Hahn Loeser + Parks LLP

Patent Infringement: Delivering Non-Infringing Products May Still Result in Lost Profit Damages

By: Bret A. Hrivnak, Esq.

The recent case of *American Seating Co. v. USSC Group Inc.* serves as a good reminder that patent infringement may arise not only from the sale of an infringing product, but also from the mere *offer* to sell such a product. Additionally, lost profit damages may arise from an infringing offer even if substituted, non-infringing products are actually delivered to the customer instead of those initially offered for sale.

Under U.S. Patent Laws, patent infringement may arise from making, using, selling, offering to sell, or importing a patented invention. Further, damages for patent infringement usually result in, at the least, a reasonable royalty, but may also include lost profits if the patent owner can reasonably show that they would have made the sale if infringement had not occurred.

In the case of *American Seating Co. v. USSC Group Inc.*, American Seating owned a patent for a wheelchair restraint system used in mass transit vehicles. USSC manufactured similar products known as the VPRo I and VPRo II. It was undisputed that the VPRo I product clearly infringed upon the American Seating patent, while the VPRo II product did not.

The particular activity under scrutiny included USSC's offer to sell the infringing VPRo I product. These offers resulted in orders for the VPRo I; however, USSC actually filled these orders with the non-infringing VPRo II product. It was apparent that USSC did not obtain any customer consent prior to making the substitutions, nor did the customers consider the VPRo II product an equivalent substitute for the VPRo I product due to differences in performance. American Seating sued USSC for patent infringement, and sought lost profit damages for the sale of, and offers to sell, infringing products.

The lower court awarded American Seating over $2,326,000 in lost profits, approximately $960,000 of which was attributed to USSC's infringing *offers* to sell the VPRo I. This is because it was reasonably shown that if USSC had not offered for sale the competing, infringing VPRo I product, American Seating would have made the sale. On appeal, the Federal Circuit affirmed the award.

USSC argued that replacing infringing products with non-infringing products precluded lost profit damages. While providing "substitutes" can preclude lost profit damages, the Court noted that a substitute is specifically defined in case law to be "acceptable to all purchasers of the infringing product." In other words, the substitute must be considered an equivalent of the infringing product. The Court, however, found that the VPRo II product was not a substitute for the VPRo I product, as at least one customer objected to the substitution due to particular performance differences between the products.

In summary, this case reaffirms that patent infringement and lost profit damages can result from mere offers to sell a product. Further, this case identifies a means by which a potential infringer may retroactively attempt to mitigate any resulting damages; specifically, by substituting the infringing offered product with an *equivalent*, non-infringing product. What constitutes this equivalency, however, is very fact-specific, and requires careful analysis and consultation with legal counsel.