

KT KEY TAKEAWAY

Design Patents: Do New Component-Based Damages Encourage IP Knockoffs?

In light of the Supreme Court's recent ruling allowing component-based design patent damages, the question begs whether infringers will see this as a greenlight to create more IP knockoffs. And if so, how can patent owners better protect themselves?

Under U.S. Code Title 35 §289, design patents protect an article of manufacture's ornamental appearance if new or distinct, and only to the extent that the ornamental features dominate the functional features. Design patents can cover all or components of an article, giving patent owners market exclusivity in both primary and secondary replacement markets. By statute, design patent damages must be "total profits" of the infringing article regardless of whether the design patent covered a component or the entire article, thus acting as a punitive deterrent to create knockoffs or at the very least, an incentive for a quick settlement.

In its ruling, the Supreme Court's reinterpreted "article of manufacture" more broadly to encompass both the end product OR its components, potentially limiting damages to revenues attributable to only a part of an article of manufacture. While this ruling aligns more with what a design patent can protect (part(s) or the whole article), it in essence creates a backdoor for apportioned¹ damages, which could easily open the flood gates for more knockoffs. For instance, if an infringer only has to pay \$2 million in damages out of a \$13 million profit, then it's worth making the knockoff — no deterrent. Moreover, the design patent infringer now has more leverage during litigation and settlement negotiations, further weakening the patent owner's position.

So how can design patent owners and applicants compensate for the new ruling? While the ruling will not affect single-component products, owners of multicomponent products could try to obtain design patents for as many patentable components as possible. Given that design patents are easier, quicker, and less expensive to procure than utility patents, this new strategy shouldn't be too burdensome, while giving owners a 15-year enforcement resource.

Ultimately, the Court remanded the case to the U.S. Court of Appeals for the Federal Circuit, which in turn remanded the damages dispute to the district court. In doing so, the Court included the opportunity to set forth a test identifying the relevant article of manufacture to determine damages, such as the Solicitor General's four-factor balancing test that examines scope, design prominence, conceptual distinctness, and severability. In the meantime, we'll have to wait and see how the district court will rule and what test it will use. Only afterwards, will we know the full extent component-based damages will have on the strength and practicality of design patents.

¹ In its ruling, the Supreme Court did not address apportionment issues since the statute does not allow apportionment of damages. It instead chose to focus on the proper scope and meaning of "article of manufacture" when determining the appropriate design patent damage award. Specifically, the Court cited §289's two-step approach to first identify the infringed article, and then to calculate profits associated with that specific article.

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