

Patent, Trade Secret, or Both:

A General Practitioner's Guide



By Martin B. Robins

Attorneys in general practice are likely to encounter intellectual property issues regularly, whether they represent individuals, businesses, or both, and whether they focus on litigation or transactional work.

For example, even an attorney who represents individuals in litigation matters might be asked how to protect the products of an individual's "tinkering." Lawyers who represent businesses in litigation often find that the lawsuit involves ownership claims over the results of developmental efforts and sensitive business information in the face of possibly "unfair" competition.

Family law attorneys might have to grapple with who owns pending research and development work by members of family businesses and consider which protection strategies are best to

avoid dissipating the value of such material. Of course, general business lawyers representing inventors and innovators— yes, there is a difference — and early stage companies in general are often faced with similar questions.

In other words, clients of all stripes need advice about whether to file for U.S. patent protection on their efforts¹ or simply treat the material as a trade secret.² There is not always a clear answer, but there are a number of factors to consider. While it is always good practice to involve an intellectual property attorney in this analysis, this article presents some threshold issues a generalist should consider when a client needs to

1. While quite important in many cases, non-US patent filings are beyond the scope of this article. Where a client is interested in distribution or manufacturing outside the US, foreign IP specialists must be consulted.

2. In some cases, federal registration of trademarks (i.e., identifying words or symbols) or copyrights (i.e., proclamations of ownership in particular expressions of ideas) will be useful supplements to patent or trade secret approaches. However, they should not be considered their equivalent.

Should your client file for patent protection, or will simpler and less costly trade secret protection be enough? Here are things to think about when these issues arise for your clients, as they do with surprising frequency.

know if a patent filing is warranted or if trade secret protection will suffice.

Patent protection pointers

A patent granted by the U.S. Patent and Trademark Office (“USPTO”) is a way to exclude others from using the invention in question for 20 years. The invention must be a “process, machine, manufacture or composition of matter.”³ In essence, a patent provides the patent owner with a form of monopoly on the use of the invention.

The issuance of U.S. patents is governed by federal statute⁴ and regulations, along with cases decided in the Federal Circuit and U.S. Supreme Court. Until 1998, it was understood that patents could only be issued for traditional inventions with a physical embodiment and not for business processes or methods.

Business method patents. However, in that year the Federal Circuit opened the door for business method patents⁵ and in so doing created confusion for practitioners with clients interested in patents for non-traditional subject matter. In the opinion of many, such as Justice Kennedy,⁶ it also led to a number of “bad” patents that reduced competition without increasing innovation and led to several of the restrictions on patent grant and retention discussed below. Regardless, the America Invents Act (“AIA”)⁷ and a 2010 Supreme Court case⁸ allow business method patents but subject them to higher post-grant scrutiny and prevent their issuance for subject matter based on a law of nature or an abstract idea.

Reasons not to seek a patent. Patents are often seen as an indication of technical prowess and perceived by many to confer a competitive advantage on their holder, which allows both premium pricing and superior access to financing. Witness the use of “patent pending” legends on new products.

So why would someone not pursue patent protection? Several reasons come to mind.

- Patent protection may not be available. In very general terms, the patent statute limits patents to subject matter that is said to be “new, useful and non-obvious.”⁹ In *Bilski v. Kappos*¹⁰ and *KSR International Co. v. Teleflex, Inc.*,¹¹ the Supreme Court raised the bar on patentable subject matter and non-obviousness.

For example, the latter case imposes a requirement that the subject matter, even for traditional inventions with a tangible dimension, be non-obvious to someone with a bachelor’s degree in engineering or the equivalent. This is not a trivial requirement and has made it substantially harder to obtain and

retain a patent.

Similarly, many business methods that have genuine value will not pass muster under today’s law, including the AIA, or will be difficult and costly to defend even if a patent does issue and an infringement suit is brought. Almost invariably, a defendant in an infringement suit will take the position that the patent is invalid.

- There may be a great deal of uncertainty around patent protection’s availability and/or commercial value prior to a filing, which might make the client uncomfortable with the expense. While a patent con-

Promptly involving an intellectual property practitioner is essential.

fers a monopoly in the theoretical sense, it is most definitely not any sort of assurance that anyone will buy the patented item.

- The market for the patent’s subject matter may be short-lived, which could result in the patent’s 20-year term being of little practical value. Additionally, the patent processing time in the USPTO, which almost always exceeds one year, could be equal to or greater than the invention’s “shelf life” in the market.

- Patent protection may be, or seem, too costly. While it is impossible to provide more than ballpark indications of fees, a patent filing normally costs more than \$15,000 after accounting for search and filing fees to the USPTO¹² and legal fees for preparation of the application. Even a provisional application, which is a useful tool for testing the market before incurring the expense of a full application, is normally in the \$5,000 vicinity. These are not trivial expenses for new companies and many established

3. 35 U.S.C. § 101 *et seq.*

4. *Id.*

5. See *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (D.C. Cir. 1998) (holding a stock trade clearing method to be a patentable innovation).

6. See, e.g., *Ebay Inc. v. Mercexchange LLC*, 547 U.S. 388 (2006) (Kennedy, J., concurring).

7. America Invents Act, Pub. L. No. 112-29 (2011).

8. *Bilski v. Kappos*, 561 U.S. 593 (2010).

9. 35 U.S.C. § 101 *et seq.*

10. *Bilski*, 561 U.S. at 593.

11. *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).

12. However, there are substantial filing fee discounts available for very small (“micro cap”) entities.

ones.

- Someone else may have already obtained a patent for something similar to what the inventor has in mind, making patent issuance impossible or problematic without a legal confrontation.

- It may not be clear at the outset of the developmental process whether the subject matter will be patentable at all¹³ or economically worthy of the effort.

- Even if a patent is issued by the USPTO, its validity may be attacked in

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an administrative or judicial proceeding. This usually results when a patent holder brings an infringement action and the alleged infringer calls the patent's validity into question.

Trade secret protection – the less costly and complicated option

In contrast to a patent, trade secret protection (at present¹⁴) is strictly a creature of state law and requires no governmental filing. Under the Uniform Trade Secrets Act, a version of which is in force in virtually every state, injunctive relief and economic damages are available for the misappropriation of a trade secret.¹⁵ Protection requires actual or potential economic value for the subject matter and reasonable efforts under the circumstances to maintain its secrecy.

Examples of material eligible for trade secret protection include customer and employee lists, ingredient lists (e.g., the famous Coca-Cola formula), and pricing information. While not technically required, nondisclosure agreements by employees and consultants typically protect trade secrets. Trade secret protection is perpetual, but it cannot stop the efforts of someone who independently develops the subject matter.

Trade secrets are only protected against “misappropriation,” which is a broad statutory term for takings by “improper” means.¹⁶ Whether this applies to employee memorization is a hotly de-

bated topic. Employees who are brazen enough to walk off with boxes of documents or download sensitive material to a flash drive can usually be dealt with under this body of law, but the issue is not so clear with persons who are more subtle or have better memories.

Trade secret protection is much cheaper and faster than patent protection and does not hinge, at least in the first instance, on the decision of a third party. At the client level, the associated steps (e.g., locking file rooms and partitioning electronic data bases to limit access to those with a need to know) are not usually expensive. Even written assignment and non-disclosure agreements typically cost under \$2,500 to prepare.

Trade secret protection steps are often helpful even when a patent is available and affordable. For example, ancillary materials such as training manuals that are not patentable themselves (and may not be fully protectable through copyright registration) still have significant value by indicating the patent holder's competitive posture or facilitating “inventing around” the patent. Judge Pfau's seventh circuit opinion in the 2001 case of *Minnesota Mining & Manufacturing Co. v. Pribyl* provides a good illustration of the use of a trade secret strategy to protect such materials.¹⁷

Counseling clients

When an inventor seeks advice about protective steps, what should a general practitioner do?

Seek out an IP attorney. Promptly involving an intellectual property practitioner is an essential first step. Patent applications cannot be prosecuted by someone other than a registered patent lawyer or agent, and the massive statutory and common law upheaval in this area during the last few years makes it imperative to engage someone who keeps up to date.

A patent lawyer can arrange for preliminary review to ascertain whether another inventor has beaten your client to the punch through “prior art” and whether the subject matter is likely to meet the statutory criteria.

Move quickly if you seek a patent. Where a patent application is warranted, the AIA's “first to file” standard for entitlement to a patent (replacing “first to invent”) dictates that an application be filed sooner rather than later.

Explore the trade secret approach. However, the generalist should be advising at an early stage about the merits of a trade secret strategy and its implementation. There is rarely a downside to tak-

ing those steps. They are not likely to impede the patent application if it is filed within one year of the first commercial use of the subject matter¹⁸ and are a useful backstop if the patent is not granted.

Note, however, that applications become public 18 months after filing. If granted, it may be a useful complement to protect related, non-patentable materials. Even if this is not the case, the incremental cost of the trade secret approach is not likely to be significant compared to the cost of obtaining the patent.

Use trade secret approach broadly. Use a trade secret protection strategy not only with employees of the client, but also with potential business partners consulted for assistance with product development, distribution, or otherwise. While some large companies may balk at signing trade-secret agreements because they are not contemplated by company policy, they usually have some form of their own to accomplish a similar purpose. If not, advise the client of the potential risks of proceeding without an agreement in place.

Understand the options

Obtaining a patent is often a major milestone for young companies. However, patents are not always available or commercially valuable enough to justify the cost of obtaining one. As a result, practitioners need to thoroughly understand trade secret strategies as well. ■

13. For example, the decision of the U.S. Supreme Court in *Alice Corp. Pty. Ltd. v. CLS Bank International*, 573 U.S. __, (2014) has apparently caused significant difficulty with the issuance and maintenance of software patents, leading some practitioners to mention the use of trade secret or trademark strategies as alternatives. See, e.g., Jacob Gershman, *Hard Times for Software Patents*, Wall Street Journal Law Blog (Sept. 22, 2014), <http://blogs.wsj.com/law/2014/09/22/hard-times-for-software-patents/>.

14. There is pending legislation that would create a federal cause of action analogous to that available under state law. See Eric Goldman, *Congress Is Considering a New Federal Trade Secret Law. Why?*, Forbes (Sept. 16, 2014), <http://www.forbes.com/sites/ericgoldman/2014/09/16/congress-is-considering-a-new-federal-trade-secret-law-why/>. Some private plaintiffs also seek to utilize an existing federal statute, the Computer Fraud and Abuse Act, which was intended to address espionage directed against the federal government and financial institutions, but has been expanded in recent years to the point that there is some support for this approach.

15. See, e.g., 765 ILCS 1065/1 *et seq.*

16. *Id.* § 1065/2(b).

17. *Minnesota Mining & Manufacturing Co. v. Pribyl*, 259 F.3d 587 (7th Cir. 2001).

18. John R. Thomas, Cong. Research Serv., R41391, *The Role of Trade Secrets in Innovation Policy* (2014), (quoting 35 U.S.C. § 102(b); *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts*, 153 F.2d 516 (2d Cir. 1946)).

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