Supreme Court potentially slashes design patent value: damages could be limited to individual components

BY KENNETH MATUSZEWSKI AND ISAAC RABICOFF

Just recently, the Supreme Court unanimously decided *Samsung Electronics Co., Ltd., et al. v. Apple Inc.* The case is notable, because it is the first design patent case the Court heard in 120 years.[1] The suit began when Apple sued Samsung for infringing multiple design patents intended to cover the first generation iPhone. The design patents at issue included D618,677, for a black rectangular front face with rounded corners; D593,087, for a rectangular front face with rounded corners and a raised rim; and D604,305, for a grid of 16 colored icons on a black screen.[2]

At the district court, Apple was awarded $399 million in damages for Samsung's infringement, which was affirmed by the Federal Circuit. The damages calculation was based on the total profit Samsung made from selling in the United States its Samsung Galaxy devices as a whole.

However, the Supreme Court reversed, finding that an article of manufacture need not be limited to the entire product sold to consumers. The Court opined that under 35 U.S.C. § 289 ("§ 289"), a patent holder recovers the total profit an infringer makes from the corresponding article of manufacture. The analysis for damages under § 289 has two prongs:

1) "[I]dentify the 'article of manufacture' to which the infringed design has been applied[;]"
2) "[C]alculate the infringer's total profit made on that article of manufacture."[3]

The central issue the Court addressed was whether an article of manufacture "must always be the end product sold to the consumer or whether it can also be a component of that product."[4]

An article of manufacture, according to the Supreme Court, may not only be the final product sold to the consumer, but could also be a component of the final product, to the extent that profits are associated with that component. The Court defined article of manufacture by its dictionary definition: "a thing made by hand or machine."[5] Accordingly, a component of a final products could be considered an article of manufacture within the meaning of § 289.[6]

Finally, the Supreme Court declined to establish a test for identifying the article of manufacture because the parties had not sufficiently briefed that issue.[7] Instead, the Supreme Court left that issue for the Federal Circuit to decide on remand.

Until a test is established to determine whether the article of manufacture is either a component of the final product or the final product itself, design patent owners are at risk of being awarded dramatically lower damages under § 289 than before. As a result, design patent prosecution may decrease if clients find their value too low or uncertain. ■

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1. Andrew Chung, *U.S. Supreme Court backs Samsung in smartphone fight with Apple*, Reuters (Dec. 6, 2016, 1:33 PM), <http://www.reuters.com/article/us-usa-court-iphone-idUSKBN13V1XL>.

2. Samsung Electronics Co., Ltd., et al. v. Apple Inc., 580 U.S. 3 (2016).

3. 35 U.S.C. § 289 (1952).

4. *Samsung*, 580 U.S. at 5.

5. *Id.* at 6.

6. *Id.* at 7-8 ("The Federal Circuit found that components of the infringing smartphones could not be the relevant article of manufacture because consumers could not purchase those components separately from the headphones.").

7. *Id.* at 8 ("We decline to lay out a test for the first step of the §289 inquiry in the absence of adequate briefing by the parties. Doing so is not necessary to resolve the question presented in this case . . . .").

Coming soon...

An article on the Defend Trade Secrets Act

While 48 of our 50 states have previously adopted a variation of the Uniform Trade Secrets Act as state law, Congress enacted the federal Defend Trade Secrets Act of 2016 ("DTSA") this past Spring. 8 U.S.C. § 1836. The significance of the DTSA continues to develop. Since enactment, no less than ten (10) cases have ruled upon claims brought under the DTSA. An upcoming article expects to examine some of these cases and the jurisprudence developing around the DTSA including, but not limited to, its effect on state laws; inevitable disclosure doctrines; and supplementary jurisdiction over state law claims. ■