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PATENT PROTECTION FOR GLOBAL LICENSING DEALS

Cost Effective Intellectual Property Strategies

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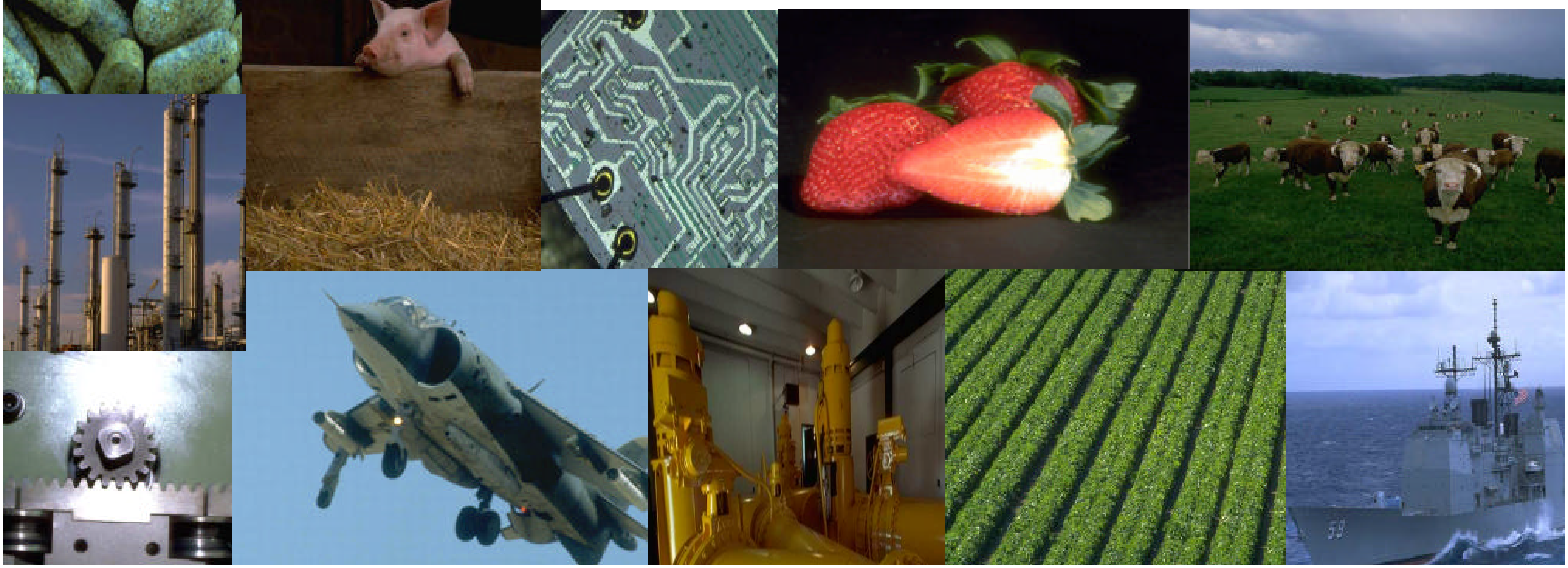

Kagan Binder, PLLC
Suite 200, Maple Island Building
221 Main Street North
Stillwater, MN 55082
651-351-2900
www.kaganbinder.com

Patent Protection for Global Deals: Cost Effective Intellectual Property Strategies

Why license an invention? There can be many answers to this question, but in the case where the invention is to be handed over to another party for further development, either on an exclusive or non-exclusive basis, most answers resolve to the determination that you or your organization have taken the invention as far as you are able to take it, or that you have taken the invention as far as you want to take it. Typical statements are "I am an inventor, not a marketer" or "This is an academic institution, not a manufacturing house." In other circumstances, the inventors simply have run out of money, energy or expertise, and it is time to turn over the project to parties who can more efficiently and effectively take advantage of the benefits of the invention and hopefully create an income stream. In any case, however, licensing an invention enables an inventor(s) to reap some benefits from his or her labor in the form of royalty payments.

Why license an invention globally? The most common answer to this question is "to increase royalties," which is an obvious upside to licensing globally. A significant challenge in establishing a global license position is the cost of doing so. In the world of patent licenses, royalty is typically only paid on sales or manufacture in a country in which there are pending patent rights in the form of a patent application and/or an issued national patent. Filing, prosecuting and maintaining patent applications and patents in a number of countries can be very expensive.

The typical approach in establishing a patent portfolio for an invention for U.S. based inventors is to file a patent application in the U.S. and additionally file applications claiming priority to that first U.S. application in a handful of countries outside the U.S. This approach, however, may not maximize the potential globally royalties, which in some cases can have extremely significant value.

At least two strategies can be used to maximize the potential for royalty, while minimizing and delaying up front costs to give time for the invention to prove that it will generate a royalty stream that will justify further investment in patents. Delay in expenses can be particularly valuable, because it provides the ability to keep searching for potential licensees and/or test the potential market to see if continuing to pursue patent rights in the invention is worth the anticipated outlay of time and money.

The first strategy is to carefully file and monitor patent applications on a global basis using Patent Cooperation Treaty (PCT) procedures, including taking advantage of recent modifications of the PCT rules to delay activity and expense. The second strategy is to establish the existence of "know-how," which can be recognized and protected on a global basis with virtually no administrative cost.

With regards to the first strategy, it was mentioned above that applying for and prosecuting a patent in a number of countries can be extremely expensive. How is this first strategy different? Some of the rules have recently changed in the Patent Cooperation Treaty (PCT), making the PCT system more streamlined and providing the ability to delay the time at which substantial costs are incurred, making the PCT a more attractive option than ever before when used properly.

As a bit of background, the PCT is a treaty that establishes a mechanism for an applicant to file a patent application internationally. Over 120 contracting countries have signed on to this treaty, and so through a single patent application it is possible to obtain patent protection on a truly global scale.

The way the PCT works is that a single patent application is filed with an agency, with this application having the effect as if a separate patent application was filed in each designated country listed in the filing papers on the same day as the PCT application. This permits a priority filing date to be obtained in each designated country, while at least temporarily avoiding having to pay a national filing fee in each designated country. The PCT application does not itself become a patent, but rather acts as a "place-holder" to allow a delay before the application must be filed in each country. During that time of delay, the owner of the application has time to identify potential licensors and to prove the technical and/or market value of the invention without committing to the investment of thousands of dollars in national filing fees in the many countries in which patent protection could be sought.

The PCT also offers an opportunity to have the application examined on a preliminary basis by one of the designated Patent Offices around the world that is authorized to act as an examination authority. This preliminary examination becomes part of the file when the application is eventually filed in each country individually for national examination, and will theoretically simplify prosecution at that national prosecution stage.

New rules in the PCT provide additional advantages for this system. Previously, the patent application owner had to designate each country that they were potentially interested in filing in at the time of filing the PCT application. A fee was assessed for each additional country (although above a certain number the fee was a flat fee). Many applicants fell into a trap in which they tried to save money at time of filing by limiting the number of countries, only to wish later on that they had just designated them all. Under the new rules, all contracting countries are automatically designated when a request for patent application is made (also all contracting countries are automatically elected if a demand is made), making the process more streamlined.

A very significant rule change relates to certain timelines in the PCT process. Under the old rules, the amount of delay that could be obtained under a PCT filing process depended upon whether the patent owner chose to undergo the preliminary examination process described briefly above. If the patent owner chose not to demand a preliminary examination in the PCT, they had to file their national stage applications in all countries of interest not later than 20 months from the first filing date of an application in the patent family. If, however, the patent owner did choose to undergo the preliminary examination, entry into the national stage of prosecution could be delayed until the 30th month from the priority date. In general, under the new rules, whether or not a demand is filed, the applicant can delay entry into national or regional patent offices (except for a few countries) until not later than 30 months from the first filing date of an application in the patent family. This new change in the rules can result in substantial cost savings by being able to delay certain costs associated with entering national stage prosecution, such as translation costs, national fees, and associated agent/attorney fees, without having to undergo a preliminary examination, which also costs money and has, of late, been of questionable value. When it comes time to decide whether or not to enter national stage prosecution, a licensor can license out their patent application and potentially shift those costs to the licensee.

A key aspect to the success of this first strategy is careful monitoring of the portfolio, with discriminating pruning of applications that will not provide return. While the PCT system provides for initial reservation of rights throughout the world, in most cases actually following through with national stage filings in all available countries is economic suicide. The costs of filing in 120 countries often far exceed the potential return on investment. Instead, national stage applications should only be filed in those countries in which a case can be made for value of the patent in that country, such as existence of a reasonable market that is worthy of protection or location of manufacturing facilities of potential licensees or key competitors in which product could be produced that would fall within the scope of the patent claims. This pruning activity is difficult, but it must be carried out with a hard eye to the bottom line.

As a second strategy, licensing know-how may be a significantly cheaper option by avoiding the patent system. In general, "know-how" includes certain information that is not known generally and can provide a competitive edge in the marketplace. Typical examples include chemical formulas and/or chemical processes.

Before reading on, however, the reader should note that once know-how is commercialized, the United States Patent Laws may prevent you from entering the patent system if you wait too long and later decide to file a patent application.

Global licensing of know-how has potential advantages to leverage, and should be pursued in every instance in which there is a possibility of the existence of know-how.

First of all, in at least certain categories of know-how, the existence of know-how does not expire. Therefore, it is possible that a longer term for royalty can be negotiated. Secondly, know-how is recognized in virtually all countries without a registration process, and so global royalty may be appropriately assessed without regard to the country of manufacture or sale. Finally, fewer overhead costs are associated with establishment and maintenance of know-how, because there are no filing fees or prosecution costs associated with know-how.

A more detailed discussion of mechanisms and license provisions regarding the license or sale of Trade Secret rights is provided in Kagan Binder publication #2, entitled Dealing with the Patents of Others in a License/Sale Negotiation.

The foregoing is intended to provide you with helpful suggestions for cost effective Intellectual Property Strategies that will be of value in global licensing situations. Each transaction is different, and the advice of competent counsel in each situation should be obtained.