



CRA Insights: Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

Recent developments in IP damages

Exmark Manufacturing Company Inc. v. Briggs & Stratton Power Products Group, LLC, No. 2016-2197 (CAFC)

On January 12, 2018, the US Court of Appeals for the Federal Circuit (CAFC) issued a decision in *Exmark Manufacturing v. Briggs & Stratton Power Products*, holding that the District Court erred in denying a new trial on damages because Exmark's damages expert failed to provide an adequate explanation as to how she arrived at a five percent royalty rate for the patented feature relative to other conventional features of the accused products.¹

The patent at issue in the case is directed to a lawn mower having improved flow control baffles. The Court recognized that although the asserted claim is broadly directed to "a multiblade lawn mower," the patent makes clear that the patented improvement relates to the mower's flow control baffle, which through its structure and orientation within the mower deck purportedly efficiently directs grass clippings toward a side discharge and thereby improves the quality of grass cut in a manner that distinguishes it from prior art.

In September 2015, a jury awarded Exmark damages of \$24.3 million based on Exmark's expert's testimony that a five percent reasonable royalty rate should be applied to the revenues Exmark earned on mowers found to infringe the patent-in-suit. Briggs filed a motion for a new trial on damages, which was denied by the District Court judge. Briggs appealed the District Court's decision on three grounds.

First, Briggs asserted that the District Court erred by permitting Exmark to use the sales price of the accused mowers as the royalty base instead of the sales price of the flow control baffles. Briggs argued that Exmark's expert should have apportioned or separated the value of the baffle from the other features of the mower through the royalty base rather than the royalty rate. The Court disagreed, finding that "so long as Exmark adequately and reliably apportions between the improved and conventional features of the accused mower, using the accused mower as a royalty base and apportioning" is acceptable and that "such apportionment can be done in this case through a thorough and reliable analysis to apportion the royalty rate" such as "through a proper analysis of the *Georgia-Pacific* factors."

¹ In addition, the Appeals Court held that the District Court improperly relied on the PTO's reexaminations of the asserted claim as the sole basis to grant summary judgment that the claim is not invalid. It remanded with instruction for the District Court to reach its own independent conclusion as to whether a factual dispute regarding invalidity precludes summary judgment. It also vacated the District Court's award of enhanced damages, and remanded to the District Court for, if necessary, a new trial on willfulness. It affirmed the District Court in all other respects.

The Court held that “[u]sing the accused lawn mower sales as the royalty base is particularly appropriate in this case because the asserted claim is, in fact, directed to the lawn mower as a whole.” In addition, the Court noted that “Exmark’s use of the accused lawn mower sales as the royalty base is consistent with the realities of a hypothetical negotiation and accurately reflects the real-world bargaining that occurs, particularly in licensing.”

Briggs also argued that Exmark’s damages expert’s opinion should have been excluded because she failed to adequately explain how she arrived at her proposed five percent royalty rate. The Court agreed with Briggs, finding that Exmark’s damages expert’s opinion was inadmissible as it failed to adequately tie the expert’s proposed reasonable royalty rate to the facts of this case, and thus, that the District Court abused its discretion in denying Briggs’ motion for a new trial on damages. After reviewing the expert’s discussion of each of the *Georgia-Pacific* factors, including the benefits of the patented technology, sales and profitability, and the competitive relationship of the parties, the Appeals Court found that “Exmark’s expert concluded with little explanation that Exmark and Briggs would have agreed to a 5% reasonable royalty rate on the sales of the accused lawn mowers as the value for the improved baffle.”

Exmark defended its expert’s opinion, arguing that her royalty rate is reasonable because (1) it is only a small fraction of Exmark’s profits on its mowers; and (2) she relied on quantitative market valuation evidence in forming her opinion. In addressing the first point, the Court indicated that “we cannot agree that using an allegedly low royalty rate alone supports the admissibility of the expert’s reasonable royalty opinion. Regardless of how low the royalty rate, the expert must still apportion damages and sufficiently tie the royalty rate to the facts of the case.” On the second point, it indicated that “although Exmark’s expert discussed quantitative market evidence in her opinion, we are troubled by the expert’s analysis because, even assuming she properly considered this record evidence, she failed to explain how the evidence factored into the proposed royalty rate.”

In addition, Briggs asserted that the District Court improperly excluded certain evidence, which it argues was related to the damages analysis.

Briggs sought to present evidence of conventional modes of mowing to rebut Exmark’s argument that the mower claimed in the patent-in-suit was a big advancement over the prior art, but the District Court excluded any prior art that had not been commercialized, holding that “prior art is relevant to damages only to the extent that the patent was used in a product.” The Appeals Court agreed with Briggs, finding that “the fact that some prior art mowers were not commercialized does not make them immaterial to determining the extent to which the mower claimed in the [patent-in-suit] provides utility and advantages over the prior art.”

Briggs also sought to present evidence of Exmark’s purportedly delayed decision to sue for infringement, arguing that such delay undermines Exmark’s evidence that it would never have condoned infringement without a high royalty. The Appeals Court agreed with the District Court on this point, finding that the record demonstrated that there were other reasons for Exmark’s delay in filing suit, including scarcity of financial resources to do so, and thus concluded that the District Court did not abuse its discretion in excluding this evidence.

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