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A Design Patent and Trademark Newsletter

DESIGN PATENT NEWS

UPDATE: CALIFORNIA DISTRICT COURT IN *APPLE V. SAMSUNG* FINDS SAMSUNG DID NOT WAIVE "ARTICLE OF MANUFACTURE" ARGUMENT, BUT DELAYS DECISION ON NEW TRIAL FOR DESIGN PATENT DAMAGES

In the long-running saga of the ground-breaking *Apple v. Samsung* design damages patent case, progress toward a final resolution has been a complex and time-consuming proposition. The current phase of that case has been no different. On December 6, 2016, the U.S. Supreme Court issued its landmark ruling in *Apple,* where it had been asked to decide whether the owner of valid U.S. design patents may collect, as the measure of its damages for design patent infringement under 35 U.S.C. 289, 1) the entire profit that the infringer of those patents earned from the sale of the entire assembled consumer product that incorporates the patented designs, or 2) whether the amount of damages may be limited to the profit that is attributable to the individual components of that product that directly incorporate the patented designs, which may be substantially less than the total profit. A federal jury in California had awarded Apple $399 million in damages for Samsung's infringement of three of Apple's design patents, which are directed to the design and shape of the rectangular black front face with rounded corners that is used with smartphones, as well as the arrangement of graphical user interface icons on a display screen. That damage award was based on the total profits that Samsung had earned from the sale of the infringing smartphone products as a whole. The U.S. Court of Appeals for the Federal Circuit then ruled that the jury was correct to award the profits

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.

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from the sale of the fully-assembled Samsung smartphones.

The Supreme Court, however, held squarely in favor of Samsung, and determined that an award of damages for infringing a design patent need not be based on the final, fully-assembled end product sold to the consumer, but may be only a component of that product. The Supreme Court clarified that a damages award under § 289 involves two steps: (1) "identify the 'article of manufacture' to which the infringed design has been applied;" and (2) "calculate the infringer's total profit made on that article of manufacture." Although Apple and Samsung, along with the Solicitor General of the United States, advocated for particular tests and methods for identifying the article of manufacture, and for calculating the amount of total profits that should be awarded for design patent infringement, the Supreme Court declined to decide what those tests and methods should be. The Supreme Court instead remanded the case back to the Federal Circuit for a determination of what the proper tests and methods should be for identifying the "article of manufacture," so that damages for design patent infringement may be properly calculated.

In a February 2017 opinion, the Federal Circuit then remanded the case back to the U.S. District Court for the Northern District of California, where the case had been tried, because it believed that the district court was in a better position to evaluate the evidentiary record and determine whether a new trial on the issue of damages, or any other further proceedings were warranted. If the district court decided to grant a new trial, the Federal Circuit believed that the district court should have the opportunity to determine what the proper standards, tests and methods are for identifying what the article of manufacture should be in this case (*i.e.,* either the entire smartphone, or particular components), as well as how to properly calculate the total profit that is attributable to that article.

On April 4, 2017, the district court directed the parties to submit legal briefs on the issue of whether Samsung waived its arguments that the "article of manufacture" may be less than the fully-assembled product in this case. If Samsung did not present its argument regarding the proper definition of the "article of manufacture" to the district court prior to the trial, so that it could have been properly considered before the case was given to the jury, then Samsung cannot expect to receive a new trial on the issue of design patent damages, even though the Supreme Court agreed with its definition of "article of manufacture." If Samsung is determined to have waived its "article of manufacture" argument,

because it did not present it clearly to the district court, then it was unlikely that the district court will grant a new trial on damages, and the $399M jury verdict will be upheld.

In its legal brief, Apple argued that no further proceedings are needed with respect to the jury's previous award of $399M in damages for Samsung's infringement of Apple's design patents, because Samsung has waived its argument that the article of manufacture can be anything other than the entire, fully-assembled smart phone product. Apple argued that Samsung never raised to either the district court or the Federal Circuit its argument that the article of manufacture can be a component part of the assembled smartphone product, rather than the entire assembled smartphone product as a whole. Apple asserted that this argument was presented for the first time to the Supreme Court. According to Apple, Samsung instead requested that the amount of damages be apportioned to the parts of the infringing Samsung smartphones that incorporated the patented designs, which is not permitted under Section 289. Apple also argued that Samsung neither presented a jury instruction that included its definition of "article of manufacture," nor did it object to the instruction that the district court gave to the jury after trial which suggested that the "article of manufacture" was the entire Samsung smartphone product.

Samsung, disagreed, arguing that the existing $399M judgment cannot simply remain in place even though the Supreme Court has now reversed the district court's and the Federal Circuit's interpretation "article of manufacture" in Section 289 of the Patent Act. According to Samsung, it repeatedly argued throughout the case for either of two possible theories of design patent damages that might be used to implement its interpretation of Section 289: (1) that total profit under Section 289 should be apportioned to limit recovery to profit attributable to the patented design; or (2) that total profit under Section 289 should be limited to profit from the "articles of manufacture" to which Apple's designs had been applied—namely, in this case, to profit from components that are less than the entire phone. Samsung also presented a proposed jury instruction that explained to the jury that the "article of manufacture" could be less than the entire product, and it objected to the district court's instruction of the jury as an incorrect statement of the law.

On July 28, 2017, Judge Koh of the California district court made a small step toward resolving Apple's and Samsung's remaining dispute over the design patent damages award by ruling that Samsung had not waived its argument that the "article of manufacture" for which an infringer's profits may be awarded under Section 289 may be less than the entire finished consumer product that includes the patented design. In doing so, Judge Koh undertook a detailed examination of the record before both the district court and the Federal Circuit to find that Samsung had made this argument in several filings with the Court, in jury instructions that Samsung proposed, and when Samsung objected to the instructions regarding design patent damages that the Court gave the jury.

Like the Supreme Court's opinion in *Apple,* Judge Koh's careful opinion is as notable for what it did not decide as much as for what it did decide. While Judge Koh found that Samsung could move forward with its position that the "article of manufacture" for which profits can be awarded may be less than the entire smartphone product, she declined to decide whether she committed legal error by providing the jury with a legally incorrect jury instruction regarding the measure of damages for design patent infringement. However, Judge Koh acknowledged in her opinion that the jury was not provided with an instruction that stated the law as provided by the Supreme Court that an "article of manufacture" can be "a product sold to a consumer [or] a component of that product."

Judge Koh instead delayed a decision of whether the jury instructions were erroneous, and whether Samsung was therefore entitled to a new trial, until she determines the legal test for identifying the relevant article of manufacture for purposes of awarding the infringer's profits as damages for design patent infringement under Section 289, which she also declined to do in her July 28, 2017 opinion. The Court also delayed deciding whether there was sufficient evidence in the record to support an award of Samsung's profits based on an "article of manufacture" that was comprised of only components of the infringing Samsung smartphones until the test for determining the article of manufacture was decided. Judge Koh believes that she cannot find the jury instructions to be legally erroneous and the evidence supporting Samsung's "article of manufacture" theory of design patent damages to be inadequate until she decides on the process and standards for determining what the "article of manufacture" is.

According to Judge Koh's reasoning, if under the test for identifying the "article of manufacture" that she decides to adopt, the entire infringing Samsung smartphones may properly be considered to be the "article of manufacture" in this case, then it is possible that she may find that the jury instructions were adequate and that Samsung is not entitled to a new trial, since the jury could have properly awarded to Apple the total profits that Samsung earned from their complete smartphone products. In this way, any error in instructing the jury would be seen as "harmless," because it would not have changed the result.

As a result, the *Apple* case is proceeding slowly and deliberately. The next battle will be fought over what the standards, tests and methods should be for determining whether the "article of manufacture" is the entire assembled consumer product or merely individual components of that product for purposes of determining the amount of the infringer's profits that should be awarded for design patent damages. Briefing of those issues is currently scheduled to conclude on September 28, 2017, and a further hearing before Judge Koh on whether Samsung is entitled to a new trial on the issue of design patent damages is currently scheduled to take place on October 12, 2017. The decision of those issues by Judge Koh should shed further light on whether Samsung will be granted a new trial on the damages issues, and whether it will have the opportunity to prove to a jury that it should be liable for substantially less than the $399 million jury verdict that was previously entered against it. We will continue to provide updates of the progress of *Apple v. Samsung* in this newsletter.

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