Calibrating the Disgorgement Remedy for Design Patent Law

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Pamela Samuelson & Mark P. Gergen, *The Disgorgement Remedy of Design Patent Law*, 108 **Calif. L. Rev.** __ (forthcoming, 2020), available at SSRN.

The law of design patents continues to evolve in dramatic ways. The law of remedies must also adapt to serve the underlying goals of design patent law and restitution. In creating and interpreting the disgorgement remedy, Congress and the Supreme Court have caused a crisis with unintended consequences. They have provided insufficient guidance on how to construe the remedy. Congress added this remedy to cure a perceived remedy deficit, but Congress crafted it too bluntly—authorizing disgorgement of "total profit" from one who sells, without a license from the owner, articles of manufacture that apply a patented design or colorable imitation. Meanwhile, the Court splintered the design patent right into smaller fragments without suggesting how to align the remedy.

In a thought-provoking critique, Professors Pamela Samuelson and Mark Gergen present a compelling, detailed argument for applying causation and apportionment to limit restitutionary disgorgement awards in partial design patent cases. This narrowing is essential to maintaining the utility of restitution in design patent law. The authors' proposed solution also advances the normative purposes of restitution and its disgorgement remedy in design patent cases.

As Samuelson and Gergen demonstrate, a total-profits remedy risks overserving patent purposes and failing to adhere to restitution's boundaries. The fragmentation of design patent rights calls for more precisely tailored remedies. The modern trend, as examined by Sarah Burstein, is to issue design patents on small parts of complex products and also on functionality more than ornamental designs. Samuelson and Gergen offer a thoughtful method of interpretation of the total-profits disgorgement remedy of § 289 of U.S. patent law.

But first they explore the flaws of recent judicial interpretation. They focus on the Apple v. Samsung case to reexamine the history and use of the disgorgement of total-profits remedy in design patent law. The *Samsung* Court construed "article of manufacture" for determining § 289's disgorgement remedy so that it could be a component of the marketplace product rather than simply the end product. In other words, the infringement and remedy may be key to an element such as the Apple-inspired shape of the flat face of the smartphone rather than the Samsung phone itself. In so ruling, the Court vacated the lower court's $399 million award that was intended to constitute Samsung's total profit from sales of its phones that included infringing elements. The lower court judge had already remitted the jury verdict that exceeded $1 billion, which was the jury's assessment of Samsung's total profits. The Court vacated the award as remitted, but either award would be problematic under the Court's new interpretation. It remanded for determination of the proper disgorgement amount in light of its narrowing of the right to the infringed elements (even if not separately salable) rather than the end product.

But as Samuelson and Gergen note, the Court fails to guide adjudicators on how to evaluate the relevant article of manufacture if not sold on the market and on how to determine the profits to disgorge where the infringement is partial rather than whole. On remand, the jury awarded $533 million in disgorgement of profits for Samsung's infringement of Apple's design patents. The parties settled after this verdict. Another case, *Columbia Sportswear*, raises similar concerns about a $3 million total-profits jury award for sales of gloves that infringed on a design patent on the lining material. The law remains unsettled and is also inconsistent with a Federal Circuit ruling.

The various awards during the *Apple v. Samsung* litigation process demonstrate the lack of precision in assessing the proper amount for disgorgement of profits under the Court's new frame. Samuelson and Gergen forcefully critique the Court's decision as "historically ill-informed and normatively unpersuasive." (P. 3.) They lament that these flaws will lead to unsatisfying inquiries in complex technology cases. Further, the elusiveness of the examination will cause unpredictable, inconsistent, and occasionally grossly excessive awards. Instead, they advocate a more complete and detailed method for honoring the normative goals of restitution law that underlie the disgorgement remedy for design patent infringements.

Courts and scholars would be wise to incorporate restitution concepts to better protect the rights at stake. Restitution is not compensatory, but instead seeks to undo unjust benefits and deter wrongful behavior without punishing the infringer. A restitutionary disgorgement remedy like the one adopted by Congress for design patents alleviates proof problems for design patent owners who cannot prove actual damages with reasonable certainty and might otherwise be left with nominal recoveries. As Samuelson and Gergen's article details, the legislative history confirms that Congress desired a meaningful remedy for design patent owners, but Congress did not intend the total profit remedy to be punitive.

It is key that a gain-based remedy of disgorgement of profits conform to restitution's purposes—preventing unjust enrichment by stripping profits from wrongful infringement but not by punishing. The lack of guidance coupled with the greater fragmentation of the right is likely to result in inflated disgorgement awards. As the authors aptly state, disgorgement's function is not compensatory but rather to erase the incentive to act wrongfully by stripping "from a wrongdoer profit that is causally attributable to his wrong, but not more than this (and sometimes less if apportionment is warranted)." (P. 3.) Accordingly, under a restitution frame using a counterfactual analysis, "wrongdoers are allowed to retain costs of committing the wrong and profits they would have made had they chosen to behave lawfully." (P. 3.)

Proper calibration of disgorgement requires careful causation and apportionment analysis. Samuelson and Gergen acknowledge that determining causation and apportionment with precision will be challenging and inherently discretionary. For the interested reader, the authors meticulously explore the Solicitor General's suggested test and VW Beetle design-patent hypothetical, and they compare various scenarios through a thought experiment with the famous restitution case of The Great Onyx Cave. This exploration demonstrates the distinction between causation and apportionment, the importance of alternative framing, and the correlation of these doctrines to goals such as fairness, efficiency, and desert. The legislative history does not foreclose this analysis, and if it does, Congress should amend this section to allow this inquiry especially for partial design infringement cases.

Who should conduct this remedial inquiry? The authors maintain that judges are better suited to make these assessments and attain more reasonable approximations than juries. Further, they show historical markers that support characterizing the remedy as equitable in this context. Despite the practice of using juries in determining design patent disgorgement awards, Samuelson and Gergen are convinced that a jury is not constitutionally required. The wise exercise of equitable discretion will go far in maintaining disgorgement as a powerful, yet restrained remedy to deter taking without asking, while preventing only the enrichment that is truly unjust.

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