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Justices May Weaken Design Patents In Apple-Samsung Case

By **Ryan Davis**

Law360, New York (March 21, 2016, 8:55 PM ET) -- The U.S. Supreme Court's decision Monday to review the damages test for design patent cases further prolongs the bitter, $400 million smartphone war between Apple and Samsung and has the potential to significantly diminish the power of design patents, attorneys say.

The justices **agreed to hear** an appeal by Samsung Electronics Co. Ltd. challenging a ruling that it must pay Apple Inc. Samsung's entire profits from smartphones found to infringe Apple's design patents covering the look of the iPhone.

Samsung argues that the statute covering design patents, which states that anyone who infringes them "shall be liable to the owner to the extent of his total profit," makes no sense in the modern world, when design patents like Apple's cover only small components of expensive, multifeature devices like smartphones.

If the Supreme Court agrees to change the standard, design patents will become considerably less lucrative for their owners, attorneys say.

"The practical effect is that it would take away a pretty strong weapon for design patent holders. Disgorgement of profits is a pretty big stick," said Richard Miller of Ballard Spahr LLP.

The current standard gives design patent owners significant leverage over accused infringers in presuit negotiations and litigation, and overruling it would change that dynamic, he said.

It has long been apparent to many attorneys who work in the design patent area that requiring those who infringe design patents to pay their full profits "can be a harsh remedy that may not reflect the value of the design," Miller said.

David Opderbeck, a professor at Seton Hall University School of Law, said that the Federal Circuit's **decision** that Samsung must pay all its profits from smartphones found to infringe, amounting to $400 million, to Apple could give design patents too much power.

"In my opinion, this is a far too literal reading of the statute, particularly because a product's ornamental design very often is not the primary driver of consumer demand and of the manufacturer's profits," Opderbeck said. "In some ways, the Federal Circuit's ruling could allow design patent law to swallow utility patent law, making the ornamental design more important than the underlying technology."

By taking the case, the Supreme Court appears to have indicated that at least some of the justices are sympathetic to Samsung's argument that awarding entire profits creates "unjustified windfalls" for patent owners, and that damages in design patent cases should instead reflect the value of the design elements. But arriving at a decision that achieves that result could be tricky for the court, attorneys say.

That's because the design patent statute, enacted in 1887, fairly clearly states that accused infringers must pay their total profits from infringing products.

Samsung is effectively asking the Supreme Court to apply to design patents the same damages standard used for utility patents, where courts must apportion the damages based on the value of the infringing feature.

"The hurdle here is the specific statutory language that seems to create an obstacle to that goal," said Yasser El-Gamal of Manatt Phelps & Phillips LLP. "There is wiggle room, it just depends on how much wiggle room the Supreme Court thinks they have with this statutory language."

Samsung argues that the statute's references to "articles of manufacture" found to infringe refer only to specific design elements at issue, not the entire product. Samsung says it should only have to pay its profits from those elements, such as the front face of the phone and the icons on the home screen, not the company's full profits from the infringing smartphones.

Apple has **told the court** that the law "could not be clearer" that Samsung is liable for its total profits from the entire devices and "should pay the damages that the statute expressly authorizes."

"My initial general sense is that Apple has the better argument here," said Jonathan Moskin of Foley & Lardner LLP. "The statute on its face does seem to apply to total profits."

He says he can imagine the Supreme Court ultimately saying that "the statute means what it says and if Congress wants to limit the profit award provision it can do so."

Other attorneys say that since the Supreme Court agreed to hear the case, it is likely to change the standard in some way, particularly given the justices' penchant for overruling decisions by the Federal Circuit in recent years.

The Supreme Court has never interpreted the design patent statute since it was enacted more than a century ago, so it remains to be seen how the justices will view it and whether they can read it in a way that reaches the result Samsung is seeking.

"The Supreme Court could interpret the design patent statute to give the trial court some leeway to decide what portion of the profits are actually attributable to the design patent itself," Opderbeck said. "They could read the statute a little more flexibly and a little less literally."

While the statute may appear clear, "there are equitable principles for the Supreme Court to take a look at," such as whether patent owners should be able to get a windfall beyond the value of the design patents, according to El-Gamal.

"The very specific statutory disgorgement of all profits is a little bit incongruous with the way we do damages in all other instances in patent law, so perhaps it’s time to have the court speak on it," Miller said.

If the court does change the damages standard, it should take care not to undermine the value of

design patents, according to Jordan Sigale of Dunlap Codding. Many design patent owners likely don't need to recover the full profits of infringers, but they should still be able to get damages that are sufficient to deter infringement, he said.

"I hope this isn't a setback for design patent law," Sigale said. "The value of design patents is still significant, and I hope whatever happens in this case doesn't negate that."

While the outcome of the case is difficult to predict, it is clear that the high court's decision to delve into the closely watched issue will keep the yearslong battle between Apple and Samsung raging for months to come.

"They're farther away from a settlement than they ever could have been," Sigale said. "We almost have to hear from the court. It would be a shame if they withdrew it."

The patents-in-suit are U.S. Patent Numbers D593,087; D604,305; and D618,677.

Samsung is represented by Kathleen Sullivan, William B. Adams, David M. Cooper, Michael T. Zeller, B. Dylan Proctor and Victoria F. Maroulis of Quinn Emanuel Urquhart & Sullivan LLP.

Apple is represented by William F. Lee, Mark C. Fleming, Lauren B. Fletcher, Steven J. Horn, Seth P. Waxman and Thomas G. Sprankling of WilmerHale and Harold McElhinny, Rachel Krevans, Nathan B. Sabri and Christopher L. Robinson of Morrison & Foerster LLP.

The case is Samsung Electronics Co. Ltd. et al. v. Apple Inc., case number 15-777, in the Supreme Court of the United States.

--Editing by Katherine Rautenberg and Edrienne Su.