rite-Hite opinion, observing that in order to recover lost profits a patentee had to have put goods embodying the invention on the market. Here, the patent was an optional accessory for a reel changer. It was not shown to provide the commercial magnetism for the entire device. It did not create a demand for the patent holder's tape loader or the infringer's reel changer, and there were numerous non-infringing products. The result, in her opinion, had increased damages more than ten times over the statutory provision. She concluded: "Clarification from higher authority is needed on the scope of protection afforded by a patent, and the meaning of patent infringement damages." n217 In her dissent from the denial of rehearing, Judge Nies additionally stated that the majority had converted patent infringement "into a species of unfair competition claim. It holds that a patent does not, as heretofore, merely protect the patentee's property rights arising from the patent. Rather, a patent erects a property fence around the patentee's entire business with respect to damages." n218

[*47]

In Stryker Corp. v. Intermedics Orthopedics, Inc., the court went so far as to state that "[t]he critical question was not whether there were competing devices, but whether there were acceptable substitutes." n219 This attempted opposition of competition and acceptable substitutes is mystifying. It would be more accurate to state that the critical question is the actual degree of competition offered by a substitute and to dispense altogether with the phrase "acceptable substitute."

D. Rite-Hite's Extension of Royalty Damages

1. The Majority Holding

Rite-Hite also expanded the recovery of reasonable royalties. The trial court had awarded a royalty of fifty percent of Rite-Hite's estimated lost profits per unit sold to retailers plus one-third of its estimated lost distribution income per unit sold. n220 The majority opinion referred to the rule that if there is no established royalty, the royalty is to be based on hypothetical negotiations between the plaintiff and the defendant at the time infringement began, and that an appellant must show that the royalty fixed was "outrageously high" or "outrageously low." n221 It then deferred to the trial court's findings that Rite-Hite would only have been willing to license for at least fifty percent of the profits it was foregoing; that the '847 patent was a pioneer patent; that Rite-Hite's policy was to exploit its own patents rather than license them; and Rite-Hite would have had to forego a large profit by licensing Kelley because Kelley was a strong competitor and Rite- Hite anticipated being able to sell a large number of restraints and related products. n222

The majority concluded that "[t]he fact that the award was not based on the infringer's profits did not make it an unreasonable award." n223 A suggestion that the licensee might find the royalty unreasonable was

[*48] held to be immaterial, n224 as was a suggestion that the parties might have agreed to a lesserroyalty. n225 The royalty was specifically permitted to take into account Rite-Hite's projected profits on sales of ADL-100 restraints (a separately patented but not infringed product), although dock leveler sales (profits on which had also been claimed to have been lost by Rite-Hite) were to be excluded. n226

2. Judge Nies' Opinion

Judge Nies' opinion criticized the majority's opinion on the following grounds: n227 (1) The trial court had limited its assessment to the Rite-Hite side of the table. Kelley had shown royalty rates prevalent in the industry, including a 0.9% royalty paid by Rite-Hite to Kelley to settle a suit for infringement of Kelley's leveler patents after the infringement issue had been settled in licensor's favor. Rite-Hite's profits were 6-10% and Kelley's 2.3% during the period of infringement. (2) While Kelley was not guaranteed a profit, anticipated profit was a factor in the hypothetical negotiations. (3) The no compulsory licensing argument was irrelevant:

[a] damage award calculated as a reasonable royalty gives no mandatory license. If it did, relief by way of an injunction against future use makes no sense. A reasonable royalty is simply a measure of damages, not a license . . . . The remedy Congress itself selected cannot be condemned on the ground it conflicts with Congress' views reflecting compulsory licenses. Obviously, it does not. A reasonable royalty is in fact a Congressional largesse for cases where a patentee might otherwise receive only nominal damages. n228

(4) The royalty award was $ 1,045 per infringing restraint, "more than the price of Rite-Hite's patented MDL-55, more than 75% of the

[*49] average net sale price of Kelley's Truk-Stop, and 33 times greater than Kelley's net profit on its entire machine." n229

(5) The trial court's assumption that Kelley had to pay a royalty on ADL-100 lost sales if lost profits were not awarded was "a fundamental misunderstanding." n230 The fact that a patent holder was entitled to some royalty even if it made no sales of a competing product, did not mean that it could, in effect, be awarded lost profits relabeled as a reasonable royalty. n231 Rite- Hite's lost profits on ADL-100s should not have been factors in calculating a reasonable royalty for the same reason that it should not have recovered lost profits on those sales. n232

(6) The argument that Kelley needed a license of the '847 patent in order to make any restraint was erroneous as there were numerous other mechanical alternatives, that "they were not yet commercialized is irrelevant respecting a royalty. Kelley would have likely turned to the other technology to design around the '847 invention if the royalty were too high." n233

(7) "A royalty which on any reasonable projections respecting the innocent infringer's business would be confiscatory violates that balance. It is simply beyond reality to infer that the management for the five hundred employee-owners of Kelley would have negotiated a royalty which, it was evident at t[h]e time, would destroy their business and jobs." n234

E. Post-Infringement Facts in Determining Reasonable Royalties

Before the creation of the Federal Circuit, post-first-negotiation facts had been considered on the issue of what constituted a reasonable royalty even though Panduit indicated a more restrictive view. n235 Despite

[*50] Panduit, since the creation of the Federal Circuit, post-infringement evidence has been admitted in somecases. n236

F. The Infringer's Profits

The infringer's profits may be relevant "under proper circumstances" both in establishing the patent holder's lost profits, n237 and in determining a reasonable royalty. Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co. n238 The question is what are the proper circumstances? In Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., n239 the patent holder was permitted to introduce evidence of the infringer's profits even though the infringer's overhead, part of the profit calculation, was higher than that of the patent holder. Had evidence been that the infringer's overhead was lower than that of the patent holder, it would seem to be similarly admissible to lower the award of profits.

G. Other Licenses

"Where an established royalty rate for the patented invention is shown to exist, that rate will usually be adopted as the best measure of reasonable and entire compensation." n240 Licenses for comparable products are often offered in evidence in royalty cases. n241 A new problem has arisen because Rule 408 of the Federal Rules of Evidence adopted in 1975 provides: "Evidence of (1) furnishing or offering or promising to

[*51] furnish, or (2) accepting or offering or promising to accept, a valuable consideration in compromisingor attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to prove liability for or invalidity of the claim or its amount." n242 On the basis of that rule, a magistrate in Hanson v. Alpine Valley Ski Area, Inc. n243 excluded offers by Hanson to license the patent at a 2-1/2% royalty under Federal Rule of Evidence 408. The court of appeals found it unnecessary to reach the admissibility question because it could not say that the exclusion was prejudicial.

In Deere & Co. v. International Harvester Co., n244 the trial court awarded a 15% royalty on a portion of infringing sales. The court held that it was error, but not prejudicial error, to have excluded evidence of (1) a license by Deere to White, another manufacturer, during the pendency of Deere's action against Harvester at a royalty of less than 1%; or (2) a 1973 offer by Deere before Harvester commercialized its product, to license Harvester at 1% of sales. n245 The court of appeals found no evidence of infringement or a disputed claim in the license to White and no actual dispute in the offer to license Harvester. n246 Thus, there was no basis to exclude that evidence or the license to White which was negotiated against the backdrop of continuing litigation and Harvester infringement. Nevertheless, the court affirmed the judgment except for the award of interest on the ground of what it held to have been an alternative trial court holding that the matters were of little or no probative value. n247

Judge Davis, dissenting, concluded that the trial court had excluded both the offers to Harvester and the White licenses erroneously, and had not weighed the facts, n248 citing, among other cases, Saulnier v. United States, n249 Pitcairn v. United States, n250 and Columbia Broadcasting System

[*52] v. Zenith Radio Corp. n251 Judge Davis stated that the excluded evidence had a substantialbearing on the royalty. n252

In Bio-Rad Laboratories v. Nicolet Instrument Corp., the court affirmed a judgment on a jury verdict awarding a royalty of approximately one-third of the selling price of the product. n253 The court held that "[t]hough established royalty rates are normally applicable . . . they do not necessarily establish a ceiling for the royalty that may be assessed after an infringement trial." n254 In Snellman v. Ricoh Co. Ltd., the court held admissible both the infringer's projected sales and a license agreement with IBM, and the case was remanded for further proceedings in accordance with the opinion. n255 The court held that the license agreement was not an attempt to resolve the dispute over infringement or to avoid litigation because it "would become effective only if the appellate litigation ultimately resulted in IBM's liability." n256

In Studiengesellschaft Kohle, M.B.H. v. Dart Industries, it was argued that a post-first- infringement settlement by a third party after an appellate court had held the patent valid and infringed should not be admissible because of a rule that the settlement was "eroded by litigation and infringement and therefore not probative of a reasonable royalty" and because it "occurred after the date of the hypothetical negotiations . . . ." n257 The court rejected the argument, holding that there was no rule that all post-infringement evidence was irrelevant, and the settlement was not made under threat of litigation nor against a background of continuing litigation or threats. n258

The Studiengesellschaft opinion seems to have interpreted Rude v. Westcott, n259 as not prohibiting the introduction of testimony of licenses on the issue of a hypotheticalreasonable royalty. The court did not refer to Federal Rule of Evidence 408, which makes offers of compromise of validity or amount of claims inadmissible. Rule 408 refers to compromises of claims "disputed as to validity or amount." n260

[*53] Studiengesellschaft and Snellman each clearly involved settlement of a disputed amount, which on itsface would seem to invoke Rule 408. In Hughes Aircraft v. United States, an offer to license while suitwas pending was admitted in evidence. n261 The court found nothing in the offer to suggest that it was part of a proposed settlement, nor was it accompanied by a threat of litigation. n262

If Rule 408 applies at all, it is difficult to understand how one would distinguish between a license made before or after a determination of validity and infringement if the amount of the royalty had not been finally adjudicated. The unstated concept seems to be that if validity and infringement are not conceded either in advance or after litigation establishing them, the amount of the royalty is too greatly influenced by uncertainties as to those items. In reality, many licenses taken without a threat of or suit for infringement are agreed upon by one or both parties to avoid the same uncertainties. Therefore, a sharp dividing line seems unjustified.

If Rule 408 is an obstacle because of the words "or amount," it is an obstacle to the admission of all licenses or offers to license made after litigation or threat of litigation, whether or not the issues of validity or infringement have been decided. n263 If Rule 408 is a bar, Snellman, which admitted a license that tended to increase the royalty, and Studiengesellschaft, which admitted a license that tended to reduce the royalty, are both wrong even though both licenses were made on the assumption that issues of validity and infringement had been decided in the patent holder's favor. Both cases assumed that the recognition of liability permitted evidence of compromise of the amount, in effect, holding Rule 408 inapplicable to such a situation. n264

Perhaps, there is a broader base for the inapplicability of Rule 408 to patent royalty cases. The Court of Claims cases, discussed supra, n265 had no hesitancy in admitting license agreements against the patent holder regardless of the holding in Rude v. Westcott. n266 Just as a defense to a claim for willful infringement requires the presentation of a counsel's opinion and waiver of the attorney client privilege, perhaps a claim for a reasonable royalty is a waiver of settlement privilege as to other licenses.

[*54] Such a rule would leave the question of the admissibility of other licenses to the ordinary rules ofrelevance and materiality. n267 In that context, it is submitted that the particular facts should determine in a party-neutral way whether and with what caution evidence should be received of licenses to other parties, whether before or after infringement or litigation. A comparison of Deere with Snellman shows that in Deere, where the evidence of licenses was to the advantage of the infringer, the evidence was held admissible but essentially disregarded. n268 In Snellman, where the license was to the advantage of the patent holder, the evidence was held admissible and governing. n269 Although those results may be coincidental, the court should endeavor to insure that the rule is applied in a party-neutral way.

V. Conclusion

The differences of principle among judges of the Federal Circuit concerning the scope of recoverable patent infringement damages continue after more than a decade of Federal Circuit jurisprudence. Such differences undoubtedly contribute to the inability of parties to settle patent litigation. As a result of the en banc decision in Rite-Hite, there is certainty of a sort. It is submitted, however, that it is the certainty that permits speculative damage recoveries which extend the patent monopoly and the statutory remedy of compensatory damage beyond their limitations. On behalf of four dissenting judges in Rite-Hite, Judge Nies, now deceased, wrote:

Challengers who have meritorious defenses to a charge of patent infringement should be encouraged to litigate them without fear of ruinous damage awards. . . . The consequence of expansion of legal injury in this case is that the patentee's major competitor, an innocent infringer, has been forced into bankruptcy by the lost profits award on unprotected goods. This result does not further the policies of the patent statute. n270

Judge Nies further noted: "[t]his court was created to bring uniformity to the law; but where uniform precedent exists, it was given no

[*55] mandate to ignore established law. It was not given a blank legal slate on which to write greatlyenlarged property rights for patentees." n271 "Kelley, an employee-owned business would now likely be out of business had we not granted its motion for stay of execution and the district court's judgment. This case therefore illustrates the mischief and misery that can accompany the over enforcement of patents rights." n272

A recent decision offers an opportunity to restore the competitive market absent the infringement as the basis of patent damage principles. After his royalty determination had been affirmed n273 and his denial of lost profits reversed, n274 Seventh Circuit Judge Easterbrook, sitting as a trial judge in a recent decision, stated "I am confident that the court of appeals did not mean to say that a particular product must be sold contemporaneously with the infringement to count as an available non-infringing substitute.'" n275 His confidence was based on the requirement that a patent damages analysis reconstruct "the way the market would have developed in the absence of infringement," which takes into account not only substitutes actually produced "but also what would have been produced, had it been economically advantageous to do so. . . . Potential competition can be as powerful as actual competition in constraining price." n276

Judge Easterbrook's previous decision taking into account the defendant's ability to have produced a non-infringing substitute during the royalty period, n277 does not appear to have been disturbed by the unpublished reversal. Should the Federal Circuit leave his second lost

[*56] profits opinion intact, it may indicate that the unfortunate influence of the Panduit opinion is at lastbeing removed, although it would be preferable to have a "root and branch" reform by eliminating thosefeatures of the patent damages rules that depart from the norms expressed in this article. Should the Federal Circuit reverse Judge Easterbrook's decision, it is respectfully submitted that the case would be an ideal one for the grant of certiorari in the exercise of the Supreme Court's supervisory role to correct the errors into which the Federal Circuit has fallen in administering the law of damages recoverable for infringement of patents.

n1 *35 U.S.C. 283* (1996). Injunctions may be permanent, after trial, or preliminary. Preliminary injunction are still considered extraordinary remedies. They require consideration of the likelihood of success on the merits, the relative rights and hardships of the parties, the possibility of irreparable harm, the public interest, and the requirement of a bond under Federal Rule of Civil Procedure 65(c). *Hybritech, Inc. v. Abbott Labs., 849 F.2d 1446, 1451, 7 U.S.P.Q.2d (BNA) 1191, 1196 (Fed. Cir. 1988); Black & Decker, Inc. v. Hoover Serv. Ctr., 886 F.2d 1285, 1296, 12 U.S.P.Q.2d (BNA) 1250, 1259 (Fed. Cir. 1989); Nutrition 21 v. United States, 930 F.2d 867, 869, 18 U.S.P.Q.2d (BNA) 1347, 1348-49 (Fed. Cir. 1991); Intel Corp. v. ULSI Sys. Technology, Inc., 995 F.2d 1566, 1568, 27 U.S.P.Q.2d (BNA) 1136, 1137-38 (Fed. Cir. 1993).* See also *Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1579, 219 U.S.P.Q. (BNA) 686, 690 (Fed. Cir. 1983)* (referring to, inter alia, the belief that the Patent Office was inherently unreliable in its patentability determinations); *H.H. Robertson Co. v. United Steel Deck Inc., 820 F.2d 384, 387, 2 U.S.P.Q.2d (BNA) 1926, 1927 (Fed. Cir. 1987)* (stating that the standard for the issuance of preliminary injunctions in patent cases should be the same as in other cases and that on the factor of the likelihood of success, the challenger's burden of proving invalidity by clear and convincing evidence should be taken into account.) The prevailing rationale seems to be that if the patent holder prevails, it can obtain a permanent injunction and damages.

n2 *35 U.S.C. 284* (1996). The trial court has discretion to increase the award to up to three times if the infringement was willful.

n3 *35 U.S.C. 285* (1996). The trial court may award attorneys' fees in "exceptional cases . . . to the prevailing party." Id.

n4 1 Stat. 111 (1790).

n5 1 Stat. 318 (1793).

n6 2 Stat. 37 (1800).

n7 Whitemore v. Cutter, No. 17,600, 1 Robb. Pat. Cas. 28-33 (D. Mass. 1817).

n8 5 Stat. 117 14 (1836). Commenting on the mandatory trebling of damages under the 1800 Act, the Supreme Court stated: Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust. *Seymour v. McCormick, 57 U.S. 480, 488 (1853).*

n9 *57 U.S. 480 (1853).*

n10 *Id. at 489.* The Court distinguished between a patent on a "new composition of matter" and a "valuable medicine" or an "entire new machine" where the patent holder "may find his profit to consist in a close monopoly, forbidding any one to compete with him in the market, the patentee being himself able to supply the whole demand at his own price." Id. If licenses were given to all who might desire to manufacture, "mutual competition might destroy the value of each license" and if any person could use the invention or discovery by paying what a jury might suppose to be the fair value of a license, it is plain that competition would destroy the whole value of the monopoly. In such cases the profit of the infringer may be the only criterion of the actual damage of the patentee. But one who invents some improvement in the machinery of a mill, could not claim that the profits of the whole mill should be the measure of damages for the use of his improvement. And where the profit of the patentee consists neither in the exclusive use of the thing invented or discovered, nor in the monopoly of making it for others to use, it is evident that this rule could not apply. *Id. at 489.*

n11 *Id. at 490.*

n12 3 Stat. 481-82 (1819). See also 5 Stat. 117, 124 17 (1836).

n13 *Livingston v. Woodworth, 56 U.S. (15 How.) 546, 559 (1853); Dean v. Mason, 61 U.S. (20 How.) 198, 203 (1858).* Accord *Tilghman v. Proctor, 125 U.S. 136, 145-46 (1888).*

n14 *Birdsall v. Coolidge, 93 U.S. 64, 68-69 (1876).*

n15 Section 55 of the Act of 1870 provided that, in an equity suit, the court might award "in addition to the profits to be accounted for by the defendant," the "damages the complainant has sustained thereby." 16 Stat. 206 (1870). Section 59 of the Act of 1870 provided for the recovery in an action on the case of "damages for the infringement of any patent," the "actual damages sustained." Id. at 207.

n16 *Birdsall, 93 U.S. at 69.* See *New England Fibre Blanket Co. v. Portland Telegram, 61 F.2d 648, 651 (9th Cir. 1932),* cert. denied, *289 U.S. 752 (1933); Georgia-Pacific Corp. v. United States Plywood Corp., 243 F. Supp. 500, 517- 19, 146 U.S.P.Q. (BNA) 228, 243-45 (S.D.N.Y. 1965).*

n17 *Dobson v. Doornan, 118 U.S. 10, 16-18 (1886); Dobson v. Hartford Carpet Co., 114 U.S. 439, 444-46 (1885); Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 615 (1912).*

n18 42 Stat. 389, 392 8 (1922).

n19 60 Stat. 778 (1946).

n20 *Aro Mfg. Co. v. Convertible Top Co., 377 U.S. 476, 505, 141 U.S.P.Q. (BNA) 681, 693 (1964).* Accord *General Motors Corp. v. Devex, 461 U.S. 648, 654, 217 U.S.P.Q. (BNA) 1185, 1188 (1983).*

n21 *Kori Corp. v. Wilco Marsh Buggies & Draglines Inc., 761 F.2d 649, 654, 225 U.S.P.Q. (BNA) 985, 988 (Fed. Cir. 1985).*

N22 *35 U.S.C. 284* (1994).

n23 Id.

n24 *Aro Mfg., 377 U.S. at 507, 141 U.S.P.Q. (BNA) at 694.*

n25 *Georgia-Pacific Corp. v. United States Plywood Corp., 243 F. Supp. 500, 521, 146 U.S.P.Q. (BNA) 228, 246 (S.D.N.Y. 1965).* In that case, the court, after an extensive review of the legislative history, rejected the argument that the 1946 and 1952 Acts permitted the use of an infringer's profits as a measure of damages and had merely intended to eliminate a mandatory requirement for an accounting. *Id. at 514-30, 146 U.S.P.Q. (BNA) at 240-54.*

n26 *35 U.S.C. 284* (1994).

n27 *35 U.S.C. 285* (1994).

n28 *Georgia-Pacific, 243 F. Supp. at 528, 146 U.S.P.Q. (BNA) at 252.* The court gave instances where an infringer's profits would be evidence of the lost profits of the patent holder: where the parties were in competition, the patent holder found it extremely difficult to prove what his profits would have been had he made those sales and established that he would have made a given percentage of the infringer's sales of the patented article had he been untroubled by illicit competition. *Id. at 529, 146 U.S.P.Q. (BNA) at 252-53.*

n29 *Id. at 537, 146 U.S.P.Q. (BNA) at 259.*

n30 *Bloomer v. McQuewan, 55 U.S. 539, 548 (1852); Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 423-24 (1908); Motion Picture Patents Co. v. Universal Film Mfg., 243 U.S. 502, 510 (1917)* ("monopoly"); *Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 36-37 (1923)* ("A patent confers a monopoly."); *Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135, 161 U.S.P.Q. (BNA) 577, 591 (1969)* ("legal monopoly"); *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637, 646, 72 U.S.P.Q. (BNA) 148, 153 (1947)* ("double monopoly"); *Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 492, 52 U.S.P.Q. (BNA) 30, 33 (1942)* ("granted monopoly"); *United States v. Univis Lens Co., 316 U.S. 241, 250, 53 U.S.P.Q. (BNA) 404, 409 (1942)* ("limited monopoly"); *Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co., 324 U.S. 806, 816, 65 U.S.P.Q. (BNA) 133, 138 (1945)* ("patent monopolies"); *Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229-30, 140 U.S.P.Q. (BNA) 524, 527 (1946)* ("patent monopoly"); *Brulotte v. Thys Co., 379 U.S. 29, 32, 143 U.S.P.Q. (BNA) 264, 265 (1965)* ("patent monopoly"); *Graham v. John Deere Co., 383 U.S. 1, 6, 148 U.S.P.Q. (BNA) 459, 462 (1966)* ("patent monopoly"); *Blonder-Tongue Labs., Inc. v. University of Illinois Found., 402 U.S. 313, 343, 169 U.S.P.Q. (BNA) 513, 525 (1971)* ("patent monopoly"); *Dann v. Johnston, 425 U.S. 219, 229, 189 U.S.P.Q. (BNA) 257, 261 (1976)* ("patent monopoly"); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146, 9 U.S.P.Q.2d (BNA) 1847, 1850 (1989)* ("patent monopolies"); *Cardinal Chemical Co. v. Morton Int'l, Inc., 508 U.S. 83, 101, 26 U.S.P.Q.2d (BNA) 1721, 1729 (1993)* ("monopoly privileges"). The description of patents as monopolies goes back beyond that to the Elizabethan Parliament of 1601, John Ernest Neale, Elizabeth I and Her Parliaments, 1589-1601 377 (1958), and to the Statute of Monopolies, 21 Jam. ch. 3, Statutes of the Realm IV 212 (1624).

n31 *Seymour v. McCormick, 57 U.S. 480, 488-89 (1853).*

n32 *John Deere Co., 383 U.S. at 9, 148 U.S.P.Q. (BNA) at 463.*

n33 *Precision Instrument Mfg., 324 U.S. at 815, 65 U.S.P.Q. (BNA) at 137.*

n34 *Motion Picture Patents, 243 U.S. at 509.*

n35 *Scott Paper Co. v. Marcalus Mfg., 326 U.S. 249, 257, 67 U.S.P.Q. (BNA) 193, 198 (1945).*

n36 *Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231-33, 140 U.S.P.Q. (BNA) 524, 528 (1964).*

n37 *Lear, Inc. v. Adkins, 395 U.S. 653, 670-71, 162 U.S.P.Q. 1, 8 (1969).* In Lear, the Court stated: [T]he equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued. Id.

n38 *Cardinal Chem. Co. v. Morton Int'l, Inc., 508 U.S. 83, 100 (1993).*

n39 *Seymour v. Osborne, 78 U.S. 516, 533 (1870)* and *United States v. Dublier Condenser Corp., 289 U.S. 178, 186 (1933).* In Osborne, Justice Clifford prefaced the Court's opinion by stating: "Letters patent are not to be regarded as monopolies, created by the executive authority at the expense and to the prejudice of all the community except the persons therein named as patentees, but as public franchises." *78 U.S. at 533.* The reference to monopolies created by the executive authority is inapplicable to United States patents, which have only been issued pursuant to authority granted to Congress under the limited Constitutional powers. The likening of patents to public franchises (now usually referred to as public utilities) would not distinguish them from monopolies, even if the analogy were correct. Public utilities rely on their monopolies to keep competitors out, and objections to calling them monopolies would be regarded as fanciful. Justice Roberts, in Dublier, relied on two Supreme Court cases, *United States v. American Bell Telephone Co., 167 U.S. 224, 239 (1897)* and *Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 424 (1908),* but both specifically referred to patents as monopolies. *289 U.S. at 186.*

n40 Some of the efforts to avoid describing a patent as a monopoly are referred to in *Roberts v. Sears, Roebuck & Co., 723 F.2d 1324, 1329 n.5, 221 U.S.P.Q. (BNA) 504, 510 n.5 (7th Cir. 1983).* In his dissent in that case, Judge Posner stated: "A patent enables its owner to monopolize the production of the things in which the patented idea is embodied. To deny that patent protection has this effect, . . . is - with all due respect - to bury one's head in the sand." *Id. at 1345, 221 U.S.P.Q. (BNA) at 522.*

n41 *383 U.S. 1, 6, 148 U.S.P.Q. (BNA) 459, 462 (1966)* (emphasis added). The Court repeatedly used the term "patent monopoly," *Id. at 5-9, 148 U.S.P.Q. (BNA) at 462-64,* and quoted Thomas Jefferson, the founder of our patent system, at length on the point that the patent monopoly was not designed to secure to the inventor his natural right in

his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge. The grant of an exclusive right to an invention was the creation of society - at odds with the inherent free nature of disclosed ideas - and was not to be freely given. Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly. *Id. at 9, 148 U.S.P.Q. (BNA) at 463* (emphasis added).

n42 *Warren v. Kemp, 155 U.S. 265, 268-69 (1894); Tilghman v. Proctor, 125 U.S. 136, 151 (1888).*

n43 *57 U.S. 480, 488-90 (1853);* See supra note 8 and accompanying text.

n44 *235 U.S. 641, 648 (1915).*

n45 Judge Rich is currently Senior Judge of the Federal Circuit. At the time of his 1953 article, Judge Rich was a lecturer in patent law at Columbia University.

n46 Giles S. Rich, Infringement Under Section 271 of the Patent Act of 1952, *35 J. Pat. Off. Soc'y. 476, 479 (1953).*

n47 At the time of his Panduit opinion, Judge Markey of the Court of Claims was sitting by designation in the Sixth Circuit. Later Judge Markey became the first Chief Judge of the Federal Circuit.

n48 *575 F.2d 1152, 1160 n.8, 197 U.S.P.Q. (BNA) 726, 727 n.8 (6th Cir. 1978).*

n49 *Id. at 1163, 197 U.S.P.Q. (BNA) at 736* (emphasis added).

n50 *Carl Schenek, A.G. v. Nortron Corp., 713 F.2d 782, 784, 218 U.S.P.Q. (BNA) 698, 699 (Fed. Cir. 1983); Union Carbide Corp. v. American Can Co., 724 F.2d 1567, 1574 n.4, 220 U.S.P.Q. (BNA) 584, 592 (Fed. Cir. 1984); Jamesbury Corp. v. Litton Indus. Prods., Inc., 756 F.2d 1556, 1559, 225 U.S.P.Q. (BNA) 253, 255 (Fed. Cir. 1985),* cert. denied, *488 U.S. 828 (1988); In re Kaplan, 789 F.2d 1574, 1578 n.3, 229 U.S.P.Q. (BNA) 678, 684 (Fed. Cir. 1986).*

n51 "Patent rights are not legal monopolies in the antitrust sense of the word. Not every patent is a monopoly, and not every patent confers market power." Robert Harmon, Patents and The Federal Circuit 17 (3d ed. 1994). The phrase "antitrust sense of the word" and the modifier "not every" are correct, but irrelevant. A patent is a legal monopoly.

n52 *57 Fed. Reg. 41,552 (1992).*

n53 The Guidelines define a product market as a "group of products such that a hypothetical firm that was the only present and future seller of those products could raise prices profitably." 4 *Trade Reg. Rep. (CCH) 13,102, at 20,533.* In determining whether prices could be raised profitably, the Guidelines look to see whether a significant percentage of buyers of products already included in a market would "be likely to shift to those other products in response to a small but significant and non-transitory increase in price." Id. at 20,533. As a first approximation, the Guidelines "hypothesize a price increase of five percent and ask how many buyers would be likely to shift to the other products within one year." Id. See also 3 Julian O. Von Kalinowski, Antitrust Laws and Trade Regulation 19.02[2] 19-35 (1993).

n54 Rich, supra note 46.

n55 *15 U.S.C. 1*-14 (1994).

n56 *351 U.S. 377, 380-81 (1956).*

n57 *Id. at 398-400.*

n58 *Id. at 401-02.*

n59 *Id. at 404.*

n60 In *Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451, 482 (1992)* the Court held that "The proper market definition in this case can be determined only after a factual inquiry into the commercial realities' faced by consumers." Id.

n61 *Brunswick Corp. v. Pueblo-Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1977)* (quoting *Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 125, 161 U.S.P.Q. (BNA) 577, 587 (1969)).*

n62 *15 U.S.C. 15* (1994).

n63 *Associated Gen. Contractors v. California State Council of Carpenters, 459 U.S. 519, 532-33 (1983).*

n64 *Faulkner v. Gibbs, 199 F.2d 635, 639, 95 U.S.P.Q. (BNA) 400, 403 (9th Cir. 1952).*

n65 *Id. at 639-40, 95 U.S.P.Q. (BNA) at 403.*

n66 *130 U.S. 152, 159 (1888).*

n67 The Court stated: It is clear that a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of improvements patented, in determining the damages sustained by the owners of the patent in other cases of infringement. Many considerations other than the value of the improvements patented may induce the payment in such cases. The avoidance of the risk and expense of litigation will always be a potential motive for a settlement . . . . In order that a royalty may be accepted as a measure of damages against an infringer, who is a stranger to the license establishing it, it must be paid or secured before the infringement complained of; it must be paid by such a number of persons as to indicate a general acquiescence in its reasonableness by those who have occasion to use the invention; and it must be uniform at the places where the licenses are issued. Tested by these conditions, the sums paid in the instances mentioned, upon which the master relied, cannot be regarded as evidence of the value to the defendants of the invention patented. *Id. at 166.*

n68 *537 F.2d 896, 898, 192 U.S.P.Q. (BNA) 68, 70 (7th Cir. 1976).*

n69 *314 F.2d 950, 952, 137 U.S.P.Q. (BNA) 222, 223 (Ct. Cl. 1963)* (emphasis added).

n70 *453 F.2d 1385, 172 U.S.P.Q. (BNA) 438 (Ct. Cl. 1972).*

n71 *Id. at 1394, 172 U.S.P.Q. (BNA) at 445.*

n72 *547 F.2d 1106, 192 U.S.P.Q. (BNA) 612 (Ct. Cl. 1975),* cert. denied, *434 U.S. 1051 (1978).*

n73 *Id. at 1117, 192 U.S.P.Q. (BNA) at 618.*

n74 *Id. at 1117-1118, 192 U.S.P.Q. (BNA) at 618.*

n75 *Id. at 1118, 192 U.S.P.Q. (BNA) at 619.*

n76 Id.

n77 *Id. at 1128, 192 U.S.P.Q. (BNA) at 627.*

n78 *Id. at 1133, 1139, 192 U.S.P.Q. (BNA) at 631, 637.*

n79 *Saulnier v. United States, 314 F.2d 950, 952, 137 U.S.P.Q. (BNA) 222, 224 (Ct. Cl. 1953).*

n80 *199 F.2d 635, 95 U.S.P.Q. (BNA) 400 (9th Cir. 1952).* In the Faulkner case, a number of licenses were considered and held to be "not of great help" due to varying circumstances. *Id. at 640, 95 U.S.P.Q. (BNA) at 403.* As to one of them, the court held that it could not be taken as a standard to measure the value of the patent because it was a "compromise to avoid mutually hazardous and expensive litigation. And we cannot disregard the pecuniary value to appellee of the undertaking . . . in that agreement to provide more than half the expenses of this suit against appellant." *Id. at 640, 95 U.S.P.Q. (BNA) at 404.*

n81 *7 F.2d 972 (9th Cir. 1925).*

n82 *Id. at 976.* Those licenses had much higher royalties ($ 2.40 to $ 3 per ton) than the 25 cents per ton awarded by the master, approved by the trial court and affirmed by the court of appeals. The court noted that in the intervening years after the short period of infringement, "plaintiff was perfecting his machine" which at the date of infringement was "much less efficient than that involved in later license contracts," included settlements for past infringements, and required assistance and supervision by the licensor, for all of which reasons the court held they "do not greatly assist us in determining what is a reasonable sum to be allowed plaintiff as a royalty." Id. The court then stated that "[t]he royalty should be fixed in the light of the conditions which obtained when the infringements took place." Id.

n83 *A. Mecky Co. v. Garton Toy Co., 277 Fed. 507, 513 (E.D. Wis. 1921)* (emphasis added). The court noted that willfulness had nothing to do with the question of a reasonable royalty. *Id. at 507-08.*

n84 *Horvath v. McCord Radiator & Mfg. Co., 100 F.2d 326, 335 (6th Cir. 1938),* cert. denied, *308 U.S. 581 (1939).*

n85 "Expert testimony to be of value must yield to or agree with actual experience of the patentee and other users of the patented device and the damage . . . must find its premise in the use to which his machine has been put and the benefits enuring to its users." *Horvath, 100 F.2d at 336.* The accounting period was from June, 1925 to April, 1930. A license was issued to a third party on May 3, 1926 at one cent per foot of tubing, and prior thereto, in 1924 and 1925, two prospective licensees offered a royalty of 5% and 3% on gross sales, respectively, each offer being accompanied by an offer of employment at $ 1,000 per month. The master reported an award of one-half-cent per foot of tubing, which the trial court approved. The court of appeals expressly criticized

the master's failure to consider the license agreements and held that [a]fter giving fair appraisal to all the evidence, which includes McCord's statement of profits, testimony of expert witnesses, licensing agreements entered into by Horvath and offers made to him for the use of his patent; we find a reasonable royalty rate for the use of his invention is three-fourths of a cent per lineal foot . . . . *Id. at 336.*

n86 *Georgia-Pacific II, 243 F. Supp. 500, 146 U.S.P.Q. (BNA) 228 (S.D.N.Y. 1965); Georgia-Pacific III, 318 F. Supp. 1116, 166 U.S.P.Q. (BNA) 235 (S.D.N.Y. 1970),* modified and affirmed, *446 F.2d 295, 170 U.S.P.Q. (BNA) 369* (2d Cir.), cert. denied, *404 U.S. 870, 171 U.S.P.Q. (BNA) 322 (1971).*

n87 *Georgia-Pacific III, 318 F. Supp. at 1120, 166 U.S.P.Q. (BNA) at 238.* The fifteen factors are as follows: (1) established royalty rates by patentee; (2) rates paid by infringer for comparable licenses; (3) exclusive or non-exclusive license; (4) licensor's policy and marketing program of not licensing others to "preserve that monopoly;" (5) commercial relationship - competitors or not; (6) effect of selling the patented specialty on promoting sales of other products; (7) duration of the patent and terms of license; (8) established profitability of the product made under the patent; (9) utility and advantages of product over old modes or devices if any; (10) nature of patented invention, character of commercial embodiment and benefits to users; (11) extent to which infringer has used the invention, and value of it to inventor; (12) portion of the profit or selling price customary to allow for the use of the invention or analogous inventions; (13) portion of the realizable profit which should be credited to use of patented invention as distinct from non-patented elements, manufacturing processes, business risks, or significant features or improvements by infringer; (14) opinion testimony of experts; and (15): The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee-who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention-would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license. Id.

n88 Id. (emphasis added). The court stated that each case would involve a market place confrontation of the parties, the outcome of which would depend upon such factors as their relative bargaining strength; the anticipated amount of profits that the prospective licensor reasonably thinks that he would lose as a result of licensing the patent as compared to the anticipated royalty income; the anticipated amount of net profits that the prospective licensee reasonably thinks he will make; the commercial past performance of the invention in terms of public acceptance and profits; the market to be tapped; and any other economic factor that normally prudent businessmen would, under similar circumstances take into consideration in negotiating the hypothetical license. *Id. at 1121, 166 U.S.P.Q. (BNA) at 239* (emphasis added).

n89 *Id. at 1122, 166 U.S.P.Q. (BNA) at 239* (citing *Faulkner v. Gibbs, 199 F.2d 635, 639, 95 U.S.P.Q. (BNA) 400, 403 (9th Cir. 1952)).*

n90 *Georgia-Pacific III, 318 F. Supp. at 1122, 166 U.S.P.Q. (BNA) at 240.*

n91 *Georgia-Pacific III, 446 F.2d at 299, 170 U.S.P.Q. (BNA) at 372.*

n92 *Id. at 297, 170 U.S.P.Q. (BNA) at 370 (2d Cir. 1971)* (citing *Sinclair Refining Co. v. Jenkins Petroleum Process Co., 289 U.S. 689 (1933)).*

n93 The court referred to the court of appeals' previous opinion characterizing the commercial success of U.S. Plywood's patented plywood as of "very great significance." *Georgia-Pacific I, 258 F.2d 124 at 133, 118 U.S.P.Q. (BNA) 122 at 130 (2d Cir. 1958).* It also held that despite the allegedly fierce competition between it and other decorative plywoods, Georgia-Pacific "deliberately decided to duplicate Weldtex notwithstanding the caveat of GP's own counsel that an expensive infringement suit was inevitable. GP's calculated infringement of Weldtex is an admission by conduct that it regarded Weldtex as occupying a uniquely favorable position in the market." *Georgia-Pacific III, 318 F. Supp. at 1123, 166 U.S.P.Q. (BNA) at 241* (emphasis added).

n94 The court pointed out that the prior trial court opinion discounting the popularity of the Weldtex plywood was not directed to the period of 1955 when the negotiations would have taken place, but to 1955-58 and 1960, and that in 1955 Weldtex was "without keen competition," "the commercial value of Weldtex was not undermined by competition," and Weldtex and the infringing striated plywood were "competitive with each other to a greater degree than with other decorative panels." *318 F. Supp. at 1124, 166 U.S.P.Q. (BNA) at 241.*

n95 The reported decisions begin in 1956 on the liability trial, in which all of the claims were first held invalid by Judge Herlands. *Georgia-Pacific I, 148 F. Supp. 846 (S.D.N.Y. 1958).* That decision was reversed as to one of the seven claims, which was held to have been infringed under the doctrine of equivalents. *Georgia-Pacific I, 258 F.2d 124, 139, 118 U.S.P.Q. (BNA) 122, 134 (2d Cir. 1958).* Seven years later, after the damages trial, Judge Herlands held that U.S. Plywood was not entitled to lost profits. *Georgia-Pacific II, 243 F. Supp. 500, 530-31, 146 U.S.P.Q. (BNA) 228, 254 (S.D.N.Y. 1965).*

n96 *667 F.2d 347, 212 U.S.P.Q. (BNA) 643 (3d Cir. 1981),* aff'd, *461 U.S. 648 (1983).*

n97 *667 F.2d at 360, 212 U.S.P.Q. (BNA) at 643.*

n98 *575 F.2d 1152, 197 U.S.P.Q (BNA) 726 (7th Cir. 1978).*

n99 *Id. at 1156, 197 U.S.P.Q. (BNA) at 730.*

n100 Id.

n101 *Id. at 1155, 197 U.S.P.Q. (BNA) at 729.*

n102 *Id. at 1157, 197 U.S.P.Q. (BNA) at 730.*

n103 *Id. at 1164, 197 U.S.P.Q. (BNA) at 736.*

n104 *Id. at 1157, 197 U.S.P.Q. (BNA) at 731.*

n105 *Id. at 1162, 197 U.S.P.Q. (BNA) at 735.*

n106 *Id. at 1164, 197 U.S.P.Q. (BNA) at 736.*

n107 *Id. at 1158 n.6, 197 U.S.P.Q. (BNA) at 731 n.6.*

n108 *Id. at 1164, 197 U.S.P.Q. (BNA) at 736.*

n109 *575 F.2d at 1164 n.11, 197 U.S.P.Q. (BNA) at 736 n.11.*

n110 *Pitcairn v. United States, 547 F. 2d 1106, 192 U.S.P.Q. (BNA) 612 (Ct. Cl. 1975).*

n111 *575 F.2d at 1164 n.11, 197 U.S.P.Q. (BNA) at 736 n.11.*

n112 *Id. at 1156, 197 U.S.P.Q. (BNA) at 729-30.* The court cited 3 R. White, Patent Litigation: Procedure and Tactics 9.03[2] (1977) for this proposition, with a See, e.g., citation to *Bros, Inc. v. W.E. Grace Mfg., 320 F.2d 594, 598, 138 U.S.P.Q. (BNA) 357, 358 (5th Cir. 1963)* and *Electric Pipe Line, Inc. v. Fluid Systems, Inc., 250 F.2d 697, 116 U.S.P.Q. (BNA) 25 (2d Cir. 1957).* Id. at 1156, 197 U.S.P.Q. (BNA) at 730. Neither case contains that formulation. Bros reinstated a Master's finding that had been reversed by the trial court because two other Texas concerns were selling "these compactors," and if the infringer had not sold the products they would have been sold by the other two competitors. *320 F.2d at 598, 138 U.S.P.Q. (BNA) at 358.* It would appear from the reference to "these compactors" that the other products were also infringing. In Electric Pipe, the Master had found that plaintiff and defendant were the only suppliers of "this unique patented fuel storage and transportation system" called for by the specifications in bids. *250 F.2d at 699, 116 U.S.P.Q. (BNA) at 27.*

n113 *Panduit, 575 F.2d at 1162, 197 U.S.P.Q. (BNA) at 734-35* (emphasis in original). The opinion also noted that "[t]here are substitutes for virtually every patented product," and added that the acceptable substitute element must be viewed to be of limited significance when the infringer knowingly made the patented product for years while ignoring the substitutes. *Id. at 1162, 197 U.S.P.Q. (BNA) at 736.*

n114 See supra notes 91, 92.

n115 *Beatrice Foods v. New England Printing, 923 F.2d 1576, 1579, 17 U.S.P.Q.2d (BNA) 1553, 1555 (Fed. Cir. 1991).*

n116 *Read v. Portec, Inc., 970 F.2d 816, 826, 23 U.S.P.Q.2d (BNA) 1426, 1435 (Fed. Cir. 1992).*

n117 *716 F.2d 1550, 1563, 219 U.S.P.Q. (BNA) 377, 387 (Fed. Cir. 1983).*

n118 *853 F.2d 1568, 7 U.S.P.Q.2d (BNA) 1606 (Fed. Cir. 1988).*

n119 "Determining a fair and reasonable royalty is often, as it was here, a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge." *Id. at 1574, 7 U.S.P.Q 2d (BNA) at 1612.*

n120 The court stated that the hypothetical negotiation basis for determining a reasonable royalty encompasses fantasy and flexibility; fantasy because it requires a court to imagine what warring parties would have agreed to as willing negotiators; flexibility because it speaks of negotiations as of the time infringement began, yet permits and often requires a court to look to events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators. *Id. at 1575, 7 U.S.P.Q.2d (BNA) at 1613.* Compare supra note 98 and accompanying text.

n121 The methodology of arriving at a reasonable royalty "risks creation of the perception that blatant, blind appropriation of inventions patented by individuals,

nonmanufacturing inventors is the profitable, can't-lose course." *Id. at 1574-75, 7 U.S.P.Q.2d (BNA) at 1612.*

n122 Such persons lacked "money and manufacturing capacity" in comparison to the patent rights of "well-funded, well-lawyered, large manufacturing corporations. Any such distinction should be rejected as the disservice it is to the public interest in technological advancement. That survival of the fittest' jungle mentality was intended to be replaced, not served, by the law." *Id. at 1575, 7 U.S.P.Q. 2d (BNA) at 1613.*

n123 *Id. at 1577, 7 U.S.P.Q.2d (BNA) at 1615.*

n124 *Id. at 1578, 7 U.S.P.Q.2d (BNA) at 1615-16.*

n125 Id.

n126 *789 F.2d 895, 899, 229 U.S.P.Q. (BNA) 525, 527 (Fed. Cir. 1986).* The infringer's top management projected a gross profit of 52.7% from its infringing sales. After subtraction of overhead (37% to 42%) and a standard industry net profit of 6.56% to 12.5%, a 30% royalty was awarded. Id.

n127 *Id. at 900, 229 U.S.P.Q. (BNA) at 528.*

n128 *The Panduit v. Stahlin Manufacturing Co., 575 F.2d 1152, 97 U.S.P.Q. (BNA) 726 (7th Cir. 1978),* trial court's finding that the hypothetical negotiators in March would have anticipated a following January price reduction and the *Fromson v. Western Lithographic Plate & Supply Co., 853 F.2d 1568, 7 U.S.P.Q.2d (BNA) 1606 (Fed. Cir. 1988),* trial court's decision to apportion the profits made by the infringer between those relating and not relating to the patent, which would seem to have been in accord with *Seymour v. McCormick, 57 U.S. 479, 488-89 (1853)* and later cases, were both reversed in cases where one might expect that the matter fell within the broad discretion of the trial court.

n129 *Stickle v. Heublin, Inc., 716 F.2d 1550, 1560-61, 219 U.S.P.Q. (BNA) 377, 385-86 (Fed. Cir. 1983); Fromson, 853 F.2d at 1574-75, 7 U.S.P.Q.2d (BNA) at 1612-13; TWM, 789 F.2d at 901-02, 229 U.S.P.Q. (BNA) at 528-29.*

n130 *79 F.3d 1572, 38 U.S.P.Q.2d (BNA) 1288 (Fed. Cir. 1996).*

n131 *Id. at 1581, 38 U.S.P.Q.2d (BNA) at 1294.*

n132 *99 F.3d 1109, 40 U.S.P.Q.2d (BNA) 1611 (Fed. Cir. 1996).*

n133 *Id. at 1120, 40 U.S.P.Q.2d (BNA) at 1618.*

n134 *788 F.2d 1554, 1556, 229 U.S.P.Q. (BNA) 431, 432-33 (Fed. Cir. 1986)* (emphasis added).

n135 *789 F.2d 895, 901, 229 U.S.P.Q. (BNA) 525, 529 (Fed. Cir. 1986)* (emphasis added).

n136 *723 F.2d 1573, 220 U.S.P.Q. (BNA) 490 (Fed. Cir. 1983).*

n137 In affirming an award of lost profits and a finding of no acceptable substitutes for making thin sliced breaded meats, the Central Soya court found not clearly erroneous the trial court findings that the breaded meat products of others were insignificant in the market, and that there was no way to make a competitive product without using the

patent. The court does not appear to have used a narrow reading of the phrase "competitive product." *Id. at 1579, 220 U.S.P.Q. (BNA) at 490.*

n138 *926 F.2d 1136, 17 U.S.P.Q.2d (BNA) 1828 (Fed. Cir. 1991).*

n139 *Id. at 1141, 17 U.S.P.Q.2d (BNA) at 1831.*

n140 *718 F.2d 1056, 1065, 219 U.S.P.Q. (BNA) 670, 675 (Fed. Cir. 1983)* (stating that when the patentee and the infringer are the only suppliers in the market, it is reasonable to infer that the infringement probably caused the loss of profits.).

n141 *926 F.2d at 1141, 17 U.S.P.Q.2d (BNA) at 1832.*

n142 *Id. at 1142-43, 17 U.S.P.Q.2d (BNA) at 1832-33.* The court of appeals stated that the lower court had found "the conventional prestretch and the powered prestretch were available acceptable noninfringing substitutes [and] . . . the inference that Lantech would have made every sale that Kaufman made merely because they were the only suppliers of film-driven prestretch machines' was inapplicable." *Id. at 1142, 17 U.S.P.Q.2d (BNA) at 1832.* The trial court also found that "Kaufman made many of the infringing sales not because of the technology . . . but because of Kaufman's ability to customize." *Id. at 1142-1143, 17 U.S.P.Q.2d (BNA) at 1832-1833.* There was also an admission that Lantech would not even have tried to sell to Kaufman distributors - amounting to nine sales. *Id. at 1143, 17 U.S.P.Q.2d (BNA) at 1833.*

n143 *Id. at 1142, 17 U.S.P.Q.2d (BNA) at 1832.* Compare *United States v. E. I. du Pont de Nemours & Co., 351 U.S. 377, 402 (1956)* ("It is the variable characteristics of the different flexible wrappings and the energy and ability with which the manufacturers push their wares that determines choice.") (emphasis added).

n144 *Kaufman, 926 F.2d at 1142, 17 U.S.P.Q.2d (BNA) at 1832.*

n145 *Id. at 1143, 17 U.S.P.Q.2d (BNA) at 1833.*

n146 *Id. at 1144, 17 U.S.P.Q.2d (BNA) at 1834.*

n147 Id.

n148 The Kaufman court confused the burdens of going forward with evidence with the weighing of the evidence by the trier of fact. Even if the patent holder, Lantech, presented enough evidence to go to the trier of fact, that would not ordinarily require Kaufman to come forward with evidence. The trier of fact would be free to decide whether Lantech's inference was reasonable. As a matter of prudence, Kaufman might have to, as it did, produce evidence of its own. Such evidence might oppose or simply be more believable than Lantech's evidence. Lantech had to convince the trier of fact that its inference and conclusion were more reasonable than those offered by Kaufman. The Kaufman court also ignored basic rules of market definition and product competition, as well as principles of trial practice and appellate review. It should have affirmed the trial court's finding as not clearly erroneous.

n149 *926 F.2d at 1141, 17 U.S.P.Q.2d (BNA) at 1831-32.*

n150 *718 F.2d 1056, 219 U.S.P.Q. (BNA) 670 (Fed. Cir. 1983).*

n151 *251 F.2d 469, 473, 116 U.S.P.Q. (BNA) 167, 170 (5th Cir. 1958).*

n152 *718 F.2d at 1065, 219 U.S.P.Q. (BNA) at 675.*

n153 *Id. at 1067, 219 U.S.P.Q. (BNA) at 676.*

n154 *Livesay, 251 F.2d at 472, 116 U.S.P.Q. at 170.* For here, the "relevant market", cf. United States v. DuPont, . . . was for a specific product - a monolithic window frame with a Venetian blind guide, either imbedded during the casting or installed on precast pintles. The market under scrutiny then is confined to those products only which are patented or infringed. Id. The effort of the Infringer to make out a substantial potential competition from others, including three specified manufacturers simply fails. . . . the largest, had not made a single frame with blind guides since the war. . . . [T]he builder or contractor, or architects called for this type of frame. As to this market demand, the source of supply was confined to these two parties and had not the infringement occurred, the Licensee would have had a monopoly in an article having established trade acceptance of great extent. *Id. at 472-73, 116 U.S.P.Q. at 170.*

n155 *953 F.2d 1360, 1373, 21 U.S.P.Q.2d (BNA) 1321, 1331 (Fed. Cir. 1991).*

n156 *939 F.2d 1540, 1546, 19 U.S.P.Q.2d (BNA) 1432, 1438 (Fed. Cir. 1991)* (emphasis added).

n157 *926 F.2d 1161, 17 U.S.P.Q.2d (BNA) 1922 (Fed. Cir. 1991).*

n158 *Id. at 1166, 17 U.S.P.Q.2d (BNA) at 1926* (emphasis added).

n159 Id.

n160 *Id. at 1165, 17 U.S.P.Q.2d (BNA) at 1926.*

n161 *Id. at 1164-65, 17 U.S.P.Q.2d (BNA) at 1926.*

n162 *932 F.2d 1453, 18 U.S.P.Q.2d (BNA) 1842 (Fed. Cir. 1991).*

n163 *Slimfold Mfg. Co. v. Kinkead Indus., 1990 WL 512961,* at *1 (N.D. Ga. May 29, 1990).

n164 *932 F.2d at 1458, 18 U.S.P.Q.2d (BNA) at 1846* (emphasis added).

n165 *Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 35 U.S.P.Q.2d (BNA) 1065* (Fed. Cir.) (en banc), cert. denied, *116 S. Ct. 184 (1995).*

n166 *Scripto-Tokai Corp. v. Gillette Co., 788 F. Supp. 439, 22 U.S.P.Q.2d 1678 (C.D. Cal. 1992),* denied a motion to preclude, as a matter of law, damage recovery of lost profits in a case in which Gillette used natural rubber in the ink used in its erasable ink pens, claimed infringement of a patent for the use of particular types of artificial rubber in erasable ink, and asserted lost profits in the sum of the alleged infringer's sales of erasable ink pens allegedly containing the infringing ink, multiplied by Gillette's would - be profit, plus the alleged reduction of Gillette's product on its natural rubber erasable ink pens. The case was then tried before a jury which returned a verdict that the patents were invalid and non-enabling. Scripto's defense of inequitable conduct was not ruled upon; its counterclaim for antitrust violations was dismissed on summary judgment on the ground that there was insufficient evidence of fraud; and, although there was evidence that Gillette intended to drive Scripto out of business, there was insufficient showing that the particular Gillette sales below cost were made with that intent. The case

was then settled. (The author was one of the counsel for Scripto in the case.) As the court noted in its opinion, Id. at 437, 22 U.S.P.Q.2d at 1680, an opposite opinion was reached in *Trilogy Communications, Inc. v. Comm Scope Co., 754 F. Supp. 468, 18 U.S.P.Q.2d (BNA) 1177 (W.D.N.C. 1990).* The court in Scripto also relied on the trial court opinion in *Rite-Hite Corp. v. Kelley Co., 774 F. Supp. 1514, 21 U.S.P.Q.2d (BNA) 1801 (E.D. Wis. 1991).* In that case, the patent holder did market the product.

n167 *895 F.2d 1403, 1406, 13 U.S.P.Q.2d (BNA) 1871, 1874 (Fed. Cir. 1990).* See *Trell v. Marlee Elec. Corp., 912 F.2d 1443, 1445, 16 U.S.P.Q.2d (BNA) 1059, 1061 (Fed. Cir. 1990)* ("Because Trell did not sell its invention in the United States, he could not seek damages on the basis of lost profits."); *Water Technologies Corp. v. Calco Ltd., 850 F.2d 660, 673, 7 U.S.P.Q.2d (BNA) 1097, 1107 (Fed. Cir. 1988)* (holding that a district court clearly erred as a matter of law in awarding lost profits for a period after plaintiff stopped manufacturing the patented product).

n168 *Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 Fed. 315, 323-24* (2d Cir.), cert. denied, *257 U.S. 650 (1921).* See also *Carter v. Baker, 5 F. Cas. 195, 201 (C.C.D. Cal. 1871); Standard Mailing Mach. Co. v. Postage Meter Co., 31 F.2d 459, 462 (D. Mass. 1929).*

n169 *Velo-Bind, Inc. v. Minn. Mining & Mfg. Co., 647 F.2d 965, 972- 74, 211 U.S.P.Q. (BNA) 926, 932-34* (9th Cir.), cert. denied, *451 U.S. 1093 (1981).*

n170 See notes 8-11, supra, and accompanying text.

n171 *56 F.3d 1538, 35 U.S.P.Q.2d (BNA) 1065* (Fed. Cir.) (en banc), cert. denied, *116 S.Ct. 184 (1995).*

n172 The judges joining in Judge Lourie's opinion were Judges Rich, Michel, Plager, Clevenger and Schall. *Id. at 1542, 35 U.S.P.Q.2d (BNA) at 1066.*

n173 The judges joining in Judge Nies' opinion were Chief Judge Archer, Senior Judge Smith and Judge Mayer. Id.

n174 Judge Rader joined in Judge Newman's opinion. Id.

n175 *Id. at 1546-47, 35 U.S.P.Q.2d (BNA) at 1069-70.* That holding was supported by Judge Lourie's and Judge Newman's opinion. It was dissented from in Judge Nies' opinion on the ground that lost profits on such sales were not damage due to sales of goods which embodied the invention of the patent in suit. *Id. at 1563-64, 35 U.S.P.Q.2d (BNA) at 1084.*

n176 *Id. at 1550-51, 35 U.S.P.Q.2d (BNA) at 1072.*

n177 *Id. at 1553-54, 35 U.S.P.Q.2d (BNA) at 1075.* Those holdings were supported by Judge Lourie's and Judge Nies' opinion, *Id. at 1576-77, 35 U.S.P.Q.2d (BNA) at 1095-96,* and dissented from in Judge Newman's opinion, *Id. at 1581-84, 35 U.S.P.Q.2d (BNA) at 1100-03.*

n178 *377 U.S. 476, 507, 141 U.S.P.Q. (BNA) 681, 694 (1964).*

n179 *Rite-Hite Corp. v. Kelley Co., at 1544-46, 35 U.S.P.Q.2d (BNA) at 1068-70.*

n180 Judge Lourie's opinion states that the patent damage section, *35 U.S.C. 284,* was intended to provide a patentee with adequate compensation for all injury caused by the infringement, with a reasonable royalty being only a floor. A plaintiff who satisfied the four Panduit factors had made out a prima facie case for the award of lost profits by showing "but for" causation. The burden then shifts to the infringer to show that the inference is unreasonable for some or all of the sales. In addition: There may also be a background question whether the asserted injury is of the type for which the patentee may be compensated . . . and the reasonable limits of liability encompassed by general principles of law can best be viewed in terms of reasonable objective foreseeability . . . absent a persuasive reason to the contrary. *Id. at 1546, 35 U.S.P.Q.2d (BNA) at 1069-70.* Judge Lourie limited the inquiry into the type of injury: "If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary." *Id. at 1546, 35 U.S.P.Q.2d (BNA) at 1070.* "Whether a patentee sells its patented invention is not crucial in determining lost profits damages. Normally, if the patentee is not selling a product, by definition there can be no lost profits." *Id. at 1548, 35 U.S.P.Q.2d (BNA) at 1071.* "We see no basis for Kelley's conclusion that the lost sales must be of the products covered by the infringed patent." *Id. at 1548, 35 U.S.P.Q.2d (BNA) at 1072.*

n181 "Patent damages" are limited to legal injury to property rights created by the patent, not merely causation in fact. *Id. at 1557, 35 U.S.P.Q.2d (BNA) at 1079.* Causation in fact of an injury (i.e., the but-for test) is applied after the legal determination is made that the asserted injury is a type which is legally compensable for the wrong. . . . 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. *Holmes v. Securities Investor Protection Corp., 503 U.S. 258, 274 (1992); Associated Gen. Contractors, Inc. v. California State Council of Carpenters, 459 U.S. 519, 538-40 (1983);* see also *Brunswick Corp. v. Pueblo Bowl-O-Mat Inc, 429 U.S. 477 (1977).* . . . The term "damages" must be interpreted in light of the familiar common law principles of legal or proximate cause associated generally with that term. *56 F.3d at 1558-59, 35 U.S.P.Q.2d (BNA) at 1080.* A but-for test tells us nothing about whether the injury is legally one which is compensable. . . . A "but-for" test for "damages," which would mandate that all types of economic injury to a patentee's business traceable to the infringement are compensable, is as legally deficient a standard for patent infringement "damages" as for "damages" under the Clayton Act or RICO. *Id. at 1559-60, 35 U.S.P.Q.2d (BNA) at 1081.*

n182 *Id. at 1550, 35 U.S.P.Q.2d (BNA) at 1073.* [T]he unpatented components must function together with the patented component in some manner so as to produce a desired end product. . . . 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.

n183 *Id. at 1572, 1575-76, 35 U.S.P.Q.2d (BNA) at 1091, 1094.* Judge Nies stated: "There is no reason for the entire market value analysis if a patentee is entitled to

compensation for competitive damages' to its business generally." *Id. at 1572, 35 U.S.P.Q.2d (BNA) at 1091.* The entire market value rule is based on a realistic evaluation of the commercial magnetism of the patented invention, not on whether components in a machine - or auxiliary goods - function together. . . . I would deny the award because the sale of levelers was not attributable to consumer demand for the invention of the 847 patent. *Id. at 1575-76, 35 U.S.P.Q.2d (BNA) at 1094.*

n184 *Id. at 1543, 35 U.S.P.Q.2d (BNA) at 1067.*

n185 *Rite-Hite Corp. v. Kelley Co., 774 F. Supp. 1514, 1534, 21 U.S.P.Q.2d (BNA) at 1801, 1816 (E.D. Wis. 1991).*

n186 Judge Nies' opinion stated that the sale of levelers was "not attributable to consumer demand for the invention of the 847 patent." *Id. at 1576, 35 U.S.P.Q.2d (BNA) at 1094* (emphasis added).

n187 Judge Newman's opinion would have allowed more damages. Her opinion stated that "patent infringement is a commercial tort, . . . the remedy [for which] should compensate for the actual financial injury that was caused by the tort." *Id. at 1578, 35 U.S.P.Q.2d (BNA) at 1096.* Characterizing the majority holding as one precluding recovery of lost profits for "convoyed" items if "the patented and convoyed items also have a separate market," Judge Newman's opinion states that this contravened the cardinal principle of damages law that the injured party should be made whole, the patent law requirement of "adequate compensation," and the responsibility of the wrongdoer for the "direct, foreseeable consequences of the wrong." *Id. at 1579-81, 35 U.S.P.Q.2d (BNA) at 1099-1101.* Noting, among other things, the trial court finding that customers "almost invariably purchased both items from the same manufacturer," that dock leveler sales were as direct a target of the infringement as the ADL-100 sales and that the quality of proof as to both was equally high, Judge Newman stated that the correct question was not function or independent market or use but, quoting from *Leesona Corp. v. United States, 599 F.2d 958, 974, 202 U.S.P.Q. 424, 439* (Ct. Cl.), cert. denied, *444 U.S. 991 (1979),* "their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question." *56 F.3d at 1582, 35 U.S.P.Q.2d (BNA) at 1099-1100.*

n188 *56 F.3d at 1551, 35 U.S.P.Q.2d (BNA) at 1074* (emphasis added). The citation to the Constitution is surprising. There is certainly no support for a contention that the Constitution requires that a patent holder receive compensation for loss of sales not of the patented product but of products competing with the patented product. For example, the original Patent Statutes of 1790 and 1793 did not provide a general damage remedy. See notes 4-5, supra. The "clear purpose" in the Patent Act of 1952 as amended does not appear in the text.

n189 *56 F.3d at 1548-49, 35 U.S.P.Q.2d (BNA) at 1071-72.*

n190 *Id. at 1572, 35 U.S.P.Q.2d (BNA) at 1091.*

n191 *Id. at 1581, 35 U.S.P.Q.2d (BNA) at 1101.*

n192 *377 U.S. 476, 507, 141 U.S.P.Q. 681, 694 (1964).*

n193 As Judge Nies noted, that quotation from Aro limited the recoverable damages by precluding double recovery from direct and contributory infringers. *56 F.3d at 1558, 35 U.S.P.Q.2d (BNA) at 1079.* In rejecting the patentee's damage theory, the Court expressly stated: "It would enable the patentee to derive a profit not merely on unpatented rather than patented goods - an achievement proscribed by the *Motion Picture Patents, 243 U.S. 502,* and Mercoid [Corp. v. Mid-Continent Inv. Co.], *320 U.S. 661, [60 U.S.P.Q. 21],* cases - but on unpatented and patented goods." Id. at 1558, 35 U.S.P.Q.2d (BNA) at 1079 (quoting *Aro, 377 U.S. at 510, 141 U.S.P.Q. at 697).*

n194 *56 F.3d at 1548, 35 U.S.P.Q.2d (BNA) at 1071.* "[O]ther fact situations may require different means of evaluation, and failure to meet the Panduit test does not ipso facto disqualify a loss from being compensable." Id.

n195 Id. (emphasis added). "Here the only substitute for the patented device was the ADL-100, another of the patentee's devices. Such a substitute was not an acceptable, non-infringing substitute' within the meaning of Panduit, because being patented by Rite-Hite, it was not available to customers except from *Rite-Hite. Cf. State Indus., 883 F.2d at 1578, 12 U.S.P.Q.2d (BNA) at 1031-32.* Rite-Hite therefore, would not have lost the sales to a third party." Id.

n196 *926 F.2d 1161, 1165, 17 U.S.P.Q.2d (BNA) 1922, 1926 (Fed. Cir. 1991).*

n197 *932 F.2d 1453, 1458, 18 U.S.P.Q.2d (BNA) 1842, 1846* (Fed. Cir.), reh'g. denied (1991).

n198 See notes 56-59, supra, and accompanying text.

n199 In a dictum, the opinion states that a patentee need not make, use or sell its patented invention in order to recover lost profits, although "[n]ormally, if the patentee is not selling a product, by definition there can be no lost profits." *Rite-Hite, 56 F.3d at 1547, 35 U.S.P.Q.2d (BNA) at 1071.*

n200 The sales of ADL vehicle restraints, which were admittedly competitive with the 847 patented and infringed hook whether used in manual or automatic vehicle restraints, themselves reduced the value of the 847 patent. If the ADL had been unpatented and available for sale by a third party, it likely would have been the cause of a reduction of the value of the 847 patent and would admittedly have prevented the recovery of lost profits. The case is no different because it was separately patented but not infringed, and sold by the patent holder rather than by a third party.

n201 *Id. at 1545, 35 U.S.P.Q.2d 1069 (Fed. Cir. 1995)* (quoting *Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1141, 17 U.S.P.Q.2d (BNA) 1828, 1831 (Fed. Cir. 1991)).* This begs the question of the existence of other limitations to the recovery of lost profits, and puts the cart before the horse. See Judge Nies' dissent, *56 F.3d at 1557-58, 35 U.S.P.Q.2d (BNA) at 1078-79,* which also restates the error of the Kaufman court concerning reasonable inferences previously discussed.

n202 *56 F.3d at 1546, 35 U.S.P.Q.2d (BNA) at 1070.*

n203 *Id. at 1546, 35 U.S.P.Q.2d (BNA) at 1070.*

n204 *Id. at 1547, 35 U.S.P.Q.2d (BNA) at 1070.*

n205 Id. This statement appears to be contradicted by Rite-Hite's collection of lost profits damages and Kelley's bankruptcy.

n206 *Id. at 1547, 35 U.S.P.Q.2d (BNA) at 1070-71.* Permitting a patentee to recover profits on its sales of unpatented or uninfringed products certainly extends the power of patentees, but whether it promotes the development of new products and industries is entirely problematic; it may just as easily hinder them, particularly in the case of a patentee who suppresses the invention and markets a competing product instead.

n207 *Id. at 1548, 35 U.S.P.Q.2d (BNA) at 1072.*

n208 See *Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 510 (1917).*

n209 *56 F.3d at 1571, 35 U.S.P.Q.2d (BNA) at 1091.* Judge Nies noted that competition between the automatic truck restraints sold by the parties had preceded the issuance of the 847 patent, that Kelley's automatic restraint was concededly designed around the protection afforded by Rite-Hite's patent on its ADL units, and that Kelley: "would have had to have had prescient vision to foresee that it would be held an infringer of the unknown claims of the subsequently issued 847 patent and that its lawful competition with the ADL-100 would be transformed into a compensable injury." Id.

n210 *Id. at 1573, 35 U.S.P.Q.2d (BNA) at 1092.* In any event, the one or more patents on technology used in the ADL-100 were never asserted against Kelley, and the validity of those patents is untested. If those patents are invalid, the majority's analysis collapses. . . . Given that Kelley has had no legal basis for bringing a declaratory judgment action challenging the unlitigated patents (never having been charged with infringement) the majority imposes liability and overlooks the unfairness in its theory. If the unlitigated patents are significant to damages, Kelley deserves an opportunity to defend against them. A clearer denial of due process is rarely seen. Id.

n211 *Id. at 1572, 35 U.S.P.Q.2d (BNA) at 1091.*

n212 *Id. at 1572, 35 U.S.P.Q.2d (BNA) at 1091-92.*

n213 *Id. at 1556, 35 U.S.P.Q.2d (BNA) at 1078.*

n214 *Id. at 1569, 35 U.S.P.Q.2d (BNA) at 1089.*

n215 *65 F.3d 941, 36 U.S.P.Q.2d (BNA) 1129* (Fed. Cir.), reh'g. denied, *72 F.3d 855, 37 U.S.P.Q.2d (BNA) 1159 (1995).*

n216 *65 F.3d at 948-49, 36 U.S.P.Q.2d (BNA) at 1133-34.*

n217 *Id. at 961, 36 U.S.P.Q.2d (BNA) at 1145.*

n218 *72 F.3d at 857, 37 U.S.P.Q.2d (BNA) at 1161.* Judge Nies concluded that in denying certiorari in the Rite-Hite case the court had not been made aware "of the significance of the fundamental change in patent rights made by the Rite-Hite decision." Id. In her view the Rite-Hite decision presented "the most profound departure from basic patent law concepts that any court has ever pronounced [and] . . . provides the jumping off place for further extensions of damages beyond injury to patent rights." Id. She stated that the constitutional power did not permit "this perversion of patent infringement damages" and if it did it would be for Congress not judges to make the policy choice. Id.

n219 *96 F.3d 1409, 1418, 40 U.S.P.Q.2d (BNA) 1065, 1072 (Fed. Cir. 1996).*

n220 *Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1554-55, 35 U.S.P.Q.2d (BNA) 1065, 1075-76* (Fed. Cir.) (en banc), cert. denied, *116 S. Ct. 184 (1995).*

n221 *Id. at 1554, 35 U.S.P.Q.2d (BNA) at 1075.*

n222 Id.

n223 *Id. at 1555, 35 U.S.P.Q.2d (BNA) at 1076.*

n224 Id. (citing *Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1328, 5 U.S.P.Q.2d (BNA) 1255, 1261 (Fed. Cir. 1987)).*

n225 Id. (citing *TWM Manufacturing Co. v. Dura Corp., 789 F.2d 895, 900, 229 U.S.P.Q. (BNA) 525, 528 (Fed. Cir. 1986)).*

n226 *56 F.3d at 1554-55, 35 U.S.P.Q.2d (BNA) at 1075-76*

n227 *Id. at 1556-78, 35 U.S.P.Q.2d (BNA) at 1076-96.*

n228 *Id. at 1574, 35 U.S.P.Q.2d (BNA) at 1093.*

n229 *Id. at 1576, 35 U.S.P.Q.2d (BNA) at 1094-95.*

n230 *Id. at 1576, 35 U.S.P.Q.2d (BNA) at 1095.*

n231 Id.

n232 Id. (emphasis added).

n233 *Id. at 1576-77, 35 U.S.P.Q.2d (BNA) at 1095.*

n234 *Id. at 1577, 35 U.S.P.Q.2d (BNA) at 1096.*

n235 See notes 47-49, supra, and accompanying text.

n236 See, e.g., *TWM Manufacturing Co. v. Dura Corp., 789 F.2d 895, 899-900, 229 U.S.P.Q. (BNA) 525, 527-28 (Fed. Cir. 1986); Snellman v. Ricoh Co., Ltd., 862 F.2d 283, 289, 8 U.S.P.Q.2d (BNA) 1996, 2001 (Fed. Cir. 1988); Fromson v. Western Lithographic Plate & Supply Co., 853 F.2d 1568, 7 U.S.P.Q.2d (BNA) 1606 (Fed. Cir. 1988).*

n237 *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 761 F.2d 649, 655, 225 U.S.P.Q (BNA) 985, 988 (Fed. Cir. 1985).*

n238 *895 F.2d 1403, 1406, 13 U.S.P.Q.2d (BNA) 1871, 1874 (Fed. Cir. 1990).* In Lindemann, the low rate of the infringer's profit was used to limit the royalty to $ 10,000 per machine. *Id. at 1407-08, 13 U.S.P.Q.2d (BNA) at 1875.* In *Kori, 761 F.2d at 655, 225 U.S.P.Q. (BNA) at 988,* the comparison of the patent holder's and the infringer's profits resulted in an award of damages in excess of the infringer's profits, in view of the patent holder's lower overhead expense.

n239 *761 F.2d. at 655, 225 U.S.P.Q. (BNA) at 988.*

n240 *Tektronix, Inc. v. United States, 552 F.2d 343, 347, 193 U.S.P.Q. (BNA) 385, 390 (Ct. Cl. 1977).*

n241 See discussion of TWM, notes 126-127, supra, and accompanying text.

n242 Fed. R. Evid. 408.

n243 *718 F.2d 1075, 1078-79, 219 U.S.P.Q. (BNA) 679, 682 (Fed. Cir. 1983).*

n244 *Deere & Co. v. International Harvester Co., 496 F. Supp. 397, 399-400, 208 U.S.P.Q. 158, 160-61 (D. Ill. 1980).*

n245 *710 F.2d 1551, 1558, 218 U.S.P.Q. (BNA) 481, 486-87 (Fed. Cir. 1983).*

n246 *Id. at 1555, 218 U.S.P.Q. (BNA) at 484.*

n247 *496 F. Supp. at 400, 208 U.S.P.Q. at 161.*

n248 *710 F.2d at 1560, 218 U.S.P.Q. (BNA) at 488.*

n249 *314 F.2d 950, 137 U.S.P.Q. (BNA) 222 (Ct. Cl. 1963).*

n250 *547 F.2d 1106, 1118, 192 U.S.P.Q. (BNA) 612, 622 (Ct. Cl. 1976),* cert. denied, *434 U.S. 1051 (1978).*

n251 *537 F.2d 896, 192 U.S.P.Q. (BNA) 68 (7th Cir. 1976).*

n252 *710 F.2d at 1560, 218 U.S.P.Q. (BNA) at 488.*

n253 *739 F.2d 604, 617, 222 U.S.P.Q. (BNA) 654, 655 (Fed. Cir. 1984).*

n254 *Id. at 617, 222 U.S.P.Q. (BNA) at 655.*

n255 *Snellman v. Ricoh Co. Ltd., 862 F.2d 283, 289, 8 U.S.P.Q.2d (BNA) 1996, 2001 (Fed. Cir. 1988).*

n256 Id.

n257 *862 F.2d 1564, 1571, 9 U.S.P.Q.2d (BNA) 1273, 1280 (Fed. Cir. 1988).*

n258 Id.

n259 See note 66, supra, and accompanying text.

n260 Fed. R. Evid. 408.

n261 *86 F.3d 1566, 39 U.S.P.Q.2d (BNA) 1065 (Fed. Cir. 1996).*

n262 *Id. at 1573, 39 U.S.P.Q.2d (BNA) at 1070.*

n263 Fed. R. Evid. 408.

n264 *Snellman, 862 F.2d at 289-90, 8 U.S.P.Q.2d (BNA) at 2001-02; Studiengesellschaft, 862 F.2d at 1571, 9 U.S.P.Q.2d (BNA) at 1280.*

n265 See notes 70-79, supra, and accompanying text.

n266 *130 U.S. 152 (1888).*

n267 See Fed. R. Evid. 401-03.

n268 *Deere & Co. v. International Harvester Co., 710 F.2d, 1551, 1558-59, 218 U.S.P.Q. (BNA) 481, 486-87 (Fed. Cir. 1983).*

n269 *862 F.2d at 289-90, 8 U.S.P.Q.2d (BNA) at 2001-02.*

n270 Dissenting opinion of former Chief Judge Nies, writing for herself, *Chief Judge Archer, Senior Judge Smith and Judge Mayer. Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1575, 35 U.S.P.Q.2d (BNA) 1065, 1093-94* (Fed. Cir.) (en banc), cert. denied, *116 S. Ct. 184 (1995).*

n271 *Id. at 1578, 35 U.S.P.Q.2d (BNA) at 1097.*

n272 *Id. at 1577, 35 U.S.P.Q.2d (BNA) at 1096.* The majority and plurality opinion reversed the award of (pre-judgment interest) lost profits damages for dock levelers and the award of royalties. Yet the decision left Kelley subject to a judgment of $ 3,811,499 for lost profits on Rite-Hite's lost sales of 80 MDLs and 3423 ADLs, 774 *F. Supp. at 1534, 21 U.S.P.Q.2d (BNA) at 1816,* plus a recalculation of the royalty on 502 of Kelley's sales of infringing restraints to customers not previously solicited by *Rite-Hite. 56 F.3d at 1555,* U.S.P.Q.2d (BNA) at 1077. Post-judgment interest from 1987 on has greatly increased the award, even as reduced

n273 *Grain Processing Corp. v. American Maize-Prods. Co., 893 F. Supp. 1386, 1391- 92, 37 U.S.P.Q.2d (BNA) 1299, 1303-04 (N.D. Ind. 1995).*

n274 *Grain Processing Corp. v. American Maize-Prods. Co., 108 F.3d 1392,* (Fed. Cir. 1997).

n275 *Grain Processing Corp. v. American Maize-Prods. Co., No. H81-237, 1997 WL 629788* at *3 (N.D. Ind. Sept. 26, 1997).

n276 *Grain Processing Corp., 1997 WL 629788* at *3.

n277 *893 F. Supp. at 1391-92, 37 U.S.P.Q.2d (BNA) at 1303-04.*