

# Introduction

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**I**f you have a *Million Dollar Idea*, this book tells you how to *collect!*

The easiest thing in the world to steal is an idea. Plagiarism is commonplace. Unless you have property<sup>1</sup> or contractual<sup>2</sup> rights in your idea, anyone can use it without your permission—even a competitor.

So, how do you protect the idea that could make you a millionaire? By using the law to your advantage. And this book shows you how to do that. It is not a self-

help book that you can use as a substitute for hiring a lawyer specializing in intellectual property<sup>3</sup> law. It is, however, a guidebook that presents a strategy for legally protecting your idea. It will provide you with a succinct *overview* of intellectual property law, identify for you some critical “*dos*” and “*don’ts*”, and *save* you time and money in acquiring property and contractual rights in your idea. And unlike many other books on this subject, it is concise yet comprehensive, covering patents, trademarks, copyrights, contracts, and the business and legal challenges in starting up a company based on your idea. It is easy to understand and use (especially in its electronic form). I have highlighted in *bold* and *italicized* key

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<sup>1</sup>A property right is a right extended by government to the exclusive use of some particular subject matter. The holder of this right can call upon the government to enforce this exclusively by bringing a lawsuit. When you own a parcel of land, the precise metes and bounds are stated in recorded legal documents, and you, as the owner of this particular parcel, have the exclusive right to its use, subject to laws governing zoning, right of way, common support, etc. If someone trespasses on your land, you can file a lawsuit, obtaining damages and a court order enjoining the trespasser from any further trespassing. A property right is an in rem right; namely, a right which applies to anyone in the territory where the government granting the right has jurisdiction, in contrast to a contractual right which exists only between the specific individuals who are parties to the contract.

<sup>2</sup> A contract is an agreement between two or more entities that have the legal capacity, and for valuable consideration and without duress or fraud, make legally enforceable commitments. If these commitments are not honored, a government will award money damages, or order that the commitments be discharged, or both. Sometimes an idea is best kept secret. It may, under a contract, be disclosed for a royalty or other payment, with the understanding that this idea will be used for a limited purpose and no other and not disclosed to anyone.

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<sup>3</sup> An intellectual property right is the right to bring a lawsuit based on the claim to the exclusive use of an “idea” or the way an idea is “expressed.” An intellectual property right usually involves a patent, trademark, copyright, trade secret, or contract relating to an idea or information. The owner of the property rights in land didn’t create the land, it occurs in Nature. In contrast, the originator of an idea is ordinarily the owner by virtue of the act of creation. He or she may, however, have agreed to transfer title to another upon creation. When you have intellectual property rights in an idea, it is frequently difficult to determine what precisely is your idea in contrast to what is already known and in the public domain. The government does not wish to grant monopolies in ideas that are known or are obvious extensions of this public domain information. Nevertheless, intellectual property is a vehicle to acquire a fortune, and it is the economic foundation on which our emerging information society rests.

*words* that identify for you an important legal or business point. And each chapter is devoted to only one subject, so you may skip around as you wish. I do, however, *recommend* that you first read the chapter entitled ***Commandment I - You Shall Not Disclose Your Idea Without A Written Agreement.***

## **You Are Traveling In Unexplored Territory**

You are like a pioneer traveling across an unexplored continent, the Continent of Intellectual Property. It's a dangerous but exciting place, and its treasures are hidden. Fortunes are to be won here, but only by the daring and intelligent. There are many nations on the Continent of Intellectual Property, and you probably don't speak their language, "Legalese." You want to bypass the many dangerous swamps and barren wastelands, and you want to avoid *war*, but you must be prepared with an arsenal of legal rights that idea thieves will fear to defy.

You need an experienced guide to show you the way. Let your guide be ***The Ten Commandments for Protecting Your Million Dollar Idea\****.

***I. You shall not disclose your idea without a written agreement.*** This chapter discusses what you confront when initially seeking to commercialize your idea and its appendices provide sample agreements for creating

contractual rights in your idea.

***II. You shall keep good records.*** This chapter explains why you need to keep good records and how to do it.

***III. You shall file a patent application if you cannot keep your idea secret.*** This chapter discusses United States and International patents and how to avoid losing your patent rights by failing to file in a timely fashion. Its appendices provide samples of forms used when filing patent applications.

***IV. You shall keep on filing patent applications.*** This chapter explains why it is so important to continue to file patent applications in order to prevent others from avoiding infringement by making minor changes in your idea.

***V. You shall use trademarks.*** This chapter explains what constitutes a trademark and how to acquire rights in it.

***VI. You shall register your trademarks.*** This chapter explains why you should

register your trademark<sup>4</sup> and its appendices provide sample forms used when filing an application to register your mark.

***VII. You shall use the copyright notice and register your copyright.***

This chapter explains what constitutes a copyright and its appendices provide sample forms used in registering your copyright.

***VIII. You shall not threaten to sue if you do not intend to act.***

This chapter discusses enforcement of your rights and some fundamental strategic considerations you must evaluate before filing a lawsuit.

***IX. You shall beware of bridge loans.***

This chapter discusses funding of a start-up company based on your idea and the inherent problems associated with loans.

***X. You shall make money by licensing or selling your idea.***

This chapter discusses the problems you will encounter in starting a company based on your

idea and how to structure agreements to avoid losing the rights to your idea if the company fails. The appendices to this chapter provide sample agreements.

\*For a discussion of these commandments see the article by Jan Norman in "The Orange County Register" Business Monday Section, March 28, 1994.

## **Whom Should You Trust?**

The short answer is: no one but *yourself!* You may need assistance in developing your idea to a point where it is practical. Quite possibly the specialized knowledge of engineers, marketing professionals, accountants, lawyers, financiers and technicians will be required to make your idea commercially successful. But once you disclose your idea to anyone, your idea can be lost or stolen. By obeying the Ten Commandments for Protecting Your Million Dollar Idea you will create both contractual and property rights in your idea that will stop or inhibit others from stealing it. It is these rights that you expect the courts<sup>5</sup> to uphold. These rights will be invalid or unenforceable if you fail to deal correctly with *technicalities*.

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<sup>4</sup> Today, intellectual property is a major subject of debate between industrialized countries and emerging growth economies like China. China didn't even have patent and copyright laws until the 1980s. Counterfeiting of brand names was virtually unheard of until the 1970s. Now it is a major problem, and trademark owners need to register their marks in many nations as the global economy expands.

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<sup>5</sup> Over the last few decades, intellectual property has become a "hot" area of the law. The Court of Appeals for the Federal Circuit (CAFC) has made several important rulings changing the way patents are constructed, and Congress has enacted new legislation, mostly for the good. Until the 1970s, most patent cases were tried before Federal judges, many of whom looked upon patents as tools of monopolists. These Federal judges frequently held patents invalid. Litigants sought the most favorable jurisdiction because different Federal Circuits had inconsistent rulings. Lawsuits were filed in those jurisdictions that advantaged one party over another. Now the CAFC hears all appeals in patent cases, and this has provided uniformity in the patent law. This new court is also an engine that is changing the rules of competition through new interpretations of the patent law.

Therefore, you definitely need the assistance of competent legal counsel. But read the do-it-yourself books<sup>6</sup>. They are very helpful and will give you useful information. They will also better enable you to question your attorney and assist in the preparation of your patent application or other documents relating to your intellectual property.

## **Invention Promotion Firms**

The good news is that you can prosper from your idea. The bad news is that there isn't anyone who is going to do it for you. If you are an *independent inventor* and hire an invention promotion firm or consultant other than on a strictly commission basis, you are most likely wasting your money. Some invention promotion firms advertise over television, promising to handle everything for you. For a small fee they do an initial study, which almost always concludes that your idea has great potential, and for a large fee they will see that it is protected by a patent and submit it to industry. They don't make any guarantees, however. And, it is rare, if ever, that ideas are accepted by industry through the services of these firms.

The U. S. Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)) has fined some firms for *deceptive practices*, but they are still in business. Invention promotion firms are discussed in a pamphlet published by the Federal Trade Commission, Bureau of Consumer Protection, ([Appendix A](#)).

Under the American Inventors Protection Act of 1999, these invention promotion firms are required to disclose past success rates, and their victims now have a civil remedy providing statutory damages. Moreover, the United States Patent and Trademark Office is required to make complaints against such invention promotion firms publicly available. Hereafter, when the term "*Patent Office*" is capitalized it refers to the United States Patent and Trademark Office, and when "patent office" is in lower case it refers to the governmental authority in any country responsible for granting patents or for the registering of trademarks.

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<sup>6</sup> *Patent It Yourself*, Pressman, Nolo Press.

# Commandment I

## You Shall Not Disclose Your Idea Without A Written Agreement

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**I**t is *vital* that you enter a into binding non-disclosure agreement with anyone who has access to your idea. The following is a simple two-sentence agreement that provides the minimum protection you need. Also, because of its brevity, many people sign it without objections.

### **Non-Disclosure Agreement**

**In consideration of [Your Name] disclosing to me his [or her] idea concerning [Identify briefly your idea-do not reveal its essence], I agree not to use it or disclose it to others. Any improvements, extensions, and derivatives in this idea that I make shall be the property of [Your Name], and I hereby assign my interest in such improvements, extensions, and derivatives to [Your Name], and shall assist in perfecting and enforcing all rights therein.**

By \_\_\_\_\_

**(Signature of person receiving the disclosure)**

Date \_\_\_\_\_

This Non-Disclosure Agreement states that the person to whom you disclose your idea will not use it or disclose it to others. This, however, is insufficient. Ideas are seeds from which other ideas grow. The person to whom you disclose your idea will automatically in his or her own mind, at least subconsciously, begin to elaborate on your idea. If it is another creative person, they may indeed come up with very important enhancements to your idea. These enhancements may be the very things that make your idea practical. Therefore, it is vital that you provide for ownership of these ideas originated by others.

The Non-Disclosure Agreement makes it clear that you are the owner of any improvements, extensions, and derivatives of your idea, and that title is transferred to you at the time the agreement is signed. This is not the only approach. Perhaps the person to whom you disclose the idea will become a *co-inventor* or *business partner* of yours. What is important is that the nature of the relationship be established up front before you disclose the idea to this individual. Get the agreement in writing. You should each see your own attorney if you are contemplating entering into a partnership or an extended working relationship.

Sometimes two or more individuals jointly make an invention. Under United States law, each may make, use, and sell the invention, or license others and collect royalties, *without* any obligation to compensate the other co-inventor, unless there is an agreement between them governing their business relationship. A very acrimonious situation may occur if co-inventors will not agree. Thus, before you undertake working with another person on jointly developing an invention, come to an understanding concerning ownership of the rights in the invention. You could have an agreement where your co-inventor agrees to transfer title of the invention to you. Or, you and your co-inventor could agree that neither of you would act without the consent of the other. This gives each inventor a veto.

The Co-Inventors Invention Rights Agreement in Appendix B is typically used in such case.

If you need to hire a *consultant* to assist you in the development of your idea, you need to make it clear to this person that you will own the intellectual property he or she may create on your behalf. The Consulting Agreement in Appendix C is a typical example. If you are the owner of a business, your employees may be the source of inventions, or they may create trade secrets or other types of confidential information that may be of value to your business. Trade secrets are usually defined by the courts as information used in your business that is *secret* and gives you some *advantage* over your competitors. A trade secret may be a customer list, a chemical formula, a manufacturing technique, blue prints, codes, source of supplies, research results, prototypes, financial information, phone numbers, etc. *Employees* may also create copyrightable works for use in your business, for example, software programs, engineering drawing, advertising copy, ornamental structures, photographs, music, books, videos, etc. All this employee generated intellectual property should be owned and controlled by you or your company. The Employee Intellectual Property Agreement in Appendix D is typical for use in such case.

The Consulting Agreement and the Employee Intellectual Property Agree-

ment are very similar. The main difference is in the nature of the relationship. Under the law, employees have certain rights, and you as the employer have certain obligations. Consultants are independent contractors. Make sure you know the correct status of the individual signing the agreement. You may need to consult an attorney specializing in labor law to assist you.

The Consulting Agreement and the Employee Intellectual Property Agreement each provide for the transfer of title to patents and copyrights to you or your company. Any employee or other party obligated to transfer title in an invention to you should sign an assignment at the time a patent application is filed. This assignment document should be recorded with the Patent Office. Recordation puts it on record that you are the owner of the patent rights in the identified patent application. Failure to obtain and record such an assignment could result in loss of your rights if the inventor, or your co-inventor, transfers his or her right to a third party who, without knowledge of the prior assignment of rights to you, in good faith, purchases these rights. When patents or patent applications are assigned, the form in [Appendix E](#) is used for recording the assignments. When Federal trademark registrations or Federal applications for trademark registration are assigned, the form in [Appendix F](#) is used for recording the assignments.

Perhaps your objective is to disclose your idea to a company already in the business of manufacturing and selling similar products. Many companies have a policy of not accepting unsolicited ideas on the basis of confidentiality. In other words, they will not enter into a Non-Disclosure Agreement. Rather, they usually insist upon you signing a release agreement making it clear that you have no claim against them for use of your idea after you disclose it to them, unless your idea is protected by patents or copyrights. The Company Idea Submission Policy in [Appendix G](#) and Idea Submission Agreement in [Appendix H](#) are typical.

On rare occasions, a company will, under some circumstances, enter into non-disclosure agreements. Such agreements usually include escapes:

- (1) if the company already knows about your idea;
- (2) if your idea is already known to the general public;
- (3) if your idea becomes known to the general public without breach of the agreement; or
- (4) if your idea is independently disclosed to the company by a third party who has not derived it directly or indirectly from you.

Under such circumstances, the obligation to keep your idea secret and not use it terminates. Some companies also propose an escape if their employees or agents “independently” come up with the same idea. This generally is

unacceptable because it is a loophole that will easily let the company escape from its obligations to you.