

What You Should Know About Patents As Your Business Grows

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Patents hold significant value for companies of all sizes, both as a business asset and as a marker defining an exclusive position in the market for the products they cover. All businesses intending to supply new and innovative products should therefore consider patent protection for those products. This article provides an overview of some common patent issues for new entrepreneurs to think about as their companies progress.

I. Take Advantage Of A Worthwhile But Limited Offer From The Government

In the United States, the federal government offers limited monopolies in the form of patents as a way to reward and foster innovation. This patent monopoly lasts for 20 years, measured from the application date, during which time competitors cannot make, use, sell or import products falling within the scope of the patent. Inventors can extend the geographic scope of their monopoly by filing international patent applications.

Issued patents and, to a much lesser extent, pending patent applications collectively identify a company's unique niche in the marketplace and can safeguard revenues received from product sales within that niche. But entrepreneurs should not overlook the potential impact of their patent portfolio on securing funding during the company's early stages. In many industries, savvy investors will scrutinize a company's patents and patent applications for their scope, strength and integrity when deciding whether to finance that company. Many investors also may take an active role in steering the company's patent strategy as a way to help ensure a desired level of return.

II. Before You Begin, Some Preventive Maintenance Measures Are In Order

In addition to their own patent positions, entrepreneurs should be mindful of the patent positions of others, which may impact their ability to develop and market a product. New products that are an improved version of an existing product, include multiple components or are among a subgroup of a larger class of products may be subject to existing patents that dominate or otherwise cover certain aspects of the new product. Absent a license to use them, such patents will impede development and sale of the new product, even if the new product is separately patentable. It is therefore helpful to know whether any existing patents cover aspects of the new product before investing substantial time, capital and resources in its development.

To identify potentially relevant

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patents, entrepreneurs should consider authorizing their patent counsel to conduct a freedom-to-operate study during the early stages of the company or whenever the company seeks to develop a new product. A freedom-to-operate study may clear development of the new product, may reveal the need to obtain one or more patent licenses, and may ultimately help avoid a costly infringement dispute. The study may also help guide the product development strategy, gearing it toward avoiding aspects that would fall under the ambit of any existing patents and helping the company avoid the need for licenses.

Product development itself may raise additional patent considerations, particularly for contractual research or joint development with an outside entity. In these situations, ownership of inventions becomes the primary concern. Entrepreneurs should therefore consider discussing and designating agreeable terms for ownership of patents arising with the involvement of others; terms for licensing and use, if applicable; terms for controlling patent prosecution during the examination stage of the application; and terms for distributing revenue upon the sale of products covered by the patent. In addition, entrepreneurs should be mindful of confidential information shared with outside entities and take steps to preserve confidentiality, particularly where those entities potentially may also work with competitors.

Because inventorship on a patent confers automatic property rights in the patented invention, ownership of the patent generally becomes a function of inventorship. Indeed, because of their implications for ownership of patents, inventorship disputes have soured many otherwise amicable relationships between parties. Thus, entrepreneurs should consider requiring inventors to keep detailed and accurate records concerning the conception and development of ideas that mature into patent applications and have information evidencing conception witnessed wherever possible. Detailed and accurate records can help resolve costly and time-consuming inventorship disputes, which typically occur long after the invention has been developed.

III. Go Forth And File Patent Applications

Upon reaching significant milestones in the product's development, the company should consider filing new patent applications directed toward those milestones in order to help bolster its patent position. To be eligible for patent protection, the product or significant milestone need not be in a finalized or commercial form, so long as the product on the whole works for its intended purpose or would be understood to do so by persons of ordinary skill in the art. In fact, early filing of applications may prove advantageous in fields with multiple competitors at work. But patent applicants must walk a fine line between filing an application too early, where others may have reason to doubt the invention could be made or could work for its intended purpose, and filing an application too late, with ground lost to competitors.

To obtain a patent, inventors must first file with the United States Patent and Trademark Office an application that includes patent claims defining an invention. Several months, and in some cases years, after the application is filed, the Patent Office will examine the claims for patentability in view of the prior art and for compliance with all formal and legal requirements.

In brief, the claims must define an invention that is subject-matter-eligible, useful, described, enabled, novel and non-obvious. Patent attorneys and agents will massage the patent claims to comply with these requirements, and when the Patent Office believes that the claims satisfy the requirements, it will issue a patent.

A word of caution, though: certain actions performed by inventors or anyone else associated with the company may preclude compliance with the novelty requirement. Publication, offers for sale and public displays of the invention before filing the application may bar patentability even where the claims fulfill all other requirements. The United States affords patent applicants a one-year grace period from the date on which any of these activities occurs to file a patent application, but most other countries offer applicants no grace period, meaning that they will not issue any patents where the invention was placed in the public domain in advance of filing a patent application. Thus, entrepreneurs should consider implementing policies at their companies prohibiting any publication, offer for sale or display of an invention without first filing a patent application or at least seeking the approval of patent counsel.

Because the examination period spans a period of several months to years, the Patent Office may not issue the patent by the time the company commercializes the new product. During this pendency period, the company may mark products with a "patent pending" label but should not mark any products as patented until the patent issues, because the company could be subject to liability for false marking. Once the patent issues, the company may freely mark products as patented and indicate the patent number on the products, provided that at least some aspects of the products fall within

the scope of the patent. Entrepreneurs should bear in mind that "patent pending" labels carry little or no significance in terms of enforceable patent rights, but they do put the public on notice as to possible future enforceable rights.

IV. Be Aware Of Speed Bumps On The Road To Success

Product commercialization may raise issues of patent enforcement, both by and against the company. With revenue coming in, competitors may try to siphon off some of the revenue with similar products. If the company determines that these similar products fall within the scope of its issued patents, the company should consider asserting its patent rights by at least offering the competitor a license to the patent. The company must strike a balance, however, avoiding overly aggressive attempts to assert patent rights unless it fully intends to litigate. Competitors that believe there is a substantial controversy and a sufficiently immediate threat of infringement litigation may initiate judicial proceedings to declare the patent invalid or not infringed, essentially forcing litigation.

Other patent holders may also assert their patents against the company by requesting that the company take a license to their patents or by initiating infringement litigation. Although this may happen before commercialization, it is more likely to occur following commercialization, because the patent holder can then obtain products to test and compare against its patents; and in the case of litigation, the patent holder will be more likely to recover economic damages once sales of products have occurred. Additionally, patent holders may seek and obtain injunctions prohibiting further use of the disputed technology until all issues are resolved between the parties. Companies receiving threats of infringement or requests to take licenses should not ignore them or respond with blanket hostility. Instead they should consider referring the matter to their patent counsel for guidance.

Successful businesses may eventually be targeted for acquisition by a larger entity. An entrepreneur with this goal in mind should not treat its patent position lightly and should consider how its relative strength or weakness may impact the value of the company. Just like investors, an acquiring company will likely review all patents and applications for scope, strength and integrity and will also consider aspects of freedom to operate and proper ownership of the patents, will evaluate all license agreements, and will assess all aspects of active and threatened infringement, among other things. For many purchasers, the number and strength of patents, or lack thereof, will impact the offer price.

Patents can form an integral part of a company's value, both in terms of securing investment and in terms of the eventual sale price. In some cases, patents can also serve as a leverage tool in infringement disputes. Therefore, entrepreneurs considering new business opportunities should consider whether and to what extent patents can play a role in helping that business succeed, keeping in mind their potential to invite conflicts with others.

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