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Dear Friends and Colleagues,

Here is my latest newsletter covering another topic of general interest in the intellectual property field. If you missed my last newsletter from Fall 2009, **"Recent Developments: How the Recession Has Affected the World of Patents,"** send me a return email and I will forward it to you.

Title: How to establish an effective patent program in a company that does not currently have a program or does not regularly seek patents

Preparing, filing and prosecuting patent applications to obtain new patents (also, referred to as "patent procurement") is expensive and about 95% of patents never even become valuable enough to recoup their procurement costs. Business process patents are a glaring exception to this rule. Such patents are 17 times more likely to be litigated than non-business process patents, and thus such patents have significantly greater value than a typical issued patent, litigation activity being a fairly accurate gauge of patent's potential value. Large companies that procure significant numbers of patents can justify their patent programs based on the significant value of the other 5% of patents. For small companies that have little or no patenting history, patent procurement is basically a form of legalized gambling because there is an insufficient volume of patents, and no long-term proven record of the value of the patents, to ensure that there will be a few winners to balance out the vast majority of losers. The lifetime external costs of preparing, prosecuting and maintaining a typical U.S. patent in the electrical/computer arts is about $22-$34,000 today, breaking down approximately as follows: $12-14K to prepare the application, $5-10K for prosecution costs and issue fee payment, $5-10K maintenance fees over the life of the patent, depending upon whether the company is a large or small entity. Internal costs must be added to that number as well. If foreign protection is desired in a small handful of industrialized countries, that number may go up by a factor of 10. Notwithstanding these ugly facts, small technology companies today are increasingly taking the leap of faith and filing patent applications in record numbers. If your company is ready to do so, what steps must be taken to make the process as effective as possible?

Prior to procuring any patents, the company should verify that each of its employees (both technical and non-technical) have signed an employment agreement that assigns all "invention rights" to the company and obligates the employees to "assist the company" in whatever manner is necessary to obtain patents to secure the invention rights. This type of clause is boilerplate language in most employment agreements used by technology companies. Even if an employee develops an invention during the course of their employment, the laws of many states permit the inventor to own the patent rights, absent such an agreement.

One person or a small core of people in the company should be designated to review invention submissions and timely forward appropriate submissions to the patent practitioner for consideration. This task is typically handled by in-house general counsel (if one exists), a Chief Technology Officer, R&D manager, or the like. The key challenge to a patent program is to get appropriate submissions in a timely manner. Preferably, the company should request that employees submit invention ideas in an Invention Disclosure Form. This form addresses many of the issues that will assist the company and the patent practitioner in deciding whether to move forward with a patent application.

Some employees whose inventions may be commercially marginal may push to try and get their invention patented while the more valuable inventions are not submitted at all for consideration. This is because most technical employees are rewarded for developing new products and services, timely bringing them to market and closing sales, not for procuring patents. Companies can counter this problem by carefully monitoring new products and services for potential inventions, instituting cash awards for employee inventions, such as $1,000 upon filing of a patent application, and by ordering plaques for issued patents and placing them prominently in the company lobby to create a corporate culture of recognition for inventions.

Employees should be informed of certain key facts regarding patent procurement. Two of the most important facts are as follows:

1. To obtain a patent, the invention must be both "novel" (i.e., never described or built before anywhere in the world) and "unobvious" to one of ordinary skill in the art to which the invention pertains.

2. To obtain a validly enforceable U.S. patent, the patent application must be filed within one year of when the invention is first "described in a printed publication" available anywhere in the world, or placed in "public use" in the U.S. (a secret commercial use is considered a public use), or placed "on sale" in the U.S. Accordingly, invention submissions must be reviewed in a timely manner to ensure that an application can be prepared and filed before this one year time period expires. Many foreign countries, such as Europe, do not even have this one year grace period and require patent applications to be filed before any publication or commercial use of the invention occurs. To preserve foreign rights, the U.S. patent application must be filed before either of these activities have occurred.

Companies who enter the patent game should have realistic expectations. Presently, the USPTO issues only about 50% of filed applications, which is down from its historical percentage of about 70%. This number may even drop further as a result of recent anti-patent Court rulings,

new internal USPTO politics and procedures, and proposed legislation. Also, it is very difficult for small companies to enforce their patents against infringers due to the exorbitant expense of patent litigation and the difficulty of obtaining contingent fee representation unless the potential damages are very large and the merits of the case are very strong. It is also very difficult for small companies to cross-license their patents. The main advantage for small companies to procure patents is to enhance the value of the company. If a key product line is also covered by broad patent protection, the valuation of the product line may be increased by many multiples.

The main reason for procuring patents, whether the company is big or small, is to try to add another layer protection to the company's investment that was made to bring a new product or service to market. As our economy continues its path towards an almost pure knowledge economy, patents should play an increasingly important role in this new economy and all companies, big or small, should consider implementing a patent procurement strategy if one does not already exist.

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Best Regards,
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