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Improper and Decedptive Invention Promoters

Testimony before congressional hearings indicates that fraudulent invention promotion companies annually scam approximately 25,000 inventors out of approximately \$200 million. These scams use radio, TV, magazine, newspaper (and now internet) advertising to entice inventors who naively believe that the use of invention promotion companies is the way to obtain patent protection. After a free evaluation of the invention, these companies give an invariably glittering evaluation, and incrementally sell expensive and generally worthless services to the inventor. Inventors often work alone, are fearful of the theft of their ideas, and are naive about new product business development. Such inventors often are susceptible to a salesperson who shares their enthusiasm about the invention while guaranteeing confidentiality. Inventors Protection Act of 1995. Hearings on H.R. 2419 before the Subcomm. on Courts and Intellectual Property of the House Comm. of the Judiciary, 104th Cong., 1st Sess. 120 (1995) (statement of Robert G. Loughter, Inventors Awareness Group, Inc.).

A representative of the U.S. Patent and Trademark Office (USPTO) further described the misuse of USPTO procedures in such fraudulent schemes. Although some invention promoters are legitimate, fraudulent invention promoters often file disclosure documents, and design and provisional patent applications which provide the imprimatur of the USPTO. All of these filings have legitimate uses, but none provides the broad patent protection which an inventor expects and may deserve. Frequently poorly prepared or no patent applications are all are provided, which may result in a loss of patent rights in the U.S. and foreign countries. Id., statement of G. Lee Skillington, Counsel, Office of Legislative and International Affairs, USPTO.

Both disclosure documents and provisional patent applications are used to establish priority dates, are never examined, and provide no patent protection at all. Design patents do provide patent protection for the ornamental design of an object. Design patents are appropriate and valuable when used as intended. For example, design patent protection of the design of Black and Decker's DUSTBUSTER® vacuum cleaner comes to mind. This valuable patent protects the shape of the cleaner.

A design patent can be obtained, however, simply by adding an etched or painted design on the surface of virtually any object, old or new. Unscrupulous invention promoters sometimes guarantee to obtain a patent and fulfill the guarantees with a design patent. In re Scott J. Daniels, 144 F.3d 1452 (Fed. Cir. 1998). Such patents virtually always are worthless because infringement can be avoided by making the object with a different or no design on the surface. Only a utility patent provides the broad protection necessary for the commercialization of most inventions.

The Inventors' Rights Act (IRA), a portion of the American Inventors Protection Act of 1999, is a first attempt to deal with improper and deceptive invention promoters.

It is based on the concept that inventors forearmed with information on invention promoters will be able to avoid those which provide poor results. Four specific disclosures about the promoters business over the previous 5 years must be provided in writing to the prospective customer. 1. The number of inventions evaluated and the number given positive and negative evaluations. 2. The number of customers using invention promotion services, less the number who have defaulted on payments. 3. The number known to have received a net financial profit or a license agreement as a direct result of the services of the invention promoter. 4. The names and address of previous invention promotion companies affiliated with by the officers of the company over the previous 10 years.

The IRA provides for civil action in federal district court by persons injured by a material false or fraudulent statement or omission of material fact. Actual damages may be awarded or statutory damages not over \$5,000. Intentional misrepresentation or omission of a material fact, or willfully failure to disclose the required information may result in an award of three times damages. 35 U.S.C. § 297 (b)(2003).

Finally, the IRA requires the USPTO to collect complaints about promoters, provide an opportunity for reply by the company the subject of the complaint, and make public the complaints and replies, if any. The USPTO may request complaints about promoters from other Federal or State agencies and make them public, along with responses. 35 U.S.C. § 297 (d)(2003). Regulations concerning complaint procedures have been established. 37 C.F.R. §§ 4.1-4.6 (2003).

INVENTORS' RIGHTS ACT LITIGATION

No cases have been reported as brought under the disclosure provisions of the IRA. One reported case has been brought under the complaint provisions.

In September 2000 the USPTO adopted procedures for use of its website, www.uspto.gov, for public posting of complaints and responses. In August 2001 the USPTO received a complaint from Edward Lewis that he had paid Invention Submission Corporation (ISC) for help in patenting and marketing his invention. Lewis asserted that despite representations by ISC that he would make a lot of money, he had made nothing. The USPTO solicited Lewis for a TV and print media campaign. He appeared stating he had spent \$13,000 and hadn't seen a penny in return. The company name was not disclosed. In response to inquiry by Tech TV, a cable TV network, the USPTO disclosed contact information for Lewis. Lewis then

identified ISC as the invention promotion company and TechTV ran a story which named that company.

On March 1, 2002, before Lewis' complaint was posted by the USPTO on the website, a copy of the complaint was sent by USPTO to ISC for its response. On March 26, 2002, apparently after resolving the complaint with ISC, Lewis asked the USPTO to withdraw his complaint and to discontinue using him in the media campaign. No response was submitted by ISC. The complaint was never published and the TV ads ran until March or April of 2002.

On June 7, 2002, ISC sought declaratory and injunctive relief against the USPTO in federal district court in the Eastern District of Virginia. Action was sought on the grounds the USPTO's use of Lewis' complaint was a final agency action reviewable under the Administrative Procedures Act (APA) and showed a bias against ISC. The USPTO moved for dismissal on the grounds the action taken was not a final agency action within the meaning of the APA, and that the claim was moot because the advertisements had been discontinued. On October 30, 2002 the court dismissed the claim with prejudice under rule 12(B)(6) of the Federal Rules of Civil Procedure because no relief could be granted under any set of facts that could be proved consistent with the allegations. *Invention Submission Corporation v. Rogan*, 229 F.Supp.2d 498, 500 (E.D.Va. 2002).

An appeal was brought at the Fourth Circuit Court of Appeals. That court vacated the decision of the trial court and remanded the case with instructions to dismiss under rule 12(b)(1), lack of jurisdiction over the subject matter. The court noted the USPTO ads did not name or single out ISC or any other promoter and were facially neutral. Whether a third party could link the ads and ISC did not taint the otherwise nonspecific advertising. The appeals court concluded that the subject acts did not constitute "final agency action" as used under the APA. The district court therefore did not have subject matter jurisdiction to evaluate the complaint under rule 12(b)(6) and should have dismissed the case under rule 12(b)(1). *Invention Submission Corporation v. Rogan*, 357 F.3d 452, 69 U.S.P.Q.2d 1843 (4th Cir, 2004).

PUBLISHED COMPLAINTS AND RESPONSES

Inventor complaints and responses by the invention promoter company complained of are posted on the USPTO website, www.uspto.gov. On the homepage click on "PATENTS", then under "RESOURCES" click on "INVENTOR RESOURCES", and finally click on "PROMOTION FIRM COMPLAINTS." Some 42 complaints involving 17 companies, along with 10 responses from promoters, have been posted (9/23/04). The names of the promoters, with number of complaints in parentheses, follows: Advent Product Development (8); American Idea Management (1); American Inventors Corp. (1); Concept Network (2); Davison & Associates Inc. (5); International Product Design (1); International Product Design Inc. (1); Invent-Tech (5); Invention Consultants, U.S.A. (1); Invention Technology Company (2); IP&R (4); National Invention Services, Inc. (1); New Product Advisory Group (1); New Product Consultants (1); New Product Consulting Corp. (2); New Products of America (2); and Patent Trademark Institute of America (4).

Not all the complaints included costs, but of the 30 that did, the amounts ranged from \$675 to \$18,548, and averaged \$6,880.

The complainants learned of the invention promoters' services primarily through TV ads, although print and internet ads also were mentioned.

Some complaints cite clearly actionable activity, such as forgery of loan application documents. Others describe situations for which beneficial action is unlikely, such as bankruptcy of the promoter. The remaining complaints fall primarily in two classes. Verbal promises made by invention promotion salespersons or agents were not fulfilled. The total costs for all the services offered were not disclosed at the beginning of the relationship.

Virtually all complaints describe a gradual breakdown of communications between the promoter and inventor client, ending with unreturned telephone calls and refused or ignored letters. In many cases the complainant expressed a gradual realization that the services they had contracted for were worthless or easily obtained elsewhere. A common service is the provision of lists of manufacturers for the inventor to contact. Many inventors complained that the lists provided were inappropriate, out of date, lacking adequate names and addresses for making contact, or simply lists which could be compiled easily at any library.

Failure to provide disclosure required by the IRA was mentioned in only one complaint. This suggests promoters are complying with disclosure requirements.

Promoter responses fall primarily in one category - every service contracted for was provided, and signed contracts to prove it are available. Sometimes the response included a glowing note of appreciation signed by the complainant, presumably written in happier times. On the rare occasion a promoter admitted a fault in its services, it was a fault easily rectified; for example, the failure to let a client approve a product sample before distribution.

Inventors seem to ignore the fact that only a tiny percentage of a promoter's clients make money from the relationship. In the heat of high pressure sales pitches, inventors appear to overlook or discount dismal success rates disclosed by promoters.

In one case the inventor signed, initialed, or checked boxes 20 times on a 7 page document. This document included prominent disclosure that 15 of 5,017 clients received more money through the promoter's services than was paid for the services. This is not an extreme example. The author has seen disclosures stating that 21 of 8,685 clients have made money, and that 0 of 28,892 clients have made money.

A salesperson that looks the inventor in the eye and states "Your invention is great and I have a friend in Texas who would love to manufacture it." has a real impact on the inventor.

The written contract between the inventor and promoter will not contain similar promises, and may specifically exclude any analysis of the value of the invention. The written agreement will include clauses which expressly purport to supersede all other agreements, express or implied, between the parties.

WITHDRAWN COMPLAINTS.

A Freedom of Information Act (FOIA) request for "All complaints concerning Invention Promotion Services which have been withdrawn by the complainant after notification of the invention promoter of the complaint" was filed by the author with the USPTO. The request was refused under exceptions to the FOIA on statutory exemption, internal agency matters, personnel and medical and similar files, and confidential commercial information. An appeal was filed based primarily on the plain reading of the IRA statute, which does not provide for the withdrawal of a complaint, despite such provisions in the regulations. The appeal was granted with redaction of identification allowing contact with complainants, and information relating to pending or abandoned patent applications. Letter from Lisa Obayashi, Acting Deputy General Counsel for General Law, USPTO to William S. Ramsey (August 17, 2004) (on file with the author).

The author has chosen not to publish the names of the complainants and promoters for two reasons. The parties presumably reached settlement of the complaint with the good-faith expectation that the complaint would not be published. Secondly, the author, believes strongly in client-beneficial settlement of disputes, and does not wish to discourage such settlements.

Some 40 unpublished complaints involving 6 companies were provided in response to the FOIA request (8/17/04). One promoter had 34 complaints; another two, and four promoters had one.

Of the 29 which mentioned costs, the range was from \$1,380 to \$15,000 with an average of \$9,492.

FEDERAL TRADE COMMISSION ACTION

The Federal Trade Commission has sued a number of invention promoters in civil cases complaining of violations of the Federal Trade Commission Act which prohibits unfair or deceptive acts. These suits have resulted in consent decrees or stipulated orders which detail specific prohibited actions. The affirmative disclosure statements now codified in the IRA first appeared in these consent decrees.

Sometimes the consent decree lists steps to be taken by clients who believe the defendants to have breached the decree. A written complaint must be sent to the defendant, who must rescind the contract and repay money if a good faith investigation shows that the consent decree has been breached. The court retains jurisdiction for enforcement of the decree in case of a dispute.

IMPACT OF THE INVENTORS' RIGHTS ACT

There is no good measure of the economic loss suffered by victims of patent promotion fraud, and, consequently, no way to evaluate the effect of the IRA over it's five years of existence.

The major requirement of the IRA, affirmative disclosure of statistics on inventor economic success, seems to have been taken by inventors as merely another form to be signed, rather than causing a critical evaluation of the wisdom of proceeding. In any case, the affirmative disclosure of statistics would have a greater impact if there were a requirement for prominent display of the statistics on each advertisement.

The most important outcome of the IRA probably is in the publication of complaints and responses. Inventor clients benefit from this provision when the invention promotion company is willing to settle with clients in order to avoid such publication. Publication could be made more effective as a warning to inventors, however, with relatively small changes in the USPTO website. There should be a direct link on the homepage to the "Promotion Firm Complaints" rather than the convoluted process now necessary. Resumption of the USPTO TV and print advertising campaign on this subject seems desirable.

ASSISTING CLIENTS WITH INVENTION PROMOTER ISSUES

Unfortunately, the problem of abusive invention promotion companies is not easily solved. Inventors are pursuing the Great American Dream - to profit from their creativity. This enthusiasm leads to a vulnerability to flattery and persuasion.

The internet is a powerful tool for educating inventors. There are many inventor club and government sites which provide valuable information on abusive invention promoters.

Lawyers can play a role through education on the best routes for starting new businesses and for protecting innovations.

Evaluation of a client's situation involving an improper invention promoter might follow the following steps:

- Determine if actionable issues provide an opportunity for recourse. Of course, issues which accompany any tort action are present here. The amount at dispute may not justify the cost of a lawsuit against the promoter. It may be impossible to collect a judgment from the defendant. Signed contracts may present evidentiary problems. This may be a fruitful area for class actions.
- Determine if the promoter has reached a FTC consent decree. Present a demand to the company if a breach has occurred. If necessary, present the demand to the district court with jurisdiction.
- File a complaint with the USPTO under the IRA. Withdraw the complaint if the matter is settled.

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