Essay: The Supreme Court Reinstitutes Apportionment of Design Patent Infringers' Total Profits for Multicomponent Products

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Under pre-2016 Federal Circuit case law interpreting 35 U.S.C. §289,[2] enforcement of design patents appeared potentially quite lucrative. A primary draw was the remedy of an infringer's total profits on its sales of an entire product, even though only some but not all design features of the product infringed. This prospect held especially true for multicomponent products (e.g., a kitchen oven as compared to a dinner plate).

However, the Supreme Court in December 2016 announced that the remedy of recovering total profits computed on sales of an entire multicomponent product having only some infringing design features will not always be available. For the reasons examined below, the Court held in *Samsung Elecs. Co., Ltd. v. Apple, Inc.*[3] that the "article of manufacture" referred to in §289 refers to "both a product sold to a consumer *and a component of that product*."[4] In the view of this author, the Court's reasoning is fundamentally flawed. The remainder of this subsection charts the progression of the relevant case law.

In a May 2015 decision, the Federal Circuit relied on the *Nike v. Walmart*[5] exposition of section 289's history (detailed in the previous subsection of this treatise) in affirming a jury verdict that awarded a design patentee the infringer's total profits on sales of the *entire* product encompassing the patented features as well as many non-patented features. *Apple Inc. v. Samsung Elecs. Co., Ltd.,*[113.1] in which the Circuit refused

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[1] This draft essay will appear in final form as §23.04[B] of the 2017 Annual Update to the treatise MUELLER ON PATENT LAW, VOL. II (PATENT ENFORCEMENT) (Wolters Kluwer Law & Business).

[2] Recall that the statute, titled "Additional remedy for infringement of design patent," provides:

> 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, recoverable in any United States district court having jurisdiction of the parties.
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> Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement.

35 U.S.C. §289 (2016) (emphasis added).

[3] __ U.S. __, __ S. Ct. __, No. 15-777, 2016 WL 7078449 (Dec. 6, 2016).

[4] Samsung Elecs. Co. v. Apple Inc., __ U.S. __, __ S. Ct. __, No. 15-777, 2016 WL 7078449, at *5 (Dec. 6, 2016) (emphasis added).

[5] 138 F.3d 1437 (Fed. Cir. 1998).

[113.1] 786 F.3d 983 (Fed. Cir. 2015).

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to apportion infringer Samsung's total smartphone profits between infringing and non-infringing features, is one of many court decisions in the long-running battle between two electronics giants over utility-and design-patented features of smartphones and digital tablets.[113.2] After substantial reduction by the district court, the total jury award to Apple for infringement of its asserted design and utility patents and trade dress amounted to approximately $600 million.[113.3] Apple received the majority of the award ($399 million) for Samsung's design patent infringement, the "entire profit Samsung made from its sales of the infringing smartphones."[6]

On appeal to the Federal Circuit, infringer Samsung argued that the district court had legally erred in allowing the jury to award Samsung's entire profits on its infringing smartphones as damages. Rather, the damages for design patent infringement should have been limited to the profit attributable to the infringement because of "'basic causation principles… .'"[113.4] Samsung contended that "'Apple failed to establish that infringement of its limited design patents … caused any Samsung sales or profits.'"[113.5]

The Federal Circuit rejected Samsung's "causation" arguments because they advocated "the same 'apportionment' requirement that Congress rejected."[113.6] The appellate court quoted its 1998 *Nike v. Walmart* decision: "Apportionment … required [the patentee] to show what portion of the infringer's profit, or of his own lost profit, was due to the design and what portion was due to the article itself… . The Act of 1887, specific to design patents, removed the apportionment requirement…."[113.7] Congress thereafter codified the design patent infringement damages provisions of the Act of 1887 in Section 289 of Title 35.[113.8]

[113.2]*See also supra* §20.02 ("Injunctions") (examining a series of 2012-2015 Federal Circuit decisions concerning motions for preliminary and permanent injunctions in the Apple-Samsung litigation).

The infringed design patents in *Apple Inc. v. Samsung Elecs. Co., Ltd.,* 786 F.3d 983 (Fed. Cir. 2015), were U.S. Design Patent Nos. D618,677, D593,087, and D604,305, all of which claimed certain design elements embodied in Apple's iPhone. The jury also found that certain of Apple's utility patents and trade dress were infringed and diluted.

[113.3]The jury initially awarded Apple a total of $1,049,343,540.00 in damages (for infringement of utility and design patents and trade dress), and provided a breakdown of the award by Samsung product. *Apple, Inc. v. Samsung Elecs. Co*., 926 F. Supp. 2d 1100, 1103 (N.D. Cal. 2013). After considering various post-trial motions, the district court struck $450,514,650 from the jury's award but sustained it in the amount of $598,908,892 for infringement by 14 specified Samsung products. *See Apple, Inc*., 926 F. Supp. 2d at 1120.

[6] Samsung Elecs. Co., Ltd. v. Apple Inc., __U.S. __, __ S. Ct. __, No. 15-777, 2016 WL 7078449, at *4 (Dec. 6, 2016).

[113.4]*Apple, Inc.,* 786 F.3d at 1001 (quoting Appellants' Brief at 36–37).

[113.5]*Apple, Inc.,* 786 F.3d at 1001 (quoting Appellants' Brief at 40).

[113.6]*Apple, Inc.,* 786 F.3d at 1001 (citing Nike, Inc. v. Wal–Mart Stores, Inc., 138 F.3d 1437, 1441 (Fed. Cir. 1998)).

[113.7]*Apple, Inc.,* 786 F.3d at 1001 (quoting *Nike,* 138 F.3d at 1441).

[113.8]*Apple, Inc.,* 786 F.3d at 1001 (citing *Nike,* 138 F.3d at 1440–1443, as "containing a detailed and thorough discussion of the legislative history").

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The Federal Circuit in *Apple Inc.* concluded that the "clear statutory language" and legislative history of 35 U.S.C. §289 necessarily defeated Samsung's proposed "causation" rule.[113.9] The appellate court confirmed that "[i]n reciting that an infringer 'shall be liable to the owner to the extent of [the infringer's] total profit,' Section 289 explicitly authorizes the award of total profit from the article of manufacture bearing the patented design."[113.10] Thus, the appellate court read the statute's reference to "total profits" as impliedly mandating those profits be computed based on sales of the entire infringing product in the form sold to consumers. Although the Circuit acknowledged policy arguments of *amici* who contended that awarding a design patent infringer's total profits "ma[de] no sense in the modern world," those arguments needed to be addressed to Congress rather the Federal Circuit.[113.11]

In December 2015, Samsung filed a petition for *certiorari* with the U.S. Supreme Court that challenged, *inter alia*, the total profits award.[113.12] The Court granted the petition in March 2016,[7] limiting its review to Question 2 of the petition:

> 2. Where a design patent is applied to only a component of a product, should an award of infringer's profits be limited to those profits attributable to the

[113.9] *Apple, Inc.*, 786 F.3d at 1002.

[113.10] *Apple, Inc.*, 786 F.3d at 1001-1002 (footnote omitted).

[113.11] *Apple, Inc.*, 786 F.3d at 1002 n.1 (quoting amicus brief of "27 Law Professors"). The Circuit further supported its rejection of Samsung's causation argument by observing that several other courts, including pre-1982 regional circuit decisions, had previously concluded that §289 authorizes an award of the infringer's total profit. *See Apple, Inc.*, 786 F.3d at 1002 (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, 643–644 (5th Cir. 1959); Bergstrom v. Sears, Roebuck & Co., 496 F. Supp. 476, 495 (D. Minn. 1980)).

[113.12] Petition for Certiorari, No. 15-777, Samsung Elecs. Co., Ltd. v. Apple Inc. (docketed Dec. 16, 2015), http://www.supremecourt.gov/search.aspx?filename=/docketfiles/15-777.htm. The petition presents two questions, the second going directly to the apportionment issue:

> 1. Where a design patent includes unprotected non-ornamental features, should a district court be required to limit that patent to its protected ornamental scope?
>
> 2. Where a design patent is applied to only a component of a product, should an award of infringer's profits be limited to those profits attributable to the component?

Petition for Certiorari, No. 15-777, Samsung Elecs. Co., Ltd. v. Apple Inc. (docketed Dec. 16, 2015), at (i), *text available at* http://lyldenlawnews.com/wp-content/uploads/2015/12/Samsung-petition-12-14-15.pdf. For additional commentary on Samsung's petition, *see* Lyle Denniston, *Smartphone design feud reaches the Court*, Lyle Denniston Law News (Dec. 14, 2015), http://lyldenlawnews.com/2015/12/14/smartphone-design-feud-reaches-the-court/; Steve Lohr, *Samsung's Patent Loss to Apple is Appealed to Supreme Court*, N.Y.TIMES, Dec. 14, 2015, http://www.nytimes.com/2015/12/15/technology/apple-samsung-supreme-court-patent-case.html?src=busln&_r=0 (noting that Supreme Court is not expected to take up Samsung's petition before February 2016).

[7] Samsung Elecs. Co. v. Apple Inc., 136 S. Ct. 1453 (2016) (Mem).

component?[8]

The Supreme Court heard oral argument in *Samsung v. Apple* on October 11, 2016.[9]

In a unanimous but limited decision issued in December 2016, the Supreme Court in *Samsung Elecs. Co. v. Apple Inc*.,[10] reversed the Federal Circuit. In the Supreme Court's view, the case turned not on any question about the meaning of "total profits,"[11] but rather the meaning of the phrase "article of manufacture" for which total profits should be computed. The proper analysis involved two steps:

> First, identify the "article of manufacture" to which the infringed design has been applied. Second, calculate the infringer's total profit made on that article of manufacture.[12]

The Supreme Court in *Samsung Elecs.* rejected the Federal Circuit's marketplace-based interpretation that "components of the infringing smartphones could not be the relevant article of manufacture because consumers could not purchase those components separately from the smartphones."[13] Instead, the term "article of manufacture" as used in §289 should be interpreted "broad[ly]" to "encompass[] both a product sold to a consumer *and a component of that product*."[14] In other words, the relevant "article of manufacture" for which the remedy of an infringer's total profits are computed with respect to a multicomponent product may be only those design components that infringe.

The Court based its broad reading of the statutory phrase "article of manufacture" primarily on two

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[8] Petition for a Writ of Certiorari, No. 15-777, Samsung Elecs. Co., Ltd. v. Apple Inc. (Dec. 14, 2015), at (i), *available at* http://www.scotusblog.com/wp-content/uploads/2016/01/15-777_PetitionForAWritOfCertiorari.pdf.

[9] The oral argument transcript is available at https://www.supremecourt.gov/oral_arguments/argument_transcripts/2016/15-777_1b82.pdf.

[10] __U.S. __, __ S. Ct. __, No. 15-777, 2016 WL 7078449 (Dec. 6, 2016).

[11] The Court had no doubt that "'[t]otal,' of course, means all." *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *4 (citing AMERICAN HERITAGE DICTIONARY 1836 (5th ed. 2011) ("[t]he whole amount of something; the entirety")). "The 'total profit' for which § 289 makes an infringer liable is thus all of the profit made from the prohibited conduct, that is, from the manufacture or sale of the 'article of manufacture to which [the patented] design or colorable imitation has been applied.'" *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *4.

[12] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *4.

[13] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *6 (citing Apple Inc. v. Samsung Elecs. Co., 786 F.3d 983, 1002 (Fed. Cir. 2015) (declining to limit a §289 award to a component of the smartphone because "[t]he innards of Samsung's smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers"); citing also Nordock, Inc. v. Systems Inc., 803 F.3d 1344, 1355 (Fed. Cir. 2015) (declining to limit a § 289 award to a design for a "'lip and hinge plate'" because it was "welded together" with a leveler and "there was no evidence" it was sold "separate[ly] from the leveler as a complete unit")).

[14] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5 (emphasis added).

dictionaries, observing that

> [a]n "article" is just "a particular thing." J. Stormonth, A Dictionary of the English Language 53 (1885) (Stormonth); see also American Heritage Dictionary, at 101 ("[a]n individual thing or element of a class; a particular object or item"). And "manufacture" means "the conversion of raw materials by the hand, or by machinery, into articles suitable for the use of man" and "the articles so made." Stormonth 589; see also American Heritage Dictionary, at 1070 ("[t]he act, craft, or process of manufacturing products, especially on a large scale" or "[a] product that is manufactured"). An article of manufacture, then, is simply a thing made by hand or machine.[15]

Thus interpreted, an "article of manufacture" was "broad enough to encompass both a product sold to a consumer as well as a component of that product."[16] Components, like the products they are part of, are things ultimately made by humans—whether by hand or machine (operated or programmed by a human). "That a component may be integrated into a larger product . . . does not put it outside the category of articles of manufacture."[17]

The *Samsung Elecs.* Court saw its broad reading of "article of manufacture" as consistent with the primary design patent statute, 35 U.S.C. §171, which provides in subsection (a) that "[w]hoever invents any new, original and ornamental design for an *article of manufacture* may obtain a patent therefor, subject to the conditions and requirements of this title" (emphasis added). Both the USPTO and the courts had "understood § 171 to permit a design patent for a design extending to only a component of a multicomponent product."[18] Cited examples included the Court of Custom and Patent Appeals' [CCPA's] 1980 decision *Application of Zahn*, in which Judge Rich wrote for a five-judge panel that "Section 171 authorizes patents on ornamental designs for articles of manufacture. While the design must be embodied in some articles, the statute is not limited to designs for complete articles, or 'discrete' articles, and certainly not to articles separately sold . . .".[19]

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[15] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5.

[16] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5.

[17] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5.

[18] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5.

[19] 617 F.2d 261, 268 (C.C.P.A. 1980) (Rich, J.). The CCPA in *Zahn* reversed the USPTO Board's rejection of Zahn's claim to the ornamental design for the shank portion (not the cutting portion) of a masonry drill bit. *See Zahn*, 617 F.2d at 262-263. The Board's rejection was based both on 35 U.S.C. §171 and on 35 U.S.C. §112, second paragraph, for failure to claim the subject matter that Zahn regarded as his invention. The CCCPA reasoned that

> Section 171 authorizes patents on ornamental designs for articles of manufacture. While the design must be embodied in some articles, the statute is not limited to designs for complete articles, or "discrete" articles, and certainly not to articles separately sold, as implied in the *Northup* board opinion. No sound authority has been cited for any limitation on how a design is to be embodied in an article of manufacture. *Here the design is embodied in the shank portion of a drill and a drill is unquestionably an article of manufacture*. It is thus applied design as distinguished from abstract design. Referring to the express words of s 171, supra,

The *Samsung Elecs.* Court's reading of "article of manufacture" as broad enough to encompass components of products also found support in a partial parallelism with 35 U.S.C. §101. That section lists "manufacture[s]" (but not "article[s] of manufacture") as one of the categories of utility patent-eligible subject matter. The Court cited to support this incomplete verbal connection its earlier decision in *Diamond*

> we are of the opinion that the word "therefor" in the phrase "may obtain a patent therefor" refers back to "design," not to "article of manufacture." We note also that s 171 refers, not to the design of an article, but to a design for an article, and is inclusive of ornamental designs of all kinds including surface ornamentation as well as configuration of goods. In *In re Hruby*, 373 F.2d 997, 54 CCPA 1196, 153 USPQ 61 (1967), the apparent visual shape of the streams of a water fountain was held proper design patent subject matter, indicative of a liberal construction of s 171.
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> . . . .
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> The board "felt constrained" to make its holding by our 1967 *Blum* opinion [Application of Blum, 374 F.2d 904, 907 (C.C.P.A. 1967)] but did not say why. Nor do we see why. . . . We have searched the *Blum* opinion in vain . . . for any statement justifying the board's statement that an ornamental design cannot be incorporated or embodied in something less than an entire article of manufacture. What we have found, however, is a clear statement, which we feel constrained to emphasize again, which supports appellant's position in this case (374 F.2d at 907, 54 CCPA at 1234, 153 USPQ at 180):
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> > There is a distinction to be observed between parts of the total article illustrated, in which a new design is embodied, and parts of that article which embody none of the design. (Original emphasis.)
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> Nothing in our opinion in *Blum*, or the decision therein, compels, or even supports, the s 171 rejection on appeal.

Zahn, 617 F.2d at 268 (emphasis in first para. added).

This author agrees with the court in *Zahn* that the chief analytical difficulty in that case was "the distinction, largely disregarded by the PTO . . ., between a design for an article of manufacture and the article itself." *Zahn*, 617 F.2d at 262. In this author's view, the Supreme Court's 2016 opinion in *Samsung Elecs.* suffers from that same difficulty. *Zahn* made clear that a *design of a feature (or component) in a larger product* can be patented, and that a claim to such a design is proper. The *Zahn* court dealt with design patentability under §171, not the design patent infringement remedy of §289. More importantly, and contrary to the *Samsung Elecs.* Court's inference, *Zahn* did *not* redefine "article of manufacture" to mean something less than the complete product sold to consumers.

v. Chakrabarty[20] as well as two leading patent law treatises.[21]

Based on its broad reading of "article of manufacture," the Supreme Court summarily rejected the Federal Circuit's reasoning that the total profits award under §289 could not be apportioned to only those design features that infringed. It did not grapple with the Circuit's legislative history analysis. In particular, the Supreme Court ignored the Circuit's position that in the Act of 1887, specific to design patents, Congress removed the apportionment requirement; i.e., it abrogated the requirement that a patentee show "what portion of the infringer's profit, or of his own lost profit, was due to the design and what portion was due to the article itself."[113.7] (Congress thereafter codified the 1887 design damages provision in Section 289 of Title 35, U.S.C.[113.8]).

While rejecting the Federal Circuit's narrower interpretation of "article of manufacture" as the entire product sold to consumers, the Supreme Court's limited opinion in *Samsung Elecs.* leaves difficult questions unanswered. Notably, the Court declined to set forth any test or rubric for determining what the relevant "article of manufacture" is for any particular infringed design patent. Rather, the Federal Circuit will need to "address any [such] remaining issues on remand."[22] Thus, the long-running Apple-Samsung smartphone patent war was not ended by the Supreme Court's December 2016 decision, which will require

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[20] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5 (citing *Chakrabarty*, 447 U.S. 303, 308, 100 S. Ct. 2204, 65 L. Ed. 2d 144 (1980) (observing that the Court had previously defined the verb form of "'manufacture' in § 101 ... to mean '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.'") (quoting American Fruit Growers, Inc. v. Brogdex Co., 283 U.S. 1, 11, 51 S. Ct. 328, 75 L. Ed. 801 (1931))).

[21] *See Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *5 (citing cf. 8 D. CHISUM, PATENTS § 23.03[2], pp. 23–12 to 23–13 (2014) (noting that "article of manufacture" in § 171 includes "what would be considered a 'manufacture' within the meaning of Section 101"); citing also 1 W. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS § 183, p. 270 (1890) (the broad term includes "the parts of a machine considered separately from the machine itself.")).

Section 183 of Robinson's Book I is titled "'Manufactures' a Comprehensive Class of Inventions." The section provides in pertinent part that "[t]he species of inventions belonging to this class are very numerous, comprehending every article devised by man except machinery upon the one side, and compositions of matter and designs upon the other. Thus *the parts of a machine considered separately from the machine itself*, all kinds of tools and fabrics, and every other *vendible substance* which is neither a complete machine nor produced by the mere union of ingredients, is included under the title 'manufacture.'" 1 W. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS, §183, p. 270 (1890) (emphasis added), *available at* https://books.google.com/books?id=YM49AAAAIAAJ&pg=PA270#v=onepage&q&f=false.

This author notes that while Professor Robinson's definition of "manufacture" (not "article of manufacture") includes the parts of a machine, it excludes the "machine itself," contrary to the Supreme Court's definition of "article of manufacture" in *Samsung Elecs.* Moreover, Robinson's definition requires a "vendible substance," consistent with the Federal Circuit's rejection of components not separately sold as the proper base for a §289 award.

[113.7] *Apple Inc. v. Samsung Elecs. Co., Ltd.*, 786 F.3d 983, 1001 (Fed. Cir. 2015) (quoting *Nike*, 138 F.3d at 1441).

[113.8] *Apple, Inc.*, 786 F.3d at 1001 (citing *Nike*, 138 F.3d at 1440–1443, as "containing a detailed and thorough discussion of the legislative history").

[22] *Samsung Elecs.*, __U.S. at __, __ S. Ct. at __, 2016 WL 7078449, at *6.

considerable further clarification from the Federal Circuit and federal district courts.