

# PROTECTING INNOVATION

Building an Intellectual Property  
Strategy to Achieve Your Business Goals

*The Form and Function of NDA's, Provisional Patent  
Applications, and Utility Patents*



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# Building an Intellectual Property Strategy to Achieve Your Business Goals

## *The Form and Function of NDA's, Provisional Patent Applications, and Utility Patents*

Almost everyone remembers when Steve Jobs took the stage to introduce the original iPhone to the world. Yet few people realize that during that iconic presentation, Steve Jobs also made a costly mistake.

As part of his demonstration of iPhone features, he included a very quick display of a not-yet-perfected effect that became known as “rubber-banding.” This feature – now prevalent in many mobile technologies – had not yet been patented nor had a patent application been filed. And, in showing it to the world before it was protected, some of the patents that were later issued were ultimately found to be invalid.

In Apple’s case, a provisional patent application may have saved the company millions. Equally important it could have provided the company the opportunity to protect its innovation without hindering its marketing goals.

When it comes to innovation, many companies put business strategy and legal strategy in separate buckets. In doing so, they may end up with a set of sound legal documents, but they may not contain the provisions they need to optimize their ability to achieve long-term business success.

Three common documents that businesses use to protect their intellectual property are Non-Disclosure Agreements, Provisional Patent Applications, and Utility Patents. Understanding the risks and rewards of these documents in the context over your overall business strategy is a first step to long-term protection of the innovation at the heart of your business.

## Hidden Risks of Confidentiality and Non-Disclosure Agreements

Many entrepreneurs use Confidentiality or Non-Disclosure Agreements (collectively “NDAs”) when talking with consultants, investors, and potential business partners about new innovations.

While NDAs are fundamental for protecting trade secrets, they can create a false sense of security if the agreements involve products or methods that fall outside of trade secret protection and that have not yet been patented.



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For entrepreneurs in the early stage of commercializing inventions, it is important to understand the benefits and limits of NDAs, as well as to make sure considerations around intellectual property protection are incorporated into their overall business plans.

### Public Disclosures and Patentability

Federal patent rules make it clear that a public disclosure before a patent application is filed is a bar to patentability.[1]

Over the years the courts have issued many decisions as to what constitutes a public disclosure. Generally speaking, a disclosure is “public” if interested members of the public can obtain access to the disclosure of the invention if they so desire.[2] Importantly, under this standard there is no requirement that the public actually accesses the information; all that is required is that they could access it.

With the rise in information technologies, it is easier now more than ever for a disclosure to occur. While in the past “public disclosure” typically meant some sort of “publication” (for example a trade journal article or a poster presented at a trade show/conference or an oral presentation), today a “public disclosure” can occur via Facebook, LinkedIn, Twitter, YouTube, etc.

With the increase and ease in which information can be disclosed, the potential risk of disclosure with or without an NDA increases with every person who has knowledge of the innovation.

### So what good are NDAs?

NDAs are bona fide legal documents that represent an agreement between two parties to keep particular information secret. They are fundamental for trade secret protection, which relies on maintaining the “secret sauce” elements of a product or a process.

Entrepreneurs generally rely on NDAs early on in the invention development process while gathering information, researching market demand, etc.

Because NDAs are legal documents that contract for confidentiality, they tend to transform what might otherwise be a casual conversation into something more substantial. Most people being asked to sign an NDA appreciate that the information that will be disclosed is important and because they are signing a legal document, they tend to be more aware of maintaining confidentiality.

Effective NDAs identify the appropriate individual or entity that is intended to be bound by the agreement. Ideally, the agreement should indicate that the individual/entity should also be responsible for breaches of the agreement by their affiliates, accountants, attorneys or other agents to whom they provide the confidential information.

### The Limits of NDAs

An NDA creates a legal claim for monetary damages when it is breached/broken, but it does not reverse the underlying disclosure from a patentability perspective.



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And, because disclosure of the confidential information can eliminate the potential for patent protection, it becomes extremely difficult to put a dollar amount on a breached NDA. Even if it could, it would still be uncertain whether any patent that might be granted would be a “game changer” worth millions or something that would never be commercially viable.

Consequently, even if monetary damages are coupled with equitable remedies such as prohibiting the breaching party to use the publically disclosed information or to profit from it, there is no way to reverse the effects of the public disclosure to allow patentability.

### Who should sign an NDA?

Entrepreneurs are well advised to have everyone sign an NDA if they are to receive any confidential or proprietary information, including friends and family. Consultants, machine shops, draftsman and prototype developers are commonly asked to execute NDAs, as are investors, potential licensees and attorneys.

The NDA should carefully define what constitutes the confidential/propriety information that is being disclosed, how long confidentiality must be maintained and what happens at the end of the confidential period to any physical information such as graphs, charts, data, etc. that is provided to the recipient party. In addition, the NDA should also clearly state any exceptions to the prohibition of disclosure. Typical exceptions are for information generally

available to the public without breaching the NDA and information the recipient obtains from others who are not bound by a duty of confidentiality or an NDA and sometimes information already known by the recipient before being disclosed by the entrepreneur and/or information independently developed by the recipient.

### Secure Yourself: File First, Then Use NDAs

Filing a provisional patent application provides the best protection against public disclosure of your idea by consultants, “friends,” or potential investors or, worse, theft of your idea. That is because once the application is filed, you have proof of your invention with the United States Patent and Trademark Office (USPTO).

So if you disclose your idea to an unscrupulous person who then makes a public disclosure or files their own patent application for your invention, you will have the earlier filing date. In general, this means that you will be able to move forward towards patent grant.

Filing a provisional application also protects you if an investor declines to sign an NDA because of the potential that the confidential information could conflict or interfere with an already existing project.

Since the provisional application presents the details of the innovation and unequivocally identifies the date of filing, the inventor/entrepreneur has more confidence in engaging in conversations with these individuals despite the lack of an NDA.



## Provisional Applications

Most entrepreneurs realize that they should take steps to protect their innovation with a patent, but few fully understand the patenting process, particularly the concept of provisional applications.

For most entrepreneurs, the best first step in the patenting process is to prepare and file a provisional application with the U.S. Patent & Trademark Office (USPTO). A provisional application differs from a “regular” application (i.e. a utility application) in that it only exists for one year.

At the end of the year the provisional application will lapse unless a utility application is filed. In addition, a provisional application does not have any formal requirements, as do utility applications, and is not examined by an Examiner. This is why a provisional application can be viewed as a one-year place-holder.

Importantly, because provisional applications serve as place-holders, they are kept secret by the USPTO, are not published, and are not viewed by an Examiner. Only utility applications are sent to Examiners to be examined.

Although provisional applications only last one year and, on their own, never can result in the issuance of a patent, they serve many benefits. If a utility application is filed before the end of that year, the utility application can refer to the provisional application’s filing date. In other words, the utility application largely gets the

benefit of the provisional application’s earlier filing date.

Consequently, many inventors describe the invention in as much detail as possible in the provisional application, then continue to work on modifying, improving, and perfecting the invention during the provisional year.

Sometimes additional provisional applications are filed during that year if the modification/improvement is particularly important because a utility application can refer to more than one provisional application. All of the modifications and improvements are then included in the description when the utility application is filed on or before the one year anniversary.

## Leveraging Provisional Applications

The provisional application serves several very important functions. One of the most important is to give the inventor a definite filing date, referred to as a priority date, for submission of a description of the invention to the USPTO.

This is particularly important because the United States now awards patents to the first inventor to file a patent application. In the past, when the United States awarded patents on a “first to invent” basis, as long as an inventor could prove that s/he invented the invention before another patent applicant, obtaining an earlier priority date was not as important.

But now it is critical to file an application as soon as the invention can be adequately



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described to ensure a first place in line should others have similar inventions.

The priority date also determines what information the USPTO can use to reject a utility application. For virtually all of the world, any public disclosure occurring before an application's priority date can be used to impede the application from maturing into a patent. While the US recognizes a few exceptions, those exceptions tend to be narrow and are not recognized by other countries. Consequently, most inventors will file a provisional application as soon as they are able to do so in order to limit an Examiner's ability to reject the application based on some available public disclosure.

Filing a provisional application is also far less expensive than filing a utility application. The USPTO fee for filing a provisional application is minimal: \$130 for companies with less than 500 employees and affiliates as compared to \$800 for filing a utility application. In addition, once a provisional application is filed, the inventor can immediately begin referring to the invention as "patent pending," which oftentimes helps obtain funding and also discourages others from trying to wrongfully capitalize on the invention.

Another advantage that a provisional application provides is to reduce the entrepreneur's worry when talking with investors, hiring consultants or manufacturers and colleagues.

While a non-disclosure agreement (NDA) is still a good idea, if someone does inadvertently

make a public statement about the invention – like what Steve Jobs did with the iPhone – there is less danger that a patent directed to that invention would be affected because an application has already been filed.

Unfortunately, Apple had not yet filed a patent application that described the rubber-band technology, although it had filed some provisional applications directed to other aspects of the iPhone technology.

Five months later Apple filed some more provisional applications and then in August 2007 filed utility applications in the US and internationally, which eventually granted as patents. But during an infringement lawsuit with Google and Samsung in Germany, Google

*Jobs' disclosure of "rubber-banding" – the scrolling effect that occurs when you reach the top or bottom of a photo or list of photos, for example, and causes the screen to "bounce back" to re-center the first or last photo – was very, very subtle.*

*It can be seen in the video of Steve Jobs introducing the iPhone that posted on YouTube in January 2007 (see about the 33:40 mark of <http://www.youtube.com/watch?v=9hUIxyE2Ns8> just after showing how to move a photo around on the screen).*



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brought the 2007 YouTube video to the attention of the German court.

Despite the very quick and subtle rubber-band effect displayed in the video, Apple's European rubber-band patent was invalidated because of the YouTube video's public disclosure.

Obviously, Apple made a significant error. Perhaps Apple needed the additional five months to perfect the technology for the June 29, 2007 iPhone launch; that perfected technology was included in the utility application Apple filed.

But perhaps Apple could have avoided losing its European patent if they had filed a provisional application describing the less-than-perfect technology before the January event so that the YouTube video could not have been used to invalidate the patent.

A sad story for Apple, but a powerful example of how a provisional application can provide some protection against unforeseen events.

## Utility Patent Applications

The patent application process is far more than a legal formality.

Getting it done and getting it done right have strategic consequences for how companies develop and grow their businesses.

Utility patent applications are important for any business built around intellectual property.

The way in which you file a utility patent application can have far reaching consequences on where your innovation receives protection.

### The Application Process

When most people talk about filing a patent application or having a patent application pending, generally they are referring to a "utility" application.

A utility application is directed to an invention that is a new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.

In order for a utility application to mature into a patent, it must meet several criteria:

- Be novel and not obvious.
- Clearly and fully describe the invention.
- Enable someone working in the same area of science or engineering to be able to make and use the invention.
- Present the best way the inventor knows of making the invention.

There are two ways to file a utility application. The first is to file an application in the country in which protection is desired.





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For example, if protection for the invention is only desired for the United States, then a utility application can be filed directly with the United States Patent and Trademark Office (USPTO).

Similarly, if protection is also desired in Taiwan, then an additional application can be filed with the Taiwan Intellectual Property Office (TIPO). Once filed, the application is reviewed by an Examiner who is knowledgeable in the area of science/engineering for that invention and who conducts a search of world-wide patents, patent publications, scientific literature, etc.

For example, if a utility application is for a new cancer drug, the Examiner reviewing the application will be knowledgeable about cancer drugs. Similarly, if a utility application is for a new silicon chip power supply, it will be assigned to an Examiner with knowledge of silicon chips. The Examiner then issues his/her assessment of whether the invention is patentable.

### Global Patent Protection

It is important to understand that there is no such thing as an “International patent.”

If a larger degree of International protection is desired, a utility application can be filed under the Patent Cooperation Treaty (PCT) – an international patent law treaty that provides a unified procedure for filing patent applications in each of its contracting states.

Currently, 148 countries participate in the PCT. A patent application filed under the PCT is

### What Type of Patent Do You Need?

Utility applications are only one type of patent application. Other types of patent applications are provisional patent applications, design patent applications, and plant patent applications.

Provisional patent applications can be viewed as one-year placeholders and expire at the end of that year, but can be used to give a utility application an earlier filing date if certain criteria are met.

Design patent applications are directed to inventions that are designs embodied in or applied to an article of manufacture, but are not the article itself.<sup>1</sup>

Plant patent applications are directed to inventions of distinct and new variety of plants that have been asexually reproduced, other than a tuber propagated plant or a plant found in an uncultivated state.<sup>2</sup>

1. *In re Zahn*, 617 F.2d 261, 204 USPQ 988 (CCPA 1980)
2. 35 U.S.C. 161

called an International application, or PCT application.

When a PCT application is filed, a single copy of the application is sent to a Receiving Office (RO) in one language.



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The search of the patent and scientific literature is then performed by an International Searching Authority (ISA) and a written opinion assessing the patentability of the invention is generated. The search report and written opinion are ultimately sent to each of the contracting states in which protection is desired.

While the PCT application establishes a filing date in all contracting states, this must be followed by entering the “National Phase” in each of the countries in which protection is sought at the appropriate time, which is generally 18-30 months later.

Here, the typical application fees for that country are assessed and then each country processes the application in the same way that it would any application initially filed in that country.

For example, if a PCT application were filed and then entered the National Phase in the United States, it would be assigned to an Examiner and proceed just as described above.

So why pay the costs associated with filing a PCT application when you have to pay the country fees when entering the National Phase anyway, instead of just filing applications in each of the countries where protection was desired?

While it may seem counter-intuitive, the most common reason is cost.

The cost of filing in each desired country can be very expensive and oftentimes an entrepreneur

or start-up does not have a large budget for filing patent applications. Filing a PCT application postpones the costs of additional filings while preserving the option of obtaining some international protection should additional funding or investment become available.

Another reason that PCT applications are useful is that it allows more time to analyze where it makes the most sense to seek protection. Most often this is in countries that have the greatest desire for the invention and those countries that could most easily counterfeit the invention.

For instance, let’s say that the invention is for a device that identifies and locates underwater explosive mines using a complex hi-tech computer system.

The primary market for that product would be in countries that have a seacoast. So if one had a limited budget for patent application filings, seeking protection in a land-locked country like Lichtenstein would not be sensible.

Similarly, seeking protection in a country that did not have the ability to manufacture such a complex, hi-tech device would probably not be worthwhile.

As another example, consider a drug and treatment for sickle cell anemia. The incidence of that diseases is much higher in individuals whose families come from Africa, South or Central America, the Caribbean Islands, Mediterranean countries (such as Turkey, Greece, and Italy), India and Saudi Arabia.



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Consequently, with a limited budget for patent application filings, it would not make sense to seek protection in, for example, Iceland.

Likewise, if a country like Afghanistan does not appear to have readily available resources to produce the drug, then seeking protection in that country would likely not be a wise decision.

Deciding whether to file a utility application only in the USPTO or via the PCT is an important decision for an entrepreneur, a start-up company or a mature company because this will ultimately determine the regional extent of protection that the application can obtain.

### Protecting Innovation

To protect the innovation at the core of your business, make sure you conduct a comprehensive assessment of all your intellectual property early and often. By analyzing your IP from both a legal and business perspective, companies can transform their existing intellectual property into a powerful competitive tool and better position themselves to take advantage of ongoing innovation.

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[1] 35 U.S.C § 102(b)

[2] *Constant v. Advanced Micro-Devices Inc.*, 848 F.2d 1560 (Fed. Cir. 1988)