

Trade Secret versus Patent Protection: Or Both?

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Deciding whether to protect the company's "crown jewel" intellectual assets is, for most businesses, a process fraught with either ignorance as to the options or anxiety as to which choice to make. Some conceptualize the decision as an "either-or" decision -- which is not always the case. For instance, a Silicon Valley jury awarded Lexar Media, Inc. \$381 million in damages for theft of trade secrets by Toshiba Corp., a one-time partner in manufacturing flash memory chips used for removable storage cards in digital cameras and other products. (Wall Street Journal). Lexar Media chose wisely – it has related patents on the technology and a suit on those patents is still underway.

Other business professionals simply know the terms and leave the decision to lawyers who may or may not understand the underlying technology. But such a superficial understanding of trade secret and patent protection is insufficient in today's highly competitive game of maximizing a business's intellectual assets.

Below, we provide an overview of trade secret and patent protection by accomplishing. First, we explain the key characteristics of trade secret and patent law protection. Second, we demonstrate that trade secret and patent protection are often complementary and overlap necessitating a system for evaluating each applicability to valuable company innovations. Third, we explain the relative advantages (and disadvantages) of trade secret versus patent protection. Finally, some practical advice and empirical data are offered to help inform business decisions in this area.

Characteristics:

Trade secret protection can apply to any formula, pattern, device or compilation of information which is used in one's business, and which gives one's business an opportunity to obtain an advantage over competitors who do not know or use it. Patent protection, on the other hand, may be obtained only for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" that is new, non-obvious and capable of enablement.

Complementary Protections of Trade Secret and Patent Protection

These characteristics can often result in "overlapping" protection and thus many innovations can be provided dual protections. Here is how innovations can be protected:

- (1) inventions that are not patentable require trade secret protection;

- (2) inventions of dubious patentability may require a business to weigh the pros and cons of patent versus trade secret; and
- (3) clearly patentable inventions may require a business to carefully determine whether aspects of the innovation should remain a trade secret even if patent protection is secured.

The Relative Advantages

So, how does one go about choosing whether to pursue patent protection, trade secret protection or both?

Patent protection has advantages which make it attractive in protecting inventions which meet the criteria of patent law:

- Patents deter competitors who otherwise might be tempted to copy – especially as to inventions that can be reverse-engineered.
- Patents avoid the need to maintain complete security for inventions to be kept as an internal trade secret – and still allow for relief even if others independently develop the same innovation and “innocently” infringe. This can be a significant asset, as the movie industry found in DVD Copy Control Ass'n v. Bunner, 116 Cal. App. 4th 241, 10 Cal. Rptr. 3d 185 (2004). In the case, the California Supreme Court declined to enjoin further use of trade secret DVD security software that had been published over the internet.
- the value patents furnish as assets potentially useful for cross-licensing technology in settlement of patent infringement (or other) litigation. It is usually far easier to establish the value of patents than trade secrets. Moreover, because they lack exclusivity, trade secrets are generally considered to be not as valuable as patents.

Of course, we would not be considering this issue if trade secret protection did not have advantages relative to patents. Here are some to consider:

- Trade secrets are cheaper compared to the expense of obtaining a patent, which does not immediately provide a revenue stream (unless licensed).
- Trade secrets don't require delaying product launch while a patent application is being prepared and filed and thus may be more appropriate for products with a shorter shelf life than the 20 years patent protection may exist.

- A patent's disclosure (after issuance or publication) can sometimes provide a "roadmap" facilitating an unscrupulous competitor's copying of an invention in a way that changes the form, but not the substance, yet still suffices to avoid the legal scope of the patent.

Which To Seek?

Choices, choices. No easy, formulaic process provides the answer for choosing between each form of protection.

Generally, however, inventions which are easily kept secret and incapable of easy reverse-engineering are the best candidate for trade secret protection. For example, industrial processes, are best protected as trade secrets because they are practiced behind closed doors and can thus be easily infringed without detection. Consider the success of Kentucky Fried Chicken in keeping its blend of 11 herbs and spices a trade secret for more than 37 years and Coca-Cola in keeping its soda formula a trade secret for 100 years since its original formulation. But keep in mind the nature of your business.

Trade secrets do require "work" on the part of the client. Secrecy rules must be disseminated and enforced; contracts and NDAs signed, collected and maintained. Will your employees follow-through? Unfortunately, we have sometimes found not – but only after the fact when there has been an apparent misappropriation of the trade secret.

The single biggest factor for patents: Can competitors reverse engineer and is the \$15,000 or higher cost of patent protection outweighed by the value of the innovation? Also, if you look around and noticing your competitors frequently patenting new products, perhaps you need to consider stepping up your effort. Should litigation ensue, keeping up with your neighbors in terms of your patenting activity will provide value at the negotiation table.