



United States Court of Appeals
for the Federal Circuit

717 MADISON PLACE, N.W.
WASHINGTON, D.C. 20439

CHAMBERS OF
CHIEF JUDGE PAUL R. MICHEL

June 13, 2007

Honorable Patrick Leahy
433 Russell Senate Office Building
United States Senate
Washington, DC 20510
By Fax: 202-224-9516

Honorable Arlen Specter
711 Hart Senate Office Building
United States Senate
Washington, DC 20510
By Fax: 202-228-0608

Dear Chairman Leahy and Ranking Member Specter,

If, as requested by several senators in a letter dated June 11, 2007, the Committee elects to reconsider two contested provisions of S.1145, the Committee might wish to be aware of the following information. Regarding Section 10 (b) Interlocutory Appeals, such appeals are already authorized under section 1292(b) of title 28. The critical difference between that provision and the new section the bill would add to 1292 is that under current law, the courts decide, not the parties. Under 1292(b), the trial judge must certify the case for interlocutory appeal of a claim construction ruling and the court of appeals must agree. We recently accepted one such appeal. Such requests have been rare in recent years.

In addition, the majority of our district court appeals are from a grant of summary judgment, usually based on a claim construction ruling. Such appeals are a matter of right of the parties, rather than discretion of the courts. Therefore, where the claim construction is outcome-determinative, the dissatisfied party already has a right to interlocutory appeal. What section 1292(b) adds is a discretionary, second avenue of appeal even in cases where the claim construction was not outcome-determinative. Some may believe that these two avenues of pre-trial appeals are sufficient. If, however, the Committee determines there is a need for a third such avenue, it might consider alternatives to the present provision in Section 10.

For example, the third avenue of appeal could be limited to cases in which, despite the absence of a grant of summary judgment, the trial court determines that claim construction will likely control the verdict on infringement. Under such a provision, the number of interlocutory appeals on this third avenue would, I expect, be far fewer than under the provision as currently drafted. The current language makes automatically appealable any order "determining the construction of claims." The parties in typical patent infringement cases dispute several claim terms in many claims, often involving many different patents. Whatever the trial judge determines, one or both parties are nearly always unhappy with one or more terms as construed by the district court.

Therefore, I would expect an interlocutory appeal in virtually every patent infringement case as soon as a claim construction order issues. We currently receive about 500 infringement appeals per year. A study by Professor Jay Kesan, of the University of Illinois Law School estimates that the number could double under the bill as currently drafted. Currently, the average patent infringement appeal consumes 11 months from filing to opinion. If the number of appeals per year doubles, the delay could greatly increase, possibly doubling. In my judgment, such extended delays would be intolerable from the standpoint of the corporate litigants.

With regard to Section 5, on apportionment of damages when calculated as a reasonable royalty, the current language requires the court to conduct a massive macroeconomic analysis. The analysis requires determining the economic value of all prior art technology and the economic value of everything in the accused product or process not attributable to the asserted patent. The provision then appears to require that the base for calculating the reasonable royalty be determined by subtracting from sales figures both the value of the prior art and a portion of the value of the accused product or process in order to arrive at the "economic value property attributable to the patent's specific contribution over the prior art." The phrase "specific contribution" is not defined. Reading the phrase, I am very uncertain what it is intended to mean. The likelihood is that litigants would disagree as to its meaning and it might take the courts years to clarify it. Meanwhile, if settlements diminish, possible swamping the courts with increased cases, intolerable delay, and uncertainty may ensue. In addition, if interpreted to require the court to identify which limitation(s) among many in each claim embodied the "specific contribution" of the patented invention to the prior art, we would have to embark on an new and difficult task. Assigning a dollar value to the limitation(s) that made the claim allowable would likewise present new and difficult challenges

In addition, the bill requires this massive analysis in every case. Under current practice, apportionment of damages is infrequently invoked. Present law requires the accused infringer to establish a basis for such apportionment. It is attempted in only a limited number of cases and successful in still a smaller number of cases. By contrast, Section 5 requires such analysis in every case. Further, because it does not assign a burden of proof to either party, it is unclear who would call the witnesses and submit the documents needed. Since the provision begins with the phrase "the court shall conduct," it may be that the trial judge would have to call the witnesses as his own, even though that would be totally out of keeping with his normal, neutral role. And, if the evidence is inconclusive, which party loses?

The language of Section 5 seems drawn from a 30-year-old district court decision in George Pacific. That case is cited frequently, but simply because it comprehensively lists various factors that in different cases may be relevant to determining damages. Of 15 numbered factors, the bill contains only Factor 13, ignoring the rest. The caselaw, moreover, does not require application of that factor in every litigation, but Section 5 would.

Another problem would be a possible increase in the length of damages trials with corresponding increases in the already staggering costs to the litigants, and increased delay in other cases because of the lengthened trials. In most districts, patent cases presently take two to three years from filing to final judgment. If Section 5 were enacted, it would seem the delays would increase. How much, no one can say. It seems possible that the increased delays could be quite substantial, perhaps measured not in months, but in years. This is so because even if, let us assume, the damages trial only increases from one week to three, the pretrial discovery and preparation would be massively increased because of the enormous scope of the technological and economic data that must be considered.

Perhaps the Committee would consider making this analysis discretionary with the court so that it could be limited to those cases where it might be truly necessary. A second alteration would be to require the accused infringer to establish a basis by submitting sufficient evidence before the undertaking would occur.

Another alternative, of course, would be to simply omit this provision altogether, leaving it to the caselaw developed by the courts over many decades that differentiates among many different factors and factual circumstances. This body of case law is rather mature and understood by litigators and judges. It may not seem ideal to some companies, although others might so regard it. Perhaps the Committee has been presented with empirical evidence showing that the current damages caselaw as applied regularly results in outlandish damage awards. I am not aware of any such empirical studies or evidence myself, although casual reading of news accounts does reveal anecdotal indications in a few cases.

A very instructive article on this entire subject was recently published by litigator William Rooklidge, past president of the American Intellectual Property Law Association. Titled, "*Reform of Patent Damages: S. 1145 and H.R. 1908*", the article can be found at, [http://patentsmatter.com/press/pdfs/Patent Damages Reform Rooklidge.pdf](http://patentsmatter.com/press/pdfs/Patent_Damages_Reform_Rooklidge.pdf).

As chief judge of the Federal Circuit, my role is limited to advising the Committee as to impacts on the courts that can be estimated based on present proposals and possible alternatives. I may not and do not take any position regarding the policy issues embedded in these two provisions of the proposed bill. As to all the many other provisions of S.1145, I have nothing to contribute.

If I can be of assistance to the Committee in regard to these two provisions, should they be reconsidered, I would be pleased to do so.

Sincerely,



CC: Senator Orrin G. Hatch (By Fax: 202-228-1178)