Real Estate Outlook

Forty Under 40

Young, ambitious and ready to take the world by storm.

Health Scare?
There’s an App for That
Weighing the Pros and Cons of Patents and Trade Secret Protection

Under Lock and Key

Eric Nielsen is an attorney with Snell & Wilmer.

Patents can undoubtedly be powerful swords, offering owners up to 20 years of exclusionary rights in exchange for enabling public disclosure of the invention. Trade secrets, on the other hand, can protect an invention indefinitely. Why, then, are patents still considered king by investors? Why did the Coca-Cola Company maintain its famous recipe as a trade secret?

There is considerable overlap between the subject matter that is protectable by patents and by trade secrets. The Uniform Trade Secrets Act (UTSA) defines a trade secret as “information, including a formula, pattern, compilation, program, device, method, technique, or process.” The U.S. patent laws identify a patentable invention as “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”

Below are several key considerations when faced with the choice “to patent, or not to patent.”

Is the invention likely to be independently discovered or reverse engineered? Is it even patentable? At the very moment an invention is made public, trade secret protection is lost forever. So if the invention is likely to be independently discovered or reverse engineered, reliance on trade secret protection is inappropriate, and patent protection should be considered.

Conversely, a trade secret need not be patentable to be protectable and have value. If the invention does not meet the standards for patentability, even limited trade secret protection may be preferable in favor of public disclosure with no patent protection, notwithstanding the risks of independent discovery and reverse engineering.

What is the commercial lifetime of the invention? The process to obtain a patent from the U.S. Patent and Trademark Office (USPTO) can take several years. While there are some limited opportunities for accelerated and prioritized examination before the USPTO, examination on average takes two years to begin and lasts an additional year. Ultimately, if a patent is issued, its term is 20 years from the earliest filing date.

As a result, if the commercial lifetime of the invention is less than about three years, trade secret protection should be considered. This is because a patent on an obsolete invention may have only nominal value. Similarly, trade secret protection may be ideal if the invention’s commercial lifetime is more than about 20 years. For example, had Coca-Cola filed a patent application on its recipe in the late 1800s, any resulting patent rights would have long since expired and Coca-Cola’s monopoly lost.

Cost. Seeking patent protection can be an expensive endeavor. Between a patent attorney and the USPTO’s ever-increasing filing fees, it is not uncommon for a patentee to spend tens of thousands of dollars in the pursuit of a patent.

The cost of a trade secret, on the other hand, is merely the cost of maintaining its secrecy. Under the UTSA, a trade secret must be the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Many such “reasonable” efforts are good business practices and should be implemented regardless—for example, limiting physical access via key-cards, requiring passwords for computers and mobile devices, shredding sensitive documents, limiting who has access to all of the elements of a trade secret, educating employees, identifying trade secrets and using confidentiality agreements with third parties.

In short, if cost is a significant factor, trade secret protection may be preferable.

Who is the invention being protected from? To successfully make a trade secret misappropriation claim, the trade secret holder must prove that the invention was wrongfully acquired by another. It follows that misappropriation is perhaps most commonly perpetrated by current and former employees, business partners and other business associates, due to their access to the invention.

Patent infringement, however, is not so limited. Prior knowledge of the patent is not required to prove infringement (although it can enhance the available damages). Because of these differences, consideration should be given to who the invention is being protected from in evaluating patent versus trade secret protection.

First to File. The U.S. is now a “first-to-file” country. Another interesting consideration arises out of the fact that the United States is no longer a “first-to-invent” country. As of March 16, 2013, under the Leahy-Smith America Invents Act (AIA), priority is given to the first inventor to file a patent application.

This development begs the question: “If another files a patent application and obtains a patent on a trade secret that my business has been practicing since before the filing date of the application, can my business nevertheless be liable for patent infringement?”

The AIA did expand the so-called “prior user defense” to patent infringement, and derivation proceedings may be available if an application was improperly derived from another. However, a risk of relying on trade secret protection is that if patented by another, prior secret use will not be sufficient to negate patentability.