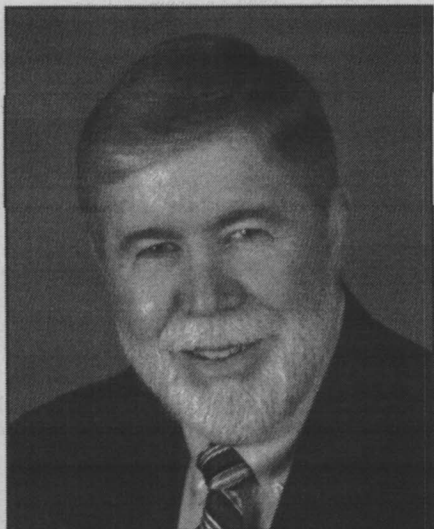


# De Facto Apportionment of Design Patent Profits: Supreme Court Allows “Total Profits” of a Non-Saleable Part in *Samsung V. Apple*



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SITTING WITH EIGHT JUSTICES SINCE THE DEATH of Justice Antonin Scalia, the Supreme Court granted *certiorari* in the design patent case of *Apple v. Samsung*, and rendered its decision on December 6, 2016.

Section 289 of the Patent Act provides a damages remedy specific to design patent infringement. A person who makes or sells “any article of manufacture” to which a patented design has been applied shall be liable to the owner “to the extent of his total profit.”<sup>1</sup> In *Samsung Electronics Co., Ltd. v. Apple, Inc.*,<sup>2</sup> the Supreme Court construed what that means in the context of a so-called multicomponent product in which the design patent applies to only one “component.”

Design patents have taken a different damages path from utility patents. In the nineteenth century, a rule requiring apportionment of damages arising from the patented design, as opposed to non-infringing aspects of the end product, created problems of proof, which often resulted in nominal damages for the patent owner. “It was ‘abundantly shown’ to both the Senate and the House that ‘even if [a showing of apportionment] were necessary, ... the proof thus called for can never be furnished.’ 18 Cong. Rec. 834; see also S. Rep. No. 49-206, at 1–2.”<sup>3</sup>

In 1887, Congress enacted the precursor to section 289, requiring damage of the infringer’s “total profits” from the article of manufacture.<sup>4</sup> Section 289 currently states that an infringer of an article of manufacture covered by a design patent “shall be liable to the owner to the extent of his profit, but not less than \$250.”<sup>5</sup> Accordingly, “the ‘theory of the law’ is that ‘where an infringer ... appropriates the design and so mixes up the patentee’s profits with his own ... the

loss must fall upon the guilty and not upon the innocent party.’”<sup>6</sup> One hundred twenty-nine years later, in *Apple*, the Supreme Court decided what an “article of manufacture” might mean. Apple secured various design patents on the release of its first iPhone. These included design patents on the rectangular front with rounded corners and heightened rim, the matrix of icons on a dark screen and the front face with rounded corners. After Samsung released smartphones with similar features, Apple sued for design infringement of those patents.

A jury verdict in 2012 found that twenty-six of Samsung’s mobile devices infringed, resulting in a one billion dollar award. Citing jury error, trial judge Lucy Koh reduced the award by \$450 million. Of the remaining \$548 million in damages, \$399 million was attributable to design patent infringement, i.e., the entire profit Samsung made from its infringing smartphones.

The Court of Appeals for the Federal Circuit affirmed the design patent damage award. Reasoning that section 289 of the Patent Act mandated an award of total profits of the accused smartphones, it rejected Samsung’s appeal that damages should be limited to the portion of the product which infringed rather than the entire product itself. Samsung’s argument turned on limiting damages to the infringing “article of manufacture” (e.g., the infringing screen or case).<sup>7</sup> The Federal Circuit said that limiting damages was neither required nor permitted under the statute, because, in part, “the innards of Samsung’s smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers.” Since section 289 mandated an award “to the extent of his total profit” of an infringing “article of manufacture,” the Federal Circuit panel felt bound to identify the entire phone as the only permissible “article of manufacture,” because consumers could not separately purchase components of the phone or meaningfully identify profits solely from the patented design itself.

## The Supreme Court Decision

Writing for a unanimous Court, Justice Sotomayor acknowledged the 1885 Supreme Court opinion in *Dobson v. Harford Carpet Co.*<sup>8</sup> The lower courts had awarded damages on a design patent of a carpet of the entire profit earned on the sale of the infringing carpets. The Supreme Court in that 1885 case reversed, holding plaintiff would only be entitled to damages based on proof “due to” the design rather than other aspects of the carpet. *Id.* at 444. Justice Sotomayor recited the legislative reaction in 1887 by Congress, specifically in response to *Dobson*, which mandated the total profits award.<sup>9</sup>

The Sotomayor opinion first set out that applying a damages award under Section 289 involves two steps: (1) identify the “article

of manufacture” and (2) calculate the infringer’s total profit made on that article of manufacture.<sup>10</sup> The Court discerned that its sole question here was to resolve the scope of the phrase “article of manufacture” in the case of a “multicomponent product.” It left determination of the article of manufacture in any given case, and determination of total profits, for another day.

Referring to dictionaries, Justice Sotomayor acknowledged that the term “article of manufacture” as used in Section 289 “encompasses both a product sold to a consumer and a component of that product.”<sup>11</sup> Both the end product and a component are things made by hand or machine. This construction was consistent with Section 171, which permits design patent protection of ornamental designs of mere components in a multicomponent product.<sup>12</sup> It further aligns with Section 101’s treatment of a “manufacture” for utility patent protection, *i.e.*, a part of a machine.<sup>13</sup>

Based on this reasoning, alone, the Supreme Court held that the court of appeals erred in applying a total profits award to the end product smartphones. However, the Court did not hold that the accused smartphone was not the “article of manufacture” in question. Although noting that the parties asked the Court to determine what the “article of manufacture” was for each design patent, the Court declined. Doing so would require the Court to set out a test for identifying the article in question, “and to parse the record to apply that test in this case.”<sup>14</sup> It therefore reversed and remanded the case to the court of appeals to tackle the tough question of how to apply its reasoning to the designs in question in this case.

### MIA: Precedent and Legislative Intent

What is glaringly omitted from the Supreme Court’s opinion is a discussion of case precedent and legislative intent. The Federal Circuit’s opinion, which the Supreme Court reversed, had addressed both issues. It noted that other courts had concluded that Section 289 authorizes an award of total profit, without a semblance of apportionment.<sup>15</sup>

Central to the Federal Circuit’s opinion, moreover, was that the apportionment process had previously required the patentee to show what portion of the infringer’s profit was due to the article itself. But Congress had rejected that in the Act of 1887. The court of appeals pointed out that the Act of 1887 was codified in Section 289, citing its extensive discussion of this legislative history in *Nike, Inc. v. Wal-Mart Stores, Inc.*<sup>16</sup>

Specifically, the court of appeal addressed Samsung’s argument that “total profit” should be limited to the “article of manufacture,” as opposed to the “entire product.” Distinguishing the “piano cases”<sup>17</sup> cited by Samsung, it said back when the product in question was sold, in 1915, a piano was separate from its case and could be sold separately. Here, the “innards of Samsung’s smartphones are not sold separately from their shells.”<sup>18</sup>

In addition to addressing these issues below, the two parties, in their briefs before the Supreme Court, also argued both case

precedent and legislative history.<sup>19</sup> For example, in response to Apple’s arguments regarding Congressional intent to bar apportionment of damages between the patented design and the remainder of the product, Samsung argued that the legislative history reflected the question of whether profits must be disgorged even as to portions which were not based on the design but “from various other circumstances” of manufacture. Congressman Martin, sitting on the committee approving the legislation, replied as follows, according to Samsung: “[N]o such purpose was had in our view by anyone [in the committee].”<sup>20</sup> Further, Samsung added, the House Report stated the patentee should “recover [] nothing beyond” the profit made on the infringing article.<sup>21</sup>

It seems highly curious, therefore, that the Supreme Court did not acknowledge and engage in analysis of legislative history and precedent in its opinion. One could argue that neither was necessary because of the “plain meaning” of the term “article of manufacture,” but that of course is absurd. The term has been shown by this appeal to be highly ambiguous, and was the very thing upon which the appeal turned. The Court itself acknowledged alternative definitions. The meaning of “article of manufacture” called for interpretation in light of legislative history and precedent, to the extent they could assist.

Three other arguments may support the Court’s vague decision. First, the legislative history and case precedent as shown in the briefs was not clear. Congress did not explicitly address multi-component products in explaining its use of “article of manufacture.” The case law cited by the parties and Federal Circuit, too, had little beyond the piano case decision referred to above. But that vagueness called for the Court’s acknowledgement, in which it could explain how unhelpful history and precedent was.

Reading tea leaves, a second reason may be the current eight-justice composition of the Court. Perhaps the justices were evenly split on whether to articulate further reasoning for the decision.

A third, less apparent but more intriguing reason for the Court’s overlooking Congressional intent and precedent would seem to have more traction. *Apple in fact conceded the point decided by the Court.* Presumably, it did so as a tactical decision, fearing it would lose both on the point of defining the “article of manufacture” and apportionment *per se* of profits from the newly defined term. Apple’s brief to the Court stated, “Samsung argues that the infringing article of manufacture for which total profits may be awarded ‘could be something less than an entire product as sold.’ Br. 29 (emphasis added). Apple agrees.”<sup>22</sup> Apple acknowledged that the statute did not create a *per se* rule of total profits on an entire device. “Rather, where the identity of the article of manufacture is genuinely disputed, the matter is a question of fact to be decided by a jury.”<sup>23</sup>

However, and inexplicably, the Court did not acknowledge Apple’s concession in its opinion.



## What Now? Determining What an "Article of Manufacture" Is

The Supreme Court's decision was narrower than many expected. It did not hold that recovery of the total profits from a multi-component product was improper, even if the design patent applied to only one component. It held instead that an "article of manufacture" could be either one component or more. It leaves much for further determination by the lower courts, such as determining the "article of manufacture" in each case, delineating case law to assist in such determinations, and determining "total" profits of an article of manufacture that is not the profits of the entire product in which the article is a component.

The *amicus* brief of the Solicitor General on behalf of the United States suggested a case-specific set of factors that will likely be cited in ensuing cases, until or unless case law decides otherwise:<sup>24</sup> (1) comparison of the scope of the design in the patent with the intended, underlying product and how they interrelate; (2) the relative prominence of the design with the product as a whole; (3) how conceptually distinct the patented design is from the product as a whole; and (4) the physical relationship between the patented design and the rest of the product (in particular regarding whether a user can physically separate the component from the product as a whole, or if the component is manufactured or sold separately).

## The Spectre of *De Facto* Apportionment of Profits: New Challenges

Correctly decided or not, the Court's holding creates the possibility of *de facto* apportionment of profits, despite common acceptance that Congress acted to end apportionment in design patent damages. Of course, the opinion and its explicit logic suggest the opposite: "total profits," mandated by Congress remains intact, albeit based solely on the article of manufacture and not the end product *per se*. But cases will inevitably arise where the article of manufacture is one component of the end product, in which the protected component is neither sold nor priced separately. Then, the trier of fact must allocate what portion of profits derives from the article of manufacture. What are the implications of that? I suggest four considerations.

### Inherent Difficulties of Proof, Generally

Determining the "total profits" from a component which has no separate revenue or contribution basis (and perhaps no costing) will inevitably be daunting, when marketing and advertising, distribution channels, other functional components, competitive product pricing, branding, and other design facets are taken into account. That was fundamentally what Congress determined in 1887.<sup>25</sup> This will be a challenge for experts, but often not easily discharged.

### Causation and Precedent

Part of this difficulty is the issue of causation. The issue was raised on appeal by Samsung and rejected by the court of appeals. Samsung

contended that Apple failed to establish that infringement of its design patents caused any Samsung sales or profits, reasoning that instead consumers chose Samsung based on a host of other factors.<sup>26</sup> This was, however, seen as advocacy for the very type of apportionment Congress had repudiated.<sup>27</sup>

Samsung's petition for *certiorari* to the Supreme Court dropped Samsung's argument on causation. It was expressly not considered by the Court.<sup>28</sup> Thus, the holding of the court of appeals—that causation of injury from the patented design is irrelevant to determination of total profits derived from the patented design—is arguably binding case law.

What does that mean, on my planet? The Supreme Court's *Apple* holding allows, in some cases, an award of profits derived from only a component (the "article of manufacture"), when there will be *no ready data available* from which the parties and their experts can determine what profits are attributable (apportioned) to the "article of manufacture" or its design. The most obvious path would be to argue causation. The plaintiff in a given case will want to present evidence that "total profits" in the amount of X were caused by the article of manufacture. The defendant will conversely wish to prove that profits in the amount of Y were caused by other components of the product. However, the Federal Circuit has ruled that evidence as being irrelevant to the issue of total profits of the article of manufacture.

### Basis for Demand

Although not set out as a factor by the Solicitor General, a useful lodestar for determination of profits from the "article of manufacture" should be the extent to which it was the basis for demand. Although a close cousin of causation, it is conceptually distinct. While inherently indefinite itself, it can take a useful step in focusing on what portion of profits were driven by the patented design, without using the "causation" word. An expert could opine perhaps that the design accounted for 75% of the demand for the end product. That may or may not equate to 75% of the profits, according to the experts. Any court that rules that such an approach is not admissible as a factor for consideration by the jury should come up with a better, more practical formulation to insert in its place.

### Burdens of Proof

Difficulties in proof give rise to dangers of overcompensation or under compensation. They underscore the need for proper application of burdens of persuasion in evidence. This is not a well-plowed plot of ground, not even in apportionment of lost profits in utility patent cases.<sup>29</sup> Given clear Congressional intent to avoid denial of damages through lack of proof of the amount of profits, courts should establish a burden on the defendant to prove the amount of profits derived from the infringed product is not part of the total profits from the article of manufacture.

Prior to *Apple*, design patent litigation seemed relatively simple: determining total profits was a somewhat mechanical exercise. An

"article of manufacture" designation was generally not vigorously litigated. The Supreme Court has changed that. In any case of ordinary complexity where the design patent covers a portion of the end product sold, defendants will more frequently than before take issue with the "article of manufacture" designation. From there, we tread new ground. New issues will be encountered with little previous judicial guidance. Not even from the Supreme Court. ♦♦

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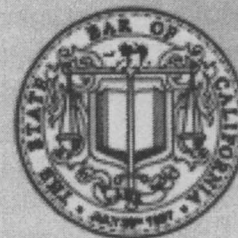
#### Endnotes

1. 35 U.S.C. § 289.
2. 580 U.S. \_\_\_, 137 S. Ct. 429, 196 L. Ed. 2d 363 (2016).
3. *Untermeyer v. Freund*, 50 F. 77, 80 (S.D.N.Y. 1892).
4. S. Rep. No. 206, 49th Cong., 1st Sess., 1-2 (1886); H. R. Rep. No. 1966, 49th Cong., 1st Sess., 1-2 (1886); § 1, 24 Stat. 387.
5. 35 U.S.C. § 289.
6. *Untermeyer*, 50 F. at 80.
7. 786 F.3d 983, 1002 (Fed. Cir. 2015).
8. 114 U.S. 439 (1885).
9. S. Rep. No. 206, 49th Cong., 1st Sess., 1-2 (1886); H. R. Rep. No. 1966, 49th Cong., 1st Sess., 1-2 (1886); § 1, 24 Stat. 387.
10. *Samsung Electronics Co., Ltd. v. Apple, Inc.*, 580 U.S. \_\_\_, 137 S. Ct. 429, 434, 196 L. Ed. 2d 363, 369 (2016).
11. *Id.* at 137 S. Ct. at 434-35, 196 L. Ed. 2d at 369-70.
12. *Id.* at 137 S. Ct. at 435, 196 L. Ed. 2d at 370.
13. *Id.*
14. *Id.* at 137 S. Ct. 436, 196 L. Ed. 2d at 371.
15. Citing *Schnadig Corp. v. Gaines Mfg. Co.*, 620 F.2d 1166, 1171 (6th Cir. 1980); *Henry Hanger & Display Fixture Corp. of Am. v. Sel-O-Rak Corp.*, 270 F.2d 635, 643-44 (5th Cir. 1959); *Bergstrom v. Sears, Roebuck & Co.*, 496 F. Supp. 476, 495 (D. Minn. 1980).
16. 138 F.3d 1437, 1441 (Fed. Cir. 1998).
17. *Bush & Lane Piano Co. v. Becker Bros.*, 222 F. 902, 903 (2d Cir. 1915).
18. *Id.*
19. See Brief for Petitioner at 40-44, *Samsung Electronics Co. Ltd. v. Apple, Inc.*, 580 U.S. \_\_\_, 137 S. Ct. 429, 196 L. Ed. 2d 363 (2016); Brief for Respondent at 28-31.
20. *Pet. Br. supra* note 17, at 42 (emphasis in original), citing H.R. REP. NO. 49-1966, at 3.
21. *Id.*
22. *Resp. Br. supra* note 17, at 35 (emphasis in original).
23. *Id.*

24. Brief *Amicus Curiae* of the United States Supporting Neither Party at 27-29, *Samsung Electronics Co. Ltd. v. Apple, Inc.*, 580 U.S. \_\_\_, 137 S. Ct. 429, 196 L. Ed. 2d 363 (2016).
25. See *Untermeyer v. Freund*, 50 F. 77, 78 (S.D.N.Y. 1892).
26. *Apple, Inc. v. Samsung Electronics Co., Ltd.*, 786 F.3d 983 1001 (Fed. Cir. 2015), rev'd, 580 U.S. \_\_\_, 137 S. Ct. 429, 196 L. Ed. 2d 363 (2016).
27. *Id.*
28. *Samsung Electronics Co., Ltd. v. Apple, Inc.*, 580 U.S. \_\_\_, 137 S. Ct. 429, 434 n. 2, 196 L. Ed. 2d 363, 369 n. 2 (2016).
29. See, e.g., Eric Bensen, *Apportionment of Lost Profits in Contemporary Patent Damages Cases*, 10 VA. J.L. & TECH. (2005); *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1330 (Fed. Cir. 2009); *Plantronics, Inc. v. Aliph, Inc.*, 2014 U.S. Dist. LEXIS 22405 (N.D. Cal. Feb. 21, 2014) (denying defendant's motion in limine to exclude plaintiff's damages study and testimony from two experts).

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20. *3D Medical*, 2017 WL 106018 at \*5 (citing *Ulead*, 351 F.3d at 1150); see also *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223, 1231 (Fed. Cir. 2007)); see also *Aristocrat Tech. Austl. Pty Ltd. v. Int'l Game Tech.*, 543 F.3d 657, 663 (Fed. Cir. 2008) (holding compliance with internal patent rules not a defense to infringement "[a]bsent proof of inequitable conduct").



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