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Patents and Trade Secrets: A Dual Strategy for Protecting Innovations

By adopting some best practices, each innovation can be catalogued and protected as a bundle of trade secrets and patents based on what rights each protects, how rights are preserved and enforced, and how assets are monetized.

By Lennie A. Bersh and Kristopher D. Reichlen | April 17, 2023 | New Jersey Law Journal

Many businesses, when looking to protect their innovation, often consider patent protection by default. However, this approach shortchanges other available and protectable intellectual property (IP) rights such as trade secrets. Rather, trade secrets and patents complement each other in a robust IP portfolio. By adopting some best practices, each innovation can be catalogued and protected as a bundle of trade secrets and patents based on what rights each protects, how rights are preserved and enforced, and how assets are monetized.

Best Practices for a Cohesive IP Strategy

In general, a patent is a public asset with a legally enforceable exclusionary right, making patents relatively easy to monetize and protect so long as the considerable expenses are paid and infringing activity is detectable. In contrast, a trade secret is cheap to obtain and maintain, has a potentially unlimited lifespan, and requires nothing more than maintaining the secrecy of the information. Its enforceability, however, is limited to protecting against others obtaining it via improper means.

Therefore, aspects of each innovation may be assessed in light of the strengths and weakness of both patents and trade secrets in order to employ the most valuable strategy for each aspect of the innovation. Below is a guide for leveraging both IP strategies for preserving rights and maximizing the value of innovation.

Ongoing IP review.

The first step to implementing strategies for a portfolio of innovations is to catalogue the portfolio. Having a process in place for an ongoing IP review is essential to identifying new innovations that may be covered by a trade secret and/or a patent, and to identifying the status and value to the business of each asset during subsequent audits. Furthermore, innovators should be encouraged to submit their innovations without struggling to identify which IP strategy to use. To do so, try using a submission form with terminology that invites description of any development made to advance the field regardless of IP strategy. Indeed, you may end up changing IP strategy during assessment and auditing of the portfolio and/or as the technology associated with the innovation matures. A strategy-agnostic submission can facilitate the innovation collection process while also providing auditable documentation.

Select an IP strategy.

Any innovation can be thought of as a solution to a problem in the field. Using this problem/solution approach, one can pinpoint the most valuable aspects of the innovation and determine whether to apply a trade secret strategy, patent strategy, or a hybrid IP strategy. For example, is the problem present in a technology for which the innovation provides a technological solution (as opposed to a business solution, aesthetic solution, or mental process)? If so, the innovation could be patent-eligible.

Using this problem/solution approach, it becomes relatively easy to determine the degree to which another innovator would attempt to solve the problem and the likelihood that they would use a same or similar solution.

Indeed, patent rights differ from trade secret rights in that one can assert the patent rights against anyone making, using or selling the patented innovation. However, one can only assert the patent if one knows that the patent is being infringed, i.e., if the infringement is "detectable." Thus, using the problem/solution approach, an innovation may not be a strong candidate for a patent strategy if the solution being used to solve the problem has low detectability. For example, if a competitor were to use machine learning-based techniques to solve a problem, one would likely be able to ascertain that a competitor's solution to the problem is likely machine learning-based, but detecting a particular design of a machine-learning model would be very difficult, if not impossible, to detect because the inner workings of machine learning models are hidden. Therefore, the particular model design may be more suitable for a trade secret strategy while the use of the machine learning-based solution more generally may be more suitable for a patent strategy.

The problem/solution approach can also help reveal the likelihood that the innovation can be reverse-engineered and/or independently conceived. A trade secret only protects against improper means in obtaining the information of a trade secret. Reverse-engineering and independent conception are not improper means, and so may defeat trade secret protection. Thus, the problem, if widely recognized, may indicate that competitors may be more likely to independently conceive of a similar solution. Additionally, if the underlying principles of the solution are identifiable, then the innovation may be likely to be reverse-engineered, such as a mechanical device that can be deconstructed, an electrical device whose components and electrical behavior can be measured, or software for which the processes are closely related to observable behavior. The greater the likelihood of reverse-engineering or independent conception of the innovation, the less value provided by a trade secret strategy compared to a patent strategy.

Use a hybrid strategy.

If you choose to protect some aspects of an innovation using a patent strategy and other aspects using a trade secret strategy (a "hybrid strategy"), make sure to consider how to describe and claim the aspects in the patent strategy without disclosing the aspects of the trade secret.

One tactic for pursuing the hybrid strategy may be to select the innovation for a trade secret, but describing the patent's innovation in broader terms. For example, if the innovation is a chemical formula having particular amounts of ingredients, the patent application may claim and describe ranges of values for the ingredients that encompass but do not specify the exact amounts. Similarly, when the innovation is a particular AI model, the patent application may claim and describe the type of the model and general training thereof, but may not specify the trade secret aspects of, for instance, the design of hidden layers, particular values of parameters, or a custom optimization function.

Therefore, the hybrid IP strategy can maximize the value of IP for a particular innovation by strategically crafting the patent application to avoid or broaden beyond the trade secret aspects.

Maximize value by maintaining secrecy.

Make sure to take certain steps to ensure that rights or potential rights in both trade secrets and patents are preserved. Trade secrets must be kept secret, and novelty-destroying events must be avoided for a patent to be achieved. As a result, best practices, especially in the innovation collection process, may include measures to maintain the secrecy of the innovations being captured.

These best practices can preserve and enhance the rights and value derived from each trade secret asset and each patent asset. Trade secrets must be kept secret in order to maintain value at all. Patents are ultimately made public, but not until the patent application publishes 18 months into examination, or until the patent issues (if non-publication is requested). Maintaining the secrecy of the innovation can help to avoid novelty-destroying events prior to filing a patent application while also deriving similar value to a trade secret when the patent application is confidential.

Indeed, to further add value to a patent, the period of secrecy can be extended by requesting non-publication of the patent application to effectively eliminate the risk of the patent application publishing prior to issuance. Thus, the requirement of disclosure of the patent application can, in a sense, be extended until the patent issues, and until that time, secrecy may be maintained.

Additionally, rights derived by a patent do not vest until the patent issues, which can take up to 25 months or more depending on how examination progresses. But you can meaningfully reduce this period by participating in the U.S. Patent and Trademark Office's Track One program. The Track One program accelerates examination to guarantee two actions on the merits within a year of filing, something that would ordinarily take more than two years. Thus, you can greatly reduce the time between filing and issuance with the Track One program. As a result, value that the patent provides can begin to accrue much earlier.

Secrecy may be strengthened by a few simple measures:

First, as discussed above, conduct regular IP audits. By regularly auditing the IP portfolio, a list of discrete and definable innovations can be assessed for the following: the likelihood of information leakage, personnel that have been given access or who have left the company, the extent to which information of

each innovation has been disclosed, among other activities. As a result, there is a concrete foundation for assessing and applying practices in order to maintain secrecy.

Second, execute non-disclosure agreements (NDAs) for all innovations, especially trade secret innovations. While an NDA can help to avoid novelty-destroying events for patent filings by preventing premature disclosure, NDAs are especially important for trade secrets. The NDAs provide evidence of reasonable efforts to maintain secrecy and also provide a legally enforceable commitment to prevent parties from disclosing the information.

Third, execute agreements regarding IP ownership. Regardless of the strategy adopted for any particular innovation, agreements such as employment agreements, licenses, service/product agreements, and other agreements may always include a provision that defines the company as the owner of all IP, which includes trade secrets and other proprietary information. As with NDAs, such agreements provide evidence of reasonable efforts to maintain secrecy and also provide a legally enforceable commitment to prevent parties from disclosing the information.

Conclusion

Ultimately, all decisions about intellectual property strategy are business decisions and may be considered for what financial results are being sought, and which form of IP best supports those results. Accordingly, intellectual property assets, be they trade secrets, patents, or both, may be created to support business strategies.

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