New York Law Journal
SERVING THE BENCH AND BAR SINCE 1888
WWW.NYLJ.COM
An ALM Publication
VOLUME 259—NO. 8
THURSDAY, JANUARY 11, 2018

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

# Claim Drafting, Damages Apportionment In Multi-Component Product Cases

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One important, recurring issue in calculating patent damages is the sale of products in which the patented invention is only one component among many. Some components might be central to the demand for the finished product, such as the processor chip in a computer or smartphone. Other components might be patentable—the design of a turn-signal lever for a car, or the cargo-retention straps in the trunk—but play little role in consumer demand for the entire car. Should the reasonable royalty for the turn-signal lever be a percentage of the sales price of the whole car? In that regard, does it matter whether the patent claim covers only the component, or is drawn to include the entire device, such as a claim to "a car comprising … [the novel turn-signal lever]"?

The Federal Circuit may answer some of these questions in *Exmark Manufacturing Company v. Briggs & Stratton Power Products Group*, Appeal No. 2016-2197. There, the invention was a particular shape of baffle along the bottom of a commercial lawnmower that directs air and grass clippings through the motor, but the patent claims were drawn to "a lawnmower comprising …" the novel baffle. The patent owner's expert determined that a 5 percent royalty on the entire sales price of the lawnmower fairly apportioned damages between the patented component and the non-patented components of the device.

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While the patent bar awaits the *Exmark* decision, we review the pending Federal Circuit appeal and related precedent, providing practical guidance for practitioners.

## Reasonable Royalty for Patent Infringement

The Patent Act provides for damages adequate to compensate the patent holder for the infringement:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer."

35 U.S.C. §284. A reasonable royalty is often calculated using two variables: the royalty rate,

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often expressed as a percentage, and the royalty base, reflecting the sales volumes to which that royalty rate is applied. Ultimately, as the district court noted in *Exmark*, patent damages "must reflect the value attributable to the infringing features of the product, and no more." *Exmark*, No. 8:10CV187, 2016 WL 2772122, at *3 (D. Neb. May 11, 2016).

The Federal Circuit has established the "Entire Market Value Rule," under which the royalty base may include the entire sales price of a multi-component product only where "the patented feature creates the basis for customer demand or substantially creates the value of the component parts." *Uniloc USA v. Microsoft*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (internal quotations omitted). Otherwise, the royalty base must include only the value of the patented component itself.

Courts have split, however, on how to apply the Entire Market Value Rule where the patent claim is drawn broadly to encompass the entire saleable product, rather than narrowly to only the patented component. For example, *DataQuill v. High Tech Computer* involved cell phones with patented remote-access capability. See 887 F. Supp. 2d 999, 1026-28 (S.D. Cal. 2011). The court rejected the patent owner's argument that the Entire Market Value Rule did not apply because the patent claims covered the entire phone and not just the remote-access component; the court noted that the accused handsets "are complex products with multiple features that are clearly not claimed by the patents-in-suit, such as the ability to make phone calls and the ability to send and receive text messages." Id. at 1027. The court did, however, allow DataQuill's expert to testify, consistent with the Entire Market Value Rule, that the patented features drove demand for the phone as a whole. Id. at 1028. Likewise, in *GPNE v. Apple*, where the patent disclosed an inventive baseband processor chip but claimed the entire phone, the court found that only the baseband chips should be included in the royalty base because the "cursory recitation of the entire device in the asserted claims does not foreclose the component that directly implements the invention from being the smallest salable patent-practicing unit for reasonable royalty purposes." No. 12-CV-02885-LHK, 2014 WL 1494247, at *11-12 (N.D. Cal. April 16, 2014).

On the other hand, in a non-precedential opinion, the Federal Circuit held that a royalty base could include the value of an entire radiology treatment machine, comprising both new and conventional components, because the patent claim used "open-ended language and explicitly includes the" conventional component "as a claimed component of the apparatus." *Univ. of Pittsburgh v. Varian Med. Sys.*, 561 F. App'x 934, 947 (Fed. Cir. 2014). Importantly, the patent owner's damages expert provided substantial evidence regarding the incremental value that the inventive aspects of the claims added to the conventional system, the royalty rate he believed would reflect that incremental value, the amount by which the value of the combined inventive and conventional components exceeded the value of those parts separately. Id. at 948. Similarly, in *Douglas Dynamics v. Buyers Products Co.*, where the patent disclosed an improved linkage mechanism for a snowplow and the patent claims covered the entire snowplow assembly, the court allowed the patent owner to use the entire assembly as the royalty base because "[t]he linkage mechanism, *combined* with the rest of the assembly in a particular way, creates an improved snowplow assembly" alleged to infringe the claims. 76 F. Supp. 3d 806, 817 (W.D. Wisc. 2014).

### 'Exmark v. Briggs'

Exmark sued Briggs for infringing U.S. Patent No. 5,987,863, which claims a conventional multi-blade lawn mower with assertedly novel front flow-control baffles. The district court held on summary judgment that the patent was not invalid and

was infringed by Briggs's mowers—aspects of the decision also at issue in the current appeal—and therefore submitted only damages to the jury. Exmark's damages expert testified that it would be appropriate to use a 5 percent royalty rate, representing the percentage contribution of the inventive baffle to the entire mower, and then to use the sales of the entire mower as the royalty base. The jury used those figures and awarded $24,280,330 in damages, to which the district court added another $25 million for Briggs's willful infringement. The court rejected Briggs's post-trial motions directed at damages, finding in relevant part that "[t]he claimed benefits of the invention—improved cutting performance, a reduction of blowout, a more uniform discharge, and a faster cut with less engine demand—all go right to the heart of the purpose and function of the accused product." *Exmark*, at *4.

On appeal, Briggs argued that there was no record evidence that the baffle drove customer demand for the entire mower, and that claim-drafting formalities should not allow a patent owner to avoid the Entire Market Value Rule by simply drafting the claim to include a multi-component final device of which only some components are inventive. Otherwise, Briggs argued, a patentee claiming an improved windshield wiper could use the revenue from the entire car as the royalty base just by drafting a claim to cover "a car with having improved windshield wiper blades" as described in the patent. Exmark responded that the use of a 5 percent royalty reflecting the value of the patented baffle to the whole sufficiently apportioned damages and, relying on *Varian* and *Douglas Dynamics*, that the flow control baffles interacted with other, conventional mower components to make the overall mower work better.

At oral argument, the court focused on whether the Entire Market Value Rule should apply where the claims are directed to the whole machine rather than a component. For example, Judge Stoll asked whether Exmark must meet the usual requirement that the claimed feature drove demand for the entire product, given that the asserted claim is "directed to a lawn mower and there's various elements in the claims—a baffle, a power source … a cutting blade." Judge Chen, on the other hand, cautioned that where the revenue base includes the value of the entire multi-component machine, the parties must be "hypervigilant that you are going to do the apportionment exercise through the rate," and criticized Exmark's expert for not explaining mathematically how she had arrived at a 5 percent figure. Judge Chen noted that he was reading along in the expert's report and "Then all of sudden, abracadabra, out of a hat comes the 5 percent number."

Damages experts should do more than recite the 'Georgia-Pacific' factors and then, with no analysis or explanation, select an assertedly appropriate royalty rate.

### Guidance for Practitioners

While we wait for a decision in *Exmark*, some principles are clear from the briefing and from oral argument. Damages experts should do more than recite the *Georgia-Pacific* factors and then, with no analysis or explanation, select an assertedly appropriate royalty rate. Where a multi-component machine includes a patented component, the value of the entire machine is not likely to be an appropriate royalty base unless the patented components interact with the non-patented component in some manner that is central to the improved operation of the machine or otherwise drive demand for the whole machine. Merely increasing the generality of the claim to include the whole machine, without tying the value of the entire machine to the invention, is unlikely to satisfy the Entire Market Value Rule.