

**How To Protect  
and  
Benefit From  
Your Ideas**

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## **FOREWORD**

**T**his book has been prepared for general use and guidance of inventors. It states the Association's best judgment as to the law of intellectual property rights and related subjects as of the date the book was prepared, but it should be understood that the law can and does change. You should consult an attorney for specific advice on any particular legal questions you may have.

The organizations and publications listed in this book are listed for your consideration, but their inclusion in this book does not constitute an endorsement or recommendation by the American Intellectual Property Law Association. They are merely intended as sources of information which you may wish to consult in determining how to protect and promote your invention.

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## INTRODUCTION

**T**his booklet is intended to help individuals profit from their ideas. It is *not* intended as a “do-it-yourself” book which will allow you to do without the services of a lawyer. However, it is intended to provide you with basic information which will help you to decide whether or not to go to a lawyer in the first place, and which will help you to understand what the lawyer says to you if you do consult with a specific lawyer who specializes in the practice of intellectual property law.

The term intellectual property covers invention, industrial design, trademarks, trade secrets and literary works such as books, films and records. Intellectual property law comprises the patent, trademark, trade secret, copyright and unfair competition laws that protect this intellectual property.

After you have read this booklet, if you would still like to discuss your idea with a lawyer and do not know one, please refer to Chapter VI paragraph 6.01 for information relating to finding a lawyer experienced in seeking Intellectual Property protection.

Many lawyers work for corporations and do not accept outside clients. If you know, or work with, an in-house Intellectual Property lawyer, he or she usually can give you the name of one or more qualified lawyers in private practice. Alternatively, the in-house lawyer will advise you on how to contact the local bar association for a referral to another lawyer.

## Chapter I

### WHAT KIND OF IDEA DO YOU HAVE?

**A**n idea is first the thought of one or more persons. We sometimes call a “new” thought an idea, but not all ideas are new. Many ideas have been around for a long, long time, even though the idea may be new to the person who has just thought of it. Some ideas are good, and some ideas are bad. Some ideas can be commercially exploited, and other ideas, no matter how good they are, cannot be commercially exploited. Some ideas can be protected by trade secrets laws, patents, copyrights or trademarks, and others cannot. In some cases, even though an idea is protectable it may have little or no commercial value.

Let’s think about your idea for a moment. First, let’s think about what you as an individual can do with your idea. If you still have it in your head or in your private papers, it’s still yours and yours alone. An idea can always be kept secret if you don’t try to exploit it. You can do nothing with your idea. Or, you can explore your idea, thinking about it from every angle; and you can improve it by adding ideas of others or building upon it yourself. You can use your idea in your daily life, or you can help others use it. However, if you only use your idea yourself or give the idea away to others without charge, chances are you will never profit from the idea to any great extent.

This booklet deals with ideas from which you want to profit. Generally speaking, in order to profit from an idea, it is necessary to receive some sort of legal protection for the idea. Different types of ideas can be protected in different ways, and some types of ideas cannot be protected at all.

Some ideas are useful in the sense that they may be incorporated into devices, structures, machinery, or other things. For example, if an idea is for a method or process of doing something, a machine, an article of manufacture, or a composition of matter, and if your idea is truly “new,” you may be able to protect it by obtaining a utility patent from the United States Patent and Trademark Office. Among the newer candidates for such protection are the “genetic engineering”, “computer software program” and “method of doing business” fields.

Other ideas are artistic, or aesthetic. If you have invented a new and original ornamental design, it may be protectable by a design patent, also issued by the United States Patent and Trademark Office, or by a copyright, which may be registered with the United States Copyright Office.

Other “ideas” may be new species of plants. If you have discovered or produced a new variety of plant, it may be protected by a plant patent, utility patent or both from the United States Patent and Trademark Office or by a certificate of plant variety protection from the Department of Agriculture.

However, ideas don’t have to be patentable or copyrighted to be protectable. For instance, except that practical applications thereof may be patentable, naturally occurring phenomena, laws of nature, mental steps, most printed matter, and mathematical formulas are not protectable under our patent laws. However, if an idea in one of those categories would be helpful or useful to others if known by them, you might be able to receive compensation for your idea by disclosing it to them *in confidence* under a contract or the express understanding that, if they use the idea or disclose it to others, you will be compensated. Here you are treating your idea as confidential information or a trade secret.

Another type of potentially exploitable idea is a slogan or fanciful name or mark suitable for use on or in connection with the sale of goods or services. Such a name or slogan can constitute a trademark or service mark. However, rights in a trademark or service mark are established by using the mark in selling goods or services under the mark, not simply by thinking up or “inventing” the mark. Thus, in order to obtain protection for your proposed mark, you will either have to begin using it yourself or sell the idea to someone else who will begin using the mark. In the latter case, the idea must be sold in confidence, and your rights will be purely contractual.

Although ideas *as such* are not protected by copyright law, the particular *expression* of an idea in a work of authorship, such as poetry, an article, a book, a painting, a musical composition, lyrics, a map, a photograph, a sculpture or even a pictorial design, can be protected under the federal copyright laws. Copyright protection is also available for computer software programs. While a copyright exists from the instant you embody such an idea in tangible form, in order to sue for copyright infringement, the copyrighted work must be registered. Registration can be obtained from the Copyright Office of the Library of Congress.

We haven’t covered every useful idea in the foregoing, but you may now be able to classify correctly many of your useful ideas and, in some cases, you may now be able to see some ways they may be protected.

#### Helpful Addresses:

US Patent & Trademark Office  
Office of Public Affairs or  
Office of Independent Inventor Programs  
PO Box 1450  
Alexandria, VA 22313  
[www.uspto.gov](http://www.uspto.gov)  
Phone: (703) 305-8341 or (703) 306-5568 or (571) 272-9950  
Fax: (703) 308-5258 or (703) 306-5570

US Copyright Office  
Library of Congress  
101 Independence Avenue, SE  
Washington, DC 20559  
[www.copyright.gov/](http://www.copyright.gov/)  
Phone: (202) 707-3000



## Chapter II

### OWNERSHIP OF AN IDEA/INVENTION

**B**efore examining ways to protect ideas in more detail, you should consider the question of who owns them. An unprotected idea which is known to many people is sometimes said to be in the public domain—that is, no one owns it. But who owns *your* “new” and undisclosed idea? You might think that, if you thought of the idea, it must belong to you. Most of the time this is true, but not always.

If you came up with your idea as a part of your job, then there is a good chance that the idea does not belong to you. If you were hired to write a book or to paint a picture, then the copyright (that is, the legal right to prevent others from copying the book or picture) belongs to your employer—in the absence of a rather unusual contractual agreement between your employer and you. Similarly, if you were hired to design a brand new machine, then the right to obtain a patent on the new machine belongs to your employer. In such instances the agreement under which you have been hired should set forth ownership of the rights to the machine.

Many people who were not expressly hired as “design engineers” or the like, nevertheless make inventions which are somehow related to their employment. Many companies require *all* employees, whether normally engaged in design work or not, to sign pre-employment agreements which provide that all inventions the employee makes while employed will automatically belong to the company. Other companies require only certain employees to agree to assign only certain inventions to the company. If you have such an agreement with your employer, then it will, more than likely, control who owns any inventions you make while employed (and perhaps even for a short time after you leave your employment).

However, even if you do not have such an agreement with your company and were not hired as a “design engineer,” your company may nevertheless have certain rights in your invention. The extent of those rights will depend on the details of your relationship to your company and the relationship of your invention to the work you are hired to perform. This is a complicated area of the law and one you should consider carefully with your attorney if your invention bears any relationship to your job.

Similarly, even though you were not expressly hired to “write a book” or to “paint a picture,” if you do write a book or paint a picture which is related to your employment (as, for instance, by having been written or painted on “company time”), then you should discuss the question of ownership carefully with your attorney.

As for your right to use your own idea (as distinguished from your right to prevent someone else from using it unless they pay you for the privilege), every originator of an idea has a common-law right to use the idea unless that right has been contracted away or is limited by the rights of a prior originator of the idea. In this respect, if another had come up with the same idea before you had, had established a property right (such as a patent right) in the idea, and the right was still in existence (*i.e.*, had not yet expired), the first originator would have prior rights. In that case, you would not be able to use your own idea without the permission of the first originator.

## Chapter 3

### PITFALLS

In every business there are pitfalls to avoid. Moreover, there are a number of common misconceptions with respect to the protection of ideas which should be corrected. While we have not been able to catalog all such pitfalls and misconceptions, we have set forth below a few to look out for in protecting and exploiting your idea.

#### 3.01 Letter to Yourself

Many people believe that they and their invention can be protected if they write a letter to themselves setting forth a disclosure of their invention. Since the letter will normally bear a postmark by the US Postal Service showing the date it was mailed, it is believed that a provable date of possession of the invention is obtained for the price of a stamp. However, *this is not generally considered good practice, and the evidence obtained by this method is not likely to be sufficient to establish a date of invention.* For one thing, an envelope can be steamed open to change the disclosure after the postmark date and then resealed. For another, the law generally requires that evidence concerning invention dates be corroborated—that is, that there be someone or something other than the inventor and his contemporaneous writings to establish that the inventor really did what he says he did at the time he says that he did it.

A better approach is to prepare an invention disclosure and have it read and witnessed by at least two people who understand the invention. (This procedure is more fully set forth in Section 4.01.) Then those two people can be called on to testify that they read and understood that disclosure on the date indicated, thus establishing a date of conception at least as early as the date they read and understood that disclosure.

The best approach of all is to see your attorney and let the attorney help you to get started protecting your idea.

#### 3.02 Patent Pending

The statement “*Patent Pending*” can only be placed on a product or packaging for a product after a patent application has been filed. United States law provides for its use and makes it a crime to use it falsely. However, *it does not establish any specific legal rights.* It is only a notice of possible future protection.

Nevertheless, a notice of possible future protection can have very important practical value. Another company which is thinking of producing a similar product will see the notice “Patent Pending” and will know that the product may ultimately be protected by a patent, but it will have no way of knowing what the scope of that patent will be or when it might issue. Thus, it will not be able to safely “design around”

the first company's rights, and it may either stay out of the field altogether or design a more radically different product than it actually had to. For that reason, sometimes a "Patent Pending" notice has more practical value than the patent which eventually issues!

### **3.03 Offering to Sell an Idea Before You Have Established a Property Interest in the Idea**

There are some companies and individuals who will encourage you to retain them to use their best efforts in selling your idea before you have established a salable property interest (such as a patent right) in the idea. The Federal Trade Commission, an agency of the US government, has found that a number of these companies and individuals are fraudulent. Thus, it is always better to look *very, very* closely before you pay.

One thing you should do before retaining a company or individual who is interested in marketing your idea for you, besides carefully looking over that company or individual, is to find out if your idea is really protectable by seeking advice from your patent attorney.

As discussed in Section 4.10 on Misappropriation of an Idea, you may have a claim for compensation for the service of submitting an idea to a company even if your idea is not patentable, but don't count on it. In the real world, it is extremely unlikely that you will be able to obtain compensation in this manner, since most companies will not look at your idea unless it is disclosed in a non-confidential manner and with a release or waiver signed by you stating that you are relying solely on whatever rights you can establish under patent, trademark and copyright laws of the United States. Accordingly, if you offer to sell an idea without at least knowing that there is a good chance that you will be able to establish a property right in the idea, you may be giving up your trade secret rights.

### **3.04 Disclosure Document "Protection"?**

Beware of the claims made by invention development companies or others on

### **3.04 Disclosure Document "Protection"?**

Beware of the claims made by invention development companies or others on the value of the filing of a disclosure document in the Patent and Trademark Office. As clearly set forth in Section 4.03, entitled "Disclosure Document Program," a disclosure document is, at most, evidence of a date of conception of an idea. *It does not provide any protection over the idea*, and, if further steps are not taken fairly promptly to protect your invention, even the evidence of a date of conception is unlikely to do you much good.

### **3.05 Evaluation Reports by Invention Development Companies**

Another pitfall to look out for when dealing with a company which offers to help you develop and market your idea is its providing you with an elaborate "evaluation report" of the idea. Such reports typically state in glowing terms that the idea has great merit and should be readily salable in the marketplace. These evaluation reports have little or no value to companies that are really interested in purchasing an idea. It generally appears that the only purpose of such evaluation reports is to convince you to retain the services of that invention development company to market your idea for a substantial fee.

Sometimes, fees of from \$1,000-\$10,000 are collected with the promise that such companies will use their “best efforts” in trying to help you place or sell your idea.

Some invention development companies even do a patent search which turns out to be of questionable quality and fails to provide a needed opinion as to patentability of the invention. *Very, very seldom are such efforts successful.* Moreover, if they disclose your idea or invention before a patent application is filed, they can destroy any chance you do have for obtaining patent protection for your invention in many foreign countries, and, if the idea or invention is disclosed more than a year before a patent application is filed, the disclosure can destroy any chance you have for obtaining patent protection on your invention in the US as well.

### **3.06 Vanity Publishers**

The publisher which advertises for authors and which offers to publish the author’s book for a fee from the author may be similar in operation to the fraudulent invention development company. Although such “vanity publishers” promise to help place the book in bookstores and book departments and to advertise the book to assist sales, they generally do very little except print the book. In essence, what they do is print a number of copies of your book for a substantial fee. *If you want to publish your own book, you may be better off hiring your own printer.*

### **3.07 Songwriting Assistance Companies**

Also similar in operation to the fraudulent invention development companies are the “songwriting assistance” companies. Such companies often represent that they have contacts with the “music industry” and that they will help you write music or lyrics and will help you get a recording contract. Their services include helping you to register the copyright in your song, notifying your local newspaper that there is a songwriter in the community, and even “cutting” a record containing your song. They charge a lot of money for their services, and *the probability of anyone ever making money on a song or obtaining a recording contract as a result of the efforts of these companies is low.*

### **3.08 Sale of Your Invention to Your Own Company**

If you are successful in making money with your idea, you may decide to sell it to your own company and to take capital gains treatment on the sale. Before you try to do this, you should talk with a lawyer knowledgeable in both patent and tax law. While this gambit can be employed successfully, it is so complicated an area of the law that even many patent and tax lawyers are not aware of how to do it properly. Thus, this is a technique which should be investigated with special caution and *not* tried “on your own”!

### **3.09 Sale of Your Invention to Another Party**

Often inventors feel that time, effort and money to develop their ideas to the point of commercialization is beyond their capabilities. Accordingly, the inventor would rather sell the rights to the idea to another (*i.e.*, a corporation, individual, partnership, etc. hereinafter simply referred to as “a company”) and let them “take the ball and run with it.”

First of all, although many individuals may feel that they have a great idea for new products that would make money for everyone involved, it is often difficult to get a company interested. For a variety of reasons, it is often impractical or uneconomical to develop and exploit an idea. Also, there is a big risk involved in investing money in the development of a new product. Although it may appear to be a good idea to you, it may not be an economically feasible idea.

Nevertheless, because of the inventor's limitations, it may be more practical to try to sell the idea to a company rather than for the inventor to develop the idea alone. However, as noted in Chapter IV, if you have not established patent rights, a copyright, or trademark rights, you are taking a chance in submitting your idea to a company in an open, non-confidential manner. Accordingly, if at all possible, you should try to submit your idea "in confidence" to a company.

In the real world, it is very unlikely that a major company, particularly one with which you have not had previous contact, will agree to look at your idea in confidence. You are then faced with the dilemma of disclosing your idea to the company in an open, non-confidential manner, or not at all.

From the company's point of view, they often do not want to get involved with an idea which is not patented (or described in a pending application) since its value is very indefinite. Also, the idea itself may be nebulous or ill-defined. The company may want any idea of interest to them to be patented or at least the subject of a pending application because of the added patent protection. Also, the company may already be working on the same idea, and they don't want you to think they copied your idea when they subsequently introduce their related product. Therefore, when disclosing or offering to sell your idea to a company, you may wish to use a letter of solicitation drafted by your attorney, or use the attorney's offices as your intermediary in the company contact. Such a person may also permit a freer discussion and encourage the company to negotiate with such a well-informed counselor.

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## CHAPTER IV

### HOW DO I PROTECT MY IDEA?

#### 4.01 Establishing Dates of Invention

If your idea is of the type which appears to be protectable by a utility patent (see Chapter I), then the first thing you should do is to prepare a disclosure of the idea or invention in the form of a written description of the idea. If the idea is such that it can be illustrated in one or more drawings, your disclosure should also include drawings—as many of them as are necessary to clearly illustrate the invention. The description of the idea should make reference to the drawings and should utilize reference numbers or letters to identify various parts of the idea as they are illustrated in the drawings. Also, your disclosure should indicate what the idea is, how it works, how it can be used, and how it is believed to be an improvement over what has been done before.

The invention disclosure should conclude with the following statement: “This invention disclosure was written by [your name] on [date],” and then you should sign it. Underneath your signature, print or type your name and address. Beneath that print: “Read and understood in confidence this \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_,” and then provide several lines for the signatures and printed names and addresses of at least two other people. These people should be (1) people who you trust to maintain your idea in confidence, (2) people who are capable of understanding your invention, and (3) people who clearly are not co-inventors with you. The second and third points are particularly important, since the whole purpose of having them witness the invention disclosure is to be able to call on them to testify that they actually did read and understand the invention disclosure on the date indicated. If they do not understand the invention disclosure, they will not be able to tell if something was added to it later, and, if they are your co-inventors, they will not be allowed to corroborate your (and their) invention.

You and the witnesses should all carefully review and sign the invention disclosure. You need not sign it at the same time, but you should remember that the date on which the witnesses sign the disclosure is really more important than the date on which you sign it.

This procedure is important in establishing a date of “conception”. Under the patent law, it sometimes is necessary to prove the date of your invention. Proving the date of your invention generally consists of proving the date of your conception of the idea and the date on which you actually made and tested the first sample of your invention or first carried out your invention successfully if it is a process. (This is called an “actual reduction to practice” in patent law.) In some cases, proving that you worked diligently in going from your conception to either an actual reduction to practice or the filing of a patent application may also be important.

As with conceptions of inventions, it is very important to have witnesses (someone other than your co-inventor(s), if you have any) who can testify that your actual reduction to practice was actually made or accomplished on or by a given date. Again these witnesses must be people who actually understand your invention.

It may be important to keep a diary or other written record of the date when your idea was conceived and the steps taken and work that took place to reduce the invention or idea to practice. In this respect, entries of the work done, the dates that parts were ordered, notations of delays in obtaining parts, and notes on the assistance rendered by others should be set forth in the diary. In addition, all diary entries should be witnessed and dated, in writing, by at least one person other than a co-inventor.

Keeping a witnessed record or diary of the diligent efforts of the inventor to reduce the idea to practice is very important if someone else should invent a similar invention and file a patent application at about the same time you do. If this occurs, it may then be necessary to prove your date of conception of the idea and the date the idea was reduced to practice. Additionally, you may have to show diligence from before the time the other party conceived the idea to the time you reduced your idea to practice.

All of this is very complicated. You may not remember it all, but *remember two things. First, keep good notes and have good witnesses. Second, the sooner after you have had your idea that you have a patent application on file, the less important the proof of conception, diligence, and actual reduction to practice dates is likely to be.* The filing of the patent application is called a “constructive reduction to practice,” and it establishes an invention date which does not have to be corroborated by witnesses or substantiated by other evidence.

#### **4.02 Keeping Your Idea Confidential**

As long as your idea is not disclosed to others or is disclosed to others only in confidence, you have some limited protection over your idea. This is true at least as long as no one else comes up with a similar idea and as long as no one to whom you have disclosed your invention breaches your confidence by telling it to others. In this respect, if you do disclose the invention to someone in confidence and that person then discloses it to others who use the invention, you can sue the person to whom the confidential disclosure was made for breach of the confidential relationship. Sometimes, these suits are hard to win. Thus, if you are trying to keep your idea confidential, you should always obtain a confidential disclosure agreement in writing from the person to whom you are going to disclose your idea *before* you disclose it to him. That agreement should say that that person agrees to keep the idea confidential and not to make any use of the idea absent a further written agreement with you.

*Unless you have a special relationship* with a manufacturer, it is very unlikely that the company will agree to evaluate your idea in confidence. Thus, if you decide to submit your idea to a manufacturer before a property interest such as a patent right is established *there is risk involved.* In this respect, it is a common practice for a corporation to advise an individual who submits an idea to it that the individual must sign a waiver of confidentiality agreement before the corporation will look at the inventor’s idea. Such agreements generally state that there is no confidential relationship established between the individual and the corporation, that the corporation is agreeing to look at the idea solely to see if it is



interested in licensing or purchasing rights to the idea, *and that the individual relies for compensation solely on any rights he may have or later obtain under the patent, trademark, and copyright laws of the United States.* If you sign such an agreement, you must realize that it means exactly what it says, and that unless you then have or are later able to obtain patent, trademark or copyright protection for your idea, you are very unlikely ever to receive any compensation from the corporation even if it does use your idea. Moreover, you should weigh the fact that a non-confidential submission of an invention to a manufacturer before you have filed a patent application may preclude you from ever obtaining valid patent protection in many foreign countries, and may start a one-year time period running after which you will not be able to file an application for a patent on the invention even in the United States.

#### **4.03 Disclosure Document Program**

The US Patent and Trademark Office provides an excellent and economical way for an inventor to establish a date of conception of his invention. In essence, the Patent and Trademark Office's Disclosure Document Program is a sophisticated variation of the old "mail yourself a letter" ploy discussed above under "Pitfalls." The filing of a Disclosure Document may be important since, as noted above, a conflict between different inventors claiming the same invention is resolved in favor of the person who can show that he was the first to complete the invention, and a vital step in proving completion of an invention is to prove "conception" of the invention.

There are two things that an individual with an idea must know in order to utilize the Disclosure Document Program. They are: (1) the simple mechanics of how to use it, and (2) its limitations.

*Do not use this program unless you clearly understand its limitations. Do not assume it grants any legal rights by itself.*

##### **(1) The Mechanics:**

Prepare a description of your invention. There is no special form, so you can do this yourself. However, be certain that the description is sufficiently clear so that one having ordinary skill in the field of your invention can understand it. Also, the Disclosure Document must be limited to written matter or drawings on paper or other thin, flexible material, such as linen or plastic drafting material, having dimensions or being folded to dimensions not to exceed 8 by 13 inches (21.6 x 33 cm.). Photographs also are acceptable. Each page should be numbered. Text and drawings should be sufficiently dark to permit reproduction with commonly used office copying machines.

Attach to the description a \$10 check made out to "The Commissioner of Patents and Trademarks," and a cover letter, in duplicate, stating:

- The undersigned requests that the enclosed papers be accepted under the Disclosure Document Program and that they be preserved for a period of two years. A check for \$10 to cover the governmental fee is enclosed herewith.*
- Please stamp the enclosed copy of this letter with the date of receipt and the Disclosure Document number and return it to me.*

Mail these documents to the Commissioner of Patents and Trademarks, Box DD, Washington, DC, 20231. The Patent and Trademark Office will stamp and return the duplicate copy of the letter to you, and the Disclosure Document itself can be used as otherwise uncorroborated evidence of conception as of the date of receipt of the Disclosure Document by the Patent and Trademark Office.

## **(2) Limitations:**

First, the disclosure is *not* a patent application. Unless a patent application is filed and a patent is obtained, you will never be able to exclude anyone from making, selling or using your invention. The US Patent and Trademark Office only retains Disclosure Documents for two years in the Disclosure Document program. If a patent application is filed and the patent applicant requests transfer of a Disclosure Document to the patent application as evidence of the date of conception, the Disclosure Document will be transferred. Otherwise, it will be destroyed after two years.

Second, understand that “completing the invention” requires two distinct acts: (1) “conception,” which, in this particular case, is established by preparation and filing the Disclosure Document, and (2) reduction to practice, which can be “actual reduction to practice” (making and successfully testing a working model or successfully carrying out a process invention) or “constructive reduction to practice” (filing a patent application). Moreover, reduction to practice, whether actual or constructive, should be completed as promptly as possible after the date of conception to avoid possible loss of rights.

To summarize, after you establish your date of “conception” by filing the Disclosure Document, you still should proceed diligently to reduce your invention to practice in order to establish promptly the crucial date of “completion” of your invention.

In view of the severe limitations of the Document Disclosure program, one is generally well advised not to use it at all, but to establish dates of invention as discussed in Section 4.01, to proceed promptly to find out whether or not the filing of a patent application seems advisable and, if it does, to file the application promptly.

## **4.04 Patentability Search**

Once you have prepared an invention disclosure of your idea and before submitting the idea to a manufacturer, it is a very good idea to ask your patent attorney to conduct or obtain a patentability search and to give you his preliminary opinion as to the patentability of your invention. This is very important, since if your idea has already been disclosed in a published article or an issued patent or if it would have been obvious to one skilled in the art from the teachings of one or more such publications, it will be impossible to obtain a valid patent on your invention. If this is so, you may have nothing to sell, and it may not be worthwhile for you to proceed further.

Patentability searches also have two other important values. First, if your patent attorney knows the most relevant previous technology (“prior art”) when he prepares your application, he will be able to write a better, more persuasive application. Second, a patentability search may turn up an unexpired patent, which would be infringed by the manufacture, use, or sale of a device or product embodying your idea. This means that, even if you could still obtain a patent yourself, someone else has a dominating

patent, and your invention could not be marketed until that patent expires, unless a license could be obtained from the owner of that patent.

Patentability searches are typically not exhaustive, and it is not uncommon for the patent examiner to cite a better reference than was cited in the novelty search. However, they do weed out a lot of obviously unpatentable inventions. *It is better to know that your invention is unpatentable as the result of a relatively inexpensive patentability search than to find that out only after you have gone to the far greater expense of filing a patent application!*

Typically, your patent attorney will require a retainer before agreeing to conduct or obtain a patentability search. After completing the search, the attorney will carefully review the patents located in the search and provide you with an opinion on patentability. That is, he will tell you whether or not he believes meaningful patent protection can be obtained on the invention.

Once it is determined that some meaningful patent protection may be obtainable on the invention, you can either submit the idea to manufacturers to see if they are interested, noting of course the risks set forth in Section 4.02, or proceed with the preparation and filing of a patent application on the idea.

#### **4.05 Patent Protection—Utility Patent**

A patent is an exclusive grant giving its owner (called the patentee) the right to exclude others from making, using, or selling within the United States (and as of January 1, 1996, also the right to exclude others from offering for sale within or importing into the United States) the invention as defined in the claims of the patent for a fixed period of time. This period of time is ordinarily 20 years from the date of filing the patent application. However, for a patent in force on, or that results from an application filed before June 8, 1995, the time period is 17 years from the date the patent is issued or 20 years from the date of filing the application, whichever is greater. Both the 17 and 20 year time periods can be extended up to five years in certain instances.

A patent is obtained by filing an application in conformance with the various statutes enacted by Congress and the numerous rules promulgated by the United States Patent and Trademark Office. Upon filing of the patent application, an examination is made to determine if the application adequately describes the invention, if the invention includes patentable subject matter, and if the invention is novel and unobvious from what is already known in the field to which the invention pertains.

A patent application includes a specification, one or more claims, one or more drawings (if the invention is of a type which can be illustrated), an inventor's oath (or declaration), and a filing fee.

The specification is the portion of the application which describes how to make and use the invention. It is very important that this portion of the application be accurate, clear and sufficiently detailed so that any person skilled in the particular field of your invention could make or carry out your invention using only your disclosure and knowledge generally available in the field.

The claims, on the other hand, are not intended to explain the operation, construction, or use of the invention. Instead, they serve to define specifically the subject matter which the inventor is trying to

patent. Traditionally, that subject matter is defined in anywhere from several (for a simple invention) to many (for a complex invention) claims of varying scope. Thus, if one claim is later held to be invalid or noninfringed, perhaps another claim will be held to be valid *and* infringed.

The drawings must conform to numerous specific rules promulgated by the Patent and Trademark Office. Thus, drawings which you think are adequate (and which may be perfectly adequate for manufacturing purposes) will typically not be found adequate for Patent and Trademark Office purposes.

The *inventor's* must sign an oath before a notary or in lieu thereof, a declaration (not notarized) which is usually a printed form with relevant information filled in by your patent attorney. You should read it carefully, that you understand it (discuss it with your attorney if need be), and make absolutely certain that you can truthfully make all the statements required by the form. If you cannot truthfully make all of the substantive statements required by the form, but you sign the form anyway, you will not only be subjecting yourself to possible federal prosecution, but any patent which you obtain may be invalid anyway!

Finally, the filing fee is a function of the number and type of claims in the application. Currently, the basic filing fee for a small entity, such as an independent inventor, is \$370 (fee as of 1 October 2001 subject to adjustment periodically by the U.S Patent and Trademark Office). It is usually not a major element of the cost of filing a patent application.

A patent application is a complicated document, the preparation of which is governed by many laws, rules, and customs. Although it is possible to prepare and file a patent application on your own, you are strongly urged to retain a patent attorney to prepare your patent application. If you do prepare and file your own application, there is a good chance that it will cost you more later to have a patent attorney try to "patch up" your application than it would have cost to have had him prepare the application in the first place. Moreover, it may well be that the patent attorney will not be able to "patch up" your application, and that you will lose the benefit of your filing date, if not the opportunity to patent your invention altogether.

The cost of preparing and filing a patent application varies considerably, depending on the complexity of the invention. Most of the cost is for the time your attorney spends working on your application. Although it is impossible to predict that time with precision in advance, by the time your attorney has reported a patentability search on an invention, he will be able to make a fairly good "ballpark estimate" of the cost of preparing and filing a patent application. At that point you can agree whether he will prepare the application for you for a fixed price, at an hourly rate, or on some other basis. In most cases the attorney will require a "retainer" (*i.e.*, an advance partial payment) before beginning work on the application, with the balance to be paid after preparation of the application but before it is filed.

The cost of preparing and filing a patent application does *not* include the cost of prosecuting the application (*i.e.*, corresponding with and interviewing the examiner) or the cost of the government printing fee if the application is allowed. These costs are also difficult to estimate in advance. However, once your patent attorney knows what your invention is and has some idea of the prior art (courtesy of the patentability search), he should also be able to give you some broad estimates of these costs.

While the difficulty of estimating prosecution and issue costs leaves the door open for some unpleasant surprises, prosecution typically does not begin until about a year after the application has been filed. By that time you may have a better idea of the value of the invention. If the invention then appears to be extremely valuable, the value of patent protection on the invention will be well worth the filing and prosecution costs. On the other hand, if the invention then appears to be valueless, you can allow the application to go abandoned at minimal further expense.

With signing into law of what is referred to as the American Inventors Protection Act, all US Patent Applications will now be published eighteen (18) months after the filing date. An individual inventor may request that the application not be published. However in order to prevent publication the applicant for a patent must give up filing foreign patent applications that correspond to, or are based on, the US Application. There are specific rules relating to publication which should be consulted by the applicant prior to filing a US Patent Application. Publication of a US Patent Application gives rise to the possibility of the patentee or patent owner collecting a reasonable royalty from an infringer for the period beginning with publication up to the date a patent issues on the application, provided the claims that were infringed in the application are also in the issued patent. After issuance of the patent, the patent owner has the same rights to enforce the patent as before passage of the new law.

After your patent has issued, maintenance fees must be paid 3.5, 7.5 and 11.5 years after issue in order to maintain your patent in force. The exact amounts of the maintenance fees vary with inventor status and time for payment. For individual patent owners and small entities they are presently \$440, \$1010, and \$1,550 (as of 1 October 2001), respectively, at the three due dates given. The quoted maintenance fees are those in effect at the time of publication of this edition. It is possible the fees can change annually, thus a current fee schedule should be consulted.

#### **4.051 Provisional Patent Applications**

Effective June 8, 1995, the US Patent and Trademark Office now accepts provisional patent applications for purposes of establishing a priority date for inventions. Under the new system, one who files a provisional application has a period of up to 12 months in which to file a formal application and still claim priority based on the filing date of the provisional application.

A provisional application must contain a specification and drawings, if necessary, but need not include any claims. Also, an oath is not required. The provisional application must, however, be accompanied by a proper cover sheet, which can be supplied by the Patent and Trademark Office, identifying the attached document as a provisional application, naming the inventor or inventors, and giving an address for any correspondence.

A provisional patent application requires significantly less time by an attorney to prepare and the official fees (\$150 as of 1 October 2001) are greatly reduced, compared to those for a regular patent application. Provisional Patent Applications are not subject to substantive examination and a patent cannot issue from a provisional application. If a regular or traditional Patent Application is filed within one year of the filing date the Provisional Patent Application, the Regular Patent Application is given an effective filing date, being the day the Provisional Patent Application was filed. A provisional Patent

Application can serve as a “constructive reduction to practice” of the invention and can provide certain timely advantages relating to possible public use or sale bars, or as to published material that would be considered prior art to the invention disclosed in the Provisional Patent Application. A Provisional patent Application is likely to be of far greater value in supporting proof of conception of an invention, than would be a document filed under the Disclosure Document Program Of the US Patent and Trademark Office described in Section 4.03 above. One warning, upon filing a Provisional Patent Application is that, if corresponding foreign patent applications are to be filed that rely on a the Regular US Patent Application for a priority date (*i.e.* the foreign application is given an effective filing date of the US filing date), the foreign application(s) must be filed within one year of filing the US Provisional Patent Application.

#### **4.06 Design Patents, Plant Patents, and Certificates of Plant Variety Protection**

Besides utility patents, there are two special types of patents and a curious property right which looks and acts like a patent, but which is not called a patent. The first two property rights are design patents and plant patents, and the third is a certificate of plant variety protection.

A design patent can be obtained by one who invents a new, original, and ornamental design for an article of manufacture. Most of the provisions of the patent law relating to utility patents also apply to design patents, including the requirement that a design must be “unobvious” in order to be patentable. In general, design patents are easier and less expensive to obtain than utility patents, but they also give, correspondingly, less valuable protection. Also, their term is shorter than the term of a utility patent—just 14 years, but no fee is charged for maintaining a design patent in force.

A design may be copyrightable as well as patentable. If your invention is a design, you should consult an attorney knowledgeable in copyright law as well as design patent law. Since many “patent” attorneys actually specialize in patent, copyright and trademark law, this may actually be the same attorney. In any event, the possibility of obtaining either or both types of protection should be discussed.

A plant patent can be obtained from the Patent and Trademark Office for a new variety of asexually reproduced plant, including cultivated spores, mutants, hybrids, and newly found seedlings other than tuber propagated plants or plants found in an uncultivated state. Again, many of the provisions of the patent law relating to utility patents also apply to plant patents—but no fee is charged for maintaining a plant patent in force.

Plant variety protection certificates are issued by the Department of Agriculture, not the Patent and Trademark Office. Despite the difference in name and issuing agency, they are very similar to plant patents, except that they cover sexually reproducible plants rather than asexually reproducible plants, and that they last for a term of 18 years.

#### **4.07 Copyrights**

Any considerations of available protection of ideas must include the copyright law. The United States copyright law protects original works of authorship from direct and unfair copying. The protection extends only to the unauthorized copying of the expression of an idea. That is, a copyright does not protect the idea itself, and another author may freely utilize the idea so long as he does not express it in

the same manner. Moreover, a limited degree of unauthorized copying is permitted under the doctrine of “fair use.” Thus, subsequent authors can refer to and even quote from earlier authors to some extent. (The extent to which copying is excused by the doctrine of fair use varies with the facts of each case, and important questions involving its application should be referred to your copyright attorney.)

Subject to these limitations, copyright protection covers “works of authorship.” While the definition of “works of authorship” is open-ended, common examples include books, scripts, articles, poems, musical composition (whether printed or recorded), choreography notations, sculptures, three-dimensional models, maps, blueprints, collages, the printed material on board games, computer programs, data, and sound recordings (whether on tape, CD, or other means). The copyright protection afforded to the sound recording is separate from the protection given to the underlying music. In all such cases, the protection of the author goes to the “expression” embodied in the work and not to the “idea” which the “expression” embodies.

A special provision of the Copyright Act protects “original mask works” that are embodied in semiconductor chip products for a term of ten years provided that registration is made within two years after commercial use. The mask work notice, the use of which is optional, is “ “ followed by the name of the owner of the mask work.

A copyright comes into being when the work is fixed in a tangible medium from which the work can be visually perceived. Although a notice is no longer absolutely necessary, if and when the work is published, a notice should be placed on publicly distributed copies in a form such as “© 2001 John Jones” or “Copyright 2001 Tim Smith.” Open any book or look at any magazine masthead and you will probably find a satisfactory form of copyright notice. Sometimes the copyright notice also includes other specialized notations. One such specialized notation is “All Rights Reserved,” which provides certain benefits in connection with an internationally published work which may be valuable in Latin American countries pursuant to the Inter-American Copyright Convention.

The term of a copyright is the life of the author (if identified) plus 70 years. Where the author is not identified or the work has an “institutional author,” the term of the copyright is 95 years from publication or 120 years from creation, whichever is shorter.

After a work of original authorship is created, the copyright can be registered for the work, whether it is published or unpublished. Registration is a simple procedure for which you will not ordinarily need an attorney. It requires only that you fill out a simple form provided by the Copyright Office, pay a \$30 fee, and mail the form, the fee, and a copy of the work to the Register of Copyrights, Library of Congress, Washington, DC, 20559. If the work has been published, *two* copies of the “best edition” must be deposited. (There are special rules for works of authorship which are not produced in multiple copies or which cannot readily be deposited with the Copyright Office).

*Prompt* registration of copyrights is desirable for a number of reasons. In particular, the amount of damages, court costs, and attorney’s fees you can collect in a successful infringement suit may be affected by the time of registration. The registration can be effected before publication with some benefits, and registration can be effected again after publication to complete the process. If the work is published, there

are procedural advantages if the copyright is registered within three months after publication with the Copyright Office in Washington, DC.

As with all of the other aspects of intellectual property protection described in this book, consideration must be given to overlapping forms of protection, since several forms of protection may be available for the same work. For instance, a trademark protection may be available for the name of a board game; the game itself may be protectable by a utility patent; the printed matter on the board and the instructions may be protectable by copyright; and the playing pieces may be protectable by design patent and/or copyright!

#### **4.08 Trademarks**

If your idea includes or relates to a name, symbol or logo for use in the advertising or promotion of a product or service, you may have a potential trademark or service mark.

A trademark identifies the source or sponsorship of certain goods, and a service mark identifies the source or sponsorship of certain services. A trade name identifies a commercial entity. A trademark and a trade name each have a distinct and separate legal purpose and legal status. Trademarks and trade names are not synonymous and do not grant to the user the same legal rights. Trade names and trade marks or service marks are often similar, but need not be. For instance, Ford Motor Co. is a trade name, and Ford is a related trademark. On the other hand, General Motors Corp. is a trade name which is not related to the familiar trademarks (*e.g.*, Cadillac and Chevrolet) used by that company.

Rights in a trademark or a service mark have traditionally been created by actual use of the mark in connection with the sale of goods or services. As sales are made of a product or service under a mark, the purchasing public comes to identify a certain quality of goods or standard of service from a single source or sponsorship of the goods or services. Thus, a trademark symbolizes the goodwill earned by the producer or sponsor of the goods or services.

An application for a federal trademark registration can be filed for registration of a proposed mark if there is *bona fide* intention to use the mark “in commerce” regulatable by Congress, and priority rights are determined by the date of filing of such marks after they are later put into use and subsequently registered. No “*intent-to-use*” application can mature into a registration unless there is genuine commercial use of the mark in commerce regulatable by Congress.

A “use” application can also be filed if not already filed on an “*intent-to-use*” basis, after the mark has been used in connection with the sale of goods or services “*in commerce*” regulatable by Congress (*e.g.*, interstate commerce, foreign commerce, and commerce in a federal enclave, such as the District of Columbia). Both the “*intent-to-use*” and “*use*” applications to register are filed with the US Patent and Trademark Office. If the mark is not to be used in commerce regulatable by Congress (or, for a “*use*” application, not actually used in such commerce), such as only a local use within the confines of a single state, after use is made, the owner may file an application with the appropriate state authority where the mark is being used. This authority is usually the Secretary of State. However, the rights granted by one



state will not have any benefit except with that state and, therefore, whenever possible it is better to obtain a federal registration.

The filing of an application to register a trademark or a service mark does not guarantee that the mark will be registered. At the Federal level, the application is examined by the Patent and Trademark Office, and the application can be rejected for many reasons. The most important of those reasons is that someone else has already registered the same or a similar mark for the same or similar goods or services. For that reason, it is desirable to ask your trademark attorney to perform or have performed a “clearance search,” which is similar to the previously discussed patentability search, before you even begin use of your mark. Such a search can minimize the probability that you will not be able to register your mark, or even will have to change your mark after you have invested a great deal of time and effort in building up goodwill in the mark.

The advantages of Federal registration are several: (1) once your mark is registered, that registration is constructive notice to everyone of your prior right to the use of that mark in connection with the sale of your goods or services throughout the territorial limits of the United States; (2) having a Federal registration of your mark entitles you to bring suit for infringement of your trademark or service mark in the Federal courts; (3) if you use your mark continuously and exclusively for five years and then file an affidavit to that effect, you can establish certain incontestable rights to the registration; (4) your registration prevents others from registering confusingly similar marks; (5) the registration provides you with presumptions of the validity of the mark, your ownership of the mark, and your exclusive right to use the mark in connection with the goods or services recited in the registration; (6) it entitles you to use the notice of federal registration,<sup>®</sup>; and finally, (7) it enables you to prevent the importation of goods bearing the same or confusingly similar marks.

The strongest marks are usually *fanciful* words or *symbols*—that is, words or symbols which do not immediately suggest the product or service with which they are used. However, it is possible (though more difficult) to establish trademark rights even where the mark is highly suggestive of the goods or services.

Again, it must be remembered that rights in a mark ordinarily derive from use or from an intent-to-use application where the applicant is genuinely capable of using the mark in commerce. Accordingly, if you merely have an idea for a mark to be used in connection with the sale of goods or services, and do not actually sell those goods or services, you cannot establish any property right in the mark until you either use it or can honestly declare that you intend to use it in connection with the sale of those goods and services. However, it is possible, although very unlikely, that you could approach a company who sells the particular goods and services and suggest that it might be interested in paying you to disclose to it your idea for a mark to be used in connection with the sale of its goods or services. This is unlikely, however, since (1) it would be difficult to obtain the agreement of a company to look at your idea for a mark in confidence, and (2) the company usually has its own marketing people or an outside advertising agency retained to provide it with suggestions for trademarks and service marks.

#### **4.09 Trade Secrets**

In addition to patent, trademark or copyright protection, trade secret protection may also be available to an individual with an idea. If the idea relates to a process or technique, it is possible that the individual with the idea may be better off keeping the idea confidential and arranging to license or sell his idea as a trade secret. This may be an advantage in that a trade secret or confidential technical know-how has an indefinite life, *if* it can be kept secret and provides a competitive advantage. In this respect, some trade secrets become known in a fairly short time after the product involved has been on the market, while others may be kept secret for many, many years.

While a skilled person can usually make a patented invention work in a laboratory, the know-how and knowledge that has been acquired by the patent owner in actually building his plant and manufacturing the product is often extremely valuable. In many cases (particularly in chemical technology), the know-how may actually be more valuable than the patent itself.

From a practical point of view, it may be impossible for an individual with an idea which is best maintained as a trade secret or confidential know-how to keep it secret when, in order to interest a manufacturer in purchasing the rights to the trade secret or confidential technical know-how, the individual must make an open, non-confidential disclosure to the manufacturer. Nonetheless, if it is a technique or process for making a product and if the individual, through his friendships, acquaintances or contacts with manufacturers, can obtain an agreement from a company to look at his idea in confidence, then it may be to the advantage of both the individual and the company to maintain the idea as a trade secret or confidential technical know-how.

#### **4.10 Misappropriation of the Idea**

Often an individual has an idea that he wishes to submit to a company with the hope that the company might be able to use the idea and will pay him for it. As explained before, the idea may be one which can be protected under patent, copyright, trademark or trade secret laws. However, many times the idea is an abstract idea which does not qualify for protection under the above categories. Such ideas may have real value to the receiving party even though the idea is not novel or original with the submitting party. (For instance, the idea may be available from books or have been used by others, but still not be known to the proposed receiving party.)

As noted earlier, one of the best ways to protect yourself in such a situation is to disclose your idea in confidence. Then, regardless of whether the idea is protectable under the patent, trademark or copyright laws, a company which breaches the confidence by using the idea or disclosing it to others may be liable to you in damages, provided that it did not already have access to the idea from some other source. *However, most companies will not agree to look at an idea in confidence, since they do not want to open themselves up to such liability. As a result, you are almost always forced to rely on patent, trademark or copyright protection.*

If you are to have any realistic hope of being compensated for an idea which is not protected or protectable by patent, copyright, trademark or trade secret law, you should disclose your idea to a

prospective purchaser or licensee only in confidence. Also, you should provide in writing that you are seeking compensation for: (1) the service of submitting the idea; (2) the abstract idea itself; and/or (3) the expression of the idea, if the idea and its expression are used by the receiving party. The agreement should also provide that the receiving party will be liable to you for disclosing to others the idea or for using the idea for its own benefit.

This procedure is important since, even if the idea is not novel or original, the confidentiality agreement may still constitute an enforceable contract. By asking to be compensated for the service of submitting the abstract idea and for the service of submitting an expression of the idea (so long as it is novel to the receiving party), you are likely to avoid the problem of a court looking at whether or not there is any property value such as an original or novel idea to support your claim for compensation.

If the idea is submitted in the manner described above, you will have some protection, and, if the idea is used or disclosed, you may be entitled to some compensation. However, you should bear in mind that the value of the “service of submitting” may be very low.

However, in many cases the only way that a company will evaluate your idea is after you have waived your rights of confidentiality with respect to that company. Most companies are very reputable and will not use your idea without your approval. Therefore, although there is a risk involved in waiving your rights, it may be worth it in order to receive an audience. And, waiving confidentiality rights does not waive the rights to obtain, even when applied for later, patent or copyright protection if there is interest expressed in your idea.

#### **4.11 Being the First or the Best**

If you are in a position to manufacture and market your invention yourself, this is probably the best way of exploiting the invention. You may be in a position to form a company and move quickly, which will lessen the chance that someone more powerful than you will come along and take over the market. This may be hard to do if your capital is limited. The standard sources for capital in addition to resources are loans, equity participation by family and friends, equity participation beyond acquaintances such as from venture capital firms, and grants such as from the Small Business Administration. True start-up capital is very unlikely from venture capital firms, but they are an important source once a business is established and is needing an infusion of capital in order to grow. However, if initial funding is available, and if expansion funding is also available, possibly with the help of venture capital funds and/or a small business loan, you may be able to take the approach of successfully establishing a business based on your idea. If you have these capabilities, this may be the best way of making money from your invention. And even if you are not successful, it is usually easier to sell a struggling, undercapitalized company that at least has a good product on the market than it is to sell an untried idea, no matter how good the idea may look on paper.

If your idea relates to a hand-crafted product or a product which requires a certain amount of skill and technique to manufacture, it may be that others, even if they copy your idea and your product, will not be able to produce as good a product as you are able to produce as a result of your skill and technique. If this is the case, you may be protected by the very nature of your product. In this situation, even though

someone may copy your idea and your product, your product will still be the most attractive in the marketplace.

It should be noted, however, that this is not very often the case, inasmuch as there are usually others in the field who have a similar degree of skill in making similar products and who therefore would be able to reproduce your product with substantially the same level of skill.

#### **4.12 Overlapping Territory for Protecting Computer Software**

In terms of intellectual property protection, computer software programs are a true hybrid, in that they can be protected concurrently and to some limited extent co-extensively by patent, copyright and trade secret. Patents on programmed computers or computer processes can protect the concept or idea behind the software regardless of how it is expressed. Copyright protects the form of expression. Trade secret may protect both the concept and manner of expression.

A patented invention based on a computer program must involve a process or device that performs a utilitarian function with the aid of the program. Mental steps alone cannot be patented. Because copyrights protect the particular expression of an idea, there are fewer limitations as to what may be protected. If the work is an original work of authorship, it may be protected. Trade secret is extremely broad as to what is protected as long as the material is secret or otherwise subject to conditions of confidentiality whereby the public is not generally aware of the concept or the form of expression to be protected.

An advantage of patents is that they can protect the basic idea or concept and may prevent independent development of functionally or structurally similar property, while copyrights only protect the form of protection against derivation. An advantage of copyrights is that the duration of copyright protection extends well beyond the limited patent term and a copyright is cheaper to secure.

Trade secrets can protect the underlying concepts on the methods of operation of software programs, but trade secrets will not protect against true independent development of a more or less duplicating software program. Trade secrets can protect the human language form or expression of the program because unintelligible machine language or object code may be made available to the public while the human language or source code may be retained by the owner in secret. Secret source code makes independent development more difficult. However, the intended confidentiality of a software program can be jeopardized once the program is marketed because of the technical ease with which a program can be duplicated, even though that duplication may be illegal if it is done without the authorization of the program owner.

Trademarks and service marks may also be effective to protect mass-marketed software packages through protection of the name-recognition of a distinctively named product. A variety of strategies using trademarks and service marks are available to create public recognition of a product. In such case the technology is protected by the creation of a preference or bias to purchase or use the product of the trademark or service mark holder. For example, a large stock brokerage firm was issued a utility patent on a financial management system based on a computer program and had marketed it under a registered

service mark, CASH MANAGEMENT ACCOUNT®. The advantage of trademark protection is that it can be effective indefinitely to protect existing products and can assist in the effective introduction of new products into the market.

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## CHAPTER V

# HOW DO I MAKE MONEY FROM MY IDEA?

### 5.01 Compensation for the Service of Submitting an Idea

**A**s noted in Section 4.10, you may be able to obtain compensation for the *service* of submitting an idea even though the idea may not be novel or patentable. How much compensation you would be entitled to in such a situation is dependent upon the value of the idea and the value of the service of submitting it to the receiving party. Normally, the price paid for an idea is based on the benefit obtained from the use of the idea by the receiving party.

When courts have decided what a reasonable compensation would be in such a situation, they usually calculate the compensation as a percentage of either the savings or the profit obtained by the receiving party by using the idea. Alternatively, they may calculate the compensation as a percentage of the gross sales of products embodying the idea made and sold by the receiving party.

Suffice it to say that the amount of compensation can vary greatly, and an individual with an idea should seek the assistance of a patent attorney in negotiating an agreement for compensation for the service of submitting the idea, for the abstract idea itself, or for the individual's expression of the idea.

Further discussion of the problems in submitting an idea to a company can be found in the American Bar Association's booklet entitled "Submitting an Idea," which is available for a nominal fee from:

American Bar Association  
Attention: Service Center  
740 15th St, NW  
Washington, DC 20005  
(202) 662-1000

### 5.02 Sale and Assignment of the Rights to an Idea

One way of making money from your idea is to sell it outright—that is, to assign all your rights to the idea for some fixed amount of compensation. As noted in Section 5.01, it is difficult to determine a proper fixed amount for the sale of an idea, and the amount is usually determined by negotiation. However, factors usually taken into consideration are the buyer's projected sales of the product embodying the idea

or the buyer's projected savings from the use of the idea. Since these figures will only be estimates, it is rarely possible to state with certainty the exact value of an idea to the receiving party.

There are several disadvantages to making an outright sale. Once you have made your bargain, you receive your money, and the transfer of rights to the idea is complete. The buyer does not have to make periodic accountings of sales and royalties, and you will not profit further if the idea turns out to be more valuable than anticipated. Moreover, you will probably not be given the opportunity to help exploit your invention—that is, you will probably not be hired to help commercialize your idea. In that case, your idea may never be properly exploited or may not be successful in the marketplace although it could have been if those in charge of its exploitation had been more personally committed to it.

On the other hand, you will not have the burden of following up to make certain that proper accountings and royalty payments are made, and you will not have to give your money back if the idea turns out to be *less* valuable than anticipated. Additionally, you will not have the problem of determining whether or not the buyer is adequately exploiting your idea so as to maximize your return. An outright sale is also very likely to qualify for capital gains tax treatment. At the time of this printing, however, the tax rate on capital gains is the same as the tax rate on ordinary income but not to exceed 28 percent.

### **5.03 Exclusive License**

Instead of an outright sale of an idea/invention, you may find it more advantageous to grant an exclusive license. Under an exclusive license (assuming your invention is patented), the inventor grants to the licensee all rights to make, use, and sell the invention. Usually, even the inventor himself cannot then practice the invention. The inventor retains one thing, title to the patent. There are, of course, many variations of exclusive license in which the inventor may retain more rights than bare title. The inventor may also retain the right to cancel the license in the event certain things do or do not occur, such as the failure of the licensee to make required payments.

An advantage of an exclusive license is that you only have to negotiate an agreement with one party, who then has full responsibility to exploit your invention for you. The drawback is that if your chosen licensee does not effectively promote or sell your invention, you cannot then do it yourself, nor can you grant further licenses to others. Therefore, in negotiating an exclusive license it is very important to be sure that your license agreement sets forth clearly the efforts that your licensee will have to expend, as well as minimum acceptable levels of sales and/or income to you.

As discussed with respect to assignments of inventions, a lump-sum type of payment for an exclusive license is risky for both parties, since neither the inventor nor his exclusive licensee knows precisely how extensively the invention will be used in the future. A running royalty of some sort avoids this risk for both parties. Often, however, a relatively small lump-sum “earnest money” payment on signing the licensing agreement is combined with a running royalty based on sales volume.

Exclusive grants can also be conveyed for a geographic region of the country, if desired. For instance, you can have one exclusive licensee for all of the territory east of the Mississippi River and another exclusive licensee for all of the territory west of the Mississippi River. If there are valid reasons, such as

the respective costs of raw materials in the two regions, the terms do not have to be the same for the two different geographically exclusive licensees.

As in the case of an outright sale, the income from a properly structured exclusive license will usually qualify for capital gains tax treatment. At the time of this printing, however, the tax rate on capital gains is the same as the tax rate on ordinary income but capped at 28 percent.

The determination of a fair royalty varies greatly from industry to industry and from invention to invention. Accordingly, a fair percent royalty may vary at least from 1 percent to 20 percent (or even more), depending upon the value of the invention and the nature of the industry. Also, the “royalty base” (the number by which you multiply the royalty rate) may vary considerably. In most cases, however, the royalty base will be the “net sales price” of your invention. Net sales price means the gross sales price minus certain charges for taxes, freight, insurance, and the like. It might be the net sales price at the wholesale level or the retail level, depending on circumstances.

The royalty may also be stated as a fixed amount per unit sold (such as \$100 per machine). In such cases it is wise to include provision for escalation of the unit royalty so as to keep pace with inflation.

Since there are a number of factors to take into consideration in determining what is a reasonable royalty and what is an appropriate royalty base, a patent owner is well advised to seek patent counsel and/or business counsel in these areas.

#### **5.04 Non-Exclusive License**

There are many instances when it is beneficial to the patent owner and the licensee to enter into a non-exclusive license. As far as the licensee is concerned, a non-exclusive license is not as valuable as an exclusive license because it means that others, such as the patent owner or anyone else licensed by the owner, also have the right to make, use, or sell the patented invention. A non-exclusive license is just a promise by the patentee not to sue the licensee for patent infringement, and it does not guarantee the licensee any exclusivity.

Since a non-exclusive license does not give the licensee any exclusivity, a non-exclusive license usually yields less compensation to the patent owner. However, the patent owner has the right to grant any number of non-exclusive licenses. Therefore, several non-exclusive licenses may yield more income in total to the patent owner than one exclusive license. It may also permit more rapid nationwide marketing of the invention if several non-exclusive licensees concentrate in different geographic areas of the country. Often no single exclusive licensee can be found that is capable of an effective nationwide campaign.

Another instance where a non-exclusive license may be desirable is where a company is already making and selling a product which is or arguably is an infringement of your patent. In this situation, the company may be interested in obtaining a non-exclusive license to remove the “cloud” of a possible infringement action. This may be advantageous to the patent owner, since even a relatively small royalty package may be better than the expense of a lawsuit and the risk of the patent being found invalid and/or non-infringed.



The monies received from the license agreement are ordinary income to the individual that is, they do not qualify for capital gains treatment. (See Section 5.06.)

### **5.05 Forming a Business to Exploit an Idea/Invention**

As mentioned in Section 4.11, consideration should also be given to forming a company around the product to exploit the invention yourself rather than selling or licensing the invention to another party. This would permit you to exercise more control over the design, manufacture, distribution, and sale of your invention. If successful, the potential profit is also probably greater.

However, formation of a new business to produce a product requires many talents, such as engineering, finance, marketing, and law. Most independent inventors do not possess the necessary skills and training to establish a new manufacturing business, and accordingly they should seek competent counsel from experts in these areas.

Details on how to start your own company are beyond the scope of this book. Assistance can be obtained by contacting your local office of the Small Business Administration (SBA) of the federal government. Be sure to ask about their “SCORE” (Service Corps of Retired Executives) program, which utilizes the volunteer services of retired businessmen. SCORE has three primary functions: (1) answering business-related questions by telephone; (2) conducting regular pre-business workshops; and (3) rendering direct counseling to individuals interested in starting a business. The services are free (except for a nominal charge for the workshops) and are available at approximately 400 SCORE chapters throughout the country (at least one in every state). The SCORE counselors will not actually perform your engineering, accounting, or the like, but they will advise you on what you should do and where you can go to obtain the assistance you need.

Some SBA offices also have an “ACE” (Active Corps of Executives) program, which renders services similar to SCORE, except that the advisors are not retired and are still actively pursuing a career in business.

Look under “US Government” in your local telephone book or ask for operator assistance to find your local SBA office. Alternatively, you can write:

SCORE  
US Small Business Administration  
409 3rd Street, SW, 6th Floor  
Washington, DC 20024  
Telephone: (703) 487-3612

for more information on SCORE and the location of the chapter nearest you.

If there is no SBA office near you, you should consider two other possibilities; your state government and any local colleges or universities. Several states have established offices to help inventors and small businesses. Information concerning these offices should be available from your local chamber of commerce—or from the state government itself. As for your local colleges and universities, many

technically oriented institutions of higher education have established programs to assist inventors and small businesses. Such schools include Carnegie-Mellon University in Pittsburgh; the Massachusetts Institute of Technology in Cambridge, Massachusetts; and Baylor University in Waco, Texas. Usually, the programs are operated by a graduate business school within the university, and the business and engineering students actually assist in advising inventors and businesses. (See Chapter VI for more details.)

## **5.06 Tax Consideration**

Before an inventor enters any agreement to sell or license an idea or forms a company to exploit an idea, consideration should be given to the tax effects of the transaction. Since the tax laws are always changing and since the tax consequences of the manner chosen to exploit an idea can be significant, you should seek competent tax counseling at the outset.

Some of the tax considerations are as follows. As mentioned in Chapter IV, you have a great deal of flexibility in exploiting your idea. You can use your idea yourself, contribute your idea to your own company, license your idea either to your own company or to an unrelated company, and sell your idea either to your own company or an unrelated company. Your own company, in turn, can use the idea, license the idea, or sell the idea. Each choice has different tax consequences. If you exploit your idea yourself, you will be a sole proprietor. A company, an entity separate from yourself, formed to exploit your idea could be either a partnership (general or limited) or a corporation (regular “C” corporation or an electing “S” corporation). Most states also recognize limited liability company and limited partnership association business entities. Which choice is the right choice depends upon your individual situation and the nature of your idea.

One key advantage of the corporate limited liability company and limited partnership association forms is limited liability. Other factors to be considered by you in the choice of structure in which to conduct your business are your other sources of income, the source of financing for the business, the method of capitalization of the business, and the degree of activity you will assume in the business.

One concern under the tax law prior to 1987 was the characterization of income as capital gains. Under prior law, capital gains were taxed at a significantly lower rate than ordinary income. At this printing, however, the tax rate on capital gains is the same as the tax rate on ordinary income but capped at 28 percent. Hence, today, characterizing income as capital gains is not of paramount importance. An individual’s tax concerns, under present tax law, lie in the avoidance of passive losses, the avoidance of limitations on deductions imposed by investment interest limitations, and the avoidance of limitations on deductions imposed by the “at risk” rules. Competent tax advice will address these concerns and will maximize the advantages of the taxpayer’s particular situation.

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## CHAPTER VI

### WHERE DO I OBTAIN HELP?

**T**here are many sources of help for inventors in the evaluation of their inventions, marketing of inventions, and starting and operating businesses based on inventions. However, invention development companies have caused many problems which have led to legislation protecting inventors in some states (see Chapter VII on “Fraudulent Invention Development Companies”). These resources are changing. Organizations come and go, change officers or contacts, and move around. Also, new resources are becoming available which were not in existence even a few months ago. Consequently, this chapter will give you some general suggestions and refer you to page 55 for the most up-to-date information on sources of inventor assistance. The business of providing assistance to inventors in marketing inventions, locating financial assistance, etc. is one which has become infested with fraud. ***Beware of commercial invention marketing or invention development services!!***

More information on this problem will be given in a later chapter, and more information on alternate sources will be given beginning on page 55.

#### **6.01 From an Attorney**

If you still think your idea has commercial possibilities after you have read the foregoing, then you probably need to talk to an attorney who specializes in the relevant area of the law. An initial consultation of no more than an hour should be long enough in most cases for the attorney to get a basic understanding of your situation, to give you some basic advice, and to outline what additional services you require and to estimate how much those additional services would cost.

Alternatively, you can obtain a copy of the entire roster of registered patent attorneys and agents throughout the US Write for *Directory of Intellectual Property Lawyers and Patent Agents to:*

Pearson Education  
800 East 96th St  
Indianapolis, IN 46240

The fee is \$195 plus shipping and handling.

You can obtain an excerpt of the official register *free of charge* by writing:

**Commissioner of Patent and Trademarks  
Box OED (Office of Enrollment and Discipline)  
Washington, DC 20231**

and asking for a list of patent attorneys and agents in your area. The Patent and Trademark Office will photocopy the pertinent portion of the register and promptly send it to you. If you are interested in a patent attorney or agent in a city other than where you live, you should state this in your letter.

The USPTO has a web site that can be accessed for information regarding practitioners throughout the United States registered to practice before the Patent Office. At the PTO home page, <http://www.uspto.gov/> click on Site Index. On the Site Index list select Agent and Attorney Roster.

You can also consult with your nearest city, country or state bar association lawyer referral service for a referral to a patent attorney. If you can't find it in your telephone book, ask for operator assistance.

It should be remembered that the patent attorney's normal area of expertise is in counseling on how to *protect* an idea and in helping to obtain protection on an idea, whether it be in the form of patent, copyright, trademark, or trade secret. Usually, a patent attorney is not an expert in the specifics of engineering, manufacturing, or marketing of a new product, although almost all patent attorneys do have a degree in engineering or one of the physical sciences.

## **6.02 To Evaluate the Technical Feasibility and Marketability of Your Idea**

There are various places to seek this type of initial assistance, either for free advice or for a nominal charge. Often the independent inventor with an "idea" really *does not have anything to sell* because the idea is either frivolous, impractical, environmentally unsound, illegal, or already in the public domain (*i.e.*, free for anyone to use). Below are listed some of the more prominent organizations that will perform an initial screening of an idea and give you an honest opinion on its merits. You may not like the answer you receive (most people don't), but the fact is that many "ideas" are not commercially feasible. If you don't like the first answer you receive, consider getting another opinion. But if you keep getting negative reports, perhaps you should listen and instead direct your efforts toward some other ideas you have. Organizations to which you may turn for an initial screening of your idea include:

Wisconsin Innovation Service Center  
University of Wisconsin  
800 West Maine St

Whitewater, Wisconsin 53190  
Tel: (262) 472-1365

The John F. Baugh Center for Entrepreneurship  
Hankamer School of Business  
One Bear Place #98011  
Baylor University  
Waco, Texas 76798-8011  
Tel: (254) 710-2265

University of Houston  
Small Business Development Program  
Product Development Center  
2302 Fanin, Suite 200  
Houston, Texas 77002  
(713) 752-8477

In addition to the above organizations, there are a number of colleges and universities with undergraduate or graduate business schools or programs that will provide student help in evaluating an idea or invention. Such programs can initially protect the confidentiality of the proprietor of the idea or invention. However, the basis for the relationship with the institution and student should be clearly established before any disclosure is made. Local state and federal representatives are a good resource for seeking help in finding organizations or government agencies that may help with such evaluations.

### **6.03 To Build a Model**

It is often helpful to build a working model of a product embodying your invention. While this is not necessary in order to obtain a patent, it may be valuable for other reasons. A working model will better enable you to determine the cost to produce a new product, and building the working model may help in the selection of materials and in determining machining techniques or finishing processes for the product.

Also, another person may be better able to revise and refine your idea. Oftentimes a skilled technician will be able to suggest ways to re-engineer the product to reduce cost, improve operation, etc.

A working model may also be very impressive and illustrative of your invention when it comes time to try to interest a prospective buyer or licensee.

For this kind of assistance, look in the classified pages of your telephone directory under "Model Maker" and "Professional Engineers," or ask your patent attorney. (If you do use a model maker, be certain that the model maker can work from a sketch, since many are only able to work from blueprints or detailed mechanical drawings.)

### **6.04 To Obtain Assistance from Management and Marketing Consultants**

Various management and marketing consulting firms throughout the country may also provide an inventor with assistance in developing an invention. Some of these firms specialize in assisting individuals who have new ideas and inventions. The types of assistance which such firms provide are also varied. Many of them will provide assistance in preparing a business plan for the purposes of organizing

and solidifying a business around an idea or invention and for the purposes of raising capital for the development of the invention and support of the business. Assistance includes helping put together a management team and providing for commonality of business objectives. In some cases it includes the identification of the market and even marketing assistance. Some of the consultants will also assist in the running of the business by monitoring financial and planning activities on a continuing basis. Some management consulting firms will also provide direct assistance in obtaining financial support on the basis of the business plan through contacts with banks, venture capitalists, and private investors.

In general, it is desirable to approach a management consultant in the early stage of the development of an idea or invention or the formation of a business. Once an inventor feels that he has a solid invention with some technical and manufacturing feasibility and with a reasonable market potential and decides to establish a business, it might be an appropriate time to contact a consulting firm for some initial advice and assistance. A patent attorney may be able to assist in identifying a reputable consulting firm, particularly one which might specialize in assisting inventors to establish a business. Names of appropriate consulting firms may also be obtained from reputable inventors' groups, the Better Business Bureau, consultation of literature in this field, etc. In approaching a management consulting firm, the same precautions should be exercised as in connection with approaching an invention promotional organization if the management consulting firm's credentials are not known or well-established in the community.

Costs for putting together a business plan and providing initial advice may run in the range of \$500 to \$3,000 or more. Other services will run the costs up higher. An inventor approaching a management consultant firm should ask for information about the specifics of the services that will be provided and how far these services will be carried and for cost and billing information before making a commitment for services.

#### **6.05 To Obtain Assistance from Inventors' Groups**

As in the case of doctors, lawyers, engineers and other professionals, "inventors" have formed a number of organizations and associations. Some of these organizations are very active and can be of great help and comfort to the fledgling inventor looking for guidance and help. Many of these groups or organizations have web sites so an internet search will help.

In addition to providing a social aspect among inventors, these organizations are likely to be able to provide help to the inventor in protecting and exploiting his ideas. It is not known what fees (if any) these organizations may charge. Thus, you should investigate this question on your own. As always, be careful.

#### **6.06 To Obtain Government or University Assistance**

Government assistance is available to inventors under certain circumstances.

##### **(1) US Assistance With Energy Related Inventions**

To encourage innovation in developing non-nuclear energy technology, all *promising* energy-related inventions will be evaluated on request by the National Institute of Standards and Technology. If the

evaluation shows that the invention has significant promise for either saving or producing energy, the US Department of Energy will consider providing the inventor with assistance to help develop the invention. To submit an energy-related invention for evaluation under this program write to:

Inventions and Innovations Program  
US Department of Energy EE-20  
Office of Industrial Technology  
1000 Independence Ave., S.W.  
Washington, DC 20585  
(202) 586-5000

Ask for an "Evaluation Request" form and return it with a description of the invention or idea. Anyone may submit an invention for evaluation and have it evaluated. There is no fee and no obligation, financial or otherwise, incurred by the inventor.

#### (2) US Patent and Trademark Office

Free literature and assistance may be obtained from the US Patent and Trademark Office by simply writing to:

Office of Public Affairs  
  
US Patent and Trademark Office  
  
PO Box 1450  
  
Alexandria, VA 22313-1430  
(571) 273-0464

You may request general information concerning the following subjects: patents; trademarks; the Disclosure Document Program; and information aid for inventors; questions and answers about patents, trademarks, or plant patents; and the public patent search facilities. Ask for the patent and trademark publications leaflet\* for other publications relating to patents and trademarks available from the Superintendent of Documents.

\* See page 4 of this publication for additional US Patent and Trademark contacts.

#### (3) US Small Business Administration

The Small Business Administration has an energy loan assistance program designed to provide loans and loan guarantees as a means for small businesses to establish or expand energy-related businesses. For further information, contact your local Small Business Administration field office by consulting your telephone book. Loans and loan guarantees are likewise available for small businesses in general.

#### (4) State and Other Organizations

There are some state, city and county organizations established for the general purpose of promoting the growth of business and industry in their particular area.

It is recommended that you consult your telephone directory under "State Government" (often "Labor and Industry Dept.") or your local chamber of Commerce or state chamber of Commerce for information regarding state, city or county agencies which are interested in joint business ventures for the purpose of creating jobs and improving the economic well-being of an area. Your local state representative is a source of information as is the business editor of a local or regional newspaper.

### **6.07 To Obtain Further Reading Materials on Setting Up Your Own Business**

An excellent source for information and assistance on how to set up your own business is the book entitled *How to Start, Finance and Manage Your Own Small Business* by Joseph R. Mancuso, published by Prentice-Hall, Inc., Englewood Cliffs, New Jersey 07632. Many sources for venture capital, marketing information as well as sources of general information and assistance are listed.

The US Small Business Administration provides a number of publications which are available from the US Government Printing Office, Washington, DC, 20402. These publications deal with market research, marketing, patenting, pricing, loans, fiscal policies, manufacturing, trade directories, etc. Many of the publications are free and are available at local SBA offices. Some of the relevant titles in the Small Business Management Series are:

*Guides for Profit Planning*, No. 25;  
*A Handbook of Small Business Finance*, No 15.

The Department of Commerce, particularly through its field offices, also has useful publications dealing especially with market size and manufacturing volumes. It publishes a *Census of Manufacturers* which is available in most business library reference sections. Also, *The Thomas Register* and other business registers are available at Department of Commerce field offices.

Other sources of information helpful to you in starting your own business are, of course, your local business reference library, which should have a complete Department of Commerce Census Data, *The Thomas Register*, Dun & Bradstreet reports, and other financial reporters, etc.



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## CHAPTER VII

# FRAUDULENT INVENTION DEVELOPMENT COMPANIES

### 7.01 General

**D**iscussed in the previous sections are a number of types of organizations that are believed to be reputable and which will assist the independent inventor in evaluating and promoting an invention. If a new invention has promise, most reputable organizations will agree to render further assistance to the inventor and will take as their compensation a percentage of the income that is ultimately earned by sale or licensing of the invention. *Most reputable organizations do not ask the inventor to pay a large “up-front” fee for their assistance.*

This legitimate type of operation should be distinguished from the type of “sting” to be discussed below, which is usually accompanied by: (1) a large front-end payment to the invention development company, and (2) an almost total lack of success for the inventor.

Over the years, a number of companies throughout the country have offered various invention development services to inventors. Such services may include assistance in developing, marketing, financing, patenting and presenting the invention to industry. Since inventors often look at their inventions through rose-colored glasses—each believing his invention has great merit and market potential which should provide a great financial reward—the inventor loses objectivity. This belief is so great that often an inventor will reject any opinion that is contrary to his belief in the invention. Often an individual inventor will continue to seek out counsel from attorneys or other organizations until the inventor finds someone or some company that supports his opinion that his invention has merit.

As a result, certain unscrupulous individuals have formed companies to take advantage of the individual inventor who is anxious to hear that he has a great idea which will reap great financial rewards for him. These companies purport to be in the business of assisting inventors in making money from their ideas or inventions—*i.e.*, in the business of helping the inventor sell his idea. However, their actual business is to sell their dubious services to the inventor. Moreover, the services they sell are of little or no value, and they are sold for an exorbitant fee. The worthlessness of their services has been documented by the Federal Trade Commission in a case brought against several leading “invention developers.” The fees charged typically begin in the hundreds of dollars and range up and up.

For this fee, the inventor normally is given an evaluation of his idea or invention, a market analysis, drawings, and a description of the invention. Sometimes there is also a feasibility study, an engineering

analysis, a cost analysis, and/or a patentability search. In some instances, the company also provides a patent application.

The major frauds typically perpetrated by such invention development companies include:

- (1) Representing that they are in the business of placing ideas with manufacturers and successfully do so when, in fact, they have placed only a few or none at all.
- (2) Providing an "Evaluation Report" that states that the idea has merit without adequately addressing the questions of:
  - (a) Is it patentable?
  - (b) Is it technically feasible?
  - (c) What is the cost to produce the product?
  - (d) Is it marketable?
- (3) Offering to help the individual sell the idea without determining if he can establish a salable property interest (for example, a patent right).
- (4) Representing that the company has technical expertise when in fact it does not.
- (5) Representing that the company has contracts with manufacturers (particularly contacts with companies that are looking for new products) when it does not.

The success ratio of these companies is very, very low, and very few, if any, of their clients ever make enough money as a result of the services provided by the invention developer to repay the money the individual has paid to the development company.

Typically, the inventor's first contact with such companies is through an advertisement he sees on television or in a newspaper or magazine or hears over the radio. In the advertisement, he will be told that inventions are wanted, that a certain invention development company is eagerly looking for new inventions, and that it has manufacturers lined up who want new products. The invention development company in the advertisement holds itself out as ready, willing and able to assist the inventor in marketing, developing and financing new inventions. In response to such an advertisement, the inventor will be typically given a disclosure form in which he is asked to describe in writing his invention and to draw a picture of it. Also, he will often be presented with a so-called "Non-Use Agreement" or "Confidential Agreement" wherein the invention development company agrees, in essence, to maintain the invention in confidence and not to use it for its own purposes.

Then the inventor is induced to request an evaluation. Typically, this is done by the sales person with whom he deals at the company. Such sales people portray themselves as being like account executives for a brokerage firm. The sales person will often indicate to the inventor that he feels that the inventor has a very promising, good invention and that his company should make an evaluation of the invention as soon as possible. Some companies even give a free evaluation before asking for a substantial fee to help the inventor sell the invention. However, most companies will charge a fee ranging from \$100 to \$400 for

making a marketing evaluation of the invention. Sometimes as a “come-on,” the account executive will tell the inventor that the idea looks so good that the company will split the cost of the evaluation and only charge the inventor half the regular fee.

Several weeks after paying for the evaluation, the inventor will be contacted and told to come in and receive the evaluation report. This evaluation report will comment upon the advantages of the invention and tell how it appears to have great promise. Also, the market evaluation typically will comment on how great the American marketplace is. In this respect, such a marketing evaluation on an idea may indicate how many people can use it, how many retail outlets might sell it, and suggest that, if even a small percentage of these people who could use it, bought it, the individual would receive a handsome profit.

However, the evaluation report *ignores* several things. First of all, it assumes that a manufacturer will decide to produce a product embodying the invention. Also, it assumes that the advantages of the product would be appealing to the public. Furthermore, the report ignores the question of whether or not a salable property interest, such as a patent right, can be established for the invention.

However, on the basis of the statistical possibility that the inventor can make a lot of money on the invention, the sales person highly recommends that the inventor sign up with his company immediately to enable it to proceed with introducing the invention. Typically, the sales person presents the individual with a so-called Registration and Representation Agreement which provides, among other things, for the payment to the company of a substantial fee, often more than a thousand dollars.

Sometimes such a company, at the same time it makes the evaluation or afterwards, will offer to make a patent search for the inventor. However, when the results of the patent search are reported to the inventor, usually no opinion is given on patentability, since this might be considered practicing law without a license. Nonetheless, the letter reporting on the search will indicate that enclosed with the letter are a number of reference patents which the company believes will aid the individual in evaluating his invention. The letter may also state that the reference patents illustrate the type of similar inventions that have been developed and patented.

Sometimes the letter will then extol the value of getting a patent, and the company may offer to help you get a patent (for a further charge, of course), through a patent attorney employed by the invention development company (*not* by the inventor)! Other companies will simply offer to file a document disclosing the invention in the Patent and Trademark Office (see Section 3.04, “The Disclosure Document Program”), meanwhile representing or implying that the filing of such a disclosure document gives you some kind of patent protection, when, *in fact, it provides no legal rights*.

However, many invention development companies downplay the patent aspect and simply indicate that since a patent disclosing all the details of your idea was not uncovered in the search, you should immediately retain the company to present your invention to industry.

In addition to misleading the inventor into thinking that their services are of great value, most such invention development companies actually do a disservice to the inventor. The first disservice is failing to point out to the inventor that he may have nothing to sell if he cannot establish a property interest, such as

a patent right, in the idea. Another disservice is that the act of printing up descriptions of the invention and submitting them to companies without a prior agreement of confidentiality constitutes a publication of the invention which may adversely affect the possibility of obtaining patent rights or keeping trade secret rights in the invention. Remember: once an idea has been openly communicated to the public in an unrestricted manner, the public is free to use it unless and until a patent is obtained on the idea!

In summary, an individual should be wary of any invention development company which offers one or more of the following:

- (1) Offers to evaluate an invention for a substantial fee, especially where the company uses the gimmick of splitting the cost of the evaluation with the inventor.
- (2) Offers to prepare and file a patent application for a fee using the services of a patent attorney employed by the company.
- (3) Offers to file a Disclosure Document at the US Patent and Trademark Office and indicates or implies that such a disclosure document gives the individual “protection” for two years.
- (4) Indicates that it has a manufacturer interested in the invention prior to signing up the inventor.
- (5) Indicates to almost all inventors that each has a very good and promising invention and therefore, that the company should represent him and present the invention to industry. Of course, this is difficult for one individual to determine. However, you can ask the company to indicate how many—or to what percentage of—inventors it gives negative reports. *Beware* if the company says it doesn’t keep such records or if it refuses to answer.
- (6) Requests a substantial front-end fee from the inventor in order to represent him.
- (7) Proposes to submit drawings and a description of the invention to manufacturers without cautioning the inventor on the ramifications of such submissions, and without recommending that the inventor retain patent counsel to determine if the invention appears to be patentable or if anyone else has a patent covering the invention.
- (8) Indicates it has been successful in placing numerous inventions with manufacturers, but cannot or will not identify the inventions or manufacturers.
- (9) Indicates that it has special relationships with major corporations, but cannot or will not substantiate such relationships.

Whenever you have any dealings with an invention development company, you should be wary of a company which engages in one or more of the nine practices set forth above. Also, you should check and see if your state has a statute regulating invention development companies. If it does, you should check whether the company has complied with the bonding and reporting requirements of the statute. A number of states have enacted statutes regulating such companies, and such statutes usually require the invention development company to indicate how many of their clients, out of the total number of clients they have

provided services for, have made more money from the exploitation of the idea than they have paid the invention development company.

Set forth below are citations to four such statutes:

Minnesota Statutes, Chapter 325(a)—Invention Services—to be cited as Sections 325(a).01 through 325(a).10 as the Invention Services Act.

Virginia—Regulations of Invention Development Services, Chapter 18 of 9 Code of Virginia, Sections 59.1-208 through 215.

California—Invention Development Services Contracts—Chapter 17, Business and Professions Code, Sections 22370 through 22392.

Texas—Regulation of Invention Development Services Act, Texas Rev. Civ. Stat. An., art 9020.

Your attorney or your local bar association, or your state attorney's general office can tell you if your state has passed similar legislation to protect inventors from the fraudulent invention development companies and others who prey upon inventors.

## **7.02 Federal Legislation**

The well-documented abuses of novice inventors in recent decades has led to congressional action with passage of the Intellectual Property Omnibus Reform Act of 1999. The key reform has been the first federal restrictions on improper and deceptive invention promoters. These start off with grandiose TV pitch men, who represent themselves as being able to help inventors protect and commercialize the ideas of inventors. Few, if any succeed!

As part of the newly enacted American Inventors Protection Act Invention promoters must comply with certain rules and regulations. These include contracting requirements, provisions for a cover notice on promoter contracts, progress reports to customers/clients, mandatory contract terms, potential remedies by way of civil action in case of a dispute, and records of complaints to the US Patent and Trademark Office. Fraudulent representation by an invention promoter is now deemed to be a Federal Offense, subjecting violators to fines.

A prudent inventor who decides to deal with an invention promotion entity that requires an up-front fee should first consult a Registered Patent Attorney to find out how the new law would apply to the promoter and a contract offered to the inventor by such entity. The new law (S.1948) Public Law 106-113, 35 USC 297 Sec. 1000(a)(9) would mandate certain contract terms and relevant disclosures the invention development (promotion) firm would have to give to their prospective customers. These include:

1. The total number of inventions evaluated for their commercial potential by the invention development firm (promoter) in the past five years, as well as the number that have received either positive or negative evaluations:

2. Total number of customers/clients who have contracted with the invention promoter in the past five years;
3. Total number of customers known to have received, as a direct result of the invention promoter's efforts, an amount of money in excess of the amount paid by the customer to the invention promoter;
4. As a result of the efforts of the invention promote, the number of customers/clients that have received royalty-paying license agreements for their inventions;
5. The names of all previous invention promotion entities with which the present promoter has been affiliated in the previous ten (10) years.

The above list of vital questions and caveats should be posed to, and satisfactorily answered by, the promoter before the potential customer/client signs a contract to pay for their services and turns over control of their invention for promoter development.

The new Federal law mandates that the US Patent and Trademark Office (USPTO) provide a forum for the publication of complaints concerning invention promoters and replies from them. While the USPTO will not take a role in enforcing civil remedies provided by the new law, an Office of Independent Inventor Programs will act as a clearing house for information, and will work with other groups, such as AIPLA, to further publicize any wrongdoing on the part of such promoters.

Past results have shown that if people victimized by invention promoters had sought proper legal, guidance they would have been spared a great deal of anguish, saved time, and most importantly saved wasted funds. In order to find a patent practitioner licensed by the USPTO in your state and city, one can visit the USPTO website: <http://www.uspto.gov>.

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## CHAPTER VIII

### WHAT ARE THE ODDS?

**S**tatistics generally do not lie, but people are often misled by them. The individual inventor who is financially successful is truly a rare person. What are the odds?

#### **In Patents:**

According to the latest statistics available from the US Patent and Trademark Office, about 65 percent of the applications filed issue as Letters Patent.

#### **In Trademarks:**

Although exact statistics are not available from the Trademark Operation of the US Patent and Trademark Office, it is estimated that approximately 75 percent of the applications for registration are granted. This percentage is much higher for applications filed by trademark attorneys.

#### **In Copyrights:**

Since the requirements for registration of a copyright are not as stringent, the percentage of applications for registration for copyright that are granted is about 98 percent.

#### **In Commercialization of New Ideas:**

From the statistics that invention development companies have been required to provide in compliance with state statutes regulating the activities of such companies, *very, very few individuals who try to commercialize their ideas through such companies make more money from the idea than they pay the company*. Moreover, although you may have a somewhat better chance of commercializing your invention yourself (depending, of course, on the nature of the invention and on your own entrepreneurial abilities), the chances of your successfully commercializing your invention are still probably not good.

Thus although the odds of your obtaining some form of protection for your idea are fairly good, the odds of your making money on the idea are low. Nevertheless, when you do conceive an idea, you will want to evaluate it early on with a responsible and knowledgeable advisor—*i.e.*, a person who can help you protect your idea if it is protectable and worth protecting and who will counsel you in a realistic and forthright manner.

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## CHAPTER IX

### WHY BOTHER?

**A**fter reading through the previous sections and realizing the difficulties one faces in protecting and exploiting an idea, you may wonder to what extent you should bother pursuing an idea.

Assuming you can maintain objectivity with respect to the protectability and the value of the idea, pursuing the exploitation of your idea may result in a benefit to you and mankind. This may sound somewhat grandiose, but this was the purpose of Article I, Section VIII of the US Constitution, which provides:

The Congress shall have the power... to promote the progress of...the useful arts, by securing for limited times to...inventors the exclusive right to their...discoveries.

Pursuant to this authorization in the Constitution, Congress has passed the Patent Act (Title 35 of the US Code). Under Section 154 of Title 35, it is stated that a patent shall contain a grant to the patentee for a limited term (see Section 4.05, “Patent Protection—Utility Patent” and Section 4.06, “Design Patents, Plant Patents, and Certificates of Plant Variety Protection”)...

...the right to exclude others from making, using or selling the invention throughout the United States...

Of course, if at all possible, you want to be compensated for your creative efforts in conceiving and developing your idea. It is with that thought in mind that this book has been prepared—namely, to assist you in protecting your idea in obtaining some reward for your creative efforts.

If you maintain objectivity and utilize the help of specialists and other sources referred to in this book, you should be able to determine whether or not you can obtain some compensation for disclosing and selling or licensing your idea to others.

Also, although the odds of your getting “rich”—or even making any significant amount of money on your idea—are low, there are many people who have succeeded and have earned substantial amounts of money from their ideas. All of us, of course, know of Thomas Edison and Alexander Graham Bell—people who made immense contributions to society and who were well-rewarded for their efforts. Mr. Edison was the first inventor inducted into the National Inventors Hall of Fame in 1973, followed by Mr. Bell and others in succeeding years. An excellent pamphlet describing their efforts, inventions and lives can be obtained free of charge by writing:



Inventure Place  
Home of National Inventors' Hall of Fame  
520 South Main St, Suite 2423  
Akron, Ohio 44311  
(571) 272-0095

After reading this publication, you may be motivated to overcome the difficult odds facing inventors.

Not all inventions are as “earth-shaking” as those of Mssrs. Edison and Bell. Don Kracke’s first million-dollar idea in 1967 was the invention of colorful stick-on vinyl flowers called “Rickie Tickie Stickies™” which became an international fad in less than a year. Since then, Mr. Kracke has formed a company called Group X, which takes ideas—his own and those brought in by other people—and develops them for marketing. His book, *How to Turn Your Idea Into a Million Dollars*, should be available in book stores or libraries.

There are many other individuals who, by hard work and diligent pursuit of the avenues open to them for protecting and exploiting their ideas, have been able to contribute to society and be rewarded at the same time.

If objective evaluations on the protectability, novelty, originality, technical feasibility, production costs, and marketability of your idea indicate that it has promise, there may be something to be gained by developing the idea yourself. As Murray Gleeson points out in his book, *How to Make Money from Your Patent and Invention*:

...it is easier to sell a going business, however small, than an untried invention or patent.

Accordingly, Mr. Gleeson goes into some detail in indicating how you can set up a company to manufacture your invention for the purpose of selling the company as a going business. Other information on setting up a company is set forth in Chapter V.

Whether you attempt to develop the product yourself and start a business around it, or whether you merely try to sell or license the idea to a company, there is a definite need today for continued improvement in our products and services and the methods of providing them. There are a number of indications that our European and Japanese competitors are inventing and innovating at an increasing rate. In fact, both the Germans and the Japanese obtain more US patents than Americans obtain in either of those countries.

The American Intellectual Property Law Association feels so strongly about the need to increase the development of technology that we have prepared and re-published this book so that it would be available to you, the individual with an idea.

Good luck, and keep on creating and inventing!