

# **APPELLEE'S BRIEF**

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**Supplemental Brief for Plaintiffs/Appellees**

**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

**FILED**  
U.S. COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT

**JUN 3 - 1994**

**Docket Nos. 92-1206; 1260**

**FRANCIS X. GINDHART**  
CLERK

**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., JOHN L &  
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/Appellees,**

**v.**

**KELLEY COMPANY, INC.,**

**Defendant/Appellant.**

**Appeal From The United States District Court  
For The Eastern District of Wisconsin  
The Honorable John W. Reynolds, Senior District Judge, Presiding**

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### CERTIFICATE OF INTEREST

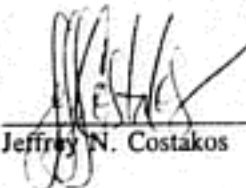
Counsel for the plaintiffs/appellees certifies the following:

1. The full name of every party or amicus represented by me is: 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., W. E. CARLSON CORPORATION.

2. The name of the real party in interest represented by me is: Same as No. 1, above.

3. The parent companies, subsidiaries (except wholly-owned subsidiaries), and affiliates that have issued shares to the public, of the party or amicus curiae represented by me are: None.

4. The names of all law firms and the partners or associates that have appeared for the party or amicus now represented by me in the trial court or are expected to appear in this court are: FOLEY & LARDNER: Richard S. Florsheim and Jeffrey N. Costakos; LEYDIG, VOIT & MAYER: Theodore W. Anderson.

  
\_\_\_\_\_  
Jeffrey N. Costakos

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## SUMMARY OF ARGUMENT

The central question before this Court is: where a patentee clearly proves that, as a direct result of the infringement, it lost sales of a product not covered by the patent in suit, is there a rule of law which bars a District Court from restoring the patentee to the financial position it would have enjoyed if the infringement had not occurred? Rite-Hite's previous brief and this brief demonstrate that Congress, the U.S. Supreme Court and this Court have all rejected such a rule. Such a rule would completely undercut the statutory goal of restoring the patent owner to "what his condition would have been if the infringement had not occurred." Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) ("Aro II"); General Motors Corp. v. Devex Corp., 461 U.S. 648, 654-55 (1983).

This brief will show that the plain language of the damages statutes precludes a rule that awards damages which are less than adequate to compensate for the infringement. Further, the legislative history underlying the damages statute confirms that Congress meant just what it said: by enacting § 284, it intended to make the patentee whole.

This brief will also show that the key premise of Kelley's argument — that a patentee cannot be awarded its lost profits on sales of unpatented products which the patentee has lost as a result of the infringement because to do so would effect an "unauthorized extension of the patent monopoly" — has been explicitly rejected by this Court. Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1579, 220 U.S.P.Q. 490, 494 (Fed. Cir. 1983).

This brief will demonstrate, moreover, that there are no policy reasons to limit an award of damages in this case. The constitutional policies underlying the formation

of the United States patent system — to promote the progress of the useful arts by giving inventors incentives to invent and to disclose their inventions to the public — would be hindered by the rule advocated by Kelley.

Finally, this brief will show that Kelley failed to demonstrate that the District Court's reasonable royalty award was clearly erroneous.

### ARGUMENT

#### I. **KELLEY'S ARGUMENT IS THAT AN INFRINGER SHOULD NOT BE HELD ACCOUNTABLE FOR THE PROVEN, FORESEEABLE DAMAGES CAUSED BY ITS INFRINGEMENT.**

In this appeal, Kelley does not dispute the district court's findings that: (a) Kelley intended its infringing product to compete with Rite-Hite's ADL-100 product (A.12, 29-30); (b) Kelley intended and expected that its sales of its infringing product would cause Rite-Hite to lose sales of its ADL-100 product (A.30); and (c) Rite-Hite's lost profits on lost ADL-100 sales were reasonably foreseeable by Kelley. A.30.

Nor does Kelley contest the District Court's findings that Rite-Hite proved that, as a direct result of Kelley's infringement, Rite-Hite suffered \$8.6 million in lost profits on its lost sales. Indeed, the District Court found that Rite-Hite had proven its lost profits case in not one, but three independent ways, each of which alone would have been legally sufficient: (1) through an analysis of specific sale transactions, (2) under the four-part test set forth in Panduit Corp. v. Stahl Bros. Fibre Works, Inc., 575 F.2d 1152, 1156, 197 U.S.P.Q. 726, 730 (6th Cir. 1978); and (3) through a market share analysis consistent with this Court's holding in State Industries, Inc. v. Mor-Flo Industries, Inc., 883 F.2d 1573, 1578, 12 U.S.P.Q.2d 1026, 1029 (Fed. Cir. 1989). A.15-22.

Although Rite-Hite proved both the fact and the amount of its actual damages resulting from the infringement, Kelley contends that those actual damages are not recoverable as a matter of law. Kelley seeks to have this Court adopt an inflexible rule of law which would bar an injured patentee such as Rite-Hite from recovering the actual damages caused by the infringement no matter "how well Rite-Hite proved that it lost sales." Reply Br. at 2.

Although Kelley attempts to invoke the sympathy of this Court by making insolvency claims, Kelley deserves no sympathy. It acted with full knowledge of the harm its infringement would inflict (and did inflict) on Rite-Hite's product line (Rite-Hite Corp. v. Kelley Co., Inc., 629 F. Supp. 1042, 1051-54, 231 U.S.P.Q. 161, 165-68 (E.D. Wis. 1986)). The district court found that Kelley intended its infringing product to compete with Rite-Hite's ADL-100 product (A.12, 29-30) and that Rite-Hite's lost sales and the associated lost profits were "anticipated" and foreseeable by Kelley. A.25, 30. Rite-Hite is the party that was wronged here. It was Rite-Hite, after all, that spent years pioneering vehicle restraint technology and cultivating the vehicle restraint market. A.9. It was Rite-Hite that suffered over \$8.6 million in damages due to Kelley's infringement. A.1-33. Rite-Hite, not Kelley, deserves this Court's consideration.

Kelley's solvency, in any event, is irrelevant to the issues before the Court; Kelley's proposed rule would not be limited to cases where the damage award was large in relation to the infringer's net worth. This legally irrelevant factor can play no role in the Court's establishment of patent law precedent. United States v. Mitchell, 403 U.S. 190, 205 (1971).

**II. THE PLAIN MEANING OF THE PATENT STATUTES MANDATES AN AWARD OF ACTUAL DAMAGES TO RITE-HITE IN THIS CASE.**

Rite-Hite's recovery is governed by the damages statute. 35 U.S.C. § 284. Proper interpretation of that statute establishes that patentees are entitled to recover all proven damages caused by the invasion of the patentee's right to exclude.

**A. Congress Decreed in § 284 That a Patentee Is Entitled to Recover Any Damages It Can Prove.**

In cases of statutory construction, the starting point, of course, is the language of the statute. Diamond v. Chakrabarty, 447 U.S. 303, 308 (1980). The patent damages statute is straightforward: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement...." 35 U.S.C. § 284.

The plain meaning of § 284 supports Rite-Hite's recovery in this case. The statutory language does not limit the patentee's damages, other than to limit them to compensatory damages which must be proven by the patentee. The Supreme Court itself has noted this, defining recoverable damages under § 284 as:

constitut[ing] "the difference between [the patent owner's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred."

Aro II, 377 U.S. at 507. The Supreme Court reinforced this in General Motors, stating:

In 1946 ... Congress sought to ensure that the patent owner would in fact receive full compensation for "any damages" he suffered as a result of the infringement. Accordingly, Congress expressly provided in 284 that the court "shall award the claimant damages adequate to compensate for the infringement."

General Motors, 461 U.S. at 654-55. (Emphasis in original; citations omitted).

Significantly, Kelley does not dispute that the plain meaning of § 284 contains no restriction on the types of damages the patent holder can recover. This plain meaning

should mark the end of this case, for "[a]bsent a clearly expressed legislative intention to the contrary, [the statutory] language must ordinarily be regarded as conclusive." Consumer Prod. Safety Comm'n v. GTE Sylvania, Inc., 447 U.S. 102, 108 (1980); United States v. Locke, 471 U.S. 84, 95-96 (1985). This admonition is particularly apt here, because the Supreme Court has "cautioned that courts 'should not read into the patent laws limitations and conditions which the legislature has not expressed.'" Diamond, 447 U.S. at 308.

The 1946 legislative history of the patent damages statute confirms the breadth of the statutory remedy, stating (several times) that the statute is meant to award "general damages, that is, any damages the complainant can prove." S. Rep. No. 1503, 79th Cong., 2d Sess., reported at 2 U.S. Code Cong. Serv. 1946, at 1387 (emphasis added). See Rite-Hite Br. at 13-14.<sup>1</sup>

**B. The Plain Language of 35 U.S.C. § 154 Refutes a Fundamental Premise of Kelley's Argument.**

Kelley's argument that the statute does not mean what it says is premised on a fundamental misconception of the nature of patent rights. Kelley argues that: (1) a patent is only "a grant of the exclusive right to manufacture, use and sell" the patented

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<sup>1</sup>Kelley makes a half-hearted attempt to argue that the legislative history of the 1946 Act should not be considered in construing the 1952 Act, but both the Supreme Court and this Court have explicitly relied on the 1946 legislative history in concluding that the purpose of § 284 was to afford "complete compensation" to the patent holder. Aro II, 377 U.S. at 506; General Motors, 461 U.S. at 654; SmithKline Diagnostics, Inc. v. Helena Labs. Corp., 926 F.2d 1161, 1164, 17 U.S.P.Q.2d 1922, 1924 (Fed. Cir. 1991).



invention, and (2) therefore, damages can be awarded only for the injury to the patent owner's right to manufacture, use and sell the patented invention. See Kelley Br. at 12; Reply Br. at 9.

This Court has made abundantly clear that patent infringement is not the invasion of the patentee's "grant of the exclusive right to manufacture"; rather it is the invasion of the patentee's right to exclude others from making, using, or selling the claimed invention. See Carl Schenck, A.G. v. Nortron Corp., 713 F.2d 782, 786 n.3, 218 U.S.P.Q. 698, 701 n.3 (Fed. Cir. 1983). Of course, 35 U.S.C. § 154 clearly confirms that the right conferred by a patent is the right to exclude.

The damages awarded by the District Court here were nothing more than the foreseeable damages caused to Rite-Hite as a direct result of Kelley's violation of Rite-Hite's right to exclude Kelley from making, using and selling the claimed invention.

**C. Kelley's De Facto Compulsory License Rule Has Been Repeatedly Rejected by Congress and the Courts.**

Although Kelley does not challenge the District Court's finding that Kelley's infringement caused Rite-Hite to lose \$8.6 million in foreseeable damages, it argues that the District Court could only award a compulsory royalty of less than \$250,000 (A.1312) because a patentee who does not commercialize the patented invention "must share its profits with a nonwillful infringer through a reasonable royalty." Kelley's proposed rule would require a District Court to deny recovery of actual damages, because of a

patentee's alleged non-use of his invention.<sup>2</sup> Kelley Br. at 23.

Although Kelley calls its award a "reasonable royalty," this Court has recognized that it is nothing of the sort. A reasonable royalty is meant to approximate the patentee's actual damages. Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1574, 7 U.S.P.Q.2d 1606, 1613 (Fed. Cir. 1988); Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1328, 5 U.S.P.Q.2d 1255, 1261 (Fed. Cir. 1987). Yet Kelley here advocates a royalty that cannot even be based on the actual damages Pite-Hite proved. This Court has consistently rejected royalty awards which do not attempt to approximate the actual damage to the patentee, noting that such a royalty "is a form of compulsory license, against the will and interest of the person wronged, in favor of the wrongdoer." Id. See also Panduit, 575 F.2d at 1158, 197 U.S.P.Q. at 731.

The U.S. Supreme Court long ago rejected the idea that "only by conferring the benefit of the invention claimed in the patent on the same segments of the public the infringer benefitted" ( see Kelley Br. at 23) can the patent owner obtain his full remedy under the patent laws. In Continental Paper Bag Co. v. Eastern Paper Bag Co., 210

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<sup>2</sup>The fact that the compulsory license advocated by Kelley here would last for 4.5 years (the period of infringement before an injunction could be obtained) rather than the entire patent term does not change the result. Indeed, in many fast-paced fields of technology, 4.5 years might well constitute the entire commercial life span of the patented technology. Here, for example, both Rite-Hite and Kelley witnesses testified that the period of infringement was the most valuable period for the patent in suit. A.217-18; A.2525.

U.S. 405 (1908), the infringer argued that it should not be enjoined from infringing because the patentee did not practice the patent in suit. The Court rejected this argument, holding that a patentee is not a "quasi-trustee for the public." *Id.* at 424. The patent is his "absolute property" and, even if he does not commercialize the invention, "he may insist upon all the advantages and benefits which the statute promises" . . . . " *Id.*

Since Continental Paper Bag, Congress has rejected numerous attempts to impose compulsory licenses on patentees based upon the patentees' "non-use" of the invention.<sup>3</sup> The hearings leading to the 1946 Act are illustrative. There, a Justice Department representative proposed limiting a patent owner's recovery to a "reasonable royalty," instead of actual damages.<sup>4</sup> Committee members and witnesses alike were vehemently opposed to this limitation, arguing that it was tantamount to a compulsory license and would encourage infringement. House Hearings at 19-20.

Rather, in 1988, Congress expressly declared that "no patent owner otherwise entitled to relief for infringement . . . shall be denied relief by reason of having . . . refused . . . to use any rights to the patent." 35 U.S.C. § 271(d). Kelley's proposed rule would violate § 271(d) by denying a patentee recovery of proven actual damages

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<sup>3</sup>Such compulsory license provisions were rejected by Congress at least 10 times between 1911 and 1950. See Compulsory Licensing of Patents — A Legislative History, 85th Cong., 2d Sess. (Comm. Pr. 1958) at 1-15. Indeed, an early draft of the 1952 Act actually included such a provision, but Congress decided not to enact it into law. See Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 n.21 (1980).

<sup>4</sup>Hearings on H.R. 5231 (later reported as H.R. 5311) before the House Committee on Patents, 79th Cong., 2d Sess. (1946) ("House Hearings") at 17.

merely because of non-use.

It is improper to adopt a statutory construction which, like Kelley's compulsory license rule, would have the effect of enacting language which has been expressly and consistently rejected by Congress. Heckler v. Day, 467 U.S. 104, 117-18 (1984).

**D. Kelley's Rule Would Lead to Absurd and Arbitrary Results.**

This Court also should not adopt Kelley's rule that a patentee can "never collect lost profits on a product not embodying the patent in suit," Reply Br. at 9, because that rule would produce arbitrary results. United States v. Turkette, 452 U.S. 576, 580 (1981).

For example, it is common under the present system for more than one patent to issue from a single initial filing, whether as continuations, continuations-in-part or divisionals of that original filing. Even Kelley concedes that the patentee may recover lost profits where the infringing product and the patentee's commercial embodiment are covered by different claims of the same patent. But Kelley's proposed rule would preclude an award of actual damages where the same claims issued in separate patents — even if, for example, both had the same effective filing date and even if, as a result of a terminal disclaimer, both expired on the same date. Kelley's rule does not make sense, because it yields vastly different results on virtually identical facts.<sup>3</sup>

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<sup>3</sup>Kelley's rule would also place a renewed emphasis on restriction practice. If it were adopted, the damages available might well turn upon whether the examiner had imposed a restriction requirement which, for example, divided chemical species into separate classes. See, e.g., M.P.E.P. §§ 801 et seq.

As another example, Kelley's proposed rule would deprive many inventors in the chemical and biotechnology industries of the intended protections of § 284. It is common in such industries for inventors to patent methods of making unpatented materials. See, e.g., Amgen, Inc. v. Hugai Pharmaceutical Co., 927 F.2d 1200, 18 U.S.P.Q.2d 1016 (Fed. Cir. 1991). Under Kelley's rule, the owner of a patent covering the only viable method or methods of producing an unpatented biochemical product would be precluded from recovering its actual damages on lost sales of the unpatented product because a court could "never [allow] a patentee to collect lost profits on a product not embodying the patent in suit." Reply Br. at 9. Such a result would devastate the biotechnology industry and would be plainly improper. Central Soya, 723 F.2d at 1578-79, 220 U.S.P.Q. at 494.

### **III. KELLEY'S PROPOSED RULE HAS BEEN EXPLICITLY REJECTED BY THIS COURT.**

Kelley argues that "courts have never allowed a patentee to collect lost profits on a product not embodying the patent in suit" (Reply Br. at 9) because to do so would run afoul of the "rule" established in the antitrust cases against effecting an "unauthorized extension of the patent monopoly." Id.; Kelley Br. at 10-12.

That very argument has been explicitly rejected by this Court. The appellant in Central Soya, relying on many of the same authorities cited by Kelley here, argued that to award lost profits for the patentee's lost sales of unpatented products would constitute an "unwarranted extension of the patent grant." Br. of Appellant Hormel at 40 (brief available from Federal Circuit files). But this Court rejected that argument:

Hormel argues that the award of "lost profits damages which were based on Hormel's sale of breaded pork loin products which were

not covered by the [patent in suit] was an improper extension of the rights granted under [the] patent." . . .

Hormel confuses the measure of damages with the issue of infringement. The proper measure of damages is that amount which will compensate the patent holder for his pecuniary loss attributable to the infringing acts. 35 U.S.C. 284.

Central Soya, 723 F.2d at 1579, 220 U.S.P.Q. at 494. Similarly, in Mor-Flo, the lost sales for which the patentee was awarded lost profits were not sales of the process covered by the patent in suit, but rather were lost sales of a product which was covered by another patent. The holdings of Central Soya and Mor-Flo are directly contrary to the rule advocated by Kelley.<sup>6</sup>

Kelley's expansive reading of its "leading case" of Velo-Bind, Inc. v. Minnesota Mining & Mfg., 647 F.2d 965, 211 U.S.P.Q. 926 (9th Cir. 1981), was explicitly rejected in Central Soya. Indeed, Velo-Bind was relied upon by the appellant in Central Soya for its "unwarranted extension of the patent grant" argument. Br. of Appellant Hormel at 40-41. Properly read, Velo-Bind merely stands for the proposition that remote, speculative damages are not recoverable. Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1067, 219 U.S.P.Q. 670, 677 (Fed. Cir. 1983). But the District Court's

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<sup>6</sup>Since the district court's decision in this case, another court has adopted Rite-Hite's construction of § 284. Scripto-Tokai Corp. v. Gillette Co., 788 F. Supp. 439, 22 U.S.P.Q.2d 1678 (C.D. Cal. 1992). In a case involving similar facts, the Scripto-Tokai court, citing with approval the Rite-Hite court's analysis, relied on the language and the legislative history of the statute in adopting Rite-Hite's position and explicitly rejecting Kelley's proposed rule.



award in this case was "not based on mere speculation or conjecture." Id. Rite-Hite's injury was proven; it was foreseeable; it was anticipated by the infringer; it was direct. A.25; A.30.

The four early cases relied on by Kelley are not controlling authority, contain no persuasive reasoning to support the conclusion Kelley advocates, and were each properly distinguished by the District Court. A.28-29. Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 F. 315 (2d Cir. 1921), does not support Kelley at all. There, because the patentee had not "made and sold anything," (id. at 318 (emphasis added)), the Court found "no evidence in the record of any lost sales" (id. at 323 (emphasis added)). In Standard Mailing Machines Co. v. Postage Meter Co., 31 F.2d 459 (D. Mass. 1929), the patentee did not prove "but for" causation since there were acceptable noninfringing substitutes. Id. at 462. In Peterson Filters & Engineering Co. v. Envirotech Corp., 178 U.S.P.Q. 337, 349 (D. Utah 1973), the "plaintiffs failed to show that 'but for' the infringing acts, they would have obtained the infringing jobs on which they bid," while in Ellipse Corp. v. Ford Motor Co., 461 F. Supp. 1354, 1362, 201 U.S.P.Q. 455, 461-62 (N.D. Ill. 1978), the patentee sold no products at all.

The Federal Circuit cases Kelley cites as precedent<sup>7</sup> have nothing to do with this case. In each of those cases, the patentee did not market any product in competition with the infringing product in the market in question. The patent holders in those cases,

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<sup>7</sup>Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 13 U.S.P.Q.2d 1871 (Fed. Cir. 1990); Trell v. Marlee Elecs. Corp., 912 F.2d 1443, 16 U.S.P.Q.2d 1059 (Fed. Cir. 1990); Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 11 U.S.P.Q.2d 1321 (Fed. Cir. 1989); Bott v. Four Star Corp., 807 F.2d 1567, 1 U.S.P.Q.2d 1210 (Fed. Cir. 1986).

therefore, simply could not prove that "but for" the infringement, they would have made profits on such sales; the Court did not announce any blanket legal test denying recovery of damages.

Finally, Kelley asserts that the mere existence of the entire market value rule proves the correctness of its proposed rule. Reply Br. at 13. The entire market value rule does not address the question presented here: whether the patentee can recover for lost sales of products not covered by the patent in suit but which are directly competitive with the infringing product. That question was answered in Central Soya. Rather, the entire market value rule cases address a different question: whether a patentee can recover damages for lost sales of unpatented products which the patentee normally expects to sell along with a product which is directly competitive with the infringing product. Even here, the law allows recovery for lost sales of unpatented products where they are not "integral parts of the [patented product]" and have "separate usage," so long as "normally the patent owner . . . can anticipate sale of such unpatented components as well as of the patented ones." Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11, 23, 223 U.S.P.Q. 591, 599 (Fed. Cir. 1984); King Instrument Corp. v. Otari Corp., 767 F.2d 853, 866, 226 U.S.P.Q. 402, 411 (Fed. Cir. 1985). The District Court here found that Rite-Hite would have sold thousands of ADL-100 restraints if Kelley had not infringed. A.19. Kelley has not shown that finding to be clearly erroneous. Paper Converting, 745 F.2d at 23, 223 U.S.P.Q. at 600.

**IV. THE PROPOSED RULE ADVOCATED BY KELLEY WOULD BE INCONSISTENT WITH THE CONSTITUTIONAL POLICIES UNDERLYING THE PATENT LAWS.**

The proposed rule advocated by Kelley, in addition to being contrary to the intent of Congress and controlling precedent, would conflict with the constitutional policies which underlie the patent system by substantially weakening the incentives provided by that system.<sup>8</sup>

**A. The Constitutional Goal of Promoting the Useful Arts Is Served by a Rule Which Preserves the Value of the Patentee's Right to Exclude.**

The goal of the patent system is to "promote the progress of ... [the] useful arts." U.S. Const., art. 1, § 8, cl. 8. To further this goal, the Constitution provides inventors an incentive: "the exclusive right to their ... discoveries." *Id.*

The patent system is thus an incentive system which "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design." Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-51 (1989). The incentive given to inventors both to invent and to disclose their inventions to the public is the economic benefit afforded by the right to exclude.

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<sup>8</sup>Rite-Hite contends that the meaning of the governing statute is clear, and policy concerns cannot override the plain meaning of the statute. At the October, 1992 oral argument, however, one of the members of the panel asked Rite-Hite to provide its views as to the policy considerations relevant to the lost profits issue. As will be shown below, all relevant policy concerns militate against the rule advocated by Kelley.

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.

Giles S. Rich, Infringement Under Section 271 of the Patent Act of 1952, 35 J.P.O.S. 476, 479 (1953). Likewise, this economic power provides a "negative incentive" that encourages competitors to "design around" the inventors' patent in order to avoid infringement. Slimfold Mfg. Co., Inc. v. Kinkead Industries, Inc., 932 F.2d 1453, 1457, 18 U.S.P.Q.2d 1842, 1845 (Fed. Cir. 1991).

**B. Kelley's Rule Would Discourage Invention and Disclosure.**

Kelley's proposed rule would run contrary to the constitutional policy in favor of disclosure, because it would tend to discourage, rather than encourage, inventors from filing patent applications.

Many U.S. patent applications are filed on behalf of companies which already own substantial patent portfolios. Business Week, August 9, 1993 at 57. Rite-Hite is such a company. In this case, Rite-Hite successfully introduced its patented ADL-100 vehicle restraint in 1980. A.10. Later, Rite-Hite invented the pioneering technology of the patent in suit.<sup>9</sup> Id. A company in Rite-Hite's position would then have had two options. First, it could disclose the information to the public by obtaining a patent. Alternatively, it could keep its pioneering technology a secret by never marketing a

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<sup>9</sup>Although Kelley continually belittles the value of this invention, the district court found that it was a pioneering invention, A.24; 629 F. Supp. at 1066, and that the '847 patent "was a significant cause for the commercial success" of Kelley's infringing product. A.10.

commercial product embodying the technology and never filing a patent application on that technology. If Kelley's rule were adopted, a company in Rite-Hite's position would make its decision whether or not to file an application knowing that: (1) an infringer could use the information disclosed to cause it over \$8.6 million in damages but (2) because of Kelley's proposed rule, it would only be permitted to recover a fraction of that injury. Under those circumstances such a company would be far less likely to choose the option of patenting its new invention.<sup>30</sup> By preventing a patentee from recovering its foreseeable actual damages, therefore, Kelley's proposed rule would substantially reduce the incentive to disclose.

Because the rule advocated by Kelley would reduce the value of the inventor's right to exclude, it would also reduce an inventor's incentive to create new inventions.

Requiring inventors to accept as their only compensation a "reasonable royalty" which is less than their foreseeable actual damages would tend to discourage investment in innovation, particularly by companies, such as Rite-Hite, that already have commercially acceptable products covered by other patents. Under Kelley's proposed rule, such a company could not recover its losses even if the effect of a competitor's use

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<sup>30</sup>To be sure, even given the risk that a patentee would not receive full compensation for its injuries, it could be argued that some patentees might nonetheless opt to file an application on the alternative technology. But that is beside the point. The point is that Kelley's rule lowers the incentive to invent and increases the risk of non-disclosure. For these reasons, it is antagonistic to the Constitutional policies underlying the patent system.

of the company's new invention disclosed in a new patent was to decimate the company's sales of its existing commercial product line. Under such circumstances, the innovative company might well conclude that investment in innovation and disclosure would be counterproductive for the company.

Kelley's proposed rule would also reduce the incentive for competitors to design around patents by exonerating those competitors from liability for the foreseeable harm caused by their infringement. Sometimes a company seeking to design a product in the face of a competitor's patent cannot do so with absolute certainty that its product will or will not infringe. Read Corp. v. Portec, Inc., 970 F.2d 816, 827-28 and 829 n.9, 23 U.S.P.Q.2d 1426, 1436 and 1437 n.9 (Fed Cir. 1992). In such cases, a rational business person will weigh the risks of going ahead with a design that might or might not constitute an infringement against the costs in time and money required to develop a truly innovative, and clearly noninfringing, design. Clearly, by lowering the damages exposure associated with infringement as Kelley advocates, this Court would tip the balance of such decisionmakers against investing in truly innovative research and development and toward taking greater risks that their designs might infringe. The law should eschew a rule which, like the rule advocated by Kelley, would reduce the "negative incentive" to invest in truly innovative research and development efforts.

Kelley argues that requiring an infringer to restore the patent owner to "what his condition would have been if the infringement had not occurred" will deter others from designing around competitive patents. This argument is without merit.

First, as explained above, assuring that a patent owner will be restored to what his pecuniary condition would have been if the infringement had not occurred promotes,



rather than discourages, true design around efforts.

Second, Kelley's premise — that exposure to unpredictable or unforeseeable damages would deter competitors from even attempting to design around competitive patents — is irrelevant to this case. The trial court specifically found here that Rite-Hite's lost profits on ADL-100 sales were foreseeable. A.25; A.30. Indeed, Kelley "intended its infringing product to compete with Rite-Hite's ADL-100." A.12; A.7177-78; Kelley Br. at 6. The damages here are, therefore, precisely the damages that would have been expected by a reasonable infringer in Kelley's position.

Finally, Kelley's argument is without merit because Congress has decided, in enacting the damages statute, that patent owners should be fully compensated. General Motors, 461 U.S. at 655. Congress, therefore, has already weighed the positive benefits to innovation and disclosure that would result from full compensation against whatever deterrent effect such awards would have on competitors' design-around efforts. They have struck that balance in favor of full compensation. See Administrator, Federal Aviation Administration v. Robertson, 422 U.S. 255, 267 (1975) ("The wisdom of the balance struck by Congress is not open to judicial scrutiny.")

**C. This Case Will Allow Recovery of Lost Profits Only Where the Patentee Has Proven "But For" Causation**

At the October, 1992 argument, one of the panel members asked whether allowing Rite-Hite to recover its lost profits in this case would mean that it would be easier for a patentee who did not sell a product covered by the claims of the patent in suit than it would be for a patentee who did sell such a product. It would not.

In order to recover lost profits, a patentee must prove that "there was a

reasonable probability that, but for the infringement, it would have made the infringer's sales." Mor-Flo, 883 F.2d at 1577, 12 U.S.P.Q.2d at 1028. The patentee may do this by any one of three approaches; Panduit is "a nonexclusive standard." Id. First, it may prove its lost sales directly by establishing, on a transaction-by-transaction basis, that the specific sales made by the infringer would have been made by the patentee if the infringer had not offered the infringing product. The District Court here found that Rite-Hite had so proven (A.15-17), and Kelley does not attack that finding on this appeal.

Alternatively, the patentee may prove its lost sales by inference by showing that there were no acceptable noninfringing substitutes available from third parties, that there was demand for the patentee's product and that the patentee would have been able to fill the orders taken by the infringer. Panduit, 575 F.2d at 1156, 197 U.S.P.Q. at 730.<sup>11</sup> The District Court here found that Rite-Hite had proven all of the Panduit elements (A. 18-19, 30-31), and Kelley does not attack these findings on appeal.

Finally, the patentee may show that there was a reasonable probability that it

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<sup>11</sup>The fact that the Panduit court referred to the patented product rather than the patentee's product merely reflects the fact that in Panduit, the patentee's product happened to be covered by the claims of the patent in suit. The same results were reached in Central Soya and in Mor-Flo, where the patentee's products were not covered by the claims of the patent in suit. While the fact that the patentee was selling a product not covered by the patent in suit may in some cases mean that the infringer could have sold an acceptable noninfringing substitute (see, e.g., Standard Mailing, 31 F.2d at 462), that will not always be the case, as this case, Central Soya and Mor-Flo demonstrate.

would have made a portion of the infringer's sales by showing "an established market share" along with the demand and capacity elements of the Panduit test. Mor-Flo, 883 F.2d at 1578, 12 U.S.P.Q.2d at 1029. The District Court here found that Rite-Hite had proven its lost profits claim in this way as well (A. 17-18, 31), and Kelley does not attack these findings on appeal either.

**V. KELLEY'S POLICY ARGUMENTS ARE WITHOUT MERIT.**

**A. This Court Has Explicitly Rejected Kelley's "Unauthorized Extension of the Monopoly" Argument.**

Kelley's argument that awarding the patentee damages adequate to compensate it for lost profits on lost sales of an unpatented product would "effect [an] unauthorized extension of the [patent monopoly]" (Kelley Br. at 10-12) was explicitly rejected by this Court in Central Soya, supra.

**B. Kelley's "Intrinsic Value of the Invention" Argument Is Baseless.**

Kelley cites no authority for its argument that Rite-Hite should only be able to recover damages equal to the "intrinsic value" of the patented invention; nor does it give the slightest hint how a court could determine what that intrinsic value is.

Kelley's intrinsic value of the invention argument is a throw-back to the abolished doctrine of apportionment. Whatever validity it had prior to 1946,<sup>12</sup> it has none now.

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<sup>12</sup>The doctrine of apportionment related to awards based on the infringer's profits, not the patentee's damages. The discussion of apportionment of damages cited by Kelley from Seymour v. McCormick, 57 U.S. 480 (1853), and Dobson v. Hartford Carpet Co., 114 U.S. 439 (1885), is merely dicta: the cases themselves were decided on the factual  
(continued...)

Kelley erroneously contends that this Court's ruling in Slimfold demonstrates the continued vitality of apportionment. The Slimfold court affirmed the trial court's finding that, because customers did not care about the advantages of the patented invention and because equally advantageous alternatives were available, the patent owner had not established its lost sales or entitlement to lost profits. Slimfold was a straightforward application of the factual "but-for" test; it was not a reaffirmation of the ancient doctrine of apportionment.

Kelley's "intrinsic value of the invention" argument ignores the fundamental fact that the value of the invention to the patent owner lies in the economic value of the right to exclude others which is given by the patent grant. Continental Paper Bag, 210 U.S. at 424. The patent owner's recovery must adequately compensate it for damages caused by the invasion of that right.

**C. Kelley's "Collateral Trial" Argument Is Without Merit.**

Kelley suggested at oral argument, though not in its briefs, that damages for lost profits on sales of products covered by another patent should not be allowed because allowing such damages might lead to contests as to whether the patentee's other products

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<sup>12</sup>(...continued)  
grounds that the patent owner had not proven his actual damages. Chisum has observed that this dicta was rendered "without careful analysis" and was illogical:

Whatever purposes apportionment served with respect to equitable recovery of infringer profits, it clearly did not apply with equal force to a damage recovery where the basic theory was one of making the patent owner whole for all losses covered by the infringer's wrongdoing.

5 Donald S. Chisum, Patents, § 20.03[1][c][i], at 20-122 (1993).

are truly covered by another valid patent. That argument is without merit for several reasons.

First, it is irrelevant, because Kelley stipulated that the ADL was covered by other Rite-Hite patents (A. 6544; Tr. 195, 205), and never attempted to show that any of those patents were invalid. Second, contests on collateral issues are common in civil litigation. For example, proof of Panduit's "absence of acceptable noninfringing substitutes," can require an analysis to determine whether other competitive products are or are not covered by the patent. See, e.g., Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 11 U.S.P.Q.2d 1321 (Fed. Cir. 1989). Third, as demonstrated above, the patent damages statute, controlling U.S. Supreme Court precedent and the constitutional policies underlying the U.S. patent system all require rejection of Kelley's rule. Whether Kelley's rule would be easier or harder to administer than the damages rule required by these controlling authorities is irrelevant. Heckler, 467 U.S. at 111-12.

#### **VI. THE DISTRICT COURT'S REASONABLE ROYALTY DETERMINATION SHOULD BE UPHELD.**

In its appeal from the district court's reasonable royalty determination, Kelley argues that the district court erred in not awarding Kelley's proposed royalty of under \$250,000 (A.6302; A.1312) — even though Rite-Hite succeeded in proving actual, foreseeable damages in excess of \$8.6 million.<sup>13</sup> Kelley did not even attempt to show

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<sup>13</sup>Indeed, Kelley's proposed royalty would have yielded a royalty of less than \$70 per infringing sale (3825 infringing sales; \$250,000 proposed royalty). No reasonable licensor in Rite-Hite's position would have agreed to Kelley's proposed royalty of less  
(continued...)

that the District Court's award of a reasonable royalty equal to Rite-Hite's actual damages constituted an abuse of discretion or was clearly erroneous. A.30 n.22. Indeed, a reasonable royalty award should approximate the patentee's actual damages. Fromson, 853 F.2d at 1574, 7 U.S.P.Q.2d at 1613; Del Mar, 836 F.2d at 1328, 5 U.S.P.Q.2d at 1261. That award must, therefore, be affirmed.

Nor has Kelley shown that the District Court's reasonable royalty award for those sales on which actual damages could not be proved constituted an abuse of discretion or was clearly erroneous. Instead, Kelley merely adopts the "frequent and foolish appellate ploy" of citing only those factors which are favorable to it in an attempt to show that the district court's award was clearly erroneous. Datascope, 879 F.2d at 825, 11 U.S.P.Q.2d at 1324. But the trial court already heard those arguments and rejected them. The District Court's findings are supported by substantial evidence, including:

1. The patent in suit was a pioneering invention. 629 F. Supp. at 1059.
2. There were no acceptable non-infringing substitutes to the patented invention. The supposed alternatives Kelley points to were all found to be unacceptable and/or unavailable. A.18-19; 217-218; 2058-64; 2083-94; Tr. 232-245; 2068-70.
3. The patented technology allowed Kelley to protect its "bread and butter" product — the leveler — as well as other products which Kelley sold. A.11; Tr. 1330-31.
4. Kelley's president conceded that a royalty of 50% of lost profits is perfectly acceptable. He disagreed only with what those profits were. A. 1362.

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<sup>13</sup>(...continued)  
than \$70 per unit where the parties would have expected and foreseen (A. 30) that each sale by Kelley would cost Rite-Hite over \$1500 in lost profits. (A.25; A.6807).



5. At the time it introduced the infringing product, Kelley thought its Truk-Stop would be very profitable. A. 1281 (expected profits of 35% of net sales). Kelley's argument that the royalty award constitutes 77% of Kelley's net selling price is misleading at best. Kelley compares its net wholesale selling price of the Truk-Stop alone to the plaintiffs' wholesale and retail royalties. Moreover, this net selling price admittedly excluded leveler sales and accessories — such as light packages — which were always sold with the infringing product. A.6195; Tr. 1271. Even Kelley has conceded that such convoyed sales are an appropriate factor to be considered in setting a reasonable royalty. Reply Br. at 15. Indeed, Kelley's net selling price for restraints merely reflects its decision to sell the restraints at low prices and margins in order to promote its sales of levelers.

6. The patent in suit was at its most valuable during the period of infringement. A.192-94; A.18, 33; A.217-18; A.2525.

7. Kelley was Rite-Hite's principal competitor. A.9.

8. Rite-Hite had a policy against licensing any competitors. A.243.

9. The trial court found that a reasonable company in Rite-Hite's position could have foreseen that it would lose substantial profits on restraints and levelers if it licensed Kelley. A.25.

10. There was no customary royalty rate in the industry. Kelley's arguments to the contrary were all properly rejected by the trial court. Indeed, Kelley's royalty "expert" — really its president, Robert Kuhns — admitted at trial that each of the licenses he used as a comparison was distinguishable from the hypothetical royalty negotiation in this case. A.1341-56; A.1360-63. In particular, none of those was a license between

two competitors, where the royalty was negotiated after a final adjudication of validity and infringement.<sup>14</sup>

The district court's reasonable royalty determination was not clearly erroneous.

#### CONCLUSION

For all of the reasons set forth in Rite-Hite's original briefs and herein, this Court should affirm the district court.

Respectfully submitted,



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<sup>14</sup>Kelley's argument that the Serco settlement was such a license is ludicrous. That agreement was entered into in settlement of an infringement suit. A.244-45. It was not negotiated after an adjudication of infringement and validity. Also absurd is Kelley's attempt to use the 1973 Rite-Hite/Kelley license. Not only was it negotiated 10 years before the issuance of the patent in suit, it was negotiated as a settlement to a lawsuit which was then on appeal. A. 1350-51.

**CERTIFICATE OF SERVICE**

This is to certify that two true and correct copies of SUPPLEMENTAL BRIEF  
FOR PLAINTIFFS/APPELLEES have this 3rd day of June, 1994 been served by Federal  
Express on:

Thomas F. Ging  
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