IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

GE HARRIS RAILWAY ELECTRONICS, L.L.C., and GE-HARRIS RAILWAY ELECTRONICS SERVICES, L.L.C.,	)	
Plaintiffs,	)	Civil Action No. 99-070-GMS
v.	)	
WESTINGHOUSE AIR BRAKE COMPANY,	)	
Defendant.	)	

Frederick L. Cottrell, III of Richards, Layton & Finger, Wilmington, Delaware for the plaintiff.

Margaret M. Manning of Buchanan Ingersoll, Wilmington, Delaware for the defendant.

MEMORANDUM OPINION

August 18, 2004.

Wilmington, Delaware.

SLEET, District Judge

I. INTRODUCTION

The primary issues before the court are whether the defendant Westinghouse Air Brake Technologies Corporation[1] ("Wabtec") is in contempt of a consent decree entered pursuant to a settlement and license agreement ("License"), and, if so, what damages has the plaintiff GE Transportation Systems, Global Signaling L.L.C.,[2] ("GETS") suffered as a result. GETS asserts that Wabtec willfully violated Paragraphs Two and Four of the Amended Permanent Consent Order ("Consent Order") in its efforts to sell radio-based ("RF") distributed power products to two Australian railroads. GETS seeks monetary damages in the amount of $12,771,323; $12,668,261 of which is for lost profits and $103,062 of which represents damages from a post-consent-order sale. The court, reasoning upon an adverse inference against Wabtec for its spoliation of evidence,[3] finds Wabtec in contempt of the Consent Order and enters a judgment accordingly.

II. BACKGROUND

This case began on February 12, 1999, when the plaintiff GETS filed a complaint with claims of patent infringement and unfair competition against the defendant Wabtec. (D.I. 1).[4] GETS subsequently amended the complaint to add a trade secret misappropriation claim which implicated

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[1]Formerly Westinghouse Air Brake Company.

[2]Formerly GE-Harris Railway Electronics, L.L.C., and GE-Harris Electronics Services, L.L.C.

[3]On March, 29, 2004, the court issued a Memorandum and Order finding that a Wabtec employee had spoliated evidence and that the appropriate sanction would be to adopt an adverse inference in favor of the plaintiff GETS in the present contempt case. (D.I. 269, 270).

[4]GE alleged Lanham Act violations, willful misappropriation of trade secrets, tortious interference with prospective contractual relations, civil conspiracy, and willful breach of contract. All of these claims relate to the patents in suit or to the products in which those patents are used.

Wabtec employees Robert Kull ("Kull") and Richard Klemanski ("Klemanski") (D.I. 259, ¶ 1).

GETS asserted infringement of two patents: U.S. Patent No. 4,582,280 (issued Apr. 15, 1986) ("the '280 patent"), entitled "Railroad Communication Systems," and U.S. Patent No. 4,553,723 (issued Nov. 19, 1985) ("the '723 patent"), entitled "Railroad Air Brake System." In particular, GETS asserted that Wabtec infringed the '280 patent when it sold an RF distributed power system, known as MRS PowerLink, to the Australian railroad Queensland Rail ("QR") in 1998.[5] On the eve of the Markman hearing on these patents, the parties decided to settle and negotiate a license. Pursuant to the License, the court entered the Consent Order on December 1, 2000. The Consent Order limited Wabtec's license to deal in RF distributed power systems outside of South and North America. (D.I. 165, ¶ 2). In addition, the Consent Order forbade Kull and Klemanski from having any involvement in Wabtec's manufacture, development, use, marketing, sales or offers to sell RF distributed power products. (D.I. 165, ¶ 4). The case closed on December 3, 2000.

Meanwhile, QR continued to seek distributed power upgrades for its locomotives. In March 2002, QR invited both GETS and Wabtec to submit bids for a contract to upgrade the locomotive electronics for its CAW fleet of locomotives. (D.I. 259, ¶ 62). Wabtec submitted a bid and won the contract. Around May 2002, GETS began to investigate whether Wabtec's proposal violated the terms of the Consent Order. (D.I. 259, ¶¶ 99 to 102). Unconvinced that Wabtec's proposal was in compliance with the court's order, in September 2002, GETS moved for an order to show cause as

[5]In a Memorandum and Order dated November 24, 1999, this court granted in part GETS's motion for summary judgment of literal infringement of claim 53 of the '280 patent, finding that the original version of the PowerLink system sold by Wabtec to QR in 1998 literally infringed claim 53 of the '280 patent.

to why Wabtec should not be held in contempt of Paragraph Two of the Consent Order ("Paragraph Two").

The case was reopened on December 20, 2002, and the court ordered discovery of the matter. During discovery, in response to Wabtec's first interrogatory, GETS stated its intent to seek relief for alleged violations of Paragraph Four of the Consent Order ("Paragraph Four"). GETS alleges that it was only after Wabtec produced several documents, including e-mails either to or from Kull indicating his involvement in the QR transaction, that it realized that Wabtec had violated Paragraph Four as well. Further inquiry revealed that not only was Robert Kull involved in activities prohibited by Paragraph Four of the Consent Order, but that he intentionally destroyed evidence related to his involvement in anticipation of the present litigation. GETS moved for sanctions for the alleged spoliation of evidence on May 2, 2003. (D.I. 226). The court granted GETS's motion on March 29, 2004. (D.I. 270). The order imposed sanctions in the form of an adverse inference against Wabtec with regard to factual ambiguities created by the spoliation. (D.I. 269, 270). Pursuant to that order, the court reserved ruling on what particular inferences it would draw from those ambiguities. *Id.*

On April 28, 2003, the court compelled Wabtec to appear before it to show cause as to why Wabtec was not in contempt of the Consent Order. The court held an evidentiary hearing on the contempt claims on May 13 and 14, 2003. Thereafter, the parties submitted post-hearing briefs including their proposed findings of fact and conclusions of law.

GETS maintains there are three grounds on which the court should find Wabtec in contempt of the Consent Order. First, GETS asserts that Wabtec's sale of four RF PowerLink units ("the FreightCorp 90 system") to FreightCorp violated Paragraph Two of the Consent Order. Second, GETS contends that Wabtec's "offer to sell" RF distributed power units to QR also violated

Paragraph Two because the offered technology was modeled after the Freightcorp 90 system which GETS alleges is prohibited technology under the License and Consent Order. Finally, GETS claims that Wabtec violated Paragraph Four by allowing Kull to be involved in Wabtec's development and offer to sell RF distributed power systems to QR.

This opinion sets forth the court's findings of fact and conclusions of law pursuant to Federal Rule of Civil Procedure 52 (a). As well, within those findings, the court will address the ambiguities created by Wabtec's spoliation of evidence and the particular inferences that the court draws from them. Finally, the court will discuss whether GETS is entitled to compensatory damages and attorneys' fees and costs.

III. FINDINGS OF FACT

A. Overview of the Technology at Issue

Freight trains are often powered by multiple locomotives. When in this configuration, it can be technically advantageous to disperse the locomotives along the length of the train, rather than having them clustered at the front. Distributed power systems enable multiple locomotives to operate in harmony. By operating in harmony, the system of locomotives can reduce energy consumption and enable longer and heavier trains to operate in terrain that might otherwise be impassable. As a result, distributed power systems allow railroads to run more freight faster and more efficiently.

The patented technologies underlying the present dispute are incremental developments in the safety and reliability of RF distributed power systems.[6] GETS markets and sells its distributed power products under the name Locotrol. Over 5000 Locotrol units have been installed worldwide

[6]Basic RF distributed power systems are common knowledge in the art and part of the public domain. *See, e.g.*, the expired U.S. Patent No. 3,380,399 (issued Apr. 30, 1968).

since they were first introduced in 1965. Wabtec markets and sells a competing distributed power product under the name PowerLink. The incremental developments underlying the present dispute are disclosed and claimed in the '280 and '723 patents.

1. GETS's '280 patent

The general subject of the '280 patent is "a radio control system for trains having a lead unit and one or more remote units in which the control functions of the one or more units or groups of remote units are controlled by radio commands from the lead unit." '280 patent, col. 3, ll. 20-26. In general, the '280 patent improved upon the prior RF distributed power systems by reducing the risk that a command sent by a lead locomotive in one train might inadvertently be received and performed by a remote locomotive in an entirely different train operating nearby. This risk is present in RF distributed power systems in which commands are sent by radio signals rather than a hard wire line system.

To reduce this risk, the '280 patent discloses a sequence of communications between the lead locomotive and the remote locomotives that have a low probability of being confused with communications from other trains. This is achieved in part by special "link" and "link reply" messages which carry unique addressing information for each unit between the lead unit and the remote units. *Id*., col. 10, ll. 45-49, col. 11, ll. 1-6.

In addition, the '280 patent discloses, but does not independently claim, a brake pipe continuity test. *Id.*, col. 38, ll. 14-60. The brake pipe is a pipe that runs the length of the train, connecting to all of the air brakes on each locomotive and on each car. It provides the means to set or release the train's air brakes by a locomotive releasing air from or supplying air pressure to the brake pipe. Adding air to the brake pipe to increase the pressure releases the brakes; venting air from

the brake pipe to decrease the pressure applies the brakes. '280 patent, col. 9, ll. 35-43.

The brake pipe continuity test verifies that the brake pipe is continuous between the lead and remote locomotives; that the remote locomotives are attached to the train in the proper order; and that the flow-detection circuitry within the brake pipe is operable. *Id*. This brake pipe continuity test is initiated at the lead unit by the venting of the brake pipe. *Id.*, ll. 17-23. Then, differential pressure transducers in each of the remote units detect significant air flow and send a signal back to the lead unit. If the remote units fail to send the expected signal, then the brake pipe continuity test fails and the system will not proceed to the subsequent "control mode," *i.e.*, the mode in which the system will enact traction commands. *Id.*, ll. 41-47.

2. GETS's '723 patent

The '723 patent, a sibling of the '280 patent, filed one day later and having common inventors, basically claims improved control functions derived from the observation of a differential pressure transducer in the air brake pipe system. In particular, the differential pressure transducer is used to detect when one of the other locomotives may be applying its air brakes. '723 patent, col. 37, ll. 24-48. In addition, the '723 patent discloses the use of a microprocessor to filter out noise that might falsely indicate that one of the other locomotives is applying its air brakes. *Id.*, col. 12, ll. 58-61. Finally, claim 8 of the '723 patent covers an "air pressure regulator." *Id*., col. 38, l. 38. In this claim, the air pressure in the brake pipe is controlled with a control reservoir, referred to as the "equalizing reservoir," in the locomotive. The air pressure regulator maintains the pressure of the equalizing reservoir at a level set by the engineer. *Id.*, col.14, l. 34. This results in more precise control over the air braking system.

B. The License

As noted above, the Consent Order at issue in this case was entered pursuant to a license agreement. The License provided that:

> Subject to Wabtec's performance of its obligations hereunder, upon execution of this Agreement, GE Harris [GETS] shall, without any further action on its part, be deemed to have granted to Wabtec, its successors and permitted assigns, a non-exclusive, perpetual, royalty-free, non-transferable, worldwide license (the "License") under U.S. patents . . . and associated foreign patents . . . and pending U.S. Patent . . . titled "Distributed Power and Electric Air Brake Control System for a Train and Associated Methods" (the "Patents"), until the expiration of the Patents, to manufacture, have manufactured, sell, offer to sell, and use Wabtec's: (a) EPIC 3102 and EPIC II locomotive electronic air brake systems and any future locomotive electronic airbrake versions thereof; (b) wired versions of PowerLink distributed power control system and any future wired version thereof; (c) a wired version of PowerLink with a radio frequency backup system; and (d) a radio frequency distributed power system outside of North and South America; . . . .

(D.I. 165, License ¶ 2).

The License contained the following limitations on Wabtec's franchise to deal in the RF enabled PowerLink systems:

> [N]o such radio frequency systems referred to in (c) and (d) hereof uses (i) link and/or link reply messages as set forth in the '280 patent specification and its prosecution history (or any other denominated messages having the function ascribed to link and/or link reply messages), having both lead and remote unit identifiers as described in the '280 patent specification, and/or (ii) a differential pressure transducer or two pressure transducers to conduct a brake pipe continuity test as described in the '280 patent. *Id.*

It is undisputed that, pursuant to the execution of the Consent Order and the License Agreement, Wabtec was aware that it was prohibited from using both the link complete message of the MRS PowerLink system and the brake pipe continuity test of the FreightCorp PL distributed power system. (D.I. 259, ¶¶ 16-17). Similarly, GETS was aware that Wabtec was in the business of

selling RF distributed power systems, wireline distributed power systems, and wireline distributed power systems with an RF system backup. (D.I. 259, ¶ 19).

The parties dispute whether Wabtec has sold or offered to sell an RF distributed power system that uses a denominated message which has the same function as the link/link reply messages, as prohibited by the License, paragraph two, subparagraph (i). The parties also dispute whether Wabtec has sold or offered to sell a distributed power system with dual pressure transducers or a differential pressure transducer for conducting the brake pipe continuity test, as prohibited by the License, paragraph two, subparagraph (ii).

C. Paragraph Two of the Consent Order

Paragraph Two of the Consent Order provides a broad prohibition against Wabtec's manufacture, development, repair/maintenance, use, sale or offer to sell worldwide RF distributed power systems. It reads:

> 2. Except as provided in the patent license granted to [Wabtec] in the November 3, 2000 Settlement and License Agreement . . . [Wabtec] shall not . . . manufacture, develop, repair/maintain, use, sell or offer to sell worldwide the radio-based (i.e., non-wired) distributed power system product known as PowerLink, or known now or hereafter by any other name associated with the same or similar product . . . .

(D.I. 165, Consent Order ¶ 2)

The issues underlying Wabtec's alleged contempt under Paragraph Two are: 1) whether the FreightCorp 90 system violates either of the two technical prohibitions under the License, and 2) whether the QR proposal was an "offer to sell" the same FreightCorp 90 technology.

D. Wabtec's FreightCorp 90 System

Paragraph One of the Consent Order allowed Wabtec to deliver seven RF PowerLink units ("the FreightCorp PL system") to FreightCorp, an Australian railroad, that Wabtec had contracted

to deliver before the entry of the Consent Order. In April 2001, after the Consent Order was executed, FreightCorp sought to purchase four additional RF PowerLink units. In an attempt to design around the prohibitions of the Consent Order, Wabtec made some changes to the FreightCorp PL system and renamed it the FreightCorp 90 system. Wabtec delivered four new FreightCorp 90 system units to FreightCorp in September 2001. GETS asserts that this sale was a violation of Paragraph Two. In addition, Wabtec submitted a bid proposal to QR which included an RF distributed power system. (D.I. 259, ¶ 62). GETS asserts that Wabtec's proposal to QR violated Paragraph Two because it was an offer to sell essentially the same FreightCorp 90 technology. It is undisputed that the QR proposal was an "offer to sell" under Delaware law, but there is a dispute as to whether the offer included technology that breached the terms of the License.

a. Reorder/Reorder Reply Messages vs. Link/Link Reply Messages

One of the functions of the Reorder/Reorder Reply messages of Wabtec's FreightCorp 90 system is the same as a function ascribed to the link/link reply messages of the '280 patent. GETS seeks a finding of contempt pursuant to subparagraph (i) of the License which prohibits the use of any "denominated messages having the function ascribed to link and/or link reply messages." As stated above, the function ascribed to the '280 patent's link/link reply messages is to secure the communication link among locomotives of the same train. In other words, the link/link reply messages prevent any of the units in that system from processing messages or commands from other units in other train systems, or processing messages or commands originating from units within a train system that are addressed to other units within the system.

Wabtec's FreightCorp 90 system has the function of ensuring a secure communication link similar to the link/link reply messages of the '280 patent. Both the Reorder messages and the

link/link reply messages perform mutual authentication for securing their respective communications. The distinction between the two technologies is that the Reorder messages of the FreightCorp 90 system do not initiate or establish the communication link between the lead and remote units. Instead, the Reorder message is sent after the communication link has been established by the exchange of link and link reply messages. As well, the identifier content of the Reorder and Reorder Reply messages is different. Nonetheless, the communication link is not secure until the Reorder messages are exchanged. (D.I. 247, WABTEC 0003628). The differences between the two systems are negligible. As such, the Reorder/Reorder Reply messages perform essentially the same function as the '280 patent's link/link reply messages.

b. The Brake Pipe Continuity Test

The limitation in subparagraph (ii) of the License prohibits a brake pipe continuity test wherein a differential pressure transducer or two single pressure transducers are used to detect air flow. The FreightCorp 90 system uses the radio communication link established by the exchange of link and link reply messages between the lead and remote units as a mechanism for checking the continuity of the brake pipe. The test involves a brake release at the lead, causing air to be charged or added to the brake pipe, increasing the pressure, transmitting a cut-in command, waiting for the remote to sense a 4 psi rise in pressure, to cut-in and to send a status message reporting that it has cut-in.

E. Paragraph Four of the Consent Order

GETS contends that Wabtec has also violated the Consent Order as a result of Kull's involvement in activities related to RF distributed power systems. Paragraph Four of the Consent Order prohibited Robert Kull and Richard Klemanski from having any involvement in Wabtec's RF

distributed power activities through September, 14, 2003. It reads:

> 4. Until September 14, 2003, WABCO [Wabtec] employees Robert Kull and Richard Klemanski shall not be involved, directly or indirectly, in any capacity in the manufacture, development, use, marketing, sale or offer to sell any radio-based distributed power product manufactured, developed, used, sold, or offered for sale by WABCO [Wabtec].

(D.I. 165, ¶ 4).

It is undisputed that Kull was involved in the offer to sell an RF distributed power product to QR. At the time of the QR tender request, Kull was the Director of Integrated Systems at Wabtec Railway Electronics. (D.I. 165, ¶ 85). In addition, Kull served as Proposal Team Leader for the North American portion of the QR proposal. (D.I. 165, ¶ 92). As the Team Leader, Kull was directly involved in the development of Wabtec's response to the QR tender request. (D.I. 165, ¶ 87).

Although Kull did not testify at the evidentiary hearing, he was deposed ("Kull Tr.") on April 3, 2003. At his deposition, Kull stated that he believed he was free to work on proposals that contained RF distributed components. He described his work as being "involved in offering integrated systems which may have radio-based distributed power as an element coupled with wire line distributed power." (Kull Tr., p. 11). Although he "kept himself isolated" from the RF distributed power portion of the QR project, Kull admits to some involvement with the RF distributed power portion. The deposition transcript reads:

> Q. Is it your testimony you had no involvement [in the RF distributed power] portion of the system proposal? You say you kept yourself isolated. Does that mean you had no involvement?
> A. I wouldn't go so far as to say no involvement because as part of the overall system, did require that function.

(Kull Tr., p. 32).

As previously noted, Kull engaged in the willfull destruction of evidence related to the QR

proposal. Despite this fact, some evidence remains which directly links him to the RF distributed power portion. In an e-mail dated March 25, 2002, from Kull to Darlo Concepcion ("Concepcion"), Kull attached an RF protocol document and asked Concepcion whether "the overall messaging structure/strategy [was] the same" for the FreightCorp 90 implementation. (Kull Dep., Exh. 6). In addition, after the bid had been submitted and the contract granted to Wabtec, Kull was copied on e-mail correspondence regarding the RF components of the functional specification. (Pl. Dir. Exh. 15).

IV. CONCLUSIONS OF LAW

A. Standard of Review in a Civil Contempt Proceeding

The object of a civil contempt proceeding is to enforce a litigant's rights and remedies. *Quinter v. Volkswagen of Am.*, 676 F.2d 969, 974-75 (3d Cir. 1982). To establish civil contempt the court must find that (1) a valid court order existed, (2) the defendant knew of the order, and (3) the defendant disobeyed that order. *Roe v. Operation Rescue*, 919 F.2d 857, 871 (3d Cir. 1990). Although willfulness and intent are not necessary elements of contempt, *Quinter*, 676 F.2d at 973, the willfulness of a violation is relevant to the court's determination of the appropriate sanction to impose. *Harley-Davidson, Inc. v. Morris*, 19 F.3d 142, 148-49 (3d Cir. 1995).

Where there are grounds to doubt the wrongfulness of the defendant's conduct, the defendant should not be held in contempt. *Quinter*, 676 F.2d at 974 (citing *Fox v. Capitol Co.*, 96 F.2d 684, 686 (3d Cir. 1938)). Therefore, ambiguities are ordinarily resolved in favor of the party charged with contempt. *Harris v. City of Philadelphia*, 47 F.3d 1342, 1350 (3d Cir. 1995). However, because Wabtec is responsible for the spoliation of evidence, factual ambiguities caused by the absence of this evidence will be resolved in favor of GETS.

B. GETS Has Established the Elements of Civil Contempt

It is undisputed that the first two prongs of the test to establish civil contempt are satisfied. There was a valid court order and Wabtec knew of its existence. In dispute is whether Wabtec's conduct constitutes a violation of the terms of the Consent Order.

1. A Valid Court Order Existed and Wabtec Had Knowledge of the Order

In the original infringement action, GETS accused Wabtec of infringing its patents with the PowerLink distributed power system and its EPIC locomotive electronic air brake system ("EPIC"). (D.I. 230). As previously noted, the parties settled their patent dispute, negotiated a License, and obtained the entry of a Consent Order. Now, GETS seeks damages for Wabtec's alleged contempt of both Paragraphs Two and Four of the Consent Order.

2. Wabtec Violated the Consent Order

In order to establish contempt, GETS must prove that Wabtec's conduct violated the terms of the Consent Order. There are three particular instances of conduct that GETS contends violated the terms of the consent decree. First, GETS contends that the sale of the additional four FreightCorp 90 units constituted a violation because the FreightCorp 90 system infringes GETS's '280 patent. Second, GETS contends that Wabtec's bid to QR was an "offer to sell" the infringing FreightCorp 90 system and, therefore, violated the Consent Order. Finally, GETS contends that the participation of Kull in the proposal constituted a violation of Paragraph Four of the Consent Order. Based on the facts as found above and the relevant law, the court finds that Wabtec is in contempt on all three grounds.

a. Wabtec's FreightCorp 90 System Is Prohibited Technology Under the License and Consent Order, Therefore, Wabtec's Sale of the Additional Four Units to FreightCorp Constitutes a Violation of the Consent Order

A consent order is interpreted under ordinary contract law principles. *Harris v. City of Philadelphia*, 47 F.3d, 1311, 1323 (3d Cir. 1995). This is so because a consent order "embodies a compromise struck among various factors, including the parties' competing goals and the time, expense, and risk of litigation." *Harris v. City of Philadelphia*, 137 F.3d 209, 212 (3d Cir. 1998) (citing *United States v. Armour & Co.*, 402 U.S. 673, 681-82 (1971)). Here, the Consent Order was entered pursuant to the underlying License. The License provides that it is to be construed in accordance with Delaware law. (D.I. 165, ¶ 10). "Under Delaware law, the interpretation of a patent license agreement is a question of law," *Intel Corp. v. Broadcom Corp.*, 173 F. Supp.2d 201, 220 (D. Del. 2001), and, like a consent decree, is to be construed pursuant to the rules of contract interpretation.

Paragraph Two of the Consent Order prohibited Wabtec from selling its radio-based distributed power system product known as PowerLink, or any product "known now or hereafter by any other name associated with the same or similar product." (D.I. 165). GETS alleges that Wabtec's FreightCorp 90 system was a prohibited product under the Consent Order and License. Given that the Consent Order was entered pursuant to the License, the court looks to the License for guidance as to what technology constituted prohibited technology.

The License excluded from permissible technology RF based systems that incorporate "(i) link and/or link reply messages as set forth in the '280 patent specification and its prosecution history (or any other denominated messages having the function ascribed to link and/or link reply messages), having both lead and remote unit identifiers as described in the '280 patent specification, and/or (ii) a differential pressure transducer or two pressure transducers to conduct a brake pipe continuity test as described in the '280 patent."

i. The Function of the Link/Link Reply Messages

In a Memorandum and Order dated November 24, 1999, the court granted in part GETS's motion for summary judgment of literal infringement of claim 53 of the '280 patent, finding that the original version of the PowerLink system, sold by Wabtec to QR in 1998, literally infringed claim 53 of the '280 patent. (D.I. 80). In that memorandum, the court stated that it could not determine on summary judgment whether the link complete message of the MRS PowerLink system constituted a "link message" as recited in claim 53 of the '280 patent. However, the prohibitions of the License and the Consent Order have a broad scope which excludes more than the exemplary link/link reply messages of the '280 patent. Pursuant to the settlement, the parties negotiated and agreed that not only would Wabtec not make, use, or offer to sell distributed power systems with the disputed link/link reply messages, but that Wabtec would not make, use or offer to sell RF systems with denominated messages having the function ascribed to the '280 link/link reply messages. The evidence is plain that the FreightCorp 90 system's Reorder/Reorder Reply messages have the function of ensuring a secure communications link. Therefore, the court finds that GETS has established by clear and convincing evidence that the Reorder/Reorder Reply messages of the FreightCorp 90 system and the QR proposal fall outside of the License grant. Hence, Wabtec is in contempt of Paragraph Two of the Consent Order.

ii. The Brake Pipe Continuity Test

GETS asserts that the "flow test" of Wabtec's FreightCorp 90 system is exactly the same test as the Brake Pipe Continuity Test circumscribed by subparagraph (ii) of the License and in fact the *modus operandi* of the two tests is virtually the same. The License explicitly refers to a Brake Pipe

Continuity Test. It is evident, however, that a faulty differential pressure transducer could cause a "flow test" to fail after the system successfully completes a Brake Pipe Continuity Test with a single pressure transducer. Thus, there is an ambiguity as to whether subparagraph (ii) of the License covers only the Brake Pipe Continuity Test or all tests derived from the underlying procedure of the '280 patent brake pipe continuity test. Since, when analyzing the reach of a consent order, an ambiguity is construed in favor of the defendant in a contempt proceeding, *Harris*, 47 F.3d at 1350, and this particular fact is not within the scope of evidence spoliated by Kull, the court finds that GETS has failed to prove by clear and convincing evidence that Wabtec's FreightCorp 90 air brake system violates Paragraph Two.

GETS has failed to prove by clear and convincing evidence that this test uses a differential pressure transducer or two single pressure transducers to detect air flow. Since Wabtec asserts that the increase in pressure is sensed by a single pressure transducer, providing a pressure rise indication rather than an airflow indication, the Brake Pipe Continuity Test is presumptively within the License grant and not a violation of the Consent Order. (D.I. 247, WABTEC 0005060).

iii. Conclusions Regarding the FreightCorp 90 System

Based on the language of the License and the Consent Order, the FreightCorp 90 system is a prohibited product. The facts as found above under the heading "Findings of Fact" establish that the FreightCorp 90 system incorporated technology having the function ascribed to the link/link reply messages of the '280 patent. Although the court finds that the brake pipe continuity test used by the FreightCorp 90 system does not violate the terms of the License, according to a plain reading of the terms of the License and Consent Order, the court need only conclude that the FreightCorp 90 system incorporates one of the above two prohibited technologies in order to find contempt on

this ground.

b. Wabtec's Bid to QR Constituted an "Offer to Sell" Technology Prohibited by the License and Consent Order and, Therefore, Constituted a Violation of Paragraph Two of the Consent Order

Unfortunately, Delaware law provides little guidance on "offer to sell" liability. Consequently, the court agrees with the parties that it would be useful to look to patent law in analyzing whether Wabtec's proposal constituted a violation of the "offer to sell" prohibition in the consent decree.

Title thirty-five United States Code section 271 was amended, effective January 1, 1996, to include an "offer to sell" as an exclusive right. As a matter of statutory construction, bid letters "'can be regarded as "offers to sell" under § 271 based on the substance conveyed in the letters, *i.e.*, a description of the allegedly infringing merchandise and the price at which it can be purchased.'" *Fisher-Price, Inc. v. Safety 1st, Inc*., 279 F. Supp.2d 530, 546 (D. Del. 2003) (quoting *3D Systems, Inc. v. Aarotech Laboratories, Inc.,* 160 F.3d 1373, 1379 (Fed. Cir. 1998)). Therefore, in determining whether an offer to sell a particular technology took place, the court looks at the substance of what is offered rather than its form. *Lucent TechTechnologies, Inc. v. Netbridge Networks Corp.*, 168 F. Supp.2d 181, 227-28 (D. Del. 2001) (citing *3D Systems,*160 F.3d at 1379 (holding that price quote letters which stated explicitly that they were not offers were in fact offers under 35 U.S.C. §271(a))). The policy underlying "offer to sell" liability under § 271(a) contemplates preventing a competitor from "generating interest in a potential infringing product to the commercial detriment of the rightful patentee." *3D Systems*, 160 F.3d at1379. In construing the License here, the court will look to whether the "offer to sell," as contemplated by the offeror, encompassed the breaching technology.

Although the four corners of the offer do not contain a precise definition of the FreightCorp 90 technology, an examination of the undisputed facts and circumstances involved in the QR proposal, reveal that it is explicitly an offer to sell an RF distributed power system with options for hard-wired distributed power. The documentation incorporated within the contract and the additional correspondence between QR and Wabtec in June 2002 indicate that the QR offer included technology developed for the FreightCorp 90 system. In particular, Wabtec provided QR with preexisting FreightCorp 90 system documentation. (Pl. Dir. Exh. 30, Attach. A, pp. WABTEC 0001874-0001907). Moreover, on June 24, 2002, Wabtec wrote to QR and attached a copy of the specification for the FreightCorp 90 linking test procedure that covered the "linking test, brake pipe continuity and flow tests which must be passed before traction commands can be passed from the lead distributed power locomotive and the remote groups." (D.I. 263, Exh. 15, p. 47).

Finally, in a letter to Wabtec dated June 14, 2002, GETS's outside counsel, Charles Ossola ("Ossola"), requested confirmation that the documents he had received from Wabtec describing the FreightCorp 90 system represented the system that Wabtec offered to QR. (Pl. Cross Exh. 12). Dan Darragh ("Darragh"), Wabtec's litigation counsel, responded on June 17, 2002. In his letter, he confirmed that the technical information previously disclosed to GETS (which included a copy of the RF protocol for a FreightCorp 90 system) described the system offered to QR. (Pl. Cross Exh. 13, pp. 1-2). It seems clear then that, in its bid to QR, Wabtec contemplated the use of RF messages similar, if not identical, to the message protocol utilized in the FreightCorp 90 system.

However, Wabtec asserts that the QR proposal was only an offer to meet the functional requirements of the tender specification and not an offer to sell a particular technology. At the evidentiary hearing Wabtec sought to introduce evidence of what technology it actually delivered

to QR. But since it is the "offer to sell" itself that constitutes the alleged breach, the court need not consider evidence of the technology Wabtec actually delivered to QR after the commencement of this litigation. Instead, the court must examine whether the "offer to sell," as contemplated by Wabtec, contained the breaching technology. Wabtec has not introduced evidence that it contemplated an RF distributed power technology different from the FreightCorp 90 system when making the "offer to sell." The court assumes that evidence of such contemplation would have been adduced by Wabtec if it existed. Of course, it may well be the case that the dearth of evidence on this subject is due to the fact that it would have established a contrary intent.

Given Robert Kull's involvement in the QR proposal on behalf of Wabtec, his role as Director of Integrated Systems, his knowledge of the prohibitions contained in the Consent Decree, and his deliberate destruction of all of the documents in his possession related to the proposal, the court is left with few options but to draw an inference adverse to Wabtec on this issue. Thus, the court concludes that Wabtec offered to sell QR an RF distributed power system which Wabtec intended to be the same as the FreightCorp 90 system. Consequently, the court concludes that the technology of both the FreightCorp 90 sale and the QR proposal is the same when analyzed under the License.

c. Kull's Involvement in the QR Project Constituted a Violation of Paragraph Four

Wabtec argues that the Paragraph Four prohibition applies only to "stand alone" RF distributed power products. The language of Paragraph Four, however, is plain and unambiguous. Again, it states that Kull "shall not be involved, directly or indirectly, in any capacity, . . . in any radio based distributed power product." A reasonable person could not interpret "any" to restrict the scope of the prohibition to "stand alone" radio based distributed power products. Therefore, the

combination of Kull's own admissions, the e-mail evidence, and the adverse inference derived from Kull's intentional spoliation of evidence, establishes by clear and convincing evidence that Wabtec acted in contempt of Paragraph Four.

V. DAMAGES

GETS seeks monetary damages in the amount of $12,668,261 for lost profits because GETS alleges it lost the QR bid due to Wabtec's breach. GETS also seeks $103,062 in damages for the post-consent-order sale of the four FreightCorp 90 units. In addition to its damages, GETS seeks reasonable attorneys' fees and costs. In order to recover these damages, both parties' experts agree that GETS must prove that "but for" Wabtec's breach of the License and Consent Order, GETS would have realized the alleged lost profits and/or not suffered damages.

A. Available Remedies in Civil Contempt Proceedings

The remedy for civil contempt must either be coercive in nature, to compel compliance with a court order, or compensatory, to rectify past conduct. *Apex Fountain Sales, Inc. v. Kleinfeld*, 27 F.3d 931, 935 (3d Cir. 1994); *Gregory v. Depte*, 896 F.2d 31, 34 (3d Cir. 1990). If compensatory, the sanction must not exceed the aggrieved party's actual damages and must be based on evidence of that party's actual loss linked to the contemptuous behavior. *Apex Fountain Sales, Inc.*, 27 F.3d at 936. Nonetheless, the innocent party is entitled to be made whole for the losses it incurred due to the contemnor's conduct, which include reimbursement for reasonable attorneys' fees and expenses. *Halderman by Halderman v. Pennhurst State School*, 49 F.3d 939, 939 (3d Cir. 1995). Here, GETS seeks to rectify past conduct. As such, an award of damages will be compensatory in nature.

B. Burden of Proof

Although it is clear that the plaintiff must establish by clear and convincing evidence that

a legal harm did occur, the burden of proof for the amount of damages is not well settled.[7] Judge Becker stated in his dissent, in *Gregory*, that civil contempt awards "must be vacated if they appear to us excessive, or unsupported by clear and convincing evidence." *Gregory*, 896 F.2d at 40 (Becker, J., concurring in part and dissenting in part). To the contrary, both the Eleventh and Fourth Circuits hold that "in a civil contempt action, . . . damages must be proven by a preponderance of the evidence." *McGregor v. Chierico,* 206 F.3d 1378, 1387 (11th Cir. 2000) (reasoning "[w]e agree with the Fourth Circuit that, 'since [the court] has already found by clear and convincing evidence that harm has occurred, the damages issue should be treated no differently than any other run-of-the-mill civil action.'" *Id.* (quoting *In re General Motors Corp.*, 110 F.3d 1003, 1018 (4th Cir. 1997))). The Third Circuit has yet to decide this issue.

It has already been established that Wabtec breached the License and Consent Order, and is, therefore, liable for contempt. However, applying either burden of proof, the preponderance of the evidence or the clear and convincing standard, the court concludes that GETS has failed to prove that it would have been awarded the QR tender *but for* Wabtec's breach. As such, the court need not address what the applicable standard should be for the amount of damages.

C. Calculating Damages

In an ordinary civil action "the precise amount of damages need not be shown with mathematical precision so long as the court can arrive at an intelligent estimate without speculation or conjecture." *First Nat'l. Bank of Chicago v. Jefferson Mortgage Co.*, 576 F.2d 479, 494-95 (3d

[7] The alternative standard, followed by at least two other circuits, by which a party would have to prove the amount of damages is preponderance of the evidence. *See McGregor v. Chierico*, 206 F.3d 1378, 1387 (11th Cir. 2000), *In re Gen. Motors Corp*., 110 F.3d 1003, 1018 (4th Cir. 1997).

Cir. 1978) (citing *American Air Filter Co., Inc. v. McNichol*, 527 F.2d 1297 (3d Cir. 1975)). Once the fact of legal injury or damage is established, "the difficulty in determining the amount of damages will not preclude recovery." *Lawlor v. Nat'l Screen Serv. Corp.*, 270 F.2d 146, 153 (3d Cir. 1959) (characterizing the holding of *Bigelow v. RKO Radio Pictures*, 327 U.S. 251 (1946)).[8] Under Delaware law, where there has been a breach of contract, damages are measured by what is necessary to put the plaintiff in the position it would have been in *but for* the defendant's breach. *Genencor Int'l, Inc. v. Novo Nordisk*, 766 A.2d 8, 11 (Del. 2000).[9]

Therefore, in fashioning an award of damages, the court will apply a "but for" analysis to calculate an amount. As noted above, because this is a civil contempt action that amount cannot exceed actual damages.

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[8] In *Bigelow*, the Court aptly stated:

> [I]n cases where a wrongdoer has incorporated the subject of a plaintiff's patent or trade-mark in a single product to which the defendant has contributed other elements of value or utility, and has derived profits from the sale of the product, this Court has sustained recovery of the full amount of defendant's profits where his own wrongful action has made it impossible for the plaintiff to show in what proportions he and the defendant have contributed to the profits.

Bigelow, 327 U.S. at 265 (citing *Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, 225 U.S. 604(1912)).

[9] Where there is a settlement agreement resolving patent infringement litigation, a subsequent finding that the defendant has breached the agreement will permit the court to measure damages by lost profits or a reasonable royalty in accordance with 35 U.S.C. § 284 *only* when the defendant's conduct constitutes infringement of the patent. Otherwise, damages should be measured under state law governing breach of contract. *Gjerlov v. Schuyler Laboratories, Inc.*, 131 F.3d 1016, 1024 (Fed. Cir. 1997).

Here, the court does not undertake an infringement inquiry. The court addresses the issues before it which are whether Wabtec is in contempt because it breached the terms of the License and of the Consent Order. As such the damages issues are not governed by 35 U.S.C. § 284. Instead, they are governed by Delaware state law.

D. Calculating Damages in the Present Case

GETS has proven by clear and convincing evidence that a legal harm did occur, to wit, that Wabtec was in contempt of the Consent Order. Although GETS has failed to prove under any standard that it suffered $12,668,261 in lost profits due to Wabtec's contemptuous conduct, the evidence establishes that but for Wabtec's breaching bid, there is at least a possibility that QR would have contracted with GETS instead. Furthermore, the evidence (or lack thereof) considered in conjunction with the adverse inference against Wabtec establishes that but for Robert Kull's involvement in the QR proposal, again, GETS may have won the bid. As discussed below, the court considered the other possible outcomes of the bidding process and now concludes that GETS is presently entitled to compensatory damages in the amount of $1,848,636, and an additional $2,644,576.50 should QR exercises its options under the contract to purchase an additional 103 units.

Since the License only imposed restrictions on Wabtec's sale of RF distributed power systems, Wabtec could have offered QR a wireline distributed power system without breaching the License. The fact that QR contracted for wireline distributed power with ECP for the first sixty-eight locomotives is indicative of QR's willingness to make future purchases of wireline distributed power systems with ECP. In fact, as part of its response to the tender, Wabtec offered a wireline distributed power system with the option for future migration to an ECP train brake system, as well as a fully implemented distributed power and ECP system. Hence, the evidence establishes that a competitively priced wireline distributed power system was an attractive, non-breaching

alternative.[10]

On the other hand, the court is convinced that the RF distributed power system had several technical advantages over wireline systems including improved functionality, reliability, and ease of installation and implementation. These technical advantages translate into both an increased value for the purchaser and a decreased cost for the supplier. Therefore, in a "but for" world where all parties respect the Consent Order, Wabtec might have negotiated for an extended license with GETS. Since, instead, Wabtec offered to sell breaching RF distributed power systems, it is conceivable that the breaching conduct caused GETS to suffer lost profits from license royalties it may have otherwise obtained from Wabtec had the License been renegotiated.

As well, GETS asserts that Kull's involvement in the QR proposal somehow gave Wabtec a decisive advantage in the bidding. GETS theorizes that Kull's involvement may have caused GETS to lose the QR bid. GETS argues that since Kull was the project leader for the North American side of the bidding process he was one of the key people in pulling the "whole thing together." (D.I. 236, p. 261). GETS laments that there is little evidence as to exactly what Kull did because Kull destroyed his documents related to the QR proposal. However, an expert for GETS stated that he "could not come to the opinion that Kull's involvement ultimately led to the loss of the sale by GETS." (D.I. 236, p. 264).

The court recognizes the possibility that the documents destroyed by Kull may have revealed the extent of Kull's contribution to the QR proposal and how instrumental he was to winning the bid.

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[10] This conclusion renders Wabtec's outstanding Motion for Leave to Supplement the Record on GETS's Pending Motion for Contempt of the Amended Consent Order moot. (D.I. 255) (wherein Wabtec seeks to enter additional evidence that QR would have accepted a wireline alternative).

Therefore, the court applies the adverse inference pursuant to the sanctions imposed by this court in its previous order dated March 29, 2004 (D.I. 269, 270), and finds that Kull's involvement enabled Wabtec to offer the RF distributed power systems to QR. Accordingly, the court concludes that but for Kull's involvement, Wabtec would have been limited to offering QR a wireline distributed power system at a reduced profit. As discussed above, GETS is entitled to lost profits it could have otherwise obtained should Wabtec have decided to negotiate an extended license to sell the RF distributed power technology.

The parties themselves provide guidance on what the value of this hypothetical license would be. In an e-mail to Ossola, dated May 11, 2003, Darragh stated, "I was also attempting to avoid a stipulation that indicated that the court was obligated to award any damages. If the court makes a finding of contempt with regard to [FreightCorp] and that some award of damages to GETS is appropriate, then we agreed that the amount would be $103,062." (D.I. 263, Exh. 19). GETS verified this agreement in its opening statements of the evidentiary hearing and Wabtec did not object. (D.I. 236, p. 12). As such, the court uses the result of this actual negotiation between the parties as a baseline for determining contempt damages.

Since the $103,062 that the parties agreed upon, was for four FreightCorp 90 units, the court awards GETS $25,675.50 per FreightCorp 90 (or equivalent) unit sold or offered for sale. Wabtec has already sold 4 units to FreightCorp and *offered* to sell 171 FreightCorp-like units to QR. Although the Wabtec/QR contract relates to only the first 68 locomotives, it is likely that Wabtec will be selected as the supplier in the event QR exercises its options under the contract for an additional 103 locomotives. Therefore, the court awards GETS compensatory damages of $25,675.50 per FreightCorp 90 (or equivalent) unit sold or offered for sale, of which $1,848,636 is

now due and an additional $2,644,576.50, is due if and when QR exercises its options under the contract to purchase an additional 103 units.[11]

VI. CONCLUSION

For all of the foregoing reasons, the court finds Wabtec in Contempt of this court's December 1, 2000, Consent Order, and further finds that:

1) Wabtec has violated Paragraph Two of the Consent Order by developing, manufacturing, offering to sell, selling, and then delivering four (4) units of the FreightCorp 90 system in breach of the License paragraph two, subparagraph (i);

2) Wabtec has violated Paragraph Two of the Consent Order by developing, and offering to sell to QR one hundred and seventy one (171) RF distributed power products in breach of the License paragraph two, subparagraph (i);

3) Wabtec has violated Paragraph Four of the Consent Order by allowing Robert Kull to be involved in the development, and the offer to sell RF distributed power systems to QR;

4) Wabtec caused GETS to suffer lost licensing profits GETS would have obtained but for Wabtec's contempt;

5) The court awards GETS compensatory damages of $25,675.50 per FreightCorp 90 (or equivalent) unit sold or offered for sale, of which $1,848,636 is now due and an additional $2,644,576.50, is due if and when QR exercises its options under the contract to purchase an additional 103 units.

In addition, the court has determined that an award to GETS of reasonable attorneys' fees and expenses for the prosecution of Wabtec's violations is appropriate under the circumstances of this case in order to make GETS whole. Within fourteen days of the Date of this Order, GETS shall

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[11]GETS's experts testified to an analysis that, according to the *Georgia Pacific* factors, a reasonable royalty rate would be 35%.*Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D. N.Y. 1970), *mod. and aff'd,* 446 F.2d 295 (2d Cir. 1971), *cert. denied,* 404 U.S. 870 (1971). The court's finding of damages, according to the negotiated FreightCorp 90 baseline, numerically equates to a royalty rate of approximately 25%.

file a motion seeking reasonable attorneys' fees.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

GE HARRIS RAILWAY ELECTRONICS, L.L.C., and GE-HARRIS RAILWAY ELECTRONICS SERVICES, L.L.C., Plaintiffs, v. WESTINGHOUSE AIR BRAKE COMPANY, Defendant.	)	Civil Action No. 99-070-GMS

ORDER

WHEREAS, for all of the reasons stated in the corresponding OPINION, the court finds Wabtec in Contempt of this court's December 1, 2000, Consent Order. The court further finds that:

1) Wabtec has violated Paragraph Two of the Consent Order by developing, manufacturing, offering to sell, selling, and then delivering four (4) units of the FreightCorp 90 system in breach of the License paragraph two, subparagraph (i);

2) Wabtec has violated Paragraph Two of the Consent Order by developing, and offering to sell to QR one hundred and seventy one (171) RF distributed power products in breach of the License paragraph two, subparagraph (i);

3) Wabtec has violated Paragraph Four of the Consent Order by allowing Robert Kull to be involved in the development, and the offer to sell RF distributed power systems to QR;

4) Wabtec caused GETS to suffer lost licensing profits GETS would have obtained but for Wabtec's contempt;

For these reasons IT IS HEREBY ORDERED that:

1. Wabtec must pay GETS compensatory damages in the amount of $25,675.50 per FreightCorp 90 (or equivalent) unit sold or offered for sale, of which $1,848,636 is now due and an additional $2,644,576.50, is due if and when QR exercises its options under the contract to purchase an additional 103

units.

2. In addition, the court has determined that an award to GETS of reasonable attorneys' fees and expenses for the prosecution of Wabtec's violations is appropriate under the circumstances of this case in order to make GETS whole.

3. Within fourteen days of the Date of this Order, GETS shall file a motion seeking reasonable attorneys' fees.

Dated: August 18, 2004

/s/ Gregory M. Sleet
UNITED STATES DISTRICT JUDGE