

TO PATENT OR TRADE SECRET?

THE DTSA'S IMPACT ON HOW BEST TO PROTECT YOUR IP

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Question 1: In 2015, Kolon Industries was found criminally liable for T/S misappropriation re DuPont's Kevlar™ product. How much did it pay in fines and restitution?

- a. \$0
- b. \$36,000
- c. \$360,000
- d. \$3,600,000
- e. \$360,000,000

Trade Secrets vs. Patents

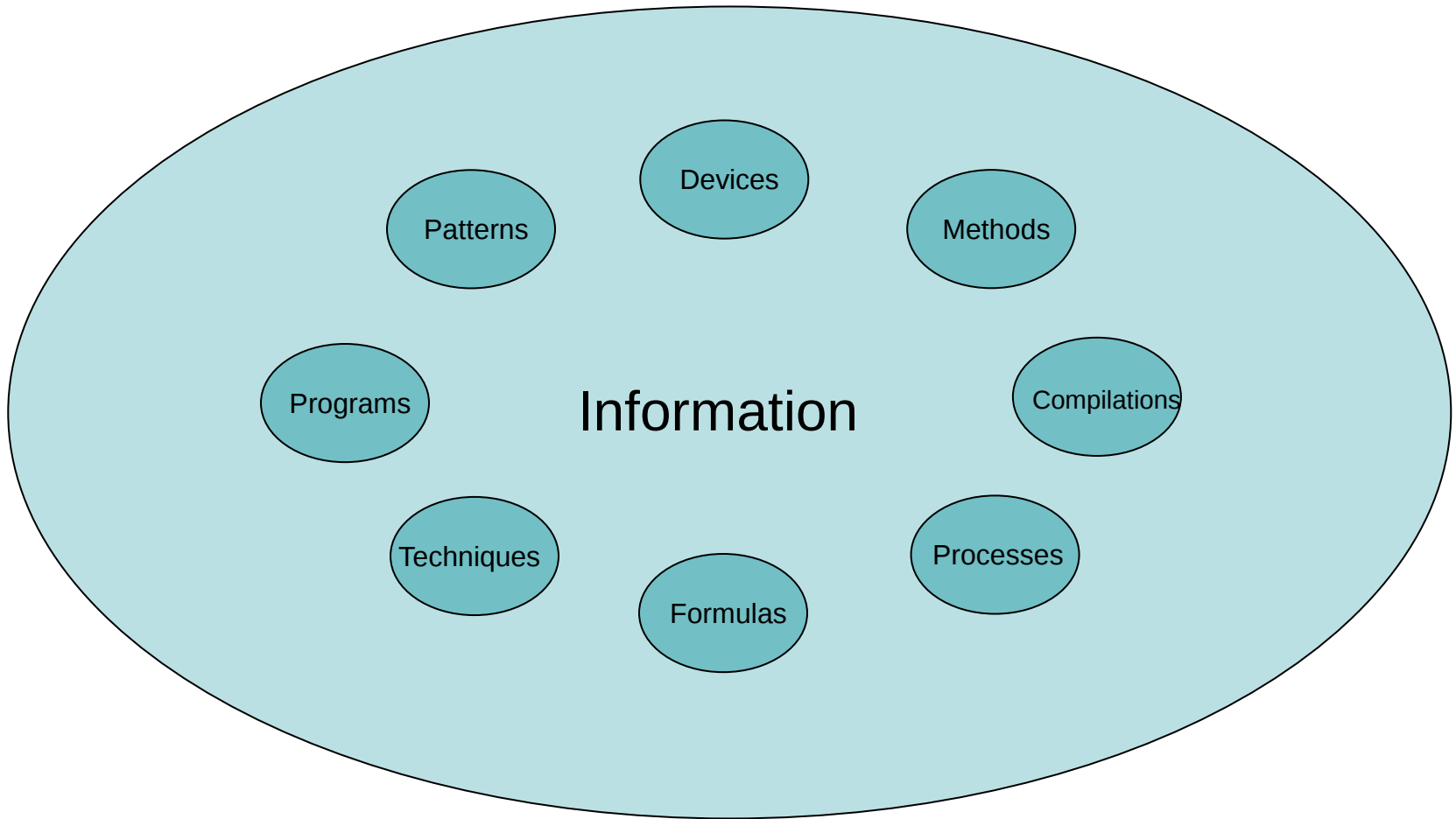
Trade Secrets

- Secret
- Competitive advantage
- Reasonable efforts to maintain its secrecy
- Not necessarily novel
- Can extend indefinitely

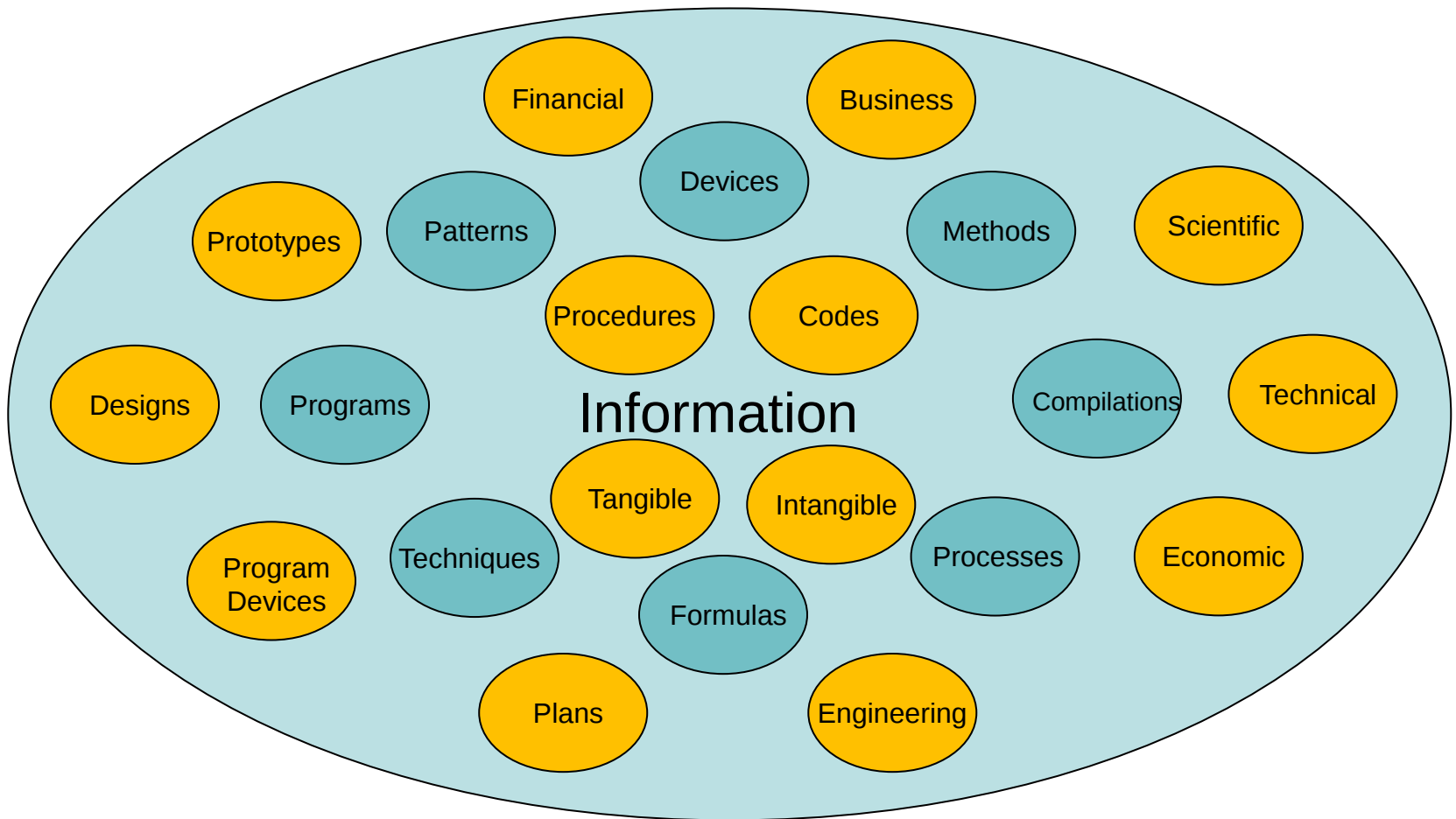
Patents

- Novel and Non-obvious
- Requires Disclosing Invention to Public and
- Must be Fully Enabled
- Up to 20 year term

What can be a Trade Secret? (UTSA)



What can be a Trade Secret? (DTSA)



Defend Trade Secrets Act (DTSA)

- In 2016, Congress passed the DTSA
 - Provides federal cause of action for trade secret misappropriation
 - Based generally on the Uniform Trade Secrets Act (UTSA)
 - New form of equitable relief, **ex parte seizure**, allows a court to issue an order providing for the seizure of property necessary to prevent the misappropriation of a trade secret in extraordinary circumstances

Defend Trade Secrets Act (DTSA)

- No Preemption of State Trade Secret Law
- Takeaways:
 - DTSA merely *supplements* existing Trade Secret law
 - Shifts the balance, if at all, towards trade secret protection over patent protection
 - Extent of the “shift” remains unclear

Implications of New Federal Legislation

- A new federal definition of “reasonable measures” to maintain secrecy may impose a higher burden than states
- The ability to enforce trade secrets in federal courts may factor into a Company’s calculus in deciding between a patent and trade secret

Question 2: What percent of trade secret thefts are by the trade secret owner's employee or business partner?

- a. 25%
- b. 50%
- c. 75%
- d. 90%
- e. 99%

What factors should a Company consider in deciding between patent and trade secret protection?

Trade Secret or Patent Considerations

- ☐ Value
- ☐ Potential for reverse engineering
- ☐ Shelf life
- ☐ User concerns
- ☐ Strength of internal trade secret protection measures
- ☐ Trade secret licensing activity
- ☐ Likelihood of discovery
- ☐ Employee turnover
- ☐ 101 Subject Matter

Value of the Invention

- Patents and trade secrets have associated costs against which the value of the invention should be weighed
- *Patents*
 - Filing & maintenance costs?
- *Trade secrets*
 - Cost of enforcement by federal litigation?
 - Cost to company if trade secret is patented by others

Reverse Engineering Concerns

- Patents and trade secrets afford different protections with regard to reverse engineering
- *Patents*
 - An embodiment developed by reverse engineering is considered infringement of the patent
- *Trade secrets*
 - No protection against reverse engineering – 18 U.S.C. § 1839(6)
 - Reverse engineering may threaten secrecy and thereby protection generally

Shelf-Life of the Technology

- Patents and trade secrets provide protection for different periods of time, so a Company should consider how long the invention's value will last
- *Patents*
 - Protection lasts only up to 20 years
- *Trade secrets*
 - Protection lasts as long as the secret – possibly perpetually

User Concerns

- Because the value of a trade secret depends on its secrecy, a Company should consider who the intended user of the audience is
- *Patents*
 - Non-reliance on secrecy lends itself to wider, more public use of the invention (and more possible infringers)
- *Trade secrets*
 - Dependence on secrecy lends itself to more narrow, internal use of the invention; relates to reasonable measures and who has access

Ease of Secrecy

- Because the value of a trade secret depends on its secrecy, a Company should consider how feasibly the secret can be maintained
- *Patents*
 - Non-reliance on secrecy means the ability to keep a secret is of no concern
- *Trade secrets*
 - If invention is such that it is difficult to maintain a secret, the protection of a trade secret may be short-lived

Licensing Concerns

- *Evaluate your company's licensing policy*
- *Patents*
 - Identified in license
 - Scope of protection is clear
 - Extensive licensing favors patent protection
- *Trade secrets*
 - Often included either intentionally or accidentally during technology licensing discussions
 - Greater risk of inadvertent disclosure

Likelihood of Discovery

- Because the value of a trade secret depends on its secrecy, a Company should consider how easily a third-party could independently discover the invention
- *Patents*
 - Independent discovery poses limited threat, because the patent itself discloses the invention to the public
- *Trade secrets*
 - No protection against independent discovery – 18 U.S.C. § 1839(6)
 - New Prior User Rights defense limits risk in the US

Question 3: The DTSA applies to any act that occurs “on or after the date of enactment [May 11, 2016].” § 2(e). Would this include continuing acts that began before May 11, 2016?

- a. Yes, so long as at least one of the continuing acts occurred on or after May 11, 2016.
- b. No
- c. It depends on whether you knew about it beforehand.
- d. Good question. I haven't a clue!

Employee Turnover

- Employees that leave a Company to work for a competitor pose a threat that a Company should consider in determining the preferred protection
- *Patents*
 - Employee disclosure poses limited threat
- *Trade secrets*
 - High employee turnover threatens the value of trade secret protection
 - Threat of employee turnover may be mitigated by non-disclosure agreement

Subject Matter Issues

- Trade secret protection may be particularly useful in light of the recent trend of rejections of patent applications for non-patentable subject matter
 - Analysis suggests that between 2012 and 2016 over 36,000 patent applications have been rejected pursuant to recent Supreme Court decisions narrowing the scope of patentable subject matter
 - Especially problematic in the biotechnology, computer science, and business methods spheres

Takeaways

- There is no one answer since each company has different internal policies and philosophies for IP protection
- If trade secret protection is chosen, it cannot be treated casually; reasonable measures must be taken to protect the secret
- The DTSA provides another remedy for trade secret misappropriation but involves costly litigation
- Patent protection provides greater protection, but with tradeoffs due to cost and duration

Questions?

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