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Lost Profits for Unpatented Products Dry Up in Wash World

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Wash World Inc. v. Belanger Inc. raises the question whether lost profit damages for patent infringement can extend to profits related to unpatented products sold with a patented product. As with many legal issues, including the lost profits issue I addressed in my recent post, the answer to the question is “sometimes.”

In *Wash World*, the Federal Circuit confronted this question in reviewing a damages judgment based on a jury verdict awarding the patent owner, Belanger, lost profits on its (1) patented car wash system due to sales by the infringer, Wash World, and (2) unpatented dryers sold with its patented car wash system. The jury awarded $9.6M, one of the damages figures advanced by Belanger’s damages expert. On appeal, Wash World challenged $2.6M of the award tied to Belanger’s lost profits associated with its unpatented dryers. Wash World argued that this portion of the award was improper because Belanger failed to prove any functional relationship between the patented car wash system and unpatented dryers.

After concluding that Wash World had preserved its remittitur argument, the circuit court turned to the merits of the argument. It first noted that the district court had improperly analyzed the issue as one of “apportionment” rather than of “convoyed sales.” The circuit court observed that apportionment applies “when seeking lost profits for a device covered by the patent in suit,” quoting *Rite-Hite*, but that where, “as here, the issue is incremental damages for portions of products *not* covered by the patent, the proper inquiry is whether the unpatented components are convoyed sales.”
The *Rite-Hite* test of whether profits from the sale of unpatented components may be recovered as convoyed sales turns on whether both the patented and unpatented components “together were considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit.”

In reviewing the record of the district court, the Federal Circuit concluded that no reasonable jury could have found the unpatented dryers constituted a functional unit with the patented car wash system. Belanger introduced testimony from its damages expert that the unpatented dryers were sold as a package with the patented car wash systems, but the court held that evidence of such packaged sales was insufficient to show the required functional relationship. The court also rejected Belanger’s argument that the jury’s general damages verdict was supported by other evidence. Indeed, it held that Belanger was judicially estopped from arguing this point because it had repeatedly told the district court that “the jury accepted [its expert’s] damages calculation.” The court concluded by vacating the damages portion of the judgment and remanding the case to the district with an order to

remit the damages award by $2.6M.

It is easy to imagine a better result for Belanger with respect to recovering lost profits associated with the unpatented dryers sold with the patented wash systems. First, with the benefit of hindsight, Belanger could and arguably should have included a claim in its patent that encompassed an integrated wash-dry system. This would have enabled Belanger to claim lost profits on the entire integrated system under *Panduit.* Second, even with the dryers being unclaimed, Belanger should have introduced evidence, if available, that the wash and dry systems sold together were components of a single assembly or parts of a complete machine, or they together constituted a functional unit. Technical expert testimony could have been introduced on this point, and the damages expert could have relied on this in opining that Belanger could recover lost profits for the unpatented dryers sold with the patented wash systems.

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