

Patent vs. Trade Secret: You Can't Have It Both Ways, Or Can You?

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Both patents and trade secrets are forms of intellectual property that provide the owner with negative rights. Either, or perhaps both, may protect aspects of an invention.

A patent for an invention is a grant of a property right to the inventor and is issued by the U.S. Patent and Trademark Office. A patent confers to the owner the right to exclude others from making, using, selling, offering for sale, and importing the patented invention. An objective of the patenting system is to get new technologies to the marketplace as soon as possible. A bargain of sorts exists between the inventor and the USPTO wherein the USPTO grants the exclusive rights in exchange for the inventor making the invention public.

Practically everything novel made by man, except the laws of nature, physical phenomena, and abstract ideas, is patentable. Any person who invents or discovers any new and useful process, machine, composition of matter or any improvement thereof, may obtain a patent. Business methods, including software, that provide a useful and tangible result are also included. For an invention to be patentable, it must be novel, useful, and nonobvious. Typically, obviousness is the highest hurdle to clear in obtaining a patent in that multiple prior art references can be combined to suggest your invention. The USPTO asks, is the invention nonobvious to one of ordinary skill in the art considering the entire prior art? Is the invention "worthy" of a patent?

In contrast, trade secrets are just that, secrets that are closely held by their owners. A trade secret, according to the Uniform Trade Secret Act, is "information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts



that are reasonable under the circumstances to maintain its secrecy."

A trade secret is typically used for its owner's benefit, giving them an economic advantage over competitors who do not know the secret. The definition of what can be a trade secret is broader than what is patentable. Thus things such as customer lists are typically kept as trade secrets since they are not patentable. However, unlike a patent, one cannot be certain the information is a trade secret until the owners attempt to enforce their rights.

Several factors are considered by the courts in determining if information can be protected as a trade secret. The difficulty of others to acquire or duplicate the idea or information (i.e., reverse engineering) is a key factor. This disqualifies many inventions and most all mechanical devices from trade secret protection since they can typically be taken apart and reverse engineered. The extent the idea or information is known outside the holder of the trade secret's business is another factor. This doesn't mean that no one else can know the secret, but it means that those who do know keep it as a trade secret.

Another factor is who within the company knows the idea or information. Trade secrets are disclosed on a need-to-know basis. Measures taken to ensure that the idea or

information remains a secret are a factor. Reasonable precautions must be taken to keep the information secret. This typically includes nondisclosure and noncompete agreements between the owner of the trade secret and employees, contractors, and anyone who may learn the secret. Physical isolation, such as keeping the secret, process, or device behind locked doors is a reasonable precaution. Another factor considered is the value of the idea or information to the holder of the secret and its competitors. The larger the competitive advantage, the more likely the information will be considered a trade secret. One additional factor considered is the amount of effort or money the company has expended in developing or acquiring the idea or information.

Typically, when an idea qualifies for patent protection and trade secret protection, one must choose between the two since a patent requires disclosure and a trade secret requires secrecy. This choice often needs to be made when a new process or composition of matter is created. The decision as to which is more appropriate is a business decision based on several factors. The first inquiry is duration. Duration of a patent is 20 years from filing while the duration of a trade secret can potentially be forever, as long as it is maintained secret. One also needs to consider the duration of

the economic advantage gained from the invention. For instance, if the invention has a short period of marketability, as may be the case with rapidly changing technologies or where the market is quickly saturated, a patent may not grant until after the economic value has lapsed and the 20-year term may be of little economic benefit.

Another factor to consider is the breadth of protection. A patent owner may have a cause of action for infringement while a trade secret owner may have an action for misappropriation. Infringement is easier to prove, because the owner need only show that the elements of any one claim are being practiced. Proving misappropriation requires a showing that a duty of confidentiality has been breached. One can independently invent and practice a trade secret, as long as it was not misappropriated. Infringement is more akin to strict liability, and one cannot independently invent and practice an infringing device. Additionally, one party may patent an invention that is another party's trade secret and enforce the patent keeping the other party from practicing the trade secret. Therefore, the breadth of a patent typically exceeds that of a trade secret.

Cost is another factor to consider. A patent usually has a greater up-front cost for application drafting and prosecution while a trade secret typically requires a sizeable investment to make reasonable efforts to maintain secrecy. The risk of losing protection is a factor in favor of a patent. Once a trade secret is lost, it is gone. The owner may have an action of misappropriation against the party that misappropriated the trade secret, but not against the world.

Licensing is another factor that favors patents. Patents are freely assignable, and individual rights (making, using, or selling) may be licensed to any number of parties. Precautions must be taken when licensing a trade secret, because the owner of the secret must assure that the licensee makes

reasonable efforts to maintain secrecy or the trade secret may be lost. Another factor to consider is the value of the asset for the owner. This is typically higher for a patent, because it is often more difficult to determine the value of a trade secret.

The general rule is that you can't have it both ways since a patent requires disclosure while a trade secret requires secrecy. However, there are circumstances where each can protect different aspects of an invention. For example, a patent application is filed for a material having between 20% and 50% "A" with the remainder being equal parts "B" and "C." After filing, the inventor discovers that the material having 31% "A" has far superior properties. The patent owner may keep this improvement as a trade secret. Therefore, if the 31% composition was misappropriated, there would be a cause of action for infringement of the patent as well as misappropriation of the trade secret. However, if the patentee had knowledge of the superiority of the 31% composition at the time of filing for the patent, the patent would be invalid for failing to disclose the best mode as is required. Yet, the action for misappropriation of the trade secret may still be brought.

The moral of the story is this: It is very important for engineers and inventors to keep an inventor's notebook to show dates of conception and to complete an invention disclosure form. An invention disclosure form typically has information needed to draft a patent application and is first internally circulated, providing a basis for making a decision as to whether patent or trade secret protection should be pursued. Additionally, to maximize intellectual property options, there should be no public disclosure of the invention, such as an offer for sale, before filing a patent application.

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