

Federal Circuit Approves Apportioning Damages through a Thorough and Reliable Analysis of the Royalty Rate

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We thank [Gary Gutzler](#), of AlixPartners, for co-authoring this post.

On January 12, 2018 in *Exmark Manufacturing Co. Inc., v. Briggs & Stratton Power Products Group, LLC*, the Federal Circuit once again addressed the issue of apportioning damages, an area of the law that continues to evolve. The parties in *Exmark* are competitors in the commercial lawn mower market. The patent-in-suit related to a lawn mower with an improved “baffle” that more efficiently directed air flow and grass clippings when the mower was operating. At the conclusion of the jury trial, the defendant’s mower was found to infringe and the jury awarded the plaintiff over \$24 million in damages. On appeal, the Federal Circuit affirmed the method of apportionment utilized by the Plaintiff’s expert, but rejected the expert’s application of that method.

The apportionment method at issue in *Exmark* involved the expert apportioning the royalty rate, as opposed to the royalty base, to determine the value of the patented technology. Relying on *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014), the Federal Circuit affirmed the propriety of that methodology:

apportionment can be addressed in a variety of ways, including ‘by careful selection of the royalty base to reflect the value added by the patented feature [or] ... by adjustment of the royalty rate so as to discount the value of a product’s non-patented features; or by a combination thereof.’

The Federal Circuit explained that the patentee should only be awarded damages for the “incremental value that the patented invention adds to the end product.” According to the Court, “[s]o 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 through the royalty rate is an acceptable methodology.” The Federal Circuit further found that apportioning using the royalty rate was particularly appropriate in *Exmark* because the asserted claim was directed to the lawn mower as a whole. In other words, apportionment through the royalty base, as compared to the royalty rate, may not account for the fact that the claim covered the infringing product as a whole and not a single component of a multi-component product.

Having determined that apportioning the royalty rate was an acceptable methodology, the Federal Circuit next addressed the question of how it could be applied. The court held that apportioning value to the patented feature can properly be accomplished using the *Georgia-Pacific* factors. Quoting *AstraZenica AB v. Apotex Corp.*, 782 F.3d 1324, 1338 (Fed. Cir. 2015), the Federal Circuit explained that “the standard *Georgia-Pacific* reasonable royalty analysis takes account of the importance of the inventive contribution in determining the royalty rate that would have emerged from the hypothetical negotiation.” Thus, a proper *Georgia-Pacific* analysis takes into account the value of the patented improvement by adjusting the royalty rate to reflect the value.

After finding the expert’s apportionment methodology to be appropriate, the Federal Circuit turned around and rejected the expert’s opinion because she had not performed a proper *Georgia-Pacific* analysis. In particular, the expert failed to tie the *Georgia-Pacific* factors to the royalty rate she found to be appropriate or to explain how she calculated the royalty rate using the *Georgia-Pacific* factors. Based upon its analysis, the Federal Circuit held that the opinions of the Plaintiff’s expert should have been excluded and remanded to the district court for further proceedings.

This decision shows the Federal Circuit is not wed to just one method for a proper reasonable royalty analysis. In particular, depending on the facts and circumstances, apportionment can be done at the

royalty base and/or royalty rate level, as long as the ultimate damages opinion properly accounts for the patented and unpatented/conventional features. However, whatever apportionment method one chooses to use, the opinion on the royalty rate or base must be tied to the facts of the case, and the expert should tie the evidence in the case to the ultimate royalty the plaintiff is entitled to utilizing, for example, a proper *Georgia-Pacific* analysis.

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