

# THE COALITION FOR 21ST CENTURY PATENT REFORM

*Protecting Innovation to Enhance American Competitiveness*

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## **Codifying Apportionment of Patent Damages**

**Current Law** – the patent law provides that all inventors are entitled damages that are adequate to compensate for the infringement of their respective patents. The minimum level of damages that can be awarded to the inventor is a “reasonable royalty” for the use the infringer made of the invention. The courts permit an infringer to limit its exposure to damages by introducing well-recognized factors that operate to reduce the amount that can be awarded as a reasonable royalty. One of these factors is the so-called “apportionment” principle. Instead of basing a reasonable royalty on the entire value of an infringing product, the apportionment principle recognizes that the infringer may have introduced features or improvements into an infringing product that properly account for some of that value. When the infringer shows that the inventor would receive excessive compensation if apportionment is not applied and shows that substantial value can properly be attributed to features or improvements that the infringer itself added, then existing law requires the court must limit the reasonable royalty by excluding such value. Thus, when the apportionment principle is properly applied, it assures that inventors are not excessively compensated in the determination of a reasonable royalty.

**S. 1145/H.R. 1908** – the bills require the court to exclude from *every* reasonable royalty analysis, among other things, “the economic value properly attributable to the prior art.” While this is purportedly an effort to codify the apportionment principle, it does not do so. The bills do not require the infringer to show that apportionment is required to avoid an excessive damages award because substantial value is properly attributable to features or improvements it added to an infringing product. Further, the apportionment principle has never permitted an exclusion from the reasonable royalty analysis of the value of “prior art.”

**Coalition Position** – if any aspect of the jurisprudence on the law of damages is to be codified, including the apportionment principle that applies to a reasonable royalty analysis, it should be done faithfully to existing case law. Existing case law, properly applied, prevents excessive compensation to inventors for the use made of their respective inventions. The bills do something entirely different. They mandate an apportionment analysis in every case, not just where the inventor would otherwise receive excessive compensation. They further mandate that a value be assigned to “prior art.” This entirely new concept appears to be crafted for the sole purpose of cutting off an award of damages that would be adequate to compensate for the infringement. The 21<sup>st</sup> Century Coalition agrees that the current law on damages should be consistently applied – to avoid the possibility of excessive damages awards – and has offered alternative language that would fully and fairly achieve this goal. However, the 21<sup>st</sup> Century Coalition opposes efforts that change the law by mandating any form of “prior art” subtraction of value out of an infringing product.

**Public Policy Rationale** –when a valid patent is infringed, the inventor should be awarded damages adequate to compensate for that infringement. Statutory provisions guaranteeing the adequacy of damages form a foundation for the ability of inventors to secure meaningful value for their inventions, whether through the licensing of patents or by securing venture capital in order to develop their patented ideas into commercial products. Diminishing the value of a U.S. patent in the manner set out in the bills will not only undermine the U.S. patent system, but opens the prospect of other countries following suit in denying adequate and effective remedies for patent infringement. For all these reasons, it is critical that inventors continue to be fairly compensated for the use made of their respective inventions. If a statutory change is made, it should be solely directed to assuring consistency in the application of the existing jurisprudence on patent damages.

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