

February, 2005

## Pallett Valo, LLP – Taking Care of Our Clients

At Pallett Valo, LLP, we want to give you all the advantages of a very large firm as well as the cost advantages and personal service of a smaller firm. We recognize that we can best serve you by working with specialty firms in those few areas of business law where we do not practice.

In order to better serve your needs when your business has an innovation to protect, Pallett Valo, LLP has made an alliance with a law firm specializing in intellectual property. Ridout and Maybee is a boutique firm that can help you with patents, industrial designs and related matters. We confidently refer you to them if you need assistance in this particular area.

We sincerely hope that the following article by Ridout and Maybee is helpful to you.

### Patents or Trade-Secrets: Striking the Right Balance

There are two main ways to protect an innovation from being exploited by others. You, the innovator, may choose to file for patent protection, and rely on the protection the patent laws give you. Alternatively, you may in some situations want to keep the innovation as a trade-secret, and rely on the laws available in this area. Since an incorrect choice can be catastrophic to your rights as an innovator, this paper will give you some general guidance on these choices.

#### What is a patent?

A patent is a document issued by a governmental authority outlining a bundle of rights granted by that government in connection with an invention. These rights are granted after you file an application for patent describing an invention, and the governmental authority in question examines the application and judges it entitled to protection under its laws. In exchange for the grant of rights, you must provide a disclosure of the invention sufficient to enable competitors, when the patent expires, to carry out your invention as fully and successfully as you can. This disclosure is typically opened for public inspection 18 months after the application is filed.

#### What are the requirements for obtaining a patent?

In Canada, you can get patent protection for any art, process, machine, manufacture or composition of matter, or improvement therein, which has utility, novelty and inventiveness.

An invention will be said to possess utility when it has a useful purpose. It has novelty unless each element of the invention has been publicly disclosed before the application is filed.

Inventiveness is automatically met, unless **it can be arrived at** by combining known elements in a manner obvious to someone with ordinary skill in the relevant art on the date it was invented.

#### What kind of protection does a patent provide?

The bundle of rights typically includes the exclusive right to make, construct and use the invention, and the exclusive right to sell the invention to others to be used. The term of the exclusive rights granted by a patent is generally 20 years from the date your patent application is filed. Patent rights are limited to the country granting the patent.

#### What kind of costs can I expect?

##### Obtaining Patents

Patents are typically granted on a country-by-country basis, and the costs vary widely. If you want to obtain protection in a number of countries, your patent in the first country will typically be the most costly. For an invention of typical complexity, you can expect to pay approximately \$15-20K for the first patent, and, on average, \$5-10K for subsequent applications in other countries. On average, roughly half the costs are payable within the first year, with the balance payable while your application is examined. Examination can take from one to five years, depending upon the country.

##### Maintaining Patents

Most countries require the payment of maintenance fees to keep patents in force. These fees vary widely, depending upon the country. In Canada, for example, maintenance fees are payable yearly, starting two years after the filing date of your case. Early in the life of the patent, you can expect to pay yearly maintenance charges of about \$300. That charge will increase to about \$600 in later years.

## What criteria characterize innovations that should be protected by way of patent?

### Criterion 1: The invention has a commercial life of a reasonable length.

Patent applications take time to process, and until your patent has been granted, you cannot use the courts to stop other parties from exploiting your invention. In most cases, you'll want to bring your product to market as soon as possible. If your product has only a limited commercial life, you may find you have discontinued or replaced the product even before your patent is issued.

### Criterion 2: The innovation has substantial value

As you can see, patents are relatively expensive to obtain. Therefore, sometimes the costs of obtaining a patent will outweigh the economic benefits. Before embarking on the patent process, take a good hard look at the invention, considering the potential for payback. If a large return seems unlikely and your funds are limited, they may be better spent in further R&D and/or marketing. Of course, the value and industrial applicability of many innovations are not immediately recognized, so a strict accounting-based analysis at the onset is not always advisable.

### Criterion 3: The invention can be easily brought to market by competitors.

Occasionally, an invention will be made that is primarily useful only to its inventor. For example, imagine an automaker that makes a unique style of engine and improves upon it. In this case, since competitors are unlikely to retool all their manufacturing lines to copy the improved engine, obtaining patent protection may not make economic sense. On the other hand, if the automaker invents a new kind of windshield washer blade, it might be a very simple thing for other manufacturers to adopt the invention for their products. In these circumstances, patent protection could make a lot of sense.

## What is the critical information every person needs to know about patents?

### 1. Limits

Patent protection is not limited to "better mouse-traps". Patents can certainly be obtained for new manufactures, like new mouse-traps. However, patent protection can also be obtained for processes, for example, a new process for refinishing hardwood floors. Protection is also available for compositions, such as new drugs. Some countries permit computer software to be patented and even new methods of doing business. Until you've checked into it, don't assume that patent protection is not available.

### 2. Breadth of Protection

Some people think a patent can be easily avoided by competitors by routine modification. This is not generally true, and indeed, is a dangerous presumption. The breadth of protection to which you'll be entitled depends upon the nature of your invention. If you've made an incremental improvement in a well-developed field of technology, the protection may be very narrow, and practically

limited to direct copies of your invention. However, if your invention is revolutionary, representing a substantially new technology, the breadth of your protection will be very wide. It should encompass all means by which someone skilled in the art at the date of your invention could envision to carry out the invention.

### 3. The Novelty Requirement

In most countries, patent protection can **not** be obtained after a public disclosure has been made, unless you have already filed a patent application in at least one country **prior** to the public disclosure, and make subsequent applications within a year of the earlier filing. (Generally, a "public disclosure" is any enabling disclosure to people not in a special relationship with the discloser.) Therefore, if you wish to obtain patent protection, it is critical to file an initial patent application before any public disclosure is made.

### 4. Grace Periods

A few countries, including Canada, provide "grace periods", which permit an inventor to file a patent application **after** a public disclosure, *provided the application is filed within one year of the public disclosure*. Accordingly, if an inadvertent disclosure has, or may have been made, it is important to file a patent application as soon as possible, to take advantage of any applicable grace periods.

## What is a trade-secret?

A trade-secret is information not generally known, which confers an economic or business advantage to the holder and which the holder has made reasonable efforts to keep secret.

Well-known examples of trade-secrets are found in the food and beverage industry. For example, the formula for COCA-COLA® soda and the mixture of special herbs and spices used in the preparation of KENTUCKY-FRIED® chicken are both trade secrets. However, trade-secret protection should **not** be understood as being limited to the field of foodstuffs; **any** information meeting the above tests can be the subject of trade-secret protection. This includes inventions, discoveries, customer lists, chemical formulae, financial data and supplier lists.

## What rights can the owner of a trade-secret assert?

The owner of a trade-secret can prevent others from wrongfully taking the secret, and can prevent unauthorized use and/or disclosure of the secret.

In one case, the developer of a marketing plan approached a major Canadian bank wanting to enter into a joint venture. At a meeting, the developer revealed the proposed name of its program to the bank. However, the bank had already developed a plan for a similar program, and went ahead independently with its own program, but used the name disclosed by the developer.

In legal proceedings subsequently instituted by the developer, the court concluded that the proposed name had been disclosed in confidence to the bank. The court decided the bank had wrongfully used the name and awarded \$520,000 in damages to the developer.

## What are the pros and cons of trade-secrets?

The good points of trade-secret protection include the potential to keep protecting your trade-secret forever and the absence of any legal or governmental costs to create that right. As an added benefit, keeping the innovation secret gives you an advantage over competitors in terms of improvements to the original innovation.

One negative feature of a trade-secret is that your right can be fragile. By definition, trade-secret protection is lost when the information loses its secrecy; so if a malicious ex-employee were to publicize the trade-secret, you would no longer be able to claim trade-secret rights, (although you might have a case for damages against the employee). A lesser, but still significant negative, is all the effort you'll need to spend, on an ongoing basis, to maintain secrecy. Another negative is the difficulty of enforcing your rights. In order to succeed in a trade-secret action, you'll have to establish, on a balance of probabilities, that you had met each of the elements required for the existence of a trade-secret. There is a substantial element of judgment. [For example, in your particular industry, what constitutes "reasonable efforts to keep secret"?)

## What criteria characterize innovations that should be protected as trade-secrets?

### **Criterion 1. The innovation should not be critical to the core operations of the company.**

Technology is not at a standstill. Even though right now your company may be the only one that knows about an innovation, your competitors are carrying on research and development, and may well arrive at the same innovation. If so, and if you have kept the invention secret, they may patent the innovation. This would severely impact on your ability to continue to use the innovation in the future.

### **Criterion 2: The innovation is either one that cannot be reverse-engineered from the product/service sold or is one in which the advantage is not readily apparent therefrom.**

If the advantages of your innovation are easy to see, your competitors will immediately try to reverse-engineer your innovation once you put it on the market. Once your product is successfully reverse-engineered, the secrecy is lost, and it is no longer a trade-secret. However, if the advantages are not readily apparent, the holder of the trade-secret may be able to exploit these advantages for many years without attracting the attention of competitors.

### **Criterion 3: The innovation is either expected to be able to continue to generate substantial value 20 years hence, or be unpatentable.**

The primary advantage of trade-secret protection over patent protection is the potential for perpetual protection. This is in contrast to the limited 20-year life of a patent. If the invention is not expected to have any substantial ongoing value 20 years from now, patent protection provides all the same benefits, with much less risk. However, this consideration is irrelevant if patent protection for your innovation is not available. For example, imagine that a stereo store does custom speaker installations. In order to ensure

superior performance, their installers take measurements of the customer's room, and carry out laborious calculations using the room dimensions and the performance characteristics of the speakers. This process determines the optimum location of the speakers. Now imagine that all installers in the industry use the same calculations, but one installer invests time and resources to create a software program automating the process. This software program would likely not be patentable, because any of the competitors could easily create the program, if they were to devote sufficient time to the problem. In this case, trade-secret protection would be very important, so as to ensure competitors don't get their hands on the software program and free-ride on the efforts of its creator.

## What are the critical steps to take?

In order to be able, at law, to claim rights in information as a trade-secret, you must be able to demonstrate you've been reasonably diligent in keeping it secret. The following points are the minimum requirements:

- Educate and train staff to identify important innovations
- Develop a secrecy policy
- Communicate the policy to all members of the organization and to suppliers
- Review existing contracts and agreements with employees, customers and suppliers, and update as necessary to incorporate secrecy provisions
- Secure your physical plant

## Licensing Considerations

Many businesses are learning the value of licensing their technologies to third parties. At IBM, for example, yearly licensing revenues now exceed US\$ 1 billion. If you think your innovation may be a licensable commodity, patent protection may be your preferred route, since licensing a trade-secret can be difficult. Also, in some countries, trade-secret licenses are limited in length by law, which is directly contrary to the principle of trade-secret perpetuity. In Europe, for example, exclusivity can only be given for ten years in respect of trade-secrets.

## Considerations when both Patent and Trade-Secret Protection is an Option

Some innovations may be equally suitable for both patent protection and trade-secret protection. In these cases, the innovator will have to balance the potential risk of losing the trade-secret to the competition against the gain of potentially unlimited exclusive exploitation. Factors to consider include:

- The likelihood that the innovation will be independently developed by others
- The difficulty you'll encounter in keeping the invention secret
- The costs of patenting
- Whether the innovation can be severed, with patent protection being obtained for part, and trade-secret being maintained for the balance

## How can a patent agent help you?

Preparing and prosecuting a patent application to issuance is complicated. Often, arguments need to be filed with the Patent Office handling the case, to support that the invention meets the definition of invention prescribed by the jurisdiction. This requires substantial knowledge of patent law, as well as the Rules prescribed by the Patent Office. Accordingly, most patent applicants retain registered patent agents, who are specially trained in these matters. A trained patent agent can ensure your invention is properly protected. In Canada, anyone wishing to represent inventors before the Canadian Intellectual Property Office must pass rigorous examinations in patent law and practice. The Patent Office provides a list of registered agents, but cannot recommend any particular one to you. Your local telephone directory is another source of agent's names.

## How can we help you?

In conjunction with Ridout & Maybee, Pallett Valo, LLP is able to help you decide whether patent or trade-secret protection should be pursued for your innovation. If patent protection is appropriate, we can liaise with patent agents on your behalf, to streamline the patent process. Alternatively, if trade-secret protection is more appropriate, Pallett Valo, LLP can give you legal advice on how to prepare and successfully implement a secrecy program. We can assist your organization in the following ways:

- Designing and drafting a secrecy policy for your organization
- Drafting or modifying internal agreements, and reviewing and modifying third party agreements, to ensure appropriate secrecy obligations are provided
- Conducting employee training and education programs on how to identify and handle potentially important innovations

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If you would like additional copies of the newsletter, or know of anyone who would be interested in joining our mailing list, please call Jenny Chiu at 905-273-3300.

Palletts wishes to thank Steven Leach of Ridout & Maybee LLP – Canada's IP firm of choice for his contribution to this newsletter. For more information, please visit [www.ridoutmaybee.com](http://www.ridoutmaybee.com)

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