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Everything you ever wanted to know about Intellectual Property law but couldn't afford to ask.

IP means different things to different people. To computer geeks it stands for "internet protocol" to patent attorneys it stands for "intellectual property." In the heyday of dot coms internet protocol ruled. In the days of "dot gones," intellectual property is what's left of the dot coms. If you paid attention to IP when you thought it was internet protocol, you better start paying more attention to IP now, when it stands for intellectual property. Or ignore it at your peril.

Steven Farago learned about IP the hard way. But once he did he never looked back. If you've never heard of Steven Farago, you will now be happy you have. He is an independent inventor who came up with the original PC smart connector. Steven Farago no longer manufactures anything. As inventor, he can let others do it for him. Thanks to his growing understanding of IP and a little help from my firm, General Patent Corporation, he has become one of the most successful inventors.

By
**Alexander
Poltorak**

What is Intellectual Property and Why is it Important?

So what is this IP that has made Steven Farago and a few others like him rich and happy (if not famous), while countless entrepreneurs and inventors appear stuck with little prospect of success? And why is IP so important?

Intellectual Property (IP) is an intangible asset. While it cannot be seen, touched, or picked up and held in the hand, few who are knowledgeable would deny its value as an asset to an enterprise or entrepreneur. Its value is such that it has been estimated to account for over two thirds of all corporate value.

There are two kinds of IP. One segment, "statutory IP" is well known though widely

misunderstood and is well defined by law. Think of it as a footstool with three legs: patents, trademarks and copyrights.

The other segment includes less definite contractual or common law assets such as trade secrets, know-how and non-compete agreements.

Farago's invention belonged to the first segment of IP and came under the jurisdiction of patent law. Farago emigrated from Hungary in 1981, where he had earned a Ph.D. in electrical engineering from the University of Budapest and had designed medical equipment. He was working as a consultant to technology companies in Westchester County, New York, when he stumbled upon the idea to build programmable micro-electronic terminals, otherwise called smart connectors, for computers that would permit the flexibility that existing connectors could not.

With seed money raised primarily from friends and family, Farago designed and produced a working prototype. Rapitech Systems, a technology development company I founded and headed at the time, acquired an interest in Dr. Farago's technology and invested in its development. Applications for Farago's connector included computers, medical equipment, aerospace and the automotive industry.

Rapitech and Farago showed his models to many senior executives at top organizations,

including AMP, Digital Equipment Corporation, and Wang Labs. Many of them were fascinated but 'no way' was a phrase Farago heard a lot of. 'No way' you can make it or sell it, 'no way' you can find a market."

Farago received his first patent on the technology in 1986 and later received two related patents. Unfortunately, Steven Farago was ahead of his time. After an initial flurry of interest, nothing much happened for a few years. However, while Farago's company was going nowhere, I began to see evidence that companies were now using Farago's smart connector as an integral component in many of their computer products. We investigated further and found that what these companies were not doing was getting his permission.

In 1995, Farago and I were working together again. By then, I was running a new venture, General Patent Corporation, an IP management and patent licensing firm. I consolidated the ownership of the smart connector patents from Farago and Rapitech into Action Technologies, and embarked on a patent enforcement campaign.

In 1997, GPC filed three lawsuits. The company prevailed, winning lucrative licensing agreements. Since then, IBM, Motorola, 3Com, Xircom, Boca Research, Zoom Telephonics, Conexant, Matsushita, Sony and many others have licensed Farago's technology. With seventy licenses strong, we succeeded in licensing over ninety percent of the PC card market in the U.S.

Farago won because he embraced the concept of intellectual property. Thanks to our licensing campaign and the power of patent law, Farago emerged victorious in a long struggle to win his rights against corporations, some of them very large, that had been infringing his patent.

Patents Convey Powerful Rights

Patents, as explained earlier are defined by law and are among the most common and powerful of the IP devices available to inventors and entrepreneurs. As Farago's experience proves, a patent owner gains certain rights -- to prevent, through a lawsuit,

others from producing, using, selling, offering for sale, or importing the patented item. Patents are issued by particular country and have effect only inside the borders of that country.

There are three kinds of patents under U.S. patent law -- plant patents, design patents, and utility patents. Plant patents are of interest to breeders of live plants. Design patents cover the ornamentation of an article. Farago's patents, like most, are of the third kind -- utility patents, generally a patent for a new device or process -- and these are the patents discussed below.

To become patented, an invention must be proved novel and non-obvious (it also has to be useful, but this is rarely a problem). A utility patent has a term of 20 years, starting on the filing date of the patent application.

There are a number of misconceptions about patents. A common one is that patents grant a right to practice the invention. As Steven Farago learned, it is in fact the opposite that is true. A patent only conveys an exclusionary or negative right to prevent others from practicing the inven-

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tion. It does not grant the right to the patent holder to practice any invention. In short, a patent is nothing but a license to sue.

Another kind of misconception about patents is what a patent covers. Inventors tend to speak very grandly about their "invention" or their "concept," implying a broader scope for the patent than it actually covers.

Actually, what a patent covers is strictly determined by its claims. Everything else, i.e., specifications and drawings, serves to provide the background and context for the claims, which solely determine the scope of legal protection.

Yet another misconception is to view a patent as a self-contained document. In fact, a patent cannot be viewed other than in the context of the "file



Dr. Steven Farago

wrapper" (patent prosecution history file), which is available to the public. Just as a prudent investor will not read a financial statement without reading the accountant's notes which shed light on the cold numbers, no patent attorney will read a patent without reading its file wrapper. Never accept any opinion on patent validity or scope of protection unless a patent

attorney has reviewed the patent file wrapper.

Trademarks -- IP Becomes a Marketing Aid

Statutory law, as it does for patents, defines the dos and don'ts of trademarks. Essentially, a trade-

mark identifies the source of product or service. Marketers often use a unique name, symbol, or combination name and symbol. This is called a trademark -- or, where a service and not a product is involved, a service mark.

Examples of trademarks include Dockers, Cadillac, and Dr Pepper. Examples of service marks include UPS and Western Union.

If a trademark becomes a generic term, the right to exclusive use is lost.

Examples of lost trademarks include escalator and aspirin. All publications, such as advertising copy and product literature, should be reviewed for proper trademark use to prevent such loss.

The way this can be avoided is to treat a trademark as an adjective, fol-

As a copyright holder, you have the right to prevent others from making copies or derivative versions of, selling, performing, or displaying a work of authorship. The copyright remains in effect for at least 70 years.

lowed by the appropriate generic term which is a noun.

After establishing a trademark, you'll want to identify it using a TM (trademark) symbol -- SM for a service mark. And it's a good idea to register the trademark (which will allow you to use the ® symbol). These strategies give you legal protection against someone copying your trade or service mark.

There are differing federal and state requirements for registration. It's good practice to search and determine no one else is using, or has registered, the trademark you plan to use.

Copyrights Can Protect Your Rights as an Author

The third leg of the three-legged footstool of intellectual property defined by statutory law is copyrights. As a patent holder and successful marketer, you may now seek other avenues to promote what you are doing. Let's say you write an article or book, one you don't want others to copy. In this case, a copyright is the way to go.

As a copyright holder, you have the right to prevent others from making copies or derivative versions of, selling, performing, or displaying a work of authorship. The copyright remains in effect for at least 70 years.

You can copyright the expression of an idea, but you cannot copyright the idea itself. Thus, information in a copyrighted work is not protected against use by others. However, no one may copy your presentation or arrangement of the information.

Computer software may be protected under both the patent and copyright law. The computer algorithm, if novel and useful, may be patented, while the source code may be copyrighted.

Trade Secrets and Know-How -- The Quiet Side of Intellectual Property

Patents, trademarks, and copyrights express the power of statutory law in protecting IP. If you know a lot about these three areas, you know a lot about IP. But there is another segment -- one which includes less definite contractual or common law assets such as trade

secrets, know-how and non-compete agreements.

In discussing patents, trademarks, and copyrights, we have seen that these categories of intellectual property often involve disclosure of information. However, trade secrets and know-how tend to be hush-hush.

A competitive advantage may accrue to possessors of trade secrets and know-how, which are based on information not available to others. An example is the formula for Coca-Cola, arguably the most valuable trade secret in the world. Secrecy is necessary -- trade secrets and know-how may be lost through inadvertent disclosure, industrial espionage, independent re-formulation or re-creation of the product, or losing an employee to a competitor. Legal protection is limited to prosecuting those who by illegal acts have obtained a trade secret.

Trade secrets are forfeited when disclosed in a patent application. What most people fail to understand is that the surrender of the trade secret is the ultimate price one pays for obtaining a patent.

Intellectual property assets can be critical to an inventor or entrepreneur's success or failure. We have seen the importance of IP particularly in the case of patents which, as we have seen, were basic to Steven Farago's success. In Farago's case, the key to success was being able to mount an aggressive patent enforcement campaign without having the millions it takes to litigate a patent case. The inventor or entrepreneur (or venture capitalist who has a stake in the matter) whose patents are believed to be infringed may seek an IP law firm who will undertake the case on contingency (unfortunately, such firms are very few and far apart).

Or, the inventor or entrepreneur or venture capitalist may turn to a patent licensing and enforcement boutique such as General Patent Corporation, which specializes in representing inventors on a contingency basis. A thorough review of the merits of the case as well as costs and benefits of various approaches will determine which is the most suitable course of action in any particular case.