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SECTIONS 5 & 10 OF PROPOSED PATENT STATUTE

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SECTION 5 – OVERVIEW

Section 5 of the proposed bill would make the following changes regarding available remedies and defenses in patent infringement litigation:

- Codify a new "entire market value" rule;
- Require courts to more specifically analyze and identify which factors could be considered in assessing damages;
- Impose additional limitations upon "willfulness" claims; and
- Extend the "prior use" defense (in 35 U.S.C. § 273) from method patents to all types of patents.

THE "ENTIRE MARKET VALUE" RULE

- The "entire market value" rule has traditionally been applied when patented and unpatented components or processes are combined in a commercial product or process, or are typically sold together.

- It specifies when the market value of the entire product or process should be used in computing damages (*i.e.*, lost profits or a reasonable royalty base), as opposed to using only the market value of the patented portions of the product or process.

CURRENT v. PROPOSED "ENTIRE MARKET VALUE" RULE:

Current, Common Law Standard

- In order to recover for sales of unpatented components sold with patented components, it must be shown that the loss of the sale of the entire machine or method containing the components is "reasonably foreseeable" and that "the unpatented components . . . function together with the patented component in some manner so as to produce a desired end product or result. All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit."

Proposed, Statutory Standard

- The Court shall conduct an analysis to ensure that a reasonable royalty is applied "only to that economic value properly attributable to the patentee's specific contribution over the prior art."

CURRENT v. PROPOSED "ENTIRE MARKET VALUE" RULE (cont'd):

Current, Common Law Standard
(cont'd)

- The patented feature must also be the "basis for customer demand" for the product (at least for lost profit determinations).

Rite-Hite Corp. v. Kelley Co.,
56 F.3d 1538, 1549-50
(Fed. Cir. 1995).

Proposed, Statutory Standard
(cont'd)

- "Unless the claimant shows that the patent's specific contribution over the prior art is the predominant basis for market demand for an infringing product or process, damages may not be based upon the entire market value of that infringing product or process."

CURRENT v. PROPOSED "ENTIRE MARKET VALUE" RULE (cont'd):

Current, Common Law Standard (cont'd)

- Unpatented components sold with patented items that have no "functional relationship to the patented invention and that may have been sold with the infringing device only as a matter of convenience or business advantage" are not included in computing lost profits or the reasonable royalty base.
- However, the value of unpatented components may still be considered as a factor in establishing a reasonable royalty rate (as opposed to constituting part of the royalty base), even if they have no functional relationship to the patented components or processes.

Rite-Hite, 56 F.3d at 1549, fn. 9.

Proposed, Statutory Standard (cont'd)

- The proposed statute would appear to eliminate this "back door" for admission of evidence regarding unpatented components or convoyed sales not functionally related to the patented component.

EFFECTS OF CHANGE IN STANDARD

- Lost Profits
  - Change from “foreseeability/functioning together” standard to “advance over prior art” standard.
  - Large practical change encouraging allocation of overall sales price between patented and unpatented components of accused device or method; return to pre-1946 apportionment and practice ?
- Reasonable Royalties
  - Change from “functioning together” standard to “advance over prior art” standard for royalty base computation.
  - Elimination of “non-functional” components from royalty rate consideration?
  - Large practical change encouraging allocation of overall sales price between patented and unpatented components of accused device or method; return to pre-1946 apportionment and practice ?

RELATED PROCEDURAL CHANGES RE: DAMAGES

Proposed Change

- Trial Court required to conduct an "analysis" to ensure that the royalty calculation only considers proper factors, and trial court is to specifically "identify" all such factors.
- Non-exclusive licenses may be considered in setting damages

Open Issues

- Would seemingly require a pre-trial, *in limine* hearing to identify and rule upon which factors could be submitted to the jury in seeking a reasonably royalty:
  - Before discovery ?
  - Before expert reports ?
  - Immediately before trial ?
- No real change

ADDITIONAL LIMITATIONS ON WILLFULNESS CLAIMS

- Would require willfulness to be pled and resolved in separate phase of case, by court, not a jury.
  - Possible constitutional issue?
  - Presumably handled similar to inequitable conduct claims?
- Pre-suit notice required to be more specific.
- Modestly cuts back on exposure to willfulness claims by making one or more of the following a prerequisite to asserting a willfulness claim:
  - Receipt of prior written notice of infringement from patentee;
  - Intentional copying; or
  - Prior judgment of previous infringement of same patent.
- Essentially codifies *Knorr-Bremse* case regarding elimination of "adverse inference" from failure to produce opinion of counsel.

SECTION 10: VENUE LIMITATION ON INFRINGEMENT CLAIMS

- Section 10 of the Bill would essentially make 28 U.S.C. § 1400 the exclusive basis for determining venue of an infringement action, effectively overruling *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1374 (Fed. Cir. 1990).

- Purpose: Reduce forum shopping by plaintiffs.

SECTION 10: MARKMAN APPEALS:

- Sec. 10 also gives the Federal Circuit exclusive jurisdiction over interlocutory appeals from *Markman* rulings.
  - Unlike 28 U.S.C. § 1292(b) appeals, this section provides that proceedings in trial court would be stayed pending appeal.
- This would mandate change in the Federal Circuit's refusal to hear interlocutory appeals from *Markman* orders.