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Deciding Between Patent And Trade Secret Protection

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Deciding which portions of a new development should be the subject of a patent application, and which portions should be preserved as trade secrets, is an often overlooked task, which may impact a business's ultimate return on investment in the development of a product or service. A number of legal, business and practical considerations should be considered in making that decision. Because the patent laws do not require the disclosure of detailed manufacturing specifications, often an innovation can be patented while at the same time related know-how and process-oriented developments can be preserved as trade secrets.

Patents confer legal rights to their owners to prohibit others from making, using, offering to sell, selling, or importing a patented product or method. This is a powerful right that has often been analogized to a "legal monopoly." The *quid pro quo* for the patent grant is that the applicant must disclose a written description of the invention, which is published, sufficient to enable others to practice the invention. This does not mean that detailed design drawings or source code must be disclosed in the patent. For example, with respect to

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software, process flow charts are often adequate to properly describe a software invention in compliance with the patent laws. Similarly, for electronics, sufficiently detailed circuit block diagrams are often acceptable in lieu of detailed circuit schematics.

A trade secret, on the other hand, is a form of legal right arising in confidential information that derives economic value by the fact of its not being known by others. Such rights are recognized for as long as the owner uses reasonable efforts to maintain the secrecy of such information. In other words, the trade secret laws recognize legal rights in information that is kept secret from the public, whereas the patent laws grant valuable rights to exclude in exchange for the public disclosure of valuable information.

Because of the mutually exclusive nature of these forms of protection, counsel should consciously consider



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which form of protection would best serve his or her client's interests. Although the decision to file a patent application ordinarily must be made relatively quickly to preserve priority and for other legal considerations, once an application has been filed, until the application approaches publication (typically 18 months after filing), the ultimate decision as between trade secret and patent protection can be deferred. We offer the following considerations to assist in making a timely determination whether to opt for patent or trade secret protection.

First, will it be possible to maintain confidentiality of the innovative aspects of a product, service, or process in question once a product or service is offered to the public? If the novelty of the new method, product or service will likely be apparent to, or easily reverse-engineered by, the public upon your company's offer and sale of a product or service, trade

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secret protection will usually be a poor form of legal protection.

Second, is it practical or cost-effective to maintain secrecy? To preserve information as a trade secret requires constant exercise by the owner of reasonable efforts to maintain secrecy. This translates into the implementation of procedural safeguards of varying levels of sophistication and cost, depending on the particular circumstances. These include, but are not limited to, the use of non-disclosure agreements, controlled licensing to third parties, limitation and documentation of physical access to information, and any other procedures reasonably necessary to maintain secrecy. Counsel must consider whether cost-effective safeguards can be successfully implemented. In contrast to the trade secret laws, patent protection eliminates the need to maintain secrecy and protects against reverse engineering and even independent development by others.

Third, how long will the information pertaining to the product or service have value by remaining confidential? In the case of rapidly evolving industries, such as the electronics and computer software industries, competitors may independently develop your innovation within a relatively short period of time. As trade secret laws, unlike patent laws, offer no protection against independent development by others, in industries in which constant innovation occurs, trade secret protection may be short-lived notwithstanding your best efforts. Although the information contained in a patent application does not become public until at least 18 months after the earliest filing date of the patent application, if the product at issue is likely to be independently created or reverse-engineered by others within that time frame, it would often be most prudent to protect the innovation under the patent laws.

A fourth consideration for determining whether to pursue patent or trade secret protection is the geographic and durational scope of protection that is possible. A key advantage to trade secret protection, if practically achievable, is that it can provide worldwide protection, potentially forever. The more than one hundred year old Coca-Cola formula is an often-cited example. Conversely,

patents are of limited duration (approximately twenty years from filing) and require the costly prosecution of a separate application in every country in which protection is desired. For example, the public disclosure of an innovation in a United States patent application for which no foreign coverage has been sought has the effect of teaching the rest of the world how to practice the innovation, with no legal recourse available to the innovator outside of the United States. Therefore, it is important to consider the global effects of obtaining patents in a limited number of countries.

A fifth consideration is whether your client is likely to be sued for patent infringement by its competitors. If so, patents can provide a useful defensive position to such claims. For instance, if your company is relying on trade secrets as the means for protecting an innovation, and such innovation is independently developed by a competitor who patents the innovation, you could be faced with an infringement suit based on the very technology your client thought it had developed. If you are fortunate enough to become aware of the competitor's patent application filing, and if your client has not forfeited its patent rights by waiting too long to file a patent application, you can attempt to take back potential patent rights from your competitor by proving prior invention through an expensive "interference" procedure in the Patent and Trademark Office.

If your client is sued for patent infringement, a quality patent portfolio that has erected a picket fence around your product or service offerings can be often used to short-circuit such suits through the assertion of counterclaims that the plaintiff is infringing one or more of your client's patents. Alternatively, even if an infringement counterclaim is not available, a competitor may be interested in resolving an infringement suit by obtaining licenses to some of the technologies protected by your client's patents. A healthy counterclaim of infringement or a portfolio from which to offer a cross-license can often head off possible patent infringement liability.

Trade secrets can also be used in the cross-license context, but obviously can-

not be used to threaten infringement. However, even in the cross-license context, negotiating a license for a trade secret is often more complicated than negotiating a license for a patent. Because patents are public by nature, your client does not have to enforce strict non-disclosure procedures to maintain any secrecy, as is required with trade secret licenses. Further, because the subject matter of a patent is fixed and public, your client need not disclose internal company information in connection with a patent license, and potential licensees know what rights are being conferred by the license. In contrast, with trade secrets, your client will want to limit disclosure of the details of the trade secrets being licensed, making negotiations more difficult than with a patent license.

If, after weighing all of the considerations, the decision whether to maintain trade secret or patent protection remains unclear, a commonly used strategy is to file a patent application, which provides an 18-month pre-publication period before the decision needs to be finalized. During that time period, interim technological and/or business developments may occur which provide valuable market insights that render the decision easier to make. With respect to U.S. law, the information contained in a patent application remains confidential until the application is published at the 18-month date. Therefore, you can walk the patent-trade secret boundary for a period of time after filing a patent application, prior to deciding which form of protection to ultimately maintain. If, after filing the patent application, you decide that you would rather follow the trade secret route, you can abandon the patent application prior to publication, and thereby preserve the confidentiality of its contents.

In sum, the decision whether to rely on the patent or trade secret laws to protect an innovation requires consideration of a number of legal, business and practical factors, including how long secrecy can effectively be maintained, what the desired geographic and durational scope of protection is, state of the competitive landscape in which your client operates, and its likelihood of being sued for patent infringement.