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U.S. Supreme Court Substantially Devalues Design Patent Damages on Multicomponent Products: What Design Patent Holders Need to Know

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Intellectual Property Update

Brief Summary

The U.S. Supreme Court in a unanimous 8-0 opinion reversed and remanded to the U.S. Court of Appeals for the Federal Circuit an award to Apple, Inc. of $399 million of Samsung Electronics Co., Ltd.'s total profits on smartphones infringing certain Apple design patents. For purposes of determining the measure of damages on an article of manufacture for design patent infringement under 35 U.S.C. § 289, the Court held that in the case of a multicomponent product, the article of manufacture need not be the end product sold to the consumer, but may be only a mere component of that product.

However, the Court declined to define any test or rule of law for an infringing multicomponent article to determine either: (1) whether damages should be based on the profits for the entire multicomponent article; or (2) how to decide the measure of damages where damages are not based on the entire article. Consequently, design patent damages for multicomponent articles likely will be in a state of flux for years, which will in turn have immediate effects on the value of design patents. Holders of these patents should take note and consult their lawyers to discuss ways to address the effects of the Court's opinion.

Complete Summary

Apple sued Samsung in 2011, alleging that certain Samsung smartphones that had an appearance resembling Apple's iPhones infringed Apple's design patents, utility patents and trade dress rights. The jury awarded Apple $1 billion in damages for the various infringements. The jury's verdict for design patent infringement damages was reduced to $399 million in total profits on infringing smartphones under 35 U.S.C. § 289 — the statutory damages provision for design patents — after a retrial. The Federal Circuit affirmed the judgment as being properly based on the total profits on the infringing smartphones and not limited to only infringing portions of the smartphone.

On appeal from the Federal Circuit, the Supreme Court reviewed the history of Section 289, including that the express provision for an award of total profits was enacted in 1887 to overrule the Court's decision in *Dobson v. Hartford Carpet Co.*, 114 U.S. 439 (1885). The high court in *Dobson* had held that damages were limited to the infringer's profit due to the infringement rather than the total profit on the infringing product.

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The Supreme Court also analyzed the text of Section 289, which reads in relevant part:

> Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any *article of manufacture* for the purpose of sale . . . shall be liable to the owner to the extent of his total profit, but not less than $250 . . . (emphasis added).

In the critical portion of its analysis, the Supreme Court relied on two dictionaries to define an "article of manufacture." Based on the dictionary definitions of "article" and "manufacture," it held that "article of manufacture" is "simply a thing made by hand or machine." It then found that this definition includes both a product sold by an infringer and a component of that product.

The Court found that this definition was supported by other sections of the patent statute. It reviewed 35 U.S.C. § 171, which permits a design patent for "an article of manufacture," noting that Section 171 for many years had been interpreted by the U.S. Patent and Trademark Office and courts as allowing a design patent on a portion of product. The Court also considered 35 U.S.C. § 101, which permits a utility patent on a "manufacture." Section 101 has been interpreted to permit a patent on a machine and parts of a machine. The Supreme Court concluded that its definition of "article of manufacture" was consistent with the patent statute at large.

Based on its definition of "article of manufacture," the Court found that the Federal Circuit's definition of the term as the product sold was too narrow. The Court's holding was simply that for a multicomponent product, the "article of manufacture" for purposes of damages under 35 U.S.C. § 289 need not always be the end product sold to the consumer but may be a component of that product. Reversing and remanding to the Federal Circuit, the high court declined to set forth any test or guidance on how to determine the measure of damages for a design patent infringement when the infringing article is a multicomponent article.

Significance of Opinion

The Supreme Court's opinion does not affect design patents on unitary products and the remedy of total profits on unitary products are not affected. Also, damages for design patent infringement can still be sought under the general patent damages statute, 35 U.S.C. 284, including a reasonable royalty and lost profits under appropriate circumstances.

But make no mistake, the Court's opinion will have significant business effects. Most obviously, the opinion devalues design patent damages under 35 U.S.C. § 289 on multicomponent products. The amount of devaluation under Section 289 will depend on the legal tests that remain to be established by the lower courts — a process that will take years — and likely will be significant. As a result, the value of these design patents and the holders' overall patent portfolios may decrease.

As mentioned above, the damages for infringement of design patents on multicomponent articles may still be recovered, but in many case at a lesser amount. Design patent holders should consult their lawyers to explore these and other ways to best address the effects of the Court's opinion and protect the value of their design patents.

Read the Supreme Court's full opinion: *Samsung Electronics Co., Ltd v. Apple Inc.*, 580 U.S. --- (2016)