JOHN W. SCHLICHER

LAW OFFICE OF JOHN W. SCHLICHER
304 LOWELL LANE W.
LAFAYETTE, CALIFORNIA 94549

CELL: 510-220-2778
TEL. AND FAX: 925-284-7675
JOHNSCHLICHER@COMCAST.NET
WWW.JOHNSCHLICHER.COM

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BY FACSIMILE

The Honorable Patrick J. Leahy
The Honorable Orrin G. Hatch
The Honorable Jon Kyl
The Honorable Arlen Specter
The Honorable Dianne Feinstein

Re.: Damages and the Patent Reform Act (S. 515)

Dear Senators Leahy, Specter, Hatch, Feinstein, and Kyl:

Yesterday, I listened to the webcast of the patent reform hearing on March 10, 2009.

Senator Specter asked for language expressing a sensible damage standard. Several witnesses referred to the value an invention contributed to something. Those words merely state the problem and not the answer. When it makes sense to measure damages based on an infringer's efficiency, the answer is that so-called reasonable royalty damages should be the difference between the net profits the infringer earned from sales of an infringing product and net profits it could have earned selling the next best non-infringing substitute product(s) available to it during the period of infringement. Senator Leahy inquired about the economic value of the invention. For this purpose, the economic value of any invention is this difference in profits.

Stated generally, the value of any piece or bit of technology to some company in any industry is the difference between the profits using that piece allows the company to earn and the profits the company would have earned using the next most profitable piece of technology it could have lawfully used. This is true for pharmaceutical or biotechnology companies and also semiconductor, computer, software, and garbage disposal companies. Senator Feinstein insists that damages standards result in sensible awards for all types of patent owners and all types of patents. This approach satisfies that critically important test. It is critical because we do not know what the future holds and the standard had better work in the future as only the future matters. Senator Specter and Senator Kyl asked about the Supreme Court's decision in *Quanta v. LG*. That decision has nothing to do with damages and says nothing about damages.

If a patent owner sues a parts supplier, damages for infringement of Prof. Lemley's intermittent windshield wiper invention should be the difference between the parts supplier's net profits from sales of an infringing wiper assembly and net profits that supplier could have earned selling the next best non-infringing wiper assemblies to the same customers during the same period, if this infringer is the most efficient supplier of such wipers. If the patent owner sues an automobile company, damages are the difference between the auto company's net profits from sales of automobiles with infringing wipers and the auto company's net profits from sales of cars having the next best non-infringing wiper assembly to the same customers during the same period. Damages are the same whether the patent claims a car having an intermittent windshield wiper or

claims an intermittent windshield wiper. A car without a patented windshield wiper and the next best one in its place is a non-infringing car and the patent owner may not get at total car profits merely because the inventor's lawyers put the word car in the claims. Mr. Wamsley's "claimed invention" problem is solved.

One witness alluded to the so-called hypothetical negotiation approach to measuring damages. For several reasons, damages should not always be the amount a patent owner and an infringer would have agreed to in a license negotiated at the time infringement began, as provided in S. 610. One is that the economic value of an invention changes over time and damages should be based on the actual value of an invention during the period of infringement, not on the larger or smaller value a patent owner or an infringer thought the invention would have at the time infringement began. Damages should be based on what actually happened in the past, not what someone thought might happen in the future. For example, if better and cheaper non-infringing wipers become available after the date infringement began and limit the value of patented wipers, those alternatives should not be ignored, because the patent owner and infringer did not, as they could not, know about them.

I explained all of this in more detail in a paper published in January, 2009 on the predecessor bill, S.1145.[1] I also explained it in a book published 16 years ago and a paper published 8 years ago, making my frustration with the whole subject probably greater than yours.[2]

At present, I would leave the problem to the courts. If Congress acts, this is the language I suggest. The paper describes the meaning and purpose of this language.

> Upon finding for the patentee the court shall award damages adequate to compensate the patentee for the profits the patentee lost as the result of the economic value of the patented invention in the infringing use by the infringer, but in no event shall damages be less than the reasonable economic value of the patented invention in the infringing use by the infringer, together with interest and costs as fixed by the court. The amount of reasonable royalty payments that would have been made by the infringer acting under a license granted by a patentee may be considered in determining the reasonable economic value of the patented invention in the infringing use, where it would have been in the economic interests of the patentee to grant such a license and the infringer to accept such a license on those payment terms.

Very truly yours,

John W. Schlicher

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[1] *Patent Damages, the Patent Reform Act and Better Alternatives for the Courts and Congress*, 91 Journal of the Patent and Trademark Office Society 19 (2009).

[2] *Patent Law: Legal and Economic Principles*, West Group (1992, Second Edition 2003); *Measuring Patent Damages by the Market Value of Inventions Given Available Noninfringing Substitute Technology – The Grain Processing, Rite-Hite and Aro Rules*, 82 Journal of the Patent and Trademark Office Society 503 (2000).