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Patents: Beyond the Basics

Answering Your Top 12 Questions on Strategy

Part 3

In this four-part Q&A series, six patent attorneys from Dilworth IP answer 12 patent strategy questions posed by Connecticut Innovations portfolio companies. [Please note that this patent Q&A series is for general informational purposes only and does not represent legal advice by the authors or Dilworth IP, LLC.]

Q: How can I create a practical international filing strategy that doesn't break the bank?

A: It is possible to adopt an affordable foreign filing strategy. First, a company must decide where to file patent applications. Frequently, this includes any country in which the patentable invention would be manufactured, used or sold. From this list, the company can evaluate whether it would prefer to subtract any jurisdictions where enforceability of patent rights is considered weak. The country list can then be ranked in order of importance using input from business leaders. Once an edited, sorted list of countries is compiled, filing costs can be included. These costs can then be compared with budgeted numbers, and the list can be adjusted as necessary.

Once the filing list for a patent family has been established, it is important to schedule regular review sessions with business and R&D personnel. Each patent family is evaluated to determine whether there is still business and R&D interest in the technology. These sessions should begin after the patent family is filed and should continue until the patents expire or are abandoned. When a patent is no longer of interest in a particular country, then the patent can be abandoned. In some cases, a country might be deleted from the list. Ideally, these sessions are held every quarter or twice a year. If the patent portfolio is large and this frequency is unwieldy, the portfolio can be divided along technology or product lines. The patent portfolio review sessions can also be used as a convenient vehicle for business and R&D to share market intelligence and trends, so as to alert legal to any potentially infringing activity. While it may be tempting to forego in-person meetings in favor of e-mail solicitations, meetings are better at focusing attention and achieving "buy-in" and accountability from business and research personnel. Acting in isolation, some individuals may automatically vote to maintain a patent in a country in order to avoid conflicts with committee members or other decision makers. This dynamic often changes when everyone is in the same room.

Finally, while the periodic "pruning" of the patent family described above can help minimize costs associated with countries for which company interest no longer exists, the costs of prosecution in individual countries can also be reduced by utilizing the "Patent Prosecution Highway" (PPH). This is the name given to agreements entered into by groups of nations whereby the patent prosecution "work product" from one country or patent office (e.g., an indication of allowable subject matter or a favorable Patent Cooperation Treaty [PCT] Written Opinion) is used to expedite prosecution in other countries. The latest versions of the PPH are the "IP5," which is between the United States, Japan, Europe, Korea and China, and the "Global Patent Prosecution Highway" (GPPH), which includes 17 countries. Indications are that use of the PPH results in higher grant rates, fewer office actions and reduced pendency time, thereby making prosecution both less expensive and more efficient.

Q: What do I need to consider before working with third parties?

A: Be clear about what you need from the third party, what they will need from you, and what the nature of the relationship should be. Confirm that they have the right skills, knowledge, business strengths, experience, resources and reputation to serve your needs.

Ask the other party to sign a confidentiality agreement before you disclose any details about your invention or business. Many people assume that if they learn something from another person, they are free to pass the information on to others, publish it or use it in their own business, unless they have agreed to specific limitations. Much of the time, they will be right! Agreements that prevent these activities go under various names, such as nondisclosure agreements (NDAs) or confidential disclosure agreements (CDAs), etc.

Do you want to provide the other party with a proprietary product or material that your company developed? If so, you can limit what they can do with the material in a way that fosters the commercial opportunity (e.g., allowing tests that will reveal superior performance) without losing hold of important information (e.g., by prohibiting analysis of the material to see what it is made from). This can be accomplished by having them sign a material transfer agreement (MTA), also called a non-analysis agreement (NAA).

Properly drafted confidentiality agreements permit discussions but will prohibit unauthorized use or disclosure of your confidential information. If you don't use one, you may be putting sensitive information in the hands of a future competitor, jeopardizing a competitive edge, and possibly sabotaging proprietary patent or trade secret rights. This last point can be crucial if you have plans to apply for patent protection on the information you will disclose, because patents are only granted on concepts that are new to public knowledge. If information about an invention becomes public before your patent application is filed, the public disclosure may invalidate the patent (there is a one-year grace period that might save the application under U.S. law, but not in most foreign countries). Simply disclosing the information without restriction can be enough to trigger these consequences.

If the purpose of engaging the outside party is to acquire know-how that is critical to your business, your contract with the outside party should be explicit about who will own the intellectual property in their work product. Hired authors sometimes retain the copyright in works they are commissioned to write; hired inventors sometimes retain patent rights in the technical solutions they create for their clients. These outsiders can be valuable sources of know-how for your firm, but you need to be sure that your company will be legally equipped to fully exploit their work product.

Imagine that you hire a consulting firm to conduct an industry survey and write a report that identifies a need in a particular industry, a number of key customers and the elements of a value proposition for a service or product that your company can provide. After the report is delivered and paid for, your company may wish to make copies to distribute to potential investors or to customers, or even to the public. But if you did not contract with the consultant to acquire the copyright to the report, or at least a license to publish it, you might violate the consultant's rights if you do these things.

Similar complications may arise for companies that outsource technical expertise for product or process R&D. The contractor may be entitled to claim proprietary rights that could frustrate your company's plans to commercialize and protect the innovations you paid the consultant to develop. Even in a strategic partnership with another firm for a targeted R&D project, ownership of the results should not be left to fate. The general rule is that jointly developed inventions are jointly owned by the inventors, and any of the inventors can use – or license away – what they own, without necessarily accounting to the other inventor(s). If a patent application is filed, issues arise over who pays the costs versus who is getting a "free ride," how any of the patent owners can enforce the patent without the cooperation of the other owners, and so on.

Therefore, if you plan to work with third parties, you need to understand clearly what the desired outcome is and be sure that it is fully spelled out in your legal documentation with those parties. If the contractor will not agree to assign to your company the rights in their work, you may be better off hiring someone else. Otherwise, you may be supporting the development of an asset that your company cannot exploit to the fullest benefit or that will ultimately benefit a competitor.

Q: How should I manage my company's IP position when receiving government grants?

A: Government grants can be a great source of funding for your company. These grants generally do not have the financial "strings" of equity or debt financing. For example, new equity financing can dilute the holdings of existing shareholders, and debt financing eventually has to be repaid. However, there are other consequences for the company to carefully consider before applying for and accepting government grant funding.

Prior to 1980, recipients of federal grants were obligated to assign inventions made using the funds to the federal government. However, the Bayh-Dole Act changed all that by permitting the recipient to elect to pursue ownership of such inventions. See the Patent and Trademark

Law Amendments Act (the Bayh-Dole Act), Pub. L. 96-517, December 12, 1980, which is codified at 35 USC § 200-212 and implemented by 37 CFR § 401. Although the Bayh-Dole Act has clarified the IP rights of grant recipients, there are still important points to consider before accepting or even applying for a government grant.

First, to avoid confusion or potential conflicts over ownership of IP, it is preferable to have patent applications relating to your preexisting IP on file before applying for the grant. If this is not possible, you should appropriately document your preexisting IP.

Some grant applications are confidential; in other cases, you can designate portions of the application to be treated confidentially. Either way, there is a risk of purposeful or accidental disclosure. Consequently, the applicant should carefully consider what information is necessary for the application versus the information it need not (or should not) disclose.

Although the Bayh-Dole Act has made it easier for the recipient of a government grant to retain IP rights in work arising out of the grant, the grant documents will likely have provisions (which can often be quite complex) dealing with intellectual property. Remember, these grant documents are legally binding and should be carefully reviewed with an attorney to determine their effect. Furthermore, the grant documents often require the grant recipient to disclose inventions and discoveries to the funding agency. The grant documents may also contain provisions requiring the grant recipient to share all proposed patent applications with the government agency prior to filing, and other provisions relating to forfeiture of the IP in favor of the government should the grant recipient decide not to pursue patent protection of the IP or fail to comply with the provisions of the grant. Furthermore, although beyond the scope of this discussion, it should be kept in mind that the government technically has a right to a paid-up license to the resulting inventions, retains "march-in" rights if the inventions are not diligently commercialized, has the right to file patent applications on the inventions when the grant recipient does not itself file these applications, and has the ability to require the addition of certain clauses to license agreements for the inventions negotiated with the government.

Finally, when a patent application is filed by the grant recipient, the recipient is required to include a statement at the beginning of the patent application (and any patents that may issue therefrom) identifying the grants and granting agency, and indicating that the government has certain rights in the invention.

In summary, even though the Bayh-Dole Act has clarified the patent rights retained by recipients of government grants, it is still an important business decision whether to apply for and ultimately accept a government grant. Additionally, the grant documents governing the funding are legally binding and should be carefully reviewed and considered before they are executed.

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