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Ask the Expert -- Shopping your inventive ideas: How to protect against theft

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WHEN SEEKING to monetize an invention through sale, licensing or joint development and manufacturing, inventors face a common dilemma. How can you shop your invention to interested third parties without jeopardizing your legal rights?

Under United States law, there are only two ways to protect an invention: obtain a patent or keep it secret. The U.S. Patent Office may grant a patent to an invention that it deems to be new, useful and non-obvious. A patent grants the holder a legally protectable right in the patented invention against the claims of others. Despite this, not all patentable inventions are best suited for patent protection. Practical considerations, including the expected shelf life and ease of reverse engineering of an invention, may make trade secret protection more appropriate.

The safest way to shop an invention without an issued patent is to treat the invention as a trade secret. Trade secrets are broadly defined as any information that gives its holder a competitive economic advantage and is subject to appropriate measures to keep it secret. If trade secrets are disclosed to the public, trade secret protection is lost. In order to preserve trade secret protection when shopping an invention to a third party, disclosure should only be made pursuant to a nondisclosure agreement.

A well-drafted nondisclosure agreement will clearly define the confidential information that will be disclosed, the specific purpose for which it is being disclosed, the recipient's

obligations with respect to the confidential information, and the time period for which the confidential information shall remain confidential. An aggressive nondisclosure agreement might also include a noncompete clause, seeking to prevent the recipient from developing a competing product. To be effective, a nondisclosure agreement should be signed prior to the disclosure of any confidential information. Use of a nondisclosure agreement to shop an invention while a patent application is pending is a good idea in case the patent never issues, and to provide multiple causes of action against an someone who steals the secret in cases where the patent does issue.

When shopping an invention, inventors should refrain from taking certain actions that may act as a statutory bar to (i.e., prevent as a matter of law) the patentability of their invention. A U.S. patent may be barred if, during the one-year period preceding the filing of a patent application (provisional or nonprovisional), the invention is described in a printed publication (including Web pages), is in public use, is offered for sale (even if subject to the nondisclosure agreement) or is otherwise available to the public. Doing any of these actions without having, at a minimum, a U.S. patent application filed first will act as a bar to patent protection outside the United States without the one-year grace period.

While shopping an invention under a nondisclosure agreement is the preferred route, at times an inventor might make a business decision that demonstrating the invention in public (such as at a trade show) is the best way to garner interest despite the fact that it will no longer be protectable as a trade secret. In this instance the inventor may elect to file a provisional patent application. The provisional application grants the applicant a one-year period before he or she must submit a formal non-provisional application.

While the provisional patent application does not legally protect the invention (nor does a full utility patent application for that matter — protection comes from the issuance of the patent), if well-written, it formally establishes a priority date for the invention with the U.S. Patent Office. It also allows the applicant to use the phrase “patent pending.” However, if, at the conclusion of this period, an inventor does not submit a formal application or submits a formal patent application but the patent is not issued, he or she loses all legal rights to the invention if it has been disclosed to the public.

Finally, to the extent that an inventor has formed a corporate entity, it is a good idea to assign rights in any intellectual property (patent or trade secret) to the entity. This is especially important for inventors seeking outside investors, as the investors will want to be certain that the entity they are investing in actually owns the key intellectual property. Furthermore, the contribution of intellectual property, if done in connection with the issuance of equity interests, will result in an increased tax basis and result in more favorable tax treatment upon sale.

This article provides a very general overview of intellectual property law. It is recommended that inventors consult with an experienced intellectual property attorney to ensure that steps are being taken to protect the value of their inventions.

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