NSIP Law
Securing Innovation℠

Intellectual Property

Front Lines of Design℠

Fall 2016 A Design Patent and Trademark Newsletter

DESIGN PATENT NEWS

Supreme Court Hears Oral Argument in *Apple v. Samsung* on the Scope of Damages to be Awarded in Design Patent Cases

On October 11, 2016, the U.S. Supreme Court heard oral arguments in front of a packed courtroom in the pivotal case of *Apple Inc. v. Samsung Electronics Co., Ltd.* The Supreme Court is set to decide whether the owner of valid U.S. design patents may collect, as the measure of its damages, the entire profit that the infringer of those patents earned from the sale of the entire product that incorporates the patented designs, or whether the amount of damages may be limited to the portion of that profit that is attributable to the individual components that incorporate the patented designs, which may be substantially less than the total profit. At stake is not only the $929 million dollars that has been awarded by a jury to Apple in that case, but also the strength and value of design patents as intellectual property and as a competitive tool in the marketplace. NSIP Law attended the oral argument, and provides the following report and analysis.

Apple sued Samsung in April 2011, alleging that Samsung's smartphones infringed several of Apple's utility patents and design patents, thereby diluting Apple's trade dress rights, all of which related to certain features of Apple's iPhone. The Apple design patents at issue were directed to several ornamental design elements of the iPhone, including the shape and appearance of its front surface and the layout and content of its home-screen graphical user interface.

The first asserted design patent, U.S. Patent No. D618,677 ("the '677 patent"), claims a flat, black front face of the iPhone, while excluding the

NSIP Law is a full service intellectual property firm that specializes in the procurement of enforceable IP rights to protect innovations and investments pertaining to patents, trademarks, and copyrights.

Contributors to Front Lines of Design℠

Shabnam Nowrouzi
Snowrouzi@nsiplaw.com

Rusty Briggs
Rusty@nsiplaw.com

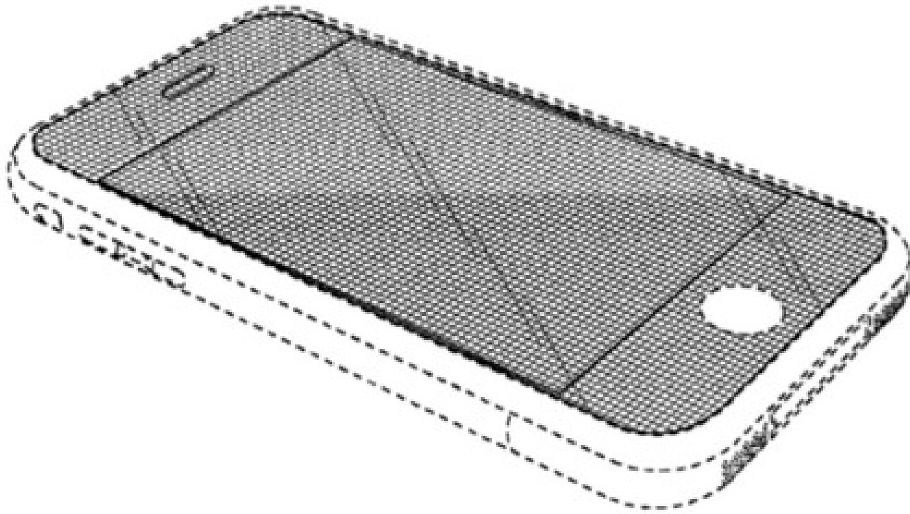
Alisa S. Abbott
AAbbott@nsiplaw.com

Charles Y. Park
Charles@nsiplaw.com

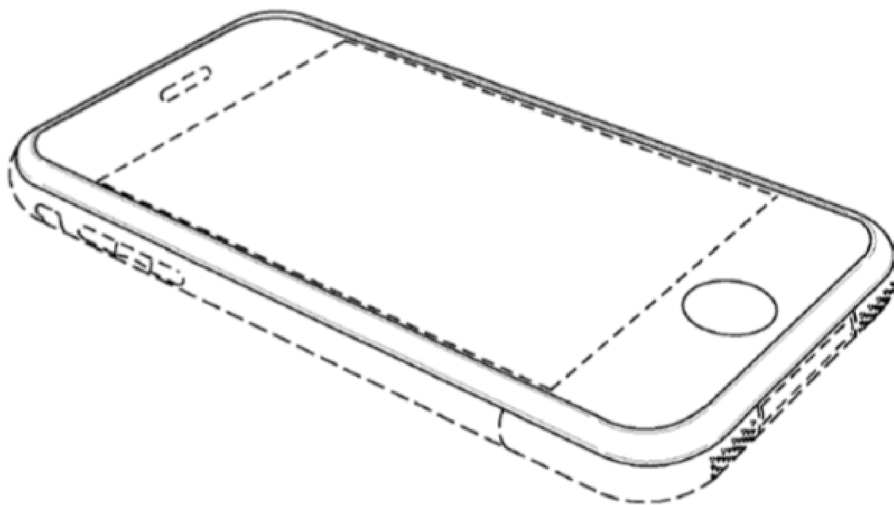
***Apple v. Samsung:* Selected *Amicus Curiae* Briefs**

U.S. Patent and Trademark Office: The language of Section 289 unambiguously permits a patent holder to recover the infringer's entire profits from the "article of manufacture" to which the design was applied, regardless of the extent to which those profits are attributable to the infringing design.

circular home button, which is not claimed. The claimed design in the '677 Patent is shown in the following representative drawing figure from the patent:



The second design patent, U.S. Patent No. D593,087 ("the 087 patent"), claims the front, flat portion of the iPhone, including the rectangular bezel with rounded corners, and the circular home button, as shown in the following representative drawing figure from the '087 patent:



The third design patent, U.S. Patent No. D604,305 ("the '305 patent"), claims the design for a version of the home screen of the graphical user interface that is used with the iPhone. The '305 Patent claims the layout of features shown on that interface, as well as the number, size, shape and placement of the icons, graphics and alphanumeric characters

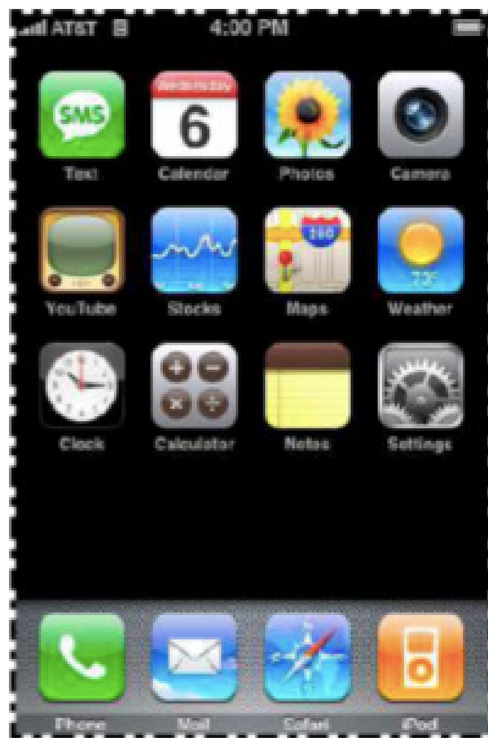
***Apple v. Samsung:* Selected *Amicus Curiae* Briefs**

U.S. Patent and Trademark Office: The legislative history of Section 289's development confirms that understanding.

Section 289's text and history establish that an "article of manufacture" may be a component of a product as sold. Such a component is not always the finished product sold in commerce. In such cases, the patentee is entitled only to the infringer's total profit for that component, not the total profit for the finished item. The Federal Circuit's contrary approach, under which the relevant "article of manufacture" would invariably be the entire product that is sold, would result in grossly excessive and essentially arbitrary awards, which may depend substantially on the scope and profitability of *other* components as to which no infringement occurred.

American Intellectual Property Law Association: Congress has already answered the question in this case by enacting 35 U.S.C. 289, which established that compensation for design patent infringement may include the infringer's profit from the sale of the article bearing the claimed design. Although Congress has made somewhat different decisions concerning the recovery of an infringer's profits in the case of

that are shown within that interface. The claimed features of the '305 Patent are clearly shown in the color graphical rendering of the patented design that is included as a drawing figure in the '305 Patent:



The sole issue decided by the Supreme Court is whether the language of the federal design patent damages statute, 35 U.S.C. 289, should be interpreted to require that the entire profit which Samsung earned from the sale of the smartphone products incorporating the patented designs should be awarded to Apple as damages for design patent infringement, or whether Apple should only receive the portion of that total profit representing the incremental value that the patented designs contributed to the Samsung smartphones.

Section 289 requires that any party applying a patented design to an article of manufacture that is offered for sale "*shall be liable to the owner to the extent of his total profit, but not less than $250…*" In *Apple,* the district court instructed the jury that it would be proper to award Samsung's entire profits on their infringing smartphones as damages to Apple for design patent infringement. The jury proceeded to do just that. Samsung then appealed the jury's verdict to the United States Court of Appeals for the Federal Circuit, the U.S. federal court of appeals to which all patent cases are sent for review.

Samsung argued to the Federal Circuit that the damages for design patent infringement should have been limited to the portion of the profit attributable to the infringing designs based on "basic causation principles."

***Apple v. Samsung:* Selected *Amicus Curiae* Briefs**

American Intellectual Property Law Association: utility patents or trademarks (where Congress has allowed apportionment and placed the burden of apportionment on the infringer) Congress has not, however, moved away from its grant to design patent owners of the right to recover an infringer's total, un-apportioned profits. This remedy, moreover, remains an important weapon in the arsenal of design patent holders in the fight against counterfeit articles of manufacture.

Nike, Inc.: Product design is a vital way that companies advance industries, drive demand and foster competition. Aesthetic designs frequently apply to entire products and can be their chief distinguishing features, as they provide valuable information about the product and often serve as fashion statements that influence consumers and enhance consumer demand.

Design patents protect significant investments and incentivize reinvestments needed to develop successful designs. In industries where barriers to entry are low, knockoffs and copying can cause significant harm to innovators, consumers and the public.

The "total profit" remedy provided by Congress is the most logical approach to design

In particular, Samsung argued, "Apple failed to establish that infringement of its limited design patents … caused *any* Samsung sales *or profits.*" Samsung argued further that consumers chose Samsung smartphones based on a host of other factors beyond the patented designs.

The Federal Circuit disagreed with Samsung's "causation" arguments, and found instead that this argument amounted to a request for an "apportionment" of the profits to the part of the profits from the sale of Samsung smartphones attributable to using the patented designs. The Federal Circuit noted that Congress specifically removed an apportionment requirement when it passed Section 289, and rejected apportionment as a proper method of calculating damages for infringement of design patents. The Federal Circuit concluded that the language of Section 289 explicitly authorizes the award of total profits from the article of manufacture bearing the patented design, so that the clear statutory language prevents the adoption of a "causation" rule. In doing so, the Court implicitly interpreted the "article of manufacture" language as referring to the entire product sold to consumers, rather than the component of the total product which included the patented design that is not sold directly to consumers, but is instead incorporated into a larger product which is then sold.

Samsung then filed a petition for a writ of certiorari with the United States Supreme Court, which was granted on March 21, 2016, regarding the issue of the measure of design patent damages. In addition to Apple and Samsung, the Supreme Court received *amicus curiae* briefs from almost two dozen influential parties, including the Solicitor General of the United States on behalf of the U.S. Patent and Trademark Office, Nike, Crocs, Cleveland Golf Company, the Business Software Alliance, the Industrial Designers Society of America, the Computer and Communications Industry Association, the American Intellectual Property Association, and groups of 50 intellectual property professors and 113 distinguished industrial design professionals, making the *Apple* case one of the most important and closely-watched design patent cases in recent history. (*See side-bar for selected summaries)*

In the oral arguments before the Supreme Court on the morning of Tuesday, October 11, 2016, Justices Anthony Kennedy and Ruth Bader Ginsburg primarily questioned the attorneys for both parties, while Justices Sonia Sotomayor, Stephen Breyer and Chief Justice John Roberts additionally raised substantial issues. The Justices' inquiries were largely directed to the possibility of arriving at clear standards for

Apple v. Samsung:
Selected *Amicus Curiae* Briefs

Nike, Inc.: patent protection because innocent infringement is rare and unauthorized copying often quickly follows a new design, eroding innovators' profits. Requiring design patent owners to apportion their damages to the infringer's profit from the patented design would effectively render design patents a right without a remedy, and remove a needed deterrent to infringement that prevents a flood of knockoffs and copycats in the market.

50 Law Professors (Prof. Mark Lemley): Despite Samsung's own patents, its engineering and design work, and the fact that technologies developed by Google and countless other inventors are incorporated in Samsung's phones, the Federal Circuit affirmed the jury's damages award of Samsung's entire profit from phones that infringed Apple's design patents.

The Federal Circuit's interpretation of Section 289 creates a draconian rule that is in conflict with prior interpretations of that statute, which considers circumstances from more than a century ago that no longer apply today, and is inconsistent with the Court's rule for utility patent damages.

As applied to a modern, multicomponent product, the

determining design patent damages that would clearly instruct a jury how to determine the article of manufacture in a design patent case, even if the article is less than the entire product, and how to determine what part of the profit should be attributed to that article.

Samsung counsel Kathleen Sullivan began the argument by asserting that Apple's iPhone is considered a "smart" phone because it is comprised of thousands of inventions and technologies. Sullivan noted that Congress did not require Section 289 to be interpreted in a way that enables the owner of design patents which only contribute to several components to a complex smartphone to collect the total profit that is earned from the sale of the complete smartphone. Sullivan further asserted that when a design patent applies to merely a component of a fully-assembled consumer product, then that component should be identified as the article of manufacture referred to in Section 289 to which an award of profits is applied, not the entire product.

Justice Kennedy then questioned Sullivan about how a jury could be clearly instructed on how to determine what the article of manufacture would be in a multi-component product. Justice Kennedy was concerned with the fact that a jury would not know how to determine whether the patented design was attributed to the whole product or only to a component, and if it was attributed to a component, how that component would be identified. Justice Kennedy was also concerned with whether this was just another form of apportionment that Congress prohibited by enacting Section 289.

Sullivan replied that the jury could certainly receive clear guidance, because they will be instructed that the article of manufacture is the part or portion of an assembled product to which the patented design applies.

Justice Ginsburg responded by questioning the importance of determining the article of manufacture, rather than apportioning the design to the product as a whole. Sullivan answered that the article of manufacture may be a component of the assembled product to which the design is applied. In the case of the Apple design patents at issue, Sullivan responded, the components would be the flat front rectangular display screen with rounded corners, the rectangular bezel surrounding the display screen and the layout of a graphical user interface design. The initial inquiry should focus on determining the article of manufacture, not apportioning the design to the total assembled product. In the case of the iPhone, Sullivan argued that the article of manufacture was less than the entire phone.

Apple v. Samsung:
Selected *Amicus Curiae* Briefs

50 Law Professors (Prof. Mark Lemley): entire profit rule drastically overcompensates design patent owners, undervalues technological innovation and manufacturing know-how, and raises troubling questions about how to handle other potential claims to a share of defendant's profits. The rule applies even to innocent design patent infringement. Section 289 should instead be read, in accordance with wise policy and the remainder of the patent statute, to limit the award of profits to those attributable to infringement of the design patent.

Software Freedom Law Center: The Court has previously used the First Amendment to limit the effect of patent and copyright rules on freedom of protected speech and the communication of ideas. Design patents have not been subjected to the same constitutional scrutiny and limitations that copyrights and utility patents have been.

Based on the Federal Circuit's reading of Section 289, this constitutionally dubious state-granted monopoly is enforced by a damages rule allowing the patent holder to recover the total profit earned by the sale of

When determining what component or components of the whole products represent the article of manufacture for purposes of Section 289, Sullivan argued that a court must look at the design patent as the best guide, as the design claim defines the design that is contributed to the product.

Justice Ginsburg then asked what test should be applied to identify the article of manufacture in the context of the sale of a product to a consumer. That is, the consumer may decide that the rectangular housing of the phone drives the sale. Justice Ginsburg could not find any evidence in the record that was before the Court that Samsung had argued to the trial court that the article of manufacture could be a mere component of a larger product. Therefore, Justice Ginsburg did not see how Samsung's method of defining the article of manufacture could survive.

Sullivan rebutted Justice Ginsburg's assertion by arguing that Samsung had raised the issue of the proper method of determining the article of manufacture and calculating profits multiple times at the trial court level, including when Samsung requested that the jury be instructed that the article of manufacture could be a component, and not necessarily the total product, and that the jury could award less than the entire profit. However, the trial court would not allow such instructions to be given to the jury. Sullivan also argued that the Federal Circuit disregarded their argument and enacted a test for determining the article of manufacture (*i.e.* that it must be the total product sold to the consumer) which was incorrect as a matter of law. Sullivan argued that the Federal Circuit should have instead imposed a test that considered a proper interpretation of the design patent claims at issue which would have allowed a determination of which components of the iPhone included those patented designs.

Justice Ginsburg next inquired how the profit attributable to the design would be determined under Samsung's method for identifying the article of manufacture. Sullivan replied that ordinary accounting principles typically used to calculate the cost and profit attributable to a component of a larger product would apply, including the cost of the components and the profit margin of the overall product. If the component in question was manufactured by the same entity that assembled the finished product, then transfer pricing data could be considered.

Justice Kennedy questioned what expert testimony would be relevant to the cost or profit relative to the total profit for the design. In particular, Justice Kennedy proposed the hypothetical situation where the design

***Apple v. Samsung:* Selected *Amicus Curiae* Briefs**

Software Freedom Law Center: any "article of manufacture," no matter how complex or valuable to its purchaser for other reasons, if it contains a "colorable imitation" of a patented design. Such a punitive measure of damages renders the design patent a particularly powerful weapon for the prohibition of innovation, whether in the hands of incumbent manufacturers or "patent trolls."

Computer & Communications Industry Association: The Federal Circuit's decision with respect to design patent damages raises constitutional concerns, is a misreading of the statute, and is dangerous to the technology industry.

By interpreting the term "article of manufacture" to apply only to articles sold to "ordinary purchasers," the Federal Circuit's decision gives the inventor of a fairly narrow "discovery" the right to the profits made on a complex device that is the result of literally thousands of separate, patented, innovations. This interpretation of the statute effectively grants exclusive rights over a device covered by thousands of utility patents, even though the "discovery" covered by the patent-in-suit is an ornamental feature.

The constitutionality problem is avoidable by interpreting

patent owner created a "stroke of genius" design for a component which took only a few days to create, but which contributed to a disproportionately large amount of the demand for or sales of the product relative to the cost of the component. Although Justice Kennedy thought that there were good reasons for "separating the body [design] from the innards [technical features]" he questioned whether it would not be unfair to award a small amount of profits representing the small amount of the numerical cost or profit directly attributable to that "stroke of genius" component.

Sullivan responded that Apple did not present any evidence on the issue of which components of the iPhone design were responsible for consumer demand or its total profit, so that the contribution of the patented designs could not be determined. However, Sullivan argued that in a particular case the patented design may be responsible for a great deal of the total profit, because people may pay a lot of money for the appealing way that the product looks.

Justice Kennedy then challenged Sullivan's argument regarding the necessary causal link between the patented design and the amount of profit, arguing that "causation" is the same thing as the "apportionment" of profit that Congress prohibited in Section 289. In response, Sullivan argued that if some form of causation was not required, then Apple would receive the profits for Samsung's smartphones, even if the design was not the primary reason consumers purchased them. Congress did not prohibit all forms of apportionment in design patent cases. It is fully permissible, Sullivan noted, to segregate one article of manufacture from other articles of manufacture within the same overall product.

Sullivan further argued that awarding the total profit on the product as a whole would also improperly include technical or functional components within the phones that have nothing to do with the ornamental appearances of the features covered by the design patents. However, Sullivan conceded that the standard set by Congress under Section 289 was somewhat over-inclusive, because it required that the total profit be awarded from the article of manufacture that incorporates the patented design (which may be a mere component), even if that component (and profit) includes the value of technical or functional attributes that are separate from the design.

Justice Sotomayor interjected that people may not place significant value on the internal functional innovation, rather they may award the total profit for the entire phone's design.

Apple v. Samsung: **Selected *Amicus Curiae* Briefs**

Computer & Communications Industry Association: the statute more naturally: the term "article of manufacture" used in Section 289 must refer to the smallest article to which the patented design is applied, not a larger device that incorporates the article as one of its components. Were it not, a design patent covering a windshield for a boat could be liable for profits on the entire boat. Congress never intended the "article of manufacture" to automatically swallow the end-good in which the article incorporating an infringing design is included.

Business Software Alliance: Design patents provide important legal protection for software innovation, and effective remedies for infringement of design patents. They are therefore essential to provide the incentives needed to maintain investment in this critical sector of our Nation's economy.

Software developers rely on appropriate legal protections to safeguard their innovations, and absent such intellectual property rights, developers would have little incentive to create the remarkable array of software systems that now touch on virtually every aspect of the modern world.

Novel design of the graphical

Sullivan rebutted Justice Sotomayor's comment by arguing that it was not appropriate for the jury to have awarded Apple the total profit Samsung earned from the sale of theirs smartphones, because Apple actually owns design patents that cover the entire external iPhone design, but chose not to assert them against Samsung because Samsung's phones do not look like the iPhone. Therefore, Apple cannot use its many design patents that cover individual components of the iPhone to claim the entire profit for Samsung's smartphones when Apple could not assert its design patent for the entire phone design. In addition, Sullivan that it was not appropriate to award damages based on the total profits from the sale of its smartphones, because design patents cannot be interpreted to cover the internal technical or functional components of those phones, which contribute substantially to the total profit.

In Samsung's view, the article of manufacture that incorporates the patented design must first be identified, then the quantum of profits attributable to that article of manufacture must then be determined. Although Sullivan acknowledged that the profits that may be awarded as damages could be a substantial portion of the total profits earned from the product, Sullivan did not believe that that the entire profit from the whole product could ever be properly awarded for design patent infringement. A jury could have been properly instructed to identify the components of the iPhone design that included the patented design, such as the rectangular front face with rounded corners, the rectangular bezel with rounded corners and the graphical user interface. The jury could have also been instructed to ignore all of the unclaimed features that were shown in broken dashed lines in the patent drawing, and they could have properly awarded damages based on the profits attributable to those components as articles of manufacture. There is no basis in law or in the record for the jury to have found that the profit on a component equals the total profit for the entire product.

The Solicitor General then presented arguments on behalf of the U.S. Patent and Trademark Office in which he agreed that the Federal Circuit was correct in interpreting Section 289 to require an award of the total profit for the article of manufacture covered by the design patents, and not just the portion of the profit attributable to the patented designs. However, the Solicitor also agreed with Samsung that the total profit may not always be the profit from the entire product, because the article of manufacture to which the design patent contributes may be a mere component of that product.

Apple v. Samsung:
Selected *Amicus Curiae* Briefs

Business Software Alliance:
user interface often provides an important component of a software system's value. A highly-functional software program that lacks attractive, intuitive design will have significantly-reduced value in the marketplace. In circumstances where competing software systems offer similar functionality, innovative design is often the most important basis on which companies compete.

Design patents therefore provide unique protection for this area of innovation, as no other form of intellectual property serves as a substitute.

Association of the Bar of the City of New York:
Based on the allowance in Section 289 of an award to the "extent" of an infringer's profits, this Court should clarify that this section allows for such an award to be on a sliding scale, ranging from the statutorily prescribed $250 minimum, up to the extent of the infringer's profits, with the precise amount of the award being a question of fact to be decided based on the circumstances of the case.

The Solicitor then proposed a four (4) factor test for defining the article of manufacture, based on the facts of a particular case:

1) The scope of the design claimed in the plaintiff's patent, including the drawing and written description, which provides insight into which portions of the underlying product the design is intended to cover, and how the design relates to the product as a whole;

2) The relative prominence of the design within the product as a whole, so that if it is a minor component of the product, like a latch on a refrigerator, or if the product has many other components unaffected by the design, that fact suggests that the "article" should be the component embodying the design, not the design as a whole;

3) Whether the design is conceptually distinct from the product as a whole, so that if the product contains other components that embody conceptually distinct innovations, it may be appropriate to conclude that a component is the relevant article; and

4) The physical relationship between the patented design and the rest of the product, which may reveal that the design adheres only to a component of the product, so that if the design pertains to a component that a user or seller can physically separate from the product as a whole, that fact suggests that the design has been applied to the component alone rather than to the complete product.

Justice Ginsburg questioned the Solicitor regarding how to determine the total profit attributable to the design if the component including the design is not sold separately from the final product. Justice Ginsburg expressed concern regarding the possibility of distinguishing the profit attributable to the component in that instance. Justice Kennedy then asked whether expert testimony would be necessary in order to assist in identifying the article of manufacture.

The Solicitor responded that the profits may be awarded according to the legal standards for awarding an infringer's profits that existed in the Patent Act before it was amended in 1946. Expert testimony may be necessary to define the relevant art for the design patent. Such experts should be qualified through industry experience so that they would understand the design considerations for smartphones, including how they are used and put together. Experts in conducting and interpreting consumer surveys in a particular industry may be relevant to determining what portions of the design of the smartphone may be responsible for consumer demand.

Chief Justice Roberts then asked the Solicitor why the cost of the relevant components could be used as a proxy for recoverable profit, because the costs attributable to the components would actually reduce the recoverable profit. The Solicitor responded that the government recommended a "bottom-up" approach to calculating the recoverable profit, which considers the cost of the component as a proportion of the total cost of the product, as well as the profit attributable to the component as a proportion of the total profit for the product. The Solicitor relied the Supreme Court's decision in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), a copyright case, to argue that all that is necessary is for expert testimony to provide a "reasonable approximation" of the total profits attributable to the patented design, and that absolute certainty was not necessary.

Justice Sotomayor then drew an analogy to the shape of the car body for the Volkswagen Beetle design. Justice Sotomayor posed several hypothetical questions based on this analogy, including the following: What if the body shape of the VW Beetle was the reason why consumers purchased it? How would the article of manufacture be determined for the Beetle design if the design claim covered the body shape? What if the scope of the claimed design covered the entire product? Justice Kennedy questioned how to account for other factors in the purchasing decision, such as if the Beetle cost $18,000, got 2 miles per gallon or broke down every 50 miles, all of which had nothing to do with the ornamental design.

The Solicitor responded that the amount of the distinct appearance of the total product that the design contributes to would have to be considered when determining what the article of manufacture would be within the context of the overall product. The extent of any other non-patented design elements or functional elements that contribute to the design would also have to be considered. Expert testimony and consumer surveys may also be used to demonstrate what portions of the demand for the product is contributed by the patented design versus other non-design factors.

Justice Alito asserted that the test articulated by the Solicitor was not helpful to him, because many other factors may impact consumer demand for a product outside of its design elements, including the quality and technical functioning of the product. Under those circumstances, Justice Alito inquired into what the article of manufacture would be. The Solicitor responded that expert testimony would have to be presented to determine what other factors beyond the patented designs would have contributed to the profits of the article of manufacture.

Counsel for Apple, Seth Waxman, argued that there was no basis on which to overturn the jury's verdict awarding damages in the form of Samsung's total profits from the sales of their entire infringing smartphones. According to Waxman, Samsung offered no evidence which broke down the iPhone into separate components, so that the jury was only instructed to consider the total phone product for infringement and damages.

Justice Ginsburg then asked whether there was evidence in the record of the case supporting Samsung's argument that they presented their proposed method of identifying the article of manufacture to the trial court, so that they were entitled to make that argument here. Waxman replied that Samsung's expert was not allowed to present testimony concerning the portion of the total profit attributable to the rectangular front face features and the graphical user interface covered by the patents, because that amounted to the apportionment of profits prohibited by Congress. According to Waxman, Samsung never argued to the jury that an article of manufacture could be a component, and not the total phone product.

Justice Breyer then asked Waxman why the case should not be remanded to the lower court to decide whether Samsung presented its causation and article of manufacture arguments, so that they were preserved for this appeal. In reply, Waxman argued that the Supreme Court must still announce the correct legal standards that must be applied to determine design patent damages based on the evidence in this case. The lower courts require guidance on how to review Samsung's evidence, which according to Waxman was directed to the entire product.

Justice Breyer persisted by asking Waxman what the proper standard should be, as the parties all appear to be very close to agreement on a standard. Referring to the *Amicus Curiae* Brief of the Software Industry Association, Justice Breyer described older cases which concluded that if the article of manufacture is a component and does not contribute to the entire profit for the product, then it is proper to award a profit attributable to that component. However, Justice Breyer, like the other Justices, expressed concerns about how a jury could be clearly instructed on what to do.

Waxman agreed with opposing counsel that it is possible to instruct a jury on how to identify the article of manufacture that the design applies to, and that it can be a component of the total product sold to the consumer. Although Apple generally agreed with the government's four-part test, Waxman stated that Apple would modify the test so that the total profit would be determined based on the extent to which the identified article of manufacture contributes to the distinctive appearance of the product. That is, the total profit that is awarded would be determined by the portion of the pleasing, aesthetic appearance of the total design that is contributed by the article of manufacture. The extent to which consumers would be confused by the infringing design, and believe that it originated from the design patent owner is additionally relevant. Essentially, the more confusion demonstrated, the higher the amount of profits that should be attributed to the article of manufacture. According to Waxman, a jury is fully capable of deciding whether the article of manufacture is a component, and whether some or all of the profit for the total product may be awarded based on the contribution of that article to the distinctiveness of the design.

Chief Justice Roberts then asked how the design patents apply to the chips and circuitry inside of the phone if they appear to only cover the case and exterior appearance of that phone. Waxman referred to the *Dobson* cases in which the patent owner was awarded the total profits from the sale of steam engines based on a design patent that only claimed a component. Waxman noted that there are a lot of components to a steam engine, but nevertheless the Court awarded the total profits from the entire steam engine. If the design creates most of the consumer demand for a product, then the design patent owner should get most of the profits.

Justice Sotomayor then asked Waxman about the VW Beetle analogy. Justice Sotomayor posited that if the exterior shape of the car was the article of manufacture that incorporates the design, and factors outside of the shape of the car were considered – like technical or functional elements – and an expert testified that 90% of the profits were attributable to its shape – then why can't a jury be instructed to do that?

Waxman responded that the government's four (4) part test is conceptually correct in that Section 289 requires awarding total profits for the article of manufacture to which the design is applied, and that the article of manufacture can be less than the total profit. However, there are difficulties in its application, particularly in the determination of total profits attributable to the design based on an analysis of costs and profit percentages attributable to the article. If a design patent owner only gets a small amount of the total profit based on such numerical calculations, Waxman questioned what the deterrent would be to counterfeiters and copyists who may infringe the design patent.

Based on the lines of questioning pursued by the Justices, as well as the arguments (and concessions) made by the parties during oral argument, it is clear that the Court is struggling with to the possibility of creating clear standards that will provide a jury with the guidance that it will need to make a reasonable determination of damages that should be awarded in design patent cases. Most of the Justices expressed skepticism about whether it would be possible to arrive at such clear standards, and they were equally skeptical about the workability of the standards offered by the parties.

If the Supreme Court decides that a clear standard for awarding total profits based on a component of a larger product is not possible, and interprets Section 289 as requiring an award of the infringer's total profit for the entire product that incorporates the patented designs, their ruling will have a tremendous impact on the value of design patents, and will make design patents even more of an indispensable component of any intellectual property portfolio for both offensive and defensive use. In many cases, such design patents may turn out to be "lottery tickets" for their owners, where the damage recoveries are for uses of designs that contribute only to small components of a larger product.

The U.S. Patent and Trademark Office may then expect a greater influx of applications for design patents than the Office is already currently experiencing. The U.S. federal courts will undoubtedly experience an increase in the filing of design patent infringement cases, as patent owners seek to collect a potential windfall and place competitors at a disadvantage.

If the Court does articulate a clear standard for identifying an article of manufacture as a component of a larger product, and for calculating the total profit attributable to the patented design, then the case may be remanded back to the lower courts to apply those standards, allowing Samsung to develop evidence of what components of the iPhone are the articles of manufacture, and thereby make a new decision regarding the amount of damages that Samsung must pay to Apple for infringing Apple's design patents.

Even then, design patents will continue to play an important role in protecting the intellectual property rights of their owners. However, the battle lines will be rearranged to assess how damages may be properly calculated if the patented design covers only one component, or a few components, of a larger product. This potential change will undoubtedly give rise to extensive litigation in the U.S. federal courts, as parties seek to define the accepted rules, principles and techniques for apportioning the profits earned from the sale of a product to the incremental value of the product or component that is contributed by the patented design.

The Supreme Court is expected to hand down its decision in *Apple* within the next few months. Regardless of the outcome, the Supreme Court's decision in *Apple* will undoubtedly have a tremendous impact on many businesses and individuals for years to come.

The contents of this newsletter are for general informational purposes only, and do not serve as legal advice related to individual situations or as legal opinions concerning any situations. Counsel should be consulted for legal planning and advice before taking any action.

© NSIP Law, All Right Reserved 2016
Securing Innovation,SM Front Lines of DesignSM NSIP LawSM and the compass rose logo are service marks of NSIP Law, LLP.

NSIP Law, LLP, 1120 Connecticut Avenue Northwest, Suite 304, Washington, DC 20036
United States of America
Tel: (202) 429-0020 Fax: (202) 315-3758 info@nsiplaw.com
www.nsiplaw.com