B.5 Patent Damages

5.1 DAMAGES—INTRODUCTION

If you find that [alleged infringer] infringed any valid claim of the [ ] patent, you must then consider what amount of damages to award to [patent holder]. I will now instruct you about the measure of damages. By instructing you on damages, I am not suggesting which party should win this case, on any issue. If you find that [alleged infringer] has not infringed any valid claim of the patent, then [patent holder] is not entitled to any damages.

The damages you award must be adequate to compensate [patent holder] for the infringement. They are not meant to punish an infringer. Your damages award, if you reach this issue, should put [patent holder] in approximately the same financial position that it would have been in had the infringement not occurred.

[Patent holder] has the burden to establish the amount of its damages by a preponderance of the evidence. In other words, you should award only those damages that [patent holder] establishes that it more likely than not has suffered. While [patent holder] is not required to prove the amount of its damages with mathematical precision, it must prove them with reasonable certainty. You may not award damages that are speculative, damages that are only possible, or damages that are based on guesswork.

There are different types of damages that [patent holder] may be entitled to recover. In this case, [patent holder] seeks [insert as appropriate, e.g., lost profits, price erosion, lost convoyed sales, or a reasonable royalty]. Lost profits consist of any actual reduction in business profits [patent holder] suffered as a result of [alleged infringer]'s infringement. A reasonable royalty is defined as the money amount [patent holder] and [alleged infringer] would have agreed upon as a fee for use of the invention at the time just prior to when infringement began. But, regardless of the type of damages you may choose to award, you must be careful to ensure that award is no more and no less than the value of the patented invention.

[*Add if patent holder is under a FRAND obligation*: A reasonable royalty must reflect that [the patent holder] committed to license the [asserted patent] on fair, reasonable and non-Discriminatory ("FRAND") terms. Because of this FRAND commitment, I will refer at times in my instructions to "standard-essential" patents. By referring to standard-essential patents, the Court is not instructing you that the asserted patents are actually essential to any standard. Again, it is up to you, the jury, to decide whether or not [the patent holder] has proven that the patents are standard-essential and infringed.

[The patent holder] submitted a written commitment to [insert standard body] covering [the asserted patents], agreeing to grant an irrevocable license to [the asserted patents] on fair, reasonable, and non-discriminatory—or FRAND—terms and conditions. Therefore, a reasonable royalty in this case cannot exceed the amount permitted under [the patent holder's] FRAND obligations.]

I will give more detailed instructions regarding damages shortly. Note, however, that [patent holder] is entitled to recover no less than a reasonable royalty for each infringing [sale; fill in other infringing act].

<u>Committee Comments and Authorities</u>

See 35 U.S.C. § 284; *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014) ("What is taken from the owner of a utility patent (for purposes of assessing damages under § 284) is only the patented technology, and so the value to be measured is only the value of the infringing features of an accused product."); *Virnetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) ("No matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features."); *Calico Brand, Inc. v. Ameritek Imps., Inc.*, 527 F. App'x. 987, 996 (Fed. Cir. 2013) ("lost profits must be tied to the intrinsic value of the patented feature"); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) ("the trial court must carefully tie proof of damages to the claimed invention's footprint in the market place"); *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381-82 (Fed. Cir. 2003); *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870 (Fed. Cir. 2003); *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108-09 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed. Cir. 1983).

A patent holder is not entitled to damages that are remote or speculative. *See, e.g., Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1340 (Fed. Cir. 2009) (vacating and remanding jury award as excessive); *Lam*, 718 F.2d at 1067 (holding that lost profits, as well as the harm to the goodwill of the entire market stemming from the infringer's inferior product, were not remote or speculative, and thus recoverable). The Federal Circuit has opined, in *dicta*, that "remote consequences, such as a heart attack of the inventor or loss in value of shares of common stock of a patentee corporation caused indirectly by infringement are not compensable." *Rite-Hite*, 56 F.3d at 1546. While a patent holder is not required to prove its damages with mathematical precision, it must prove them with reasonable certainty. *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360 (Fed. Cir. 1991).

When the amount of damages cannot be ascertained with precision, any doubts regarding the amount must be resolved against the alleged infringer. *Lam*, 718 F.2d at 1064. Any such adverse consequences must rest on the alleged infringer when the inability to ascertain lost profits is due to the infringer's own failure to keep accurate records. *Id*.

B.5 Patent Damages

5.2 LOST PROFITS—"BUT FOR" TEST

[This instruction should only be given in the event the patent holder is seeking lost profits damages, in whole or in part.]

To recover lost profits (as opposed to reasonable royalties), [patent holder] must show a causal relationship between the infringement and [patent holder]'s loss of profit. In other words, [patent holder] must show that, but for the infringement, there is a reasonable probability that [patent holder] would have earned higher profits. To show this, [patent holder] must prove that, if there had been no infringement, [it would have made some portion of the sales that [alleged infringer] made of the infringing product,] [it would have sold more products that are functionally related to those products,] [it would have sold its products at higher prices,] [or it would have had lower costs].

[Patent holder] is entitled to lost profits if it establishes each of the following:

(1) That there was demand for the patented [product] [method] [product produced by the method].

(2) That there were no available, acceptable, noninfringing substitute products, or, if there were, [patent holder's] market share of the number of the sales made by [alleged infringer] that [patent holder] would have made, despite the availability of other acceptable noninfringing substitutes.

(3) That [patent holder] had the manufacturing and marketing capacity to make any infringing sales actually made by [alleged infringer] and for which [patent holder] seeks an award of lost profits—in other words, that [patent holder] was capable of satisfying the demand.

(4) The amount of profit that [patent holder] would have made if [alleged infringer] had not infringed.

<u>Committee Comments and Authorities</u>

35 U.S.C. § 284; *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476, 502-07 (1964); *Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1377-79 (Fed. Cir. 2003); *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1123 (Fed. Cir. 2003); *Gargoyles, Inc. v. United States*, 113 F.3d 1572, 1577-78 (Fed. Cir. 1997); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc); *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218-19 (Fed. Cir. 1993); *Carella v. Starlight Archery*, 804 F.2d 135, 141 (Fed. Cir. 1986); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir. 1984); *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

The four-factor "but for" test was first articulated in *Panduit*, 575 F.2d at 1156, and has since been adopted by the Federal Circuit. *See, e.g.*, *Rite-Hite*, 56 F.3d at 1545. It is not, however, the only available method for proving lost profits. *Id.*; *see also BIC*, 1 F.3d at 1218-19. Once a patent holder has shown the four elements of the *Panduit* test, the burden then shifts to alleged infringer to show that patent holder's "but for" causation analysis is unreasonable under the specific circumstances. *Rite-Hite*, 56 F.3d at 1545.

LOST PROFITS—DEMAND

Demand for the patented product can be proven by significant sales of a patent holder's patented product or significant sales of an infringing product containing the patented features.

Authorities

DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc., 567 F.3d 1314, 1330 (Fed. Cir. 2009).

LOST PROFITS—NONINFRINGING SUBSTITUTES—ACCEPTABILITY

To be an "acceptable, [noninfringing] substitute," a product must have the advantages of the patented invention that were important to people who purchased an alleged infringer's product. If purchasers of an alleged infringer's product were motivated to buy that product because of features available only from that product and a patent holder's patented product, then some other, alternative product is not an acceptable substitute, even if it otherwise competed with a patent holder's and an alleged infringer's products. On the other hand, if the realities of the marketplace are that competitors other than the patentee would likely have captured the sales made by the infringer, despite a difference in the products, then the patentee is not entitled to lost profits on those sales.

Authorities

Am. Seating Co. v. USSC Group, 514 F.3d 1262, 1270 (Fed. Cir. 2008) ("[B]uyers must view the substitute as equivalent to the patented device."); *Standard Havens Prods., Inc. v. Gencor Indus.*, 953 F.2d 1360, 1373 (Fed. Cir. 1991); *SmithKline Diagnostics, Inc. v. Helena Lab. Corp.*, 926 F.2d 1161, 1166 (Fed. Cir. 1991).

LOST PROFITS—NONINFRINGING SUBSTITUTES—AVAILABILITY

An alternative product may be considered "available" as a potential substitute even if the product was not actually on sale during the infringement period. Factors suggesting the alternative was available include whether the material, experience, and know-how to make or use the alleged substitute were readily available at the time of infringement. Factors suggesting the alternative was not available include whether the material was of such high cost as to render the alternative unavailable and whether an alleged infringer had to design or invent around the patented technology to develop an alleged substitute.

Authorities

Grain Processing Corp. v. Am. Maize-Prods. Co., 185 F.3d 1341, 1349 (Fed. Cir. 1999) (holding that an unused, but available, noninfringing process was an acceptable substitute); *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1123 (Fed. Cir. 2003) ("The record shows that Lextron did not have the necessary equipment, know-how, and experience to make the [alternative] machine at the time of infringement.").

LOST PROFITS—CAPACITY

A patent holder is only entitled to lost profits for sales it could have actually made. In other words, [patent holder] must show that it had the manufacturing and marketing capability to make the sales it said it lost. This means [patent holder] must prove it is more probable than not that it could have made and sold, or could have had someone else make or sell for it, the additional products it says it could have sold but for the infringement.

<u>Authorities</u>

Fonar Corp. v. Gen. Elec. Co., 107 F.3d 1543, 1553 (Fed. Cir. 1997) (finding that the patent holder, a young company, would have expanded to meet the increased demand created by the success of the patented product); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 554 (Fed. Cir. 1984).

LOST PROFITS—AMOUNT OF PROFIT

A patent holder may calculate its lost profits on lost sales by computing the lost revenue for sales it claims it would have made but for the infringement and subtracting from that figure the amount of additional costs or expenses it would have incurred in making those lost sales, such as cost of goods, sales costs, packaging costs, and shipping costs. Certain fixed costs that do not vary with increases in production or scale, such as taxes, insurance, rent, and administrative overhead, should not be subtracted from a patent holder's lost revenue.

<u>Authorities</u>

Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11 (Fed. Cir. 1984).

LOST PROFITS—MARKET SHARE

If a patent holder establishes it would have made some, but not all, of an alleged infringer's sales but for the infringement, the amount of sales that the patent holder lost may be shown by proving the patent holder's share of the relevant market, excluding infringing products. A patent holder may be awarded a share of profits equal to its market share even if there were noninfringing substitutes available. In determining a patent holder's market share, the market must be established first, which requires determining which products are in that market. Products are considered in the same market if they are considered "sufficiently similar" to compete against each other. Two products are sufficiently similar if one does not have a significantly higher price than, or possess characteristics significantly different from, the other.

Authorities

State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1557 (Fed. Cir. 1989); *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218-19 (Fed. Cir. 1993); *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1124 (Fed. Cir. 2003); *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1354-55 (Fed. Cir. 2001).

B.5 Patent Damages

5.3 LOST PROFITS—COLLATERAL SALES

[This instruction should only be given in the event that patent holder is seeking lost profits from collateral sales.]

In this case, [patent holder] is seeking lost profits from sales of [ ], which [patent holder] contends it would have sold along with the product it sells that competes with the infringing products [ ]. These products sold along with the competitive product are called collateral products.

To recover lost profits on sales of such collateral products, [patent holder] must establish two things. First, [patent holder] must establish it is more likely than not that [patent holder] would have sold the collateral products but for the infringement. Second, a collateral product and the competitive product together must be analogous to components of a single assembly or parts of a complete machine, or, in other words, they must constitute a single functional unit.

Recovery for lost profits on sales of collateral products must not include items that essentially have no functional relationship to the competitive product and that have been sold with the competitive product only as a matter of convenience or business advantage.

Committee Comments and Authorities

The relationship required to recover lost profits on collateral sales is outlined in *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1550 (Fed. Cir. 1995) (en banc) (denying recovery for lost profits on collateral sales where nonpatented product lacked a functional relationship to the patented product); *see also State Indus., Inc. v. Mar-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989); *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1157-58 (6th Cir. 1978).

B.5 Patent Damages

5.4 LOST PROFITS—PRICE EROSION

[This instruction should only be given in the event that patent holder contends it should be compensated for price erosion.]

[Patent holder] can recover additional damages if it can establish that it is more likely than not that, if there had been no infringement, [patent holder] would have been able to charge higher prices for some of its products. If this fact is established, you may award as additional damages the difference between:

(A) the amount of profits [patent holder] would have made by selling its product at the higher price, and

(B) the amount of profits [patent holder] actually made by selling its product at the lower price [patent holder] actually charged for its product.

This type of damage is referred to as price-erosion damage.

If you find that [patent holder] suffered price erosion, you may also use the higher price in determining [patent holder]'s lost profits from sales that were lost because of the infringement. In calculating [patent holder]'s total losses from price erosion, you must take into account any drop in sales that would have resulted from charging a higher price.

You may also award as damages the amount of any increase in [patent holder]'s costs, such as additional marketing costs, caused by competition from the infringing product.

<u>Authorities</u>

Compare Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc., 246 F.3d 1336, 1357-58 (Fed. Cir. 2001) (upholding denial of price-erosion damages where patentee failed to show how higher prices would have affected demand for the patented product), *with Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1377-79 (Fed. Cir. 2003) (upholding award of price-erosion damages where patentee offered sufficient proof of an inelastic market that would support price increases without a drop in sales of the patented product); *see also Vulcan Eng'g Co. v. FATA Aluminum, Inc.*, 278 F.3d 1366, 1377 (Fed. Cir. 2002); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1120 (Fed. Cir. 1996); *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1220 (Fed. Cir. 1993); *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1485 (Fed. Cir. 1990).

B.5 Patent Damages

5.5 REASONABLE ROYALTY—ENTITLEMENT

If you find that a patent claim is infringed and not invalid, [patent holder] is entitled to at least a reasonable royalty to compensate it for that infringement.

[Give this instruction only if the patent holder is seeking both lost profits and a reasonable royalty] If you find that [patent holder] [has not proved its claim for lost profits]/[or has proved its claim for lost profits for only a portion of the infringing sales], then you must award [patent holder] a reasonable royalty for all infringing sales for which it has not been awarded lost profits damages.

Authorities

35 U.S.C. § 284; *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1340 (Fed. Cir. 2009) (vacating and remanding jury award as excessive); *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336 (Fed. Cir. 2001); *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1998); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1119-20 (Fed. Cir. 1996); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc).

B.5 Patent Damages

5.6 REASONABLE ROYALTY—DEFINITION

A royalty is a payment made to a patent holder in exchange for the right to make, use, or sell the claimed invention. A reasonable royalty is the amount of royalty payment that a patent holder and the alleged infringer would have agreed to in a hypothetical negotiation taking place at a time prior to when the infringement first began. In considering this hypothetical negotiation, you should focus on what the expectations of the patent holder and the alleged infringer would have been had they entered into an agreement at that time, and had they acted reasonably in their negotiations. In determining this, you must assume that both parties believed the patent was valid and infringed and that both parties were willing to enter into an agreement. The reasonable royalty you determine must be a royalty that would have resulted from the hypothetical negotiation, and not simply a royalty either party would have preferred. Evidence of things that happened after the infringement first began can be considered in evaluating the reasonable royalty only to the extent that the evidence aids in assessing what royalty would have resulted from a hypothetical negotiation just prior to the first infringement.

<u>Authorities</u>

Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292 (Fed. Cir. 2011) (25% "rule of thumb" inadmissible); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010) (per curiam) (licenses must be related to patent at issue to be relevant to a reasonable royalty); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1340 (Fed. Cir. 2009) *cert. denied*, 130 S. Ct. 3324 (2010) (vacating and rewarding jury award as excessive); *Golight, Inc. v. Wal-Mart Stores, Inc.*, 355 F.3d 1327, 1338 (Fed. Cir. 2004); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108-10 (Fed. Cir. 1996); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579-81 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970); *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371 (Fed. Cir. 2001); *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552 (Fed. Cir. 1984).

B.5 Patent Damages

5.7 DAMAGES - LUMP SUM VS. RUNNING ROYALTY

[Include only if both lump sum and running royalty damages theories are to be presented to the jury]. A reasonable royalty can be paid either in the form of a one-time lump sum payment or as a "running royalty." Either method is designed to compensate the patent holder based on the infringer's use of the patented technology. It is up to you, based on the evidence, to decide what type of royalty, if any, is appropriate in this case.

[Include only if a lump sum damages theory is to be presented to the jury]. Reasonable royalty awards can take the form of a lump sum payment. A lump sum payment is equal to an amount that the alleged infringer would have paid at the time of a hypothetical negotiation for a license covering all sales of the licensed product, both past and future. When a lump sum is paid, the infringer pays a single price for a license covering both past and future infringing sales.

[Include only if a running royalty damages theory is to be presented to the jury]. Reasonable royalty awards may [also] take the form of a running royalty based on the revenue from or the volume of sales of licensed products. A running royalty can be calculated, for example, by multiplying a royalty base by a royalty rate, or by multiplying the number of infringing products or product units sold by a royalty amount per unit.

<u>Authorities</u>

35 U.S.C. §284 ("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, together with interest and costs as fixed by the court…The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.")

Northern District of California Model Jury Instructions, section 5.7, 2018. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) ("The trial court must carefully tie proof of damages to the claimed invention's footprint in the market place."); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326, 1327 (Fed. Cir. 2014) ("No matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features…");

B.5 Patent Damages

5.8 REASONABLE ROYALTY—RELEVANT FACTORS

In determining the reasonable royalty, you should consider all the facts known and available to the parties at the time the infringement began. Some of the kinds of factors that you may consider in making your determination are:

(1) The value that the claimed invention contributes to the accused product.

(2) The value that factors other than the claimed invention contribute to the accused product.

(3) Comparable license agreements or other transactions, such as those covering the use of the claimed invention or similar technology.

[Add if a Standard Essential Patent or a patent otherwise subject to a RAND obligation is involved: You have heard evidence that the asserted patent is a standard essential patent, that is, the [industry standard] cannot be practiced without infringing the patent. If you agree that the patent is essential to the [standard], you must ensure that your damages award reflects only the value of the patented invention and not the additional value that resulted from the patent's inclusion in the [standard]. In other words, you may not consider the success of the standard itself in determining a reasonable royalty for the patent(s)-in-suit.]

No one factor is dispositive and you can and should consider the evidence that has been presented to you in this case on each of these factors. You may also consider any other factors which in your mind would have increased or decreased the royalty the alleged infringer would have been willing to pay and the patent holder would have been willing to accept, acting as normally prudent business people.

<u>Committee Comments and Authorities</u>

The so-called "*Georgia-Pacific*" factors, which can be considered in appropriate cases to inform the hypothetical negotiations, include the following:

(1) The royalties received by the patentee for the licensing of the patent-in-suit, proving or tending to prove an established royalty

(2) The rates paid by the licensee for the use of other patents comparable to the patent-in- suit.

(3) The nature and scope of the license, as exclusive or nonexclusive, or as restricted or nonrestricted in terms of territory or with respect to whom the manufactured product may be sold.

(4) The licensor's established policy and marketing program to maintain his or her patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

(5) The commercial relationship between the licensor and licensee, such as whether they are competitors in the same territory in the same line of business, or whether they are inventor and promoter.

(6) The effect of selling the patented specialty in promoting sales of other products of the licensee, the existing value of the invention to the licensor as a generator of sales of his nonpatented items, and the extent of such derivative or convoyed sales.

(7) The duration of the patent and the term of the license.

(8) The established profitability of the product made under the patents, its commercial success, and its current popularity.

(9) The utility and advantages of the patented property over the old modes or devices, if any, that had been used for working out similar results.

(10) The nature of the patented invention, the character of the commercial embodiment of it as owned and produced by the licensor, and the benefits to those who have used the invention.

(11) The extent to which the infringer has made use of the invention and any evidence probative of the value of that use.

(12) The portion of the profit or of the selling price that may be customary in the particular business or in comparable business to allow for the use of the invention or analogous inventions.

(13) The portion of the realizable profits that should be credited to the invention as distinguished from nonpatented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

(14) The opinion and testimony of qualified experts.

(15) The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

The Federal Circuit has made it clear that the *Georgia Pacific* factors are not mandatory. *See, e.g.*, *Energy Transp. Group, Inc. v. William Demant Holding A/S/*, 697 F.3d 1342, 1357 (Fed. Cir. 2012) ("[T]his court does not endorse *Georgia-Pacific* as setting forth a test for royalty calculations, but only as a list of admissible factors informing a reliable economic analysis."). But if they are used, the jury should be instructed only on the factors that are relevant to the evidence before the jury. *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1231 (Fed. Cir. 2014) (stating that "the district court erred by instructing the jury on multiple *Georgia-Pacific* factors that are not relevant, or are misleading, on the record before it"); *Uniloc USA, Inc. v. Microsoft Corp.*, 632

F.3d 1292 (Fed. Cir. 2011) (25% "rule of thumb" inadmissible); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010) (per curiam) (licenses must be related to patent at issue to be relevant to a reasonable royalty); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1340 (Fed. Cir. 2009), cert. denied, 130 S. Ct. 3324 (2010) (vacating and rewarding jury award as excessive); *Golight, Inc. v. Wal-Mart Stores, Inc.*, 355 F.3d 1327, 1338 (Fed. Cir. 2004); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108-10 (Fed. Cir. 1996); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579-81 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

If a Standard Essential Patent is involved, the jury must be instructed to separate out the value of the patented invention from any value that arises from the fact that the patent is essential to a standard:

Because SEP holders should only be compensated for the added benefit of their inventions, the jury must be told to differentiate the added benefit from any value the innovation gains because it has become standard essential. Although the jury, as the fact finder, should determine the appropriate value for that added benefit and may do so with some level of imprecision, we conclude that they must be told to consider the difference between the added value of the technological invention and the added value of that invention's standardization.

Ericsson, Inc. v. D-Link Sys., 773 F.3d at 1233.

B.5 Patent Damages

5.12 DAMAGES - APPORTIONMENT

[This instruction is designed to be used in cases where reasonable royalty damages are sought].[4,5]

[Use this instruction if neither party contends that the entire market value rule is satisfied] The amount you find as damages must be based on the value attributable to the patented invention, as distinct from unpatented features of the accused product or other factors such as marketing or advertising, or [the patent holder's] size or market position. A royalty compensating the patent holder for damages must reflect the value attributable to the infringing features of the product, and no more. The process of separating the value of the allegedly infringing features from the value of all other features is called apportionment. When the accused infringing products have both patented and unpatented features, your award must be apportioned so that it is based only on the value of the patented features, and no more.

[Use the following three paragraphs only if a party contends that the entire market value rule is satisfied] According to the "entire market value rule," a royalty based on the total value of a multi-component product is only proper where the entire value of the product comes from the patented feature. [Patent holder] is not permitted to recover damages based on the entire market value of the accused products unless [patent holder] proves that the claimed patented features are the sole driving factor for customers' demand.[6] It is not enough for [patent holder] to show that the patented feature is viewed as valuable, important, or even essential to the use of the accused product. It is also not enough for [patent holder] to show that the accused product is commercially unviable without the patented feature. Unless you find that the claimed invention is the sole driving factor for customers' demand for the accused product, [patent holder] may not use the value of the entire product to calculate a reasonable royalty.

If the claimed patented features are not the sole driving factor for customer demand for the accused infringing product, then you must perform what is called apportionment. When damages must be apportioned, the amount you find as damages must be based on the value attributable to the patented invention, as distinct from unpatented features of the accused product or other factors

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[4] Although apportionment generally is required for reasonable royalty and lost profit damages, the appropriateness of giving an apportionment instruction when lost profit damages are sought, and the content of any such instruction, will be highly fact dependent. *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1287-88 (Fed. Cir.), *petition for rehearing and rehearing en banc denied*, 870 F.3d 1298 (Fed. Cir. 2017). Accordingly, no model instruction is provided for apportionment of lost profit damages.

[5] This instruction does not address whether considerations related to the smallest saleable patent practicing unit are necessary, or whether a proffered royalty rate derived from comparable agreements represents a "built-in" apportionment despite its application to a royalty base this is not based on the smallest saleable patent practicing unit or separately apportioned. *See Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys.*, 809 F.3d 1295, 1302-04 (Fed. Cir. 2015). It may be necessary to provide an instruction tailored to the specific facts of a case if these issues are in dispute.

[6] *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 904 F.3d 965 (Fed. Cir. 2018).

such as marketing or advertising, or [the patent holder's] size or market position. Put differently, when apportionment is required, a royalty compensating the patent holder for damages must reflect the value attributable to the infringing features of the product, and no more.

On the other hand, if demand for the entire accused product depends only on the claimed feature(s), then apportionment is not necessary even though the accused product includes non-patented features.

Authorities

AIPLA Model Jury Instructions (2017) at Instruction 11.2.5.4
Westlaw Patent Jury Instruction Handbook, November 2018.
Garretson v. Clark, 111 U.S. 120, 121 (1884) ("'The patentee,' he says, 'must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.'"). *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014) ("The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product."). *LaserDynamics, Inc. v. Quanta Comput., Inc. et al*, 694 F.3d 51, 67 (Fed. Cir. 2012). ("The entire market value rule is a narrow exception to this general rule. If it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product'.").