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Protecting Your Start-Up Stage Invention

PROFESSIONAL OPINION

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Imagine a couple of inventors have a great idea for an invention. They realize that their invention is so revolutionary and novel that they could, and should, form a new company to market their new creation. However, the inventors, while having plenty of great ideas, simply lack the financial ability to fund the project. They decide to approach wealthy investors and venture capital companies, to raise funds for their new invention and company. After obtaining all of the necessary non-disclosure agreements (NDA), the potential investors share their excitement with the inventors. Yet, one question lingers in each meeting: "What keeps others from copying your idea once you release or even announce the release of your invention?"

Prior to the passing of the Leahy-Smith America Invents Act (AIA), the answer was simpler. An independent inventor or small start-up company could plan to file for patent protection once they received funding. This worked under the old US laws because the first person to invent was entitled to patent protection even if they failed to file for patent protection first. Under the old law, an inventor had a one-year grace period to file a patent application even after the invention was offered for sale or released to the public. An independent inventor or small start-up company could invent a new process or machine and use that year to perfect and develop the technology, raise funds for the company, contact a patent attorney, file a patent application with the U.S. Patent & Trademark Office (USPTO), and not worry that someone else could file an application for the same invention first.

This is no longer the case. Now that the AIA has taken effect, the first person to file a patent application, even though they may not have been the first to invent, is entitled to patent protection. This has created a race to the patent office. Now, many inventors and small companies often face a "Catch 22" situation. In order to obtain investors, the inventors need to acquire patent protection, but in order to afford patent protection they require the help from investors. This may seem like a no-win scenario for small companies or independent inventors now operating in a system that clearly favors well-established large corporations or wealthy individuals.

However, contrary to popular belief, this is not a no-win scenario. While large corporations may have the funds to file a patent application, they often lack the know-how and corporate structure to beat independent inventors and start-up companies to the patent office. A great deal of thought, and sometimes test results, go into a patent application. Independent inventors and start-up companies often have a significant head start over large corporations in these areas. Also, many large corporations simply lack the ability to move full steam ahead with an idea due to internal bureaucracy. Conversely, independent inventors and start-up companies are often quite nimble and able to leverage their small structure to focus their efforts in this area.

It is nonetheless very important to protect any disclosure of an invention to any third party with an NDA, whether they are potential manufacturing partners or potential investors. An NDA in most cases will prevent the third party from seeking patent rights based on the information disclosed and will likely not fall under what the AIA defines as a public disclosure. If an inventor or company decides to disclose their invention without obtaining an NDA, they should file a patent application with the USPTO as soon as practicable, as the AIA still provides a one-year grace period from the first time an invention is offered for sale or disclosed to the public to file a patent application.

However, it may not be advantageous in some circumstances to use the one-year grace period due to the potential for competitors to enter the market - or worse - file a patent application first. This is particularly true for many start-up companies in markets where being first is nearly as important as providing the best product. Additionally, many foreign

countries do not recognize the one-year grace period provided in the AIA. So, a disclosure, which starts the one-year grace period in the US, may void the ability to obtain patent rights in many foreign countries. Accordingly, your best bet is to obtain NDAs when possible and begin your patent strategizing early so that both costs and rights can be weighed, especially since decisions in the here and now can potentially affect a 20-year exclusive right to use, make and sell a revolutionary invention. ■

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