

***PATENT*QUARTERS™**

The Newsletter of O'CONNOR & COMPANY • Second Quarter, 2009

Patents, Progress, Pitches, and Profits

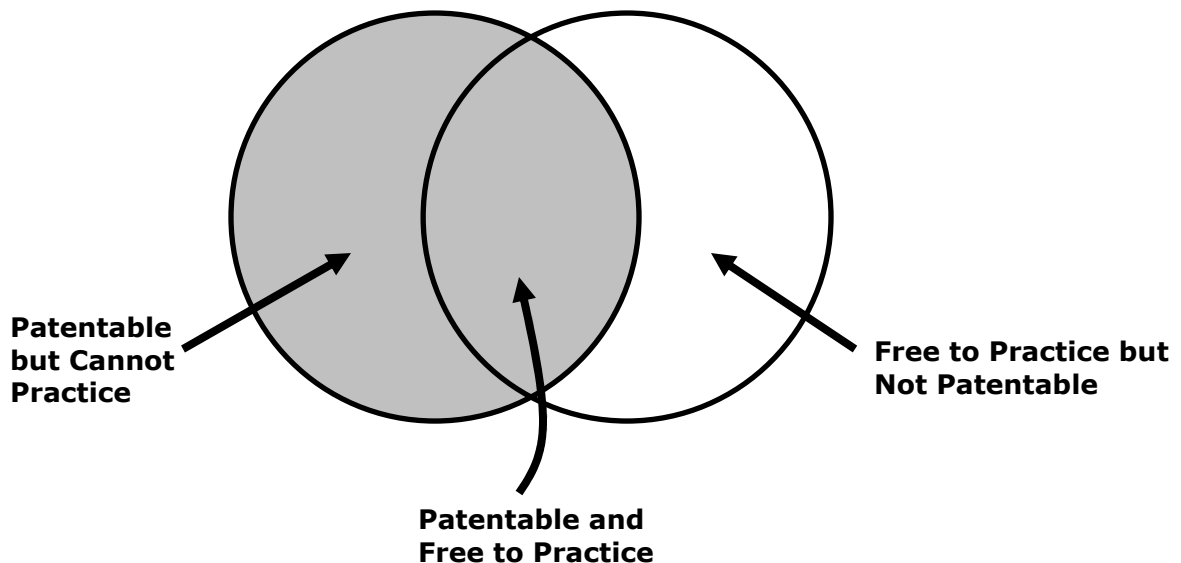
Welcome to another quarterly newsletter of O'Connor & Company. Read on to learn more about patentability vs. freedom to practice (below), measuring innovation progress (page 2), a unique business-plan competition (page 2), and taking inventory of your intangible assets (page 3). Thanks for reading! **PQ**

Patentability and Freedom to Practice

We have found that there is often confusion between two fundamental concepts of patent law: patentability and freedom to practice. We will try to shed some light on this important issue.

A patent gives you the legal right to exclude others from making, using, or selling an invention. A patent does not actually give you the right to practice your own invention. The reason is that there can be other patents that are related and would be infringed if you carry out your invention.

Consider the following diagram for a given invention:



A granted patent cannot guarantee freedom to practice. Inability to practice one's own invention actually happens frequently. Consider that company A has a patent on an initial concept, and then company B patents an improvement to the initial concept. Company B cannot practice its patented improvement without infringing A's patent, because the basic process is patented. Furthermore, if company A wants to practice the improved invention, it needs a license from company B. In this situation, companies A and B can cross-license their patents to each other. **PQ**

Innovation Evolution of an Industry

For next-generation technologies that are not yet commercial, there can be a lot of pessimistic thinking in the popular press and in society. Such technologies include renewable fuels and chemicals (fuel cells, solar power, cellulosic ethanol, etc.) and there are many other examples. The running joke with many of these technologies is that they are always 10 years away, and in 10 years, they will still be 10 years away.

This type of thinking needs to change. It is not helping to drive investment, because investors want quicker paybacks. The general public becomes cynical, and progress can stall.

What should be realized is that time (years) is a bad measure of progress, either in hindsight or moving forward. A plot of technical progress on a y-axis should not have *time* on the x-axis, but rather, *critical innovation steps*. Traversing this x-axis then becomes a function of resources applied: R&D dollars spent wisely, talented individuals and teams, visionary leadership, and the resolve to solve important problems.

If you are in an evolving technology-based industry that is not yet widely adopted, consider the following exercise. Beginning with the end in mind, write down your technical and business objectives. Next, document your point of reference today. Now try to identify the key problems that have yet to be solved in the industry—problems that need solutions to reach final objectives. Think faster, better, and cheaper, but also think about those fundamental issues to be addressed through innovation. The resulting roadmap can help managers, employees, advisors, and investors understand what needs to happen—and how you can generate valuable IP along the way!

Charting innovation pathways in an economic framework can help you invest money efficiently. Innovation by itself is not enough; inventing a million-dollar mousetrap that is really good at its intended function and is worthy of a patent does not mean there is a market for such a device!

When you address important challenges in your industry, you certainly want any legal IP rights (such as patents and trade secrets) that come into existence when you solve these problems. **PQ**

Clean Tech Open Offers Prize of \$250K

The “Clean Tech Open” is a new business-plan competition that is open to anyone. The competition started in California in 2006 and has now expanded to two new regions: the Rocky Mountain region (Colorado, Montana, New Mexico, Utah, and Wyoming) and the Pacific Northwest region (Washington, Oregon, and Idaho).



The grand prize is \$100,000 in cash and \$150,000 in in-kind services, plus access to Silicon Valley venture capitalists. The contest is open to companies with business plans in any of six areas, with an eye toward sustainability: renewable energy; transportation; smart power; energy efficiency; green building; and air, water, or waste management. To be eligible, companies must have raised less than \$300,000 from outside sources.

The entry deadline for the Clean Tech Open is **May 30, 2009**. Twelve finalists will be notified in June for a summer-long series of meetings with mentors on business plans and pitches. Check out the web site cleantechopen.com for more information.

O'Connor & Company plans to provide *pro bono* services to some Clean Tech Open participants. **PQ**

Identify Value in Your Intangible-Assets Inventory

This list¹ provides some examples of where intangible assets might exist within an organization.

Software: Internally developed (proprietary) software and copyrights, automated databases, source code, enterprise solutions, and custom applications.

Marketing: Lyrics and music, promotional characters and devices, promotional photographs and video, newsletters, advertising/marketing concepts, logo design, and results of focus groups.

Engineering: Industrial (new plant, equipment) designs, engineering drawings, and related technical know-how.

Customer communication: Mailing lists, relationships, databases and retrieval systems, special distribution and channels, and 1-800 numbers or their equivalent.

Real estate: Construction permits, air, water and mineral drilling exploitation rights, right of way, easements, and building (expansion) plans/rights.

Personnel training: Proprietary manuals, operations processes, and procedures.

Internet: Domain names, web site design, B2B and e-commerce capabilities, web links, and customer/client accessibility.

Products and Services: Warranties; trade dress (product shapes, color schemes, and packaging design/graphics); open purchase orders.

Corporate Identity: Corporate (trade) name, marks, and logos.

Contracts/agreements: Any contract that has a definable life and some form of exclusivity can be an intangible asset; for example: supply, media, performance, and pricing agreements; license agreements; advertising; construction, management, and/or service contracts; leases; operating and broadcast rights and licenses; franchise agreements; subscription rights; futures contracts; co-branding agreements; endorsements; spokesperson contracts; and venue naming rights.

Intellectual Property:

- Patents, patent applications, trade secrets, technical know-how, copyrights, trademarks, trade dress, trade names, domain names, service marks, mastheads, and brand names.
- Food or chemical formulas and FDA approvals.
- Design and business process/method inventions (which may be patentable).
- Lab notebooks, manuals, formulas, processes, and recipes.
- Prior-art searches.
- Reprints and use/performance rights.

Research & Development: Product research studies, chemical formulas, psychographic research, process and assembly data, manufacturing databases, and status of regulatory agency processes.

Communication: Cable rights and transmission rights; licenses and certification, and bandwidth.

HR and Employment-Related Assets: Employment contracts, work for hire and temporary help contracts, specialty-business skill systems, workforce wage rates, union contracts, non-compete agreements, non-disclosure agreements. **PQ**

¹ Adapted from *Intellectual Asset Management*, January/February 2009.

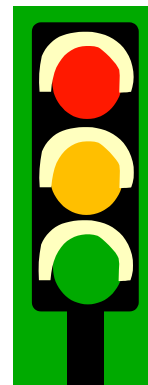
Patent History: U.S. Patent No. 1,475,024

Garrett Morgan, the son of former slaves, was born in Kentucky, and was living in Cleveland, Ohio when he received Patent No. 1,475,024 on November 20, 1923 for a three-way traffic signal. Dependence on the automobile grew rapidly after World War I, and Morgan saw that existing mechanical "stop and go" signals were dangerous because they had no caution indicator to buffer traffic flow. So he patented a three-armed signal mounted on a T-shaped pole that indicated stop and go for traffic in two directions, and also had another signal for stopping traffic in all directions before the stop and go signals changed—the forerunner of today's yellow light.

General Electric bought Morgan's patent for about a half-million dollars (today's dollars), and his traffic-management device was used throughout North America until it was replaced by the red, yellow and green traffic signals currently used globally.

Garrett Morgan received wide recognition for his outstanding contributions to public safety. The gas mask he invented in 1912 (U.S. Patent No. 1,113,675 issued in 1914) was used during World War I to protect soldiers from chlorine gas fumes. In 1916, Morgan wore his own mask to rescue men trapped by a gas explosion in a tunnel being constructed under Lake Erie. The City of Cleveland, Ohio honored Garrett Morgan with a gold medal for his heroic efforts in 1916. **PQ**

Source: United States Patent and Trademark Office



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