KING INSTRUMENTS CORP. v. PEREGO: SHOULD LOST PROFITS BE AWARDED ON UNPATENTED PRODUCTS WHERE PATENTEE SITS ON ITS PATENTS?

> It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.[1]
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> Fundamental object of patent law is to encourage invention rather than to promote private fortunes.[2]

Throughout our history, inventors have sought and received patents to shield their inventions from infringement.[3] The Framers of our Constitution realized the need for protecting one's rights in his inventions, and empowered Congress to enact legislation towards this end.[4] Specifically, the Framers wrote that the "Congress shall have power . . . to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,"[5] making inventors' rights in their inventions constitutionally protected. Pursuant to this provision, Congress enacted the Patent Act providing that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new

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1 Kendall v. Winsor, 62 U.S. 322, 327-28 (1858).

2 George Franke Sons Co. v. Wiebke Mach. Co., 2 F. Supp. 499 (D. Md. 1933).

3 *See* HARRY A. TOULMIN, JR., INVENTION AND THE LAW 9-12 (1936).

4 U.S. CONST. art. I, § 8, cl. 8.

5 *Id.* James Madison justified providing Congress the power to grant a limited monopoly to inventors and authors as follows:

> The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provision for either of the cases, and most of them have anticipated the decision of this point by laws passed at the instance of Congress.

THE FEDERALIST No. 43, at 271-72 (James Madison) (Clinton Rossiter ed., 1961). With regards to promoting inventions, Thomas Jefferson wrote, "[c]ertainly an inventor ought to be allowed a right to the benefit of his invention for some certain time. . . . Nobody wishes more than I do that ingenuity should receive a liberal encouragement. (quoting Letter to Oliver Evans (May 1807), V WRITINGS OF THOMAS JEFFERSON, at 75-76 (Washington ed.)." Graham v. John Deere Co., 383 U.S. 1, 8 (1965).

and useful improvements thereof, may obtain a patent therefor . . . ."[6] Congress also enacted provisions to ensure that a patentee will continue to exclusively exploit his invention by punishing infringers of the underlying patent. Consequently, we see laws that provide for remedies when infringement takes place.[7]

Section 284 of the Patent Act provides, "[u]pon 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 interest and costs as fixed by the court."[8] Under the statute, a patentee's damages may take the form of an established royalty, a reasonable royalty, or his lost profits.[9] Until recently, lost profits were available as a remedy in a patent infringement action if there was a reasonable probability that "but for" the infringement, the patentee would have made higher profits on his patented invention.[10] Obviously, to recover lost profits on the patented invention the patentee had to be in the business of making, using, or selling the invention.[11] If the patentee did not put the patented product on the market, damages in the form of lost profits were generally unavailable to him, and he had to rely on a hypothetical "reasonable royalty" as the only basis for his compensation.[12]

With its rulings in *Rite-Hite Corp. v. Kelley Co, Inc.*[13] and *King Instruments Corp. v. Perego*,[14] the Federal Circuit[15] dramatically in-

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6 35 U.S.C. § 101 (1994).

7 *See id.* §§ 283-85.

8 *Id.* § 284.

9 *See generally* 7 DONALD S. CHISUM, CHISUM ON PATENTS § 20.03 (1997).

10 Robert C. Scheinfeld, *Monetary Recovery: The "Reasonably Foreseeable" Standard*, N.Y.L.J., Aug. 2, 1995, at 3.

11 *See* Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990).

12 *See* Timothy J. Malloy & Mellissa M. McCaulley, *Rite-Hite: Has the Federal Circuit Expanded the Legal limits on Damages Awarded in Patent Infringement Actions* (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. G4-3952, 1995); *see also* Scheinfeld, *supra* note 10.

13 56 F.3d 1538 (Fed. Cir. 1995). *Rite-Hite* was a case that dealt with a number of different issues involving compensatory damages, such as lost profits damages on unpatented products, determination of what constitutes convoyed sales, proper calculation of reasonable royalty based on the specific facts of the case, and the standing of Independent Sales Organizations ("ISOs") to sue for infringement. *Id.* This note will only discuss *Rite-Hite* on the issue of lost profits for unpatented products.

14 65 F.3d 941 (Fed. Cir. 1995).

15 In 1982, Congress created the Federal Circuit. S. REP. No. 97-275, at 11 (1982). The Federal Circuit heard its first case, *South Corp. v. United States*, 690 F.2d 1368, 1369 (Fed. Cir. 1982), on October 1, 1982. By allowing the Federal Circuit to be the exclusive arbiter of patent appeals, Congress sought to ensure a uniform interpretation of U.S. patent laws. Federal Courts Improvement Act, 28 U.S.C. § 1295 (1982); *see also* Helen W. Nies, *Celebrating the Tenth Anniversary of the United States Court of Appeals for the Federal Circuit*, 14 GEO.

creased the scope of damages that are compensable as patentee's lost profits. In *Rite-Hite*, the Federal Circuit awarded damages representing lost sales of patented and *unpatented* devices, where the patentee was manufacturing and selling the patented and the unpatented device. In *King Instruments*, expanding on *Rite-Hite's* reasoning, the Federal Circuit awarded lost profits on the patentee's unpatented products, even where he was not manufacturing and selling his patented invention.

The measure of the patent's value to the public is the intrinsic usefulness of the invention. Therefore when a patent is infringed, the proper measure of compensation is the value of what is taken, which is the invention that is claimed in the patent. After *Rite-Hite* and *King Instruments*, any company with a dominant market position will be able to prevent competition for any of its devices, merely by applying for patents on alternative devices, even though these devices are never made available to consumers. Potential competitors will shy away from competition with these dominant companies because of the threat of being punished for any unintentional infringement. As a result, rather than promoting and encouraging technological innovation, the patent system will end up stifling it.

This article discusses the accuracy and impact of the Federal Circuit's ruling in *King Instruments*. Part I of this Note provides a brief overview of the damages provisions of the current Patent Act. Part II provides the factual and procedural background of *Rite-Hite*[16] and *King Instruments*. Part III analyzes the Federal Circuit's ruling in light of Supreme Court precedent and congressional intent, and the public policy concerns inherent in the overall patent system. Part IV of this Note provides a suggestion that limits the circumstances under which the ruling of these two cases may be applied, without completely overruling them. Finally, this Note concludes that the Federal Circuit erred in allowing lost profits for loss of sales of unpatented products, where the patentee merely sits on his patented invention.

MASON L. REV. 505 (1992); Dennis DeConcini, *The Federal Courts Improvement Act of 1982: A Legislative Overview*, 14 GEO. MASON L. REV. 529 (1992); Donald W. Banner, *Witness at the Creation*, 14 GEO. MASON L. REV. 557 (1992).

As a result, the Federal Circuit now hears appeals from the final dispositions of the Patent and Trademark Office ("PTO"), U.S. district courts, U.S. claims court, and the U.S. International Trade Commission. Harry F. Manbeck, Jr., *The Federal Circuit—First Ten Years of the Patentability Decisions*, 14 GEO. MASON L. REV. 499 (1992).

16 Discussion of *Rite-Hite Corp.* is limited to facts relating to the lost profits portion of the opinion.

I. Overview of Current Patent Damages

The 1952 Patent Act provides that "a patentee shall have remedy by civil action for infringement of his patent."[17] Upon a finding of infringement, the patentee may be awarded injunctive relief,[18] as well as his actual monetary damages.[19] Patent infringement damages have been defined by the U.S. Supreme Court as "compensation for the pecuniary loss [that the patent owner] has suffered from the infringement, without regard to the questions of whether the . . . [infringer] has gained or lost by his unlawful acts."[20]

Once infringement of a patented invention has been established, the court must determine the appropriate compensation for the patentee's injuries. Under the 1952 Patent Act, monetary awards must represent the damage suffered by the patentee, without any consideration to the profits made by the infringer.[21] Monetary damages awarded are generally equal to the sum that adequately compensates the patentee for losses sustained as a result of the infringement. Damages usually include profits lost by the patentee as a result of the infringement and other consequential damages;[22] however, in the event of uncertainty in calculating lost profits, the patentee is entitled to a reasonable royalty, at the very least.[23] In some circumstances, the compensation for an infringement might take the form of an established royalty.[24] The patentee must, however, prove his damages by a preponderance of evidence.[25]

Under current law, the determination of compensatory damages is left to the sound discretion of the trial judge and will not be disturbed absent an abuse of discretion.[26] There are boundaries, however, that govern the discretionary power of the district judges.[27] For example, the mode of compensatory damage (lost profits, established royalty, or reasonable royalty) is dependent

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17 35 U.S.C. § 281 (1994).

18 *Id.* § 283. The statute specifically provides that "courts having jurisdiction . . . may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." *Id.*

19 *Id.* § 284.

20 Coupe v. Royer, 155 U.S. 565, 582 (1895).

21 Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 505 (1964).

22 Patricia N. Brantley, Patent Law Handbook, 1995-96 Edition § 6.04 (1995).

23 State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577 (Fed. Cir. 1989); *see also* Del Mar Avionics, Inc. v. Quinton Instruments Co., 836 F.2d 1320 (Fed. Cir. 1987).

24 *See, e.g.*, Western Elec. Co. v. Stewart-Warner Corp., 631 F.2d 333 (4th Cir. 1980).

25 Schneider (Europe) AG v. Scimed Life Sys. Inc., 852 F. Supp. 813, 860 (D. Minn. 1994), *aff'd*, 60 F.3d 839 (Fed. Cir. 1995).

26 Stickle v. Heublein, Inc. 716 F.2d 1550, 1563 (Fed. Cir. 1983).

27 Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268, 275 (Fed. Cir. 1985).

upon the evidence presented by the patentee, and the trial judge is limited to merely adopting the calculating procedure.[28]

Deciding whether a patentee is entitled to a reasonable royalty or his lost profits is among the most litigated section 284 issues. Until recently, a company which "did not compete in the sale of its invention in the United States" was eligible for only a reasonable royalty, rather than lost profit damages,[29] since in the absence of such competition the patentee was unable to prove with a reasonable probability that "but for" the infringement, he would have made the infringer's sales of his patent.[30] After the Federal Circuit's rulings in *Rite-Hite* and *King Instruments*, the scope of compensable lost profits damages may include lost profits for unpatented items being sold by the patentee, regardless of whether the patentee makes, uses, or sells his patented invention.[31]

II. CASES IN CHIEF

A. *Rite-Hite Corporation v. Kelley Company, Inc.*

1. Background Facts and Procedural History

Rite-Hite sued Kelley for patent infringement. Both parties were competitors in the dock lever industry.[32] Rite-Hite manufactured two types of vehicle restraints: the "Manual Dok-Lock" model 55 ("MDL-55"), which incorporated the patent in suit,[33] and the "Automated Dok-Lock" model 100 ("ADL-100"), which did not incorporate the patent in suit.[34] Kelley, on the other hand, put its product on the market under the "Truk Stop" trademark, which was designed to compete primarily with ADL-100.[35]

Rite-Hite alleged that Kelley had infringed its patent in suit.[36] The suit was bifurcated into the liability and damage phases of the trial, and the district court held that the patent was infringed by

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28 Smithkline Diagnostics, Inc. v. Helena Lab. Corp., 926 F.2d 1161 (Fed. Cir. 1991).

29 *See, e.g.*, Lindemann Maschinenfabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990).

30 Oiness v. Walgreen Co., 88 F.3d 1025, 1029 (Fed. Cir. 1996).

31 *See generally* Robert J. Cox, *But How Far?:* Rite-Hite Corp. v. Kelley Co.'s *Expansion of the Scope of Patent Damages*, 3 J. INTELL. PROP. L. 327 (1996).

32 Rite-Hite Corp. v. Kelley Co., Inc., 629 F. Supp. 1042, 1046 (E.D. Wis. 1986).

33 For simplicity, this note refers to the MDL-55 as the patent in suit.

34 For simplicity, this note refers to the ADL-100 as the patent not in suit. ADL-100 did not incorporate the patent in suit, though it may have been covered by other patents that were not the subject of this litigation.

35 *See generally Rite Hite*, 629 F. Supp. 1042.

36 Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1542-43 (Fed. Cir. 1995); *see also* Rite-Hite Corp. v. Kelley Co., Inc., 774 F. Supp. 1514, 1517 (E.D. Wis. 1991).

Kelley's "Truk Stop" device.[37] The trial court enjoined Kelley from further infringement of Rite-Hite's patent.

The next phase dealt with the assessment of damages.[38] Damages sought by Rite-Hite included, inter alia, lost profits for its models incorporating the patent in suit and the patent not in suit.[39] The trial court concluded that Kelley made 3,825 infringing sales,[40] and caused Rite-Hite to lose eighty sales of its patent in suit and 3,243 sales of its patent not in suit,[41] and awarded Rite-Hite profits lost on the sale of both models. The total amount of lost damages equaled $3,811,499.[42]

2. Appeal to Federal Circuit

Kelley appealed the district court's assessment of lost profit damages for Rite-Hite's lost sales on the patent not in suit to the Federal Circuit, arguing that "the patent statute does not provide for damages based on Rite-Hite's lost profits on ADL-100 restraints because the ADL-100s are not covered by the patent in suit."[43] The Federal Circuit, sitting en banc, rejected Kelley's argument and affirmed the district court on this issue by a sharply divided margin of eight to four.[44]

a. Majority's Opinion

Judge Lourie, writing for the majority, started by reading section 284 to mandate that a patentee's damages must be "adequate" to compensate for the infringement, and that reasonable royalty is the absolute minimum a patentee may be awarded.[45] The majority opined that the "language of the statute is expansive rather than limiting," and provides "only a lower limit and no other limitation."[46]

Next, the majority analyzed the trial court's reasoning. It affirmed the trial court's application of the *Panduit* test, through which the trial court found that "but for" Kelley's infringement, Rite-Hite would have made more sales of its models with the patent

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37 *Rite-Hite*, 629 F. Supp. at 1043; *see also Rite-Hite*, 774 F. Supp. at 1517.
38 *Rite-Hite*, 56 F.3d at 1543.
39 *Id.*; *Rite-Hite*, 774 F. Supp. at 1518.
40 *Id.* at 1525.
41 *Id.*
42 *Id.* at 1534.
43 *Rite-Hite*, 56 F.3d at 1543.
44 *Id.*
45 *Id.* at 1544 (citing Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326 (Fed. Cir. 1987)).
46 *Id.*

in suit as well as sales of the models with the patent not in suit.[47] The majority did, however, stress that limits existed to the types of injuries that the "but for" test could provide compensation.[48] For example, the majority stated that "a heart attack of the inventor or loss in value of shares of common stock of a patentee corporation caused indirectly by infringement are not compensable."[49] Thus, not only must the injury satisfy the "but for" test, but the injury must also be of the type for which established principles of patent law provide a remedy.[50]

After laying down the above-stated long-established rules of patent damages, the majority dropped the biggest bombshell of the case when it declared that "if a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary."[51] With this, the Federal Circuit seems to have reduced the standard of proof required for awarding lost profits. Instead of proving that "but for" the infringing action, the patentee would have made more sales, the patentee only has to show that his lost sales were "reasonably foreseeable" from the infringement. The majority noted, it was reasonably foreseeable that Rite-Hite would lose sales on unpatented models, because of competition with Kelley's "Truk Stop," and thus lost sales of these products were compensable.

Next, the majority addressed Kelley's contention that the patent statute does not provide for recovery of lost sales of a device not covered by the patent in suit. Even though the majority agreed that the patent statute did not expressly provide for such a recovery, it dismissed Kelley's contention, saying that "express language is not required" for it to justify such a recovery.[52] Since the patent statute allowed damages to afford full compensation for the infringement,[53] the majority argued that it would be inconsistent with the meaning of section 284 to refuse to award "reasonably foreseeable damages necessary to make Rite-Hite whole,"[54] since

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47 *Id.* at 1545-46.

48 *Id.* at 1546 (citing Associated Gen. Contractors, Inc. v. California State Council of Carpenters, 459 U.S. 519, 536 (1983)).

49 *Id.*

50 *Id.*

51 *Id.* The majority noted that the district court had found that Rite-Hite Corporation's lost sales of ADL-100 were reasonably foreseeable, since they were in direct competition with the infringing products.

52 *Id.* at 1546-47. The majority retorted that "statutes speak in general terms rather than specifically expressing every detail." *Id.*

53 *Id.* at 1547 (citing General Motors Corp. v. Devex Corp., 461 U.S. 648, 654 (1983).

54 *Id.*

loss of sales of unpatented models resulted directly from the infringing act.

The majority further rejected Kelley's policy argument that inventors should be encouraged by the law to practice their inventions by noting that "a patent is granted in exchange for a patentee's disclosure of an invention, not for the patentee's use of the invention."[55] The majority finally concluded that Rite-Hite had satisfied the *Panduit* test, in that Kelley's infringement of the patent in suit was the only cause for Rite-Hite's lost sales of unpatented models.[56] Hence, the majority concluded, Rite-Hite was entitled to lost profits on unpatented models, in addition to its patented models.[57]

b. Dissent's Opinion

Judge Nies filed a twenty-two page dissent,[58] opposing the majority's expansion of the circumstances under which lost profits may be awarded.[59] According to Judge Nies, the majority stated "a broader rule for the award of lost profits on any goods of the patentee with which the infringing devices competes, even products in the public domain."[60] She argued that an award of lost profits for the sale of products not covered by the patent in suit was against legislative intent and Supreme Court precedent.[61]

The dissent agreed with the majority that Rite-Hite was entitled to full compensation for any damage caused by Kelley's infringement.[62] However, "to constitute legal injury for which lost profits may be awarded, the infringer must interfere with the patentee's property right to an exclusive market in goods embodying the invention of the patent in suit."[63] Hence, the proper inquiry according to the dissent was, "what are the injuries for which full compensation must be paid?"[64]

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55 *Id.* ("There is no requirement in this country that a patentee make, use, or sell its patented invention," and irrespective of his use, a patentee may enforce his rights under the patent.) (citing Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 424-30 (1908)).

56 *Id.* at 1548-49.

57 *Id.* at 1549.

58 *Id.* at 1556-78 (Nies, J., dissenting).

59 *Id.*

60 *Id.* at 1556.

61 *Id.* at 1556-78.

62 *Id.* at 1556 (citing General Motors Corp. v. Devex Corp., 461 U.S. 648, 653-54 (1983)).

63 *Id.*

64 *Id.* Judge Nies argued that Rite-Hite's remedies had to be limited to injury of its patent rights, the metes and bounds of which are limited by the patent. She then quoted the Supreme Court's suggestion that "[f]rom the character of the right of the patentee we

Judge Nies disagreed with the majority's interpretation of the term "damages,"[65] arguing that Kelley's diversion of sales from Rite-Hite's unpatented models did not constitute "an injury to patentee's property rights granted by the . . . patent."[66] The dissent then cited Supreme Court cases allowing lost profits on unpatented parts only as the infringer's profits and not as part of the patentee's damages,[67] and congressional legislation doing away with infringer's profits as a remedy in patent infringement cases.[68] The dissent insisted that the majority was incorrect in ruling that damages may be had for foreseeable competitive injury. Instead, it argued, compensation is allowed only for direct injury to the patentee's patented invention under established law. Hence, Judge Nies would have vacated the trial court's judgment of lost profit damages on the 3,283 sales of Rite-Hite's restraints.[69]

B. *King Instruments Corp. v. Perego*

1. Background Facts and Procedural History

King Instruments brought suit against Tapematic SrL and Luciano Perego, president and owner of Tapematic.[70] Both parties were in the business of making and selling automated machines for loading magnetic audio or video tapes into closed cassettes; King Instruments alleged that Tapematic's products in the United States infringed three of its patents relating to tape loading machines.[71]

King Instruments' inventions related to the loading of closed cassettes which incorporated two winding hubs mounted with magnetic tape spliced at each end to leader tape attached to the two hubs.[72] After a bench trial, the district judge issued his ruling, find-

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may judge of his remedies." Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 430 (1908).

65 *Id.* (Arguing that "'damages'. . . is a word of art. 'Damages in a legal sense means the compensation which the law will award for an injury done.'") (citing *Recovery in Patent Infringement Suits: Hearings on H.R. 5231 [later H.R. 5311] Before the Comm. on Patents,* 79th Cong., 2nd Sess. 9 (1946) (statement of Conder C. Henry, Assistant Commissioner of Patents)).

66 *Id.*

67 *Id.* at 1563-66.

68 *Id.* at 1566 (explaining that Congress did away with infringer's profits as an available remedy to limit the length and expenses of patent litigation).

69 *Id.* at 1576.

70 King Instruments Corp. v. Perego, 737 F. Supp. 1227, 1229 (D. Mass. 1990).

71 *Id.* Specifically, the three patents were:
Patent Number 3,637,153, titled "Machine Splicing and Winding Tape Into a Cassette" (the "153 Patent"); Patent Number 3,825,461, titled "Splicing Head Assembly" (the "461 Patent"); and Patent Number 3,997,123, titled "Automatic Cassette Loading Machine" (the "123 Patent").
Id.

72 *Id.* at 1230.

ing all three of King Instruments' patents valid, but only one infringed by the defendant.

The next phase of the case addressed the issue of damages suffered by King Instruments. Judge Harrington noted that in a two-supplier market, lost profits may be calculated by considering the patentee's share in the market.[73] The court noted that in the years preceding the infringement, King Instruments had controlled seventy percent of the tapeloader market, and that defendants were responsible for the sale of seventy-seven infringing machines in the United States.[74]

Tapematic argued that its infringing model was a "double pancake machine,"[75] and that King Instruments did not manufacture any machine incorporating the infringed claim of the 461 patent. Thus, Tapematic suggested that King Instruments could not obtain its lost profits as a remedy for the infringement. The court denied Tapematic's argument, stating that had it not sold the infringing machines, King Instruments would have satisfied seventy percent of the market's demand for tapeloaders through another one of its models.[76] Thus, even though King Instruments did not manufacture its patent in suit, it was entitled to profits for lost sales of its unpatented model.[77] The court found that plaintiff would have made forty-nine additional sales of the unpatented model, had defendants not sold the infringing machines,[78] without any significant increase in fixed costs, such as employees' salaries, property taxes, or insurance costs.[79]

2. Appeal to Federal Circuit

Tapematic appealed from the district court's ruling, finding infringement. In addition, Tapematic challenged the lost profit damages awarded for the unpatented model.[80] A three-judge

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[73] *Id.* (quoting State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573 (Fed. Cir. 1989)).

[74] *Id.*

[75] Double pancake machines have two reels of magnetic tapes to ensure that when one reel is empty, the machine is automatically fed from the second reel of the magnetic tape. The benefit of this mechanism lies in reducing the down time for changing reels. *Id.* at 1241-42.

[76] *Id.* at 1242. Since the model on which King Instruments obtained lost profits did not incorporate the infringed patent, for simplicity this note refers to this particular product as the unpatented model.

[77] See the Federal Circuit opinion summarizing the district court's conclusion on the issue of lost profits. King Instruments Corp. v. Perego, 65 F.3d 941, 947 (Fed. Cir. 1995) ("The district court also took into account that King's competing product did not embody the invention of the 461 patent asserted against Tapematic.").

[78] *Id.*

[79] *Id.*

[80] *Id.* at 945.

panel, consisting of Judge Rader, Judge Newman, and Judge Nies, rendered their decision, splitting two to one.

a. Majority's Opinion

Judge Rader, writing for the majority, affirmed the district court's finding of infringement of the pertinent patent.[81] Next the majority proceeded to discuss the district court's award of lost profits damages on King Instruments' unpatented model.

The majority began its analysis by noting that "a patent owner who has suffered lost profits is entitled to lost profits damages [sic] regardless of whether the patent owner has made, used, or sold the patented device."[82] Next, the majority reviewed the text and history of the Patent Act[83] and the policy reasons inherent in the Patent Act[84] for support of its ruling.

(i) *The Patent Act—Language and History.* The outline of the majority's argument reads as follows: a patent grant bestows the right to "exclude others from making, using or selling the invention;"[85] infringing acts trespass on this right to exclude;[86] and, the patent laws redress violation of a patentee's rights by awarding damages adequate to compensate for the infringement.[87]

The majority opined that section 284 of the Patent Act imposed "no limitation on the types of harm resulting from infringement that the statute will redress," since the section's "broad language awards damages for any injury as long as it resulted from the infringement."[88] The opinion noted that section 284 specifically allows for compensation in the form of damages, which does not "require exploitation of the invention as a prerequisite to recovery of lost profits."[89]

Prior to 1946, a patentee could recover damages as well as the infringer's profits upon proving infringement.[90] In 1946, Congress

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81 *Id.* at 946. The majority affirmed the finding of non-infringement of claim 1 and a literal infringement of claim 12 of the 461 patent. *Id.* at 946-47.

82 *Id.* at 947 (citing Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1546 (Fed. Cir. 1995)).

83 *Id.* at 947-49.

84 *Id.* at 949-52.

85 *Id.* (quoting 35 U.S.C. § 154(a)(1) (1988)).

86 *Id.*

87 *Id.* (quoting 35 U.S.C. § 284 (1988)).

88 *Id.* at 947.

89 *Id.* (noting that neither has Congress amended the Patent Act, nor has the Supreme Court ruled to require exploitation of the patent for recovering lost profits).

90 *Id.* at 947-48 (quoting General Motors Corp. v. Devex Corp., 461 U.S. 648, 654 (1983)).

eliminated the patentee's right to recover infringer's profits.[91] According to the majority, the enacted statute provided for any damages the complainant could prove.[92] When enacted in 1952, the new Patent Act made no changes to the 1946 amendment.[93] To bolster its argument that a patentee may recover lost profits damages on competing unpatented products, the majority found support in the Supreme Court's statement that "'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.'"[94]

Citing precedential cases, the court concluded that the only inquiry that should be made is about the total monetary damages suffered by the patentee because of the infringement.[95] The court reasoned that in using the phrase "damages adequate to compensate," the Patent Act attempts to restore the patentee to its "rightful position absent the infringement."[96] On the other hand, since section 154 provides rights "to exclude others from making, using, or selling" the invention, the patentee's rights do not depend on the exploitation of its patent.[97] Further, the text of section 284 merely protects these rights from infringers, without imposing any duty on the patentee to exploit his patent. Thus, it follows that the patentee need not exercise his natural right to "itself make, use, or sell the invention."[98] As a result, a patentee may have his injury to his unpatented substitutes redressed, even though he merely sits on his patent.

(ii) *The Patent Act—Policy.* The court began its public policy analysis by announcing that "encouragement of investment-based risk is the fundamental purpose of the patent grant, and is based di-

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91 *Id.* at 948 (citing Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 505-07 (1964); *General Motors,* 461 U.S. at 654).

92 *Id.* (citing H.R. REP. No. 79-1597, at 1 (1946)). The majority noted that the types of harm for which damages may be recovered are limited. For example, "if the patentee's mother died of a heart attack due to the shock of discovering an infringing product at the supermarket, the Act would not authorize damages for wrongful death or emotional distress." This is because "the unfortunate death would not be economic harm, nor the direct and foreseeable result of infringement." *Id.* Economic harm, such as lost profits on competing products, however, is a direct and foreseeable result of the infringement. *Id.*

93 *Id.* (citing *General Motors,* 461 U.S. at 655 n.9).

94 *Id.* (citing *General Motors,* 461 U.S. at 654-55).

95 *Id.* at 948-49 (citing Livesay Window Co. v. Livesay Indus., Inc., 575 F.2d 1152, 1156 (5th Cir. 1958)).

96 *Id.* at 949.

97 *Id.*

98 *Id.*

rectly on the right to exclude."[99] The patent system allows a period of exclusivity to the patentee in exchange for disclosing his invention.[100] As a result, the patent system creates an incentive for innovation, and the "economic rewards [for the patentee] during the periods of exclusivity are the carrot" for creating new technologies.[101] The only limitation on the patentee's economic success are the dictates of the marketplace; section 284 is meant to ensure such a free market system by discouraging infringers and recovering for the patentee the market value lost when deterrence fails.

The majority opined that the free market may dictate that the most efficient use of the patent is to exclude infringing products, instead of marketing the invention.[102] It is possible that the patentee, burdened with costs of development, may not be in a position to produce the invention as efficiently as a freeloading infringer. Furthermore, the presence of an infringer in the market may hinder the patentee from beginning or continuing the manufacture of his patented invention.[103] Consequently, the court suggested that in some cases it would be prudent for the patentee to acquire better returns on its innovation by merely preventing infringers from competing with its unpatented substitutes.[104]

The court was concerned that requiring exploitation of the patent would force patentees to accept reasonable royalty in cases where a reasonable royalty would be inadequate compensation, and infringers would end up receiving a windfall of a "retroactive license" from the patent's owner.[105] In addition to the above-listed egregious events, the majority foresaw two additional problems with requiring a patentee to exploit the infringed claims as a prerequisite for lost profit damages:

> First, the remedy for infringement would depend partly on the type and number of claims selected by the inventor, rather than on their scope. Second, infringement trials would become more cumbersome and complex because a patentee would have to prove that the claims cover both its competitor's product and its own.[106]

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99 *Id.* at 950 (quoting Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599 (Fed. Cir.), *modified,* 771 F.2d 480 (Fed. Cir. 1985)).

100 *Id.* (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-51 (1989)).

101 *Id.*

102 *Id.*

103 *Id.*

104 *Id.*

105 *Id.* at 951.

106 *Id.* at 951-52. The majority explained the first concern with the following example: An inventor creates a new device with elements *A, B, C,* and Q_1, which is a significant

Consequently, the majority concluded that to adequately compensate patentee for his right to exclude, damages under the Patent Act must include lost profits on competing products not covered by the infringed and patented claims.[107]

b. Dissent's Opinion

Writing the dissent, Judge Nies concluded that the majority's holding amounted to a rule that "any economic loss to a patentee's business is held legally compensable as damages for patent infringement."[108] Relying on the reasons enunciated in Judge Nies' dissent in *Rite-Hite*, the dissent argued that the patent infringement damages for loss in sales must be dependent on injury to the patentee's market in goods utilizing the invention of the infringed patent, since "a patent grants the patentee a legal right to a protected market only for patented goods."[109] Hence, the dissent contended that a patent could not grant the patentee a right to a protected market in unpatented goods it sells.[110]

Judge Nies opined that lost profits are not a legal injury as provided by established law, but instead are a measure of the damages for the patentee's legal injury.[111] Infringement of the patented invention is the legal injury for which adequate compensation must be awarded. However, to receive lost profits for its legal injury, the patentee must have a market in the patented goods from which sales were diverted by the infringer.[112] In addition, the patentee must show that "but for" the infringement, customers would have bought the patented goods from the patentee because of demand for the patented invention. In the event a patentee fails to make such a showing of lost business, it must content itself with the statutory remedy of a reasonable royalty.[113] Hence, Judge Nies would have reversed the district court's award of lost profits damages.

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improvement on a device consisting of elements *A, B,* and *C*. Q_1 is the functional equivalent of Q_2 and Q_3. Because of the different characteristics of Q_1, Q_2, and Q_3, the three embodiments cannot be included in a single claim. As a result there are three patents issued on $ABCQ_1$, $ABCQ_2$, and $ABCQ_3$. The inventor only markets $ABCQ_1$, and infringers are unable to obtain a license on $ABCQ_1$. To enter the market infringers make and sell $ABCQ_2$ and $ABCQ_3$. If the patentee is unable to recover lost profits on $ABCQ_2$ and $ABCQ_3$, the willful infringer effectively obtains a compulsory license. *Id.*

107 *Id.* at 952.

108 *Id.* at 953 (Nies, J., dissenting).

109 *Id.* at 954 (Nies, J., dissenting).

110 *Id.* ("[A] patent entitles the patent owner to the fruits of the invention, not the fruits of the patentee's business generally.").

111 *Id.*

112 *Id.*

113 *Id.*

III. DISCUSSION

By allowing lost profits on ADL-100 restraints in *Rite-Hite*, the Federal Circuit endorsed the view that a patentee can recover lost profits for the loss of sales of a product not incorporating patent in suit. After *Rite-Hite*, a plaintiff must prove that had the defendant not infringed, he would have made a higher profit on his patented invention and/or on its unpatented substitutes.[114]

In *King Instruments*, the court expanded *Rite-Hite* by eradicating any requirement to prove that "but for" the infringement, the plaintiff would have made a higher profit on its patented product. A plaintiff need not make any showing that it was in a position to manufacture or market its patented product, because as long as the plaintiff has a patent on its invention, it will be entitled to receive lost profits on any product it sells which competes with a defendant's infringing product. Thus, whether the plaintiff has the capability to manufacture and market the patented technology is irrelevant for proving and recovering lost profits damages; it will receive lost profits for loss of sales of its unpatented substitutes.

It is important to note that while *Rite-Hite's* holding may contradict established precedent in allowing lost profits for a product it sold which was not covered by the patent in suit, it did not reduce the choices available to consumers in the market. This is because the patentee received lost profits only where it was putting its patented technology on the market. This allowed consumers a wider range of choices of related products. After *King Instruments*, however, the patentee may recover lost profits for the adverse impact on sales of any (i.e., patented and unpatented) competing product it puts on the market, even where he does not practice the invention of his patent.

The whole debate centers around interpreting the scope of damages under section 284 of the Patent Act.[115] According to the

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114 Even though Rite-Hite's ADL-100 was covered by a patent, the underlying patent in ADL-100 did not form the basis for Rite-Hite's patent infringement claim, and the defendant never had a chance to contest the validity of this patent. From this, it follows that the defendant could not have been held liable for infringing the patent in ADL-100, but instead merely for infringing the patent in MDL-55 that had been the basis of the suit. To do otherwise (i.e., to find defendant liable for infringing the patent in ADL-100), would be a violation of defendant's Due Process Rights by finding him liable for something against which he was never given a chance to defend. As a result, the only justification for the court's allowance of lost profits on ADL-100 must be that it believed a patentee to be entitled to lost profits on any of his products, whose sales are negatively impacted by defendant's infringement of the patent in MDL-55. In other words, even if Rite-Hite did not have a patent in ADL-100, it would still be able to recover damages for its lost sales of ADL-100 as long as they may be treated as substitutes for MDL-55.

115 *See* 35 U.S.C. § 284 (1994) (stating that "upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no

majority in both cases, the statute allows for all economic damages stemming from the infringement, as long as they are foreseeable. On the other hand, the dissent contends that under the existing statute the patentee can only recover for damages to sales of its patented invention. The dissent is not alone in its belief. Until the Federal Circuit's rulings in *Rite-Hite* and *King Instruments*, every other circuit, between 1946 and 1982, held contrary to the majority's position.[116] Considering the disagreement over the scope of damages that may be recovered under the statute, the majority's opinion must be reviewed in light of statutory provisions, case law at the time of the statute's enactment, the Supreme Court's interpretation of the statutory provision, and the congressional intent behind the statute. Additionally, the broad public policy concerns inherent in the whole scheme of the patent system shed light on

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event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court").

116 *See* Electric Pipe Line, Inc. v. Fluid Sys., Inc., 250 F.2d 697, 699 (2d Cir. 1957) (Lost profits appropriate since patentee and infringer "were the only suppliers of this unique patented fuel storage and transportation system . . . [and] but for [defendant's] infringement, [patentee] would have made all these installations.");

> Each patent gives its owner a monopoly in respect to its disclosures, so much and no more. It is a grant of the exclusive right to manufacture, use and sell the invention which is disclosed. That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process, which also happens to be patented.

American Sec. Co. v. Shatterproof Glass Corp., 268 F.2d 769, 777 (3d Cir. 1959);

> Where a plaintiff itself uses the patented process in manufacturing, damages for infringement may take the form of lost profits, and the burden is on the plaintiff to show their amount. Where . . . the party alleging infringement does not itself manufacture or use the patented process, compensation may take the form of a reasonable royalty for licensing the use of the patent.

Devex Corp. v. General Motors Corp., 667 F.2d 347, 361 (3d Cir. 1981), *aff'd*, 461 U.S. 648 (1983) (citations omitted); Marvel Specialty Co. v. Bell Hosiery Mills, Inc., 386 F.2d 287 (4th Cir. 1967); Baumstimler v. Rankin, 677 F.2d 1061, 1072 (5th Cir. 1982) ("Since [patentee] did not manufacture, sell or use the patented invention . . . [patentee] technically had no lost profits."); Livesay Window Co. v. Livesay Indus., Inc., 251 F.2d 469, 470 (5th Cir. 1958) (Lost profits determined based on sales of patented invention by exclusive licensee.); Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978) (Patentee manufacturer must prove lost profits by showing: "(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand [for the patented product], and (4) the amount of profits he would have made."); Union Carbide Corp. v. Graver Tank & Mfg. Co., 282 F.2d 653, 665-68 (7th Cir. 1960) (upholding special master's conclusion of law which stated "Plaintiff . . . has failed to prove . . . [t]he amount of its damage from loss of profits it would have made on such additional sales of the patented composition"); *In re* Universal Research Lab., Inc. 203 U.S.P.Q. (BNA) 984, 989 (N.D. Ill. 1978); Velo-Bind, Inc. v. Minnesota Mining & Mfg. Co., 647 F.2d 965, 973 (9th Cir. 1981) (patentee manufacturer of invention denied lost profits on unpatented supplies, "where the patent creates only part of the profits, damages are limited to that part of the profits, which must be apportioned as between those created by the patent and those not so created (citation omitted)."); Faulkner v. Gibbs, 199 F.2d 635, 638 n.7 (9th Cir. 1952) ("Where, however, the patentee has himself engaged in the manufacture, use or sale of his patented article, he may be awarded damages for his loss of profits resulting from the infringement.").

deciphering the disputed interpretation of the statute. The discussion below will demonstrate that the majority's ruling is against established precedent and public policy.

A. *Supreme Court Precedent*

The United States has always recognized a patentee's rights to his invention. To protect this right, there has been some form of a damage provision since 1790, when the first Patent Act was enacted.[117] The policy reasons for allowing monetary damages can best be summed up in the words of Judge Harrington, "[A]ny infringement [of a patent] tends to dampen the fires of creativity so necessary to the vitality of society, economic and otherwise. The law is the protector of the inventor's delicate genius and nourishes its growth and development."[118]

Today, there are several methods for measuring a patentee's economic losses due to patent infringement. The appropriate method is determined by the manner in which the patentee exploits his patent.[119] Until the Federal Circuit's ruling in *Rite-Hite* and *King Instruments*, courts had held that remote consequential damages from an infringement were not compensable. The applicable statute was enacted in 1946, and then reenacted in 1952. However, courts have relied on pre-1952 cases for interpreting the damage provisions of the current Patent Act.[120] Consequently, any examination of the validity of the Federal Circuit's ruling must be evaluated in light of both pre-1952 and post-1952 case law.

Over 144 years ago, the Supreme Court laid down the general rule that one may not get "profits on any thing not actually patented,"[121] under the damages provision of the then existing Patent Act. The Patent Act of 1836 allowed recovery for actual damages in section 14, and injunctive relief against the infringer in section 17 of the Act.[122] Section 17 also allowed the recovery of infringer's

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117 *See* Act of Apr. 10, 1790, ch. 7, § 4, 1 Stat. 111.

118 King Instruments Corp. v. Perego, 737 F. Supp. 1227, 1241 (D. Mass. 1990).

119 Note, *The Enforcement of Rights Against Patent Infringers*, 72 HARV. L. REV. 328, 343 (1958).

120 *See, e.g.*, Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) (quoting Coupe v. Royer, 155 U.S. 565, 582 (1895)); Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886); *see also* Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 761 F.2d 649, 654 (Fed. Cir. 1985) (citing Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448, 451 (1936)).

121 Seymour v. McCormick, 57 U.S. 480, 482 (1853) ("[W]e deny that the patent laws confer a monopoly of profits on any thing not actually patented.").

122 7 CHISUM, *supra* note 9, § 20.02[1][d]. The only catch was that the remedy according to section 14 was provided for "actions on the case" (i.e., at law), Act of July 4, 1836, ch. 357, § 14, 5 Stat. 117, while the remedy according to section 17 was recoverable "according

profits as injunctive relief.[123] In *Seymour*, McCormick had a patent for a new and improved model of a reaping machine, which Seymour was found to have infringed. Plaintiff brought an action at law to recover lost profits for his improvement patent. The patentee argued that his damages should be measured by profits on the entire new and improved reaping machine, rather than just the improvement. The Court declined the plaintiff's request, and stated that to do as the plaintiff asked would amount to an extension of the patent statutes "to cover, in effect, things that the patentee did not invent, and which by law belong to the public at large."[124] Thus, a patentee's damages were limited to the metes and bounds of his patent's claims.

Many years later, in *Crosby Steam-Gage & Valve Co. v. Consolidated Safety-Valve Co.*, the Supreme Court had another opportunity to address the issue of recoverable monetary remedies.[125] This time the Court was applying the damages provision of the 1870 Patent Act. Under this Act, a patentee was allowed compensatory monetary damages as well as equitable recovery in the same court, for the first time.[126] The Court stated that to recover damages to one's trade suffered from competition with the defendant after a finding of infringement is a "material fact to be shown by the plaintiff that it was putting on the market goods embodying the . . . invention," while to recover the infringer's profits, all the patentee had to show was that the infringer made a profit as a consequence of the infringing act.[127] Thus, to recover damages to compensate for losses to business caused by the infringement, the patentee must show that it was marketing products that incorporated his patent.

A week after deciding *Crosby Steam-Gage*, the Court decided *McCreary v. Pennsylvania Canal Co.*[128] on November 9, 1891, which dealt with patent infringement remedies as well. In *McCreary*, the plaintiff claimed to own two patents which were directed to similar

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to the course and principles of courts of equity." *Id.* § 17. Thus, the patentee was forced to bring two suits: one to recover his damages and the other to recover the infringer's profits.

123 *Id.*

124 *Id.*

125 141 U.S. 441 (1891).

126 Act of July 8, 1870, ch. 230, § 55, 16 Stat. 201. The monetary damages recognized under the 1870 Patent Act included: (1) the patentee's actual damages; and (2) the infringer's profits. *See generally* 7 CHISUM, *supra* note 9, § 20.03. In some cases, the courts granted patentees an amount that equaled the profits they would have made in the absence of the infringing act. *See* Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 553 (1886).

127 *Crosby Steam-Gage*, 141 U.S. at 451-52 (To recover damages it must be shown that patentee was putting the patent invention on the market; however, to recover only profits, "it is immaterial whether or not the plaintiff itself employed that invention.").

128 141 U.S. 459 (1891).

devices for steering and coupling canal boats, but brought suit only for the infringement of his later-issued patent on an improvement in coupling and steering apparatus, which defendant was found to have infringed.[129] Plaintiff claimed to be entitled to damages based on lost sales of both patents. The Court denied plaintiff's plea, stating that since one cannot "recover damages for the infringement of a patent originally included in a suit, but upon which he elects not to proceed," it was inconceivable "to see how he can recover for infringement of one not made the basis of any action at all."[130]

The Second Circuit reiterated existing law when it refused to award lost profits, where the patentee or his assignees never manufactured nor marketed any product containing the infringed patent.[131] Hence, a patentee could recover lost profits only if he manufactured and sold the patented invention. A leading treatise on patent law states that under the *then* existing law, compensation for loss of sales of an unpatented item was considered a remote consequential damage, and regarded as being outside the scope of patent damages.[132]

Under the then-existing law, damages were generally awarded to compensate the patentee for losses resulting from the infringement,[133] and were measured by either the patentee's lost income from lost sales of products incorporating the patent,[134] or the royalties that he would have derived from licensing his patent right to the infringer.[135] The infringer's profits, on the other hand, were awarded to the patentee without any consideration to the paten-

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129 *Id.* at 459-61.

130 *Id.* at 467.

131 Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 F. 315, 323-24 (2d Cir. 1921).

132 *See generally* 3 WALKER, PATENTS § 832 (Deller ed., 1937). The treatise states:

> Pecuniary injury may result to a patentee from a particular infringement, in that it caused him to *suffer competition and consequent loss, in business outside of the patent infringed*; or in that it so unexpectedly reduced the business in the patented article as to make it necessary for him to sell unpatented property at less than its real value, or to borrow money at more than a proper rate of interest, in order to meet his pecuniary engagements . . . But pecuniary injury of any of these kinds would be such an indirect consequential matter as not to furnish any part of a proper basis for recoverable damages.

Id. (emphasis added); *see also* Eli E. Fink, *The New Measure of Damages in Patent Cases*, 29 J. PAT. OFF. SOC'Y 822, 822-23 (1947) (patentee could not prove established royalties or lost profits where he "chose to allow his patent rights to lie dormant").

133 *See, e.g.*, Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936).

134 *See, e.g.*, Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536 (1886).

135 *See, e.g.*, United States Frumentum Co. v. Lauhoff, 216 F. 610 (6th Cir. 1914); Swan Carburetor Co. v. Nash Motors Co., 133 F.2d 562 (4th Cir. 1943) (established royalty); Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641 (1915) (reasonable royalty).

tee's actual losses, since the purpose behind this remedy was to deprive the infringer of any benefits received from his wrongdoing.[136]

The patent laws provided for the patentee's damages and the infringer's profits until 1946. In many cases, ascertainment of the infringer's profits involved protracted and expensive accounting proceedings that bogged down the courts.[137] Continued problems with the complexity of calculating infringer's profits, however, prompted Congress to amend the statute in 1946.[138] The 1946 amendment dropped any reference to the award of infringer's profits, and provided that the basis of recovery for patent infringement would be the "general damages" sufficient to compensate the patentee for the infringement.[139] Under the newly enacted law, patentees could not receive the infringer's profits.[140] In *Aro Manufacturing Co. v. Covertible Top Co.*,[141] Justice Brennan, writing for the Court, analyzed the legislative history of section 284 and concluded that the purpose of the 1946 change "was precisely to eliminate the recovery of [infringer's] profits as such and allow recovery of [patentee's] damages only." This seems to be the most widely accepted interpretation of the 1946 amendment among the academic scholars as well.[142] In 1952, when Congress enacted the current Patent Act, it made no substantial changes to the 1946

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136 *See Duplate Corp.*, 298 U.S. at 448; *see also* Note, *Recovery in Patent Infringement Suits*, 60 COLUM. L. REV. 841 & n.10. (1960).

137 *Dowagiac Mfg. Co.*, 235 U.S. at 641; Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604 (1912).

138 *See* H. R. REP. No. 79-1, at 1 (1946); S. REP. No. 79-1503, at 2 (1946); 92 CONG. REC. 9188 (1946) (remarks of Sen. Pepper).

139 The Act of Aug. 1, 1946, ch. 726, 60 Stat. 778, in part, provided:

> The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by the patent, on such terms as the court may deem reasonable; and upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover *general damages which shall be due compensation for making, using, or selling the invention*, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.
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> *See also* Fink, *supra* note 132, at 824-25 (The 1946 amendment "seems to eliminate profits as a basis of recovery and provides for the use of reasonable royalty as the exclusive measure of damages.") (emphasis added).

140 *See* 7 CHISUM, *supra* note 9, § 20.02 [4][a], at 20-66 (commenting that the legislative history of the current statute is "consistent with an intent" to eliminate the remedy of receiving infringer's profits because Congress was concerned with the complicated procedures involved in the accounting process); *see also* John Wolff, *The Measure of Damages in Patent Infringement Actions Under the Act of August 1, 1946*, 28 J. PAT. OFF. SOC'Y 877 (1946).

141 377 U.S. 476, 505-06 (1964).

142 *See* 7 Chisum, *supra* note 9, § 20.02 [4][a], at 20-66; *see also* Wolff, *supra* note 140, at 877.

amendment.[143] It is interesting to note that nowhere in the legislative history of the 1946 amendment or the 1952 Patent Act is there any indication that Congress was overruling the Supreme Court's ruling in *Crosby,* that patentees had to practice their patents for receiving lost profits. Neither is there any indication that Congress intended to overrule the Supreme Court's ruling in *Seymour,* that denied lost profits on patentee's unpatented substitutes. Furthermore, the legislative history also fails to show that a patentee can recover damages for a negative impact on his sale of products that do not incorporate the patent in suit. The legislative history does reveal, however, that the amended statute's text was to be read in conjunction with the then-existing case law, unless expressly overruled by the statute.

It is clear that the Federal Circuit ignored the law laid down by the Supreme Court in *McCreary,* which prohibited damages for any patent not in suit. *Rite-Hite* and *King Instruments* are contrary to the Court's pronouncements in *McCreary*[144] and *Crosby,* since plaintiffs did not show that they were putting their patented products on the market. Furthermore, *King Instruments* violates the explicit language of *Seymour* by awarding lost profits damages on unpatented products.

The majority in *Rite-Hite* and *King Instruments* supported their decision to award lost profits for sales lost on models of ADL-100, by claiming that the language of *Aro Manufacturing Co. v. Convertible Top Replacement Co.*[145] and *General Motors Corp. v. Devex Corp*[146] mandated such a remedy. The court's contention is plainly incorrect. Both *Aro* and *General Motors* applied the law of patent remedies as it existed before 1952, and did nothing to overrule the law set down in *Seymour, Crosby* or *McCreary.* Furthermore, before *General Motors* got to the high court, the Third Circuit had explicitly stated that "where . . . the party alleging infringement does not itself manufacture or use the patented process, compensation may take the form of a reasonable royalty."[147] This was affirmed by the Supreme Court without any criticism, or even a hint of disagreement with the Third Circuit.[148]

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143 *See* S. REP. NO. 82-1879, at 9 (1952); H. R. REP. NO. 82-1923, at 10 (1952); 98 CONG. REC. 9097 (1952).

144 This is because the unpatented product could never be the subject of any patent infringement suit.

145 377 U.S. 476 (1964).

146 461 U.S. 648 (1983).

147 Devex Corp. v. General Motors Corp., 667 F.2d 347, 361 (3d Cir. 1981).

148 *General Motors Corp.*, 461 U.S. at 648.

B. *Impact on Market Efficiency*

The court's rulings in *Rite-Hite* and *King Instruments* were not only contrary to established precedent, but also public policy. The court's rulings are bound to hurt market efficiency by having a negative impact on allocative efficiency and on economic efficiency. Resources that are scarce must be allocated in a way that the person who values them most gets to use them. This is vital for the efficient functioning of a market-based economy. Allocative efficiency is obtained by ensuring the distribution of resources in a form and manner that is most valued by the consumers in the marketplace.[149] This is accomplished by directing production away from goods and services that consumers value less and toward those that are valued more.[150] This, obviously, ensures the most efficient form of a market economy. The patent system is, similarly, designed to enhance market efficiency by promoting and encouraging research in areas that consumers value most, rather than in areas in which consumers have little interest. In other words, investment by inventors will usually be in activities where the value of the output exceeds the costs and risks of the inputs.

While the *King Instruments* majority is correct in saying that disclosure to the general public of "new, useful, and nonobvious advances in technology and design" that would otherwise be kept secret by the inventor is one of the goals of the patent system,[151] the court fails to realize that disclosure is not the main goal of the system. The Supreme Court has repeatedly stated that the final goal of the American patent system is to promote the introduction of new products and manufacturing processes into our economy.[152] Even the Federal Circuit has acknowledged that the main goal of the patent system is not disclosure of information, but instead the "reason for the patent system is to encourage innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits."[153] Indeed, the benefits of the disclosure of new technological information alone would be minimal if such

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149 PHILLIP AREEDA & LOUIS KAPLOW, ANTITRUST ANALYSIS: PROBLEMS, TEXT, CASES ¶107 (1988) [hereinafter AREEDA & KAPLOW, ANTITRUST ANALYSIS]; *see also* Lisa A. Huestis, Comment, *Patent and Antitrust Law: The Second Circuit Strives Toward Accommodation*, 48 BROOK. L. REV. 767, 778 n.55 (1982).

150 AREEDA & KAPLOW, ANTITRUST ANALYSIS , *supra* note 150.

151 Bonito Boats, Inc. v. Thunder Craft, Inc., 489 U.S. 141, 150-51 (1989); *see also* WARD S. BOWMAN, JR., PATENT AND ANTITRUST LAW 13 (1973) (arguing that avoidance of secrecy is the subordinate to the basic goal of efficiently allocating scarce resources for products and services that consumers value most).

152 Diamond v. Chakrabarty, 447 U.S. 303, 307 (1980); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974).

153 Paulik v. Rizkalla, 760 F.2d 1270, 1276 (Fed. Cir. 1985).

technology was never introduced into the market and patent owners merely sat on their patented inventions for the twenty year exclusionary period. This is because the patentee's technology could become obsolete in the twenty year period.[154] Furthermore, in such a case even if someone else obtained an improvement patent on the dominant patent, the dominant patent owner could use his patent as a shield and prevent the improver from actually marketing the better product to the consumers by refusing to grant a license on the base invention, thus making the disclosure of the dominant patent useless to the public for the entire patent term.

In a free market, a rational business person will make an investment only if such an investment will enhance his market position, and, hence, his profitability. A patentee will exploit his patent rights only if the added expenses of exploiting the patent will improve his business position. If the patentee knows that his business position will stay the same, whether or nor he exploits his patent, he will make a business decision to merely sit on his patent. On the other hand, the patentee's competitor will not even think about making any investment if the investment costs or the probability for failure or losses are too high. As a result, where patentees sit on their patents or where potential competitors shy away from the free market, consumers will end up with fewer choices. Such a result is inconsistent with the policy preferences of the patent system in encouraging innovation, new industries, new consumer goods, and trade benefits. Consequently, the following part of this article analyzes the impact of the Federal Circuit's decisions in *Rite-Hite* and *King Instruments* on market efficiency by examining the potential behavior of competitors and patentees.

1. Effect on Potential Competitors

While patents provide a limited exclusionary right to inventors,[155] the U.S. legal system continues to support a free market system by allowing competitors to freely market competing noninfringing products. Indeed, an abuse of patent rights may potentially place the patentee on the dangerously damaging road of antitrust liability.[156] The Supreme Court has sought to protect free competition by constantly resisting efforts hindering competition and limiting the rights conferred by a patent to those enclosed

154 This is increasingly becoming the trend in the computer industry, where software and semiconductor devices become obsolete within a short period of their creation.

155 35 U.S.C. § 154(a)(1) (1988).

156 *See generally* WILLIAM C. HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW §§ 16-24 (1997).

within the metes and bounds of the patent's claims.[157] By refusing to grant patentees extra rights, courts seek to ensure that all potential competitors remain free to enter the market and provide a wider variety of choices than consumers would otherwise have.

A patent owner is further restricted in expanding his property rights in his patent beyond those conferred by the supremacy of federal patent laws. As a result, even states are forbidden from granting patent-like protection on inventions.[158] For example, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,[159] Bonito had no patent protection for the utilitarian or design aspects of its hull design for fiberglass recreational boats, and thus the invention was in the public domain, free for use by everyone else. The Florida legislature passed a statute outlawing the use of the direct molding process to duplicate any manufactured vessel hull, originally made by another, for the purpose of sale without written permission by the original creator. In striking down Florida's statute, the Court made it clear that states have no power to enact laws that supplant the protection allowed under the federal patent laws. In other words, the Supremacy Clause in the Constitution requires protection for an invention to come from the Patent Act itself. As a result, an object that is neither patented nor kept as a trade secret[160] cannot be protected under any law and is open for use by any and all competitors.

However, unwarranted monopolistic behavior by the patentee is not the only problem that a new entrant to the market may face; it must also deal with practical restrictions placed by the need to make financial commitments to its new product line(s).[161] Once the invention is ready for the market, the competitor must further expend resources to obtain a patent.[162] The patenting process, itself, may involve the costs of researching the prior art, legal ex-

157 *See* Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 430 (1908) ("From the character of the right of a patentee we may judge of his remedies."); *see also* JEFFREY G. SHELDON, HOW TO WRITE A PATENT APPLICATION § 2.5.8 (1995) (The claims of an issued patent "define the extent of patent protection for the invention.").

158 *See* WILLIAM H. FRANCIS & ROBERT C. COLLINS, CASES AND MATERIALS ON PATENT LAW 999-1048 (4th ed. 1995).

159 489 U.S. 141 (1989).

160 An inventor may be able to keep his invention a secret, as long as he does not himself do anything that causes the secret invention to become public knowledge. A failure to maintain a trade secret may potentially place the invention into the public domain.

161 *See generally* F. M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 347-52 (1973); *see also* FRED WARSHOFSKY, THE PATENT WARS 69-79 (1994) (describing the R&D efforts by Eastman Kodak and Polaroid Corporation, which eventually led to patent infringement suits to protect their own investments in the technologies they developed).

162 Failure to seek patent protection will force the invention into the public domain.

penses for preparing a patent application and obtaining allowance of the patent and the costs of maintaining the patent in force.

Where a competitor obtains a patent on his invention, his patent can be invalidated if the invention has already been patented by another, regardless of whether the earlier inventor merely sits on his patent. Disclosure through the issued patents is a very limited form of educating the public about one's invention. This is so for two chief reasons. First, there are very few places where one can go and learn about the outstanding patents because of the limited number of patent depositories.[163] Second and most importantly, the exact scope of an existing patent is often difficult to gauge. The task of deciphering the potential breadth of an existing patent becomes even more difficult because of the general practice among patent lawyers of drafting broad and ambiguous claims.[164]

In addition to the claims, the patent application must also contain a specification that sheds light on the interpretation of the patent's claims.[165] However, some patents contain information that is extremely difficult to understand because of the manner in which the invention is described and disclosed.[166] One court described the problems of reading a patent as follows:

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163 Today, a person conducting a patent search may be able to learn about other issued patent applications on the Internet at IBM's patent server. *See The IBM Patent Server* (visited Mar. 8, 1998) <http://patent.womplex.ibm.com>. However, the IBM patent server is limited to patents from January 5, 1971 and onwards.

164 The Supreme Court noted, in *Brenner v. Manson*, that among the patent bar there is a "highly developed art of drafting patent claims so that they disclose as little useful information as possible—while broadening the scope of the claim as widely as possible." 383 U.S. 519, 534 (1966).

Under the rules promulgated by the Patent Office, there are two requirements that claims must satisfy: (1) the claims must set forth the subject matter that applicants regard as their invention; and (2) the claims must particularly point out and distinctly define the metes and bounds of the subject matter that will be protected by the patent grant. U.S. DEP'T OF COMMERCE, PATENT, & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2171 (6th ed. rev. 3 1997). If the claim is truly ambiguous, one may bring a suit to invalidate the patent even after its issuance. However, the practical problems with policing such ambiguous claims lies in the fact that someone other than the patentee must be willing to undertake the expenses of bringing a lawsuit, the outcome of which will always be less than certain.

165 Under the requirement of the first paragraph of 35 U.S.C. § 112, the specifications must include the following: (1) a written description of the invention; (2) the manner and process of making and using the invention (the enablement requirement); and (3) the best mode contemplated by the inventor of carrying out his invention. MANUAL OF PATENT EXAMINING PROCEDURE, *supra* note 164, § 2161. If the specifications are not enabling, one may bring a suit to invalidate the patent even after its issuance. However, the practical problems with this lie in the fact that someone other than the patentee must be willing to undertake the expenses in bringing a lawsuit, the outcome of which will always be less than certain.

166 Even commentators who argue that the patent system "facilitates" disclosure acknowledge that the theory that the patent system promotes disclosure is "open to doubt on a number of grounds." *See* Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive*

> An invention exists most importantly as a tangible structure or a series of drawings. A verbal portrayal is usually an afterthought written to satisfy the requirements of patent law. This conversion of machine to words allows for unintended idea gaps which cannot be satisfactorily filled. Often the invention is novel and words do not exist to describe it. The dictionary does not always keep abreast of the inventor. It cannot. Things are not made for the sake of words, but words for things.[167]

The best way in which one may learn about an existing technology is if one saw the actual invention in practice. After *King Instruments*, it is clear that any company must not only face the normal risks of the market place, but also the increased risks of infringement where other patentees write ambiguous claims and never put their patents into practice. As a result, competitors may only have three viable options: (1) settle the menacing demands by paying whatever amount the patentee demands; (2) go out of business;[168] or (3) face a lawsuit with an uncertain outcome. In each case, the potential infringer must incur unnecessary expenses, which will eventually get passed on to the public in the form of higher product prices that account for wasted investment and litigation costs. This ensures that the consumers will end up worse off than if the plaintiff patentee had not received a patent at all. The public will not have learned anything meaningful from the patentee's cryptic disclosure or his ambiguous claims, and the public will be deprived from getting newer and better products in the market.

2. Effect on Patentees

By allowing lost profits on the unpatented products, even where the patentee cannot prove his ability to market the patented product, the court grants him a windfall not previously allowed under our patent laws. As a ripple effect of this windfall, patentees will be encouraged to sit on their patents, hurting market efficiency.

a. Windfall to the Patentee

The problem with the majority's decision is that they bestowed upon plaintiff a windfall. While our laws do not require the paten-

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Rights and Experimental Use, 56 U. CHI. L. REV. 1017, 1029 & n.52 (1989) (discussing and quoting assertions by various commentators that patentees suppress crucial information, and that many published patents are of little use to others as a result of such suppression).

167 Autogiro Co. of Am. v. United States, 384 F.2d 391, 397 (Ct. Cl. 1967).

168 A company will be forced to go out of business if its business is based on a single product line, as is the case with many companies in today's emerging technology fields.

tee to exploit his invention as a precondition for receiving a patent,[169] to recover lost profits a patentee must make an actual showing of profits lost.[170] A proper calculation of lost profits requires the courts to make accurate estimates of the patentee's lost revenue and avoided costs.[171] By awarding complete lost profits on the unpatented devices, the Federal Circuit avoided any analysis of the costs which would have been incurred by the patentees to produce their patented inventions.

By ruling that market exploitation of a patented device is unnecessary to receive lost profits, the court completely ignored the evaluation of the patentee's patented product's potential for success. As a practical matter, the two Federal Circuit opinions seem to have a built in erroneous economic assumption that the value of and demand for the patented device is the same as that for the unpatented device.[172] In addition, the court did not bother to consider other non-technical reasons that may be behind the patrons' reasons for buying the unpatented products. Some factors that should have been analyzed are the effects on potential customers from a difference in the selling prices of the two products and the likelihood that current customers would have shifted to the new (but untested)[173] patented product. Another problem with the decision is that by focusing entirely on the infringing act (i.e., whether loss of sales are foreseeable), courts will tend to ignore whether the patentee corporations are capable, or even willing, to manufacture products embodying their patented inventions.

After *King Instruments,* it is no longer necessary for a patentee to put its patent to practice, to enjoy the patent remedies it would have had only if it practiced its patent. The Supreme Court has said on more than one occasion that the appropriate measure of patent infringement damages is an award of the market value of

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169 Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 424-30 (1908).

170 Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1548 (Fed Cir. 1995) ("[I]f the patentee is not selling a product, by definition there can be no lost profits.").

171 Marion B. Stewart, *Calculating Economic Damages in Intellectual Property Disputes: The Role of Market Definition,* 77 J. PAT. & TRADEMARK OFF. SOC'Y 321, 322 (1995).

172 The limits of the patentee's compensation is determined by the metes and bounds of the patentee's claim. In addition, according to the majority, an infringer is liable for any damages that are foreseeable as a result of the infringing activity. *Rite-Hite,* 56 F.3d at 1546. If loss of sales on an unpatented device is foreseeable by the claims of the patented device, it seems rational to believe that the majority would hold the unpatented device to be a proper substitute for the patented device.

173 Just because a product is new does not mean that the new product is better than the existing ones. Even where the new product is better, consumers may be unwilling to switch to the new products because of their unwillingness to experiment with products that are unfamiliar to them.

the rights taken by the infringement.[174] Since the only rights that can be taken from the plaintiff are the rights conferred by the patent grant, the Federal Circuit went beyond the value of rights misappropriated by the infringement. In going beyond the protection allowed in the patent's claims, the Federal Circuit bestowed upon the plaintiffs an unnecessary windfall.

b. Ripple Effect of Patentee's Receipt of a Windfall

Property laws attempt to rectify the problems associated with common ownership of property[175] by granting exclusive rights to the owner. In the event a trespasser injures someone's property rights, established laws allow for policing mechanisms and compensatory remedies.[176] Similarly, patent rights are granted for conferring property in one's invention as an incentive for producing innovative technology and avoiding waste of resources.[177] Remedies are provided to protect against theft of intangible property. Since patent laws aim to maximize allocative efficiency,[178] the given remedies further allocative efficiency by providing efficient means for policing the patent system.[179]

A patentee will commercially exploit its patents in those cases where the new invention would improve its competitive position in the market. This is because putting a new product into the stream of commerce requires expenses in the form of setup costs. In other words, the inventions of the patent will be commercialized if they have the potential for market success. By allowing lost profits even when the patentee sits on his patent, the Federal Circuit's ruling takes away the incentives for putting patented inventions in the stream of commerce,[180] and may even have the effect of dis-

174 Sinclair Ref. Co. v. Jenkins Petroleum Process Co., 289 U.S. 689, 697 (1933); Dowaigiac Mfg. Co. v. Minnesota Moline Co., 235 U.S. 641, 648-49 (1915).

175 *See generally* RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW § 3.1 (4th ed. 1992) (the problems of common ownership disappear if someone owns a given piece of property and regulates its exploitation).

176 Established remedies lower waste by reducing ambiguity about measures that can be taken to redress the harmful effects of one's injuries. In the absence of established rules, property owners would not know what to expect from the courts, which would discourage many people from asking for the courts' assistance in enforcing their property rights.

177 We would see a waste of technology where someone else, not knowing of an existing patent, would expend resources in inventing an already existing technology. BOWMAN JR., *supra* note 151, at 21-23.

178 JOHN SCHLICHER, PATENT LAW: LEGAL AND ECONOMIC PRINCIPLES § 1 (1997).

179 *See generally id.* § 9.05[1].

180 If a patentee can recover lost profits without exploiting his patents, there is little attraction to putting one's inventions on the market. There are fixed setup costs that must be incurred before one will be able to produce a new product for commerce. If one controls most related patents in a field, and the competitors are limited to the public domain information, an established corporation will have little incentive to exploit its patents for new and improved products and incur unnecessary static costs. Further, if a patentee

couraging some inventors from economically exploiting their patents.

Where a patentee controls most related patents in a particular field, he will have little incentive to exploit his patents to produce new and improved products.[181] This is because where most of the substitute product and method patents are owned by one player in the market, fear of competition due to better products by competitors diminishes. A patentee having an already well established name will not have any incentive to exploit his patents, when an addition of new products is unnecessary to better his market share. For example, until competition from Japanese automakers, American automobile companies had little incentive to improve the quality of the cars they were already marketing. It was only after the Japanese companies entered the U.S. market and started to break the oligopoly of the three American manufacturers did we see the "Big Three" start to provide better quality cars to the American consumers. It is only rational to believe that without any outside competition, the three domestic automobile companies would have had little reason to improve the quality of their products for the benefit of the consumers, since such actions hurt their profit margins. There will be a similar result if patentees can protect their market shares without having to produce and market better and improved products.

Of course, the negative effects of plaintiff's windfall will also take its toll on the economic efficiency of the market.[182] By awarding excessive damages, we distort the market value of the patent. Under our patent system, monetary remedies seek to ensure that a given patent is exploited by he who values it most.[183] If the infringer values the patent more than the patentee, he will readily compensate the patentee for his losses and continue to use the patentee's patent. However, if the patentee values the patent more, he will seek an injunction against the infringer, and exploit the

knows that his economic remedies for patent infringement are identical, whether or not he practices his patent, it is obvious that a rational patentee will choose to let his patent stay barren.

181 Controlling most of the related patents in a field is called "patent pooling." Someone who has most of the patents in a field will have little incentive to exploit most of them, since that would force them to incur unnecessary static setup costs, without providing any significant business advantage. This is because there is a slight chance, if any, of its potential competitors being able to produce a product competing with the patentee's new patented invention and not infringing one of the many patents in the patentee's "patent pool."

182 A windfall leads to inefficient compensation, discourages mitigation of damages by the plaintiff and misallocates legal resources. *See* Note, *An Economic Analysis of the Plaintiff's Windfall from Punitive Damage Litigation*, 105 HARV. L. REV. 1900, 1907-10 (1992).

183 *See generally* SCHLICHER, *supra* note 178, § 9.05[1].

patent himself.[184] Should the patentee wish to exploit his patent, he has two options: (1) license the patent to someone who can manufacture products embodying the patent more profitably and who will pay a royalty amount that is higher than the profits patentee would make;[185] or (2) exploit the patented invention himself. After *King Instruments*, however, there is a lesser incentive to exploit one's patent, since the infringement damages may usually exceed the monetary benefits of exploiting the patented invention or the licensing fees obtained.[186] Consequently, patentees are provided an incentive to suppress inventions covered by their patents, which, in turn, suppresses competition and reduces the choices available to consumers.

IV. SUGGESTION

One may wonder, if *Rite-Hite* and *King Instruments* contradict precedent and public policy, how can we limit the holdings of these two cases, without completely overruling them?[187] The answer is simple: the patentee should not receive any damages for loss in sales of unpatented products, since these products were not the basis of the patent grant and are fair game for anyone to manufacture and sell.[188] The patentee may, however, get lost profits reflecting the number of sales of the patented products he would have made absent the infringement, if he can produce evidence that the infringement was the main or sole cause that prevented him from entering the market and commercially exploiting his pat-

184 *See generally id.*

185 Stewart, *supra* note 171, at 324.

186 Judge Nies pointed out in *King Instruments v. Perego*, 65 F.3d 941, 947 (Fed. Cir. 1995) that the reasonable royalty was a tenth of the loss profits awarded by the court. *Id.* at 959. If the patentee were to have licensed the patent, he could realistically extract a price higher than the reasonable royalty, but less than the lost profits actually awarded. On the other hand, if the patentee had manufactured the patented invention, he would have incurred additional setup costs.

187 Courts are generally hesitant to overrule precedent because of the fear of causing an undue burden to those who relied and acted on the dictates of existing law. *See, e.g.*, James v. United States, 366 U.S. 213, 242 (1961) (Harlan, J.); *see also* William N. Eskridge, Jr., *Gadamer/Statutory Interpretation*, 90 COLUM. L. REV. 609, 662 (1990) (noting that the Supreme Court rarely overrules a statutory precedent explicitly, but generally narrows precedents and their reasoning). This hesitancy is because of the courts' concern of harming those who relied on precedent. Roger J. Traynor, *Quo Vadis, Prospective Overruling: A Quesion of Judicial Responsibility*, 28 HASTINGS L.J. 533, 540 (1977) ("When a judge resolves at last to overrule . . . [precedent], he confronts the immediate problem of how much reliance the precedent engendered.").

188 Rosen v. Lawson Hemphili, Inc., 399 F. Supp. 532 (D.R.I. 1975) (noting that unpatented articles are in the public domain and competitors are free to copy and sell them without any liability to the "originator"); *see also* Aro Mfg. Co. v. Convertible Top Replacement Co, 365 U.S. 336, 358 (1961) (Black, J.) ("It has long been settled with respect to combination patents that the monopoly rights extend only to the patented combination as a whole and that the public is free to appropriate any unpatented part of it.").

ent.[189] If, on the other hand, the patentee is unable to show that he would have entered the market and commercialized his patent, then his monetary damages must be limited to reasonable royalty.[190]

V. CONCLUSION

The proper measure of the patent's value to the public is the intrinsic usefulness of the invention, and that represents the value of the invention over which the inventor is allowed a limited exclusionary period. Therefore, when a patent is infringed, the proper measure of compensation is the value of what is taken: the invention claimed in the patent. After *Rite-Hite* and *King Instruments*, any company with a dominant market position will be able to prevent competition for any of its devices merely by applying for patents on alternative devices, even though these devices are never made available to consumers. Potential competitors will shy away from competition with these dominant companies because of the threat of being punished for any unintentional infringement. As a result, rather than promoting and encouraging technological innovation, the patent system will be used to stifle it.

*Arun Chandra**

189 As the court noted in *Rite-Hite Corp. V. Kelly Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995), indirect injuries are not compensable under section 284. *Id.* at 1546. Where the patentee shows a direct injury resulting from infringement of the patent, courts will generally grant damages. Consequently, when the patentee manages to show that infringement of his patent by his competitor resulted in preventing him from entering the market and selling his invention, such a "direct injury" will qualify for damages under the provisions of section 284.

190 Unisplay, S.A. v. American Elec. Sign Co., Inc., 69 F.3d 512, 517 (Fed. Cir. 1995) (when patentee is unable to prove his actual losses, he is entitled to a hypothetical reasonable royalty); *see also* Ned L. Conley, *An Economic Approach to Patent Damages*, 15 A.I.P.L.A. Q.J. 354, 376-90 (1987) (noting the circumstances under which reasonable royalty may be awarded and providing a synopsis of the established law on reasonable royalty).

* The author would like to thank Professor Morris E. Cohen (from the law firm of Levisohn, Lerner, Berger & Langsam in New York City), Professor John F. Duffy, Debra Berner and Melanie J. Sulzman, for their assistance in reviewing earlier drafts of this Note. The blame for any and all remaining errors, however, solely belongs to the author.