Caution before you crowdfund (part two)

By John F. O'Rourke and Patrick Soon

***This article first appeared in Inside Counsel Magazine on January 31, 2014: http://bit.ly/1DdovLV**

Crowdfunding has only existed for about five years, but it has already proven itself to be a viable alternative to conventional fundraising methods. Unfortunately, crowdfunding's enormous online exposure also greatly increases the risk that one's intellectual property rights may be infringed. Inventors should therefore make sure that they understand the following prior to launching a crowdfunding campaign.

The America Invents Act has changed the U.S. patent system

Many inventors are not aware that the *America Invents Act* completely changed the U.S. patent system last year, switching it from a "first-to-invent" to a "first-inventor-to-file" system. Prior to March 16, 2013, inventors could wait until they were certain of sufficient funding before they filed a patent application because what mattered most was the *invention* date, not the *filing*date. This is no longer the case. Under the new system, it has become a race to the patent office, and the first inventor to file the patent application generally wins.

There is only a one-year grace period to file a patent

Inventors must remember that they have only one year to file for a patent after they make their first public disclosure about their invention. The failure to file a patent application before the end of this grace period will result in the inventor losing his or her patent rights forever because the invention will have lost its "novelty."

By posting a project online, one will almost certainly be considered to have made a public disclosure that will start the clock ticking. In fact, absent a non-disclosure agreement, just submitting one's idea to the Kickstarter staff during the screening process could be considered a public disclosure. This means that the countdown could begin long before the actual launch of the campaign, especially if it takes the inventor several attempts to get through the Kickstarter screening process.

Inventors should read 35 U.S.C. 102 for a full explanation of what constitutes a public disclosure.

There are benefits and drawbacks to the early filing of a formal, non-provisional patent

While filing a non-provisional (utility) patent application can be expensive (because the filing fees can be high and because one typically needs the assistance of an attorney), it is really the only way for inventors to protect their rights to their invention. Before inventors begin the costly application process, they would be wise to first make sure that their idea is even patentable (i.e. that the invention is novel, non-obvious and useful). Inventors can conduct a preliminary patent

search on their own, but they may want to consider hiring a patent attorney to conduct a thorough "prior art" search that examines the body of knowledge relating to the patentability of one's invention, including previous patents, publications, articles, etc.

A provisional patent application may offer "stop-gap" patent protection during the crowdfunding campaign

A provisional patent application is faster to prepare and less expensive than a non-provisional application. One need not disclose prior art or file claims, and small entities even receive a filing fee discount. Investors must understand, however, that a provisional application is only a temporary measure that, on its own, will never provide true patent protection.

A provisional application merely sets a patent priority date that can be claimed as the "effective filing date" for the non-provisional application. In other words, the non-provisional application will be treated as if it was filed on the date the provisional application was filed. In this way, a provisional application can be an economical "stop-gap measure" that can protect one's patent while crowdfunding, effectively extending patent protection from 20 years to 21 years. Then, at the end of the campaign, if the funding goal is not reached, one can simply allow the provisional application to expire. But, if the campaign is a big success (and perhaps even goes viral), one can secure full patent protection by filing a non-provisional application within one year of filing the provisional application.

However, to be effective, the provisional application must be sufficiently thorough in content, and it must meet the statutory written description, enablement, and drawing requirements. If these requirements are not met, then the provisional application is ineffective and the non-provisional patent will not be treated as if it was filed on the earlier date. Thus, a hastily written, self-made provisional application that is ineffective may result in the total loss of one's patent rights. For this reason, inventors should seek the assistance of a patent attorney even when filing a provisional patent.

It is important to avoid copyright infringement

While tempting, inventors should not use any copyrighted multimedia, music or images in their crowdfunding campaign. Whenever Kickstarter receives notices from copyright holders about a given project, they pause the project's funding and remove it from public view. Project creators may later file counter-notices disputing the claim, but if the dispute is not resolved, the project's funding may be stopped indefinitely.

Kickstarter also notes that "[e]xpensive lawsuits are never fun." Indeed, they are right: federal copyright law provides that a single count of copyright infringement may subject a party to damages anywhere from $750 to $150,000 for registered works. Several instances of copyright infringement can lead to very large damages amounts – in some cases, millions of dollars!

One way to prevent these sorts of issues is to use content that is freely available or licensed under the creative commons such as SoundCloud and Flickr. Another option is to create the content oneself. Latter registration of the copyrights affiliated with a project's promotional material ensures that others do not infringe on the rights of the project creator.

Trademarking your product early can help guard against "trademark trolls"

As a final note, inventors should consider protecting their brand as early as possible by registering their trademark in the U.S. Trademarks should be registered as soon as one begins to engage in interstate commerce, before one's brand becomes very well-known; otherwise, a "trademark troll" may come across the invention while browsing the internet and trademark the brand first. The trademark troll may then be able to force the inventor to pay costly licensing fees, re-brand the product, or negotiate the outright purchase of the trademark rights.

In fact, inventors should even consider trademarking their product in China if they are possibly going to manufacture or sell their product there. In 2012, it cost Apple Inc. $60 million to acquire the right to the iPad brand in China because someone else registered the name ahead of them. Tesla Motors may similarly be forced to either pay huge fees or re-brand its cars. A Cantonese businessman trademarked the Tesla brand in China and now wants $32 million to sell those rights. Reportedly, Tesla is refusing to pay and is considering using the brand "Tuosule" for its vehicles sold in China instead.

For the cost of a small filing fee, both Apple and Tesla could have registered their trademarks in China years ago, and thereby saved themselves a lot of trouble and expense. And while crowdfunding inventors may not be conducting business on such a grand scale, they, too, must plan ahead in order to avoid serious headaches down the road.

CONTRIBUTING AUTHOR

John F. O'Rourke

John F. O'Rourke is a registered patent attorney and inventor at WHGC, P.L.C. He has nearly 40 years of overall experience in the applied sciences. He counsels and represents clients in matters concerning technology and intellectual property law. Mr. O'Rourke has prepared several hundred original U.S. patent applications across a broad spectrum of technical disciplines.
JohnORourke@WHGCLaw.com

CONTRIBUTING AUTHOR

Patrick Soon

Patrick Soon is an attorney at WHGC, P.L.C. whose practice focuses on intellectual property. Outside of his work at WHGC, Mr. Soon volunteers for the American Bar Association where he works as an editor and multimedia chair for the Technology for the Litigator Committee within the ABA Section of Litigation. PatrickSoon@WHGCLaw.com.