

Keywords: Computation of damages, lost profits, reasonable royalties

General: 35 U.S.C. § 284 does not limit the compensation of lost sales to exclude a patentee's patented device that is not covered by the patent in suit and directly competes with the infringing device if it is proven that those lost sales were caused by the infringement. Such lost sales are reasonably foreseeable and the award of damages is necessary to provide adequate compensation for infringement. However, if an unpatented device is sold to be used with the infringed device for purely marketing and business purposes, and not because they essentially functioned together, the patentee is not entitled to lost profits for the unpatented device.

Rite-Hite Corp. v. Kelley Co. Inc.
35 U.S.P.Q.2d 1065 (Fed. Cir. 1995)
Decided June 15, 1995

I. Facts

Rite-Hite Corp. ("Rite-Hite") manufactures a vehicle restraint called the Manual Dok-Lok model 55 ("MDL-55"), which was patented by Rite-Hite as U.S. Patent No. 4,373,847 ("the '847 patent"), as well as the Automatic Dok-Lok model 100 ("ADL-100"), which was patented by Rite-Hite in another U.S. patent. Rite-Hite distributes all of its products through its wholly-owned and operated sales organizations and through independent sales organizations ("ISOs"). Rite-Hite sued Kelley Co. Inc. ("Kelley") for infringement of the '847 patent by Kelley's Truk Stop restraint. Rite-Hite claimed lost profits at the wholesale level and the lost retail profits of its own sales organizations. Several of the ISOs intervened on the grounds that they were exclusive licensees of the '847 patent.

The district court bifurcated the liability and damage phases of the trial. In the trial on liability, the district court held the '847 patent to be infringed by Kelley's Truk Stop device, and the Federal Circuit upheld that decision. In the trial for damages, the district court found that, of the 3,825 infringing Truk Stop devices sold by Kelley, but for Kelley's infringement, Rite-Hite would have sold 80 more of its MDL-55, 3,243 more of ADL-100, and 1,692 more dock levelers, a bridging platform sold with the restraints. The district court awarded Rite-Hite the wholesale profits that it lost on lost sales of ADL-100, MDL-55, and restraint-leveler packets. The court also awarded reasonable royalty damages to Rite-Hite as a retailer and to the ISOs. Kelley subsequently appealed.

II. Issue

- A. Did the district court err in including lost sales of ADL-100 in the calculation of damages even though it is not covered by the patent in suit?
- B. Did the district court err in including lost sales of the unpatented dock levelers?
- C. Did the ISOs have standing to sue for patent infringement damages?

III. Discussion

- A. No. The present court agreed with the district court and found that Rite-Hite had met all of the requirements of the *Panduit* test for a patentee to prove entitlement to lost profits damages. The *Panduit* test requires that a patentee establish:
 - (1) demand for the patented product;
 - (2) absence of acceptable non-infringing substitutes;
 - (3) manufacturing and marketing capability to exploit the demand; and
 - (4) the amount of the profit it would have made.

Kelley cited *Panduit* in arguing that lost profits case law requires that the intrinsic value of the patent in suit is the only proper basis for a lost profits award. Kelley argued that each prong of the *Panduit* test focuses on the patented invention and, thus, Rite-Hite could not obtain damages including lost profits on a product that is not the patented invention.

The present court noted that the ADL-100 is the only substitute for the patented device MDL-55. The court also found that, despite not being covered by the '847 patent, the ADL-100 does not qualify as an acceptable non-infringing substitute under the second *Panduit* factor because, as it is patented by Rite-Hite, it is not available to customers, except from Rite-Hite. Rite-Hite would not have lost these sales to a third party, even if Kelley had not infringed their patent. Therefore, Kelley should have foreseen that Rite-Hite would lose sales of its ADL-100 due to Kelley's infringement of the '847 patent, even though the '847 patent does not cover the ADL-100.

As the lost sales of the ADL-100 were proven to have been caused by the infringement, they were reasonably foreseeable and the award of damages was necessary to provide adequate compensation for infringement under 35 U.S.C. § 284. For this reason, the present court affirmed the damages award on the ADL-100 sales.

- B. Yes. The present court found that Rite-Hite had not established that dock levelers have a functional relationship to the patented invention, but rather, had been sold with the infringing device only as a matter of convenience or business advantage. In *Paper Converting*, the entire market value rule was applied to allow recovery of profits on the unpatented components because all the components together were parts of a single assembly. *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11 (Fed. Cir. 1984). Subsequent cases have applied the entire market value rule only in situations where the patented and unpatented components were analogous to a single function unit.

The dock levelers operated to bridge the gap between a loading dock and a truck. Even though the dock leveler and the patented device could be used together, they did not function together to achieve one result, and each could be used without the other. The present court found that both Kelley and Rite-Hite had established markets for dock levelers long prior to developing the vehicle restraints. The present court also found that even though Rite-Hite and Kelley both sold vehicle restraints and the dock levelers together and offered combination discounts, the motivation to do so was purely for convenience and business advantage. For this reason, the present court vacated the damage award on the dock levelers.

- C. No. The present court found that, under the contracts the ISOs entered into with Rite-Hite, the ISOs did not have the right to exclude anyone from making, using, or selling the claimed invention. The contracts did not offer the ISOs an exclusive license, nor did the contracts transfer patent rights to the ISOs. Therefore, the ISOs could not claim damages for patent infringement under 35 U.S.C. § 281. For this reason, the present court vacated the damage award to the ISOs because they lacked standing.

IV. Conclusion

Lost profits may be obtained for patented items that are not covered by the infringed patent if it can be proven that the lost sales were caused by the infringement. Lost profits may not be obtained for unpatented components if the unpatented component was sold with the patented component purely for convenience and business advantage.