

SMART PILL

Trading in Secrets

With patents more difficult to get and defend, corporations should think harder about protecting trade secrets.

—By Robert Fieseler

Whether you blame trolls or the lax issuance of faulty patents in past years, these days the U.S. Patent and Trademark Office is following the lead of the courts in making patents harder to get and sustain. Patent allowance rates are way down and going lower. No longer can patent practitioners operate under the old assumption that, with persistence and some prowess, a patent could inevitably be coaxed out of the PTO.

Now applicants face the disappointing prospect of having their innovations published for all to see without getting a patent in return. One way to avoid that risk is to bypass patent filings altogether and opt instead to protect the innovation as a trade secret. But trade secrets are far from invulnerable: They will be lost if measures aren't in place to keep them from leaking.

PATENT OR TRADE SECRET?

A company that invests in developing new technology has two principal means of preserving that investment. One route is to seek patent protection. The other is to keep the technology as a trade secret. Patents are costly and require complete public disclosure of the technology, but once granted have the power to prohibit all others from practicing the technology, even those who do so innocently. And if challenged, patents enjoy a statutory presumption of validity. In the case of a trade secret, the only costs are in guarding the secret. A trade secret, if kept a secret, can last indefinitely, so long as no one else develops the same technology and either patents it, publishes it, sells it or otherwise discloses it publicly.

For tech companies and their counsel, the receding allowance rate makes decisions on IP strategy more complicated than ever. When allowance rates were higher, it was easy to decide in favor of patent protection. But the publication that comes along with the patenting process can come back to haunt those companies. With a 25-month pendency before a first



The trade secret option disappears for an inventor if a patent application is made public before the PTO makes its first move.

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action, the application will already be published before the applicant has any indication whether patent coverage will be granted. This means that the decision to patent effectively waives the trade secret option.

Some innovations by their very nature are revealed the first time a product is sold, so trade secret protection is not an option, and patents become the protection strategy of choice. Other innovations reside in system control methods or process technology for making a product, which are more amenable to trade secret protection. Especially where the manufacturing process used cannot be discerned from the finished article, the process is better maintained as a trade secret.

A trade secret does not simply default from a decision not to patent, however. Trade secret protection is dependent upon having measures in place to keep them from being lost. Trade secrets are typically governed by state law, rather than federal law, so the requirements can vary from state to state and even from country to country. Regardless of which local law may govern, now may be the time for companies to dust off their trade secret manuals and procedures to make sure they have the following measures in place:

SECURITY

All access to trade secrets has to be controlled and documented, for employees as well as visitors. Simple things like visitor logs and badges, screening off of critical research areas, and mandatory escorting of visitors should be a routine part of a company's security practices. The company's security manual and employee handbook should each contain a chapter on trade secret preservation. That way, if a court action for theft of trade secrets ever becomes necessary, the company can show it took reasonable measures to preserve those trade secrets.

CONFIDENTIALITY AGREEMENTS

Employees, independent contractors, suppliers, and customers should be required to sign confidentiality agreements before having trade secrets disclosed to them. When collaborating with other companies that retain independent contractors, confidentiality agreements should include provisions requiring those independent contractors to sign separate written acknowledgments that they will not disclose or use the trade secrets they become privy to during their stint. The company whose trade secrets are to be maintained should periodically check to see whether those written acknowledgments have been secured and, if not, should be prepared to end the collaboration and gird itself for possible enforcement actions if the trade secrets are leaked.

EMPLOYEE TRAINING.

Incoming employees should be fully educated from day one on the company's confidentiality standards. Existing employees need to know their personal responsibilities, and whom to consult when questions or unanticipated situations arise. With guidance from the company's IP professionals, managers should draft plans for maintaining the security of information in their areas of responsibility,

and their effectiveness in carrying out those plans should be an important factor in their performance reviews. Companies should also consider establishing a hotline or other mechanism for employees to share their observations of situations that could compromise the company's proprietary information. Departing employees should always be reminded of their obligations in exit interviews.

DOCUMENT MANAGEMENT

Confidential documents should be marked "confidential" and reasonable efforts taken to restrict access to those documents. Text

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and data files transmitted via e-mail should be routinely password-protected, with the password sent in a separate follow-up e-mail with a blank subject line (harder to search). If confidential documents are allowed to be removed from a company facility, there should be a written policy on their usage, return, and disposal.

PRACTICE, PRACTICE, PRACTICE

As with many company initiatives, compliance with trade secret procedures needs to be verified regularly and remedial steps taken and documented when slippage occurs. The most common type of slippage happens when visitors are allowed into a facility without first signing a confidentiality agreement and are given tours that include sensitive research areas. Though it should be handled with sensitivity, an occasional sting operation could uncover ways in which a company's trade secret defenses could be penetrated and compromised.

TOO LITTLE, TOO LATE

Once a company trade secret has been stolen and a court is being asked to prohibit someone else from using it, it will be too late to recover from bad trade secret practices. Trade secret enforcement is fact-dependent. To establish a trade secret, there needs to be evidence to show that practices were established and procedures documented and carried out. If something as simple as a visitors' log cannot be produced to show that routine security was in place, a trade secret case will suffer because the burden is on the party asserting the trade secret.

With patent allowance rates down and pendency to issuance up, companies and their counsel need to make sure that trade secrets remain a viable option in their IP tool kit. You may remember the 1986 *Fortune* article that heralded "The Surprising New Power of Patents." With today's growing skepticism about patents, it's clearly time to look at the not-so-surprising power of trade secrets. ■

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