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U.S. Supreme Court Alters Standard for Design Patent Damages and Takes Apple's $400 Million Victory Over Samsung Away (At Least for Now)

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On December 6, 2016, the United States Supreme Court handed down an important unanimous decision regarding damages in design patent cases, throwing out a $400 million damages award that Apple had won from Samsung over smartphones. *See Samsung Elecs. Co. v. Apple Inc.*, ___ U.S. ___ (December 6, 2015) ("Slip Op."). This opinion demonstrates that the proper basis for design patent damages can be either the product sold to consumers or a component of that product, "whether sold separately or not." Under this ruling, design patent damages, in some instances, will be calculated similar to utility patent damages, where apportionment of damages to the claimed invention is the standard. In its opinion, the Court rejected the Federal Circuit's narrow reading of the phrase "article of manufacture" as used in the design patent damages statute (35 U.S.C. §289). However, the Court did not (1) provide a test to determine what the relevant "article of manufacture" is or (2) decide whether Samsung's entire phone or just components of it was the relevant "article of manufacture" in this case. Rather, the Court left these decisions to the Federal Circuit (and presumably the district court) on remand.

Under Section 289 of the Patent Act, 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." The issue for the Court to decide was what constitutes the "article of manufacture" in a multicomponent product, such as a smartphone. The "total profit" remedy for design patent infringement was first created in 1887 and had been repeatedly applied to the entire "article of manufacture." Consistent therewith, the Federal Circuit identified the entire phone as the only permissible "article of manufacture" under Section 289 because consumers could not separately purchase components of the smartphones, such as the front face (e.g. a smartphone's rectangular front face with rounded edges). In doing so, the Federal Circuit rejected Samsung's argument that damages should be limited to the screen or case of the smartphone as they embodied the patented design's features. The Federal Circuit stated "limit[ing] the damages" award was not required because the "innards of Samsung's smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers." 786 F.3d 983, 1002 (Fed. Cir. 2015).

The Supreme Court rejected the Federal Circuit's limited reading of "article of manufacture" in Section 289 because the text of the statute "encompasses both a product sold to a consumer and a component of that product." Slip Op. at 6. Using dictionary definitions as its basis, the Court interpreted "article of manufacture" to be "simply a thing made by hand or machine." *Id.* The Court also found this definition to be consistent with other parts

If you have questions about *Samsung v. Apple*, or for more information on damages in design patent litigation, please contact your Katten attorney or the **Intellectual Property** attorneys listed below.

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of the design patent statute, such as Section 171 that allows a design patent for any "new, original and ornamental design for an article of manufacture." *Id.* at 6-7. Under Section 171, the Patent Office and courts have allowed and upheld design patents for a component of a multicomponent products. *Id.* at 7. The Court also recognized that its definition was consistent with the use of the word "manufacture" in the utility patent statute (Section 101) as interpreted by the Courts, which includes "parts of a machine considered separately from the machine itself." *Id.* Thus, in multicomponent products, design damages may, depending on the particular product, cover either the end product sold to a consumer or components of that product.

Importantly, the Court did not provide a test that lower courts could use to determine the relevant "article of manufacture" in this and future design patent cases. The Court opted not to do so because neither party briefed what the appropriate test should be. *Id.* at 8. Rather, the Court remanded to the Federal Circuit to fashion such a test and decide whether Samsung's entire smartphone or merely components of it is the "article of manufacture" upon which damages for infringing Apple's design patents could be based. *Id.* at 8-9.

Notably, the Solicitor General's *amicus* brief on behalf of the United States (and in support of neither party) had proposed a test. Namely, the Solicitor General's proposed test was "a case-specific examination of the relationship among the design, any relevant components, and the product as whole" with four underlying considerations. The four considerations, none of which were proposed to be conclusive, under this test were (1) the scope of the design claimed in the patent and how it relates to the product as a whole, (2) the relative prominence of the design within the product as a whole, (3) whether the design is conceptually distinct from the product as a whole, and (4) the physical relationship between the patented design and the rest of the product. *See* Brief for United States as Amicus Curiae at 27-29. The Solicitor's test would leave the determination of the relevant "article of manufacture" to the finder of fact (i.e. the jury). *Id.* at 29. We will have to wait and see if either one of the parties and/or the Federal Circuit adopts this or some other test on remand.

The key takeaway from this Supreme Court opinion is that design patent owners are not necessarily entitled to all of an infringers' profits on an entire product. Rather, there is a threshold question as to what the relevant "article of manufacture" is that should be addressed before damages are calculated. Thus, both patentees and accused infringers should consider presenting evidence in the best manner to demonstrate that the patented design covers either the product sold as a whole (if you are the patentee) or only a component of the commercial product (if you are the accused infringer). Parties should do their best to present this evidence to the district court because this determination is likely to be a factual issue, which the Federal Circuit reviews for an abuse of discretion.

In light of this decision, both patent owners and alleged or possible infringers at all stages of design patent litigation should reassess the possible damages awards. For example, both patentees and infringers should look at the evidence (perhaps using the four factors discussed above) and determine the proper basis for damages—namely, the entire product or just a component of it. This may affect settlement positions and negotiations as well if an infringer puts forth enough evidence for a jury to find that the proper basis is a component, rather than the entire product, because the amount of damages will be lowered. Defendants and potential defendants may want to consider getting opinions of counsel regarding the relevant "article of manufacture" and potential risk of damages to help them assess the risk of moving forward with a similar but arguably non-infringing design. Finally, any party with an appeal concerning design patent damages may want to consider supplementing its appellate briefing in light of the Court's change in the approach to evaluating the proper damages base announced in this opinion.