

PATENT LAW YOU CAN USE™

Patents vs. Trade Secrets

Howard M. Eisenberg

Howard M. Eisenberg is a biotechnology patent attorney with the firm of Chernoff, Vilhauer, McClung & Stenzel, LLP. He is a member of AUTM and represents a number of university clients. His address is 1600 ODS Tower, 601 SW Second Avenue, Portland, OR 97204. (503) 227-5631, fax - (503) 228-4373, email - heisenberg@chernofflaw.com.

PATENT LAW YOU CAN USE™

Patents vs. Trade Secrets

Abstract - Tension frequently exists between the options of keeping an invention a trade secret or filing a patent application which discloses the invention. Using a trade secret may eliminate any possibility of ever being able to patent an invention. On the other hand, the publication of a patent destroys any trade secrets which it discloses. Sometimes, the choice to patent or to maintain a trade secret is clear. Usually, however, the decision requires balancing various commercial, business, and legal factors.

A patent is a legally recognized monopoly which the government grants in exchange for disclosure of how to make and use an invention. A trade secret is something which confers a business advantage, is not generally known, and that the owner of the trade secret takes steps to maintain as a secret. Because of the disclosure requirements of patents and the secrecy requirements of trade secrets, these two forms of intellectual property usually cannot be

maintained for any one particular technology. A choice either to patent or to maintain as a trade secret must be made.

Although United States patent applications are kept in confidence¹, all information in a patent becomes available to the public when the patent is eventually published. At that time, the trade secret status of any information disclosed in a patent is lost. Conversely, according to US law, public use or sale of an invention for more than one year abolishes the patentability of the invention. Sale of a product produced by a secret process is considered to be a public use of the process.

In deciding whether to proceed with a patent or a trade secret, many factors must be considered. Several factors weigh strongly in favor of patenting. Other factors weigh strongly in favor of maintaining a trade secret. Other considerations are less clear in favor of one alternative or the other and require a balancing of several factors. In order to help with the decision process, this article discusses some of the advantages and disadvantages of patents and trade secrets. Keep in mind that there is no one answer that will be correct for every situation. The decision whether to patent or keep a trade secret must be based on the particular facts and circumstances regarding a technology and the circumstances of the business enterprise.

Advantages of Patents

¹ Under recently enacted legislation, all utility patent applications filed on or after November 29, 2000 will be published 18 months after its priority date unless the application is abandoned, subject to a secrecy order, or is a provisional application, or the applicant requests that the application not be published and certifies that the application is not being filed in any country that publishes patent applications.

In at least two situations, patents are a clear choice over trade secrets. A trade secret is of no use to protect a product which can be reverse engineered. In this situation, a patent is the only option.

Similarly, trade secrets are generally of little use when dealing with an invention that is likely to be independently invented by another. In fact, this situation presents the dangerous possibility that the second inventor may file for and obtain a patent on the invention. The second inventor may then prevent the owner of the trade secret from practicing the invention. Therefore, filing a patent application is the clear choice in this situation.

There are several other factors which favor patents which may or may not be applicable to any particular situation.

For one thing, patents have a firm duration. For all patent applications filed after June 7, 1995, the patent will remain in force until twenty years from the filing date of the application, or from the filing date of any parent application from which the patent application is based. The duration of a trade secret is uncertain. Trade secret protection can be lost overnight if the secret is publicly disclosed, even if the disclosure was not intentional.

Second, once a patent application is filed, the information which is in the application can be freely disclosed without loss of proprietary rights. Obviously, trade secrets cannot be freely disclosed and still maintained as a secret. Therefore, if there is a need to publicly disclose information, patents have the edge.

Third, for technology which is to be licensed out, a licensee may be more willing to pay for technology that is patented. Licensees may worry that their rights are less clearly defined by trade secrets and that the value of a trade secret may be abruptly lost if the licensor fails to maintain the secret.

Fourth, the decision to file a patent application is not irrevocable. The act of filing a patent application does not result in loss of trade secret rights. In the United States, patent applications are kept confidential. It is only upon issuance of the patent that the information contained in the application is publicly disclosed, resulting in loss of trade secret status for any information which the patent contains. Therefore, if a patent is not granted on an application, or if the application is abandoned during prosecution, the trade secret disclosed in the application will not be published and the trade secret can be maintained.

Of course, if the trade secret was disclosed after the patent application was filed, the trade secret will be lost regardless of whether a patent ever issues or not. Also, foreign patent applications are generally published eighteen months after the initial filing date of the application. In order to maintain the secrecy of information contained in a foreign patent application, the application must be withdrawn in time to prevent publication.

Therefore, one effective strategy may be to file a patent application and also to continue to maintain the trade secret during the pendency of the application. This will provide a

substantial delay for the need to decide whether to abandon trade secret status in favor of a patent.

Advantages of Trade Secrets

In at least two situations, the decision is clearly in favor of trade secrets. Trade secrets are the only option when the secret covers something that is not patentable. This occurs when the trade secret concerns things like customer lists, business methods, or sources of supply. This also occurs when something that would otherwise have been patentable has been for sale or was publicly used for more than one year. Another example is when the trade secret involves something that is known. For example, if several different methods are known to make a product and a company uses one particular method to its advantage, the undisclosed use of the method can be a trade secret, although it is clearly not patentable.

A second clear answer in favor of trade secrets is when the advantage due to the ownership of the technology is of very short duration. If the major competitive advantage is by being “first-to-market” or if the technology will be obsolete in less time than it would take for a patent to issue, then a patent is of little or no use.

Trade secrets also have an advantage because they can potentially last forever. A classic example is the formula for Coca-Cola, which cannot be reverse engineered. If the formula had been patented when it was first used in 1886, the formula would have been in the public domain a

long time ago and would now be free to be copied by anyone. However, by maintaining the formula as a trade secret for over one hundred years, Coca-Cola has continued to dominate the world wide soft drink industry. Therefore, trade secrets may be preferred over patents for technologies which preserve their competitive advantage for longer than the term of a patent.

A further advantage of trade secrets over patents is that there are no official prosecution costs or maintenance fees in order to establish a trade secret or to keep it in force. Patenting costs may range from \$15,000 to \$30,000 or more. These costs are avoided if an invention is maintained as a trade secret.

But, this does not mean that trade secrets are cost free. A trade secret can be expensive to maintain. For instance, there may be costs associated with physically preventing the public from learning the secret. These costs may include physical plant construction to restrict access to the grounds and buildings, checking on repair and service people, restricting information to individuals in the company who need to know, fragmenting information so that no single individual has access to a complete trade secret, and labeling gauges and containers so that process variables and ingredients are not shown.

There may also be costs for contracts which clarify the existence of trade secrets and the duty not to disclose. These contracts may have to be signed by suppliers, licensees, customers, consultants, and others with whom the company does business, such as those considering engaging in a joint venture with the company.

An often frustrating and costly part of maintaining a trade secret involves the employees of a company. Generally, when employees leave a company, they have a right to take with them the skill, experience, and ideas they acquired during the period of employment. Many companies have entrance and exit interviews with employees who will be exposed to trade secret information and require the employees to sign non-disclosure and non-competition agreements. These agreements, however, are often difficult to enforce.

Another difficulty with maintaining a trade secret occurs whenever documents are submitted to the government. Because of the Freedom of Information Act, it can be very difficult to prevent information contained in these documents from being discovered by competitors or litigants.

The costs and difficulties which may be incurred in maintaining something as a trade secret can be considerable. Sometimes, this consideration is enough to swing the balance in favor of patenting, despite the fact that other considerations might favor trade secrets.

Conclusion

Whether to seek patent protection or to maintain an invention as a trade secret is a decision which must be considered on an individual case basis by examining the specific facts related to the case. Sometimes, the decision is evident. If an invention can be reverse engineered or independently developed, if there is a need to disseminate information about the invention, or

if the invention is a technology for which a licensee will only pay if it is patented, then the choice is clearly in favor of patents. On the other hand, if the secret is not patentable, if it provides an advantage which is of a shorter duration than the time that it would take to obtain a patent, or if the secret will be valuable for a very long time and it can be maintained as a trade secret during that time, then the choice is clearly in favor of trade secrets. Most times, however, the choice is not so clear and various business, commercial, and legal considerations must be balanced in order to arrive at a decision.