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FEDERAL CIRCUIT PATENT LAW CASE UPDATE


In an appeal in the remedies phase of a long-running dispute where Juicy Whip alleged that Orange Bang infringed its patent covering a beverage dispenser, the court vacated the district court’s decision denying lost profits. The court also affirmed the district court’s decision denying enhanced damages and attorney fees, and declined Juicy Whip’s request to reassign the case to a different judge. The district court incorrectly excluded evidence of lost profits for syrup sales, believing that the syrup was not part of a “functional unit” with the patented beverage dispenser. The court then, in its own words, remanded “this sticky issue” for further action by the district court.

Juicy Whip owns U.S. Pat. No. 5,575,405, claiming a “post-mix” beverage dispenser that simulates a “pre-mix” beverage dispenser. The Juicy Whip system mixes the beverage concentrate at the time it dispenses it to the customer, but appears to have a reservoir of fresh-mixed beverage.

Juicy Whip’s dispenser . . . features a transparent bowl that creates the visual impression that the bowl is the primary source of the dispensed beverage, which induces sales of the beverage. That attribute of Juicy Whip’s invention also provides more capacity than pre-mix dispensers and affords resistance to bacterial growth. . . .

[T]he district court denied Juicy Whip’s motion to introduce testimony on its lost profits on syrup sales. The court rejected Juicy Whip’s argument that it would have sold more syrup “but for” Orange Bang’s infringement. It concluded that Juicy Whip failed to establish that the syrup and the patented dispenser constituted a single functional unit, and the court thus refused to consider whether some of Orange Bang’s syrup sales were attributable to its sales of the infringing dispenser.

The court agreed with Juicy Whip that the district court incorrectly analyzed damages for lost profits.

While we are reluctant to send this case back to the district court a third time, we must do so because the court incorrectly applied the entire market value rule, and that error of law was the governing factor in its decision. The [district] court was clearly erroneous in determining that there was no functional relationship between Juicy Whip’s dispenser and the syrup; on the contrary, it is clear that there is such a relationship and Juicy Whip should be entitled to prove damages with respect to lost profits from lost syrup sales.

In Rite-Hite, we explained that the entire market value rule was a principle of patent damages that defined a patentee’s ability to recover lost profits on unpatented components typically sold with a patented item. Although the rule traditionally had been applied to permit recovery when both the patented and unpatented items were part of the same machine, we recognized that “the rule has been extended to allow inclusion of physically separate unpatented components normally sold with the patented components” with the caveat that both were “considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit.” . . .

The dispenser and the syrup are in fact analogous to parts of a single assembly or a complete machine, as the syrup functions together with the dispenser to produce the visual appearance that is central to Juicy Whip’s ’405 patent. . . . [A] functional relationship between a patented device and an unpatented material used with it is not precluded by the fact that the device can be used with other materials or that the unpatented material can be used with other devices.