UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.

197 U.S.P.Q. 726 (6th Cir. 1978) · No. No. 75-2417 · Decided April 25, 1978

SUMMARY

The Sixth Circuit addresses damages for infringement of a patent covering electrical wiring duct. The court affirms the denial of lost profits but holds that the 2.5% reasonable royalty was improperly determined, particularly because the district court relied on an erroneous finding concerning acceptable noninfringing substitutes. The case is remanded for redetermination of the reasonable royalty.

CASE DETAILS

COURT	United States Court of Appeals for the Sixth Circuit
WRITING FOR THE COURT	Howard T. Markey, Chief Judge of the Court of Customs and Patent Appeals, sitting by designation; Phillips, Chief Circuit Judge; Celebrezze, Circuit Judge
JURISDICTION	Federal
DECIDED	April 25, 1978
DOCKET	No. 75-2417
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Panduit appealed from a district court judgment adopting a special master's report awarding patent-infringement damages based on a 2.5% reasonable royalty.
STANDARD OF REVIEW	Clearly erroneous review of the master's and district court's factual findings under Fed. R. Civ. P. 52(a); abuse-of-discretion review for the master's refusal to require a particular accounting statement under Fed. R. Civ. P. 53(d)(3).
PRECEDENTIAL VALUE	published precedential federal appellate opinion
PARTIES	Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.

TOPICS

patent infringement · damages · commercial litigation · appellate procedure · standard of review

PRACTICE AREAS

intellectual property · patent law · patent infringement · patent damages · commercial litigation · appellate procedure

QUESTIONS PRESENTED

1. Whether Panduit proved entitlement to lost profits on sales it allegedly would have made absent infringement.
2. Whether Panduit was entitled to damages for profits allegedly lost because Stahlin reduced its prices.
3. Whether the district court correctly determined a reasonable royalty of 2.5% under 35 U.S.C. § 284.
4. Whether the absence of acceptable noninfringing substitutes and other economic factors required reconsideration of the reasonable royalty.

HOLDINGS

1. A patent owner seeking lost profits on sales made by an infringer must prove demand for the patented product, the absence of acceptable noninfringing substitutes, manufacturing and marketing capability, and the amount of profit the owner would have made. Panduit failed to prove the amount of profit because its evidence did not adequately account for fixed costs.
2. Panduit was not entitled to damages for profits allegedly lost because of Stahlin's price reduction where the factfinder determined that the price reduction increased Panduit's sales volume and produced a net increase in Panduit's profits.
3. When actual damages such as lost profits cannot be proved, the patent owner is entitled to at least a reasonable royalty under 35 U.S.C. § 284. A post-infringement reasonable royalty cannot be determined as though the parties had engaged in an ordinary voluntary license negotiation before infringement.
4. An acceptable noninfringing substitute must be a product that customers would have been willing to buy in place of the infringing product during the relevant period, with the inquiry focused on the date infringement began. A later ability to switch customers to another product does not establish that an acceptable substitute was then available.

KEY QUOTATIONS

> *"To obtain as damages the profits on sales he would have made absent the infringement, i. e., the sales made by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made."* (¶ 12)

> *"The setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly "willing" patent owners and licensees."* (¶ 31)

> *"On remand, the following factors must also be considered: (1) the lack of acceptable noninfringing substitutes, (2) Panduit's unvarying policy of not licensing the Walch patent, (3) the future business and*

> *attendant profit Panduit would expect to lose by licensing a competitor, and (4) that the infringed patent gave the entire marketable value to the infringed duct."* (¶ 73)

FACTUAL BACKGROUND

Panduit owned the Walch patent covering electrical wiring duct and maintained a policy of excluding others from making and selling the patented product. Stahlin manufactured and sold infringing ducts beginning in 1957 and continued after the patent issued in 1962, after Panduit filed suit, and after entry of an injunction. Panduit could not establish the amount of profits it would have made on lost sales because of insufficient evidence concerning fixed costs, but Stahlin made infringing sales totaling $1,788,384 during the relevant period. The patented duct had functional advantages that created substantial customer preference, and the record did not establish acceptable noninfringing substitutes at the date infringement began.

PROCEDURAL HISTORY

Panduit previously obtained a judgment that Stahlin infringed the Walch patent, an injunction, and an accounting. After a damages proceeding before a special master, the district court adopted the master's findings and awarded $44,709.60 based on a 2.5% royalty. Panduit sought lost profits or, alternatively, a substantially higher royalty, and also sought damages for profits allegedly lost because of Stahlin's price cut. The Sixth Circuit affirmed the denial of lost-profit damages and price-cut damages, but reversed the reasonable-royalty determination and remanded for recalculation.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The district court must redetermine the reasonable royalty. The master must determine Panduit's actual profit margin in March 1962 and the customary profit allowed licensees in the electrical-duct industry, and must consider the lack of acceptable noninfringing substitutes, Panduit's policy of not licensing the patent, the future business and profits Panduit would lose by licensing a competitor, and that the patent supplied the entire marketable value of the duct.

CASES CITED

- Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 298 F. Supp. 435 (W.D. Mich. 1969), aff'd, 430 F.2d 221 (6th Cir. 1970)
- Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 338 F. Supp. 1240 (W.D. Mich. 1972), aff'd, 476 F.2d 1286 (6th Cir. 1973)
- Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964)
- Coupe v. Royer, 155 U.S. 565, 582 (1895)
- Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886)
- Livesay Window Co. v. Livesay Industries, Inc., 251 F.2d 469, 471 (5th Cir. 1958)

- General Electric Co. v. Sciaky Bros., Inc., 415 F.2d 1068, 1073, 1075 (6th Cir. 1969)
- McSherry Mfg. Co. v. Dowagiac Mfg. Co., 163 F. 34, 35 (6th Cir. 1908)
- Enterprise Mfg. Co. v. Shakespeare Co., 141 F.2d 916, 920 (6th Cir. 1944)
- Egry Register Co. v. Standard Register Co., 23 F.2d 438, 442-443 (6th Cir. 1928)
- Goodyear Tire & Rubber Co. v. Overman Cushion Tire Co., 95 F.2d 978, 984 (6th Cir. 1937)
- United States Frumentum Co. v. Lauhoff, 216 F. 610, 617 (6th Cir. 1917)
- Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, 318 F. Supp. 1116, 1123, 1127 (S.D.N.Y. 1970), aff'd, 446 F.2d 295 (2d Cir. 1971)
- Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1257 (6th Cir. 1972)
- Lear, Inc. v. Adkins, 395 U.S. 653, 670 (1969)
- United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933)
- Seymour v. Osborne, 78 U.S. (11 Wall.) 516, 533 (1871)
- Hughes Tool Co. v. G. W. Murphy Industries, Inc., 491 F.2d 923, 930-931 (5th Cir. 1973)
- Cugley v. Bundy Incubator Co., 93 F.2d 932, 934 (6th Cir. 1937)
- Rude v. Westcott, 130 U.S. 152, 164 (1889)
- Tights, Inc. v. Kayser-Roth Corp., 442 F. Supp. 159, 166 (M.D.N.C. 1977)