

APPELLANT'S

REPLY BRIEF

JUL 7 - 1992

APPELLANT KELLEY COMPANY, INC.'S
COMBINED REPLY BRIEF AND
RESPONSE TO CROSS-APPEAL

**In The
United States Court of Appeals
For the Federal Circuit**

Nos. 92-1206, -1260

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED
EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON
MATERIAL HANDLING CO., BLOCK-DICKSON, INC., ROBERT LUND
d/b/a HMH COMPANY, HOJ ENGINEERING & SALES CO., INC.,
JOHNSON EQUIPMENT CO., JOHNL & ASSOCIATES, INC., KELLER
EQUIPMENT CO., INC., LOADING DOCK EQUIPMENT, INC., METRO
DOCK SPECIALISTS, INC., MCCORMICK EQUIPMENT COMPANY,
INC., MID-SOUTH DOCK SYSTEMS, INC., HARRY MONOHAN,
NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL
HANDLING CO., INC., PEMCO MATERIAL HANDLING, INC., R.B.
CURLIN, INC., RICE EQUIPMENT COMPANY, STOKES EQUIPMENT
COMPANY, INC., ROBERT SOPER LIMITED, TIMBERS & ASSOCIATES,
INC., TODD EQUIPMENT CORPORATION, THAYER SYSTEMS, INC. and
W.E. CARLSON CORPORATION,

Plaintiffs/Cross-Appellants,

v.

KELLEY COMPANY, INC.,

Defendant-Appellant.

On appeal from a decision of the United States
District Court for the Eastern District of Wisconsin
in 83-C-0434 and 89-C-0190 entered January 28, 1992,
from Judge John W. Reynolds.

THOMAS F. GING
THOMAS S. MALCIAUSKAS
MARCOS REILLY
HINSHAW & CULBERTSON
222 N. LaSalle St.
Chicago, IL 60601
(312) 704-3000

KEITH V. ROCKEY
ROCKEY AND RIFKIN
30 N. LaSalle St.
Chicago, IL 60602
(312) 704-5600

Attorneys for Defendant-Appellant Kelley Company, Inc.

TABLE OF CONTENTS

INTRODUCTION	1
I. "DAMAGES ADEQUATE TO COMPENSATE FOR THE INFRINGEMENT" MEANS COMPENSATION FOR THE VALUE OF THE PATENT, NOT ANY DAMAGES THE PATENTEE ASKS FOR.	3
A. The Legislative History Does Not Support Rite-Hite's Claim That It is Entitled to "Any Damages It Can Prove."	3
B. There Have Always Been Damages Which as a Matter of Law Are Not Recoverable in a Patent Infringement Suit.	4
C. "Damages Adequate to Compensate for the Infringement" Must be Calculated in Light of What a Patent Is, and What Purpose It Is Intended to Serve.	8
II. THE ENTIRE MARKET VALUE RULE IS ALIVE AND WELL.	13
III. RITE-HITE CAN DEFEND THE ROYALTY ADOPTED BY THE DISTRICT COURT ONLY BY IGNORING THE FACTS AND DISTORTING THE LAW.	18
A. A Reasonable Royalty IS "Adequate to Compensate For the Infringement."	18
B. The Value of the '847 Patent Was Not Determined in the Liability Trial.	20
C. The Evidence of Alternative Designs is Undisputed.	23
D. Rite-Hite Effectively Admits the District Court Applied the Wrong Royalty Standard.	25
E. No Court Has Ever Awarded a "Reasonable" Royalty Of This Magnitude.	28
IV. THE ISOS ARE NOT EXCLUSIVE LICENSEES.	30
A. The District Court's Order Allowing the ISOs to Intervene is Not Unassailable and Does Not Entitle Them to Damages.	30
B. The ISOs' Rights In the Patent Are a Matter of Law, Not Convenience.	30

THE CROSS-APPEAL	33
I. LOST PROFITS FOR THE ISOS.	33
II. THERE IS NO REASON TO GIVE THE PLAINTIFFS COMPOUND INTEREST.	34

TABLE OF AUTHORITIES

Cases Cited

<u>Andrew Corp. v. Gabriel Electronics, Inc.</u> , 785 F.Supp. 1041 (D. Me. 1992).	15
<u>American Securit Co. v. Shatterproof Glass Corp.</u> , 268 F.2d 769, 777, 122 U.S.P.Q. 167 (3d Cir. 1959)	9
<u>Aro Manufacturing Co. v. Convertible Top Replacement Co.</u> , 377 U.S. 476 (1964)	3
<u>Beatrice Foods Co. v. New England Printing</u> , 899 F.2d 1171, 14 U.S.P.Q.2d 1020 (Fed. Cir. 1990).	15
<u>Conrad Milwaukee Corporation v. Wasilewski</u> , 30 Wis.2d 481, 141 N.W.2d 240 (1966)	31
<u>Dobson v. Hartford Carpet Co.</u> , 114 U.S. 441 (1854)	7
<u>Ethyl Gasoline v. United States</u> , 309 U.S. 436, 459 (1940)	8
<u>Fromson v. Western Litho</u> , 853 F.2d 1568, 7 U.S.P.Q.2d 1606 (Fed. Cir. 1988)	6
<u>General Motors Corp. v. Devex Corp.</u> , 461 U.S. 648 (1983)	3
<u>Georgia Pacific Corp. v. U.S. Plywood Corp.</u> , 243 F.Supp. 500, 146 U.S.P.Q. 228 (S.D. N.Y. 1965)	15
<u>Georgia-Pacific Corp. v. U.S. Plywood Corp.</u> , 318 F.Supp. 1116, 166 U.S.P.Q. 235 (S.D. N.Y. 1970).	15
<u>Idacon, Inc. v. Central Forest Products, Inc.</u> , 3 U.S.P.Q. 2d 1079 (E.D. Ok. 1986).	15
<u>ITT Corp. v. U.S.</u> , 17 Cl.Ct. 199, 11 U.S.P.Q.2d 1657 (1989).	15
<u>Jenn-Air Corp. v. Penn Ventilator Co.</u> , 394 F.Supp. 665, 185 U.S.P.Q. 410 (E.D. Pa. 1975).	15
<u>John Deere & Co. v. International Harvester Co.</u> , 710 F.2d 1551, 218 U.S.P.Q. 481 (Fed. Cir. 1983)	25
<u>King Instrument Corp. v. Otari</u> , 767 F.2d 853, 866, 226 U.S.P.Q. 402 (Fed. Cir. 1985)	14

<u>KLI v. Richard Wolf Medical Instruments Corp.</u> , 483 F.Supp. 462, 207 U.S.P.Q. 463 (N.D. Ill. 1980)	32
<u>Kori Corporation v. Wilco Marsh Buggies</u> , 761 F.2d 649, 225 U.S.P.Q. 985 (Fed. Cir. 1985)	17
<u>Kornylak Corp. v. United States</u> , 207 U.S.P.Q. 145 (Ct. Cl. 1980)	26
<u>Lam, Inc. v. Johns-Manville Corporation</u> , 718 F.2d 1056, 1067 (Fed. Cir. 1983) (emphasis in original)	5, 34
<u>Leesona Corp. v. United States</u> , 599 F.2d 958, 977 (Ct. Cl. 1979)	26
<u>Lindemann Maschinenfabrik v. American Hoist</u> , 895 F.2d 1403, 12 U.S.P.Q.2d 1871 (Fed. Cir. 1990)	10
<u>Panduit Corp. v. Stahl Bros.</u> , 575 F.2d 1152, 1159, 1161, 197 U.S.P.Q. 726 (6th Cir. 1977)	9
<u>Rite-Hite v. Kelley</u> , 629 F.Supp. 1042, 1046, 231 U.S.P.Q. 161 (E.D. Wis. 1986)	13
<u>Rite-Hite v. Kelley</u> , 819 F.2d 1120, 1125, 1126, 2 U.S.P.Q. 2d 1915 (Fed. Cir. 1987)	21
<u>Santa Fe-Pomeroy, Inc. v. P & Z Company</u> , 212 U.S.P.Q. 417 (N.D. Cal. 1980)	28
<u>Schenck v. Northron Corp.</u> , 713 F.2d 782, 218 U.S.P.Q. 698 (Fed. Cir. 1983)	8
<u>Slater Electric, Inc. v. Indian Head, Inc.</u> , 223 U.S.P.Q. 729 (S.D. N.Y. 1983)	15
<u>Slimfold v. Kinkead</u> , 932 F.2d 1453, 1459, 18 U.S.P.Q. 2d 1842 (Fed. Cir. 1991)	6
<u>State Industries v. A. O. Smith Corp.</u> , 751 F.2d 1226, 1236, 224 U.S.P.Q. 418 (Fed. Cir. 1985)	12
<u>State Industries v. Mor-Flo</u> , 883 F.2d 1573, 12 U.S.P.Q.2d 1026 Fed. Cir. 1989)	13
<u>State Industries v. Mor-Flo</u> , 948 F. 2d 1573, (Fed. Cir. 1991)	30
<u>Stickle v. Heublein, Inc.</u> , 716 F.2d 1550, 219 U.S.P.Q. 377 (Fed. Cir. 1983)	19, 28

<u>Studiengesellschaft Kohle v. Dart Ind.</u> , 862 F.2d 1564, 9 U.S.P.Q. 2d 1273 (Fed. Cir. 1988)	34
<u>Trio Process Corp. v. L. Goldstein, Sons, Inc.</u> , 612 F.2d 1353, 204 U.S.P.Q. 881 (3d Cir. 1980).	15
<u>United States v. Louisiana</u> , 669 F.2d 314 (5th Cir. 1982) . . .	30
<u>Velo-Bind v. Minnesota Mining and Manufacturing Co.</u> , 647 F.2d 965, 973. (9th Cir. 1981)	5
<u>Whiting Stoker v. Chicago Stoker</u> , 171 F.2d 248, (7th Cir. 1949)	31
<u>Wing Engineering Corp. v. United States</u> , 151 F.Supp. 314, 113 U.S.P.Q. 343 (Ct. Cl. 1957)	32
<u>Ziggity Systems, Inc. v. Val Watering Systems</u> , 769 F.Supp. 752 (E.D. Ok. 1986).	15

Other Authorities

Senate Reports, 82d Congress, Vol. 4, Appendix (1952)	4
35 USC § 284.	3, 4, 26
92 Cong.Rec. 1957 (House debate on Patent Amendments of 1946). .11	

RECORD REFERENCES

Citations comprised of the letter "A" followed by a page number are references to the Joint Appendix (white cover, separately bound). Citations comprised of the letter "D" followed by a number are to the docket number of pleadings and orders filed in the District Court which, pursuant to the Circuit Rules, are not included in the Appendix. The Plaintiffs/Cross-Appellants' initial brief (red cover) is cited as "RH Brief."

APPELLANT KELLEY COMPANY, INC.'S
COMBINED REPLY BRIEF AND
RESPONSE TO CROSS-APPEAL

IN THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Nos. 92-1206, -1260

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED
EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON MATERIAL HANDLING
CO., BLOCK-DICKSON, INC., ROBERT LUND d/b/a HMH COMPANY, HOJ
ENGINEERING & SALES CO., INC., JOHNSON EQUIPMENT CO., JOHNL &
ASSOCIATES, INC., KELLER EQUIPMENT CO., INC., LOADING DOCK
EQUIPMENT, INC., METRO DOCK SPECIALISTS, INC., MCCORMICK EQUIPMENT
COMPANY, INC., MID-SOUTH DOCK SYSTEMS, INC., HARRY MONOHAN, NIEHAUS
INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., INC., PEMCO
MATERIAL HANDLING, INC., R.B. CURLIN, INC., RICE EQUIPMENT COMPANY,
STOKES EQUIPMENT COMPANY, INC., ROBERT SOPER LIMITED, TIMBERS &
ASSOCIATES, INC., TODD EQUIPMENT CORPORATION, THAYER SYSTEMS, INC.
and W.E. CARLSON CORPORATION,

Plaintiffs/Cross-Appellants,

v.

KELLEY COMPANY, INC.,

Defendant-Appellant.

INTRODUCTION

Whether Rite-Hite will admit it or not, the District Court's decision is unprecedented. This Court will search Rite-Hite's brief in vain for any case awarding a patentee lost profits on products not embodying or deriving their entire market value from the patent in suit. Rite-Hite's attempt to portray Kelley's cases as mere examples of "typical" lost profits awards misses the point. Neither the facts nor the reasoning of any previous decision support the District Court's ruling.

Rather than engaging in any serious discussion of case law, Rite-Hite invokes general statements out of context. But in the common law system of jurisprudence, the facts of prior decisions are not incidentals to be shrugged off in favor of general rhetoric. The reasoning of previous decisions, viewed in light of the facts, is the law. Statutes necessarily employ general terms which must be interpreted. Legislative history, while sometimes helpful, seldom provides useful answers to specific questions or a coherent explanation of the philosophy of the law.

For practical guidance, courts look to the way previous decisions have applied the law to specific situations, an inquiry Rite-Hite now seeks to avoid. A careful look at precedent shows that the District Court's decision extends a patentee's property rights far beyond what is necessary to serve the purpose for which the patent privilege is conferred, and if allowed to stand would fundamentally alter statutory incentives to innovation. Rite-Hite's contention that Kelley's appeal raises no serious issues and that the Plaintiffs should be left to liquidate Kelley without this

tiresome discussion of "technicalities" exposes the absence of any precedent or principled arguments to support the judgment.

Rite-Hite's rephrased "issues" sidestep the real issues. For instance, the question with regard to the entire market value rule is not whether the District Court was correct to award lost profits on levelers which the Plaintiffs "proved" they would have sold with the "patented" restraints. [RH Brief, p. 1]. The question is whether the District Court properly awarded such damages under the entire market value rule when it was undisputed that levelers owed no part of their market value to any restraint, and would not have been sold with a restraint which is covered by the patent in suit.

And the Plaintiffs' pretense of having caught Kelley "failing to mention" the supposed causation of the Plaintiffs' damages is just another diversion. [RH Brief, p. 3]. Kelley has concentrated its appeal on rulings of law not because it now agrees or ever agreed with the Plaintiffs' factual allegations but because space constraints and the nature of the appellate process make it most efficient to focus on key issues of law. Accordingly, a large portion of the "facts" summarized by Rite-Hite are beside the point. Rite-Hite simply seeks to repeat its stratagem of overwhelming the court with a mountain of carefully created "evidence" based entirely on a false premise. How well Rite-Hite "proved" that it lost sales of ADLs and levelers "as a matter of fact" is irrelevant to whether lost profits on such items are recoverable as a matter of law.

I. "DAMAGES ADEQUATE TO COMPENSATE FOR THE INFRINGEMENT" MEANS
COMPENSATION FOR THE VALUE OF THE PATENT,
NOT ANY DAMAGES THE PATENTEE ASKS FOR.

A. The Legislative History Does Not Support Rite-Hite's Claim
That It is Entitled to "Any Damages It Can Prove."

One thing is clear from the legislative history: The Congressional discussion Rite-Hite cites does not pertain to the statute which is in effect today and under which Rite-Hite obtained its damages. That dialogue is merely debate on the interim patent legislation passed in 1946, whose piecemeal and tentative amendments were superseded in 1952 by a complete new Patent Act. While in some contexts the history of the 1946 statute may be instructive, it cannot be used to justify a radical re-interpretation of the completely different language in the current statute. The 1946 law spoke of "general damages." The 1952 Act does not. Instead, the present law says "damages adequate to compensate for the infringement." "General damages" could indeed be construed to mean "everything... in the world." [RH Brief, p. 14, citing 1946 congressional debate]. But that language never made it to the final version.

Neither of the Supreme Court cases cited by Rite-Hite stands for the proposition that the present Section 284 was intended to be identical to its 1946 predecessor. On the contrary, Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964), only holds that both damages provisions were intended to eliminate recovery of the infringer's profits as a remedy. In General Motors Corp. v. Devex Corp., 461 U.S. 648 (1983), the Supreme Court notes the difference between the language of the 1946

law and the 1952 law without comment [461 U.S. at 654, fn. 9], then proceeds to discuss the difference between the House and the Senate versions of the present Section 284, noting that the Senate's 1952 modification of the 1952 Act was not intended to change the law on prejudgment interest. [Id.]. The legislative history of the 1952 revisions notes that Section 284 "consolidates the provisions relating to damages in R.S. 4919 and 4921, with some changes in language," but gives no explanation of the intent behind the changes. Senate Reports, 82d Congress, Vol. 4, Appendix, p. 29 (January 8 - July 7, 1952) (emphasis added).

Without any specific explanation from the authors of the statute, it is impossible to divine their subjective intent. But the removal of the term "general damages" in 1952 belies Rite-Hite's contention that a patentee is entitled to any damages it can "prove." On the contrary, the deletion of this phrase indicates an intent to clarify the law in favor of the rule which has always underlain patent damages: There are some damages which may be caused by infringement but which are simply unrecoverable as a matter of law because they do not pertain to values of concern to the Patent Act.

B. There Have Always Been Damages Which as a Matter of Law Are Not Recoverable in a Patent Infringement Suit.

Whether the standard is "general damages which shall be due compensation," or "damages adequate to compensate for the infringement," only the case law can provide useful guidance on what is due or adequate. That has never been solely a question of fact. The cases cited by Kelley, which Rite-Hite has not

meaningfully distinguished, limit recovery to damages flowing directly from the useful invention claimed in the patent.

Rite-Hite's distinction of the Velo-Bind case is at best disingenuous. The Velo-Bind decision did not turn on the factual issue of whether the damages on non-patented items were "speculative." Speculativeness was simply an alternative reason the Ninth Circuit gave for reversing the judgment. The holding of the case is that a patentee cannot recover lost profits on items not embodying the patent in suit because "there are many elements of damages which may be caused by an infringement and yet which are unrecoverable as a matter of law." Velo-Bind v. Minnesota Mining and Manufacturing Co., 647 F.2d 965, 973. (9th Cir. 1981). That is exactly how this Court has read Velo-Bind, rejecting the very interpretation upon which Rite-Hite now insists:

In Velo-Bind, the Ninth Circuit held that the projected lost profits on unpatented consumable supplies-- paper, plastic strips and book and document covers, for use in the infringed bookbinding machine were unrecoverable since they were indirect consequential damages.

Lam, Inc. v. Johns-Manville Corporation, 718 F.2d 1056, 1067 (Fed. Cir. 1983) (emphasis in original). As discussed in Kelley's prior Brief, the term "unpatented" in context can only be read to mean not covered by the patent in suit. Profits not attributable to the patent in suit are simply not recoverable as patent damages. Velo-Bind's damages were "indirect" and "consequential" because they did not stem directly from the patented invention.

Velo-Bind is simply a continuation of the path long followed by American courts. Rite-Hite misrepresents the basic continuity

of patent law when it claims the rule relied upon by Kelley died with the 'abolition of apportionment.' [RH Brief, p. 13]. Apportionment was never abolished. Recovery of the infringer's profits was eliminated in 1946 because Congress recognized that the infringer's gain is often less than the patentee's loss, and hence the 'profits' remedy did not provide complete compensation. [See legislative history cited by Rite-Hite]. Congress also recognized that accounting for an infringer's profits from the patent in suit was a cumbersome process, but it was the accounting, not apportionment, which was eliminated. [Id.]. Except for the deletion of the "profits" remedy, patent damages remained essentially unchanged.¹

The infringer's profits frequently had to be apportioned because, being based on records of actual sales, these profits often represented dollar figures attributable to sales of multiple items. It should not be necessary to apportion the patentee's lost profits, because as a calculation of what the patentee would have made if it had sold the infringer's customers the patented item, those figures should only pertain to products covered by the patent

¹ Despite Rite-Hite's invocation of Fromson v. Western Litho, 853 F.2d 1568, 7 U.S.P.Q.2d 1606 (Fed. Cir. 1988) at trial for the proposition that apportionment is never appropriate, that case says no such thing. [A 976 - A 977]. This Court acknowledged the continued viability of apportionment as recently as last year in Slimfold v. Kinkead, 932 F.2d 1453, 1459, 18 U.S.P.Q. 2d 1842 (Fed. Cir. 1991).

in suit in the first place. In cases where the patent in suit covers only one feature of a product which is sold as a unit, the entire market value rule normally eliminates the need for apportionment. Apportionment is thus seldom required today. But patent damages must always be directly traceable to the invention claimed in the patent in suit.

The District Court's "distinction" of the cases that directly contradict its award of damages (on the basis that they were decided under the 1870 patent statute) is thus meaningless. And contrary to Rite-Hite's claim [RH Brief, p.18], the cases under the 1870 statute do indeed contemplate that damages (as opposed to the infringer's profits) will be apportioned, where necessary, between those attributable to the patent in suit and those not attributable to it. For example, in Dobson v. Hartford Carpet Co., 114 U.S. 441 (1854), the patentee's damages were computed as follows:

[I]t was to be presumed that the defendant's carpets displaced in the market an equal quantity of the plaintiff's carpets; and that the profits which the plaintiffs would have made on that quantity of carpets was the measure of their damages.

114 U.S. at 443. The infringer's profits were the measure of the patentee's damages. And the Court did say that "damages" were to be apportioned:

The patentee must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, not conjectural and speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the

whole machine, as a marketable article, is properly and legally attributable to the patented feature.

Hartford Carpet, 114 U.S. at 445 (emphasis added). If the reference to the defendant's profits is deleted, Hartford Carpet is still the law today.

C. "Damages Adequate to Compensate for the Infringement" Must be Calculated in Light of What a Patent Is, and What Purpose It Is Intended to Serve.

Despite Rite-Hite's brushoff of the Constitution, the purpose for which a statute is enacted has everything to do with how it should be enforced.² [RH Brief, p. 20]. The Patent Act is intended to "promote the progress of science and the useful arts" by conferring special, extraordinary rights on inventors of useful products who bestow the benefit of their inventions on the public:

² Rite-Hite also proclaims that a patent is not a monopoly, and therefore everything Kelley says about monopolies does not apply. [Brief, p. 20]. But Rite-Hite distorts the issues at hand - Kelley is not accusing it of antitrust violations-- and misrepresents this Court's authority. A patent clearly is a monopoly, and patents have been referred to as such many times. See, e.g., Ethyl Gasoline v. United States, 309 U.S. 436, 459 (1940). A patent is a legal monopoly, a property right conferred by statute. This Court has pointed out in Schenck v. Northron Corp., 713 F.2d 782, 218 U.S.P.Q. 698 (Fed. Cir. 1983), that a patent is not a "monopoly" within the meaning of the Sherman Act, but that is not the issue here. The issue is the proper scope of a patentee's legitimate property rights.

Absent the incentive to disclose provided by the patent system, the public might never learn of many inventions, which reside first in the inventor's mind and over which he could simply maintain a permanent "monopoly" by simply telling no one....

Panduit Corp. v. Stahl Bros., 575 F.2d 1152, 1159, 197 U.S.P.Q. 726 (6th Cir. 1977). The patent is the inventor's reward for making the disclosure. The invention disclosed in the patent is the essence of the property right it creates, and promotion of innovation is the purpose of the privilege it confers. That is why, in the context of antitrust suits, courts have repeatedly explained that a patentee's legitimate property right does not extend beyond the useful invention claimed:

[A patent] is a grant of the exclusive right to manufacture, use and sell the invention which is disclosed. That invention is what the patent grant protects by the monopoly, not... some... alternate product which also happens to be patented.

American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769, 777, 122 U.S.P.Q. 167 (3d Cir. 1959). And that is why the courts have never allowed a patentee to collect lost profits on a product not embodying the patent in suit. Kelley is not trying to foist a "new" or "proposed" rule on the Court-- this is the rule behind all patents, and it has always been the rule. Rite-Hite's argument that the antitrust cases Kelley cites deal with tying arrangements and not the precise facts at issue here simply fails to acknowledge this essential point.³

³ Despite Rite-Hite's characterization of this truth as a "frivolous" argument, [RH Brief, p. 20], even the cases cited by

It is because of this statutory purpose that a patentee must have been able to sell a product embodying the patent in suit to the infringer's customers in order to collect lost profits. The difference between lost profits and a reasonable royalty is that a reasonable royalty splits the expected gain from sales of the patented technology between the infringer and the patentee. It may be that the infringer ran into difficulties which would not have been anticipated by a willing licensee at the beginning of the period of infringement, and so failed to make the profit it would have anticipated. But a reasonable royalty by definition gives the infringer a fair chance to share the patentee's profits. Lindemann Maschinenfabrik v. American Hoist, 895 F.2d 1403, 12 U.S.P.Q.2d 1871 (Fed. Cir. 1990).

An award of lost profits by contrast is essentially confiscatory.⁴ The quasi-punitive nature of lost profits damages

Rite-Hite implicitly acknowledge that the value of the invention claimed in the patent is the true measure of damages for infringement. For example, in General Motors v. Devex Justice Stevens noted the social utility of patent litigation and observed, quoting prior precedent:

[I]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.

461 U.S. at 658

⁴ Of course Kelley is not contending that under the current

was recognized explicitly in the very legislative debate which Rite-Hite cites:

Mr. Lanham: ... Of course, in a case of an innocent infringement, it is to be presumed that the court would assess no more than [a] reasonable royalty for such time as the patent was infringed by the innocent user.

* * *

Mr. Cravens: Would not that mean the enforced compulsory licensing of patents if the invent[or] is limited to merely collecting a reasonable royalty?

Mr. Lanham: The inventor is not limited merely to collecting the royalty. I would say that in the case of an innocent infringer who had infringed without notice and without knowledge it would be unreasonable to collect from him more than the reasonable royalty.

Mr. Cravens: I agree on that.

Mr. Lanham: But if there has been wilful infringement, then the damages as set out in the bill can be collected.

92 Cong.Rec. 1957 (1946).

In the public interest, patent law encourages the patentee's competitors to come up with equivalent or better products not covered by the patent:

[K]eeping track of a competitor's products and designing new and possibly better or cheaper functional equivalents is the stuff of which competition is made and is supposed to benefit the consumer. One of the benefits of the patent system is its so-called "negative incentive" to

statute an award of lost profits is only proper in cases of wilful infringement. The point is simply that Congress contemplated that a patentee's damages for infringement would be limited by the policy in favor of promoting further innovation, and would be measured by the benefit to the public from the invention disclosed in the patent, not merely by the patentee's private concerns.

"design around" a competitor's products, even when they are patented, thus bringing a steady flow of innovations into the marketplace. It should not be discouraged....

State Industries v. A. O. Smith Corp., 751 F.2d 1226, 1236, 224 U.S.P.Q. 418 (Fed. Cir. 1985).

The parameters of patent rights, including the 'right to exclude', are defined by the public interest. That is why, to obtain lost profits damages, the patentee must have been in a position to bestow the advantages of a product using the patented technology on the same segments of the public the infringer served. If the patentee could not or would not do so, then it must share the profit with someone who did, provided that the infringement was an unintentional byproduct of efforts to create an alternative. Trying to avert conceivable "new infringement strategies" [RH Brief, p. 20] has nothing to do with awarding compensatory damages. If the infringement was a deliberate wilful theft of the invention, then the law provides for increased damages as set out in the patent bill before the House in 1946 (referred to in the above-cited colloquy) and as provided in the present statute.

But patent law does not seek to discourage technological innovation by depriving nonwilful infringers of all profit from the patented technology, especially when they filled a market niche not occupied by the patentee. It is irrelevant that Kelley inadvertently "used" the '847 technology to compete with the ADL-100. Rite-Hite's tortured "whipsaw" hypothetical is totally irrelevant. Six years ago the District Court found:

I am sorry I have to find that the patent was infringed.
I do not believe the infringement was willful. I think

that the Kelley people, in the spirit of good competition, Rite-Hite came out with a product, and they wanted to meet the product and they did the best they could and certainly did not intend to infringe on that patent....

Rite-Hite v. Kelley, 629 F.Supp. 1042, 1045, 231 U.S.P.Q. 161 (E.D. Wis. 1986). This Court affirmed that finding. Rite-Hite should stop demanding that Kelley be punished for competing legitimately.⁵

II. THE ENTIRE MARKET VALUE RULE IS ALIVE AND WELL.

Rite-Hite is understandably perturbed by the implications of the entire market value rule. If Kelley were wrong, and lost profits were not limited to products embodying the patent in suit, then there would be no need for such a rule. Since there is such a rule, however, Kelley's main assertion in this appeal must be correct. In its anxiety to escape this inexorable logic, Rite-Hite now tries to pretend that the entire market value rule never really existed, or if it did, that it is now obsolete. Those arguments should be taken for what they are worth-- nothing.

Rite-Hite assures the Court that "the entire market value rule could never have actually meant what the words 'entire market value,' interpreted literally, implied." [RH Brief, p. 24, fn.

⁵ Rite-Hite's continued attempt to pass off State Industries v. Mor-Flo, 883 F.2d 1573, 12 U.S.P.Q.2d 1026 (Fed. Cir. 1989) as alternative support for ADL profits under the "market shares" theory [Brief, p. 21] is not worth discussing. Even the District Court did not buy that. [A 0029, 774 F.Supp. at 1539].

13]. But Rite-Hite cites no authority for this editorializing, and it is obvious from the cases cited by Kelley in its prior brief that courts have used the phrase 'entire market value' for over a century because that is exactly what they meant. Indeed, many courts [including this Circuit in King Instrument Corp. v. Otari, 767 F.2d 853, 866, 226 U.S.P.Q. 402 (Fed. Cir. 1985)] have specifically explained that the rule means what it says, and courts have shown by their actions that for a patentee to collect lost profits on an item not embodying the patent in suit, that product must owe its entire market value to the patented technology.

Moreover, Rite-Hite's reasoning misses the point. Perhaps "every nonpatented part of a machine presumably contributes something of economic (market) value to a machine or it would not be included in the machine." [RH Brief, p. 24, fn. 13]. But people must buy the machine for the patented feature and take any other items because they are part of it or the patentee cannot recover lost profits on those other items. In the American Safety Table case, for instance, customers did not buy the unpatented table to have a table. They bought the table because they needed it to use with the patentee's die assembly. 415 F.2d 373 (2d Cir. 1969). The table certainly added some value to the patented unit, but the patentee would not have sold it except for its functional dependence on the patented item.

Rite-Hite's assertion that the entire market value ceased to exist in 1952, and has been supplanted by the 'modern' doctrine of "convoyed sales," is simply wrong. In the first place, if the

entire market value rule only pertained to actions for the infringer's profits under the old statute, why have courts continued to apply it after 1952? And why would this Court have felt it necessary to explain the rule's meaning to another patentee as recently as 1985? See King Instrument, *supra*.

Footnoted below, per Westlaw as of June 1, 1992, are all the reported decisions in the history of U.S. patent litigation which have employed the term "convoyed sales":⁶ The term is not especially new, it does not represent a doctrine, and it has nothing to do with lost profits. It originated with the Georgia Pacific case, where the possibility of making "convoyed sales" was given as one of the factors to be considered in computing a royalty. Nearly all the other footnoted decisions are royalty cases following Georgia Pacific. The entire market value rule

-
1. Georgia Pacific Corp. v. U.S. Plywood Corp., 243 F.Supp. 500, 146 U.S.P.Q. 228 (S.D. N.Y. 1965).
 2. Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F.Supp. 1116, 166 U.S.P.Q. 235 (S.D. N.Y. 1970).
 3. Jenn-Air Corp. v. Penn Ventilator Co., 394 F.Supp. 665, 135 U.S.P.Q. 410 (E.D. Pa. 1975).
 4. Trio Process Corp. v. L. Goldstein, Sons, Inc., 612 F.2d 1353, 204 U.S.P.Q. 881 (3d Cir. 1980).
 5. Slater Electric, Inc. v. Indian Head, Inc., 223 U.S.P.Q. 729 (S.D. N.Y. 1983).
 6. Idacon, Inc. v. Central Forest Products, Inc., 3 U.S.P.Q.2d 1079 (E.D. Ok. 1986).
 7. ITT Corp. v. U.S., 17 Cl.Ct. 199, 11 U.S.P.Q.2d 1657 (1989).
 8. Ziggity Systems, Inc. v. Val Watering Systems, 769 F.Supp. 752 (E.D. Pa. 1990).
 9. Beatrice Foods Co. v. New England Printing, 899 F.2d 1171, 14 U.S.P.Q.2d 1020 (Fed. Cir. 1990).
 10. Andrew Corp. v. Gabriel Electronics, Inc., 785 F.Supp. 1041 (D. Me. 1992).

deals with accessories which are either part of the patented device or are part of an assembly which derives its utility to the customer (hence the demand for it --its "market value") from the patent in suit. The term "convoyed sales" in contrast refers to separate products which may be sold together with the patented item even though they have a separate function. In the open-ended consideration of market factors through which a reasonable royalty allocates expected profits between patentee and infringer, such things can be taken into account. But no court has ever awarded a patentee its lost profits on "convoyed sales" because lost profits divert all profit to the patentee, and that is only permissible if the profits are derived directly from the useful invention disclosed in the patent in suit.

Of the ten "convoyed sales" cases, only Beatrice involved an award of lost profits. Although in Beatrice this Court used the term "convoyed sales" in connection with lost profits, a careful reading of Beatrice shows that the Court was doing nothing remotely resembling what the District Court did in this case, and what Rite-Hite now claims is the new rule. The measure of the patentee's lost profits in Beatrice was the infringer's profits, because the patentee was unable to prove the amount of its own profits. During the course of the litigation, the infringer deliberately destroyed its records so that it was impossible to tell what proportion of its revenue was from sales of infringing products and what proportion was from noninfringing sales. The patentee, in an attempt to deal with this problem of proof, labelled "certain

sales... for which it lacked proof of infringing structure" as "convoyed sales." 899 F.2d at 1175.

The trial court ruled that the infringer could not be allowed to benefit from its own misconduct, and used the infringer's total profits figure to assess damages instead of penalizing the patentee for its inability, through no fault of its own, to make the apportionment. Because of the principle that all doubts as to calculations are to be resolved against the infringer, this Court saw no reason to reverse: "The uncertainty in the damage calculation is the direct result of [the infringer's] procedures." *Id.* Beatrice involved aggravated wilful infringement and is basically *sui generis*.

The Court will note that the case cited by Rite-Hite for the 'new' convoyed sales doctrine, Kori Corporation v. Wilco Marsh Buggies, 761 F.2d 649, 225 U.S.P.Q. 985 (Fed. Cir. 1985), does not even use the term "convoyed sales." A glance through the periscope reveals why-- there is no convoy, just a lone amphibious vessel. Kori involved infringement of a patented pontoon structure which was part of an "amphibious marsh craft." The craft had other parts which were not covered by the patent. Nevertheless, lost profits on the other parts were included in the damage award under the entire market value principles set forth in Kelley's prior brief:

The district court found "no evidence that the unpatented heavy uppers (of the amphibious marsh craft) have been or could be used independently of the patented pontoon structure."

761 F.2d at 656. Of course not-- who wants half an amphibious

vessel that will sink like a rock because it has no pontoons? The nonpatented elements were of no use to the customer without the patented parts, and that was why the patentee could "normally anticipate" selling both together. They were part of the same product, or "the entire apparatus" in the phrase from Paper Converting which was quoted by this Court in upholding the award. 761 F.2d at 656. When read in its entirety rather than cut and pasted for mere phrases, Kori supports Kelley's position, not Rite-Hite's.

III. RITE-HITE CAN DEFEND THE ROYALTY ADOPTED BY THE DISTRICT COURT
ONLY BY IGNORING THE FACTS AND DISTORTING THE LAW.

A. A Reasonable Royalty IS "Adequate to Compensate
For the Infringement."

Rite-Hite implicitly acknowledges the judgment's lack of merit when it asks the Court to affirm the award of lost profits on ADLs as a royalty, even if the lost profits award was reversible error. [RH Brief, p. 21]. From Rite-Hite's talk of "legal technicalities" and Kelley's supposed attempt to "escape responsibility," one would think Kelley were a criminal defendant arguing it should be let off because the police failed to give a Miranda warning. These fulminations expose Rite-Hite's motivation to inflict punishment on Kelley, but are not useful in determining the appropriate measure of damages.

Kelley is not a criminal, and an error of law is an error of law. It cannot be cured simply by calling it a finding of fact. And a lost profits award is not a royalty, and cannot be transmuted into one. A reasonable royalty must be computed by a specific

process and supported by certain facts, which are not the same as those required to support a lost profits award. Rite-Hite's argument that it will somehow be robbed if it is "only" awarded a reasonable royalty highlights how unreasonable Rite-Hite's demand is and why Rite-Hite avoids discussing the facts relevant to a proper royalty award. Rite-Hite cannot hide from appellate scrutiny by sliding rulings of law under a shell labelled "facts."⁷

Again, Rite-Hite's argument is premised on the assumption that Kelly must be punished. The decision in Stickle v. Heublein, Inc., 716 F.2d 1550, 219 U.S.P.Q. 377 (Fed. Cir. 1983), does not, as Rite-Hite claims, justify "increased" royalties as a mode of compensation. [RH Brief, p. 21]. Stickle does say that a trial court may award "damages greater than a reasonable royalty," but the court is talking about increased damages for wilful infringement. Of course a court may "increase" a royalty just as it may increase a lost profits award to deter wilful infringement under the scheme set forth in the statute. In Stickle, the trial court had found "defendant knowingly and willfully infringed." This Court reversed that finding for insufficient evidence, but remanded for further proceedings to determine, among other things, if there was wilful infringement. The language Rite-Hite relies

⁷ Ironically, Rite-Hite once argued that this case should not be submitted to a special master because the only real issues to be decided were issues of law. [See D 241].

on apparently contemplates that once the trial court has properly evaluated the evidence, it may find wilful infringement and thus award "increased" damages. But Kelley was specifically found not to be a wilful infringer.

B. The Value of the '847 Patent Was Not Determined in the Liability Trial.

It is important to note what the liability opinion says, and what it does not say. It does not say that the '847 technology was the only way in the world to make a restraint. It does not say that Rite-Hite had no competitors in the restraint market at the beginning of the period of infringement, or that more competitors could not have been expected to enter the market shortly thereafter. It does not say that Kelley did not improve on the '847 technology, or that Kelley "had" to have the '847 technology to make a restraint.

All it says about the "uniqueness" of the patent in suit is that the '847 patent was a "pioneer" patent, and should therefore be read broadly. Accordingly, Kelley's motorized rack-and-pinion mechanism was found to infringe the manually-operated ratchet-and-pawl mechanism shown in the patent under the doctrine of equivalents. Despite Rite-Hite's repeated invocation of this finding [the merits of which this Court never reviewed in the previous appeal, see 819 F.2d at 1124], it pertains only to infringement. The "pioneer" nature of a patent does not negate the possibility that other means of making functionally equivalent products were available.

Because Rite-Hite relies so heavily on the District Court's

liability opinion (rather than on the record in the trial now appealed from), it is also important to remember how that opinion was created. Rite-Hite sought increased damages for wilful infringement. The court ruled orally from the bench at the close of the liability trial, explicitly rejecting Rite-Hite's contention that Kelley was a wilful infringer. [629 F.Supp. at 1045]. The court then invited Rite-Hite alone to submit proposed findings [D 100], and adopted them verbatim. [Compare D 101 with published opinion at 629 F. Supp. 1042]. While the resulting document is formally the opinion of the court, its origin should not be forgotten when Rite-Hite claims the liability findings tied Kelley's hands at the damages trial.

Rite-Hite slipped some findings of fact into the liability opinion which implied that Kelley wilfully infringed, then argued on appeal that this ruling was "clearly erroneous" because it was incompatible with those findings. The Federal Circuit was not impressed:

The district court found that there was copying.... However, the copy was not exact.... Kelley argued that although the court found its third means to be "equivalent," its intention was to "design around" the Rite-Hite claims. It is not clear whether this was the basis for the district court's conclusion that Kelley "did not intend to infringe," but it weighs on the side of that conclusion.

* * *

Rite-Hite has failed to convince this court that the district court clearly erred in its finding that Kelley did not wilfully infringe the claims of the '847 patent.

Rite-Hite v. Kelley, 819 F.2d 1120, 1125, 1126, 2 U.S.P.Q. 2d 1915 (Fed. Cir. 1987).

Now Rite-Hite exhumes the "finding" that Kelley "imitated"

the MDL-55 [629 F.Supp. at 10⁵1, par. 36], and once again tries to convince this Court that Kelley should be punished. But that finding is contradictory to the District Court's express ruling that Kelley "did the best they could" not to infringe the '847 patent, and is not in any meaningful sense the opinion of the court. It is also contrary to this Court's ruling on the previous appeal. The basis for the award of compensatory damages must be found in the record of the trial on damages, not in the remains of unsuccessful attempts to obtain punitive damages.

Rite-Hite ridicules Kelley for pointing out that the purpose of disassembling the MDL-55 was not to imitate it, but to avoid infringing any patents on it. Yet the evidence of Kelley's motivation is undisputed, and such a conclusion is fully consistent with the District Court's finding that the infringement was not wilful. Furthermore, Rite-Hite's taunt is not even logical. Rite-Hite makes a point of stating that the MDL-55 was marked "patent pending," yet simultaneously scoffs that Kelley could not have been investigating competitors' patents when it looked at the MDL-55 because no patent on it had issued. [RH Brief, p. 5]. If no patent had issued, how else could Kelley investigate what patent rights Rite-Hite was going to claim? And the fact that the device was marked "patent pending" and that the disassembly was conducted as part of Kelley's survey of other patents which had already been issued on restraints confirms Kelley's intent. (Even the liability opinion acknowledges this point -- see 629 F.Supp. at 1052, pars. 43-44). Rite-Hite's rhetoric is just another attempt to suggest

that Kelley was a wilful infringer.

C. The Evidence of Alternative Designs is Undisputed

In its haste to convict Kelley of trying to relitigate the liability trial, Rite-Hite forgets one thing. The hypothetical negotiations for determining a reasonable royalty occur at the beginning of the period of infringement, and the period of infringement in this case began with the issuance of the '847 patent, not with the design of the infringing device. The Bennett notebook owned by Kelley, in which many alternative noninfringing designs were located, was written long before the beginning of the period of infringement. [A 2082 - A 2093].

Therefore Kelley's contention that a hypothetical licensee in its position would have had access to these designs at the beginning of the period of infringement does not 'fly in the face' of the liability opinion's finding that Kelley did not come up with designs before examining the MDL-55. It is entirely consistent with that decision. The liability opinion in fact notes that David Bennett of Kelley had been assigned to develop products design concepts for restraints [619 F.Supp. at 1052]. And Kelley does not contend that Bennett developed the first alternative designs before examining the MDL-55. The record is undisputed that he developed them at the same time he developed the design that was found to infringe-- in December 1981. [A 6345 - A 6481; A 2082 - A 2094].

Rite-Hite's objection to Kelley's reference to its line of PN and TP restraints [RH Brief, p.31] is a classic red herring. Kelley never said the PN and TP were not predictable technological

alternatives factoring into the reasonable royalty equation, only that it would not raise them as acceptable noninfringing substitutes under Panduit. [A 2058; A 2067]. Kelley brought them up on appeal just to illustrate the absurdity of the District Court's finding that Kelley 'had to' keep making the infringing Truk Stop after the liability decision because there were no alternative designs for restraints. Unrebutted evidence of many other functionally equivalent products marketed by competitors was in the record, and Rite-Hite did not even attempt to show that those products infringed the patent in suit. Even now, Rite-Hite merely states that "the trial court found to the contrary and its findings are supported by substantial evidence." [RH Brief, p. 31]. What evidence?

That "none of these restraints were available until after the date of first infringement and so would not have been a factor in the hypothetical reasonable royalty negotiation" [Id.] is not true (what about the Autochock?) and beside the point. Whether products were available on the market is only relevant for purposes of the Panduit test. For royalty purposes, all that matters is that the designs existed and were known. The Autochock had already been patented before the period of infringement began. [A 3548 - A 3552]. As early as 1982 a competitor of both parties (Serco) was debating the pros and cons of entering the market with this device. [A 4225 - A 4290]. And even products which were not patented until after the period of infringement began are not necessarily irrelevant. Technological and market developments

which could reasonably have been anticipated by hypothetical negotiators at the beginning of the period of infringement should be taken into account in determining a royalty. John Deere & Co. v. International Harvester Co., 710 F.2d 1551, 218 U.S.P.Q. 481 (Fed. Cir. 1983). A hypothetical licensee in Kelley's shoes would clearly have anticipated that other competitors would come up with designs for a restraint, given that Kelley itself had already done so.

D. Rite-Hite Effectively Admits the District Court Applied the Wrong Royalty Standard.

Rite-Hite would have the Court believe that despite the vast body of case law speaking of hypothetical negotiations between a willing licensor and a willing licensee, only the licensor's view matters. The infringement in itself, says Rite-Hite, is per se proof of the extraordinary value of the patented technology and the infringer is estopped to dispute that value. But if that were true, then what would be the point of a second trial on damages? The patentee would simply name its price. No evidence presented by the infringer could change the royalty figure, and no meaningful appellate review of a judgment for a reasonable royalty could ever take place. Clearly, such a system would be absurd.

Moreover, this argument suffers from a fatal flaw. Rite-Hite's cases do not support it, but actually demonstrate that the royalty award here is erroneous as a matter of law. Rite-Hite belittles Kelley for "complaining" that the District Court "focused on what Rite-Hite would accept, rather than what Kelley would pay," and proclaims "this was not a flaw," citing Kornylak Corp. v.

United States, 207 U.S.P.Q. 145 (Ct. Cl. 1980) for the proposition that "the focus must be on a willing seller." [RH Brief, p. 27]. Kelley invites the Court to examine Kornylak. It is an eminent domain proceeding against the United States government under 28 U.S.C. § 1498(a), not a suit for damages against a private infringer under 35 U.S.C. § 284. The Court of Claims often looks for guidance to the rules governing private infringement suits. But the governing statute is not the same, the nature of the compensation to be awarded is not the same and consequently the rules are not always applied in the same way. The Kornylak court cited the Georgia Pacific factors as "a pragmatic solution to the problem of determining a reasonable royalty," [207 U.S.P.Q. at 164], but then stated explicitly that it was not following that standard:

The Georgia-Pacific formula determines the amount which a willing buyer would be willing to pay [this emphasis in original]; it focuses on what the infringer has gained by his act of infringement. Thus, it is not always appropriate for determining the amount of reasonable and entire compensation for the eminent domain taking of a patent license. "The just compensation to which an owner is entitled when his property is taken by eminent domain is regarded in law from the point of view of the owner of that right and not from that of the taker."

Kornylak, 207 U.S.P.Q. at 164 (second emphasis added), citing Leesona Corp. v. United States, 599 F.2d 958, 977 (Ct. Cl. 1979). This is not an eminent domain action and Rite-Hite knows better than to try to pass off Kornylak as the applicable standard. [A 1149]. Kelley is not just "re-arguing the facts." The District Court never considered the relevant and undisputed facts because

it applied the wrong rule of law.

Rite-Hite also cites Panduit for the proposition that "the law does not require that the royalty necessarily be reasonable to the infringer because if it did, infringement would be encouraged." But once again, as many times as Rite-Hite may try to suggest it, Kelley is not a wilful infringer. In Panduit, the defendant had defied an injunction by the trial court to stop infringing the patent after a finding of liability [298 F.Supp. 435] which was affirmed [430 F.2d 221], and had been found in contempt [338 F.Supp. 1240], which was also affirmed [476 F.2d 1286]. The court held that "the setting of a reasonable royalty after infringement cannot be treated... as the equivalent of ordinary royalty negotiations among truly 'willing' patent owners and licensees." 575 F.2d at 1158.

But this case does not involve a royalty "after infringement." Kelley designed its device and was selling it before the patent in suit even issued, and had sold the bulk of the infringing products before any finding of infringement. [A 1246]. When the District Court did find infringement, far from violating the injunction Kelley asked that it be stayed on the explicit basis that if the finding was right, Kelley was prepared to pay Rite-Hite just compensation under settled law.⁸ Kelley relied on the

⁸ After this Court affirmed the liability finding, Kelley made a confidential offer of judgment under Fed. R. Civ. P. 68 for \$300,000.00, the approximate amount upon which the District Court

stay in good faith and ceased to use the patented technology as soon as this Court affirmed the liability finding. There is no misconduct on Kelley's part to deter, and the standard Rite-Hite advocates is inapplicable and unjust.

E. No Court Has Ever Awarded a "Reasonable"-Royalty Of This Magnitude.

Rite-Hite has managed to find two cases in which, it contends, a reasonable royalty deprived the infringer of all profit, and that therefore the astronomical royalty awarded here must be valid. The first case, Santa Fe-Pomeroy, Inc. v. P & Z Company, 212 U.S.P.Q. 417 (N.D. Cal. 1980), can be disposed of in short order. It is not even a royalty case. The master's award of thirty percent of a service contract price for use of a process patent, aside from bearing no comparison to the instant facts, was an award of lost profits.

Rite-Hite's other royalty case, Stickle v. Heublein, 719 F.2d 1550, 219 U.S.P.Q. 377 (Fed. Cir. 1983), does not involve a royalty on a product which the infringer sold. In Stickle, the patented device was a taco shell maker. The infringer did not manufacture and sell taco shell makers, but made and sold taco shells. This Court held that the royalty to be awarded need not be less than the price of the machine, but that was because the

had based its stay. Rite-Hite not only rejected the offer, but it also cited Kelley's offer to help convince the court not to convene a settlement conference which Kelley had requested. [D 227].

infringer's profit was not made on sales of the machine, but on sales of the products made with the machine. Stickle does not approve royalties exceeding the infringer's expected profits.

Rite-Hite points out that Kelley's actual profits on the infringing Truk Stop were lower than expected because of mechanical problems and high warranty costs. [A 1256 - A 1257]. That fact, considered in isolation, might justify a somewhat higher royalty. But it is undisputed that the highest gross profit Kelley expected to make on the Truk Stop was about thirty-five percent [A 1281], less than half the seventy-seven percent royalty imposed on Kelley's net sales.⁹ And it is undisputed that no one in the dock equipment industry made net profits in the double digits. [A 6295 - A 6306; A 1290 - A 1312; A 1513; A 1523; A 1531 - A 1534; A 4180 - A 4199]. Kelley undoubtedly made a profit on levelers sold along with the infringing restraints in some cases, but that profit would only be a factor in computing a royalty if the '847 technology was the sole way Kelley could have made a restraint, which is

⁹ The royalty percentages Rite-Hite employs are deceptive. The judgment did not award a range of 33% to 50%, as Rite-Hite implies, [RH Brief, p. 2] but gave the ISOs 33% and Rite-Hite as a manufacturer 50%-- of their alleged lost profits. As a percentage of the average net sale price of the infringing units, the total royalty is seventy-seven percent. [See more detailed explanation in Kelley's first brief, page 40].

undisputedly false. The royalty awarded is without legal or factual foundation.

IV. THE ISOS ARE NOT EXCLUSIVE LICENSEES.

A. The District Court's Order Allowing the ISOs to Intervene is Not Unassailable and Does Not Entitle Them to Damages.

The 'law of the case' doctrine never prevents appellate review of issues which have only been decided by a lower court:

Law of the case is a judicially created doctrine, the purposes of which are to prevent the relitigation of issues that have been decided and to ensure that trial courts follow the decisions of Appellate Courts.

State Industries, Inc. v. Mor-Flo Industries, Inc., 948 F.2d 1573, (Fed. Cir. 1981). This Court is obviously not obligated to follow the District Court's ruling and has never considered the issue of the ISOs' standing itself. The doctrine only applies to rulings actually made or inherently implicit in an appellate court's rulings. It usually cannot bar a party from raising an issue not ruled upon. United States v. Louisiana, 669 F.2d 314 (5th Cir. 1982). Moreover, as Rite-Hite itself points out, the 'law of the case' doctrine never stands in the way of vacating a "clearly erroneous" ruling, and this one is clearly erroneous.

B. The ISOs' Rights In the Patent Are a Matter of Law, Not Convenience.

The District Court's finding that the ISOs were exclusive licensees defies the explicit unambiguous language of the contracts upon which the ISOs base their claim. The court purported to "find" from extrinsic evidence that the ISOs had more rights than set forth in the Sales Representative Agreement and its Supplement.

Rite-Hite feebly argues that the decision was "reasonable" and based on "common sense." [RH Brief, p. 36].

But the parol evidence rule forbids recourse to extrinsic evidence to supplement the terms of an unambiguous contract. Rite-Hite claims that "Kelley's reliance on the parol evidence rule is misplaced," because "no objections based on the parol evidence rule were presented or preserved for appeal at the trial level." [RH Brief, p. 35]. But the parol evidence rule is a substantive rule of law and cannot be waived. A court is obligated to disregard parol evidence even if no objection is made. Conrad Milwaukee Corporation v. Wasilewski, 30 Wis.2d 481, 141 N.W.2d 240 (1966). Rite-Hite's argument that in any event "an ambiguity sufficient to justify consideration of such evidence" was created by Kelley's challenge to Rite-Hite's interpretation is even more baseless. [Id.]. A contract is either ambiguous or unambiguous based on the language within its four corners as a matter of law. No amount of disagreement about its interpretation can create ambiguity. See Whiting Stoker v. Chicago Stoker, 171 F.2d 248 (7th Cir. 1949).

Furthermore, Rite-Hite's claim that the parol evidence rule is only for the benefit of the parties to a contract simply ignores the issue. Rights in a patent or in anything else ultimately depend on enforcement in a court of law. It is axiomatic that without a remedy there is no right. If a licensee's "rights" in the patent are to have any real meaning, they must be enforceable in court. If the ISOs sought to sue Rite-Hite to enforce their so-called exclusive rights, they would certainly be bound by the parol

evidence rule. Furthermore, if collusive testimony from patentholder and licensee could always create standing, the requirement would be pointless.

The cases Rite-Hite cites in this regard do not support its position. In KLI v. Richard Wolf Medical Instruments Corp., 483 F.Supp. 462, 207 U.S.P.Q. 463 (N.D. Ill. 1980), the licensee's rights were not terminable on 90 days' notice. After a certain date, the patentee merely had the right to grant other licenses. At the time of infringement, the license was exclusive. Furthermore, the only issue was whether the licensee could sue in its own right. The court's answer was 'no', and the patentee was ordered to be joined. In Wing Engineering Corp. v. United States, 151 F.Supp. 314, 113 U.S.P.Q. 343 (Ct. Cl. 1957), certain rights were reserved to the patentee, but the case turned on the fact that the licensee was the only party who could grant sublicenses, and had the right to sue infringers. That was why it had "the right to exclude all others" [151 F.Supp. at 316], which is precisely what the ISOs here do not have. They cannot enforce their rights against Rite-Hite or anyone else.

Rite-Hite's 'rebuttal' of the agency argument similarly misses the point. As Rite-Hite points out, patent infringement is a tort. An agent has no right to sue for torts against its principal, so it follows that if the ISOs are Rite-Hite's agents, they cannot sue for infringement. That a party may be an agent "for some purposes" but not for others is beside the point. The ISOs are clearly Rite-Hite's agents for the purpose of distributing

the patented product, which is the only purpose relevant to this discussion.

THE CROSS-APPEAL

Why Rite-Hite feels compelled to cross-appeal is unclear, since the judgment entered already exceeds Kelley's net worth by several million dollars and would break Kelley even if it were halved. [A 1891 - A 1898]. Since the cross-appeal is moot if the judgment is reversed, and Kelley cannot be any deadlier if it is not, these issues are purely academic.

I. LOST PROFITS FOR THE ISOS.

Kelley's position, of course, is that the ISOs are not entitled to any damages because they have no standing, and that even if they were, they could not recover the damages they seek as a matter of law because those "damages" do not flow from the invention covered by the '847 patent. Nevertheless, Kelley agrees with the Plaintiffs (but for different reasons) that the District Court's treatment of this issue makes no sense. In addition to the legal arguments raised, Kelley had contended at trial, based on regression analysis and the ISOs' historical performance, that their claim to a net profit of ninety-nine percent was inherently incredible as well as disproved. [A 1814 - A 1838]. The Plaintiffs then contended that all variable costs had been "sunk" in attempts to make sales to the "lost" customers. Kelley countered that the Plaintiffs had the burden of proof, and that since they failed to submit specific evidence of "sunk" costs, they had not proved the amount of their lost profits to a reasonable

degree of certainty. The District Court evidently misconstrued both sides' positions, and correctly ruled that ISOs and company-owned retailers should not recover lost profits, but for the wrong reasons.

II. THERE IS NO REASON TO GIVE THE PLAINTIFFS
COMPOUND INTEREST.

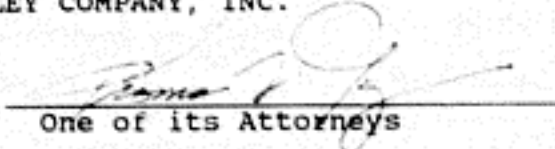
A trial court has discretion to award prejudgment interest as it sees fit-- whatever is appropriate under the circumstances. A patentee need carry no special burden to receive "broadened" interest at or above the prime rate, but the award must fit the facts. Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 219 U.S.P.Q. 670 (Fed. Cir. 1983); Studiengesellschaft Kohle v. Dart Ind., 862 F.2d 1564, 9 U.S.P.Q. 2d 1273 (Fed. Cir. 1988). Some of the circumstances justifying an award of broadened interest are wilful infringement and resulting severe financial hardship on the patentee, including forced borrowing at high interest rates. Lam, supra.

Kelley does not dispute that Rite-Hite is entitled to a fair prejudgment interest rate on its legitimate damages. Rite-Hite has already been awarded an extraordinarily high interest rate without having presented any evidence of financial hardship or forced borrowing. Indeed, the record actually indicates that Rite-Hite was flush with cash during the period of infringement [see low-interest loans by Rite-Hite to its officers-- A 6163 - A 6168]. But Rite-Hite attempted to award itself compound rather than simple interest in its proposed judgment, claiming that compounding was somehow inherent in the prime rate awarded by the District Court,

an argument it still relies upon in essence even though the court has since explicitly stated that it never intended compounding. [A 7425 - A 7436]. The premise is obviously false, as is Rite-Hite's claim that Kelley never argued for simple interest until after trial. [See discussion in D 237, p. 13; and D 247, issue "O"; D 233B, p. 6; D 241, pp. 19-20 in which Kelley, before trial, repeatedly asked the court to award simple interest]. Simple interest at prime is more than sufficient to compensate Rite-Hite. In this respect, the District Court did not abuse its discretion.

For all the foregoing reasons, Kelley Company, Inc. respectfully asks that the Cross-Appeal be denied.

KELLEY COMPANY, INC.

By: 
One of its Attorneys

Thomas F. Ging
Thomas S. Malciauskas
Marcos Reilly
HINSHAW & CULBERTSON
222 North LaSalle Street - S. 300
Chicago, Illinois 60601
(312) 704-3000

Keith V. Rockey
Rockey and Rifkin
30 N. LaSalle St.
Chicago, Il. 60602
(312) 704-5600