

Psst! It's a (Trade) Secret

There is a kind of I.P. that gets little respect, *trade secrets*.

Crudely put, trade secrets are the flip side of patents, but they are also more different than just a mirror image. You may know: no patent provides any protection until it is registered with the government patent office, presumably the US Patent and Trademark Office (PTO). Trade secrets do not get registered. They are secret.

Patents are limited to inventions and ornamental designs. Dang near anything can be a trade secret. Like a patent, it probably has to be in some sense novel or it wouldn't be a secret. Like a patent, it has to be unobvious to people in the discipline. There ends the similarity.

So long as it has economic value, a trade secret can be a pure idea. It can be a process, a computer program, a formula, a whatever, as long as it can be kept secret. So it is much broader in scope than a patent: Customer lists, unpublished cost and pricing data, unannounced teaming agreements, unimplemented marketing plans, business opportunities not generally known, personnel data, including a list of potential raiding targets. The sky is the limit. And, again, there is no registration, so there are no lawyer fees to write the application and no PTO fees.

There is no limit on duration. (Patents last 20 years from application date.) The secret formula for Coca Cola® is more than 100 years old. (Recently someone tried to peddle it to Pepsi®, which gallantly refused and called the authorities.)

But ... you have to keep it a secret. A patent, by contrast, discloses all about the invention. (The courts and practitioners speak of a patent "teaching" about the invention.) As soon as the owner discloses a trade secret, it no longer is protected.

That means you lock it up well, although you don't have to be obsessive. You make employees sign agreements not ever to disclose if they come on a company trade secret while working, and periodically you give them a list of the kinds of things they much keep secret. Of course, the list cannot be specific or it would be a disclosure.

A secret need not be exclusive like a patent. If the Colonel and I both know the same secret formula for fried chicken, we can both use it. Of course, neither would be sure the formulae are identical. Another thing: it is perfectly legal for someone to buy a chicken leg or breast from the Colonel or me and then have a chemical analysis done to try to figure out the secret formula. it's ok to reverse engineer.

You can license a trade secret like any other I.P. For example, you license the use of the trade secret formula for fried chicken to franchisees, with robust means to control the secret. (On the other hand, you could sell frozen pre-coated chicken.)

What about thieves and disloyal employees? What can you do about them? The employee who leaves and takes trade secrets, such as a customer list or your company's secret software, can be sued for a court order (injunction) not to disclose, and the same is true for the new employer. Or there could be a suit for resulting damages. You could also "shrink wrap" your product in a wrapper that says anyone opening it is bound not to reverse engineer the product or copy it and transfer the copy to someone. because software cannot be patented. Most software is protected this way from the buyers,

Still, unlike the patent, trademark and copyright laws, there is no set of federal statutes providing the law. Most states, 44 of them and D.C., have adopted the Uniform Trade Secrets Act (UTSA). Another six states basically follow the less precisely codified precursor to the UTSA, so there is not a lot of difference. The UTSA does speak at length about damages, royalties, attorneys fees and so on, like the Patent Code.

Should you go with a patent or trade secret? are you going to use it internally, where it is relatively easy to keep the secret, or try to sell something based on the invention or process? If you sell it then it might be subject to reverse engineering. On the other hand, many ideas and business methods, for example, are not patentable, but can be subjects of trade secrets. (“Each time we get a new customer we Oops, can’t tell you what we do, but it’s novel.”) How easy is it to keep the whatever secret? Is it worth the time and money to get a patent registration?

Remember, once you apply for a patent there is no turning back. You have disclosed in a public record. You can keep the trade secret as long as you like. Then, if it is patentable, and you can prove you had it first, you can always patent it if that starts to look more practical.

So, there you have it. All the secrets about trade secrets. Except the ones I can’t tell you.

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