

May 31, 2012

Related Practices

Grow
Start

Entrepreneur's Guide to Intellectual Property - Blog Series: Trade Secrets: What Are They and How Do I Protect Them? (Part 1)

By: Eric F. Severson

Background

A patent is the form of intellectual property that most commonly comes to mind with respect to new innovations. A patent provides a government endorsed monopoly to prevent others from making, using or selling an invention for 20 years from the filing of a patent application. The invention may be a new apparatus, a composition, an article of manufacture or a process that meets the statutory requirements for patentability. The invention must be both new and non-obvious.

Getting a patent can be a rigorous, expensive and time-consuming activity, usually costing thousands of dollars and taking years to obtain. One of the principal drawbacks of patent protection is that the applicant for such protection must fully disclose how the technology works, and the best way to practice it, such that another engineer or scientist can use the patent as a blue print to reproduce the invention. This disclosure is provided to the public upon publication of the patent application, which occurs before the patent office has even decided whether the invention is protectable or not. Under the patent system, therefore, the innovator will be disclosing his or her invention to the public without being certain whether any protection will be ultimately available, or what the full scope of that protection will be.

Trade secret protection can provide an alternative form of intellectual property protection that does not have the same limitations as patent protection, though it has its own specific limitations.

What is a trade secret?

A trade secret is generally any information that derives economic value (actual or potential), from not being generally known to, and not being readily ascertainable by proper means by other persons. The information to be protected as a trade secret must meet two requirements:

1. **The information must be a secret (i.e. not public knowledge or general knowledge in an industry).**
2. **The information must be subject to "reasonable efforts" to be kept a secret.**

Reasonable Efforts

What constitutes "reasonable efforts" depends on the information to be protected and the general practices for a specific industry. "Reasonable efforts" does not mean all conceivable efforts.

Generally "reasonable efforts" include the use of confidentiality/non-disclosure agreements, security precautions (locks, passwords, badges, etc.), and "need to know" compartmentalization of knowledge to keep information secret. Trade secret protection is handled under individual state law and common law, with most states having enacted the Uniform Trade Secrets Act governing the protection of such rights.

Advantages and Disadvantages

Trade secrets have several benefits over the patent protection. First, a trade secret is not limited to a specific term, but can be protected indefinitely as long as the information is preserved as a secret and retains its economic value. Second, trade secrets can protect innovations that may not meet the statutory requirements for patentability. Finally, trade secret innovations are not published and available to the public.

However, there are limitations to the protection of trade secrets. One significant drawback to trade secrets is that they do not protect against independent development. For instance, if a competitor would develop a process or system similar or identical to an innovator's process or system without obtaining or referencing the innovator's trade secret (i.e. did not obtain by theft, espionage, or disclosure by former employee of innovator), the trade secret would not protect against this independent development. Another drawback is that the innovator must take continual "reasonable efforts" to keep the innovation a trade secret, and if the "reasonable efforts" lapse, even if only in one specific instance, the trade secret protection can be lost. One more drawback is that certain types of innovations may not be able to be maintained as a trade secret. For example, if the trade secret can be determined by reverse engineering, its status as a trade secret may be lost.

The table below summarizes the differences between patent protection and trade secret protection:

Patent v. Trade Secret Protection

	Patents	Trade Secrets
What is protected?	Inventions	Any information you do not want your competitors to know
What are the requirements?	The invention must be new, useful, and non-obvious	The trade secret must, in fact, be a secret and maintained as such through

		appropriate business practices
How long does protection last?	20 years from filing and a minimum of 17 years	Indefinitely
What are the costs?	Filing, prosecution, maintenance, and enforcement	Establishing procedures and keeping key employees
How long does it take to secure rights?	Two to five years	As long as it takes to establish and maintain internal company procedures
How can competitors defeat my rights?	<ul style="list-style-type: none"> • Invent and file first • Challenge the validity of my patent • Design around my patent • Invent and publish 	<ul style="list-style-type: none"> • Hire away key employees • Reverse-engineer the product • Patent my trade secret
How can I defeat my own rights?	<ul style="list-style-type: none"> • Publicly use the invention for more than one year before filing a patent application • Sell (or offer to sell) the invention more than one year before filing the patent application 	<ul style="list-style-type: none"> • Accidentally disclose a trade secret • Fail to retain key employees • Try to get U.S. and foreign patents and have patent application published by USPTO

To view the next blog in this series, [click here](#).