"A Strong Patent System"
As Prepared For Delivery to the Association of Corporate Patent Counsel
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What can ACPC members individually do to assure America retains a strong patent system that also achieves greater efficiency and fairness? First, advise Congress. Second, assist courts.

Most importantly: prevent unintended harm from a few poorly-drawn legislative proposals. How? You must convince your General Counsel and CEO that inattention and inaction will lead to a weak patent system and less incentive to invest just when your company needs to keep investing in research and development. Chief Patent Counsel alone can seldom get the attention of legislators, especially Senators on the Judiciary Committee; the CEO can. The General Counsel is the bridge, you are the driver.

Historically, chief counsel and chief executive officers pursued other priorities in Congress. Patent law was seldom on the list at all, much less high enough to matter. Tax and securities issues eclipsed any issue of patents. But in those years, the value of patent portfolios was increasing. Now, if patent reform in the new Congress goes off in the wrong direction, the value of your company's patent portfolio may be cut in half. So may your capacity to raise capital. Stock values and employment could also fall. In addition, foreign competitors could get effective immunity from strong remedies to protect your patents. Without adequate money damages and appropriate injunctions, many of them could continue to infringe with impunity. Your company's market share then is likely to shrink and their's to grow. Injunctions against continued infringements, I believe, will often be necessary. So will the risk of treble damages. Most importantly, damage amounts need to be adequate. They should reflect actual value-added by the infringement. Otherwise, competitors, foreign and domestic, will simply steal your technology and market share, paying an insufficient business fee to do so. It will simply be seen as a necessary and affordable cost of doing business, albeit illegal.

How could such a calamity occur? Well, many on Capitol Hill have accepted the myth perpetuated by just a few that damage awards are routinely and wildly excessive, awarding royalties based on a percentage of the total value of a complex product where the patented invention only covers, say, one of a thousand components. The royalty, it was claimed, was calculated so as to vastly exceed the value added by the infringing component. The only problem with this claim is that it is largely untrue.

Royalties calculated by judges or juries typically involve simple arithmetic: you multiply the value attributed to the infringement by a percentage and the arithmetic product is the amount awarded per sale. The value can be based on total sale price with

the one component in a thousand taken into account in the percentage. Conversely, the component's contribution can be the value figure using apportionment. In the first case, the percentage is actually a percentage of a percentage. In the second case, the percentage can reflect the profit margin in the industry. Either type of computation, if done properly, will yield a truly reasonable royalty, indeed the same dollar amount. Where the value added can be established, it should be used. Look to the market value of the product with the next best, non-infringing substitute for the component causing infringement. Where value added cannot be established reliably, however, courts must be free to use an alternative method.

The myth pretends, however, that where total sale price is used, the one-component-in-a-thousand factor falls completely out of the computation. But it is actually included, just within the percentage multiplied against value, i.e., as a percentage of a percentage.

How could legislators get so confused? Well, certain witnesses at hearings and special pleaders in private sessions with individual members employed naked assertions instead of comprehensive data about real cases. They even did so in the general press. For example, the Wall Street Journal published an article by the General Counsel of a major computer company claiming that in a case of a patented windshield wiper, the award reflected the total cost of the car, rather than the value added by the wiper. I am aware of no such actual case. Indeed, in the Lemuelson saga, the amount was a few dimes per automobile, not the worth of the vehicle, say $30,000, times a profit margin.

The only actual case I have heard cited is the Lucent-Alcatel case in which the jury awarded $1.5 billion relying on world-wide total product sales. But that award was thrown out by the trial judge on post-verdict motions because the Entire Market Value rule was misapplied. That is exactly how the patent litigation system is supposed to work. Rather than an example of failure, it shows a success.

A second myth was that companies faced a recent explosion of infringement litigation. Again, claims were made in vague, general terms, devoid of statistics. Actually, the overall percentage of litigated patents has remained constant for decades at 1% of in-force patents. In the present decade, the number of infringement suits filed per year has remained nearly constant at less than 3,000. All but 300 settle. Of the 300 remaining, 200 are resolved without expensive trials by summary judgment, nearly always of non-infringement. Fewer than 100 per year are actually tried.

A third myth is that Federal Circuit reversals regularly require "wasteful" second trials. Actually, two-thirds of our appeals had no first trial, being resolved on summary judgment. So even when we do reverse them, about 30%, it just means one trial. Of the 100 cases that went to trial, we affirm a large majority. Perhaps 20 trial results are vacated per year. On remand, most settle. If five or 10 must be tried a second time to assure lawfulness and fairness, that is not a crisis, but a real world necessity because no system is perfect. All have error rates and always will.

How do such myths survive? They are repeated so vociferously so many times, they simply become accepted as true despite the absence of support in the form of representative examples and statistics. Who perpetuated such claims and why: A dozen or two companies, mostly from Silicon Valley or Wall Street, that wanted lower damages and litigation costs when they were sued. All claimed that likely litigation results forced them to settle for plainly exorbitant amounts. But the University of Houston Law School's examination of all actual jury verdicts in calendar years 05-08 fails to show any award against most of those companies, much less exorbitant awards. Two companies did suffer large awards, but the markets were large; large size does not prove undue size.

Without examples, real cases, or statistics, how did they persuade senators and representatives or at least their staffs? No one cross-examined the witnesses making such claims; proof was never demanded. Statistics and representative examples were not required. Anecdotes were rampant. I have read the testimony and answers to written questions by legislators, but don't take my word or opinion. Read it and decide for yourselves.

Is the picture they painted as to how the litigation system generally works complete and accurate? If it is incomplete or inaccurate, should we not make corrections and additions to congressional understanding? You know the facts of typical litigation better than anyone else. It is entirely up to your judgment, and your courage. Maybe it doesn't matter much. I think it does but perhaps others do not. You decide.

If the perceptions in Congress of patent case realities can be made more accurate and complete, then the chances increase that any legislation it passes will be well designed and therefore truly an improvement, not many steps backward. On the other hand, a distorted or incomplete perception, I think, is likely to lead to changes that, for the vast majority of companies and industries, will hurt more than help. Can the system be reshaped to better avoid the perceived grievances of 24 firms without hurting most of the other 100,000 U.S. companies employing 100 or more persons?

The last three Congresses, as far as I can tell, failed to consult or call as a witness any judges, trial or appellate. Apparently, it does not want to hear from judges. Nor, with rare exceptions, did it call patent litigators. Mostly, it called those from the dozen companies that felt most aggrieved. Perhaps they had cause. But the result of the skewed selection of witnesses was that aberrations were portrayed as the norm. But Congress cannot avoid hearing from all your companies and worrying about the effects of the legislation proposed in the last Congress on the economic health of all your companies and the competitiveness all Americans companies as against all rivals. I leave it in your hands.

There is even mythology surrounding legal rules set forth by the Federal Circuit for assessing reasonable royalty damages. Some special pleaders say our caselaw allows the royalty base to reflect the full sales price of a machine rather than just the value added by an infringing component, and without any special showing. But the

cases clearly require the patentee to first prove that the demand for the machine is created by the infringing part, a very rare occurrence. Otherwise, the Entire Market Value rule cannot apply. That was why the jury verdict in Lucent was thrown out, and our caselaw authorizes apportionment.

Others say that inequitable conduct must be legislatively abrogated. How many patents are ruled unenforceable? Very, very few. True, the defense is routinely pled and often discovered. Usually, the court finds lack of materiality or deceptive intent. Even in the few cases where both are found, courts usually decline to hold the patent unenforceable and we usually affirm. So the worst that can be seen is litigation at a bench trial that may be unnecessary. The solution, to me, is more summary judgments, not abrogation of a needed incentive to compel candor in ex parte proceedings in the PTO.

Venue improvements, similarly, seem to me better accomplished through forcing more transfers out of remote districts such as Eastern Texas, as we have recently ordered. Now, fewer cases will be filed there and fewer will stay there. The caselaw is well developed and is being enforced. Is there really a need then for legislative intervention, which is necessarily categorical, in this fact-dependent area that lends itself to case-by-case analysis?

Interlocutory appeals of Markman rulings need no legislative compulsion either, because they already happen. The majority of our appeals are from summary judgments of non-infringement based on claim construction. What would be added are mainly cases where the claim construction is not dispositive, which hardly seems efficient. Greater cost and delay will follow when everyone agrees costs and delays need to be reduced.

On the other hand, only Congress can address issues like first-to-file, new post-grant, inter-parties review, and best mode. Only Congress can give the PTO the resources and mandates it needs. Thus, I am not against legislation, but I would omit litigation issues where courts are making desirable adjustments in a fine-tuned way. Others may prefer legislative fixes. Perhaps all can agree, however, that any legislation should be based on a complete and accurate understanding of how patent litigation actually works in nearly all cases. An understanding based on myths or a few outlier cases cannot provide a net benefit to all users of the patent system.

I suggest we all bear responsibility to assure Congress gets the truth, the whole truth, and nothing but the truth; as the common cliché puts it: “everyone is entitled to their own opinion, but not their own facts.” Once the full facts are presented, both Congress and courts can do their respective parts to make necessary improvements, but still do no harm. I, for one, place great hope in all of you informing the Congress and the Federal Circuit, both directly and through on-going proceedings in the Federal Trade Commission.

But what about the grievances felt by the 24 companies? Are they real? Yes, but I think they have been overstated. To a large extent, the pressure felt to pay undue if not exorbitant license or settlement fees comes from the high cost of defending an infringement suit, even where the defense later proves meritorious. Broad discovery is a major problem. But a careful trial judge can often stage discovery, starting with narrow discovery just on claim construction. Early summary judgments can resolve many cases, eliminating invalid patents for obviousness where non-infringement is not clear enough for summary judgment as it is in most cases. Such paring down can also relieve burdens and risks for the patent owner, such as holding on summary judgment that inequitable conduct is clearly not shown for example. As to the risk of excess damages, a careful trial judge can exclude improper testimony about Entire Market Value when the prerequisite is not shown. Greater reliance on non-enablement, inadequate written description, and claim indefiniteness would also help, especially when summary judgment of invalidity is possible. To the extent that certain districts without meaningful connections to the parties are perceived to be pro-plaintiff, court-imposed reforms are already restricting resort to such courts. As to legal fees, the Patent Act already provides for fee-shifting in exceptional cases. Perhaps greater use of this deterrent to abusive lawsuits or litigation tactics is in order.

In the final analysis, however, fixing problems perceived as unduly hindering defense of suits by 24 companies cannot rationally wag the dog of the system on which all 100,000 companies, including the Fortune 500, depend. Let’s find solutions to the real problems that will ameliorate them without hurting the legitimate interests of innumerable other companies and industries. I believe we can do so if we all engage one another in responsible, candid dialogue that avoids rhetoric and exaggeration and focuses on facts. We should begin right away.

Thank you.