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Patent reform would likely deter investor interest

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Med-tech companies, particularly start-ups, rely heavily on investors for support. To attract and retain those investors, companies must provide assurance that inventions will be protected from competitors. With sweeping patent reform legislation pending (the [Patent Reform Act](#)) companies focused on development of new technology have cause for concern about the value of their patent portfolios and the flow of investment funds to their businesses.

Proposed legislation that would alter how patents are secured and enforced in the U.S. has been under discussion in Congress for several years. To date, nothing's been enacted — due largely to competing interests of industries, academia and bar groups. Proposed changes to the Patent Act are intended to reduce subjectivity of the patent system and make litigation less complex and costly.

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Under current law, the first party to invent — not the first party to file a patent application — generally gets the patent. The U.S. remains the only country in the world that uses a first-to-invent system. Pending legislation would change that to a first-inventor-to-file system, in which the first inventor to file a patent application could receive a patent even if another person could demonstrate an earlier invention date. This change would bring the U.S. patent system more in line with other countries, eliminating expensive interference proceedings.

Patent applicants are now required to identify the "best mode" for carrying out the claimed invention. This keeps inventors from hiding what they believe — at the time they file a patent application — to be the preferred embodiment of the invention. Failure to disclose the best mode is a common defense to a charge of patent infringement. However, the inquiry into satisfaction of the best mode requirement turns on the intent of the inventor. This is a subjective analysis of the inventor's intent and

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knowledge of facts at the time of application filing. The Patent Reform Act would eliminate this requirement to reduce the subjectivity of U.S. patent law and to reduce litigation expenses.

New limits on damages

Another proposed provision seeks to limit damages under the entire market value rule, which sometimes allows a patentee to recover damages for patent infringement based on the value of an entire product even though the patent only pertains to a small aspect of it. This rule can result in overly generous damages awarded to the patentee where the patented invention is but a fractional component of a significantly larger device or procedure. The new provision would limit the entire market value rule, making it harder for patent holders to get damages when an invention only pertains to a minor part of a device or procedure.

To better ensure that issued patents are valid, the reform provisions seek to create a new type of post-grant opposition proceeding which would allow anyone to oppose a patent within 12 months after issuance. There would be no presumption of validity that normally accompanies an issued patent. Rather, a challenger need only show that the patent is invalid by a preponderance of the evidence. This burden of proof is substantially less than the clear and convincing evidence needed to prove invalidity in a patent infringement action now.

The patent reform act also seeks to limit where patent infringement actions can be filed. Many patentees shop for the forum they believe is most favorable to their interests. The proposed venue provision would place limits on where a plaintiff could sue based on the activities and presence of the defendant. The impact of this is not yet clear.

While many areas of the law could be reformed, the proposed injunction reform provision, if passed, may have the most significant impact. Under the current system, a court may grant an injunction to halt the accused infringer's continued use of the patented invention. Thus, the threat of an injunction is an effective tool to bring accused infringers to the bargaining table rather than face the possibility of a business shut down. The reform provisions attempt to bring balance to the availability of an injunction. Rather than the routine grant of an injunction, the act directs courts to stay an injunction if there is no irreparable harm to the patent holder.

It may be unclear how particular reforms will impact other industries, but the med-tech sector seems united in opposition to many aspects of patent reform which they perceive to weaken or restrict patent rights. On the other hand, reform provisions believed to strengthen patent rights by tying the hands of challengers are favored. So, a move to eliminate the best mode requirement — a thorny and common defense to an infringement charge — would enhance the value of issued patents.

A deterrent for investors

The question today is not if patent reform will take place, but when and to what extent. Everyone recognizes the need for reform that enables patents to be issued in a more cost-effective manner and with greater assurance of validity. Similarly, patent litigation costs have escalated sharply, and reform is necessary to balance protection for innovation, competition and the public interest.

But companies that rely heavily on patent rights will be hard pressed to continue the flow of investor funds based solely on patent portfolios that are more easily subject to attack and from which exclusivity and large damages awards may no longer be available.

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