

Patents versus trade secrets: factors to consider

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There are four types of intellectual property rights: patents, copyrights, trademarks, and trade secrets. Only two of these intellectual property rights protect information: patents and trade secrets. Patents protect information by dedicating the information to the public in return for a limited monopoly. Trade secrets protect information with independent competitive value derived from the secrecy of the information.

The birth of every patent starts out as a trade secret. At the time of conception, the idea or information can be protected only by keeping it secret. However, a subsequent decision needs to be made to determine whether to “convert” the trade secret asset into a patent asset.

The traditional patent-versus-trade-secret calculus considers the ease or difficulty in detecting patent infringement by a competitor *and* the ease or difficulty that a competitor will be able to “reverse engineer” the trade secret. In both circumstances, the greater the difficulty in detection or reverse engineering, the greater the scale tips for trade secret protection.

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For example, the famous Coca Cola® formula has been kept as a trade secret for over 100 years because competitors cannot reverse engineer the exact Coca Cola® formula. Had the owner patented the famous formula, intellectual property protection would have expired decades ago.

Trade secrets, unlike patents, can be licensed forever. The right to obtain royalties for a patent license terminates upon the expiration of the patent. The “trade secret” license can continue perpetually with the obligation to continue paying royalties even though the trade secret is no longer a trade secret. This fundamental principle was enunciated in the famous *Listerine* case. *Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959).

The modern scope of trade secret protection in the United States extends to any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and

secret to afford an actual or potential economic advantage over others.

Novelty is not required for trade secret protection; usefulness is not required for trade secret protection; negative know-how (what doesn’t work) is protectable as a trade secret. That some or all the components of the trade secret are well known does not preclude trade secret protection for a secret combination, compilation, or integration of the individual elements. Obviousness does not come into play because the invention has been protected as a trade secret.

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Proof of trade secret misappropriation can be based on circumstantial evidence. Access plus substantial similarity is sufficient to establish trade secret misappropriation. A finding of trade secret misappropriation does not require a showing that all the elements have been copied. Instead, a finding of trade secret misappropriation can rest on substantial similarity or substantial derivation of the products or processes.

Available remedies for patent infringement and trade secret misappropriation are another important consideration. There are numerous limitations on patent damages. The plaintiff must show actual damages; there can be no recovery for unjust enrichment. The patented product must be properly marked as patented or there must be proof that the infringer had actual notice and continued to infringe to recover past damages. There is no remedy for patent infringement that occurs before the issuance of the patent.

Damages for trade secret misappropriation can include both the actual loss caused by the misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual losses. The right to recover “unjust enrichment” damages, which is *not* an available remedy in a patent infringement case, creates a wide vista of ways to prove damages and to seek “disgorgement of the ill-gotten gains.”

No discussion of potential remedies would be complete without a discussion of the right to obtain injunctive relief. Permanent injunctions are sought in patent infringement suits and trade secret misappropriation suits as an equitable remedy to stop the infringement.

However, the Supreme Court in the now famous *eBay* decision overturned the practice of granting automatic injunctions upon a finding of patent infringement. The patentee must now also satisfy the four-factor test for injunctions: (1) the patent holder has suffered irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for the patent infringement; (3) considering the balancing of hardships, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.

The *eBay* decision eradicates the certainty that permanent injunctive relief will be granted upon a finding of patent infringement. *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388 (2006).

Injunctive relief is the primary remedy in a trade secret lawsuit because a “trade secret once lost, is lost forever.” An injunction to prevent trade secret misappropriation can be issued to prevent both the “actual” or “threatened” misappropriation of trade secrets. Further, the inevitable disclosure doctrine provides the trade secret owner with the right to seek injunctive relief based upon the “inevitable disclosure” of trade secrets against head-to-head competitors even before there is any proof of actual misappropriation.

The patent versus trade secret calculus must be evaluated for each invention remembering that the birth of every patent starts out as a trade secret. There are many factors to consider but, in many cases, keeping the information as a trade secret provides significant competitive and economic advantages over patents.

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About the author



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