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PATENTS

The author reviews the Federal Circuit's recent ruling on patent damages and identifies open issues likely to be addressed in follow-on decisions.

Exmark v. Briggs: Role of Claim Language in Damages Apportionment



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The U.S. Court of Appeals for the Federal Circuit, in *Exmark v. Briggs & Stratton*, recently issued an opinion on patent damages that will undoubtedly be cited by both plaintiffs and defendants in cases involving patents directed to improvements on multi-component products. On the one hand, the decision presents a potential exception to the Federal Circuit's requirement that a patentee apportion the royalty base for certain patents. On the other hand, the Federal Circuit suggests that in any such case where apportionment of the base is not required, an equally rigorous apportionment analysis would need to be conducted to arrive at the royalty rate. Although conducting the apportionment analysis as part of the rate determination theoretically

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might lead to the same result in terms of total damages as apportioning the base, in many cases plaintiffs will prefer the former and defendants the latter.

Accordingly, the question about whether *Exmark* applies to a patent will be one of import in future cases, and one we expect to see hotly contested. The Federal Circuit's analysis was tied closely to the language of the claim at issue, and the choice of the draftsman to claim a product as a whole, rather than restrict the bounds of the claim to the component to which the invention was directed. As discussed below, the case leaves significant questions unaddressed regarding what claim language would be required for *Exmark* to apply.

Background

The Federal Circuit has long held in its entire market value rule cases that apportionment of the royalty base is generally required where a patent is directed to but one component of a multicomponent product containing both patented and unpatented features. *See, e.g., Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011); *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012); *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1327 (Fed. Cir. 2014). The principal exception to that rule came in the rare case where the patentee could establish that the patented component was so valuable that it created the "basis for customer demand" for the entire product—there, apportionment of the royalty base was not required. *Lucent*, 580 F.3d at 1336; *Uniloc*, 632 F.3d at 1318. In the majority of cases, where apportionment of the base was required, the patentee could not present the jury with a damages theory based on the revenues of the entire product as a whole, but had to engage in a rigorous analysis that identified the portion of those revenues that were allocable to the patent.

Significantly, in this line of cases, the Federal Circuit made clear that one could not avoid the task of appor-

tioning the base merely by presenting a low enough rate. *LaserDynamics*, 694 F.3d at 67–68. The Federal Circuit observed that starting with an inflated base would unfairly prejudice the defendant by presenting the jury with irrelevant, large numbers, as that would naturally lead them to a larger ultimate damages number than they might find if presented with a royalty base actually tied to the patent. *Id.*

One potentially significant issue went largely unaddressed as the court’s entire market value jurisprudence developed: What should happen in the situation where the innovation of the patent is undisputably focused on a just one component of a larger product, it is further undisputed that this component does not create the “basis for demand” for the whole product, but the claims are nevertheless drafted to cover the product as whole? Should the novel component be considered the “patented component” for purposes of the entire market value rule, the rest of the admittedly claimed but conventional subject matter be considered “unpatented,” and base apportionment be thus required? Or should we let the patentee dictate the result and consider the entire device to be patented, not requiring royalty base apportionment, even though the improved component could well be a minor feature of the entire product?

The Federal Circuit briefly touched on this issue in *AstraZeneca v. Apotex*, 782 F.3d 1324 (Fed. Cir. 2015). In that case, the defendant asserted that the patentee failed to apportion the royalty base in a case where the claim was directed to a pill as a whole, whereas the invention related only to an improved coating. *Id.* at 1338. Although the Federal Circuit suggested that apportionment of the base might not be required, it separately noted that the district court found that the coating was so important that it substantially created the value of the entire drug. *Id.* at 1339. Accordingly, the decision left open the question about what would happen in the hypothetical situation above, where the claim is directed to a product as a whole, but the invention lies entirely within a component that does not create the basis for demand for the whole product.

Holding in *Exmark v. Briggs*

The court in *Exmark v. Briggs* held that even though the patent-in-suit was directed to a discrete improvement in one part of a conventional lawnmower, apportionment of the damages base to something less than the entire mower was not required in accordance with the court’s entire market value rule jurisprudence. *Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Prods. Grp., LLC*, No. 2016-2197, slip op. at 22 (Fed. Cir. Jan. 12, 2018). At the outset, the court noted that it was undisputed that the invention at issue related to a baffle used in the mower, and that the other components were conventional. *Id.* The court nevertheless noted that the claim was drawn broadly to the lawnmower as a whole, as opposed to just the improved component. *Id.* For example, the court noted that in addition to the baffle, the claim recited “conventional features of a lawn mower, including a mower deck, a side discharge opening, and a power means for operating the mower.” *Id.* at 23. The court then held that these additional components, even if conventional, were not “unpatented,” and consequently held that a royalty base that captured revenues for the entire product was not improper. *Id.*

The court nevertheless noted that because the invention was clearly directed to the baffle and not to the numerous other claimed but admittedly conventional components, a rigorous apportionment analysis was still required in connection with determining the royalty rate. *Id.* at 26. The court noted that the plaintiff’s damages expert did nothing, when computing her 5 percent rate, to isolate the value of the patented invention from unpatented components. *Id.* at 26-27. The court further noted that the fact the royalty rate was small compared to the defendant’s profits was irrelevant and did not save the plaintiff from its failure to apportion. *Id.* at 27.

Issues that *Exmark* Does Not Address

Notably, *Exmark* does not purport to alter the applicability of the court’s entire market value rule precedent in situations where the accused products contain technology outside the scope of the claims. Accordingly, establishing where the claims begin and end for this purpose will be important in deciding to what extent apportionment of the royalty base will be required. As discussed below, there are significant questions in this area that *Exmark* does not address.

One open issue relates to the impact of subject matter contained only in the claim preamble. The claim in *Exmark* was directed to a lawnmower as a whole, and expressly recited conventional components of a lawnmower not just in the preamble, but in the body of the claim. The court left open the question as to whether its analysis would still apply in a situation where the only place that any structure beyond the inventive component was mentioned was in the preamble. Under the rationale presented in *Exmark*, which focused on the fact that the entire accused mower, and not just the improved baffle, was *required to infringe*, one would expect that base apportionment would still have applied if the mower had appeared only in the preamble, and it had been deemed to be not limiting. *Id.* at 23 (“It is not the baffle that infringes the claim, but rather the entire accused mower.”). But even in cases where the preamble is found to be limiting, one could argue that it should not necessarily expand the damages base to include subject matter that was not significant enough to be described in the body of the claim. Litigants likely will, in future cases, present arguments that base apportionment should still be required in these situations.

Another issue that *Exmark* did not address is how it would apply, if at all, to method claims. The traditional entire market value rule cases, and their rules of base apportionment, apply to method claims directed to the use of products containing improved components, even though the performance of the method often inherently requires the use of a completed product. For example, in *LaserDynamics v. Quanta*, a landmark entire market value rule case, the court required apportionment of the royalty base in a case involving a method for using an improved optical-disc-recognition technology in laptop computers, rejected the assertion that adjustment of the rate would be an adequate substitute, and held that a base that included revenues for entire laptop computers was improper. *LaserDynamics*, 694 F.3d at 67–68. Although the word “laptop” was not recited expressly in the claim, one could argue that the Federal Circuit would not have allowed a broader damages base if it had been. Indeed, the addition of this word would have done nothing more than *narrow* the method claim at is-

sue to a specific environment disclosed in the patent specification and found in the accused products, and would have made no practical difference to any issue of infringement. *Id.* at 56–57. Accordingly, litigants will likely assert in future cases that the established rules of base apportionment still fully apply to method claims.

Finally, *Exmark* did not address how it would apply, if at all, to dependent claims. One could imagine a patent with an independent claim drawn to a component that could be used in any one of a number of larger machines (e.g., a microprocessor), and with dependent claims that recite its use in specific machines (e.g., a

laptop vs. a desktop). In such a case, would *Exmark* suggest that the damages base of the *narrower* dependent claims should be vastly larger than the damages base for the *broader* independent claim, merely because the former recited an entire computer? Again, litigants will likely argue that dependent claims—which are meant to narrow the scope of the invention—should not broaden a damages base in this manner.

In sum, we will likely see future cases addressing the issue of how *Exmark*'s focus on claim language affects the threshold question about what apportionment rules should apply in a damages analysis.