Design Patent Damages Might Be More Than You Expected

Law360, New York (October 21, 2014, 10:05 AM ET) --

For many litigators and in-house counsel who regularly deal with utility patents, the design patent is less familiar territory. Like the “permanent press” feature on a washing machine, design patents must have a purpose, we presume, but we are not always sure what their value really is.

Although design patents are historically more obscure, being issued and litigated at only about one-tenth the rate of utility patents in the past decade, the ongoing dispute between Apple Inc. and Samsung Electronics Co. Ltd. very publicly highlights the potential value of design patents. Indeed the option, under 35 U.S.C. § 289, to recover an infringer’s “total profit” on sales of an infringing article means that design patent damages could often far exceed those for utility patents.

Yet the development of design patent damages law is raising questions that are only beginning to be answered by the courts.

Statutory Framework

The familiar provision for damages recovery under 35 U.S.C. § 284 allows “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty.” Design patentees, however, have the option instead to recover an infringer’s total profit under 35 U.S.C. § 289. This provision states:

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.

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.

Questions Raised

The statutory language is largely silent about the relationship between Section 284 and Section 289. So questions like these arise: Can the patentee recover Section 289 profits without apportioning value? Can it recover on a design patent under Section 289 over and above its recovery on a utility patent under Section 284, applied to the same accused product? Can the patentee recover Section 289 profits from each of multiple infringers in the sales stream?

Apportionment — “Total Profit” From What?

The Federal Circuit has recently limited Section 284 reasonable royalty damages by requiring patentees to apportion the value of an accused product to determine the contribution of the invention to that value, before applying a royalty rate (VirnetX v. Cisco Systems, for example). It is important to consider whether a similar apportionment applies to “total profit” related to an “article of manufacture” under Section 289.

Two recent cases have addressed the issue of how total profit is determined when the patented design arguably relates to something less than the entire accused product. In Apple’s highly publicized trial against Samsung, Apple asserted two design patents. One of them covered the outer casing of the iPhone and the other covered the GUI elements (application icons) used on the iPhone home screen.

Samsung sought to include two jury instructions concerning damages: (1) that damages required a finding of causation and (2) that an “article of manufacture” could be something less than the entire product. The district court did not include Samsung’s instructions, and the issue is now on appeal.

In briefing to the Federal Circuit, Samsung argues that (1) causation is a prerequisite to damages in common law and patent law and that (2) the case law shows that the “article of manufacture” can be less than the whole product. Samsung relies primarily on a line of century-old decisions known as the “piano cases” involving design patents for piano cases. In those decisions, the courts concluded that the appropriate measure of damages was the infringer’s total profit on the cases, not the pianos inside.

Apple counters that Samsung demands apportionment even though Section 289 was written specifically to avoid that requirement, and that the causation requirement applies to other damages statutes, not this one. Regarding Samsung’s arguments about the article of manufacture, Apple says the piano cases are (1) old and (2) distinguishable because the patented piano case and the piano are “related, but analytically distinct, items” that could have been sold separately.

In arguing that it is improper to award total profit based on sales of complete phones when Apple’s design covers less than this, Samsung seeks to distinguish the product as a whole (the entire phone) from the article to which the patented design is applied (the outside shell). But a very recent district court decision may present a more striking example of this alleged distinction.

Pacific Coast Marine Windshields v. Malibu Windshields involved a patent for the design of a speedboat’s windshield. Pacific Coast elected to use Section 289 and sought Malibu’s profit on sales of the entire boat. Denying Malibu’s motion for summary judgment to challenge this damages theory, the Florida district court reasoned that rejecting Pacific Coast’s damages theory would effectively impose an unwarranted apportionment requirement. There will be no appeal as the case settled within the last
So what will the Federal Circuit say in the Apple-Samsung case? Perhaps it will latch onto an intermediate position of sorts in Apple’s briefing that would place at least some limit on the scope of the Section 289 “article of manufacture” (without limiting Apple’s recovery in the case). Using Apple’s suggested approach, everything that is inseparable from the design is a part of the “article of manufacture,” and everything that is separable is beyond the reach of the statute. Such an approach could alleviate concern about more extreme hypotheticals regarding lost profits (e.g., the possibility of awarding the total profit on airplane sales based on infringement of a seatbelt-latch design patent).

Double Recovery — Products That Infringe Both a Utility and a Design Patent

In Catalina Lighting v. Lamps Plus in 2002, the Federal Circuit addressed for the first time the question of whether a patentee can recover both total profits under Section 289 for design patent infringement and a reasonable royalty under Section 284 for utility patent infringement when the sale of the same product infringes both patents. The court held that such a recovery was not permitted. It reasoned that while a patentee is entitled to damages for each infringement, an award of total profit under Section 289 also constitutes “damages adequate to compensate for the infringement” as required under Section 284. The court did not specify whether “the infringement” referred to infringement of the utility patent or infringement of the design patent, or both.

In support of its holding, the Catalina Lighting court cited two cases related to double recovery. First, in CPG Products v. Pegasus Luggage, the Federal Circuit denied a patentee’s attempt to recover for both patent infringement and unfair competition, reasoning that such recovery would amount to “dual damages resulting from the same act.” Second, in Contour Chair Lounge v. True-Fit Chair, a district court held that a patentee could not recover damages for both patent and trade dress infringement arising from the same sale. In both cases cited by the Catalina Lighting court, the claims giving rise to damages arose from the same sales.

The Federal Circuit used similar reasoning in Aero Products v. Intex Recreation in 2006, where the court held that an award of both patent and trademark damages would be an impermissible double recovery. The court held that “even though damages are claimed based upon separate statutes or causes of action, when the claims arise out of the same set of operative facts, as is the case here, there may be only one recovery.”

If this “operative facts” test governs the case of dual utility/design patent infringement, additional questions could arise. For example, would performing the steps of a method claim (e.g., by using or testing a product) be considered the same set of operative facts as selling the product with the patented design? What if the patentee sought to recover the profits of the seller for infringing the design patent and to recover a reasonable royalty from the purchaser for infringing the utility patent’s method claims? If the patentee has consistently licensed the utility patent for a 5 percent royalty but insisted that no one use its patented design, what damages should be awarded even if the “operative facts” test is clearly satisfied? Patent litigators should develop and frame their case with these questions in mind — or more precisely, with their desired answers in mind.

Multiple Infringers

In what appears to be the only case addressing the issue, a Minnesota district court in Bergstrom v. Sears Roebuck in 1980 allowed a design patentee to recover total profits from each of multiple parties
in the sales chain. The design patent related to the design of a fireplace grate, and the defendants included both the manufacturer and the retailer. The patentee argued that it ought to be able to recover total profits from both. The court agreed, focusing on the language in Section 289 that “whoever infringes” the design is liable for their total profit.

Although the Federal Circuit has twice cited Bergstrom favorably for a different issue, it has not addressed this aspect of the damages holding, which is arguably in tension with the rationale underlying the “single recovery” rule for Section 284. For example, in Transclean Corp. v. Jiffy Lube in 2007, the Federal Circuit held that “a patentee may not sue users of an infringing product for damages if he has collected actual damages from a manufacturer or seller, and those damages fully compensate the patentee for infringement by users.” If a patentee opts for Section 289 and recovers total profit from one defendant, a second defendant might argue that the rationale of Transclean precludes further recovery. Bergstrom, however, suggests otherwise.

Practical Considerations

Design patents can be a valuable tool against copyists. Inventors should consider protecting both the overall design and designs of specific components, as both may implicate substantial damages if infringed.

When developing a licensing strategy, patentees should consider, in addition to their business interests, the interplay between design patent damages and utility patent damages.

And in litigation, Section 289 provides a potentially generous alternative remedy for infringement. Thus, patentees should understand the unresolved issues and prepare to make a case for a broad interpretation of that damages provision — with one eye on the Federal Circuit’s pending decision in Apple v. Samsung. When considering whom to sue, they should not overlook any infringer in the sales stream, even one that might be insignificant and unnecessary were only Section 284 in play.

Because damages law in this area seems ripe to be shaped and refined, manufacturers and resellers accused of infringement likewise need to consider unresolved Section 289 issues. If feasible, accused infringers will want to develop arguments during discovery that the “article of manufacture” is something less than the accused product and that only a single recovery should be permitted, no matter what number or types of patents or other intellectual property are allegedly infringed.

—By Scott Breedlove and Seth Lindner, Vinson & Elkins LLP

Scott Breedlove is a partner in the Dallas office of Vinson & Elkins. Seth Lindner is an associate in the firm’s Austin, Texas, office.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

All Content © 2003-2014, Portfolio Media, Inc.