

MORE ON **PATENTS**

BY ADAM G. KELLY

Are patents or trade secrets stronger?

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Success in business often requires using every (legal) advantage a company has to compete — including developing a new product, secret recipe, process or technological advance, which sets the company apart from competitors. Protecting that competitive advantage is why patent and trade secret laws exist. But which one offers better protection?

This question is especially timely since the Defend Trade Secrets Act was just signed into law on May 11, 2016, after receiving overwhelming bipartisan support in Congress (87-0 in the Senate and 410-2 in the House). With the DTSA, trade secrets now

join patents, trademarks and copyright as receiving federal protection.

A refresher course on the difference between patents and trade secrets

Federal patent law was born from Article 1, Section 8 of the Constitution and later codified

at 35 U.S.C. § 101 (*et seq.*).

Patent-holders possess negative property rights — rights to exclude others from making, using, selling, offering for sale or importing the invention — during the patent's duration: 20 years from earliest filing, 17 years from a utility patent's



issuance and 15 years from a design patent's issuance.

Prior to the DTSA, an overwhelming majority of states (47 out of 50) and the District of Columbia had adopted some version of the Uniform Trade Secrets Act. But now, with the enactment of the DTSA, all states have federal trade secret protection.

The DTSA standardizes protections and remedies, and provides a new and powerful option to bring suits in federal court for the misappropriation of trade secrets. Remedies include injunctive relief, actual damages and unjust enrichment, as well as payment of a reasonable royalty in exceptional circumstances where injunctive relief is deemed inequitable.

The DTSA even provides trade secret owners with the ability to seek an *ex parte* order to seize allegedly stolen trade secrets. The law also provides for exemplary damages in an amount not more than twice the amount of damages otherwise awarded for willful and malicious misappropriation.

Unlike patents, trade secrets have no built-in expiration date. The information remains legally protectable as long as it retains commercial value and is properly safeguarded from disclosure. Likewise, trade secrets need not be disclosed to any authority

and may even be licensed, upon condition that the licensee maintains secrecy.

The scope of patent and trade secret protections do not overlap entirely, as not everything is patentable. A patent applicant must demonstrate that the invention is directed to one of four categories of subject matter: processes, machines, manufactured articles, and chemical/mechanical composites.

Even within those categories, the subject matter may not fall within a few judicially-recognized exception — such as a law of nature, a naturally occurring phenomenon or an abstract idea. *Bilski v. Kappos*, 561 U.S. 593, 601 (2010). The invention must also be novel, useful and nonobvious. 35 U.S.C. §§ 102, 103. This entire process requires detailed disclosures by the inventor and, typically, some back-and-forth between the inventor and the examiner. Of course, the risk is that an unsuccessful inventor compromises the secrecy of an invention when the application is published. So a company should evaluate patentability in a realistic manner before filing an application.

Case law imposes important limitations on otherwise patentable subject matter. For example, abstract ideas alone cannot be patented. *See Diamond v. Diehr*, 450 U. S. 175, 185 (1981).

And when exactly transformation of abstract ideas into business methods and computer-based applications renders a patentable claim is somewhat unclear.

The Supreme Court has set forth a two-step test for economic and mathematical processes implemented by computer software, requiring that the would-be patented invention (the computer code) adds “something extra” that embodies an “inventive concept” to the underlying idea or formula. *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347 (2014). At present, computer-implemented inventions are increasingly more difficult to patent, unless they apply to a mechanical device (*e.g.*, controlling a fuel injector or other physical device).

By comparison, trade secret protection covers a much broader range of inventions and ideas. The UTSA defines a “trade secret” to include “information, including a formula, pattern, compilation, program, device, method, technique, or process[.]” U.T.S.A. § 1. And the DTSA contains a similar definition: “All forms and types of financial, business, scientific, technical, economic, or engineering information,” including “patterns, plans, compilations, program devices, formulas, designs, prototypes, methods,

techniques, processes, procedures, programs, or codes.”

Any information, patentable or not, may be maintained as a trade secret, provided that it is economically valuable and reasonable efforts are made to preserve its secrecy. Even abstract ideas and design concepts can be protected as trade secrets. See, e.g., *Altavion, Inc. v. Konica Minolta Systems Lab. Inc.*, 226 Cal. App. 4th 26 (2014). A trade secret may be a closely guarded formula like a certain fast food franchise’s “special sauce,” or more banal proprietary information such as client lists.

Choices, choices ... the relative benefits of trade secret and patent law protection

The big question for arguably patentable innovations: When is it more advantageous to seek patent protection over trade secret protection or vice versa?

One key factor is expense. Securing patent protection can be costly, especially when considering foreign protection; trade secret protection entails no meaningful upfront investment, other than business expenses associated with maintaining secrecy.

Another factor is the invention life cycle: 20 years of market

dominance may be extremely valuable and justify the expense of registration. Competition may be inevitable, but the patent-holder may reap sufficient direct economic rewards — as well as brand strength — to make patenting the better option. Likewise, a patent may increase the opportunity cost for competitors who seek to catch up to the patented technology and then design around it.

Often the most compelling factor, though, is reverse-engineering. Physical and mechanical inventions are especially well-suited for patent protection because they satisfy Patent Office and court-imposed subject matter guidelines, while also tending to be vulnerable to reverse engineering. Notably, reverse-engineering does not constitute misappropriation of a trade secret. UTSA with 1985 Amendments, Comments to Section 1. And while independent innovation effectively voids a trade secret, it is no defense to a patent infringement suit. The invention (as well as insubstantial extensions) is protected during the patent term; a patent-holder may seek to enjoin any infringing activities.

Although mechanical inventions and software are susceptible to reverse engineering, some

chemical and biological innovations may be harder to replicate independently. Even if the chemical constituents or ingredients are made public, recreating the exact formulation and process may be difficult. Trade secret protection may be preferable where the secrecy may last indefinitely. Recall a certain soft drink company who kept its secret formula vaulted in Atlanta before putting the vault — but not its contents — on display to celebrate 125 years of secrecy.

In short, the primary inquiry is always whether patent registration is realistically available. For a number of discoveries, the inquiry will end there. But even if patent registration is granted, the patent may be invalidated in post-grant challenge. Yet, even when a formula or technology could achieve patent protection, if that innovation is unlikely to be reverse engineered, keeping it “vaulted” as a trade secret may be the wiser strategy.

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