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## Proposed Patent Reform Act of 2009 Includes Controversial Limitations on Damages

On March 3, 2009, both Houses of Congress launched a new Patent Reform Act (the "Act") containing provisions directed to certain limitations to damages for patent infringement. These limitations, as proposed, have generated significant criticism and praise.

The controversy springs from the Act's *apportionment-of-damages* concept. Under current decision-making, damages for patent infringement have literally no ceiling. Under the Act, courts would calculate a reasonable royalty based on the extent to which "the claimed invention's **specific contribution** over the prior art is the **predominant basis** for market demand for an infringing product or process . . ." More specifically, if it is determined that a patented invention's specific contribution is the predominant basis for the product's market demand, then courts can base damages on the infringing product's/process's entire market value. Alternatively, if the invention's specific contribution is not the predominant basis for market demand, then damages will be limited to a reasonable royalty on the invention's incorporation into the overall infringing product/process.

Criticism is split on the above concept. On the one hand, critics of *apportionment-of-damages* maintain that a limitation on damages for infringement of any given patent would reduce the inherent value of patents across the board. Therefore, for an entity with a patent-rich asset portfolio, the above-noted provisions of the Act could reduce the entity's net value. This result could further lead to related difficulties for such entities, ranging from insolvency to an inability to satisfy pension obligations. Critics also frame the Act's damages limitation as an invitation to foreign infringers to seize upon a product's market, and potentially drive the U.S. producer out of business, - thereby increasing U.S. unemployment.

On the other hand, *apportionment-of-damages* supporters hail the limitation as an entrepreneurial boon. First, the limitation reduces the risks involved with starting up business in potentially-infringing territory, and encourages competition. In addition, a simultaneous decrease would be seen in: (i) the dollar consequences of an adverse judgment for infringement; and (ii) would-be plaintiffs' incentive to initiate a lawsuit in the first instance - be it frivolous, or a "slam dunk." The resulting drop in litigation costs consequently would free up resources for increased innovation and corporate growth, e.g., research and development, or employee benefits.

The current dual-drafts of the Act also speak to standards for awarding patents, and look to codify the objective recklessness standard applicable to willful infringement. Future updates will follow as the Congressional debate develops. ■

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