



February 10, 2009

Mr. Donald S. Clark
Secretary
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Room H-135 (Annex I)
Washington, D.C. 20580

Re: Evolving IP Marketplace – Comment, Project No. P093900

Dear Mr. Clark:

The National Venture Capital Association (NVCA) is the national trade association for the venture capital industry and represents approximately 460 venture capital firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. Our member companies are the primary funding source for both emerging technology and life-sciences companies. Venture capital has built companies that accounted for 10 million high-quality jobs and generated \$2.3 trillion in revenue in 2006 which equaled 17.6% of U.S. GDP. In addition, venture capital investment has driven the growth of the information technology, communications, life sciences, and more recently alternative energy industries in the United States.

Given the role that we play across a diverse set of industries, venture capitalists have the unique opportunity to observe the impact of patent system changes across a broad range of companies. NVCA welcomes this opportunity to provide comments on patent reform to the Federal Trade Commission (FTC) in preparation for the FTC hearing on "*The Evolving IP Marketplace: Remedies.*"

Impact of uncertainty of the IP marketplace

Small businesses and early stage start-up companies are the economic backbone of this country—their role in job growth and innovation is well documented. These small and emerging companies need certainty and predictability with regard to the validity and the scope of their patents. For many emerging companies, intellectual property is the only asset of value, and they rely on patents to protect that asset and deter competitors, large and

small, from free-riding on their innovative work. Moreover, emerging companies rely heavily on venture capital investment, which in turn, is based on assurance that the asset of value—intellectual property—is well protected and not subject to infinite and unpredictable challenges to scope and validity.

Specifically, NVCA is concerned about recent legislative proposals which would provide those who are opposed to a patent several years and two windows in which to bring post-grant proceedings. An open-ended post-grant review procedure (the “second window”) would allow third parties an alternate venue to repeatedly challenge a patent, using lower evidentiary standards than permitted in litigation, throughout the patent’s life. This would create harmful, extensive delays and uncertainty which could be highly detrimental to small venture-backed companies that rely on patent certainty to secure needed venture capital seed money. From the perspective of the venture capital investor, the companies’ patents will be perceived as having diminished value, because investors rely upon the availability of long-term patent protection due to the lengthy period that will be needed to recover a risk-adjusted return on investment. Furthermore, defending endless administrative challenges to patent validity would divert resources away from innovative research and development and toward legal fees.

In response to legitimate concerns over the issuance of “bad” patents, NVCA does support a limited 12-month window after a patent is granted to allow time for challengers to file opposition. This finite post-grant window will serve to quickly weed out bad patents, but will not foster repeated challenges to patent validity nor introduce uncertainty into the patent system.

Damages should be Based on Economic Value

Many large high-tech companies have argued that courts should be required to “focus on the proportionate share of the value of the product that is attributable to the patentee’s contributions, and not on the full value of the entire product” when awarding damages. NVCA believes that the value of the patented features is often difficult to separate from the value of a whole product. This is particularly true for medical device and biotechnology companies who greatly enhance the value of the entire product with only small changes. NVCA thus opposes a shift to solely awarding damages based on a “patent’s specific contribution over the prior art.” Apportioning damages in this way appears to be designed to deprive patent owners of the true economic value of their patents and will lead to tremendous uncertainty about the value of a patent. Such apportionment of damages also introduces added legal expenses to every patent case, discouraging investors from funding innovative technologies and therapies.

In addition, NVCA worries that apportionment of damages based on a “patent’s specific contribution over the prior art” would encourage infringement rather than licensing arrangements for the product. If damages awards are based upon the value of a component part rather than the value of the infringed product as a whole, the economic cost of infringement (value of the component part) becomes significantly less than the cost of licensing rights to the product (value of the entire product), which incentivizes infringement

rather than licensing. Again, this is a significant deterrent to venture capital investment in emerging companies.

In general, NVCA believes that current methodology for calculating damages is appropriate and working, and that patentees are not systematically overcompensated. However, we realize that the concept of apportionment of damages based solely on the market value of the patented component may be useful in some circumstances.

In the spirit of compromise, we suggest an approach that would maintain the current multi-factored analysis for the majority of cases, but would also define limited circumstances in which apportionment may apply. Under this approach, NVCA also supports certain revisions to the law of damages to require judges to act as “gatekeepers” in patent damage awards. This will ensure the law is properly applied by a jury, create a detailed record on which to appeal, and provide specific authority for judges to overturn jury verdicts not supported by the record.

Conclusion

Improving the quality of the patent system is critical to our nation’s leadership in innovation. The National Venture Capital Association (NVCA) supports comprehensive patent reform that is balanced, rewards inventors for their innovation and is mindful that defending against infringement is disproportionately burdensome for small, venture-backed companies, while the benefit of infringing relative to the cost is disproportionately attractive to large companies. Any patent reform proposal needs to ensure a vibrant investment climate that spurs on the next generation of pioneering research and continues to support small and emerging businesses.

Respectfully submitted,

Jack Lasersohn
The Vertical Group
On behalf of NVCA