

# The Best Protection: Trade Secret or Patent?

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When determining how to protect intellectual property (IP), it can be difficult to decide between trade secrets and patents. To best understand the options, it is useful to recognize the differences between trade secrets and patents, the varying legal and business factors that come into play, and the remedies available should a third party misuse protected IP.

**Trade Secrets Defined** – Trade secret law developed from state common and statutory laws, and aims to avoid misappropriation of valuable business information. Under the Uniform Trade Secrets Act, trade secrets:

- are “information, including a formula, pattern, compilation, program, device, method, technique or process”;
- are not generally known or ascertainable by the public;
- derive economic value from being held secret; and
- are protected from disclosure with reasonable efforts.

This definition protects a broad range of information. To identify a trade secret, businesses should consider how well the information is known, or could become known, to employees and outside businesses; the steps taken to protect its secrecy and value; the costs associated with developing it; and how easily third parties can recreate or copy it.

A trade secret is created when a company identifies valuable information and makes reasonable efforts to protect it. Protection begins immediately and lasts indefinitely unless the information is publicly disclosed. Securing trade secrets is possible without completing an application or any formal governmental examination. However, there are costs associated with keeping information secret.

Importantly, unlike a patent, owning a trade secret does not come with exclusive rights. While the owner can take action against third parties who misappropriate the secret, the owner has no recourse if a third party independently invents the information, discovers the information through reverse engineering, or obtains the information due to accidental disclosure. Once any of these events occurs, the owner loses his or her property rights in the secret.

**Patents Defined** – Federal law, rather than state law, governs patents. Patent

protection is available for information that is *novel, useful and non-obvious*.

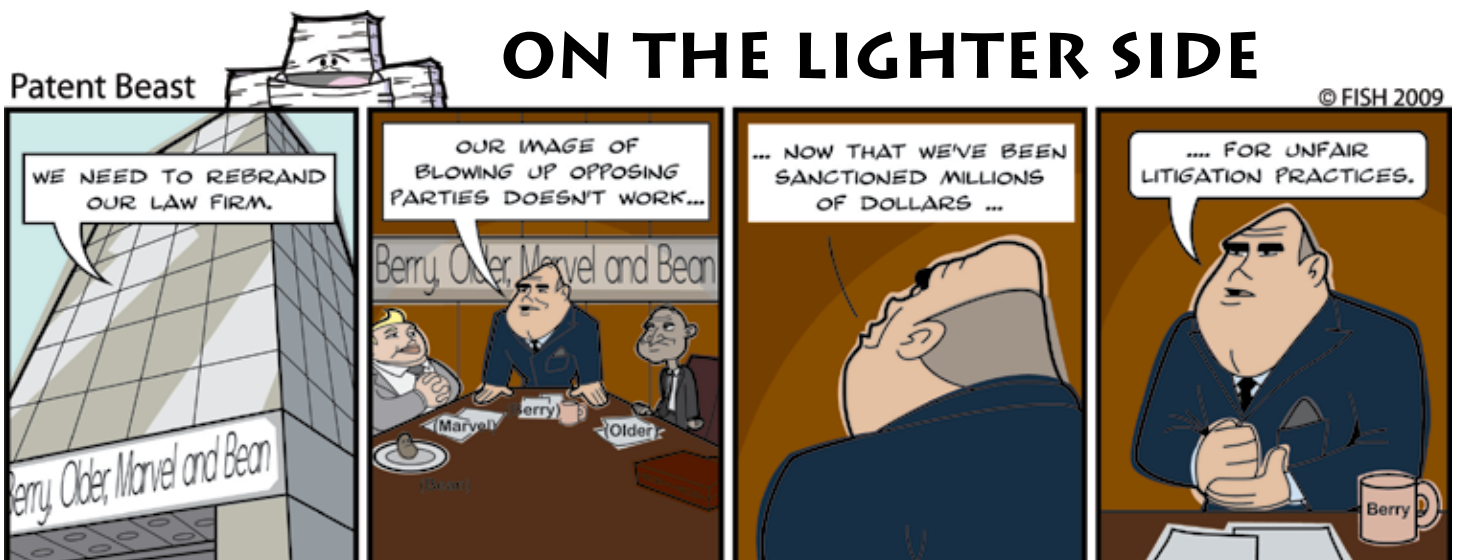
A patent application must be filed that describes with particularity the invention and how it is made. Additionally, the application must define the “best mode” for implementing the invention and its subject matter and be definite in its identification of what the applicant regards as the invention. The Patent Office reviews “prior art” when the application is received to determine whether the invention is novel and non-obvious. Patent applications may be published 18 months into this review process.

The entire process can take over two years and costs vary depending on the complexity of the science or technology involved. Once obtained, a patent lasts 20 years from the date of application. A patent owner has exclusive rights to the patented information, allowing the owner to “exclude others from making, using, offering for sale, or selling” the information.

## LEGAL AND BUSINESS CONSIDERATIONS

**Trade Secrets** – Since trade secret protection does not convey exclusive rights, it can be easily destroyed. For example, a trade secret can be lost through independent discovery, reverse engineering, or accidental disclosure.

Information with a brief shelf life or that can easily be kept secret is well suited to trade secret protection. However, businesses should pay attention to the cost of maintaining the secret compared to its value; if the cost is higher than the value, a patent may be more economical. Further, businesses should consider how



many employees need access to the protected information and how it will be used. If multiple employees need access, or if the information will be used outside the business, secrecy will be more difficult and costly to maintain. Employee mobility and turnover within the business will also affect the ability to maintain trade secrets.

**Patents** – Despite obtaining exclusive rights through securing a patent, patent owners can also lose those rights. A third party can challenge a patent’s validity through a reexamination proceeding, or as a defense in a patent infringement action.

Information with long-term value or that is easily reverse engineered or independently developed would be better protected by a patent. On the other hand, patents also disclose information to the public, allowing third parties to design around the patent or to use the information in a patent application if it is published during the patent application process but never issued.

## MAINTAINING PROTECTION

**Trade Secrets** – Maintaining information truly secret is not always as easy as it sounds. Affirmative protection to prevent disclosure must be implemented and can be costly. Physical barriers help preserve trade secrets. Conspicuously labeling items “confidential,” locking and securing information, minimally reproducing and distributing information and using passwords are effective ways to protect trade secrets.

Fostering a confidential environment and properly training employees may help maintain secrecy. Employees should

know which information is confidential and treated as a trade secret, and understand the information’s importance to the company. Further, employees should have access to secrets on a need-to-know basis. Periodically conducting a trade secret audit program to monitor and improve compliance is advisable. Confidentiality and non-competition agreements can prevent disclosure by third parties and current or former employees.

**Patents** – Once a patent is issued, certain annuities must be paid to maintain it in force. In addition, to maintain its value, patent owners must police the market for and act to cease any infringement or, alternatively, license the patent’s use. “Know-how” gained while developing the patent can be maintained as a trade secret. Such information, like engineering methods or manufacturing processes, does not need to be disclosed in the patent.

## REMEDIES AND DAMAGES

A trade secret or patent owner can file for a preliminary injunction upon discovering that a third party has misappropriated the secret information or infringed the patent. Though preliminary injunctions are costly to obtain, they can prevent infringers from continued violation of the trade secret or patent owner’s rights pending the resolution of the litigation.

A trade secret owner can initiate a misappropriation action when a third party acquires a trade secret improperly or without consent. In Wisconsin, this includes acquisition by accident or through another, unauthorized party. To prove misappropriation,

the trade secret owner must demonstrate that he or she has a property right in the trade secret, the third party acquired the secret improperly, and the owner was injured as a result. If successful, the owner may obtain the actual loss caused by the misappropriation plus unjust enrichment; additionally, punitive damages may be awarded if the court finds the misappropriation was malicious.

A patent owner can initiate an infringement action against third parties using the patent without the owner’s permission. To prove infringement, a patent owner must demonstrate that a party, without authority, is making, using, offering to sell, selling, or importing the patented invention within the United States during the term of the patent. If successful in the suit, the patent owner is entitled to damages as long as he or she marked the product with the patent number or has given actual notice of the patent to the infringer before the suit. The patent owner can obtain lost profits or a reasonable royalty, and in the case of intentional infringement, enhanced damages, up to three times the amounts of the assessed damages.

## CONCLUSION

With the current economic climate and the increasing importance of technology to a company’s value, it is more important than ever to protect business innovations. Fully understanding the scope, limitations, and risks of trade secrets and patents, as well as the costs of securing and maintaining these protections, can assist businesses and inventors in making the right choice. **IPT**



# ON THE LIGHTER SIDE

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