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RECENT DEVELOPMENTS

BUT HOW FAR?: *RITE-HITE CORP. V. KELLEY CO.*'S EXPANSION OF THE SCOPE OF PATENT DAMAGES

What is the appropriate scope of lost profit damages in a patent infringement suit? The Court of Appeals for the Federal Circuit, sitting *en banc*, addressed that issue in a recent case of first impression, *Rite-Hite Corp. v. Kelley Co.*[1] There, the court extended the scope of compensable lost profit damages to include profits from the sale of devices not covered by the patent at issue in the suit.[2] In so ruling, the court relied on the lower court's factual finding that but for the defendant's infringement of the patent at suit, the patentee would have sold more of the product not itself covered by that patent.[3] The court's use of the "but for" test to determine the scope of patent damages constitutes a significant expansion of what normally qualifies as compensable lost profits. This Recent Development will attempt to understand *Rite-Hite* in light of the general law of patent damages, and will also explore some of the opinion's implications for parties and courts involved in patent infringement suits.

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[1] 56 F.3d 1538, 35 U.S.P.Q.2d (BNA) 1065 (Fed. Cir. 1995), *aff'g in part, vacating in part*, 774 F. Supp. 1514, 21 U.S.P.Q.2d (BNA) 1801 (E.D. Wis. 1991), *cert. denied*, 116 S. Ct. 184 (1995) (The suit was bifurcated into damage proceedings (*id.*) and liability proceedings (629 F. Supp. 1042, 231 U.S.P.Q. (BNA) 161 (E.D. Wis. 1986), *aff'd*, 819 F.2d 1120, 2 U.S.P.Q.2d 1915 (Fed. Cir. 1987)).

[2] *Rite-Hite*, 56 F.3d at 1543.

[3] *Id.* at 1543, 1548-49.

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I. FACTUAL BACKGROUND

Rite-Hite and Kelley both produced vehicle restraints.[4] Vehicle restraints are safety devices designed to keep trucks secured to loading docks during the loading and unloading of freight.[5] Trucks that separate from loading docks create hazards for forklift operators and other warehouse personnel.[6] In the late-seventies and early-eighties, Rite-Hite, recognizing the hazard and seeing a potentially lucrative market, pioneered the development of vehicle restraint devices.[7]

In April, 1980, Rite-Hite introduced its "Automatic Dok-Lok" model 100 vehicle restraint device (hereinafter ADL-100),[8] the first such device on the market.[9] The ADL-100 operated automatically, using a motor and pivoted hook technology to secure the truck to the dock.[10] In April, 1981, Rite-Hite obtained U.S. Patent 4,264,259 for the pivoted hook technology embodied in the ADL-100.[11] Rite-Hite introduced another vehicle restraint in late summer of 1981, the "Manual Dok-Lok" model 55 (hereinafter MDL-55), a manually operated vehicle restraint which embodied a new type of hook and lock technology.[12] The list price of the MDL-55 ranged from one-third to one-half the $1000-$1500 wholesale price of the ADL-100.[13] In May of 1981, Rite-Hite sought patent protection for this new technology, which it obtained in February, 1983, under U.S. Patent 4,373,847 (hereinafter the '847 patent).[14]

Before the development of vehicle restraints, Kelley and Rite-Hite were the key players in the "dock leveler" market.[15] Dock

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[4] *Id.* at 1543.

[5] *Id.* at 1542.

[6] *Rite-Hite*, 56 F.3d at 1542.

[7] Rite-Hite Corp. v. Kelley Co., 774 F. Supp. 1514, 1519-20 (E.D. Wis. 1991), *aff'd in part, vacated in part*, 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

[8] *Id.* at 1520.

[9] Rite-Hite Corp. v. Kelley Co., 629 F. Supp. 1042, 1048 (E.D. Wis. 1986), *aff'd*, 819 F.2d 1120 (Fed. Cir. 1987).

[10] *Rite-Hite*, 774 F. Supp. at 1520.

[11] *Rite-Hite*, 629 F. Supp. at 1049.

[12] *Rite-Hite*, 774 F. Supp. at 1520.

[13] *Rite-Hite*, 56 F.3d at 1543.

[14] *Rite-Hite*, 774 F. Supp. at 1517, 1520.

[15] *Id.* at 1519.

levelers, as distinguished from vehicle restraints, are not designed to secure the truck to the dock; rather, they bridge the gap between the edges of the truck and dock.[16] Although levelers are independently useful, restraints depend on levelers to reach their full utility.[17] When Kelley lagged behind Rite-Hite in its development of vehicle restraints, it feared that it would lose not only the burgeoning restraint market, but also its share of the leveler market.[18] Kelley therefore created its own vehicle restraining device.[19]

In early 1982, after purchasing one of the first MDL-55s and obtaining a copy of the '847 patent,[20] Kelley developed an automatic vehicle restraint, the "Truk Stop,"[21] whose technology was equivalent to the technology of the '847 patent.[22] Kelley proceeded to enter the vehicle restraint market in July, 1982.[23] Even though the Truk Stop infringed the patented technology embodied in the MDL-55, the Truk Stop was designed and marketed primarily to compete with the ADL-100.[24] Kelley chose to compete with the ADL-100 because the ADL-100 was automated, and therefore the more commercially successful of Rite-Hite's restraints.[25] Moreover, Kelley marketed the Truk Stop by "snatching" Rite-Hite's sales contacts[26] and then underbidding Rite-Hite on average by $200 to $300.[27]

On March 22, 1983, Rite-Hite sued Kelley in the Eastern District of Wisconsin, claiming that Kelley's Truk Stop restraint infringed the '847 patent.[28] Rite-Hite sought lost profit damages resulting not only from the lost sales of the MDL-55, which actually embodied the '847 patent's technology, but also from its lost ADL-100

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[16] *Id.*
[17] *Id.* at 1530.
[18] *Id.* at 1521.
[19] *Rite-Hite*, 774 F. Supp. at 1521-22.
[20] *Id.*
[21] *Rite-Hite*, 629 F. Supp. at 1053-54. Although Kelley obtained the device and the patent, the court found Kelley not liable for willful infringement. *Id.* at 1045.
[22] *Id.* at 1065.
[23] *Rite-Hite*, 774 F. Supp. at 1525.
[24] *Id.* at 1530.
[25] *Id.* at 1522.
[26] *Id.* at 1521.
[27] *Id.* at 1529.
[28] *Rite-Hite*, 56 F.3d at 1542.

sales.[29] Rite-Hite also sought lost profit damages for its lost leveler sales.[30] In bifurcated liability and damages proceedings, the district court, inter alia, found Kelley liable for infringement of the '847 patent and awarded Rite-Hite lost profits on the ADL-55 and MDL-100.[31] The district court also awarded damages for the dock levelers that would have been sold along with the restraints.[32] The court based the award on the finding that Rite-Hite's lost sales were a foreseeable result of Kelley's infringement.[33]

Kelley appealed the damage award for the ADL-100 and the levelers. The Federal Circuit affirmed the district court's award for lost profits from the ADL-100, but vacated its award of lost profits from the lost dock leveler sales.[34] While the court employed the same reasoning as the lower court regarding the ADL-100,[35] because the dock levelers did not properly function with Rite-Hite's restraints, or directly compete with the Truk Stop, the court found them beyond the realm of compensable damages.[36]

II. Law of Lost Profit Patent Damages

Any examination of the law of patent damages must start with the Patent Clause of the Constitution. The Patent Clause provides Congress with the power to secure patents for limited times as a way of promoting the "useful [a]rts."[37] Unfortunately, any mention of how such security is to be effected is conspicuously absent from the Clause. Specifically, the Constitution is silent on

[29] *Id.* at 1543.
[30] *Id.*
[31] *Id.*
[32] *Id.*
[33] *Rite-Hite*, 56 F.3d at 1546.
[34] *Id.* at 1543.
[35] *Id.* at 1546-49.
[36] *Id.* at 1551.
[37] U.S. CONST. art. 1, § 8, cl. 8. The relevant text of the Clause reads: "The Congress shall have Power . . . To promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries . . . ." *Id.*

the issue of damages.[38]

Congress, pursuant to its granted authority, and in pursuit of the Constitution's policy of promoting the useful arts, passed a statute that authorizes grants of patent protection.[39] One of the statute's provisions provides for damages in the event of infringement.[40] The statute requires a damage award in all cases of infringement. The court *shall* award damages, even, presumably, where the actual damage to a patentee's business does not equal the reasonable royalty rate.[41]

Courts have interpreted this damage provision of the statute quite expansively. In *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, the Federal Circuit noted that the statute provides only the "reasonable royalty" floor below which no damages can fall in compensating the patentee.[42] There, the court inferred that Congress meant to put no upper limit on what should constitute "adequate" compensation.[43] Similarly, the U.S. Supreme Court in *General Motors Corp. v. Devex Corp.* interpreted "adequate to compensate" as "full compensation for 'any damages.'"[44] The law of patent damages, therefore, comports with the general law of damages by requiring an infringer to place a patentee in the position he would have occupied but for the infringement.[45]

Traditionally, courts have relied on a calculation of lost profits as a method for measuring what losses the patentee has actually

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[38] *See generally*, Timothy J. Malloy & Robert P. Renke, *Patent Damages Revisited: Recent Issues Before the Federal Circuit*, *in* PATENT LITIGATION 1994, at 277 (PLI Pats., Copyrights, Trademarks, & Literary Prop. Course Handbook Series No. 397, 1994) (examining lost profit damages issues).

[39] Patent Act of 1952, 35 U.S.C. §§ 1-376 (1994).

[40] 35 U.S.C. § 284, which reads in relevant part: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with the interest and costs as fixed by the court."

[41] ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 409 (1991) (citing Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 7 U.S.P.Q.2d (BNA) 1097 (Fed. Cir.), *cert. denied*, 488 U.S. 968 (1988)).

[42] 836 F.2d 1320, 1326, 5 U.S.P.Q.2d (BNA) 1255 (Fed. Cir. 1987).

[43] *Id.*

[44] 461 U.S. 648, 654, 217 U.S.P.Q. (BNA) 1185 (1983).

[45] Brooktree Corp. v. Advanced Micro Devices, Inc., 977 F.2d 1555, 1579, 24 U.S.P.Q.2d (BNA) 1871 (Fed. Cir. 1992).

suffered.[46] Indeed, the Supreme Court in *Aro Manufacturing Co. v. Convertible Top Replacement Co.* endorsed the use of lost profits as a measure of patent damages by framing the appropriate question to be asked in the event of infringement: "[H]ad the [i]nfringer not infringed, what would [the patentee] have made?"[47]

The patent holder bears the burden of proving the propriety of an award of lost profit damages.[48] To meet this burden, the patentee must first show a causal relationship between the infringement and the lost sales, as well as show the amount of profits that would have been made on those sales.[49] The patentee, however, need only show a reasonable probability that the infringement caused the lost profits before the burden shifts to the infringer to prove otherwise.[50] Notably, the patentee, when proving reasonable probability, need only show that *some* of its lost sales would have been made but for the infringement before the burden shifts to the infringer to disprove the rest.[51] Moreover, any doubt about the precise amount of lost profits damages is settled against the infringer.[52]

The issue of lost profits can arise in two factual contexts, either the two-supplier or multi-competitor market. In a two-supplier market, an act of infringement gives rise to an inference of causation between the infringement and the patentee's lost sales.[53] In such a situation, the infringer's sales represent the proper measure of damages.[54] The multi-competitor market, however, requires a more nuanced causation analysis. The

[46] Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065, 219 U.S.P.Q. (BNA) 670 (Fed. Cir. 1983) (finding lost profits appropriate measure of damages in two-supplier market).

[47] 377 U.S. 476, 507, 141 U.S.P.Q. (BNA) 681 (1964).

[48] HARMON, *supra* note 41, at 413.

[49] King Instrument Corp. v. Otari Corp., 767 F.2d 853, 863, 226 U.S.P.Q. (BNA) 402 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).

[50] *Id.*

[51] *Id.* at 1141-42; *see also* Paul M. Janicke, *Contemporary Issues in Patent Damages*, 42 AM. U. L. REV. 691, 704-06 & nn.74-78 (1993) (discussing trend of shifting burden to defendant on patent damages established by *Kaufman* and Uniroyal, Inc. v. Rudkin-Wiley Corp., 939 F.2d 1540, 19 U.S.P.Q. (BNA) 1432 (Fed. Cir. 1991)).

[52] Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1141, 17 U.S.P.Q. (BNA) 1828 (Fed. Cir. 1991).

[53] Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065 (Fed. Cir. 1983).

[54] State Indus. v. Mor-Flo Indus., 883 F.2d 1573, 1578, 12 U.S.P.Q.2d (BNA) 1026 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990).

presence of additional competitors in a multi-competitor market prevents the law from presuming that the infringer's sales would have accrued to the patentee.[55] The prevalence of the multi-competitor market[56] has given rise to the standard test for determining lost profit damages.

A. *PANDUIT* AND ITS PROGENY

Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.[57] provides the classic test for proving entitlement to an award of lost profits. The test is useful for both two-supplier[58] and multi-supplier[59] cases. Under the test, a patentee must show: 1) demand for the patented product; 2) absence of an acceptable non-infringing substitute; 3) its own manufacturing and marketing capability to exploit the demand; and, 4) the amount of profit it would have made.[60] The combination of these elements, the court reasoned, provides an accurate method for determining whether, and how much, profit would have been made by a patentee but for a defendant's infringement.[61]

The *Panduit* test thus endorses the use of "but for" causation to establish the scope of compensable damages. Those profits the patentee can prove it would have made but for the infringing product's presence in the market are compensable. However, the *Panduit* test is not a pure but for test.[62] It does not define compensable lost profits simply as *any* lost profits the patentee can prove would have existed but for the defendant's infringement. Rather, the test identifies the exact conditions that must be present

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[55] Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1327 (Fed. Cir. 1987).

[56] *See* John C. Jarosz & Erin M. Page, *The* Panduit *Lost Profits Test After* BIC Leisure v. Windsurfing, 3 FED. CIRCUIT B.J. 311, 321 (1993) (regarding rarity of two-supplier markets).

[57] 575 F.2d 1152, 197 U.S.P.Q. (BNA) 726 (6th Cir. 1978).

[58] *Kaufman* provides an example of the test's application to a two-supplier market. 926 F.2d at 1143. There, the test was used in conjunction with *Lam, Inc.*'s two-supplier test. *Id.*

[59] *Panduit* itself arose from the multi-competitor electrical duct market. 575 F.2d at 1155.

[60] *Id.* at 1156.

[61] *Id.*

[62] *See* Malloy & Renke, *supra* note 38, at 297-98 (proposing simplified "but for" approach to patent damages).

before but for causation can be established.[63]

Subsequent cases have challenged the test's coherence by focusing on the logic of *Panduit*'s second element, the absence of an acceptable, non-infringing substitute. These cases have attempted to refine the test's ability to detect the presence of but for causation.[64] In *State Industries v. Mor-Flo Industries*, the Federal Circuit held that, in cases where acceptable substitutes do exist, courts should look to the patentee's share of the overall market to determine damages.[65] Specifically, it found that a patentee is entitled to a percentage of the infringing item's profits equal to the patentee's share in the overall market for that good.[66] The court reasoned that the mere presence of an acceptable, non-infringing substitute does not necessarily imply the absence of legitimate lost profit damages.[67] Rather, it recognized that multiple interests can successfully compete and hold relatively stable shares of a market.[68] A literal application of the *Panduit* test, the court reasoned, would overlook this not so subtle feature of the actual market. The court's market share response to the absolutism of *Panduit*'s second element thus represents an attempt to make the test's results more reflective of what actually would have existed in the world "but for" an act of infringement.

The court also made a significant general ruling on the *Panduit* test itself, finding it a useful, but non-exclusive, means of establishing entitlement to lost profit damages.[69] Realizing the need for flexibility when dealing with the intricacies of the market, it resisted the tendency to rely on the overly formulaic approach of the *Panduit* test.[70] Instead, the *State Industries'* court endorsed a but for test broader than both the one stated in *Panduit*, and even its own modified market share approach. Concerned with determining what damages were in fact caused by an act of

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[63] *See* Janicke, *supra* note 51, at 701 (discussing literalism of courts' application of *Panduit* factors).

[64] Malloy & Renke, *supra* note 38, at 280-81.

[65] 883 F.2d 1573, 1579 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990) (involving multi-supplier water heater insulation market).

[66] *Id.* at 1578.

[67] *Id.*

[68] *Id.* at 1579.

[69] State Indus. v. Mor-Flo Indus., 883 F.2d 1573, 1577 (Fed. Cir. 1989).

[70] Janicke, *supra* note 51, at 704-05.

infringement, the court encouraged the use of any logical means that would help to reach that determination.

BIC Leisure Products v. Windsurfing International, Inc.[71] clarified *State Industries*' modification of the *Panduit* test by further refining the test's ability to define caused-in-fact damages.[72] In *BIC Leisure*, Windsurfing International proved that BIC infringed its sailboard patent.[73] Because the overall sailboard market included sales of third party, non-infringing substitutes, Windsurfing relied on the market share test of *State Industries'* to argue its entitlement to a share of BIC's profits equal to Windsurfing's share of the overall market.[74]

The court refused to endorse Windsurfing's analysis. The *State Industries'* court reasoned that the mere presence of an acceptable, non-infringing substitute item does not necessarily imply the absence of lost profits. Similarly, the *BIC Leisure* court reasoned that the mere presence of a traditional market share does not imply a but for causal connection between infringement and lost profits.[75] Accordingly, the court followed *State Industries*' example and avoided the mechanical application of any but for formula.[76] In so doing, it further investigated the realities of the sailboard market before deciding what would have happened in that market but for BIC's infringement.[77]

The court in *BIC Leisure* noted that markets can be price sensitive, and that sub-markets based on price can exist within an overall market for a particular type of good.[78] The court found that the sailboard market was such a price sensitive market and that the price differential between the Windsurfing and BIC boards was significant enough to place them in two distinct sub-markets

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[71] 1 F.3d 1214, 27 U.S.P.Q.2d (BNA) 1671 (Fed. Cir. 1993).

[72] Malloy & Renke, *supra* note 38, at 283.

[73] BIC Leisure Prods. v. Windsurfing Int'l, Inc., 1 F.3d 1214, 1216 (Fed. Cir. 1993).

[74] *Id.* at 1217.

[75] *Id.* at 1218. For a detailed treatment of the facts of *BIC Leisure* see Jarosz & Page, *supra* note 56, at 312-14.

[76] *See* Malloy & Renke, *supra* note 38, at 288 (explaining how *BIC Leisure*'s refusal to find causation based on market share alone actually clarified, and followed lead of, *State Industries*).

[77] *BIC Leisure*, 1 F.3d at 1216-18.

[78] *Id.* at 1218-19.

of the overall sailboard market.[79] Absent BIC's infringing sailboard, consumers would have chosen another sailboard closer to the BIC board's price range.[80] In effect, the court ruled that the two boards did not compete with one another.[81] Finding no direct correlation between BIC's infringement and Windsurfing's lost sales, the court ruled that Windsurfing failed to show that "but for" BIC's infringement it would have earned profits equal to its share of the overall market.[82]

BIC Leisure then stands for much the same principle as *State Industries*. Both courts rejected the imposition of a rigid framework for determining what the patentee would have achieved but for the defendant's infringement. Rather, the courts tailored the but for analysis to the realities of the market place. This practical approach led the courts to endorse a "straightforward"[83] but for test as the true measure of lost profit damages, relegating the criteria of the *Panduit* test, and formal tests generally, to the role of important, but not necessary, indicia.

B. ENTIRE MARKET VALUE RULE; LOST CONVOYED SALES

In a further attempt to fully compensate the patentee for losses resulting from infringement, courts have elaborated on the but for doctrine with the "entire market value" rule.[84] The rule arose from circumstances in which the patented technology at issue in a suit served as a component of a larger device.[85] The rule allows for damages on the entire device if the patentee normally would have anticipated making the sale of the unpatented components along with the sale of the patented components.[86]

The entire market value rule spawned yet a further avenue for

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[79] *Id.* at 1219.

[80] *Id.*

[81] *Id.*

[82] *BIC Leisure*, 1 F.3d at 1219.

[83] Because an undiluted but for analysis calls for a very close assessment of marketplace realities, its application may prove anything but "straightforward." *See infra* text accompanying notes 130-158.

[84] Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11, 22-23, 223 U.S.P.Q. (BNA) 591 (Fed. Cir 1984).

[85] *Id.*

[86] Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1327 (Fed. Cir. 1987).

patentees to reach full compensation—the lost "convoyed" or "collateral" sales doctrine.[87] Under this doctrine, a patentee can receive damages from the lost sales of related, "collateral" devices not covered by the patent in suit, but normally sold along with the patented device.[88] Profits from the sales of component or collateral devices, however, must still satisfy the but for causation test. The patentee must prove that it would have made the sales of the device but for the act of infringement.[89]

Significantly then, the law leading up to *Rite-Hite* firmly established the principle that a patentee is to be fully compensated for losses resulting from infringement. Moreover, courts have endorsed the use of but for causation to identify which losses have so resulted. These losses can include lost profits not only from the lost sales of a patented device, but also from the lost sales of any component or collateral device that would have been made but for an act of infringement. Importantly, however, no court had ever dealt with *Rite-Hite*'s factual scenario. Therefore, prior to *Rite-Hite*, whether lost profit damages could extend to profits on similar devices not covered by the patent in suit remained an open question.

III. THE FEDERAL CIRCUIT'S ANALYSIS

In *Rite-Hite*, the Federal Circuit determined that Kelley was liable for all foreseeable lost profit damages caused in fact by its infringement of the '847 patent.[90] The court relied on the district court findings that the Truk Stop caused the lost sales of, and

[87] George F. Pappas et al., *Law of Patent Damages*, C961 ALI-ABA COURSE OF STUDY: SECURING AND ENFORCING PATENT RIGHTS 65, 75 (1994).

[88] Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1144 (Fed. Cir. 1991) (regarding award of lost profits on unpatented industrial plastic wrap after infringement of patented wrapping machine: "In determining whether a patentee should be awarded lost profits on unpatented accessory sales, the deciding factor is whether the patentee could normally anticipate the sale of unpatented items as well as the patented ones." (citing *Paper Converting Mach. Co.*, 745 F.2d at 23)).

[89] King Instrument Corp. v. Otari Corp., 767 F.2d 853, 866 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986) (regarding component parts); *Kaufman Co.*, 926 F.2d at 1136 (regarding convoyed sales).

[90] Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1548 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

primarily competed with, the ADL-100. The court found that, notwithstanding the fact that the ADL-100 was not covered by the '847 patent, Rite-Hite's lost profits on the ADL-100 were within the scope of compensable lost profit damages.[91]

To reach its conclusion, the court relied on the language of the patent statute's damages clause,[92] as well as on past cases interpreting that language.[93] According to the court's reading, the statute and cases called for the patentee to be fully compensated for all damages resulting from the infringement, with such damages to be determined by use of the "but for" causation test. If a patentee would have made a sale but for the infringement, then he is entitled to the profits lost from the sale, regardless of which product's sale is at issue.[94]

In so concluding, the court explicitly rejected Kelley's argument that the only compensable lost profits are those that result directly from the lost sales of products which themselves embody the patent in suit.[95] According to the court, Kelley's conception of the value of a patent—that it is limited to the value of the potential profits directly resulting from the sale of the device whose patent is at issue—was too narrow.[96] The court reasoned that the broader but for test comes closer to approximating the value of a patent by demonstrating all that its protection would have provided.[97]

Relying on traditional tort notions of proximate cause, the court limited compensable lost profits to those whose occurrences are reasonably foreseeable as well as caused-in-fact by the infringer.[98] Here, the court agreed with the district court's finding that because the Truk Stop directly competed with the ADL-100, Kelley should have foreseen Rite-Hite's lost profits on that item.[99]

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[91] *Id.*

[92] *Id.* at 1544 (citing 35 U.S.C. § 284 (*see supra* note 40 for relevant text of § 284)).

[93] *Id.* at 1545; *see supra* notes 44-47 and accompanying text for a discussion of the cases relied on by the court.

[94] *Rite-Hite*, 56 F.3d at 1545.

[95] *Id.* at 1548.

[96] *Id.*

[97] *Id.* (holding that " 'intrinsic value of the patent' is subsumed in the 'but for' analysis").

[98] *Id.* at 1546 (citing Street, 1 *Foundations of Legal Liability* 110 (1906), as cited in W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS § 42, at 279 (5th ed. 1984)).

[99] *Rite-Hite*, 56 F.3d at 1546.

The court also addressed the constitutionality of allowing lost profit damages to compensate for harm done to the sale of devices not covered by the litigated patent.[100] Kelley argued that such damages harm the constitutional policy promoting the progress of the useful arts by extending patent protection to non-incorporating devices, thereby restricting competition in the sale of unpatented goods.[101] The court rejected that contention, holding that Rite-Hite was not trying to prohibit the production or sale of goods not covered by the '847.[102] To the contrary, the court found that lost profit damages for non-covered goods merely provide additional incentive to risk taking and invention by fully compensating the patentee for any losses that occur as a result of infringement.[103]

In addition, the court explicitly held that the previous standard for establishing causation-in-fact, the four-part *Panduit* test,[104] is sufficient, but not necessary, to demonstrate but for causation.[105] The court conceded that in the past the *Panduit* test had been applied only to cases involving lost profits on devices covered by the patent whose infringement was at issue in the suit.[106] Nevertheless, the court held that all the *Panduit* factors had been met, including the second one requiring the absence of all "acceptable non-infringing substitutes."[107] The court held that the ADL-100 did not count as such a substitute because it was sold, not by a third party competitor, but by Rite-Hite itself.[108]

However, the court vacated the lower court's award of collateral lost profit damages on the dock levelers.[109] After examining precedent, the court determined that the entire market value rule

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[100] *Id.* at 1547.
[101] *Id.*
[102] *Id.*
[103] *Id.*
[104] *See supra* Part II(A) for discussion of *Panduit* test.
[105] Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1548 (Fed. Cir.) ("*Panduit* is not the *sine qua non* for proving 'but for' causation. If there are other ways to show that the infringement in fact caused the patentee's lost profits, there is no reason why another test should not be acceptable .... [O]ther fact situations may require different means of evaluation. ..."), *cert. denied*, 116 S. Ct. 184 (1995).
[106] *Id.*
[107] *Id.*
[108] *Id.* (comparing State Indus. v. Mor-Flo, Inc., 883 F.2d 1573, 1578 (Fed. Cir. 1989)).
[109] *Id.* at 1543.

did not allow for lost profits in this case.[110] The court held that, although the dock levelers could be used with the restraints, they could also be used separately.[111] Moreover, the court held that the restraints and levelers did not work together as a unit to create a desired result.[112] Rather, the court found that the levelers were sold with the restraints "only as a matter of convenience or business advantage."[113] Therefore, the court reasoned, the appropriate relationship did not exist between the dock levelers and either of Rite-Hite's restraints to justify a damage award on the levelers.[114]

The court distinguished its decision to award damages on the ADL-100 from its dock leveler decision. Here, the court relied on the general patent law policy redressing competitive injury, and on the Constitution's promotion of the useful arts.[115] The court ruled that the Constitution requires a damage award only where lost profits arise out of competition.[116] The court emphasized that the ADL-100 directly competed with Kelley's infringing Truk Stop.[117] The levelers, on the other hand, neither competed with the Truk Stop nor properly functioned with Rite-Hite's restraints.[118] Therefore, the circuit court vacated the district court's award of lost profit damages on the dock levelers, finding it erroneous as a matter of law.[119]

IV. ANALYSIS OF *RITE-HITE V. KELLEY*

As noted, until *Rite-Hite* the Federal Circuit had never confronted the issue of whether the scope of patent damages includes profits from the sale of a product other than the one covered by the patent at suit. Nevertheless, the court easily expanded the scope of

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[110] *Rite-Hite*, 56 F.3d at 1549-51.
[111] *Id.* at 1551.
[112] *Id.*
[113] *Id.*
[114] *Id.*
[115] *Rite-Hite*, 56 F.3d at 1551.
[116] *Id.*
[117] *Id.*
[118] *Id.*
[119] *Id.*

Cox: But How Far? Rite-Hite Corp. v. Kelley Co.'s Expansion of the Sco

compensable damages to include such lost profits.[120] The court, seemingly unconcerned by the precedential magnitude of its decision, simply applied the principle of "but for" causation already established in earlier case law to the new fact pattern, thereby properly affirming the damage award on the ADL-100.

The ruling, then, in some respects is not revolutionary.[121] However counter-intuitive it may seem to award damages for injury to a device not covered by the patent at suit, such an award nonetheless follows the statutory and precedential mandate to fully compensate the patentee. Here, Rite-Hite showed, transaction-by-transaction, customer-by-customer, that Kelley "snatched" Rite-Hite's sales contacts.[122] Although still circumstantial,[123] such transaction-based proof is tantamount to the customers who bought Kelley's Truk Stop testifying that they would have bought Rite-Hite's restraints but for Kelley's underbidding.[124] Such a situation falls squarely within the but for principle of causation established by earlier cases.[125]

Additionally, awarding lost profits on items not covered by the patent at suit will serve as an incentive to innovation, thus furthering the constitutional policy promoting the useful arts. First, patentees will be encouraged to invent if they know that their inventions cannot be used against them to damage their market share of similar goods.[126] Second, potential infringers are given a greater incentive to design around patented inventions,

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[120] The Court treated the subject in roughly four pages. *Rite-Hite*, 56 F.3d at 1544-48.

[121] *See* Janicke, *supra* note 51, at 695 (discussing recent evolution of patent damages law).

[122] *Rite-Hite*, 774 F. Supp. 1514, 1521 (E.D. Wis. 1991), *aff'd in part, vacated in part*, 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

[123] *See* Gary M. Ropski et al., *Enforcement Defense*, C567 ALI-ABA COURSE OF STUDY: SECURING AND ENFORCING PATENT RIGHTS 439, 453-54 (Nov. 15, 1990) (commenting on circumstantial nature of proof of lost profits).

[124] *See* Rite-Hite Corp. v. Kelley Co., 774 F. Supp. at 1527 n.7 (indicating impracticality of direct evidence of causation in patent damage suits). *See also*, Laura B. Pincus, *The Computation of Damages in Patent Infringement Actions*, 5 HARV. J.L. & TECH. 95, 106 (1991) (citing Central Soya Co. v. George A. Hormel & Co., 723 F.2d 1573, 220 U.S.P.Q. (BNA) 490 (Fed. Cir. 1983): "[I]n cases where the infringer steals customers, the Federal Circuit has looked to the sales of the infringer.").

[125] For a discussion of such precedent, *see supra* Part II.

[126] *See* Malloy & Renke, *supra* note 38, at 294-95 (discussing relationship of antitrust and patent damages issues).

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thus creating more, and perhaps better, ways to accomplish a task.[127]

Moreover, in line with *State Industries*' and *BIC Leisure*'s demand that courts closely map marketplace realities,[128] the court here fashioned a more economically coherent definition of the "value of a patent." The court recognized that the market power of a patent refers not only to the power to generate profit from the sale of patented devices, but also to the power to exclude others from making such sales.[129]

Yet, notwithstanding the simple realism of the court's ruling, the opinion is not completely satisfying. *Rite-Hite* addresses two main issues. The first issue is the more narrow and obvious one—whether a patentee may sue for damages on a product not covered by the patent at suit. The second, broader issue asks whether courts should look to the "but for" model to determine the scope of compensable harm. The court's award of lost profit damages on the ADL-100 provides an affirmative answer to the first question, and implies the same for the second. However, the court's failure to award damages on the dock levelers calls into question its commitment to the but for model for determining the proper scope of compensable patent damages.

This analysis, then, will briefly explore some of the tensions that lie within the opinion, focusing on the potential reaction to these tensions from both private parties and the courts. Such an exploration will, it is hoped, shed some light on the difficult nature of awarding lost profit damages, and on why the lower courts might be reluctant to apply a straightforward but for model of damage assessment. The analysis will first observe some practical implications of the court's award of damages on the ADL-100. It will then address what guidance *Rite-Hite* might provide the lower courts in determining the proper scope of compensable lost profit damages.

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[127] *See* Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268, 277, 227 U.S.P.Q. (BNA) 352 (Fed. Cir. 1985) ("[T]he incentive to 'design around' patents is a positive result of the patent system.").

[128] *See supra* Part II(A) for a discussion of *State Industries* and *BIC Leisure*.

[129] *See* Richard T. Rapp & Philip A. Beutel, *Patent Damages: Rules on the Road to Economic Rationality*, *in* PATENT LITIGATION 1991, at 344 (PLI Pats., Copyrights, Trademarks, & Literary Prop. Course Handbook Series No. 321, 1991) (proposing broad reading of patent's value).

A. PRACTICAL IMPLICATIONS OF *RITE-HITE*

First, *Rite-Hite* raises interesting strategic considerations for a potential plaintiff. Before *Rite-Hite*, a patentee's goal was to narrow down, as much as possible, the market in which its product competed.[130] The lesser the competition, the greater the likelihood that the infringer's sales would have gone to the plaintiff and not to some third party's cheaper, non-infringing substitute. *Rite-Hite*, however, creates an incentive for a patentee to prove a market broad enough to include not only the infringed product, but also a product not covered by the patent at suit. Such a strategy puts the patentee at risk of proving that a third party's product might also compete with the patentee's product. Therefore, the patentee who wishes to prove *Rite-Hite*-type damages must strike a balance between proving too little and proving too much.

Rite-Hite itself provides some guidance on how to strike this balance. Although Rite-Hite was interested in damages for its lost sales on the patented MDL-55, it was mainly concerned with profits from the better selling ADL-100. This suggests that a potential plaintiff should look to the relative magnitude of its products' profits to determine which it would most like to obtain from the defendant.[131]

Next, there is the more general observation that *Rite-Hite* will engender more patent infringement suits. Courts will now be awarding larger lost profit damages as they account for lost sales of items not covered by the patent at suit. This is in keeping with the recent trend of larger patent infringement damage awards and settlements.[132] The obvious effect of larger awards is more suits.[133] The potential payoff of successful litigation will entice companies to explore litigation as a way to enhance their profits.[134]

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[130] Pincus, *supra* note 124, at 119.

[131] *Rite-Hite's* facts are probably atypical, however, in that the patented MDL-55 was actually cheaper and less marketable than the automated Truk Stop and ADL-100.

[132] Janicke, *supra* note 51, at 693-94 (citing Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d (BNA) 1481, 1541, *modified*, 17 U.S.P.Q.2d (BNA) 1711 (D. Mass. 1991) ($873 million)).

[133] Janicke, *supra* note 51, at 694.

[134] *Id.*

The court's ruling also encourages more suits by allowing for more legitimate opportunities to sue. First, the ruling would allow a patentee who has a commercially weak or non-commercialized patent to seek lost profits for an act of infringement that damages profits from another device not itself covered by the patent at suit.[135] Indeed, Rite-Hite's MDL-55 was itself of questionable commercial viability:[136] the evidence indicated the MDL-55's failure to capture a significant share of the vehicle restraint market.[137] Thus, where prior to *Rite-Hite*, demand for the patented good seemed a prerequisite for a successful suit,[138] now patentees can sue for lost profits even where no demand for the patented item exists.[139]

Second, the opinion would allow patentees to pursue lost profits on products available in the public domain.[140] The court suggests a higher evidentiary hurdle for plaintiffs who seek such damages,[141] however, by recalling the *Panduit* test's second factor, the absence of an acceptable non-infringing substitute. The patentee would need to prove that, absent the infringement, no third party[142] would have made a non-infringing device capable of

[135] Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547-48 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995). *See, e.g.*, Scripto-Tokai Corp. v. Gillete Co., 788 F. Supp. 439, 22 U.S.P.Q. (BNA) 1678 (C.D. Cal. 1992) (allowing holder of non-commercialized patent to seek lost profit damages for product not covered by patent at suit).

[136] If the MDL-55 were in the same market as the ADL-100 and the Truk Stop, its considerably lower price (*Rite-Hite*, 56 F.3d at 1543) should have assured it greater commercial success. Here, it would seem that customers were primarily attracted to the Truk Stop's automation, not its incorporation of the '847 technology. *See* Janicke, *supra* note 51, at 701-702 (discussing defining effect of customers' "mindset" on market).

[137] *Rite-Hite*, 774 F. Supp. 1514, 1522 (E.D. Wis. 1991), *aff'd in part, vacated in part*, 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

[138] *See supra* Part II(A) for discussion of *Panduit* test.

[139] *See* Janicke, *supra* note 51, at 700 (discussing likelihood of suit without element of demand).

[140] Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1548 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995). Because the ADL-100 was not in the public domain, this part of the opinion is dicta.

[141] The court calls such a scenario a "different story." *Id.*

[142] The court specifically mentions "third party." *Id.* Presumably then, the court will not allow the infringer to lessen its damages by arguing that, absent the infringement, *the infringer itself* would have made the publicly available substitute.

beating out the patentee's publicly available device for the sale.[143]

Higher damage awards and a greater amount of suits will result in greater stress on the judicial system. First, additional suits will further crowd the federal docket.[144] Second, the ruling will make the cases themselves even more complex.[145] In addition to the substantial evidence already proffered regarding the effect of infringement on products covered by the patent at suit,[146] the ruling invites proof of lost profits from similar items not covered by such a patent. Moreover, because the court affirmed the principle of a fact-driven, case-by-case method for determining lost profits, the quality of argumentation and proof will also become more nuanced and variable.[147] Similarly, with higher damages on the line, attorneys will have a greater incentive to develop a case's complexity.[148]

Increased and more extensive litigation will adversely affect potential defendants and benefit potential plaintiffs. The loss of competitiveness attendant to a defendant's loss in ability to sell the patented technology, coupled with both a decrease in the defendant's assets and an increase in the assets of the plaintiff-competi-

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[143] *Id.* Here, a patentee's approach would depend on the facts. In a multi-competitor market, the patentee would rely on a *BIC Leisure* market share approach to prove entitlement to a share of the infringer's sales. In a two-competitor market, a plaintiff would rely on the sheer absence of any similar third party device to indicate the improbability that such a device would have existed absent the infringement.

[144] Kevin R. Casey, *Alternate Dispute Resolution and Patent Law*, 3 FED. CIRCUIT B.J. 1, 4 & n.12 (1993).

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> [C]omplex issues often arise [in patent infringement suits]. The complexity . . . will influence the number of attorneys working on the case and the amount of time each attorney spends on the case. Complex issues require more, and more thorough, discovery, and create more opportunities for time-consuming disputes to arise between the parties.

Norman H. Zivin & Wendy E. Miller, *An Overview of a Patent Law Suit and the Decision to File*, *in* PATENT LITIGATION 1991, at 90 (PLI Pats., Copyrights, Trademarks and Literary Prop. Course Handbook Series No. 320, 1991). Patent damages are already so complex as to require bifurcated liability and damages proceedings (Pincus, *supra* note 124, at 95) and can take up to several years to complete. In *Rite-Hite* itself, nearly nine years elapsed between the finding of liability and the close of damage proceedings. 56 F.3d at 1543.

[146] *See* W. Davis Westergard, *Harmonization Enforcement: The Reality Behind the Panacea*, 26 J. MARSHALL. L. REV. 593, 593 (1993) (observing that patent "litigators will take depositions 'till the cows come home' ").

[147] *See* Malloy & Renke, *supra* note 38, at 288-90 (discussing complexity of market analysis).

[148] Casey, *supra* note 144, at 1.

tor, could spell ruin to a defendant's enterprise.[149] At the least, potential patent infringement defendants may face higher liability insurance premiums to cover both the increased cost of litigating such suits as well as the costs of settlements or adverse rulings.[150]

The cost of pursuing larger damages, however, may also serve to shrink the pool of potential plaintiffs. Already expensive,[151] the costs of performing the further market analysis required to prove lost profits on devices not covered by the patent at suit may become prohibitive.[152] Some smaller plaintiffs may therefore be "priced out" of such litigation, leaving it to the larger plaintiffs to exploit the potential for larger revenue.

The specter of longer, more complex and more frequent litigation may lead courts to simplify rather than complicate their damages proceedings.[153] Courts, forced to deal with an increasingly more complex and voluminous caseload, will need some precedent or procedure to simplify their decision making and lighten their burden. Such simplification may take many forms. Courts may simply set time limits on damages proceedings.[154] Or, courts may look to lessen the incentive of potential plaintiffs to litigate by requiring a tighter nexus between infringement and damages. For example, courts might look to alter the burdens borne by the parties regarding proof of damages.[155]

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[149] *See* Ned L. Conley, *An Economic Approach to Patent Damages*, 15 A.I.P.L.A. Q.J. 354, 357 (1987) (regarding effect of damage award on infringer).

[150] *See* David A. Gauntlett, *Changing Winds: Recent Decisions Favor Policyholders in Intellectual Property Coverage Claims*, 5 NO. 3 Coverage 20 (May/June 1995) (regarding trend of increased liability coverage for patent infringement).

[151] Casey, *supra* note 144, at 4 & n.13 (pricing cost of patent litigation at between one-half and 200 million dollars).

[152] Malloy & Renke, *supra* note 38, at 289 (pertinently asking: "How much justice can a client afford?").

[153] *See* HARMON, *supra* note 41, at 410 (regarding discretion of district court to determine damages).

[154] Malloy & Renke, *supra* note 38, at 289.

[155] *See* Christopher S. Marchese, *Patent Infringement and Future Lost Profits Damages*, 26 ARIZ. ST. L.J. 747 (1994) (advocating "reasonable certainty" standard for future lost profits); *see also* Janicke, *supra* note 51, at 698-99 & nn.40-41 (quoting Tektronix, Inc. v. U.S., 552 F.2d 343, 349, 193 U.S.P.Q. (BNA) 385 (Ct. Cl. 1977), *cert. denied*, 439 U.S. 1048, 200 U.S.P.Q. (BNA) 704 (1978): "If lost profits are ever to be awarded . . . it should be only after the strictest proof that the patentee would actually have earned and retained those sums in its sales . . . .").

Cox: But How Far? Rite-Hite Corp. v. Kelley Co.'s Expansion of the Sco

Currently, after the plaintiff has made a showing of reasonable probability, the burden shifts to the defendant to disprove the causal link between infringement and lost profits.[156] Under that rule, the plaintiff need only show that some of his losses were caused by the defendant in order to make a showing of reasonable probability.[157] Although a new rule requiring more of a showing by the plaintiff may lead to even more discovery and argument as the plaintiff struggles to meet an increased burden, it may also lead to fewer exorbitant damage awards and therefore fewer suits.

More importantly, however, courts, contrary to the urging of the Federal Circuit in *State Industries', BIC Leisure*, and *Rite-Hite*, may look once again to formulas and bright line rules to determine the scope of damages, rather than delve into the complexities of the relevant marketplace. That would be an ironic result, especially since this case seems so simply to state the law and its application. But the *Rite-Hite* decision is not without irony. Although the court purports to call for simplicity with its straightforward application of the "but for" test, the opinion thereby calls for a more complex, case-by-case analysis of the parties' involvement in the market.[158] Unfortunately, *Rite-Hite* fails to provide adequate guidance for dealing with such complexity.

B. *RITE-HITE* AS A GUIDE FOR LOWER COURTS

As an initial matter, the facts of *Rite-Hite* do not provide a helpful model for determining lost profit damages. *Rite-Hite*, after all, presents the easy case: the two competitor market. The inference of causation between infringement and lost sales rises to the level of presumption in such a market.[159] Moreover, two competitor cases are rare.[160] Even rarer still, one must suppose,

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[156] Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1141 (Fed. Cir. 1991).

[157] *Id.*; *see also* Janicke, *supra* note 51, at 705 n.82 (regarding burdens of respective parties on damages issue).

[158] *See* Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1546 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995) (discussing need for fact-driven determination of compensable damages).

[159] *See* Pappas et al., *supra* note 87, at 71 (quoting Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1327 (Fed. Cir. 1987): "[I]t is more reasonable to assume that the patentee would have made the infringer's sales in this [two-competitor] situation as opposed to a highly competitive market.").

[160] Jarosz & Page, *supra* note 56, at 321.

is the two competitor case with such straightforward, transaction-by-transaction proof. The case, therefore, did not require the kind of rigorous examination of the market required in the more common multi-competitor situation.

Next, the *Rite-Hite* court itself evidenced attachment to the formulaic approach. Despite the ease of the case, and despite disclaimers about the necessity of formula, the court twice relied on the *Panduit* analysis. Importantly, the court employed the test in its only attempt to show that the Truk Stop actually caused Rite-Hite's decrease in restraint sales.[161] The court again relied on the test when discussing how a patentee must prove lost profits on an item available in the public domain.[162]

Most tellingly, the court vacated the award for lost profits on the dock levelers.[163] There, the court refused to let causation and foreseeability alone establish what damages were compensable. Instead, the court relied on an unrealistic conception of "competition" in order to avoid such damages.[164] In so doing, the court created a bright line rule that avoids placing patentees in the position they would have been in but for the infringement. Unfortunately, the court's treatment of this issue is not a model of judicial clarity. The ruling does, however, issue some clear implications.

The court ruled that only those damages that arise out of direct competition with an infringing device are compensable.[165] In so ruling, the court appears to have constitutionalized the competition requirement.[166] The rule is that only those losses that result from competition with the infringing device merit compensation.[167] The court gleans the competition requirement from its interpretation of "patent law."[168] Patent law, according to the court, limits compensation to competitive injury.[169] The court,

[161] *Rite-Hite*, 56 F.3d at 1548.
[162] *Id.*
[163] *Id.* at 1551.
[164] *Id.*
[165] *Id.* at 1549.
[166] *Rite-Hite*, 56 F.3d at 1551.
[167] *Id.* at 1551.
[168] *Id.*
[169] *Id.*

then, purports merely to be enforcing the policy judgment inherent in patent law that only competitive injury need be compensated to deter infringement and protect patentees. The problem with this rule is that it does not define "competition" broadly enough.

Conceivably, the court's ruling was an attempt to equate competition with foreseeability. The court may have reasoned that only those injuries that arise out of competition are foreseeable, and that therefore a competition limitation would be sufficient to deter infringement and protect the defendant. If the court were using "competition" merely to identify all the ways that infringement foreseeably causes harm to the patentee's business, then the rule would make sense as a reasonable limitation on but for causation. The court's conception of competition, however, is narrower, and thus more restrictive of damages, than a foreseeability requirement.

In a convoluted passage, the court implied that in order to be compensable, a patentee's products must do one of two things.[170] The products may, like the MDL-55 and ADL-100 in this case, directly compete with an infringing device.[171] If, however, the items are collateral to the patented product, like the dock levelers here, they will need to qualify as competitive under the entire market value rule.[172] To so qualify, collateral items will need to "function with" another of the patentee's devices that directly competes with the infringing device.[173]

In order to function with a directly competitive device, the collateral device must work with the primary device as a "functioning unit . . . . so as to produce a desired end product or result."[174] The court suggests that if the collateral device has any independent, self-sufficient function, it cannot qualify under the entire market value rule.[175] According to the court, devices that do not function with the patented device but nonetheless normally sell along with it are only "matter[s] of convenience or business

[170] *Id.* at 1549-51.
[171] *Rite-Hite*, 56 F.3d at 1551.
[172] *Id.* at 1549.
[173] *Id.* at 1550.
[174] *Id.*
[175] *Id.* at 1551.

advantage."[176] As such, profits lost on these devices will not qualify as grounds for compensation.

The court did not explain why the dock levelers and the restraints did not operate to assure the safe passage of workers between dock and truck. Instead, the court found that because the two items could be used separately, the dock levelers were not part of a functioning unit that competed with the infringing product.[177] Thus, the court did not award profits lost on the sale of the levelers.[178]

The court's ruling regarding function is unfortunate in several respects. First, it directly contradicts the district court's finding that the restraints reached their full utility only in conjunction with dock levelers.[179] The levelers and restraints *did* work together to produce the desired end result of safe passage between truck and dock. Therefore, even under its narrow "function with" rubric, the court should have awarded damages on the dock levelers.

Furthermore, the function with requirement is inconsistent with previous rulings on the entire market value rule. For example, in *Kaufman Co. v. Lantech, Inc.*, the court found lost plastic wrap sales to be compensable upon a finding of infringement of an industrial wrapping machine.[180] This suggests that a patentee's collateral item need not narrowly function with the patented item in order to qualify as compensable. Moreover, in *TWM Manufacturing v. Dura Corp.*, the court rejected the argument that profits lost on collateral items sold along with a patented item for the sake of convenience were uncompensable.[181]

More importantly, the function with limitation fails to realistically assess marketplace behavior. Certainly, the power of a patented item to generate sales of related items, or prevent sales of competi-

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[176] *Rite-Hite*, 56 F.3d at 1550.

[177] *Id.* at 1551.

[178] *Id.*

[179] Rite-Hite Corp. v. Kelley Co., 774 F. Supp. 1514, 1530 (E.D. Wis. 1991), *aff'd in part, vacated in part*, 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

[180] 926 F.2d 1136, 1144 (Fed. Cir. 1991).

[181] 789 F.2d 895, 901, 229 U.S.P.Q. (BNA) 525 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986) ("We reject [the] argument that the inclusion of unpatented items in the . . . lost profits determination is dependent . . . on whether they are supplied for 'convenience.' ").

tors' items, is part of its competitive power. Indeed, the court's recognition of this power of the patent was critical to its damage award on the ADL-100.[182] As a result of its ruling on the ADL-100, the court should have recognized that patented items can compete even with collateral items. The fact that collateral sales convenience the customer and help create a business advantage for the seller supports this broader notion of competition. Such sales prove that patents help patentees compete. The court, therefore, undervalued the market power of a patent. As a result, the court failed to adequately protect the patentee, and thus created a disincentive to publication.

The court's failure to fully account for marketplace realities is particularly egregious given the facts of the case and overall import of the opinion. The evidence plainly showed that but for Kelley's infringement, Rite-Hite would have sold additional dock levelers.[183] Moreover, Kelley intended to protect its dock leveler market via its marketing of the Truk Stop and thus anticipated the injury to Rite-Hite's dock leveler sales.[184] Clearly, then, Kelley itself foresaw a competitive relationship between the dock levelers and the restraints.

Regarding the damages on the ADL-100, the court noted that "if the patent infringement had nothing to do with the lost sales, 'but for' causation would not have been proven."[185] There, the court indicated its commitment to let what would have happened in the marketplace guide its determination of damages. Regarding the dock levelers, however, the court failed to follow through on this commitment. Thus, the court's dock leveler ruling undermines its commitment to a "but for" model of damage analysis.

V. CONCLUSION

Rite-Hite is an important decision. From now on, patentees will be allowed to pursue damages on similar products not covered by the patent at suit. This will result in larger damage awards and

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[182] For a discussion of the court's reasoning regarding damages on the ADL-100 see *supra* text accompanying notes 94-97, 128-129.

[183] *Rite-Hite*, 774 F. Supp. at 1530.

[184] *Id.*

[185] *Rite-Hite*, 56 F.3d 1538, 1548 (Fed. Cir.), *cert. denied*, 116 S. Ct. 184 (1995).

greater protection for the patentee. The opinion will therefore engender more, and more complicated, patent infringement suits. Moreover, the opinion seems to represent a radical commitment to a but for model for assessing damages.

The dock leveler portion of the opinion, however, indicates important policy issues left unarticulated by the court. In not awarding damages on the dock levelers, the court called into question its more important ruling on the ADL-100. Apparently, the court feared too quickly opening the floodgates of damage claims that could potentially overwhelm both the courts and defendants.

Rite-Hite highlights the complexity involved in awarding patent damages. Unfortunately, the court fails to provide lower courts with clear guidance on how to deal with such complexity. The court speaks of allowing the facts of each case to dictate the scope of compensable harm, yet, fearful of what might result in later litigation, hedges on, and thus undermines, its own principles of causation and foreseeability. Indeed, the court indicates that where issues of policy so mandate, it is proper to undermine those principles by awarding lesser damages than those actually foreseen and caused in fact by the infringement. Thus, the court leaves it to the lower courts to fill in the potentially vast landscape of compensable harm opened up by its decision.

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