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To Be (Patented) or Not To Be (Patented): That is the Question!

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Anyone that has represented clients in patent prosecution, or in a patent infringement matter, has likely heard complaints about the cost. In fact, it is common to hear clients claim that it is just not worth the cost to patent and/or enforce their patent in court, and that they will just keep the technology "secret" next time. When confronted with these types of comments, counsel for technology clients need to carefully consider the advantages and disadvantages of both patent and trade secret protection, and provide their clients with guidance on the best approach in a particular circumstance. As explained below, there is no one size fits all approach.

Advantages of Patents:

The first advantage that usually comes to mind with patents is the right to exclude others from making, using, selling, offering for sale, or importing the patented invention, even if it is independently developed. In many competitive industries, companies often commit significant research and development investment to solve the same problems, and without patent protection, any competitive advantage from an innovation may be short lived.

A second, more abstract but nonetheless very real advantage of patent protection, is that companies holding one or more patents in a particular market are often viewed by the public, potential competitors, potential collaborators, and potential investors as the market leader or "innovator." This position often leads to more value and more opportunities for the patent holders. Moreover, a patent portfolio, and sometimes even a single patent, covering a particular technology may discourage competitors from entering a particular market space. This value is often hard to determine, as the patent holder will likely never know that a competitor evaluated a particular market space, and decided not to pursue it in light of the potential patent issues. Indeed, the anticipated cost of defending a patent infringement suit alone is often enough to discourage copycats.

A third advantage of patents is that they often constitute a more tangible, quantifiable, and "valuable" asset in licensing or acquisition negotiations. For those that work in mergers and acquisitions in particular, the intellectual property asset schedule is often the most important and valuable part of the transaction. As the technological age moves forward, the real value is based more on technology than machinery, real estate, and fixtures. A substantial patent portfolio often means more zeros on the offer sheet.

Disadvantages of Patents:

Before deciding that patent protection is indeed the best way to go, notwithstanding the costs of prosecuting the patent or enforcing the patent in court, there are a number of non-monetary drawbacks to patent protection. First, seeking patent protection requires a full disclosure of the invention, including a sufficient description to enable one of skill in the art to make and use the invention. Granted, there are certain non-publication options that can postpone the disclosure date (and maintain the confidentiality if the application is withdrawn or not granted), but patent protection requires disclosure.

A second drawback of patent protection is that if the claims of the patent are not sufficiently broad, the actual right the patent owner has to exclude others from making, using, selling, offering for sale, or importing the patented invention can be quite narrow. If competitors can copy the real value of the invention without infringing the patent, patent protection may not be warranted. Another related drawback of patent protection is that it can sometimes be difficult to detect when a third party infringes your patent. Thus, if the invention is likely to be used internally (for example, a process for making a product), and the patent owner can not determine whether its patented invention is actually being infringed, the value of the patent is decreased.

Finally, and probably one of the most cited drawbacks of patents, is their "limited" term. While patents have a relatively long term (now twenty years from the date of filing, subject to term extensions), every patent will ultimately expire. For many industries, technology progresses at such a fast pace that the useful (i.e., valuable) life of any

patent may only be a few years. However, for some foundational technology, upon which a particular market builds upon, it can be a painful experience to see patent protection expire.

Understanding some of the drawbacks of patents often leads clients to ask what other options they may have. In many cases, the answer may be to maintain the technology as a trade secret.

Advantages of Trade Secrets:

Why keep valuable information as a trade secret? You can start with the potential term of trade secret protection – which can be perpetual. Probably one of the most famous trade secrets is the secret formula for Coca-Cola, a product that has been sold for over 100 years. Imagine the value of The Coca-Cola Company if it had patented its formula in the 1880's, providing a full description of its formula in the process, and its right to exclude others from copying its formula for its soft drink had expired 100 years ago.

A second advantage to trade secret protection lies in the flexibility of enforcing a trade secret claim in court. In today's patent litigation, many courts require a fairly early identification of infringement contentions which require a plaintiff to describe in detail which products and/or methods it believes are infringed by the defendant, including a claim by claim and element by element analysis. In contrast, it is relatively rare for a court in a trade secret matter to require the plaintiff to identify its alleged trade secret with much specificity early in the case. In most instances, plaintiffs can describe the alleged trade secret vaguely, often refining its claims after discovery. While a motion for a more definite statement or a motion to compel a detailed description of the alleged trade secret can sometimes be successful, defendants are often stuck chasing a moving target on the plaintiff's claims.

A third advantage to pursuing trade secret protection for valuable technology is often the cost. Many companies already have policies and procedures in place to protect its confidential and proprietary information. Thus, there is often not an incremental cost increase to keep a particular technology confidential.

Despite the potential advantages of trade secret protection, pursuing this protection scheme is not without its risks.

Disadvantages of Trade Secrets:

One of the primary drawbacks of relying on trade secret protection for valuable technology is that it does not prohibit any independent innovation. Thus, any competitive advantage that a trade secret owner may have in using the "trade secret" technology can be lost at any time. Second, relying on trade secret protection is risky for those inventions that are capable of reverse engineering and/or are disclosed upon the sale of a product. Thus, if a third party can develop the same technology without inappropriate access or use of the trade secret, but rather by simply analyzing an existing product, the potential value may be lost.

A third limitation to trade secret protection is that once a trade secret is disclosed to the public, even if inappropriately, it can be difficult or impossible to "unring" the bell. For example, if a disgruntled employee posts trade secret information on a webpage available to the public, even if the website is eventually taken down, the value of the original information may be lost forever. Another potential drawback for trade secrets, particularly applicable for academia, or those collaborating with academia, is the desire to publish the results of research. For many professionals, the value in research is the publication of the research for peer review and/or industry recognition. Obviously, such publication is completely inconsistent with the idea of trade secrets. Thus, if publication and industry comment is desired, trade secret protection is not an option.

Other more practical considerations may also negatively impact a party's desire to rely on trade secret protection. For anyone that has conducted due diligence during a proposed merger or acquisition, particularly in today's technology economy, one of the most scrutinized aspects of the transaction is the intellectual property being acquired. When a company has a portfolio of patents, those patents can be analyzed for the breadth and scope of the right to exclude, and even have an economic evaluation performed. On the other hand, when acquiring a company that relies on trade secret protection for its most valuable intellectual property, various questions necessarily arise. For example, how do you know that the trade secret is actually a secret? Do all the employees have non-disclosure agreements? To whom has the secret been disclosed? If previously disclosed, was that disclosure covered by an applicable nondisclosure agreement, and what were the terms of that agreement? Has the company actually taken the steps necessary to maintain its trade secret status? This is not to say that related questions don't arise with patents (because they do), but my experience suggests that on a dollar for dollar comparison, you get more "value" from a potential acquiring company when you have a strong patent portfolio rather than a strong trade secret portfolio.

Finally, parties that rely on trade secret protection may also find themselves defendants in a patent infringement case, sometimes even based on the same technology that they have used and protected as a trade secret. While there are obvious defenses of prior use to certain patent infringement claims, a party may not only have to fund an expensive patent litigation matter, in some circumstances, they may even be enjoined from using their own "secret" technology.

In light of the various advantages and disadvantages of both patents and trade secrets, what do we advise our clients? As any good lawyer will tell you, it depends on the circumstances of the particular technology at issue. In an effort to not sit completely on the fence, here are a few suggestions.

Pursuing patent protection may be more favorable in the following circumstances:

1. If the invention is "disclosed" or capable of reverse engineering upon the sale/publication;
2. If publication is desired in peer-reviewed works or trade journals;
3. If the company is striving to develop a tangible patent portfolio to increase value for a potential acquisition or hurdles to market entry by competitors; and
4. If the company anticipates licensing the technology to third parties.

Maintaining technology as a trade secret may be more favorable in the following circumstances:

1. If the company can implement, and follow through on, procedures to actually keep the technology secret;
2. If the industry moves at such a rapid pace that innovations today are abandoned for different technology within 2-3 years (provided they are not "improvements" to existing technology);
3. If the invention is not disclosed upon sale and/or competitors are not expected to be able to reverse engineer or independently develop; and
4. If potential infringement would be difficult to detect, for example, if the patent covers a critical manufacturing process that is not apparent from the finished product.

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