The Apportionment of Damages Provision in the Patent Reform Act of 2007 Devalues Patents by Making Infringement Cheaper

Current Law – Patent law provides that patent owners are entitled to damages that are adequate to compensate for the infringement of their respective patents. Under current law, a guilty infringer of a patent currently has to pay the patentee damages based on lost sales, or a reasonable royalty. Presently, judges have great flexibility in determining a reasonable royalty based on, among others, the 15 factors set forth in the *Georgia Pacific* case. One of these discretionary factors is the apportionment principle, whereby Courts can reduce reasonable royalty awards and not award the entire value of the infringing product. When the apportionment principle is properly applied, it assures that inventors are not compensated for value they did not contribute to the infringing product.

The Patent Reform Act of 2007 introduces a new mandatory procedure for determining and applying reasonable royalty damages. The legislation **requires** courts to 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," not the entire value of the claimed invention. In doing so, the courts would be required to subtract away all elements of a patented invention that existed independently before the date of the invention, even if they never existed in the claimed configuration. This provision should be opposed.

- When a valid patent is infringed, the patent holder should be awarded damages to compensate for that infringement. To this end, damages must be based on the economic value of the claimed invention in the marketplace, and must be assessed in the commercial context in which infringement occurred.

- The adequacy of future damages for infringement provides the foundation upon which inventors can raise the public and private investment necessary to spur innovation, fosters the licensing and commercialization of cutting-edge research, and deters infringement. If royalties are based upon the value of a component of an invention, rather than the value of the invention as a whole, this result would make infringement cheaper and thus undermine incentives for licensing the technology rather than infringing.

- Patented elements often contribute significant value to the product into which they are incorporated. In certain industry sectors, products function as undivided wholes, and the now-required search for a "specific contribution over the prior art" would be commercially meaningless and lead to unpredictable outcomes.

Chief Judge Michel of the U.S. Court of Appeals for the Federal Circuit recently wrote that the apportionment provision in the Patent Reform Act of 2007 would require "a massive undertaking for which courts are ill-equipped [because] …judges lack experience and expertise in making such extensive, complex economic valuations, as do lay jurors." He further noted the provision could lead to "unsound decisions."