

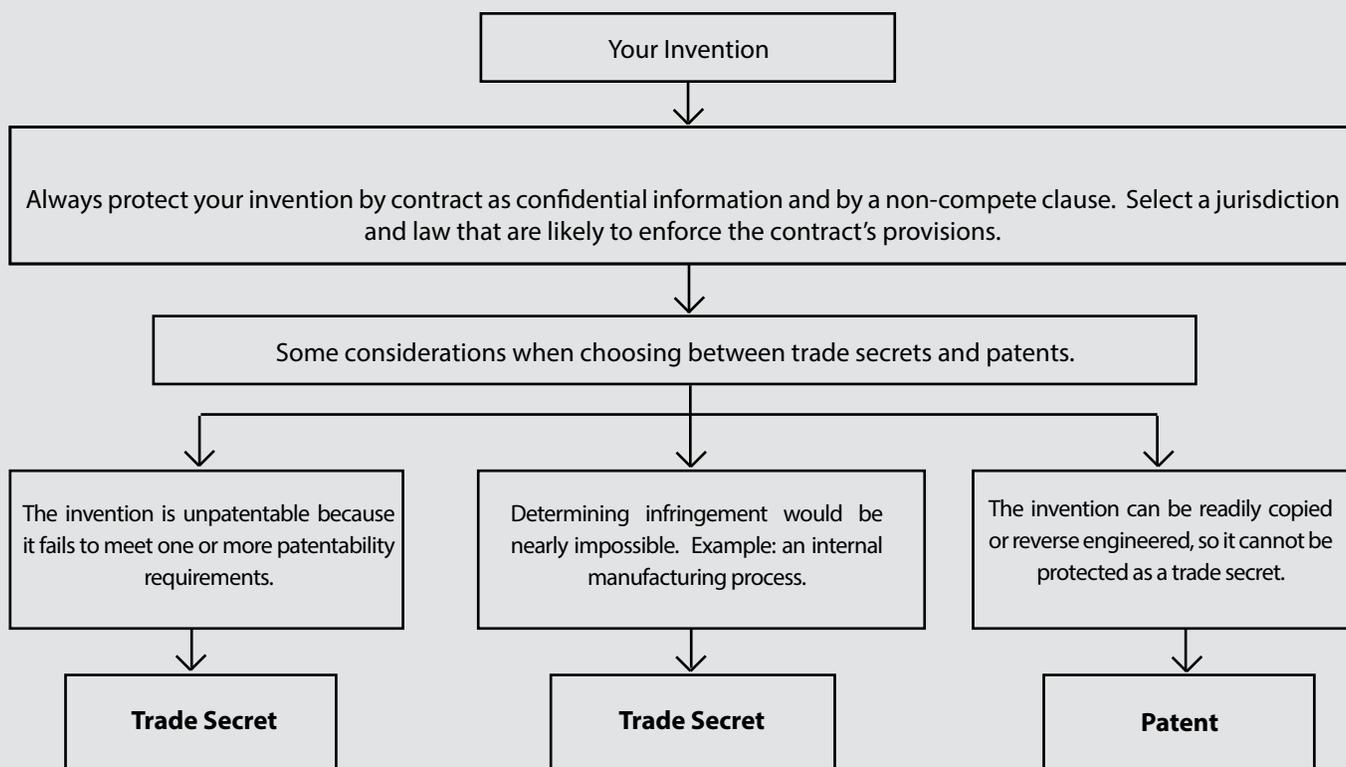
Selecting the Right Intellectual Property Protection

by David E. Rogers

Introduction

Competition is increasing daily. Competitors are quick to copy and customers are looking for the best price. Brand name and personal relationships still carry some weight, but not as much as in years past. One way for U.S. manufacturers to compete effectively in today's marketplace is by protecting inventions through intellectual property (IP).

A two-step approach is suggested to protect your inventions. First, always utilize contracts including confidentiality and non-compete provisions with employees and business partners, such as sales agents, suppliers, distributors, and contractors. Second, use trade secrets and/or patents to both (i) fortify the protection provided by contracts, and (ii) protect your technology from entities with which you have no contractual relationship.



Overview: Comparison of Confidential Information, Trade Secrets, and Patents

The following chart compares advantages and disadvantages of confidential information (as defined by a contract), trade secrets and patents.

Type of Protection	Source of Protection and What is Protected	What is Not Protected	When Protection Starts	Length of Protection	Typical Remedies for Misappropriation or Infringement
Confidential Information	Contract - express or implied, oral or written. What is protected is determined by the contract language, which usually mirrors the misappropriation language in trade secret statutes.	Things that fall outside of the definition of confidential information in the contract, and that is not protected as a trade secret or by a patent.	The effective date of protection set forth in the contract.	Determined by the contract language. Potentially indefinite.	Determined by the contract language. Usually an injunction and monetary damages attributable to any unauthorized use or disclosure.
Trade Secret	State or federal statute. Protects against the unauthorized disclosure and use of information that confers some competitive advantage, is confidential, and is subject to reasonable efforts to maintain its secrecy.	Things falling outside of the statutory definition of a trade secret. Does not protect against independent development or reverse engineering by others.	Immediately upon creation.	As long as the information remains a trade secret according to the applicable state or federal statute. Potentially indefinite.	Determined by statute and case law. Usually an injunction and monetary damages attributable to any unauthorized use or disclosure.
Patents	Federal statute. The invention must fit the statutory definition of patentable subject matter, including being novel and nonobvious. Protection is determined by the scope of the patent claims. Any use, manufacture, sale, offer to sell, or importation of goods/services covered by the patent is prohibited. Protects against independent development or reverse engineering. Others do not have to know of the patent to infringe it.	Things falling outside the scope of the patent claims.	When the patent issues (in the U.S., usually 2-4 years after filing).	Finite. In the United States, twenty years from the effective filing date of the patent application, plus any time added for governmental delay (called Patent Term Adjustment) in issuing the patent.	An injunction prohibiting making, selling, importing, offering to sell, or using the patented product or method. Treble damages and attorneys' fees may be awarded for willful infringement or an exceptional case, respectively.

Contracts

Whether or not your technology is protected as a trade secret or by a patent, it may still be protected to some extent by contract. Some states, such as Arizona, recognize “confidential information,” which is defined by contract, as protectable intellectual property separate from trade secrets, which are defined by statute. Other states have held that trade secret statutes preempt contractual “confidential information.” In any event, contracts should always be used with employees and direct business partners, such as sales agents, suppliers, distributors and contractors.

Your contracts should require your employees and business partners to (1) maintain the confidentiality of business information, such as your technology, designs, marketing plans, costs, selling prices, and the identity of vendors and customers, (2) not compete with you during the term of the contract and for a reasonable period of time (usually one to two years) after the contract is terminated, and (3) disclose and assign improvements to your technology to you.

You can select the law that governs a contract and the locale (called jurisdiction) for resolving contract disputes. If feasible, select the law of one of the United States that is likely to enforce the contract’s provisions (particularly the confidentiality and non-compete provisions) and require any dispute to be resolved in a U.S. court or in arbitration in the U.S. If your employee or business partner resides in a country outside the U.S., check with an attorney in that country to ensure the contract provisions, and a judgment (including a default judgment) entered in the U.S., are enforceable in that country.

A disadvantage of contracts is that they provide no protection against entities with which you have no contractual relationship. Also, from a practical standpoint, do not treat confidentiality agreements (also collect non-disclosure agreements or NDAs) as a panacea. The fewer people that know your business and technical information, and the less they know, the more likely you can maintain the secrecy and value of the information.

The costs of contracts are the legal fees associated with their preparation and negotiation, and any costs associated with performance under the contract. Legal fees depend on a contract’s complexity, and the extent of negotiations. Plan on legal fees of about \$500-\$2,000 for a simple confidentiality agreement with a non-compete clause, to about \$20,000 for a complex product development and manufacturing agreement.

Trade Secrets

A trade secret is information that both (1) derives actual or potential economic value from not being generally known and not being readily ascertainable to others by proper means, and (2) is the subject of reasonable efforts to maintain its secrecy. Information that cannot be maintained as a trade secret includes: (1) publicly-available information, such as product designs in the marketplace, and (2) things that can be reverse engineered, such as (i) internal components that can be discovered through disassembly of a product, and (ii) material compositions that can be ascertained through laboratory analysis. If your information cannot be protected as a trade secret, patents provide the only practical IP protection apart from contracts.

Trade secrets are often not really “secrets” because they may be known by thousands of people. Yet, they may be protected as trade secrets if reasonable efforts are taken to maintain their secrecy. Obtaining a confidentiality agreement prior to disclosing a trade secret is considered using reasonable efforts, because persons that execute confidentiality agreements are legally bound to maintain its secrecy.

An added benefit of trade secret protection over confidential information is that trade secrets guard against misappropriation by anyone, even persons with whom you have no contractual relationship. For example, if a competitor discovered your trade secrets through improper means, such as from a disgruntled employee, you could enforce the trade secret against the competitor.

If appropriate for your invention, trade secrets have at least two advantages over patents, which is duration and no public disclosure. In many countries, including the U.S., trade secret life is potentially indefinite, whereas a patent’s life is typically 20 years from the effective patent application filing date. Also, a patent is usually publicly disclosed eighteen months after

the effective filing date, and competitors may be able to analyze your patent and design around its claims, or make and sell your invention in countries in which you have no patent protection. If properly protected, trade secrets are never known by competitors.

A disadvantage of trade secrets as compared to patents is that they do not protect against independent development by a competitor, whereas patents do. Also, from a practical standpoint, once a trade secret has been disclosed to numerous people, even with the proper confidentiality agreements in place, the trade secret can be misappropriated, enter the public domain, and find its way to competitors without you being able to trace the source of the misappropriation.

Trade secrets cost nothing to obtain, although maintaining them can be expensive, because reasonable efforts must be used to maintain their secrecy, which includes having each person or business exposed to the trade secret execute an appropriate confidentiality agreement. That gradually adds expense over time.

Patents

A patent protects new products, machines, processes or methods, or compositions of matter (such as a chemical or pharmaceutical compound).

If practical and if your invention meets the patentability requirements, patents are usually the strongest, most valuable component of your IP protection. Business investors and buyers often place a high premium on patents (if properly prepared) to provide broad protection for your invention.

If your product or process can be readily copied or reverse engineered, it cannot realistically be protected long-term by a contract or as a trade secret, and patents are the only practical IP protection. Patents also protect against independent development by a competitor - a competitor need not even know of a patent's existence to infringe it.

Typical costs to prepare, file, prosecute, and obtain a patent in the United States run from about \$12,000 - \$30,000 including attorney's fees, government fees, and formal drafting fees.

Conclusion

Protecting your IP should always include contracts plus one or more of trade secrets and patents. It is estimated that about 80% of the value of U.S. companies is in IP, so take reasonable steps to protect your IP and maximize your company's value.



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