

Our INNOVATION CLIENTS at WORK!

Scary stuff needs protection, too



Nightmare Network, an entertainment company based in Jeffersonville, Ind. (<http://www.nightmarenetwork.com/>), has looked to the attorneys of Stites & Harbison to protect the company's scare-tech patents and trademarks.

SIDEBAR SOLUTIONS

Continued from page 3
be careful about making amendments to patent claims or else they may risk sacrificing protection to which they might otherwise be entitled.

David W. Nagle, Esq., is one of five Registered Patent Attorneys with Stites & Harbison. He can be reached at 502/681-0321 or dnagle@stites.com.

ON the JOB

News about Stites & Harbison people



Ben Sanders, a corporate attorney based in Stites & Harbison's Louisville office, has been speaking to groups of business owners in Nashville, Louisville and Atlanta about ESOP buy-outs and other tax-advantaged succession and compensation approaches. Sanders (bsanders@stites.com or 502/681-0551) plans to take his show to Memphis this fall.

Stites & Harbison hosted another round of the Nashville INTA (International Trademark Association) RoundTable on July 15. Participants from Stites & Harbison included **Jack Wheat, Joel Beros, Sue Palmer, Richard Myers, Hannah Cassidy, Randy Michels, Francine VanAelst** and **Alex MacKay**, who led the discussion of the Victoria's Secret case – slated for the



Alex MacKay

next session of the U.S. Supreme Court – and its possible meaning for federal trademark dilution law.

New arrivals! **Mark Vane**, a corporate attorney with start-up clients, has joined Stites & Harbison's Nashville office after leaving Wyatt, Tarrant & Corbin. Trusts and estates attorney **David Heller** is based in Stites & Harbison's Nashville office after leaving Greenebaum Doll & McDonald.



Mark Vane

Our INNOVATION CLIENTS at WORK!

AquaTex provides a cool way to take the heat



Decatur, Ala.-based **AquaTex** (<http://www.hydroweave.com/index.html>) has made a name for itself as the developer and marketer of high-tech "performance enhancing" fabric. The company's Hydroweave® product has found its way into garments for foundry workers, firefighters, highway workers, racecar drivers and others who need to stay cool in demanding environments. Stites & Harbison's patent and trademark attorneys have helped protect the company's technology and other intellectual property assets.

A PUBLICATION OF STITES & HARBISON, PLLC

VOL. 2, NO. 3
AUGUST 2002

BUSINESS INNOVATION, LAW AND FINANCE

innovation

IN THIS ISSUE

SIDEBAR SOLUTIONS

Closing the venture capital gap in Kentucky.....2

What's the big idea?.....2

Fasts: Patent amendments beware!.....2

24/7

Capital for growth companies: State of the venture capital industry.....3

ON the JOB

News about Stites & Harbison's people.....4

UNIVERSITY of LOUISVILLE

dare to be great

The Intellectual Property attorneys of Stites & Harbison recently registered this new trademark for the **University of Louisville**. IP issues for colleges and universities will be one of the topics covered in the Center for Higher

Education Law, a program to be launched this fall. Go to http://www.stites.com/higher_ed.htm for more info and to register.

Start-Up @ 5

Come meet George Emont, principal of Vital Venture Capital Fund, a new life science fund. He'll be discussing the types of investments for which he's looking, including medical devices and biotech. Tuesday, Sept. 10, 5:00 p.m., Bearno's by the Bridge, 131 W. Main Street, Louisville. Free.

Got money?

Mark Oct. 14-15, 2002, and Nashville's downtown Renaissance Hotel on your calendars. That's when and where the **6th Annual Tennessee Venture Forum** (<http://www.tennestechtechnology.org/venture/>) will showcase 20 of the state's most promising tech companies for 250 venture capitalists, private investors, bankers and corporate and professional executives from across the United States. Co-sponsored by Stites & Harbison.

(502) 681-1811 (Toll Free)

Jeffersonville, KY 40302

State 1800

400 West Market Street

STITES & HARBISON PLLC

PAID

PERMIT NO. 1000

POSTAGE WILL BE PAID BY ADDRESSEE

Closing the venture capital gap in Kentucky

By James C. Seiffert, Sites & Harbison



One of the ways Kentucky nurtures investment in the capital food chain is the recently revived Kentucky Investment Fund Act ("KIFA"). KIFA

provides a credit against state income tax equal to 40 percent of an individual or corporation's certified capital contribution to a certified investment fund which, in turn, makes an investment in qualified Kentucky small businesses.

In its simplest terms, KIFA requires the following:

1. An investment fund, certified by the Kentucky Economic Finance Authority, which has a) a minimum of four unrelated investors with no one investor owning more than 40 percent of the fund's capital, b) committed capital of no less than \$500,000, and c) no one investment which exceeds 30 percent of the fund's contributed capital.

2. An investment in a business which has a) a net worth of at least \$5 million or net income of less than \$3 million (or a net worth of less than \$10 million if it is a knowledge-based business), b) actively and principally engaged in a qualified Kentucky business, c) no more than 100 employees, and d) more than 50 percent of its assets, operations and employees in Kentucky.

3. Investors comprised of individuals, for-profit and nonprofit corporations, financial institutions or insurance companies who use their nontransferable credits against state individual income or corporate and/or license tax over a minimum of two years (KIFA does allow an IRC Section 501(c)(3) organization to sell or transfer its credits).

In an effort to attract venture capital investments, KIFA now allows follow-on investments in a fund's portfolio company; participation in management of the portfolio companies; and the right to invest certified capital outside Kentucky (even though the investment will not qualify for the tax credit).

However you add it up, KIFA represents a strong incentive to invest in Kentucky's emerging growth companies.

Jim Seiffert can be reached at 502/681-0519 or jseiffert@sites.com.

What's the big idea?

By Kris Kamel, Kentucky Science and Technology Corporation



The 2002 International ideaFestival™ is slated for September 18-21, 2002, in Lexington, Ky. The

theme for 2002 is a "Matter of Time," a fun and interesting exploration of our understanding of time and space and the implications of this understanding for technology, business, education, the arts, philosophy, design and more.

The Festival will bring together a wide range of internationally known authors, scientists, business people, science fiction writers, entrepreneurs, and artists in a four-day exploration of ideas and innovation. The list of presenters includes Brian Greene, author of the bestselling book *The Elegant Universe*; New York Times classical music critic Anthony Tommasini; Chicago musical and dance group, The Mass Ensemble; and Meg Wheatley, author of *Leadership and the New Science*.

Most of the ideaFestival is free and open to the public. In some cases, workshops or activities are accompanied by a fee and require registration to participate. The various venues are located in the heart of downtown Lexington.

The first ideaFestival, held in the fall of 2000, attracted nearly 3,500 from around the world to the three-day event. For more details and ticket information, go to www.ideafestival.com.

Festo: Patent amenders beware!

By David W. Nagle Jr., Sites & Harbison



The definition of "patent infringement" recently got clearer. But many are still assessing the impact of the U.S. Supreme Court's long-awaited decision -

Festo Corp. v. Shoketsu Kinzokyo Kogyo Kabushiki Co. - made May 28, 2002.

In *Festo*, the Supreme Court tackled the applicability of the so-called "doctrine of equivalents" in patent infringement analysis. Under this principle, even if a product or process does not literally infringe upon the express terms of a patent claim, that product or process may still be found to infringe if there is equivalence between the elements of the accused product or process and the claimed invention.

The use of the doctrine of equivalents to broaden the scope of a patent claim is balanced, however, by "prosecution history estoppel." This legal doctrine prohibits a patent holder from asserting the doctrine of equivalents to re-capture coverage that was voluntarily surrendered in order to persuade the Patent Office to issue the patent.

— continued on next page

The issue got to the Supreme Court because of disagreement over how prosecution history estoppel should be applied. In an apparent effort to simplify infringement analysis, the Federal Circuit had ruled that when an applicant amends a patent claim for any purpose, any application of the doctrine of equivalents is barred.

This simplification presented a significant departure from the prior "flexible bar" approach that allowed for some flexibility in determining whether an application of the doctrine of equivalents was appropriate. The result of the ruling of the Federal Circuit was that the scope of patent claims that had been amended during prosecution under then-existing principles of patent law was narrowed.

The U.S. Supreme Court concluded that the Federal Circuit had gone too far in restricting application of the doctrine of equivalents. Although the Court agreed that prosecution history estoppel may apply to any amendment made as a condition of obtaining allowance of that claim, the Court restored the flexible bar approach. It ruled that while prosecution history estoppel may limit the range of equivalents, the scope of the estoppel is determined by looking at the subject matter that was surrendered during prosecution.

Bottom line? Patent applicants should — continued on back cover

INNOVATION is published by Sites & Harbison, PLLC, for its clients and friends. This publication is intended to provide accurate information on the subject matter addressed. It is not intended to provide legal or other professional services or render any legal opinion on any matter and should not be relied upon for such a purpose. Its editor is James C. Seiffert, jseiffert@sites.com or 502/681-0519.

Many states require the statement THIS IS AN ADVERTISEMENT on publications such as this. Tennessee law requires certain disclosures with regard to practice areas, as follows: Certifications of Specialization are available to Tennessee lawyers in all areas of practice relating to or included in the areas of Civil Trial, Criminal Trial, Business Bankruptcy, Consumer Bankruptcy, Consumer's Rights, Medical Malpractice, Legal Malpractice, Accounting Malpractice, Elder Law, Estate Planning and Family Law. Listing of related or included practice areas herein does not constitute or imply a representation or certification of specialization. The attorneys of Sites & Harbison are not certified as specialists in any practice area for which certification is available by the Tennessee Commission on Continuing Legal Education and Specialization, with the sole exception of Robert C. Goodrich, Jr., who is certified in Business Bankruptcy.

Capital for growth companies: State of the venture capital industry



By David A. Jones, Jr., Chrysalis Ventures, LLC



Having trouble getting venture capitalists to return your phone calls? Feel like you're still swimming upstream even when you get a VC's attention?

If you're an entrepreneur trying to finance a growing business nowadays, you're up against some daunting odds. For starters, institutional investors have become super cautious. Memories of the "dot.bomb" are still warm, and many VCs are still spending time on boom-era investments they now wish they'd never made.

Finally, and even worse for you, there are fewer VCs. Some have failed to raise their own financing, and others have just thrown in the towel after concluding that the work is too hard and insufficiently remunerative.

For those of you who haven't fled to greener pastures, there's hope. Here are a few things that, if accomplished, increase the likelihood of attracting venture capital.

- Assume that no institutional money will finance your start-up - and start up anyway. Companies must be willing to grow from concept through product launch and initial sales without venture capital. Seed capital has to come from founders, friends and family, or customers. Several of the most exciting companies with whom we're working today have proven their business concept via prepayments by customers who desperately wanted their product or service.
- In your business plan, focus on how you sell and ensure that your team includes people who've sold that way successfully. Business customers have been burned by dot.com promises and rhetoric and are hyper-skeptical about new products and services. Novices in the sales force, or sales management with prior experience in a different industry or channel, won't do.
- Tell your story clearly and candidly. Investors aren't dumb. Even a hint that they must pry the truth out of you gives them an excuse to move on. In this market, investors want to work with people who recognize failure quickly, adapt, and communicate well enough to lead through tough times. Investors have no confidence in anyone who appears never to have failed.

Chrysalis has chosen to stay the course. Despite the challenges, we continue to invest in young growth companies. There's almost no part of our economy that couldn't be improved, so there's great opportunity for people who can conceive of and execute plans to do things better. Our task is to find such people and finance their projects.

David Jones can be reached at djones@chrysalisventures.com.