

## 35 USC 289 – After *Apple v. Samsung*, Time for a Better-Crafted Judicial Standard for Awarding “Total Profits”?

Gary L Griswold<sup>i</sup>

In April, I published an article, [35 USC 289 – An Important Feature of U. S. Design Patent Law: An Approach to Its Application](#),<sup>ii</sup> in the IPO Law journal. A month later, the Federal Circuit handed down its decision in *Apple v Samsung*. An [analysis of the opinion](#) and its ramifications by Professor Rantanen subsequently appeared on Patently-O.<sup>iii</sup>

Rantanen concluded, “The bottom line is that high damage claims for design patent infringement are going to be much more credible in the wake of *Apple v Samsung*. Under the court’s ruling, it would seem entirely possible, as a hypothetical example, for an automobile manufacture to be liable for its entire profits from a particular car model if that model contained, say, an infringing tail light. Given the publicity surrounding *Apple v. Samsung*, my expectation is that there will be an explosion of design patent assertions and lawsuits.”<sup>iv</sup>

There are troubling signs that increased assertion activity has already begun. Design patents are nearly ideal assertion vehicles given that they are inexpensive to obtain with no cost to maintain, are not published prior to grant, and have a full term of protection beginning with grant rather than filing—not to mention the § 289 damages opportunity that can include total profits of the infringer.<sup>v</sup>

Given the good in design patents—they operate as effective and important means for protecting innovatively designed products in the marketplace—how can this good be preserved without incurring the bad— as one example, design patents becoming the next business model for patent assertion entities (PAEs)?

In my April article, I offered a proposal for judicial implementation of § 289 that would involve the court determining “if the patented design is substantially the basis for customer demand for the entire article.” If it was, § 289 total profits damages would apply to the article; if not, total profits would not be available.

The determination would involve a binary decision, not an apportionment, in keeping with the apparent Congressional intent when § 289 and its predecessors were enacted. I noted in the April paper that the

“customer demand” proposal assumes that there is a presently existing basis in § 289 for the courts to evolve a practical and useful methodology to apply a “total profits” recovery that avoids clearly unreasonable results, but at the same time captures circumstances where it is sound policy to afford a total profits option for recovery.”

The court in [\*Apple v. Samsung\*](#),<sup>vi</sup> in applying § 289, apparently believed its options were limited. It stated “In 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 the total profit from the article of manufacture bearing the patented design.....The clear statutory language prevents us from adopting a ‘causation’ rule as Samsung urges.” The court dismissed an early 2<sup>nd</sup> Circuit decision which limited a design patent damage award to the profits realized from the sale of a piano shell or case where the shell was sold separately from the inner workings of the piano, stating that Samsung’s smartphones were not sold separately from their shells. *Id.* at 27-28.

If a court were to look to adopt a workable and practical application of § 289 that would work for all types of articles of manufacture, then perhaps the customer demand proposal is a pathway to a more rationally applied § 289. It is not apportionment, so does not run afoul of the Congressional intent surrounding § 289 and its predecessors. It also avoids some clearly ludicrous results. The example of a patented tire design triggering lost profit recovery on a large agricultural combine as set out my April paper would be avoided given the irrelevancy to any likely customer of the tire design as a basis for purchase of the combine.

In this example, the same outcome, of course, could be achieved by using the separate product exception. Either way, the common sense result is preferable to what otherwise would be an overly literal application of the statute.

The separate product exception, however, has serious limitations. For example, it fails to account for a situation where an inconsequential, but patented, graphical user interface design that is not sold separately is included in an electronic device. Most thoughtful commentators would agree that § 289 profits should not normally apply to these types of relatively complex electronic devices where software features of this type are typically incidental and specifically designed for the device and, thus, are integral to it.

The same issue arises for hardware components that are designed for and integrated into a consumer end product. As an example, semiconductor manufacturers are obtaining design patents on a portion of a semiconductor. Will total profits be disgorged on the entire semiconductor? Yet more troublesome, will the electronic device into which the semiconductor is incorporated be the subject of total profits recovery under § 289? Does the outcome change if the semiconductor is an internally supplied component for the electronic device, not sold separately, versus a non-custom semiconductor that is sourced from an outside vendor? By way of comparison, if there was a utility patent on the semiconductor, would it be likely that the entire device would be subject to damages under the entire market value rule?<sup>vii</sup>

Another example of an exception to the literal application of 35 USC § 289 is suggested by Apple in its [responsive brief](#) to “Defendant-Appellants’ Petition for Rehearing en banc.” It states: “As the panel correctly recognized, this distinctive design was not severable from the inner workings of Samsung’s smartphones, see Op. 27-28, in the way that a cupholder is analytically distinct from the overall look-and-feel of a car.”<sup>viii</sup> This exception could be generalized to the situation where the design-patented element is analytically distinct from the overall look-and-feel of the device for which total profits are claimed.

These are just a few of the examples which have and will surface that argue against a literal application of 35 USC § 289. What can be done?

The court in *Apple v. Samsung* said “policy arguments that should be directed to Congress. We are bound by what the statute says, irrespective of policy arguments that may be made against it.”<sup>ix</sup> Ct. Opinion at 27, fn. 1. But courts have acted or provided guidance in other instances where easily foreseeable outcomes of literal application of a statute would be unreasonable. The entire market value rule is a prime example where a literal approach could have been surfaced as a reason to deny damages for activity beyond the patent scope but within the patented invention’s influence.

Unfortunately, without a course correction we are likely headed for the explosion Professor Rantanen predicts. As noted, for example, we can expect PAE business models to adapt to new opportunities presented by the courts. The result could take design patents way beyond their intended purpose of stimulating invention. In the end, this will likely bring forward efforts to repeal § 289. This would deny a fair and reasonable remedy for those who invent new designs that are substantially the basis of customer demand. Hopefully, a judicial framework will be developed that strikes the right balance and further secures § 289 as a distinguishing feature of U.S. design patent law.

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<sup>i</sup> Mr. Griswold is a Consultant residing in Hudson, WI and was formerly President and Chief Intellectual Property Counsel for 3M Innovative Properties Company. The paper reflects the views of the author. He wishes to thank Bob Armitage and Mike Kirk for their excellent contributions to the paper.

<sup>ii</sup> Gary L. Griswold, 35 USC § 289 – An Important Feature of U.S. Design Patent Law: An Approach to Its Application. *IPO Law Journal*, (April 6, 2015). [http://www.ipo.org/wp-content/uploads/2015/04/griswold\\_an-approach.pdf](http://www.ipo.org/wp-content/uploads/2015/04/griswold_an-approach.pdf)

<sup>iii</sup> Rantanen, Jason, “Apple v. Samsung: Design Patents Win.” *Patently-O*. (May 18, 2015) <http://patentlyo.com/patent/2015/05/samsung-design-patents.html>

<sup>iv</sup> *Id.*

<sup>v</sup> Marcus, David and Shawn Leppo, “Welcome Fallout from the Smartphone Wars: Federal Circuit embraces strong protection of design patents.” *Metropolitan Corporate Counsel*. (July 17, 2015). [http://www.metrocorp.counsel.com/articles/32603/welcome-fallout-smartphone-wars-federal-circuit-embraces-strong-protection-design-pat?utm\\_source=mccreview+Upload+20150106&utm\\_campaign=58fe4b6614-MCC\\_Review\\_07\\_22\\_20157\\_21\\_2015&utm\\_medium=email&utm\\_term=0\\_4624ea9f3a-58fe4b6614-236350701](http://www.metrocorp.counsel.com/articles/32603/welcome-fallout-smartphone-wars-federal-circuit-embraces-strong-protection-design-pat?utm_source=mccreview+Upload+20150106&utm_campaign=58fe4b6614-MCC_Review_07_22_20157_21_2015&utm_medium=email&utm_term=0_4624ea9f3a-58fe4b6614-236350701)

<sup>vi</sup> *Apple v. Samsung*, Case No. 2014-1335; 2015-1029 (Fed. Cir. May 18, 2015).

<http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/14-1335.Opinion.5-14-2015.1.PDF>

<sup>vii</sup> The impact on suppliers, manufacturers and retailers will be significant. Who will take the risk of this exposure, the supplier through an indemnity agreement who did not receive the profit on the article, the manufacturer who will need to assess the exposure for each component, or the retailer (for its profit) who sells the final product?

<sup>viii</sup> See Brief in Opp’n to Rhg, *Apple v. Samsung*, Case No. 2014-1335; 2015-1029 at 27-28 (Fed. Cir. July 20, 2015)

<sup>ix</sup> *Apple v. Samsung*, Ct. Opinion at 27, fn. 1.