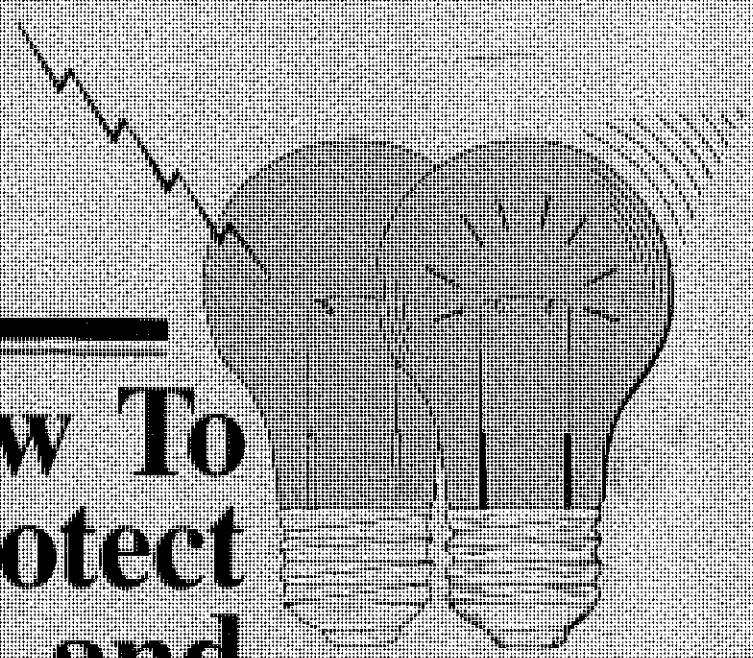
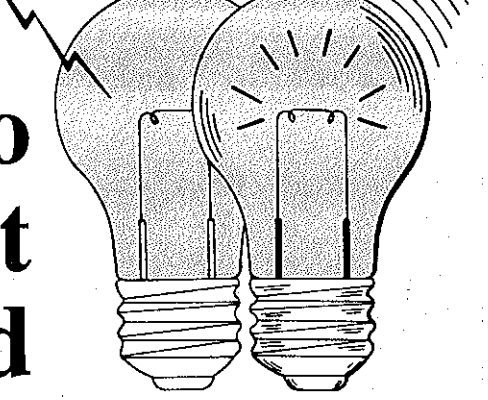


How To Protect and Benefit From Your Ideas

American Intellectual Property Law Association

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How To Protect and Benefit From Your Ideas

A Book Intended To Assist The Independent or Novice Inventor In Protecting, Evaluating, and Commercializing New Ideas and Inventions.

Additional copies may be purchased by writing:

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FOREWORD

This book has been prepared for general use and guidance of inventors. It states our 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 (and the 1989 Supplement) 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, Inc. They are merely intended as sources of information with which you may wish to consult in determining how to protect and promote your invention.

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Alternatively, the AIPLA lawyer will advise you on how to contact the local bar association for a referral to another lawyer.

INTRODUCTION

This 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 go to a lawyer.

After you have read this booklet, if you would still like to discuss your idea with a lawyer, it is suggested that you fill out and return the tear-out sheet at the back of the book. The Inventor Consultation Service of the American Intellectual Property Law Association, Inc. (AIPLA) will then correlate your need with the skills of a member lawyer who practices in your area or in some other area where you might prefer to meet a lawyer. You will be sent the name, address, and telephone number of the lawyer, whom you should then contact to arrange an initial half-hour consultation. There will be no additional charge by the lawyer for this meeting. During the initial consultation, you and the lawyer can explore the nature of your idea, and the lawyer can outline what steps should be taken to attempt to protect and profit from the idea.

In most cases, it will be necessary for the lawyer (or a lawyer) to do further work for you beyond what can be accomplished in a half-hour initial consultation. If you wish that work to be done by the lawyer to whom you were referred, you should make arrangements for the additional work directly with the lawyer.

Many of the AIPLA lawyers providing this voluntary service work for corporations and do not accept outside clients on a fee basis. If this happens in your case, the lawyer will give you the name of one or more other qualified lawyers if you wish further advice and assistance.

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 technologies, that are candidates for such protection are the "genetic engineering" and "computer software program" 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 from the United States Patent and Trademark Office or by a certificate of plant variety protection from the Department of Agriculture.

In order to profit from an idea, it is necessary to receive some sort of legal protection for the idea.

However, ideas don't have to be patentable or copyrighted to be protectable. For instance, methods of doing business, much technical know-how, many manufacturing techniques, 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 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.

CHAPTER I

WHAT KIND OF IDEA DO YOU HAVE?

An 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, are of a type which cannot be commercially exploited. Some ideas can be protected by patents, copyrights or trademarks, and others cannot. In some cases, even though an idea is protectable by a patent, copyright or trademark, 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 you want to profit from. 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.

CHAPTER II

OWNERSHIP OF AN IDEA—INVENTION

Before 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—again, in the absence of a contrary agreement between you and the employer.

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

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.

An idea expressed 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 is 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.

CHAPTER III

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 U.S. 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.

will 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.

If you came up with your idea as part of your job, then there is a good chance that the idea does not belong to you.

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 circumscribed 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.

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.

A disclosure document is, at most, evidence of a date of conception of an idea. It does not provide any protection over the idea.

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

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. 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 U.S. 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.

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.

In any event, because of the inventor's limitations, it may be more practical to try to sell the idea to a company

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–$5,000 are collected with the promise that such companies will use their ''best efforts'' in trying to help you place or sell your idea. Very, very seldom are such efforts successful. Moreover, if they are commenced 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 they are commenced more than a year before a patent application is filed, they can destroy any chance you have for obtaining patent protection on your invention in the U.S. 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 is 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 are 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

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 numerals 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 _____ , 19____ ," and then provided several lines for the signatures and printed names and addresses of at least two other people. These people should be (1) people whom you trust to maintain your idea in confidence, (2) people who are capable of understanding your invention, and (3) people who clearly are not coinventors with you. The second and third points

rather than for the inventor to develop the idea alone. However, as noted in Chapter IV of "How to Protect Your Idea," 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 disclosed in a pending application) since its value is very indefinite. 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 good 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.

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 coinventor.

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 very limited protection over your idea. This is true at least so long as no one else comes up with a similar idea and so 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

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 coinventors, 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.

It is very important to have witnesses . . . who can testify that your actual reduction to practice was actually made or accomplished on or by a given date.

As with conceptions of inventions, it is very important to have witnesses (someone other than your coinventor(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

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 U.S. 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.

Do not use this program unless you clearly understand its limitations.

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

confidential relationship. 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.

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

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 closest 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.

not to exceed 8½ by 13 inches (21.6 × 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 $6 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 $6 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, The U.S. Patent and Trademark Office, Washington, D.C. 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.

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

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, 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 uninfringed, perhaps another claim will be held to be invalid or uninfringed.

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 oath is a long form which will be supplied by your patent attorney. You should read it carefully, making absolutely certain 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. It is usually not a major element of the cost of filing a patent application.

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 patentabillity 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 the invention as defined in the claims of the patent for a fixed period of time. In the United States, this period of time is 17 years beginning from the date the patent is issued.

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 is patentable subject matter, and if the invention is novel and unobvious from what is already known in the field to which the invention pertains.

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.

After your patent has issued, maintenance fees must be paid 3½, 7½ and 11½ years after issue in order to maintain your patent in force. This is a new provision of the law, and the exact size of the maintenance fees vary with inventor status and time for payment. For small entities, like independent inventors, they are presently $225, $445, and $670 respectively, at the three due dates given.

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

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,

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, songs, choreography notations, sculptures, three-dimensional models, maps, blueprints, collages, the printed material on board games, computer programs, data, and music (whether in print or on tape). 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 copyright comes into being when the work is fixed in a tangible medium from which the work can be visually perceived. If and when the work is published, a notice should be placed on publicly distributed copies in a form such as "© 1982 John Jones" or "Copyright 1982 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 50 years. Where the author is not identified or the work has an "institutional author," the term of the copyright is 75 years from publication or 100 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. If the work is published, the copyright should be registered within three months after publication with the Copyright Office in Washington, D.C.

Registration is a simple procedure for which you will not ordinarily need an attorney. It requires only that you fill

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 sports, 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, this time including a 17-year term—but no fee is charged for maintaining a plant patent in force.

The protection extends only to the unauthorized copying of the expression of an idea. That is, a copyright does not protect the idea itself.

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 rather than 17 years.

4.07 Copyrights

Any considerations of available protection for 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

sponsorship of certain services. A trade name identifies a commercial entity. 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 are created by actual use of the mark in connection with the sale of the goods or services.

Rights in a trademark or a service mark are 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.

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), the owner of the mark may file an application to register the mark with the Patent and Trademark Office. Additionally, even if the use is not in commerce regulatable by Congress, in many states the owner of the mark may file an application to register the mark in the state where it is being used. However, the utility of state registrations is far less than the utility of federal registrations.

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

out a simple form provided by the Copyright Office, pay a $10.00 fee, and mail the form, the fee, and two copies of the work to the Register of Copyrights, Library of Congress, Washington, D.C., 20559. (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.

An issue often arising in connection with obtaining copyright protection is that of identifying the "author" where the work was produced by an employee in the course of his work or pursuant to a special commission or consulting arrangement. Such arrangements usually result in the employer being considered the "Author" of the work for purposes of the copyright law. This situation is often called "work for hire."

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, 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 relates to a fanciful 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

goods or services. However, it is possible, although very unlikely, that you could approach a company who sells the particular goods and services and suggest to it 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.

A trade secret or confidential know-how has an indefinite life, if it can be kept secret and confidential.

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 confidential. 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.

It will be appreciated that, from a practical point of view, it may be impossible for an individual with an idea

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 a 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 registration,®; and finally, (7) it enables you to prevent the importation of goods bearing 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 derive from use. 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 rights in the mark until you use it in connection with the sale of those

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.

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. However, with the help of venture capital and perhaps a small business loan, you may be able to take

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

Oftentimes an individual has an idea which 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. Examples of such ideas are methods of doing business, a proposed trademark for a product produced by another, or the like. 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,*

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.

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 systems patent on a financial management system based on a computer program and had marketed it under a registered

this approach. 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 coextensively 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 apparatus 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

CHAPTER V

HOW DO I MAKE MONEY FROM MY IDEA?

5.01 Compensation for the Service of Submitting an Idea

As 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 $1.00 per copy from:

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.

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.

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.

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.

As discussed with respect to assignments of inventions, a lump-sum type of payment for an exclusive

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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

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 moneys 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

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.

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.

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

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Telephone: (202) 653-6279

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 businessmen. 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 businessmen. 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 businessmen. (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

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.

Formation of a new business to produce a product requires many talents, such as engineering, finance, marketing and law.

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 "U.S. Government" in your local telephone book or ask for operator assistance to find your local SBA office. Alternatively, you can write:

CHAPTER VI

WHERE DO I OBTAIN HELP?

There 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 Inventions 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 the Supplement 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 in the separately printed Supplement to this book.

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. The AIPLA provides an Inventor Consultation Service which, in essence, is a matching service which

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 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). Which choice is the right choice depends upon your individual situation and the nature of your idea.

One key advantage of the corporate form 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. 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.

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 a 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, such as $50. 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:

Battelle Development Corp.
505 King Avenue
Columbus, Ohio 43201
Tel: (614) 424-7455

Wisconsin Innovation Service Center
University of Wisconsin
Whitewater, Wisconsin 53190
Tel: (414) 472-1365

matches individuals who want the services of a patent, trademark or copyright attorney with an attorney who specializes in the relevant area of the law, who practices in the geographic area where you live or wish to consult with an attorney, and who has agreed to give a half-hour consultation to individuals referred to him by the service at no charge. The half-hour consultation is, of course, too short to "solve" most problems. However, it will 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.

If you would like to consult with an AIPLA attorney, please tear out, complete and mail the last page of this book (entitled "Application Form") to the AIPLA.

Alternatively, you can obtain a copy of the entire roster of registered patent attorneys and agents throughout the U.S. Write to:

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C.20402

Enclose $17.00 (1988) and ask for:

Entire Roster of Registered
Patent Attorneys and Agents
Stock No. 003-004-00635-8

You can obtain an excerpt from this publication *free of charge* by writing:

U.S. PTO
Box OED
Washington, D.C. 20231

and asking for a list of patent attorneys and agents in your area. The Patent and Trademark Office will photocopy the pertinent portion 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.

You can also consult with your nearest city, county or state bar association lawyer referral service for a referral to

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

The John F. Baugh Center for Entrepreneurship
Hankamer School of Business
BU Box 8011
Baylor University
Waco, Texas 76798-8011
Tel: (817) 755-2265

In addition to the above organizations, there are a number of others who will help you evaluate and market your invention. A list of the organizations appears in the current edition (1989) of the Supplement to this book.

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

Office of Energy-Related Inventions
National Bureau of Standards
Building 202, Room 209
Gaithersburg, Maryland 20899
(301) 975-5500

Ask for an "Evaluation Request" form (NBS-1019) and return it with a description of the invention or idea. Anyone may submit an invention to NBS and have it evaluated. There is no fee and no obligation, financial or otherwise, incurred by the inventor.

(2) U.S. Patent and Trademark Office

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

Commissioner of Patents and Trademarks
U.S. Department of Commerce
Washington, D.C. 20231

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.

(3) U.S. 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, several of which are discussed below.

$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' Group

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.

In Supplement II (1989) to this book is a list of inventors' clubs, societies and professional associations which are believed to be honest and reputable. 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) U.S. Office of 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 Bureau of Standards. If the evaluation shows that the invention has significant promise for either saving or producing energy, the U.S. Department of Energy will consider providing the inventor with assistance to help develop the invention. To submit an energy-related invention to NBS for evaluation write to:

Impact Seven, Inc.
320 Industrial Road
Turtle Lake, Wisconsin 54889
Tel: (715) 986-4171

There are similar organizations being formed in other states, and 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.

6.02 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, N.J. 07632. Many sources for venture capital, marketing information as well as sources of general information and assistance are listed.

The U.S. Small Business Administration provides a number of publications which are available from the U.S. Government Printing Office, Washington, D.C. 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

(a) Connecticut Products Development Corporation

One state organization is the Connecticut Products Development Corporation (CPDC). This agency does not, as a rule, deal directly with inventors, but rather works in joint venture development projects with companies in Connecticut, with the aim of creating jobs through the medium of new products. The CPDC has been involved in joint ventures with established companies (not start-ups) for the last 18 years. It seeks a return through royalties on its successful developments and stands to lose its investment on unsuccessful ventures. You must have already set up a company before it will consider dealing with you.

For further information contact:

Connecticut Products Development Corp.
78 Oak Street
Hartford, Connecticut 06106
Tel: (203) 566-2920

In Massachusetts, a somewhat similar state organization exists. For further information contact:

Massachusetts Technology Development Corp.
131 State Street, Suite 620
Boston, Massachusetts 02109
Tel: (617) 723-4920

(b) Impact Seven, Inc.

Impact Seven, Inc. is an organization funded by seven counties in northwest Wisconsin. It has available an amount of venture capital up to $1 million to assist a small company with a viable product in locating in that area for the purpose of manufacturing and selling the product. In this respect, it has industrial parks, acreage with basic industry services, and industrial buildings available. This organization was founded in 1970 by area residents for area economic and community development and particularly to provide jobs for local residents.

For further information, contact:

CHAPTER VII

FRAUDULENT INVENTION DEVELOPMENT COMPANIES

Discussed 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. Most of the organizations listed (see 1989 Supplement) will at least make an initial appraisal for little or no charge to the inventor. These organizations, due to the very nature of the new product business, *reject* the vast majority of inventions submitted for one reason or another. 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

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.

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 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 typically be 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.

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.

Most reputable organizations do not ask the inventor to pay a large "up-front" fee for their assistance.

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

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

Then the inventor is induced to request an evaluation. Typically, this is done by the salesman with whom he deals at the company. Such salesmen portray themselves as being like account executives for a brokerage firm. The salesman 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 salesman highly recommends that the inventor sign up with his company immediately to enable it to proceed with introducing the invention. Typically, the salesman presents

(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 the 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 paid the invention development company.

Set forth below are citations to three 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.

Your attorney or your local bar association, or your state attorney general's office can tell you if your state has

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 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.

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 U.S. 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 how many—or 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.

CHAPTER VIII

WHAT ARE THE ODDS?

Statistics 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 U.S. Patent and Trademark Office, about 65% of the applications filed issue as Letters Patent.

In Trademarks:

Although exact statistics are not available from the Trademark Operation of the U.S. Patent and Trademark Office, it is estimated that approximately 75% 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%.

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.

passed similar legislation to protect inventors from the fraudulent invention development companies and others who prey upon inventors.

CHAPTER IX

WHY BOTHER?

After 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 U.S. 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 U.S. Code). Under Section 154 of Title 35, it is stated that a patent shall contain a grant to the patentee for the term of 17 years . . .

> . . . of 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.

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.

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:*

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.

> . . . 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 Chapters IV and 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 U.S. patents than Americans obtain in either of those countries.

The American Intellectual Property Law Association, Inc. 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!

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:

National Inventors Hall of Fame
Foundation, Inc.
Room 1D01
Crystal Plaza 3
2021 Jefferson Davis Highway
Arlington, Virginia 22202

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*, is listed in the Bibliography in Chapter X.

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.

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CHAPTER X

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3. If you have an idea relating to the arts or copyrights, check one or more of the following describing your idea:

(a) artwork _____
(b) book _____
(c) film _____
(d) sound recording _____
(e) music _____
(f) other (describe briefly: _____ _____)

4. If you want to consult with an attorney in a locale other than where you live, please specify:

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The AIPLA is providing the consultating service, and it is understood and agreed that the AIPLA does not assume responsibility or liability for the information and/or services provided or not provided by a participating attorney.

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APPLICATION FORM

Inventor Consultation Service

To obtain a referral to an attorney who will give you a one-half hour consultation at no further charge, please tear out, complete and mail this sheet to:

Inventor Consultation Service
American Intellectual Property Law
Association, Inc.
2001 Jefferson Davis Highway, Suite 203
Arlington, Virginia 22202.

It is suggested that you *not* complete this sheet until *after* you have read this book.

1. If you think your idea involves a possible patentable invention, check one or more of the following describing your idea:

   (a) electrical _____
   (b) mechanical _____
   (c) chemical _____
   (d) computer software _____
   (e) other (describe briefly _____
   _____)

2. If you think your idea involves a trademark, check here: _____