ALERT MEMORANDUM

The Supreme Court Addresses The Calculation Of Damages For Infringement Of Design Patents, Overturning Apple's $400 Million Damages Award Against Samsung

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In a unanimous ruling this week in *Samsung Electronics Co. v. Apple Inc.*,[1] the U.S. Supreme Court held that when one or more ornamental elements of a multicomponent product infringe a design patent, damages may be calculated on the basis of the value derived from the infringing components alone, rather than the product as a whole.

In the courts below, Apple had won a $400 million damages award based on Samsung's total profits from its infringing smartphones, even though Apple's design patents covered only certain aspects of the phones' external appearance. In reversing the lower courts, the Supreme Court held that the relevant "article of manufacture" for calculating damages in this context could be the infringing component of a multicomponent device, rather than the device as a whole. But the Court declined to articulate a test for determining when damages should be based on the value derived from the infringing component, rather than the entire device. Nor did it provide guidance for how to calculate the profits attributable to an infringing component when the component is never sold separately from the end product of which it is a part. Those issues will need to be addressed by the Federal Circuit on remand and fleshed out in future decisions by that court and the district courts.

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[1] 580 U.S. ___ (2016), 2016 WL 7078449.

In contrast to a utility patent that covers a functionally useful apparatus or process, a design patent can be obtained for a "new, original and ornamental design for an article of manufacture."[2] Design patents are far less frequently litigated, as illustrated by the fact that *Samsung* is the first design patent case to reach the Supreme Court in over 120 years.

The Court's decision focused on Section 289 of the Patent Act, which provides a damages remedy specific to design patents, stating that a person who manufactures or sells "any article of manufacture to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit."[3] As the Court explained:

> In the case of a design for a single-component product, such as a dinner plate, the product is the "article of manufacture" to which the design has been applied. In the case of a design for a multicomponent product, such as a kitchen oven, identifying the "article of manufacture" to which the design has been applied is a more difficult task.[4]

The Federal Circuit Court of Appeals had ruled that, if the design forms a part of an end product and is not sold as a separate product, then infringement damages must be based on the end product as a whole.[5] In reversing that ruling, the Supreme Court ruled that "articles of manufacture" can "encompass[] both a product sold to a consumer and a component of that product."[6]

Background

The case arose from Apple's "clash of the titans" infringement suit against Samsung's smartphones. In addition to utility patents, Apple successfully asserted design patents covering distinctive features of its iPhone: the black rectangular front screen face with rounded corners; the raised frame that holds the screen to the rest of the phone; and the grid on the user interface screen with 16 colorful icons.[7]

In determining damages, the District Court instructed the jury that it should award Apple the "total profit attributable to the infringing products," making clear that this meant "the entire profit" and "not just the portion of profit attributable to the design or ornamental aspects covered by the patent."[8] As a result, the jury awarded Apple damages of $400 million, representing the total profits Samsung had earned on the infringing phones, even though the design patents at issue covered only certain aspects of their appearance.

The Federal Circuit's Opinion

The Federal Circuit affirmed. It concluded that an 1887 statutory amendment specific to design patents had "removed the apportionment requirement," and that, as a result, the statute "explicitly authorize[s] the award of total profit from the article of manufacture bearing the patented design."[9] The Federal Circuit further placed weight on the fact that "[t]he innards of Samsung's smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers."[10]

The Supreme Court's Opinion

In granting Samsung's petition for *certiorari*, the Supreme Court undertook to address whether damages for the infringement of a design patent should include the profits from sales of an entire product or only those

[2] 35 U.S.C. § 171(a).
[3] 35 U.S.C. § 289.
[4] *Samsung*, 2016 WL 7078449, at *2.
[5] *Apple, Inc. v. Samsung Elecs. Co.*, 786 F.3d 983, 1001-02 (Fed. Cir. 2015).
[6] *Samsung*, 2016 WL 7078449, at *5.
[7] *See Apple, Inc. v. Samsung Elecs. Co.*, 920 F. Supp. 2d 1079 (N.D. Cal. 2013).
[8] *See id.* (Final Jury Instruction No. 31, 2013 WL 6253451).
[9] *Apple*, 786 F.3d at 1001-02 (citing *Schnadig Corp. v. Gaines Mfg. Co.*, 620 F.2d 1166, 1171 (6th Cir. 1980); *Henry Hanger & Display Fixture Corp. of Am. v. Sel-O-Rak Corp.*, 270 F.2d 635, 643-44 (5th Cir. 1959); *Bergstrom v. Sears, Roebuck & Co.*, 496 F. Supp. 476, 495 (D. Minn. 1980)).
[10] *Id.* at 1002.

profits that are attributable to the product's infringing components.[11]

In resolving that issue, the Supreme Court began by observing that an "article of manufacture," as that term is used in the design patent provisions of the patent statute, is simply something that is made by hand or machine. The Court stated as follows:

> [T]he term "article of manufacture" is broad enough to encompass both a product sold to a consumer as well as a component of that product. A component of a product, no less than the product itself, is a thing made by hand or machine. That a component may be integrated into a larger product, in other words, does not put it outside the category of articles of manufacture."

The Court further observed that this view is consistent with how the U.S. Patent and Trademark Office, the courts and leading treatises have construed the text of similar patent provisions.[12]

The Court thus concluded that "the term 'article of manufacture' is broad enough to embrace both a product sold to a consumer and a component of that product, whether sold separately or not."[13] But the Court declined to articulate a test for determining the relevant "article of manufacture" – whether, for the accused Samsung smartphones, for example, the relevant article of manufacture is the entire smartphone or a particular smartphone component.[14]

The United States as *amicus curiae* had suggested a test that would consider (1) the scope of the design claimed in the patent, (2) the prominence of the design, (3) whether the design is conceptually distinct, and (4) the physical relationship between the design and the rest of the product.[15] But neither of the parties had briefed this issue, and the Court concluded that stating a test was unnecessary to resolve the question presented.[16] It therefore left the Federal Circuit to grapple with that challenge on remand.

Takeaways

The Supreme Court's decision acts as a corrective to the seemingly incongruous result of awarding Apple the total profits earned from Samsung's smartphones based on design features that represent only part of a highly complex, multicomponent technical device. It now falls to the Federal Circuit to craft and apply a test for ascertaining whether the relevant article of manufacture for purposes of calculating damages is the entire product or a component of it. As illustrated by the test proposed by the government in its *amicus* brief, making this determination involves some common-sense considerations, but at the same time is inherently subjective and therefore unpredictable.

In those cases in which it is determined that the relevant article of manufacture is a component, the next challenge will be how to determine the profits attributable to a component that is never sold separately but instead is always part of a multicomponent end product. With Samsung's smartphones, for example, the phones are sold as a whole, and there is no separate sales price for the design features covered by Apple's patents. But this challenge is akin to those that courts already have addressed in other contexts: infringement suits involving utility patents, for example, often require assessing damages for a patented feature that forms part of a multicomponent product. And in the copyright context, a plaintiff can seek profits attributable to the infringement, requiring an apportionment between copyrighted and un-copyrighted content. In that sense, design patents are now joining the rest of the intellectual property family.

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[11] Pet. for Writ of Cert. at i, *Samsung*, 2016 WL 7078449.
[12] *Id.* at *5 (citing *Ex parte* Adams, 84 Off. Gaz. Pat. Office 311 (1898); *In re* Zahn, 617 F.2d 261, 268 W. Robinson, The Law of Patents for Useful Inventions §183 (1890)).
[13] *Id.* at *6.
[14] *Id.*
[15] Br. for the United States as Amicus Curiae Supporting Neither Party at 27-29, *Samsung*, 2016 WL 7078449.
[16] *Samsung*, 2016 WL 7078449, at *6.