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CLIENT ALERT

Samsung Prevails in Supreme Court Decision Reading the Patent Act's "Article of Manufacture" Provision to Limit Damages to Profits from Smartphones' Infringing Components

DECEMBER 7, 2016

In a closely watched case arising out of the cell phone wars, the United States Supreme Court unanimously ruled yesterday that, in cases involving infringement of design patents covering multicomponent products, damages need not be based on profits for the entire product.

Apple owns a number of design patents relating to its iPhone. The patents cover design features such as a smart phone having a rectangular front face with rounded corners, or a smart phone having a grid of 16 colorful icons on a black screen. In 2011, a jury found that defendant Samsung infringed Apple's design patents, awarding $399 million in damages. That figure included Samsung's entire profit for the smart phones with infringing components.

On appeal, the Federal Circuit rejected Samsung's argument that damages should be limited to a lower amount because the relevant "article of manufacture" (35 U.S.C. 289) was the phone's screen rather than the entire smartphone. According to the Federal Circuit, calculating damages based on the entire profit from the phone was appropriate because the infringing components were not sold separately to consumers—and thus were not distinct articles of manufacture.

In an opinion by Justice Sotomayor, the Supreme Court unanimously reversed, holding that Samsung may be liable only for the infringement of the component rather than the entire smart phone.

The Court's decision turned on 35 U.S.C § 289 of the Patent Act, which provides that a person who sells or exposes for sale "any article of manufacture to which design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit." The Court held that the phrase "'article of manufacture'" need not "always be the end product sold to the consumer," but rather "can also be a component of that product." The Court found support for this view in §171(a) of the Patent Act, which permits design patent protection that extends to "only a component of a multicomponent product." The Court further explained that its conclusion was "also consistent with 35 U.S.C. §101, which makes 'any new and useful . . . manufacture . . . or any new and useful improvement thereof' eligible for utility patent protection."

The Court thus rejected the Federal Circuit's narrow reading of the statute, concluding that "the term 'article of manufacture' is broad enough to embrace both a product sold to a consumer and a component of that product, whether sold separately or not." The Court declined, however, to articulate the steps for calculating damages under §289, leaving that issue for the Federal Circuit to resolve on remand.

In sum, the Supreme Court has clarified that "[i]n the case of a multicomponent product, the relevant 'article of manufacture' for arriving at a §289 damages award need not be the end product sold to the consumer but may be only a component of that product."

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