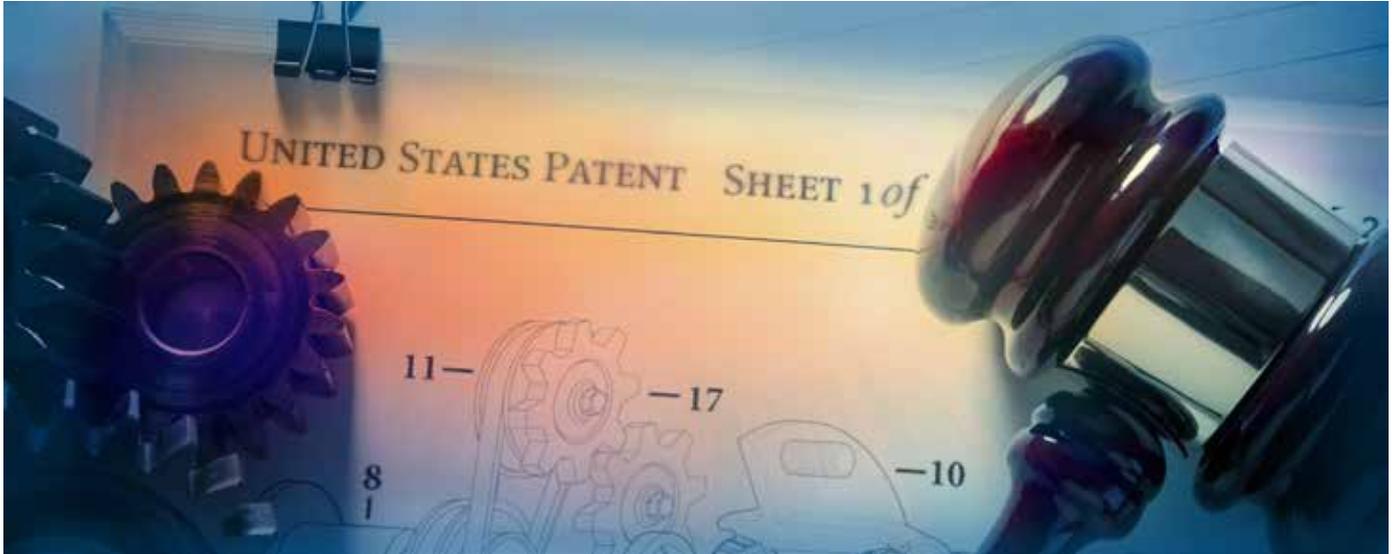




One Firm Worldwide<sup>SM</sup>



## WHITE PAPER

June 2018

### What's in Your "Article of Manufacture"?

U.S. patent laws allow for the disgorgement of the "total profits" earned by a design patent infringer deemed to have applied the "patented design" to "any article of manufacture." The disgorged profits historically were based on the sales of the entire infringing product, irrespective of the portion of the product that was actually covered by the design patent. The Supreme Court's 2016 decision in *Samsung Elecs. Co. Ltd. v. Apple* changed the automatic "entire product" rule by holding that, depending on the facts, the relevant "article of manufacture" could be either all or part of the infringing product.

This Jones Day *White Paper* explains the U.S. Justice Department's four-factor test for determining the "article of manufacture," and examines recent cases where district courts have applied the test.

## TABLE OF CONTENTS

<i>Columbia v. Seirus</i> .....	2
<i>Microsoft v. Corel</i> .....	3
<i>Apple v. Samsung</i> .....	4
Key Takeaways .....	5
Endnotes .....	6

Damages for utility and design patent infringement are generally governed by 35 U.S.C. § 284, which entitles prevailing patentees to compensatory damages that range from reasonable royalties to the patentees' lost profits. But there also is another kind of damages available for design patent infringement under 35 U.S.C. § 289: disgorgement of the "total profit" earned by an infringer who "applies" the "patented design" to "any article of manufacture." While Section 289 provides a means to recover potentially significant damages awards, it languished in relative obscurity for over a century, arising only in relatively rare design patent infringement cases, until recently.

Historically, the total profits disgorged under Section 289 were based on sales of the entire infringing product, regardless of the portion of the infringing product that was actually covered by the design patent. The Supreme Court changed this automatic "entire product" rule in *Samsung Elecs. Co. Ltd. v. Apple*, 137 S. Ct. 429, 436 (2016), by holding that, depending on the facts, the relevant "article of manufacture" could be either all or part of the infringing product.

By way of background, in late 2012, Apple won nearly \$400 million in damages for Samsung's infringement of three design patents covering various aspects of the ornamental appearance of Apple's original iPhone product. See *Apple Inc. v. Samsung Elecs. Co. Ltd., et al.*, No. 11-cv-1846, Dkt. 1391 (N.D. Cal. Aug. 24, 2012). That figure represented 100 percent of Samsung's profits for sales of its phones that infringed the asserted designs. The United States Court of Appeals for the Federal Circuit affirmed this award. Samsung then appealed to the Supreme Court of the United States.

At this point, prevailing precedent held that the relevant "article of manufacture" for purposes of Section 289 was the entire infringing product and, therefore, that a victorious design patentee was always entitled to 100 percent of the infringer's profits from the sales of infringing products. In December 2016, the Supreme Court overruled that precedent and reversed the damages award provided by the jury. *Samsung*, 137 S. Ct. at 436. Explaining that an "article of manufacture" was "simply a thing made by hand or machine," the Court held that the relevant "article of manufacture" was not necessarily the entire infringing product, but instead could be one or more components of the product. *Id.* The Court illustrated how this analysis can turn on the particular facts at issue:

In the case of a design for a single-component product, such as a dinner plate, the product is the "article of manufacture" to which the design has been applied. In the case of a design for a multicomponent product, such as a kitchen oven, identifying the "article of manufacture" to which the design has been applied is a more difficult task.

*Id.* at 432.

The Court explained that a two-step process must be used to calculate Section 289 damages. *Id.* at 434. First, "identify the 'article of manufacture' to which the infringed design has been applied." *Id.* Second, "calculate the infringer's total profit made on that article of manufacture." *Id.* Significantly, however, the Court did not provide any substantive guidance about *how* to carry out either step; instead, it remanded the case for further development. *Id.* at 436. The Federal Circuit, in turn, remanded the case to the district court.

The Supreme Court's first step above is the tricky one—what is the best and most fair way to identify the appropriate "article of manufacture"? One possible standard for determining the relevant "article of manufacture" for Section 289 purposes was proposed by the United States Department of Justice ("DOJ") in an amicus brief it submitted to the Supreme Court in *Samsung v. Apple*.<sup>1</sup> As explained below, several district courts have adopted the DOJ's test for determining the "article of manufacture," which has led to some interesting and perhaps unexpected outcomes in jury trials.

The DOJ specifically proposed a four-factor test for determining the "article of manufacture" under Section 289:

- **Factor 1:** "[T]he scope of the design claimed in the plaintiff's patent, including the drawing[s] and written description, provides insights into which portions of the underlying product the design is intended to cover, and how the design relates to the product as a whole." DOJ Am. Br. at 27. Further, "the patent identifies [in its title and claim] the article of manufacture that the patentee views as the article to which the design is applied." *Id.* at 28 (citing Manual of Patent Examining Procedure § 1503.01). But a patent's title should not be considered conclusive. *Id.* For example, the inventor of a piano case design "should not be able to obtain profits on the piano as a whole simply by characterizing [the] invention as an 'ornamental design for a piano.'" *Id.*

- **Factor 2:** “[T]he relative prominence of the design within the product as a whole.” DOJ Am. Br. at 28. In this regard, the DOJ explained that “[i]f the design 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.” *Id.* Alternatively, “if the design is a significant attribute of the entire product, affecting the appearance of the product as a whole, that fact might suggest that the ‘article’ should be the product.” *Id.*
- **Factor 3:** Whether the design is “conceptually distinct” from the product as a whole. DOJ Am. Br. at 28. For example, a book binding represents a “different concept” from the literary work it contains, such that “they are different articles.” *Id.* at 29. According to the DOJ, “[i]f the product contains other components that embody conceptually distinct innovations, it may be appropriate to conclude that a component is the relevant article.” *Id.*
- **Factor 4:** The “physical relationship” between the accused design and the rest of the product. DOJ Am. Br. at 29. Per the DOJ, the relevant “article of manufacture” is likely a component when the design covers a component that “can physically separate from the product as a whole,” “is manufactured separately from the rest of the product,” or “can be sold separately.” *Id.*

The DOJ also proposed that accused infringers should bear the burden to produce evidence that the relevant “article of manufacture” is less-than-all of the accused product. DOJ Am. Br. at 30-31. The Supreme Court acknowledged the DOJ’s

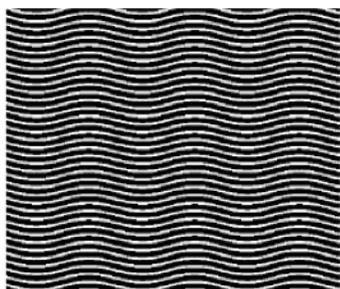
proposed test, but declined to address its merits because the parties had not briefed the issue. *Samsung*, 137 S. Ct. at 436.

At this point, no appellate court has blessed the DOJ’s test or provided any guidance regarding how to apply it either in general or to any specific set of facts. Nevertheless, several district courts have generally adopted the DOJ’s test and the results are eye-opening. For example, in the remand of the *Samsung v. Apple* case, the district court decided to instruct the jury to apply the DOJ test (without much guidance as to how to do so.) The jury awarded Apple over \$533 million in “total profits” derived from Samsung’s infringing phones, more than \$100 million more than the previous award. Several other district court cases similarly have decided to instruct the jury to apply the DOJ test on this “article of manufacture” issue. See *Columbia Sportswear North America, Inc. v. Seirus Innovative Accessories, Inc.*, No. 3:17-cv-1781 (S.D. Cal.); *Microsoft Corp. v. Corel Corp., et al.*, No. 5:15-cv-5836-EJD (N.D. Cal.).<sup>2</sup> In all three cases, the juries awarded “total profits” amounting to 100 percent of the infringer’s profits from its sales of the infringing products, at least in some form or another. We discuss each of these cases in more detail below.

### COLUMBIA V. SEIRUS

*Columbia v. Seirus* was the first case after *Samsung v. Apple* to charge a jury to use the DOJ’s test to identify the relevant “article of manufacture” for Section 289 damages. In *Columbia*, the defendant stood accused of infringing a patented surface pattern design by virtue of using a similar pattern on the liners of its gloves:

#### Patented Design



U.S. Design Patent No. D657,093

#### Infringing Products



Infringing fabric pattern



Exemplary gloves with infringing liner pattern

The procedural posture of the Columbia case is unusual. Because infringement liability and validity of the asserted design patent were resolved beforehand, the design patent issues tried to the jury were limited to damages under Section 289. And, it was not until the pretrial conference that the district court held that it would instruct the jury to apply the DOJ's test to determine the relevant "article of manufacture" under Section 289. Dkt. 342 at 1:26-2:1 (citing Sept. 11, 2017, *Columbia v. Seirus* Pretrial Conference Trans., p. 84:12-16). The district court also placed the burden on the established-infringer, Seirus, to prove that the relevant "article of manufacture" was less than the entire product. *Id.*

The jury sided with Columbia, concluding that the entire gloves were the relevant "article of manufacture," and awarding Columbia 100 percent of Seirus's profits from sales of the accused gloves (just over \$3 million). The jury also concluded that, in the alternative, Columbia's reasonable royalty damages under Section 284 were about \$400,000.

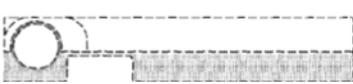
In a post-verdict JMOL motion, Seirus challenged the instructions and verdict on several grounds, including that the district court erred by placing the burden on Seirus to disprove Columbia's theory that the entire gloves were the relevant

"article of manufacture" and that the DOJ's test was an incorrect legal standard for determining the relevant "article of manufacture." Dkt. 431. The district court denied Seirus's challenges on these points, holding that "the jury instructions and jury verdict were legally sufficient, and that the Court correctly determined the proper legal test." Dkt. 455.

Seirus has appealed to the Federal Circuit. The case currently is the first case applying the DOJ's test in line for appellate review. Based on the present schedule, briefing should close in summer 2018, oral argument should take place in winter or spring 2019, and a decision should issue in mid- to late-2019.

### MICROSOFT V. COREL

The second case involving a jury's application of the DOJ's test was *Microsoft v. Corel*. The *Microsoft* case arose from a patent license dispute between the patent owner, Microsoft, and the accused infringer, Corel, concerning utility and design patents for graphical user interfaces in software applications. The four design patents-in-suit covered various parts of such graphical user interfaces, as shown below next to the corresponding partial graphical user interfaces of the infringing products.

Patented Designs	Infringing Products
 <p data-bbox="147 1325 488 1360">U.S. Design Patent No. D550,237</p>	
 <p data-bbox="147 1444 488 1486">U.S. Design Patent No. D554,140</p>	
 <p data-bbox="147 1598 488 1640">U.S. Design Patent No. D564,532</p>	
 <p data-bbox="147 1759 488 1795">U.S. Design Patent No. D570,865</p>	

As in the *Columbia v. Seirus* case, liability for infringement was decided before trial and, therefore, and the main design patent issue for the jury was Section 289 damages.<sup>3</sup> The jury returned a verdict awarding \$287,000 in damages for design patent infringement. After the verdict, Corel moved for remittitur and for judgment as a matter of law on a number of issues, including the damages award under Section 289. The district court granted the motion for remittitur, but denied all of the JMOL motions.

As to the Section 289 damages, the court held that Corel had waived its argument that the relevant “article of manufacture” was a “display screen” not sold by Corel by admitting that its software infringed. The court interpreted Corel’s admission as a concession “that there exists an ‘article of manufacture’ to which the patented designs of the [design patents-in-suit] have been applied.” Dkt. 353 at 7. The court also rejected on the merits Corel’s argument that software cannot be the relevant “article of manufacture.” To the contrary, the district court found that software *could* qualify as the relevant “article of manufacture” under the Supreme Court’s expansive definition in *Samsung v. Apple*, 137 S. Ct. at 434 (“a thing made by hand or machine”). Dkt. 353 at 7. The court then reasoned that Corel

admittedly applied the patented designs for a graphical user interface “to the user interface of a software product ...” *Id.* at 7-8. This, the court explained, was consistent with the fact that Section 289 prescribes damages whenever the “patented design” is applied to “any article of manufacture,” “separate from the language of the claim.” *Id.* at 8 n.7.

The district court entered judgment on May 8, 2018. Dkt. 355. It appears that Corel did not file any notice of appeal before the June 7, 2018, deadline under Fed. R. App. P. 4. Given Corel’s documented interest in containing costs and the fact that the reduced \$99,000 damages award likely exceeded the costs of appeal, Corel’s failure to appeal is not surprising.

### APPLE V. SAMSUNG

Most recently, the jury in the remanded *Apple v. Samsung* case awarded Apple just over \$533 million in damages for Samsung’s infringement of three Apple design patents covering portions of Apple’s iPhone and iPad designs. Dkt. 3806. The Apple design patents that Samsung infringed are shown below, next to some of the infringing Samsung models.

#### Patented Designs



*U.S. Design Patent No. D604,305*



*U.S. Design Patent No. D618,677*



*U.S. Design Patent No. D593,087*

#### Infringing Products



The jury was asked to calculate Section 289 damages for Samsung's already-established infringement of these three design patents, one covering the graphical user interface of the iPhone, and the other two covering the iPhone's smooth black glass face and rounded rectangular case and bezel. Applying the DOJ's test, the jury found a different "article of manufacture" for each of the three design patents. For the graphical user interface design, the entire phone was the "article of manufacture," and the jury thus awarded all of Samsung's profits for phones that infringed that design. The other two patented designs covered a rounded rectangular surface plus a bezel. For those designs, the jury concluded that the relevant "article of manufacture" was only a part of the entire phone, and thus awarded only a portion of the profits for those phones. The jury awarded just over \$533 million, which essentially split the difference between the \$1 billion that Apple sought, and the \$28 million figure offered by Samsung in response. The jury also awarded just over \$5 million for Samsung's infringement of two Apple utility patents, thus combining for a total award of about \$539 million.

The *Apple* verdict represents the largest damages award for design patent infringement in United States history, and it may mark the dawn of a new era for design patents in general and at least design patents for graphical user interface designs. Given the extended and combative nature of the case, as well as the large damages verdict and the evolving nature of the law of Section 289 damages, the dispute may be far from over. There most likely will be an appeal to the Federal Circuit and, perhaps, a return trip to the Supreme Court.

## KEY TAKEAWAYS

**Design Patents are Here to Stay.** This area of law is rapidly evolving, but one thing is clear: design patents can provide meaningful protection for research, development, and design investments. The *Apple* case shows how thoughtful portfolio development and disciplined enforcement of well-crafted design patent claims can deliver damages awards that may dwarf the recovery for utility patents. Whether these recent damages awards survive appellate scrutiny remains to be seen. But regardless of how the law concerning Section 289 develops, design patents can still offer significant protection. Other infringement remedies of course also will continue to be available, including potential damages awards of at least

a reasonable royalty under Section 284, as illustrated by the alternative damages award in *Columbia v. Seirus*. Moreover, in appropriate cases, injunctive relief could be obtained.

**Familiar Battle Lines Under the DOJ's Test.** These cases also showcase emerging litigation strategies. Design patentees typically seek 100 percent profits by asserting that the entire infringing product is the relevant "article of manufacture." Accused infringers focus the "article of manufacture" analysis on the claimed design and its corresponding elements in accused products. The DOJ's test seems flexible enough to support both approaches; indeed, to take the DOJ's book binding versus book content hypothetical, a binding greatly determines a book's overall appearance but also reflects a different concept than the book's internal literary contents. In this regard, factors 2 and 3 of the DOJ's test can point in opposite directions on the same set of facts. Nevertheless, as these three verdicts show, design patentees have fared better (so far) in front of juries under the DOJ's test.

**Damages-Only Trials are Hard on Established Infringers.** Infringement liability was established before trial in each of the *Columbia*, *Microsoft*, and *Apple* cases. The principal design patent task for the juries, therefore, was determining the relevant "article of manufacture" under Section 289 and then calculating damages. Perhaps the outcomes would have differed if the juries also had to consider and resolve patent validity or infringement issues at the same time they considered the damages issues.

**More Design Patent Infringement Cases May be on the Horizon.** If the first *Apple* verdict raised awareness of design patents as valuable intellectual property assets, then the second verdict should only trigger more interest. This is in line with recent trends indicating that innovators are increasingly seeing the untapped value of design patents. Annual design patent infringement case filings have risen by almost 50 percent in the last 15 years, from an average of about 202 cases per year in 2004-2009 to about 282 cases per year in 2014-2018. Moreover, these cases are increasingly high-stakes matters, even beyond *Apple*. For example, SharkNinja recently obtained a summary judgment of noninfringement in a case where Dyson sought up to \$200 million in damages for alleged infringement of three design patents. See *Dyson, Inc. et al. v. SharkNinja Operating, LLC et al.*, No. 14-cv-779, Dkt. 520 (N.D. Ill. Mar. 29, 2018). Tesla also was recently sued for infringing

three design patents owned by its competitor Nikola, whose complaint alleged economic harm to the tune of over \$2 billion. See *Nikola Corp. v. Tesla, Inc.*, No. 18-cv-1344, Dkt. 1 (D. Ariz. May 1, 2018).

**The Applicability and Application of the DOJ's Test Also Requires More Guidance.** The DOJ's "article of manufacture" test has not been approved by the Supreme Court or the Federal Circuit. In the few instances of its application so far, the district courts have not provided meaningful guidance to the jury regarding *how* to apply the various factors in this test. The DOJ's test raises issues as to both its applicability and meaning, and courts and litigants grappling with design patent disputes would undoubtedly benefit from further guidance from the higher courts on these issues. It also is possible that other tests will be promulgated to determine the relevant "article of manufacture" for purposes of determining infringement damages under Section 289.

## LAWYER CONTACTS

For more information, please contact your principal Jones Day representative or the lawyers below. General email messages may be sent using our "Contact Us" form, which can be found at [www.jonesday.com/contactus/](http://www.jonesday.com/contactus/).

### David L. Witcoff

Chicago

+1.312.269.4259

[dlwitcoff@jonesday.com](mailto:dlwitcoff@jonesday.com)

### John G. Froemming

Washington

+1.202.879.4693

[jfroemming@jonesday.com](mailto:jfroemming@jonesday.com)

### John C. Evans

Cleveland

+1.216.586.7126

[jcevans@jonesday.com](mailto:jcevans@jonesday.com)

### Tracy A. Stitt

Washington

+1.202.879.3641

[tastitt@jonesday.com](mailto:tastitt@jonesday.com)

## ENDNOTES

- 1 A copy of the DOJ's amicus brief is available at: <http://www.sco-tusblog.com/wp-content/uploads/2016/06/15-777npUnitedStates.pdf> (last visited June 6, 2018).
- 2 Two other design patent infringement cases have gone to jury trials after the *Samsung v. Apple* decision, but neither involved a jury attempting to apply the DOJ's test. See *Kenu, Inc. v. Belkin Int'l, Inc.*, No. 15-cv-1429, Dkt. 193 (N.D. Cal. June 14, 2018) (noting that the parties had agreed the entire accused product was the "article of manufacture" under Section 289); *Deckers Outdoor Corp. v. Romeo and Juliette, Inc. et al.*, No. 15-cv-2812, Dkt. 257 (C.D. Cal. Apr. 6, 2018) (jury instructions omitting DOJ's test for "article of manufacture").
- 3 Although willful infringement is a basis to enhance damages under Section 284, Federal Circuit law holds that "total profits" damages under Section 289 cannot be enhanced. *Catalina Lighting, Inc. v. Lamps Plus, Inc.*, 295 F.3d 1277, 1291 (Fed. Cir. 2002).

Jones Day publications should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information purposes only and may not be quoted or referred to in any other publication or proceeding without the prior written consent of the Firm, to be given or withheld at our discretion. To request reprint permission for any of our publications, please use our "Contact Us" form, which can be found on our website at [www.jonesday.com](http://www.jonesday.com). The mailing of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship. The views set forth herein are the personal views of the authors and do not necessarily reflect those of the Firm.