

The Gatekeeper Patent Damages Compromise of S. 515

No patent reform proposal has engendered more controversy than that relating to patent damages.¹ Indeed, patent reform failed in the last Congress due in large part to the inability of those involved to reach a suitable compromise on the patent damages issue.

Many stakeholders involved in the patent reform debate believe there is no need for legislative action on reasonable royalty patent damages, as it is not an issue on which the National Academies recommended action, nor one for which a case has been made that reform is needed. Nonetheless, these same advocates and many others now strongly support the so-called “gatekeeper” compromise reached in the Senate Judiciary Committee, not only because it constructively responds to the complaints of those who perceive there to be inconsistency and unfairness in awards of reasonable royalty patent damages, but because it finally clears the way in this Congress for patent reform of historic proportions.

Nonetheless, it remains true that no showing has been made that any reform in the substantive law of patent damages law is truly needed.² Contrary to critics’ assertions of just a few years ago, the number of patent litigations in this country is at least leveling-off, if not declining.³ Overall, patentees have had a success rate of only 36% over the last 13 years. When they do win, median patent verdicts have been fairly constant since 1995, even trending downward in 2008.⁴ These winning verdicts, if ultimately sustained, are barely

enough to cover attorneys’ fees in most of these cases, much less to compensate patent owners for the infringement that has occurred.

Critics have also wrongly suggested that there are now too many large damages awards. Yet recent experience shows that of approximately 2,700 cases filed each year, fewer than five led to verdicts in excess of \$100 million. Experience also shows that few of these verdicts survive post judgment review and appeal. A prime example is the *Alcatel-Lucent v. Microsoft* verdict of \$1.5 billion that was touted in the last Congress as the reason for patent damages reform, even though it was later promptly and finally vacated. *Lucent v. Gateway*, which was similarly cited by critics in this Congress, was similarly reversed by a well reasoned decision that responds directly to many of the critics’ concerns.⁵

Nor have the advocates for a substantive change in patent damages law demonstrated that these few large awards are disproportionate to the damage caused to the patent owner on account of the infringement. Many companies now market products whose yearly sales are in the hundreds of millions or even billions of dollars. When infringement damages are awarded with respect to a multi-year infringement involving such a product, it should come as no surprise that the proper damages award may be in the range of hundreds of millions of dollars. Size alone, without reference to the magnitude and duration of the infringement, and the nature of damage caused thereby, does not

indicate that the damages award was in any way inappropriate.

Critics from some large technology companies nonetheless contend that damages reform is needed because their fears of erratic or spurious awards cause them to settle their cases at higher amounts than are fair. This contention is hard to vet, as settlement terms are normally private, and

1. William C. Rooklidge and Alyson G. Barker, “Reform of a Fast-Moving Target: The Development of Patent Law Since the 2004 National Academies Report” *JPTOS*, March, 2009, Vol. 91, Number 3, pages 153-199, also available at http://www.patentsmatter.com/issue/pdfs/20090205_rooklidge_barker.pdf See also Scott Shane, The Likely Adverse Effects of an Apportionment-Centric System of Patent Damages, http://www.mfgpatentpolicy.org/images/Apportionment_of_Damages_Adverse_Effects_Jan14_09.pdf (Jan. 14, 2009).
2. Recognizing that insufficient data exists on patent damages, Section 18 of H.R. 1260 appropriately proposes that such a study be conducted.
3. Aron Levko, Principal, PricewaterhouseCoopers, FTC Hearing on “The Evolving IP Marketplace—The Remedies”, February 11, 2009 <http://www.ftc.gov/bc/workshops/ip-marketplace/feb11/docs/alevko.pdf>; see also <http://www.patstats.org/Patstats3.html> stating “Patent suit filings returned to their normal levels in 2009, with 2,736 cases filed.”
4. There is no empirical evidence to support the claim that damages awards are out-of-control. Indeed, several studies have found that damages awards are not increasing. A recent PricewaterhouseCoopers study concluded “The annual median damages award since 1995 has remained fairly consistent, when adjusted for inflation.” Professor Paul Janicke from the University of Houston Law Center recently testified before the FTC that the median damages award in a patent case is \$5-6 million and if the cases where the patent owner loses (which happens in 64% of cases) are included, the median drops to less than \$2 million. Professor Janicke reports more of his results at www.patstats.com, including the observation that through January of 2010, “[n]o significant changes are seen in recent postings on this subject, with the median winning verdict at about \$6.5M.”
5. See *Lucent Technologies, Inc. et al v. Gateway, Inc. et al*, 525 F3d 1200 (Fed. Cir. 2008) and *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F3d 1301 (Fed. Cir. 2009).

entered at a fraction of the damages that would be assessed were the case to proceed to judgment. At least one commentator, however, has pointed out that few of these settlements have been material to the accused infringer.⁶ And more recently, at least one of the companies in the Coalition for Patent Fairness that has been critical of current damages law appears to be expanding its own licensing and enforcement efforts by participat-

in these districts are typically quite knowledgeable in Federal Circuit and Supreme Court precedent, and have often received additional training in patent issues (through the Federal Judicial Center) and/or by routinely participating in professional programs where they learn both from practitioners and their colleagues on the bench.⁹

And contrary to critics' contentions, these judges, and the juries empanelled in their cases, are not

for that use. Jury instructions are proposed and negotiated by both sides, and any objections to those instructions may be preserved for appeal. Within the limits of those instructions, skilled trial lawyers for both sides are given ample time to explain their damages positions in closing argument, and the court's instructions are diligently administered. Following trial, either party may move for judgment notwithstanding the verdict or for a new trial if the verdict is against the clear weight of the evidence.

Were district courts not generally discharging their duties in the area of patent damages, one would expect that critics could point to large numbers of appeals to the Federal Circuit where aggrieved defendants complained that the foregoing procedures were not being followed or that reversible error occurred. They have not. To the contrary, the public record demonstrates that damages issues are raised in relatively few patent appeals, and then seldom with respect to any of the procedural errors that one would expect were

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ing in the formation of a patent licensing company with which it will share revenue.⁷

Most experienced litigators agree that the level of practice in patent cases in this country is second to none. Patent issues are almost exclusively heard in the federal courts, tried by some of the best trial lawyers in the country, and appealed to Federal Circuit, which is widely recognized as the leading appellate patent court in the world. While patent cases may be brought in any federal court where venue is proper, the majority of patent cases are brought in just seven districts, where the courts have considerable experience in trying patent cases, including patent damages issues.⁸ Judges

left at sea in ascertaining damages in patent cases. Rather, extensive discovery is permitted into opposing parties' damages contentions, extensive expert reports are exchanged, and both damages-related witnesses and experts are deposed at length. These judges routinely hear and decide motions to exclude improper testimony both before and during trial, and routinely exclude improper evidence. To the extent they do not, the aggrieved party may preserve its objection for appeal. Juries hear only admissible evidence and testimony, including explanations from qualified experts for both sides, as to value of the use made of the invention, and the base and rate of a fair royalty to be paid

6. Pat Choate, "The Patent Reform Act of 2007: Responding to Legitimate Needs or Special Interests? The 'Patent Fairness' Issue: An Analysis," suggesting that over the period 1995-2006, reported patent settlements for companies in the Coalition for Patent Fairness averaged one ninth of one percent (0.11 percent). <http://www.innovationalliance.net/files/CPF-Patent%20Reform%20Act%20Analysis%2010-30-2007.pdf>

7. <http://www.law.com/jsp/iplawandbusiness/PubArticlePLB.jsp?id=1202441889175>

8. These districts are the Central District of California, Eastern District of Texas, District of Delaware, Northern District of California, District of New Jersey, Northern District of Illinois and the Southern District of New York.

9. Among the materials available to them is a paper entitled, "Compensatory Damages Issues In Patent Infringement Cases: A Handbook for Federal District Court Judges," authored by a diverse group of practitioners, corporate counsel (including this author), judges and academics brought together at the suggestion of Chief Judge Paul Michel of the Federal Circuit. See <http://www.nationaljuryinstructions.org/damages>.

the criticisms espoused rooted in actual experience. *See* www.patstats.org (compare, for example, the 374 appellate rulings on literal infringement issues to only 22 for reasonable royalties for the periods 2000-2004).

Of course, as critics of the system point out, there is still some possibility of inconsistency in the application of patent damages law. Fear of this inconsistency purportedly leads some defendants to settle for higher amounts than they would if that perception did not exist. It is this perception that led to the development of the gatekeeper compromise. This compromise assures concerned stakeholders that the best practices now being followed in most of our courts will be followed in all of our courts. In particular, the gatekeeper language ensures that courts or juries consider only those damages contentions that are cognizable at law and supported by substantial evidence.

These assurances are spelled out in the specifics of the Managers' Amendment to S. 515 which Senator Leahy recently announced for himself and Senators Sessions, Schumer, Hatch, Kyl and Kaufman. At the outset, the current compensatory patent damages provision is retained, which provides that:

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.

Firm statutory support is thus retained that focuses the reasonable royalty inquiry on "the use made of the invention by the infringer."

The Managers' Amendment to S. 515 further includes three comple-

mentary gatekeeper provisions relating to the procedures to be used for determining damages. The first of these sets forth a general rule that ensures that the court or jury will consider only those methodologies and factors that are relevant to making the damages determination.¹⁰ The second requires pre-trial disclosure of the methodologies and factors the parties propose for instruction to the jury, and the specification of the relevant underlying legal and factual bases for their assertions.¹¹ The third gatekeeper provision allows either party, or the court acting *sua sponte*, to challenge one or more damages contentions as lacking a legally sufficient evidentiary basis.¹² Upon such a challenge, the court is required to provide the nonmovant the opportunity to be heard, to proffer further evidence and to brief and argue the issue. Thereafter, the court is required to identify on the record those methodologies and factors for which there is a legally sufficient evidentiary basis, whereupon the court or jury is required to consider only such methodologies and factors in making the determination of damages.

While in three prior Congresses, patent damages reform had been the sticking point preventing progress on reform, this logjam was broken with the development of this gatekeeper compromise. Since then, the gatekeeper compromise has received nearly universal recognition as a fair way to improve the consistency and uniformity of patent damages awards, while retaining our fundamental principles and precedent that a patentee is entitled to collect no less than a reasonable royalty for the use made of his/her invention by the infringer. This compromise has led to widespread

bipartisan support in the Senate Judiciary Committee and beyond, and is now one of the foundations upon which any successful patent legislation will be built.

Patent reform still has a number of hurdles to clear, however, including its passage in both houses of Congress. At this point, the Senate's approval of the gatekeeper approach appears nearly certain. The corresponding House version of patent reform, H.R. 1260, on the other hand, still contains damages language from the previous House bill, H.R. 1908 that was widely viewed as "toxic." Fortunately, the House leadership has long recognized the need to improve the damages language in this bill, and no doubt will give serious consideration to gatekeeper compromise as it moves forward in the legislative process. ■

10. '(1) IN GENERAL.—The court shall identify the methodologies and factors that are relevant to the determination of damages, and the court or jury, shall consider only those methodologies and factors relevant to making such determination.'

11. '(2) DISCLOSURE OF CLAIMS.—By no later than the entry of the final pretrial order, unless otherwise ordered by the court, the parties shall state, in writing and with particularity, the methodologies and factors the parties propose for instruction to the jury in determining damages under this section, specifying the relevant underlying legal and factual bases for their assertions.'

12. '(3) SUFFICIENCY OF EVIDENCE.—Prior to the introduction of any evidence concerning the determination of damages, upon motion of either party or *sua sponte*, the court shall consider whether one or more of a party's damages contentions lacks a legally sufficient evidentiary basis. After providing a nonmovant the opportunity to be heard, and after any further proffer of evidence, briefing, or argument that the court may deem appropriate, the court shall identify on the record those methodologies and factors as to which there is a legally sufficient evidentiary basis, and the court or jury shall consider only those methodologies and factors in making the determination of damages under this section. The court shall only permit the introduction of evidence relating to the determination of damages that is relevant to the methodologies and factors that the court determines may be considered in making the damages determination.'