The Entrepreneur's Guide to Patents, Copyrights, Trademarks, Trade Secrets & Licensing
By Jill Gilbert

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PART 2

Welcome to part two of our book. This month we are going to focus more on patents and all of the areas associated with patenting a product.

A patent operates as a monopoly on a technology. Patent holders have the exclusive right to profit from the innovations covered by their patents. They also have the right to keep others from selling a product that is similar to the one they've patented.

Patents are basically a contract between the government and the patent holder. Entrepreneurs are encouraged to undertake all of the research, testing, effort, and expense, and the government in return agrees to a 20-year monopoly on the product. After the 20th year the invention becomes part of the public domain where anyone can freely make, use, sell, or profit from it.

A patent protects what an invention *does,* as opposed to how it looks. Copyrights, on the other hand, have historically protected the aesthetic aspect of an invention. There are limits to what you are allowed to patent. Basically there are four categories of things that can be patented.

1. Processes can be patented.

2. Machines can be patented.

3. Articles of manufacture can be patented.

4. Composition of matter can be patented.

Let's look at each one of these individually.
Processes are a series of useful steps to accomplish a result. They usually involve some sort of physical or chemical interaction. As an example, you see carpeting that advertises the Scotchgard process for treating carpets which makes them stain resistant. That is a process. The process they use to take caffeine out of coffee is another example.

Machines are pretty self-explanatory. A car engine is a machine. But it can also be something very simple like a yo-yo. Believe it or not, a yo-yo is considered a machine because it has two interacting mobile parts--a string and a plastic body with a groove. So anything with mechanical parts that function as a machine falls under this category and can be patented.

An article of manufacture is usually an object without movable parts such as a chair, a mop, or a pen.

Composition of matter is a combination of chemicals or other materials that can be used to achieve a result. For example, Teflon is a combination of certain chemicals. Aspirin is a combination of different chemicals. This area is very broad and can cover many, many different things.

As in all things, patents can be extremely complicated. Patent law draws a sharp distinction between abstract ideas and specific, useful applications. For example, Einstein's theory of relativity, or Newton's law of gravity are considered laws of nature. But the millions of inventions applying these theories are all patentable. To be patentable, the first requirement is that an invention must fall within one of the categories described by the U.S. Patent Act. This act states: **"Whoever invents or discovers any new and useful process, machine, articles of manufacture or composition of matter, or any new and useful improvement thereof, may obtain a patent subject to the conditions and requirements subject to this title."**

The second requirement is that the invention must be useful. To be useful, an invention must have a stated purpose and it must actually work. Fortunately, usefulness is usually the easiest criteria for

mechanical and electrical patents to meet, because most inventions of this type are developed to serve a need. It is also required that the usefulness must be legitimate.

Requirement number three is that the invention must be novel. In this, certain factors have to be considered such as, are there other patents anywhere in the world similar? Are there other inventions that have been published anywhere in the world like this one? Are there similar inventions being sold or offered anywhere else in the world? Are there similar inventions already in the public domain? Or has another inventor built or used a similar invention and has abandoned it or concealed it?

The fourth requirement is that the invention must be non-obvious. Anything that's new is, by definition, non-obvious. Non-obvious is a requirement that the invention be sufficiently creative so that the actual contribution to the field to which it's introduced can use it effectively. Anything less than an actual inventive contribution doesn't justify the grant of the monopoly the patent offers. If a new product takes the market by storm, selling like wildfire, that's a pretty good indication that it's non-obvious.

The choice of whether to patent or copyright can sometimes be blurry. You need to think about what it's going to take to get your innovation to the market, as well as what it may take to protect your right as the market expands. Consider things like cost and timing. As we already studied, copyright protection is automatic once a work is in a fixed tangible form. We also studied that registration is an option and can usually be accomplished in about six months or less for several hundred dollars.

But obtaining a design patent, on the other hand, can cost thousands of dollars and take a couple of years sometimes. Patent protection is a lot broader. A patent restricts others from commercial use of the idea for the invention. A copyright, on the other hand, only protects against actual copying of the expression of the idea, not the functionality or commercial use of the idea. Copyright protection lasts for the life of the author plus an additional 75 years, whereas patent protection is 20 years.

Another example of this is computer programs. Copyright protection for computer programs only protects against the outright copying of the software. But a patent prevents the use of engineering a similar product. Business method patents are similar. Biotechnology patents such as DNA technologies often combine both copyright and patent because of the extreme complexity of what they do. Biotechnology has created new plants and other life forms by breeding or grafting. These can now be patented as well.

As a patent holder, your rights can be summarized in one word: “Exclusive.” As the owner of a U.S. patent you can exclude others in the U.S. from using, offering for sale, and selling what is covered by your patent. Not only is it an infringement for someone else to use your design invention, or business method, it's an infringement for them to attempt to accomplish the same result even using a different variation of it. It is also helpful to know that various patents can have a different lifespan. Defined patents for example are granted only for 14 years. Utility patents last for 20 years.

There is a time period between the date that a patent is filed and when the patent is actually issued. This period of time is called dependency. During this time, you have no rights under patent law. However, once the patent is issued you have the right to stop any infringing activities. Once your patent has been issued, it is not renewable once it expires. You can't re-patent the same idea.

The next thing to be aware of is that you can't patent a product until you've offered it to the public for sale more than a year prior to the date of filing your application. You cannot acquire a patent if you apply for it more than one year after the earliest date the invention was sold, offered for public use, or described in any publication.

Everything begins with the Patent and Trademark Office, referred to as the PTO. The PTO is the federal agency charged with reviewing patent applications and deciding which patents should be granted. The PTO is a division of the Department of Commerce. You can find the rules that govern the activities and administration of the PTO in the code of federal regulations which is a compilation of regulations passed by Congress. The PTO website is located at www.uspto.gov. At this website you can access many items such as standard forms to

fill out, publications explaining how to complete the various forms, information on how the PTO operates, the status of your patents, all the patents issued since 1790, and a list of frequently asked questions.

You can prepare your own patent application just as you prepare your own tax return or handle your own divorce. But the more you feel is at stake financially, the more you are encouraged to seek the services of a qualified professional. You can hire a patent attorney or agent, or someone who is registered to practice as a legal representative before the PTO to assist you in this process.

A patent is a form of personal property that you can sell, license, transfer, or leave to someone in your will. The actual inventor isn't always the owner of the patent. However, a patent application can only be filed by the inventor of the technology. Ownership then comes in different ways such as:

Invention by employees: An inventor is generally the rightful owner of his or her invention, even if they are an employee. However, inventions created in the context of the employer or employee relationship are governed by the workshop doctrine. This doctrine presumes that an employer has a free non-exclusive license to practice the patent.

Commissioned inventions and consulting agreements: A commissioned invention is one in which an inventor is paid to develop a technology as an independent contractor rather than an employee. Ownership of the patent is governed by the terms of the contract.

Joint ownership of collaborative inventions: The PTO permits applications for joint ownership of a patent. Joint owners often detail ownership contributions and obligations in a specific contract or agreement.

University sponsored research: Most colleges and universities that fund research require the faculty to sign agreements assigning ownership of patent rights to the University, and require their faculty members to actively cooperate in the patent process.

Government contracts: What happens when an inventor's employee is the government? Or, when the government collaborates with private industry to develop new technology? This involves separate contracts where the government can waive some or all of its rights. In general, if the government provides monetary support for development then the government also acquires the rights to that development.

Signed and licensed inventions: It's not uncommon for an inventor to lack the capital to bring his idea to market. A person may enter into agreements to assign total ownership, or license some of their patent rights to the manufacturers or other third parties.

The next step is to do a thorough search for prior inventions. If you truly have something that's valuable, you always want to use a Patent Attorney or agent. These people are like paid skeptics who attempt to identify all of the objections, issues, and arguments that may be raised by the PTO as they review your patent. The research that is done will provide you with applications from closely related inventions or other things that might pose a challenge. If your attorney concludes the invention has already been invented by another pre-existing invention, they will likely advise you not to invest any more time or money pursuing the patent. On the other hand, if they conclude that the invention is sufficiently novel to pass the patent office then you can decide to go from there.

You can get a lot of applicable information on your own from the patent and trademark website located at www.uspto.gov. This website allows you to search key terms and download relevant patents from the last 30 to 40 years. It will be a long and sometimes frustrating process because you will get a large number of patents that are related that you have to sift through. But it is very helpful for most people when getting started. This website provides free access to all patents filed since 1790 and the pending applications that are also filed. The basic process is simple. Go to the website and click on the patents button. Several options appear on the screen that follows. Click the “search patents” link and a screen will appear offering you the options of searching for issued patents or patent applications. You can click either one and access the database. Click the “quick search” link and enter your search item and you are on your way.

There are also companies you can pay for a small fee to do the search for you.

Micro patent is located at www.micropatent.com and contains United States, Japanese, European, and other foreign patents.

www.lexis-nexis.com is another helpful website that uses different journals and magazines to also search for you

The next job is to file the patent application. It is a tough job and requires careful drafting and personalized understanding of everything involved. The specification is the main part of the patent application. In the specification you're required to adequately describe your invention so that an individual can, upon reading the patent, make a working version of the invention without further experimentation.

The specification has to explain your invention in terms of what is called the “best mode.” The best mode is the most efficient and effective method known to the inventor for implementing the invention. You know of several alternative ways to create or produce the invention, but you have to disclose the best mode to carry out the invention. The specific part of your application must include the title which describes the subject matter of the patent.

It must also contain the abstract. The abstract is a summary of the invention. It is only permitted to be one paragraph long and explains the function of the invention and the technology used in very simple and general terms.

Next is cross references. This gives you the opportunity to disclose dates and serial numbers of related applications if needed.

Next is the background and summary of the invention. Then is the detailed description of how the invention works. This section must be very clear and enable an ordinary person to know how to use the invention. Then there are the drawings of the invention and descriptions of the views contained in the drawings. Drawings are not required, but most people include them. Last are the claims. Claims

are the most important part of the patent application. This is your legal description.

You also have a duty in your application to disclose information about other people's intentions and provide copies of patents and publications that may impact your claims. You have a specific duty to inform the PTO about other related patents. Then there is other legally required paperwork as well. You must include an oath or declaration. This is a signed statement attesting to the identity of the inventors, swearing that everything is true in the application. Also there must be the power of attorney which lets the PTO know who's representing you. This form must be on file. Then there has to be a certificate of mailing which must be signed and dated. Then there has to be a transmittal form that lists all the documents being submitted and the total number of pages. Finally is a self-addressed return card so the PTO can verify receipt of the application and materials.

You can also file an abbreviated application. If you find yourself short of time or money, but want to protect your idea, you can file an abbreviated application that establishes a filing date for your patent. This must include a description of the invention, and clearly explain how to make and use the invention. It must describe the best mode for re-creating the invention. The difference in this application is that it requires less detail than the federal application. There are actually several advantages to this process, particularly if someone could steal your idea.

Depending on what kind of person or organization you are, you can also get some price breaks. You can qualify for reduced fee if you are a non-profit organization, a small business with less than 500 employees, or an independent investor with a small business.

The period between filing your patent and having it granted is one that allows you to use the patent pending designation on your materials. This notice informs the public that you're applying for a patent.

Okay, let's say you've gone through all this process, and you are awarded a patent. The most important item at this point is to remember that once the patent is granted, you are required to pay an

issuance fee that will cover your registration costs for four years. You are also required to pay a maintenance fee after 3 1/2 years, 7 1/2 years and 11 1/2 years. Failure to do this can mean your patent will be forfeited. So be sure to mark your calendar with these dates.

Obviously, one of the main reasons to obtain a patent is to keep you legally above any people that would try to take advantage of your patent. If you own a patent, a court can issue an injunction in your behalf and compensate you for the economic loss as a result of the infringement. In most cases if the court finds the infringement was willful, they will triple your amount of damages.

It is good to educate yourself in the three types of infringements, which are:

1. Direct infringement.
2. Inducement of infringement.
3. Contributory infringement.

Direct infringement occurs when someone makes, uses, or sells a patented product. This does not always happen willfully. In fact, it's quite common it can be innocent simply because the person did not take the time to see if they were infringing.

Inducement of infringement occurs when someone does not directly make sales or use your product, but instead induces someone else to do it.

Contributory infringement occurs when a person knowingly sells a specially adapted component that contributes to the infringement of the patented process or product with the intent to profit from it.

Each of these three categories is punishable by law in court.

One of the things I encourage, and the book does as well, is to try to resolve these kinds of issues without litigation. Often the infringer is not a serious threat, and you can simply ask them to stop. The book contains a letter that you can write to ask the infringer to cease. You can send this through an attorney so it's a matter of record as well. It should contain the following information:

What constitutes the basis of their infringement so you have proof, the type of relief you are requesting, facts to establish your ownership of the patent such as the registration number, and the action you will take with the court if they don't cooperate. Many times this is all you need and can save you a lot of money and time in court.

Another growing problem is international trade. Many countries like China are famous for infringing on copyrights and patents. So the U.S. Customs Service and International Trade Commission have been established to help you. They can be contacted at the Commissioner of Customs, Attention IPR Branch, Room 2104, U.S. Customs Service, 1301 Constitution Ave., Washington, DC 20229.

It's also important to realize that when you apply for a patent, there may be competing patents currently in the system waiting to be approved. Unfortunately, there is no resource that can accurately provide you this information. Also remember not all patent applications are required to be published. Often you need to stay on your toes for at least a year after your patent has been issued before you can really be confident that you are the exclusive owner and nobody is going to challenge you. But remember, if you find out there is another patent, it's not the end. Sometimes people have patents and they don't use them, and it may be about to expire. Then you can use it. You can also purchase the patent. You could also make modifications and enter into a licensing agreement with the rightful owner of the patent. You can attempt to break the patents. There are always alternatives, so keep an open mind, and don't just give up when you face a rejection.

Now let's go into trade secret protection. Trade secret law provides a mechanism to keep valuable knowledge from your competitors and other areas of intellectual property. Trade secret law recognizes that proprietary information is a unique form of intellectual property. As with other forms of intellectual property, it is in the interest of society to promote the research and development that leads to such advancements. As we studied in the first half, registration of copyright requires public exposure and publication. But this is the exact opposite of what you want for intellectual property you are trying to keep confidential. Patents require disclosure of information sufficient

to replicate your invention. Your patent application is freely available to your competitors on the PTO website.

So there are special laws protecting trade secrets. What is a trade secret? Because something is secret doesn't necessarily mean it is valuable. Trade secrets must possess both confidentiality, and have value. Here is the legal definition: **All trade secret information, including a formula, pattern compilation, program, device, method, technique or process that: The rise of independent economic value, actual or potential, from not being generally known to, and not being readily discernible by proper means, by other persons who can obtain economic value from its disclosure and use, and the subject of efforts that are reasonable under the circumstances to maintain its secrecy**.

That's what the law actually states. I wish attorneys could write it a little bit more simply, don't you? The simplest way to determine whether something is a trade secret is to ask yourself whether your business would be damaged if your competitors got hold of the secret. If so, you have a trade secret for sure.

There are some great advantages of trade secret over patent protection. Trade secret protection is much cheaper and faster to obtain than patent protection. Patents can require upwards of $10,000 and many years to prosecute if there is a challenge. There is no guarantee that a patent will be granted. But with trade secret protection, you have perpetual protection. For example, the recipe of Coca-Cola does not have a time limit. It is a trade secret, not a patent. You also get broader protection with a trade secret. Trade secret protection is automatic if your information falls within the statutory definition. You are not at the mercy of the patent office to grant your application and don't need to endure the average year to year and a half waiting process. Last of all, you are not required to prove that your information constitutes novel technology as you are required with a patented invention.

As a quick side note, remember if there are others you are working with, such as employees who have access to and use what is a trade secret or patent, then it is important to often review your

confidentiality and non-disclosure agreements. This is a very critical legal step.

Now let's look at taking your licensed patent or trade secret to market. Licensing agreements are commonplace today. The licensing of ideas has generated billions of dollars around the world and has made possible the development of technologies that would not have otherwise been made available to people like you and me. Starting up your own business to market your invention does give you absolute control of it. But it also means that you must assume all the financial risk and headaches of any start-up business. Not too many people have the investment capital or the desire to do this. So fortunately, you can enter into a number of legal arrangements and agreements that transfer the financial risk and responsibility for marketing of your invention to a third party. Under these types of agreements, you receive payment in exchange for relinquishing some of your rights.

First, there is an assignment agreement. In most cases assignments are an outright sale of your property to someone else. You get paid once and relinquish ownership of the patent, copyright, or trade secret.

Next, there is a licensing agreement. A license allows you to retain more rights than an outright sale or assignment of your idea. Licenses typically involve royalty payments based on a percentage of sales. This is often a very good way to do it, because you can raise needed capital, you can penetrate new markets, and benefit many other ways.

Then there are manufacturing agreements. If you don't happen to own your own plant or factory, you might find it helpful to enter into a manufacturing agreement with a third party. These agreements typically provide that the manufacturer will be paid a specified amount that's not directly tied to the marketing success of the product. It is very critical that your manufacturing agreement addresses issues of both confidentiality and competition.

Next, you can do a joint venture. A joint venture as the name implies, is a collaborative effort between two or more people or companies. Typically these companies enter into an agreement under which they

form a third, separate legal entity for the purpose of launching a specific marketing endeavor.

As you look at any of these possibilities, remember that your ideas are very vulnerable as you attempt to market them this way. The very act of submitting your ideas to a third party results in the loss of your confidentiality. So you must enter into an enforceable agreement that regulates the disclosure and use of the material that you are submitting. The two main agreements that protect you are confidentiality agreements, or non-disclosure agreements. Be sure the agreement identifies the information that you specifically want to be kept confidential, and the specific purposes for which you authorize use.

The book also has a section on software technology. This is the fastest moving area of patents. The biggest challenge is that neither patent nor copyright protection provides a perfect fit for software. It is kind of a combination of both so it gets very confusing. Sufficient to say, if you are going to patent some software you need to get a competent attorney to help you. These kinds of patents usually cost over $10,000, and take an average of 18 months to two years to obtain. The challenge of this is obvious. By the time your patent is approved, it is probably outdated by new technology created during this time. So what most do, is file for copyright protection which is immediate and this protects you through the lengthy approval process for your patent.

The Internet is similar. The world of e-commerce is evolving very quickly as well. However, it has stabilized somewhat in the last few years and it is quite easy now to get your domain name protected, and the overall appearance of your website can be protected. The U.S. Copyright Office now permits copyright registration of both graphical and textual elements of a website.

Finally, you'll want to explore the tax implications of patents, trademarks, copyrights, and trade secrets. These can all be significant line-items on your balance sheet, creating taxes that will result in tax write off’s you can benefit from. Many of these expenses are tax deductible. According to Section 197 of the Internal Revenue Code, you can write off expenses for copyrights, trademarks and

trade names, trade secrets, formulas, processes, designs, patterns, formats, package designs, computer software, contracts for the sale or use of assets, and interest. These are contributions you have made to films, sound recordings, video tapes, books, or other similar property. These can be amortized over a 15-year period, or shorter if you desire. There are benefits both ways. I generally encourage people to expense the whole amount the first year.

Capital assets such as those described above, can either be long-term or short-term. Long-term capital assets are assets held for more than one year. Long-term capital gains tax rates are generally lower and more favorable rates. Short-term capital gains are taxed at ordinary income rates. This area can also get extremely complicated. Suppose your company enters into an agreement to license a patent it owns, to someone else. Even though the agreement between you and the licensee may be specifically titled a license, the IRS often will call this a sale and tax you for it. Trademark licenses are even trickier and you definitely need an attorney for this. If you sell a copyright, that is calculated as a capital gain. The bottom line of all this is, be prepared to use qualified attorneys who are experts in these areas.

The last part of the book gives some very helpful practical tools, letters, and applications that are worth the price of the book. There's a sample trademark application which is very helpful, there's an employee confidentiality agreement that is good, there is a sample employee non-disclosure agreement, etc.

I hope you have found this to be helpful and that it gives you the basic tools to move forward as you create and innovate in the days ahead.

Leo