



Transatlantic dialogue

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Stronger patents

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The US Patent Act provides for damages to compensate for infringement that are to be no less than a 'reasonable royalty', or the amount that a willing licensor and licensee would agree as a result of a hypothetical licence negotiation at the time of infringement. To determine the value that would be arrived at in the hypothetical negotiation, courts can consider a variety of factors, including the value of existing licences and the value of the invention in the market.

Proof of royalty-based damages is generally tied to the value of the invention claimed by the patent. However, an exception to this, known as the 'entire market value rule', allows other non-patented features of a product to be considered as a basis for the royalty if such consideration is necessary to compensate fully for the infringement.

Market values

Application of the entire market value rule has been a source of large damage awards in recent years, but this may be about to change. In *Lucent Technologies v Gateway*, the Court of Appeals for the Federal Circuit (the US appellate court for all patent appeals), vacated a jury's award of \$358 million (€276.8 million) in damages because it found that the award was not supported by evidence presented at trial.

Lucent concerned the 'date-picker' function in Microsoft's Outlook software programme, which was found to infringe the asserted patent. A jury awarded \$358 million (€276.8 million) in damages based, in part, on application of the entire market value rule. In vacating the award, the Federal Circuit noted that no evidence was presented that customers purchased Microsoft Outlook because of the 'date picker' function and that, as a result, the entire market value rule should not apply. The court

also found evidence relied on by the jury – namely, the value of other licences – in awarding damages to be 'unreliable and speculative' and admonished lower courts more carefully to scrutinise evidence presented in support of royalty awards.

Following *Lucent*, the Federal Circuit struck down a \$506,305 (€391,440) damage award in *ResQNet.com v Lansa*. The case concerned a patent for a method of screen recognition between a remote mainframe computer and local PC. After affirming the district court's award of infringement, the Federal Circuit considered the royalty award granted by the district court. The district court relied on expert evidence regarding the value of licences to determine the royalty amount that should be awarded.

As in *Lucent*, the court found that the licences used as a basis for the damage calculation were not sufficiently tied to the value of the claimed invention. Noting that the royalty award must be connected to the claimed invention's 'footprint in the marketplace', the court rejected the lower court's reliance on speculative expert testimony and vacated the damages award.

Reform ahead

Although the effect of *Lucent* and *ResQNet.com* remains to be seen, these cases suggest that litigants hoping to obtain damages should carefully craft a strategy that demonstrates the claimed invention's value in the market. Moreover, should a patent holder want to obtain damages based on the entire market value rule, *Lucent* demonstrates that the patent holder needs to present evidence to establish that the rule applies and that the claimed invention forms a basis of demand for the accused product in the marketplace.

To date, congressional attempts to reform the patent system have been unsuccessful

and riddled with controversy. Yet, a recent bipartisan compromise bill introduced in the Senate has injected life back into these efforts.

A major impetus for patent reform is a belief on the part of many in Congress that the US Patent and Trademark Office issues too many low-quality patents. Although such patents can be challenged and declared invalid through litigation, the costs of such action can be crippling, and the standard for showing invalidity ('clear and convincing evidence') is relatively high.

Post-grant reviews

The compromise bill proposes several changes, including the implementation of post-grant review proceedings, aimed at ensuring stronger patents so that businesses are not forced to defend litigation brought by litigants whose patents have not undergone appropriately rigorous scrutiny.

Another major impetus for patent reform is a concern about large damage awards handed down by lower courts that, according to some, are disproportionate to the value of the patented invention. To address this issue, the proposed bill would require judges to perform a 'gatekeeping' role by requiring litigants to decide in advance of trial which damage theory and related facts have sufficient evidentiary support to be considered as a basis of damages at trial.

The proposed bill would also make it more difficult to prove wilful infringement, which would also have the likely effect of reducing the incidents of enhanced damages awards.

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