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To be a trade secret or not to be a trade secret: practical considerations when protecting IP assets

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To be a trade secret or not to be a trade secret: practical considerations when protecting IP assets

When attempting to protect their inventions, companies must make a sometimes daunting decision between trade secret protection and patent protection. This dilemma often occurs at the beginning of a research and development project. Should the technology, know-how and other IP assets be protected through trade secret protection or patent protection? It is hard to predict the future, particularly in terms of optimal IP protection. How can you know for certain which aspect of the IP asset is most likely to be commercially successful, or which is more likely to be attractive to competitors in terms of knock-offs, counterfeits or competitive alternatives, when the final result may be a long way off?

Federal level protection

A good place to start is by considering what can actually be protected under US law.

Title 35 of the US Code defines what is considered for patent protection under US law. Some of the primarily relevant definitions are as follows.

Section 101 provides that: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

Section 102 provides that:

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in

(1) an application for patent, published under section 122 (b), by another filed in the United States before the invention by the applicant for patent or

(2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351 (a) shall have the effects for the purposes of this subsection of an application filed in the United States only if the international application designated the United States and was published under Article 21(2) of such treaty in the English language; [1] or

(f) he did not himself invent the subject matter sought to be patented, or

(g) (1) during the course of an interference conducted under section 135 or section 291, another inventor involved therein establishes, to the extent permitted in section 104, that before such person's invention thereof the invention was made by such other inventor and not abandoned, suppressed, or concealed, or

(2) before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it. In determining priority of invention under this subsection, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

Section 103 provides that:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been

obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.
(b) (1) Notwithstanding subsection (a), and upon timely election by the applicant for patent to proceed under this subsection, a biotechnological process using or resulting in a composition of matter that is novel under section 102 and nonobvious under subsection (a) of this section shall be considered nonobvious if—
(A) claims to the process and the composition of matter are contained in either the same application for patent or in separate applications having the same effective filing date; and
(B) the composition of matter, and the process at the time it was invented, were owned by the same person or subject to an obligation of assignment to the same person.
(2) A patent issued on a process under paragraph (1)—
(A) shall also contain the claims to the composition of matter used in or made by that process, or
(B) shall, if such composition of matter is claimed in another patent, be set to expire on the same date as such other patent, notwithstanding section 154.
(3) For purposes of paragraph (1), the term "biotechnological process" means—
(A) a process of genetically altering or otherwise inducing a single- or multi-celled organism to—
(i) express an exogenous nucleotide sequence,
(ii) inhibit, eliminate, augment, or alter expression of an endogenous nucleotide sequence, or
(iii) express a specific physiological characteristic not naturally associated with said organism;
(B) cell fusion procedures yielding a cell line that expresses a specific protein, such as a monoclonal antibody; and
(C) a method of using a product produced by a process defined by subparagraph (A) or (B), or a combination of subparagraphs (A) and (B).
(c) (1) Subject matter developed by another person, which qualifies as prior art only under one or more of subsections (e), (f), and (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the claimed invention was made, owned by the same person or subject to an obligation of assignment to the same person.
(2) For purposes of this subsection, subject matter developed by another person and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person if—
(A) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the date the claimed invention was made;
(B) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and
(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.
(3) For purposes of paragraph (2), the term "joint research agreement" means a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.

State-by-state protection

Companies can also avail themselves of trade secret protection on a state-by-state basis. The model Uniform Trade Secrets Act was drafted by the National Conference of Commissioners on Uniform State Laws in 1979, and amended in 1985. As of 2011, most states have enacted some form of trade secret statute modelled on the act. States that have not adopted such a statute may rely on common law principles.

The basic definition of a 'trade secret' is set out in Section 1(4): "'Trade secret' means 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."

The following are some examples of IP assets that may be considered for trade secret protection, depending on various factors discussed below:

- 'Proprietary technology information' covers three categories of information:
  - proprietary information concerning research and development;
  - proprietary information concerning production/processes; or
  - information concerning quality control.

  Within each category, information may be broken down further into examples such as formulae, compounds, prototypes, processes, laboratory notebooks, experiments and experimental data, analytical data, calculations, drawings of all types, diagrams of all types, design data and design manuals, vendor/supplier information, research and development (R&D) reports of all types and formats,

R&D know-how and negative know-how, cost/price data, special production machinery, process/manufacturing technology, specifications for production processes and machinery, production know-how and negative know-how, vendor/supplier information, quality control procedures, quality control manuals, quality control records, and maintenance know-how and negative know-how.

- Proprietary business information may include proprietary information concerning sales and marketing such as sales forecasts, marketing and sales promotion plans, sales call reports, competitive intelligence information, proprietary information concerning customers including proprietary customer lists, customer needs and buying habits, know-how concerning the management of customer confidence, and proprietary sales and marketing studies and reports.
- Proprietary financial information may include internal financial documents, budgets, forecasts, computer print-outs, product margins, product costs, operating reports and profit and loss statements.
- Proprietary administrative information may include internal organisation, key decision makers, strategic business plans and internal computer software.

Protection of a company's trade secrets is one of the keys to economic success in today's international markets. This is particularly true in fields where employees typically move from company to company and where companies work with customers in joint developments or applications.

Once an audit has taken place to determine whether the assets in question fit into the categories of protection for either patent or trade secret protection, a company must determine the appropriate level of security, particularly if it decides to focus on trade secret protection.

The most critical element of claiming trade secret protection for an IP asset is that it must, in fact and by law, be an actual secret. This means employing certain security measures to maintain the secrecy. The following general questions (and the answers to them) should be considered:

- To what extent is the information known outside the company? The more it is known, the less likely it is a protectable trade secret.
- To what extent is the information known by employees and others involved in the company? The more employees know the information, the less likely it is a protectable trade secret.
- To what extent are measures taken by the company to guard the secrecy of the information? The greater the security measures taken to keep the information secret, the more likely it is a protectable trade secret.
- What is the value of the information to the company, particularly to competitors? The more valuable the information, the more likely the information is a protectable trade secret.
- To what expense has the company gone (eg, time, effort, money) to develop the information? The greater the expense, the more likely it is a protectable trade secret.
- How hard is it for others to acquire properly or duplicate the information? The easier it is, the less likely it is a protectable trade secret.

Applying these factors through a serious internal investigation of its business practices should allow a company to categorise its assets into those that would require higher levels of security and those that would require lower levels of security. This is not an 'all or nothing' proposition. Different security levels within the company may be put in place. In this regard, the following are some examples of security measures that can be taken to protect trade secrets:

- Notify the trade secret recipient (preferably in writing) that the information is proprietary and is not to be disclosed or used by the recipient for the recipient's benefit or the benefit of others without the express consent of the trade secret owner.
- Enter into confidentiality and non-disclosure agreements with employees and third parties who may be receiving trade secrets.
- Establish and maintain written confidentiality policies to be distributed to all employees, even if they are not trade secret recipients.
- Establish and maintain oversight policies and procedures to prevent the inadvertent disclosure of trade secrets by employees in written publications, by email or other electronic means, in seminars or speaking engagements or at trade shows.
- Institute overall 'bricks and mortar' precautions such as perimeter fences at the company's premises, restricted access to certain entrances, exits or areas, alarms or self-locking doors, and after-hours security.
- Install and use visitor control systems.
- Maintain access to trade secrets on a need-to-know basis.
- Maintain secretly coded ingredients or data.
- Separate departments of the company.
- Separate components of a trade secret between departments and/or company personnel so that each has only a piece of the overall asset.

- Maintain separate and locked drawers or areas for secret documents and drawings.
- Mark documents and drawings 'confidential' or 'proprietary'.
- Enter into vendor secrecy agreements.
- Establish physical barriers to prevent unauthorised viewing of proprietary process technology.
- Install 'keep out' or 'authorised personnel only' signs at the access points to sensitive areas of the plant, and have an enforcement policy.
- Establish and maintain written rules and regulations prohibiting employees from remaining in the plant after hours without express permission from properly authorised personnel.
- Establish and maintain rules and regulations requiring employees to stay in controlled areas near their work stations.
- Require employees to wear identification badges or carry identification cards.
- Require sign-in/sign-out procedures for access to and return of sensitive materials.
- Reproduce only a limited number of sensitive documents and maintain procedures for collecting all copies after use.
- Require authorised codes or passwords for access to copying machines and computers. Use key and encrypted computer data access to control theft of secret computer-stored information.
- Establish and maintain policies and procedures for the destruction of documents (eg, shredders).
- Establish and maintain a policy and practice for advising employees on a regular basis regarding the company's trade secrets and confidential business information.
- Hold exit interviews when an employee leaves the company in order to obtain the return of company documents and to remind him or her of the contractual obligation not to use confidential information belonging to the company for personal benefit or the benefit of others.

Companies must remember that implementing security measures is just one step; maintenance and enforcement of the measures are vital as courts give major weight to these when determining whether an asset, even if considered eligible for trade secret protection, should be enforced as such against a thief.

An examination of the practical limitations of implementing these kinds of precautionary measure within a company should significantly help to answer the overriding question: trade secret protection or patent protection?

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