

Attys Lean Toward Trade Secrets To Avoid Alice Headaches

By Ryan Davis

Law360, New York (July 17, 2015, 3:54 PM ET) -- The U.S. Supreme Court's Alice decision means that many computer-related inventions may not be patent-eligible, prompting some companies to consider using trade secrets to protect their intellectual property instead. Here's what companies should know before shifting their IP focus to trade secrets.

Since the high court ruled in June 2014 in *Alice Corp. v. CLS Bank International* that abstract ideas implement using a computer are not eligible for a patent, scores of software and business patents have been struck down. As a result, many companies are wondering whether it is worth the effort to seek computer-related patents that may never be issued or end up dying in litigation, attorneys say.

Many inventions and processes that are not patent-eligible under Alice can still be well-protected by trade secrets, so companies concerned about the impact of the court's decision should be looking into relying more on trade secrets, said Christopher Larus of Robins Kaplan LLP.

"It's absolutely a trend that's being discussed by in-house lawyers that set IP strategy at a lot of companies," he said.

While there has not yet been a "tidal wave" of companies abandoning patent protection in favor of trade secrets, Bradley Hulbert of McDonnell Boehnen Hulbert & Berghoff LLP said he has seen an increase in the number of in-house counsel weighing the option.

"I think Alice and its progeny are of great concern to a lot of industries, particularly software," he said. "Trade secrets make logical sense if the return on investment in patents goes down."

Patents and trade secrets work in very different ways, however, and there are many issues for companies to consider when weighing whether trade secrets will effectively protect their intellectual property.

"It is something people think about, but it's not a one-size-fits-all solution," said Shelley Spalding of Hunton & Williams LLP. "It's not going to make sense in every industry."

To begin with, patents offer much broader protection than trade secrets. A company with a patent can sue competitors for infringement if they use the claimed inventions or an equivalent, and it doesn't matter whether the infringement is deliberate or even whether the infringer knew of the existence of the patent.

"One of the advantages of patent protection is that there is strict liability and it's not necessary to prove misappropriation," Larus said.

In contrast, he noted that when an invention is kept as a trade secret, the owner only has a cause of action when someone deliberately misappropriates the secret for their own use, and it can be difficult to prove that the defendant had access to the secret.

"There's sometimes a treacherous factual stream that needs to be established," Hulbert said.

In some common situations where patent protection is useful, trade secrets have minimal value, attorneys say. For instance, if the trade secret is embodied in a publicly available product, which would allow others to figure out how it works without accessing any proprietary information, trade secrets law essentially provides no protection. The same is true if a competitor comes up with the invention on its own.

"One of the most important things to think about is that trade secrets can't protect you from independent invention or reverse engineering," Spalding said.

However, after Alice, some types of inventions like proprietary software and methods of doing business may not be patent-eligible at all, making trade secrets an attractive option despite their less robust protection.

"There are certain financial products and business methods that can be protected as trade secrets that may not be protected by patents post-Alice," said John Mancini of Mayer Brown LLP. "It's certainly something companies ought to be looking at."

In addition, while patents expire over time, there's no such limitation on trade secrets, providing an advantage if the secret is expected to be valuable for years to come.

"The beauty of trade secrets is that the right lasts as long as the trade secret is maintained a secret and is not disclosed," Mancini said.

If a company has a computer-related invention that it would like keep as a trade secret rather than applying for a patent, it has to be ready to put in considerable time and effort to protect the secret.

While there are no upfront costs to trade secrets as there is in preparing a patent application, "it's not as simple as not getting a patent, you have to do things to protect secrecy," Spalding said.

That includes such considerations as limiting the number of people who have access to the secret information, keeping it protected by passwords and not letting outsiders tour facilities where information might be disclosed.

Nondisclosure agreements with employees and contractors are also important considerations, Larus said, since if a court rules that a company didn't do enough to protect its secrets, it can reject misappropriation claims.

"Unlike patents, trade secrets relies on internal protection," he said. "There needs to be a very comprehensive audit on the steps taken to ensure the trade secrets are protected."

While it's easy at the outset to say that only a small number of people will have access to a trade secret, it can be a difficult, time-consuming process to update protections as the company grows and changes and employees come and go, Spalding said.

"It's not just a one-time consideration, since the people who have access change over time," she said. "It's really an ongoing process that companies have to be diligent about."

Another issue for companies that do business internationally is that while the basics of patent law are similar in many countries, trade secrets law varies widely around the world. As a result, protection may be robust in some places and weak in others, Larus said.

"It's very difficult to rely on trade secret protection in national laws of other countries," he said.

Few companies are moving toward a full-scale shift to trade secrets instead of patents for computer-related inventions at this point, despite concerns that Alice has thrown the validity of many patents into doubt, Hulbert said. That's because there is a "cautious optimism" that future patent case law will provide more guidance about what is and is not patent-eligible, making trade secrets less necessary as a fallback.

"If the situation isn't clarified, I could see it becoming a major trend, but it's just not there yet," he said. "There's too much confidence that the clarity will be there."

--Editing by Katherine Rautenberg and Emily Kokoll.