Supreme Court: Design Patent Damages May Be Limited to Infringing Component of End Product, Rejecting Apple's $399M Award Against Samsung

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In the first design patent case to reach the Supreme Court of the United States in more than 120 years, on December 6, 2016, the Justices handed down a widely watched decision in the *Samsung Electronics Company v. Apple Inc.* case. In a unanimous yet narrowly tailored decision, the Justices tossed out Apple's design patent damages award and ruled that Samsung's damages for infringing Apple's design patents may be limited to the infringing component (such as a smart phone case) of an end product, instead of that entire product (a smart phone). In sending the case back down for further inquiry, the Court declined to opine on whether each of the relevant infringing articles is the smartphone or a particular smartphone component.

The heated design patent war over smart phones goes back to 2011, when Apple sued Samsung, alleging infringement of its three design patents by Samsung's smartphones. A jury found that several Samsung smartphones infringed those patents. Apple was awarded $399 million in damages for Samsung's patent infringement, the entire profit Samsung made from its sales of the infringing smartphones.

The Federal Circuit upheld the design patent infringement damages award. In doing so, it rejected Samsung's argument "that the profits awarded should have been limited to the infringing 'article of manufacture'"—for example, the screen or case of the smartphone—"not the entire infringing product"—the smart phone. It reasoned that limiting 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."

The statutory basis for design patent damages determination stems from 35 U. S. C. §289, which provides, 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, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250 . . . . 35 U. S. C. §289.

The key issue before the Supreme Court was whether under 35 U. S. C. §289 in a design patent case involving a multicomponent product,

- the relevant "article of manufacture" must always be the end product sold to the consumer, *or*
- it can also be a component of that product.

Under the first interpretation, a patent holder will always be entitled to the infringer's total profit from the end product. Under the second interpretation, a patent holder will be entitled to the infringer's total profit from a component of the end product, but not the entire end product.

The Supreme Court resolved the case in large part based on the dictionary definitions of "article" and "manufacture," finding that "[a]n article of manufacture, then, is simply a thing made by hand or machine." The Court concluded that:

> So understood, the term 'article of manufacture' is broad enough to encompass both a product sold to a consumer as well a component of that product....That a component may be integrated into a larger product...does not put it outside the category of articles of manufacture.

The Court supported its reading of "article of manufacture" in §289 by finding that such a reading is consistent with 35 U. S. C. §171(a) (permitting a design patent for a design extending to only a component of a multicomponent product); and with 35 U. S. C. §101 (noting that "article of manufacture" in §171 includes what would be considered a 'manufacture' within the meaning of §101 and that "manufacture" means "the production of articles for use from raw or prepared materials by giving to these materials new forms, qualities, properties, or combinations, whether by hand-labor or by machinery.").

Applying its reading of "article of manufacture" to the current case, the Supreme Court found the Federal Circuit's narrower reading cannot be squared with the text of § 289, and reversed the Federal's Circuit's judgment on damages award.

Notably, the Supreme Court declined to go further and resolve whether, for each of the design patents at issue in this case, the relevant article of manufacture is the smart phone, or a smart phone component. The Court reasoned that doing so would require parties to have briefed the issue (which they had not) and is not necessary, leaving it to the Federal Circuit to address any such remaining issues on remand.

The Supreme Court's ruling can be a blessing to some companies that make and sell products embodying various technologies and protected by multiple intellectual property forms (e.g. trademark, utility and design patents). The risks of potentially disgorging the profit from selling the entire product may be mitigated when only one nonfunctional component of that product infringes a design patent. On the other hand, the ruling may blunt the deterring edge of big-money damages relied upon by fashion or design industry to fend off design piracy and knock-offs.

For now, the ground breaking ruling has created uncertainty and ambiguity for parties on both sides of the fence. It may take years and additional legal battles at the Federal Circuit and district court level before the dust over the design patent landscape settles.

If you have questions or would like additional information on this topic, please contact Feng Xu (xuf@whiteandwilliams.com; 212.714.3060) or another member of our Intellectual Property Group.