Patents and Trade Secrets: A Happy Marriage

Deep–seated misconceptions about the relationship between patents and trade secrets are very prevalent. Trade secrets are treated as the orphan in the IP family, or the black sheep in the IP barnyard. They are maligned as flying in the face of the patent system, the essence of which is disclosure of inventions to the public. Keeping inventions secret is, therefore, supposed to be reprehensible. One noted IP professor went even so far as to say, "Trade secrets are the cesspool of the patent system." And after I gave a talk on the patent and trade secret interface in a South American capital, the local Commissioner of Patents testily commented that it was preposterous to talk up the complementariness of patents and trade secrets, or even trade secrets ("Trade secrets don't need protection because they are secret").

Nothing could be further from the truth. Trade secrets are the "crown jewels" of corporations. "Forget patents, trademarks and copyrights...trade secrets could be your company's most important and valuable assets" (James Pooley). "Trade secrets are the IP of the new millennium and can no longer be treated as a stepchild," (Mark Halligan). Also patents are but the tips of icebergs in an ocean of trade secrets. Over 90% of all new technology is covered by trade secrets and over 80% of all license and technology transfer agreements cover proprietary know-how, i.e. trade secrets, or constitute hybrid agreements relating to patents and trade secrets. As a practical matter, licenses under patents without access to associated or collateral know-how are often not enough for commercial use of the patented technology. Bob Sherwood calls trade secrets the "work horse of technology transfer." The quiet role they play in IP protection is thus deceiving. It is interesting to note that Henry Perritt believes that "patent law was developed as a way of protecting trade secrets without requiring them to be kept secret and thereby discouraging wider use of useful information." That makes patents a supplement to trade secrets rather than the other way around.

Trade secrets are the first line defense: they come before patents, go with patents, and follow patents. Patents and trade secrets are not mutually exclusive but actually highly complementary and mutually reinforcing; in fact, they dovetail. In this context it should be kept in mind that our Supreme Court has recognized trade secrets as perfectly viable alternatives to patents (*Kewanee Oil v. Bicron* (1974) "the extension of trade secret protection to clearly patentable inventions does not conflict with the patent policy of disclosure" and further strengthened the bases for trade secret reliance in subsequent decisions (*Aronson v. Quick Point Pencil* (1979) and *Bonito Boats v. Thunder Craft Boats* (1989)). Interestingly, in his concurring opinion in the *Kewanee Oil* decision, Justice Marshall was "persuaded" that "Congress, in enacting the patent laws, intended merely to offer inventors a limited monopoly (*sic*) in exchange for disclosure of their inventions (rather than) to exert pressure on inventors to enter into this exchange by withdrawing any alternative possibility of legal protection for their inventions." Thus, it is clear that patents and trade secrets can not only coexist, but are in harmony rather than in conflict with each other. In fact, they are inextricably intertwined, because the bulk of R & D data and results for any commercially important innovation cannot and need not be included in a patent application but deserve, and require, protection.

In the past — and even today — if trade secret maintenance was contemplated at all, e.g. for manufacturing process technology, which can be secreted unlike gadgets or machinery, which upon sale can be reverse-engineered, the question always was phrased in the alternative. E.g., titles of articles discussing the matter read "Trade Secret vs. Patent Protection", "To patent or not to patent?" "Trade Secret or Patent?" "To Patent or to Padlock?", etc. Anent this choice, the respective advantages and disadvantages, e.g. in terms of duration and nature and scope of protection, are considered controlling. However, on scrutiny the perceived differences are not there. The patent life may be more or less than twenty years from filing and a garden-variety type of trade secret, far from being indefinite, may last but a few years. Nor is there a difference as regards the scope of protection with "everything under the sun made by man," (Supreme Court in *Diamond v. Chakrabarty*, (1980)) including business methods, being patentable. And while a patent does, and a trade secret does not, protect against independent discovery, a patent encourages and leads to efforts to design or invent around and a trade secret, properly guarded and secured, may withstand attempts to crack it.

I submit that it is not necessary and, in fact, shortsighted to choose one over the other. To me the question is not so much whether to patent or to padlock but rather what to patent and what to keep a trade secret and whether it is best to patent as well as to padlock, i.e. integrate patents and trade secrets for optimal synergistic protection of innovation.

It is true that patents and trade secrets are at polar extremes on the issue of disclosure. Information that is disclosed in a patent is no longer a trade secret. As pointed out above, however, patents and trade secrets are indeed complementary, especially under the following circumstances.

In the critical R& D stage and before any patent applications are filed and also before patents issue, trade secret law particularly "dovetails" with patent law (see *Bonito Boats*). Provided an invention has been fully described so as to enable a person skilled in the art to make and use it and the best mode for carrying out the invention has been disclosed, as is requisite in a patent application, all associated or collateral know-how not divulged can and should be retained as a trade secret. That the "enablement" and "best mode" requirements apply only to the knowledge of the inventor(s) at the time of filing and only to the claimed invention, should be kept in mind in this context. All the massive R& D data including data pertaining to better modes developed after filing, whether or not inventive, can and should also be maintained as trade secrets, to the extent the data are not disclosed in separate subsequent applications.

Because patent applications are filed early in the R&D stage to get the earliest possible filing or priority date and the patent claims tend to be narrow for distance from prior art, the specification normally describes in but a few pages only rudimentary lab experiments or prototypes and the best mode for commercial manufacture and use remains to be developed later, the enablement and best mode requirements are no impediments to maintaining the mountains of related know-how developed after filing as trade secrets.

Besides as shown by case law manufacturing process details are, even if available, not a part of the statutorily required best mode disclosure of a patent.

And especially with respect to complex technologies consisting of many patentable inventions and volumes of associated know-how, complementary patenting and secreting is tantamount to having the best of both worlds. In this regard GE's industrial diamond process technology, which is partially patented and partially under trade secret protection, comes to mind as an excellent illustration of the synergistic integration of patents and trade secrets to secure invulnerable exclusivity. Was GE's policy to rely on trade secrets in this manner or, for that matter, Coca Cola's decision to keep their formula secret rather than to patent it, which could have been done, damnable? Clearly not.

It is now well established that dual or multiple protection for intellectual property is not only possible but essential. Such protection exploits the IP overlap and provides a fall back position. Recent decisions such as, *C& F Packing v. IBP and Pizza Hut* and *Celeritas Technologies v. Rockwell International* demonstrate this. In the *Pizza Hut* case, for instance, Pizza Hut was made to pay $10.9 million to C& F for misappropriation of trade secrets. After many years of research C&F had developed a process for making and freezing a precooked sausage for pizza toppings which had the characteristics of freshly cooked sausage and surpassed other precooked products in price, appearance and taste. C& F had obtained a patent on the equipment to make the sausage and also one on the process itself. It continued to improve the process after submitting its patent applications and kept its new developments as trade secrets.

Pizza Hut agreed to buy C& F's precooked sausage on the condition that C&F divulge its process to several other Pizza Hut suppliers, ostensibly to assure that backup suppliers were available to Pizza Hut. In exchange, Pizza Hut promised to purchase a large amount of precooked sausage from C&F. C&F disclosed the process to several Pizza Hut suppliers, entering into confidentiality agreements with them. Subsequently, Pizza Hut's other suppliers learned how to duplicate C& F's results and at that time Pizza Hut told C& F that it would not purchase any more sausage from it without drastic price reductions.

IBP was one of Pizza Hut's largest suppliers of meat products other than sausage. Pizza Hut furnished IBP with a specification and formulation of the sausage toppings and IBP signed a confidentiality agreement with Pizza Hut concerning this information. IBP also hired a former supervisor in C& F's sausage plant as its own production superintendent but fired this employee five months later after it had implemented its sausage making process and Pizza Hut was buying the precooked sausage from IBP.

C&F then brought suit against IBP and Pizza Hut for patent infringement and misappropriation of trade secrets and the court found, 1) on summary judgment that the patents of C& F were invalid because the inventions had been on sale more than one year before the filing date and 2) after trial that C&F possessed valuable and enforceable trade secrets, which were indeed misappropriated.

What a great example of trades secrets serving as a fall back position where the patents fail to provide any protection! Indeed a patent is a slender reed in light of the existence of three dozens of invalidity reasons and many other potential patent attrition factors.

In view of the fact that patent and trade secret protection indeed dovetail in the ways described above, the best and most practical approach or policy for protection of any innovation would be the following: To file a patent application as early as possible covering all patentable aspects. Pending patent applications are preserved in secrecy during the pendency period. This is not necessarily a decision in favor of patenting, rather it serves to gain time and keep all options open. There is no need to make a decision as to which way to go until an application is allowed or is to be published or issued. If the decision is made at the outset to keep an innovation a trade secret, it may not be possible to ever patent it. One is stuck with the election. However, by filing an application it is possible later to decide later to keep the innovation a trade secret if for instance the application is not allowed or even if it is allowed, the decision can then be made in light of the then current circumstances to abandon the application and stay with trade secret protection. If the application is not allowed, the subject matter can naturally be kept a trade secret like any other proprietary know-how.

In conclusion, it bears reiteration that patents and trade secrets are viable alternative modes of protection in the intellectual property field. Hence, it is patents and (not "or") trade secrets. And, what's more, they can and should be relied upon at the same time and side by side to protect any given invention or innovation, because far from being irreconcilable, they in fact make for a happy marriage as equal partners. Thus a policy and practice of utilizing both routes for optimal protection is rational, practical and profitable.

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