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Profit Apportionment in Intellectual Property Damages: The Unique Case of Design Patents

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It is well established in most areas of intellectual property ("IP") law that an award of monetary relief based on the profits earned from the sale of an infringing product should be apportioned to reflect the value of the property at issue in generating those profits. In practice, this apportionment presents one of the most challenging tasks a litigant faces in proving its damages case.[1] Courts are cognizant of this difficulty, but have nonetheless required apportionment as a predicate for an award based on the infringer's profits.[2]

Design patents provide an exception to this general principle. Unlike a utility patent, which protects the way an article is used and works (35 U.S.C. § 101), a design patent protects the way an article looks (35 U.S.C. § 171).[3] In 2013, the United States Patent and Trademark Office ("USPTO") issued fewer than 24,000 design patents[4] – less than one-tenth the number of utility patents. Notably, as design patents are fewer in number, they are also less frequently litigated.

In this article we will describe profit apportionment in three common types of IP litigation cases – those involving (1) trademarks and trade dress; (2) copyrights; and (3) utility patents. We then will discuss the availability of infringer's profits as a form of recovery in design patent litigation.

1. Apportionment in Trademark and Trade Dress Infringement Litigation

The Lanham Act allows for the recovery of the profits earned by a defendant related to the infringement of a trademark or trade dress or for other related violations. In a Lanham Act case, a prevailing plaintiff may, "subject to the principles of equity, . . . recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action."[5] Further, the statute provides that the award must be "compensation" and not a "penalty."[6]

While the statute does not specifically mention apportionment, many Lanham Act decisions suggest that an apportionment of defendant's profits should be considered in trademark and trade dress matters. For example, courts have found "an accounting is intended to award profits only on sales that are attributable to the infringing conduct."[7] Methods of apportioning profits in Lanham Act matters are case-specific and may entail consideration of the contribution made by the other functions and assets embodied in the infringing product, geographical limitations, IP valuation techniques, and other issues.

2. Apportionment in Copyright Infringement Litigation

Similarly, in copyright infringement litigation, the owner of an infringed work may pursue monetary remedies including actual damages and infringer's profits. Statutory damages are also available. Specifically, the Copyright Act of 1976 permits recovery of "any profits of the infringer that are attributable to the infringement that are not taken into account in computing actual damages," and also states that "the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors *other than* the copyrighted work."[8] Apportionment is also supported by copyright case law, including the often-cited *Sheldon v. Metro-Goldwyn Pictures Corp*. case, in which the United States Supreme Court affirmed a lower court's decision that principles governing apportionment of profits in utility patent infringement cases apply to cases of copyright infringement.[9]

3. Apportionment in Utility Patent Infringement Litigation

Unlike its counterparts in copyright and trademark law, the utility patent damages statute, 35 U.S.C. § 284, contains no provision for an award of infringer's profits *per se*. However, reasonable royalty damages are oftentimes, as a practical matter, an exercise in apportioning the total profits of the infringing product to those that are specifically derived from the elements of the product that infringe the patent's claims.[10]

For example, the fifteen *Georgia-Pacific* factors require, among other things, consideration of the established profitability of the product made under the patent; the utility and advantages of the patented property over old modes and devices; the portion of the realizable profit attributable to the invention as distinguished from non-patented elements; and the amount that a prudent licensee would have been willing to pay as a royalty and yet be able to make a reasonable profit.[11] Thus, a major difference between reasonable royalty damages derived based on the *Georgia-Pacific* factors and an award of infringer's profits is that a reasonable royalty award represents a split of the profits between a licensor and licensee in a hypothetical license negotiation, whereas an award of an infringer's total profit would grant all of those profits to the owner of the IP.

Further, recent utility patent decisions have focused attention on apportionment principles when determining not only the reasonable royalty rate, but also the royalty base.[12] The entire market value rule ("EMVR") requires that, when practicable, the royalty base be limited to the smallest saleable patent practicing unit with close relation to the patented technology, unless the patent holder can show that the patented element is a primary basis, if not the sole basis, of demand for the entire product.[13]

Until recently, plaintiffs have used this smallest saleable patent practicing unit exception as a means for claiming reasonable royalty damages based on the entire value of a multicomponent product, even when the patent related to only a small component of the overall product.[14] However, the Federal Circuit's recent ruling in *VirnetX, Inc. v. Cisco Systems, Inc*.[15] clarified that the smallest saleable patent practicing unit theory cannot be invoked as an exception to the EMVR if that unit does not have close relation to the patented technology. The Federal Circuit recognized the difficulty this can create by requiring that the royalty be based on the value of a component that was never individually sold; however, it noted that "it is well understood that this process may involve some degree of approximation and uncertainty."[16]

4. Design Patent Infringement

The availability of the infringer's profits as a form of monetary relief in design patent cases is covered by 35 U.S.C. § 289, which 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.[17]

Courts have interpreted this to mean that the holder of an infringed design patent is entitled to recover all of the profits generated from the infringing product, without any requirement to apportion those profits to the incremental value of the design patent-in-suit as compared to other product elements, functional or otherwise.[18] The application of apportionment principles in design patent cases has been specifically rejected by courts on a number of occasions.[19]

5. Conclusion

Among the various forms of IP, design patents are unique in that infringement may result in disgorgement of the entire profit the infringer earns on the product incorporating the patented design, without any requirement to apportion those profits to account for other product features not covered by the patent. By contrast, in the areas of copyright, trademark/trade dress, and utility patent infringement, statutes and/or case law typically treat apportionment as a predicate to an award based on infringer's profits (or reasonable royalty damages).

(Endnotes)

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1 The term "damages" is used herein to represent various forms of monetary relief that may be available in a particular case, including the recovery of the profits of an infringer.

2 *See, e.g., VirnetX, Inc. v. Cisco Sys., Inc*., 767 F.3d 1308, 1328 (Fed. Cir. 2014); *Lucent Techs., Inc. v. Gateway, Inc*., 580 F.3d 1301, 1325 (Fed. Cir. 2009) (citing *Unisplay, S.A. v. Am. Elec. Sign Co*., 69 F.3d 512, 517 (Fed. Cir. 1995)). As is discussed *infra,* apportionment may be applicable to the determination of a reasonable royalty or to an accounting of the profits of an infringer.

3 Manual of Patent Examining Procedure (MPEP), Ninth Edition, March 2014, Section 1502.01.

4 *See* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

5 15 U.S.C. § 1117(a).

6 *Id*.

7 *Lindy Pen Co. v. Bic Pen Corp*., 982 F.2d 1400, 1408 (9th Cir. 1993); *see also, e.g., Holiday Inns, Inc. v. Airport Holiday Corp*., 493 F. Supp. 1025 (N.D. Tex. 1980), *aff'd*, 683 F.2d 931 (5th Cir. 1982); *Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc*., No. 94-CIV-2663(RPP), 1999 WL 108739, at *4 (S.D.N.Y. Mar. 3, 1999), on remand from 146 F.3d 66 (2d Cir. 1998), *aff'd*, No. 99-7329, 2000 WL 220504 (2d Cir. Jan. 12, 2000).

8 17 U.S.C. § 504(b) (emphasis added).

9 309 U.S. 390 (1940); *see also, e.g., Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc*., 886 F.2d 1545 (9th Cir. 1989).

10 *Ericsson, Inc. v. D-Link Systems, Inc.,* Nos. 2013-1625, -1631, -1632, -1633, 2014 U.S. App. LEXIS 22778 at *53, *54 (Fed. Cir. Dec. 4, 2014) (citing *VirnetX*, 767 F.3d at 1326).

11 *Georgia-Pacific Corp. v. U.S. Plywood Corp*., 318 F. Supp. 1116, 1120 (S.D.N.Y. May 28, 1970).

12 *VirnetX*, 767 F.3d at 1327-28 *Cornell Univ. v. Hewlett-Packard Co*., 609 F. Supp. 2d 279, 286-87 (Fed. Cir. 2009) (citing *Fonar Corp. v. General Elec. Co*., 107 F.3d 1543, 1552 (Fed. Cir. 1997); *State Indus., Inc. v. Mor-Flo Indus., Inc*., 883 F.2d 1573, 1580 (Fed. Cir. 1989)).

13 *See, e.g., Lucent Techs., Inc. v. Gateway, Inc*., 580 F.3d 1301, 1336 (Fed. Cir. 2009) (citing *Rite-Hite Corp. v. Kelley Co*., 56 F.3d 1538, 1549-50 (Fed. Cir. 1995) (en banc)).

14 *See VirnetX*, 767 F.3d at 1327-28.

15 *Id*.

16 *Id*. at 1328 (citing *Unisplay, S.A. v. Am. Elec. Sign Co.,* 69 F.3d 512, 517 (Fed. Cir. 1995)).

17 35 U.S.C. § 289 (emphasis added).

18 *Nike Inc. v. Wal-Mart Stores, Inc*., 138 F.3d 1437, 1442–43 (Fed. Cir. 1998).

19 *See, e.g., Apple, Inc. v. Samsung Elecs. Co*., No. 11-CV-01846-LHK, 2012 WL 2571332 (N.D. Cal. June 30, 2012); *Nike*, 138 F.3d at 1442–43; *Bergstrom v. Sears, Roebuck & Co*., 496 F. Supp. 476, 495 (D. Minn. 1980).