

# Patent, Trade Secret Strategies for New Companies



## Recent wrinkles in intellectual-property law compel owners, investors to pay heed.

When advising developing companies on corporate and intellectual property matters, we often discuss the client's ultimate goals of obtaining venture-capital investments to enhance company growth and selling to an acquiring entity. For many entrepreneurial clients, intellectual property rights, such as patents, trade secrets, copyrights and trademarks, are the company's most valuable assets. Properly protected intellectual-property assets significantly enhance a developing company's value.

During its due diligence review, an investing or acquiring company will strongly consider the target entity's intellectual-property portfolio and the policies and procedures related to intellectual-property protection. If the developing company has failed to protect its intellectual property, the investing or acquiring entity may view this failure as a warning sign that the target entity is not diligent in its business matters.

Therefore, in order to enhance the value of a developing company, it is important to incorporate policies and procedures to protect intellectual property. For example, many companies use employee policies and agreements to ensure the effectiveness of confidentiality restrictions and intellectual-property assignment procedures. Developing companies also need to confirm those issues with third-party contractors and agents. Finally, companies should execute confidentiality agreements with third parties when the parties discuss intellectual-property matters. These agreements are particularly important for the protection of patent and trade-secret rights.

The need for intellectual property policies and procedures is further enhanced by the America Invents Act, or AIA. A significant provision of the new law shifts the law from the longstanding "first to invent" system to a "first to file" system. Under this provision, which took effect March 16, 2013, a company may win the creative race, but lose the right to patent the invention because it did not file the corresponding patent application in time.

The "first to file" system rewards a company that either (1) files a patent application first, or (2) claims priority to an earlier-filed provisional patent application. In order to preserve patent rights, a company will need to analyze quickly the importance of the invention and determine whether it should file a provisional patent application or make a public disclosure to prevent others from securing patent rights to the same invention.

Under the AIA, a company's management of pre-filing disclosures is critical. If a company remains silent about an invention while contemplating patent protection, it risks losing the right to do so if a competitor files a patent application first covering the same subject matter. If a company wishes to avoid this risk and therefore make a public disclosure to document the invention, then it faces the additional challenge that the AIA does not specifically define

what constitutes "disclosure" sufficient to preserve patentability. In addition, the act of the public disclosure before filing a patent application renders the subject matter of the publication unpatentable in most foreign countries.

Thus, strategically using provisional patent applications as a means of a confidential disclosure may become increasingly more important. A provisional patent application can offer advantages over public disclosures, including a more formalized way to document the dates and content of inventions and still preserve the confidentiality of the disclosure.

To use the provisional patent application filing date as priority for a subsequently filed non-provisional patent application, a full and complete disclosure of the invention should be

included in the provisional patent application. This means that a company needs to put as much substance as possible into the provisional patent application.

A company should analyze inventions to determine whether

it should seek a patent in the U.S. and/or abroad, or whether it should hold the invention as a trade secret. It may not be financially feasible for a company to file a strong provisional patent application for every single invention. In a situation where the technology is not material for the company, or is not one that warrants patent protection, a company should consider maintaining the technology as a trade secret.

A company should consider filing a strong provisional patent application as soon as is practical and before any public disclosure occurs. If this is not possible, the company should file a provisional patent application prior to any public disclosure and then follow up that application with a stronger provisional patent application or a non-provisional patent application to maintain the earliest filing date possible. **1**

To enhance their value, developing companies need policies and procedures that protect intellectual property.

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