PATENT/TRADE SECRET INTERFACE: A SYNOPSIS

Insights and truisms about the importance of Trade Secrets and the complementariness of Patents and Trade Secrets.

A. Importance of Trade Secrets

- Trade secrets are the oldest, most prevalent and most valuable IPRs, protecting not just early-stage inventions, subpatentable innovations and manufacturing processes but any proprietary technical or business information, often embodied in inventions, know-how and show-how.

- Per Mark Halligan "Trade secrets are the IP of the new millennium and can no longer be treated as a stepchild" and James Pooley proclaimed: "Forget patents, trademarks and copyrights…trade secrets could be your company's most important and valuable assets." Bob Sherwood called trade secrets the "workhorse of technology transfer."

- Per IPO (Intellectual Property Owners) Survey on Strategic IP Management (88% of responses), patents are not viewed as a panacea due to their limits but proprietary technology, i.e. trade secrets, is highly rated as a key source of competitive advantage. Trade secrets are said to be the "crown jewels" of corporations.

- All patents are born as trade secrets. Trade secrets are the first line of defense: They not only precede, but also accompany and follow patents.

- Over 90% of all new technology is grist for trade secrets and over 80% of all technology licenses are trade secret (not "know-how") licenses or hybrid licenses covering patents and trade secrets (or trademarks and trade secrets in franchising).

- Supreme Court decisions (e.g. *Kewanee Oil v. Bicron*, 1974) held that trade secrets are perfectly viable alternatives to patents and federal patent law does not preempt state secret law.

- Trade secret protection operates without delay and without undue cost against the world, while patents are territorial and so expensive to obtain and maintain that they can be taken out only in selected countries.

- Patents are "slender reeds," i.e. beset by three dozens of reasons that can render them invalid or unenforceable and plagued by other attrition factors, such as, narrow claims granted by the PTO, only limited coverage abroad, enforcement difficulties and costs.

- Trade secrets are secrets only in a limited legal sense and the term "trade secrets" is a constricted term of art, because many persons usually are in the know and per *Dunlop v. Ram Golf* (7th Circuit, 1975) the public does receive benefits and there is no suppression in an economic sense.

B. Patent/Trade Secret Complementariness

- Inventors can also rely on trade secret protection in conjunction with, and complementary to, patents to protect the huge volume of collateral or associated know-how that indispensably undergirds patentable inventions.

- By integrating patent and trade secret protection and thereby exploiting the overlap, building an IP estate and developing a fall back position, dual protection is achieved with synergistic effects.

- Clearly, patents and trade secrets dovetail and this results in invulnerable dual protection: patents for patentable inventions and trade secrets for collateral know-how.

- The question is not whether to patent or to padlock but rather what to patent and what to keep a trade secret. Complementary patenting and padlocking is tantamount to having the best of both worlds.

- Best operational practice then is to file patent applications "early and often" in order to obtain patent protection as center of gravity as well as to maintain secrecy for the bulk of the R&D results and collateral know-how that need not and cannot be included in patent specifications but deserve protection as trade secrets.

- Software developers, in particular, can leverage not only copyright and patent protection but also trade secret protection to provide robust overlapping multiple IP protection.

- The perceived differences between patents and trade secrets in terms of touted advantages or disadvantages, which are used as indicators for the choice of one over the other, loose significance on closer scrutiny. For example, patents can last less or more than 20 years from filing and trade secrets most often are not indefinite but peter out in just a few years. Trade secrets are said to provide weak protection, because of the independent discovery defense but patents are equally weak because of the many invalidity or unenforceability reasons as well as the common practice of inventing or designing around patents. And while any information is grist for trade secrets, "anything under the sun made by man" is patentable.

- A trade secret owner has an *in personam* right (*de facto* prior user right) and cannot be enjoined for infringing a patent of a later inventor/patentee of the same invention. Prior user rights exist in most foreign countries and are requisite in first-to-file patent systems. It has never happened (and is most unlikely to ever happen) that a later patentee enjoined an earlier trade secret owner of the same invention. There is solid reasoning for this in the literature to the effect that such an *in personam* right is a first inventor's common law right, is required by principles of equity and due process and not granting it amounts to taking property without compensation. Per Bennett "A Constitutional award to one inventor does not mandate a Constitutional penalty to another."

- Among notable examples of synergistic integration of patents and trade secrets to secure invulnerable exclusivity are GE's industrial diamond process technology, Wyeth's Premarin manufacturing process and the *Pizza Hut* case, illustrating the merits of marrying patents and trade secrets and have the best of both worlds.

- GE had many patents, some of which had already expired, as well as many trade secrets on their technology. As GE refused to license, certain foreign interests resorted to industrial espionage. A GE employee was enticed to steal GE's "crown jewels" but ultimately was found out and jailed.

- Wyeth too had patents and trade secrets on their Premarin process. Their patents had expired decades before. When Natural Biologics stole the trade secrets via a retired Wyeth employee, Wyeth sued and got a sweeping injunction that put Natural Biologics out of business. Their argument that they practiced what was disclosed in the patents, didn't hold water.

- In the *Pizza Hut* case, Pizza Hut had to pay $10.9 million for misappropriation of trade secrets of a supplier of sausage toppings. This supplier held two patents on the process and the equipment for making the sausage toppings as well as trade secrets on improvements. In the lawsuit the court held 1) on summary judgment before trial that the patents were invalid because the invention had been on sale more than one year before the filing date and 2) after trial that the supplier possessed valuable and enforceable trade secrets, which had indeed been misappropriated.

- These cases are perfect examples of trade secrets serving as fallback positions after patents expire or become invalid and no longer provide any protection.

- Interestingly, in many, if not most, "patent infringement" suits, there are also trade secret misappropriation counts.

C. "Best Mode" Bugaboo

- Conventional wisdom that, because of the "best mode" requirement, trade secret protection cannot coexist with patent protection, is a colossal misconception. This overlooks three simple truths: This requirement applies only at the time of filing, only to the knowledge of the inventor(s) and only to the claimed invention.

- Hence, the "best mode" requirement is no impediment because applications are filed for competitive reasons very early in the research stage with only embryonic test results and with the "best mode" for commercial use to be developed later by others.

- Besides, disclosure of manufacturing process details, even if available, is not required, as shown by case law.

- Per Professor Chisum any best mode disclosed in a patent specification will rarely be of competitive interest when the patent expires. This means that the rationale for the "best mode" requirement to allow the public to compete fairly with the patentee following patent expiration, is really pointless.

- Consequently, the "best mode" requirement is a very narrow defense at best. It has been successful on only seven occasions per CAFC in *Bayer v. Schein*, 2002.

D. Conclusion

- Colossal misconceptions about trade secrets are shown by such disparaging comments as:

  - Trade secrets are nothing but "baby patents"
  - Trade secrets are at best mere "supplements to patents"
  - Trade secrets are useless because "you can't keep secrets"
  - Trade secrets don't have a "single redeeming virtue" and — and this takes the cake —
  - Trade secrets are the "cesspool of the patent system."

- One Chief IP Counsel strictly instructed me not even to mention trade secrets in a patent seminar I held for his company's R&D staff.

- Per Professor Dratler, attorneys who do not advise clients to take advantage of the overlap between patents and trade secrets, "miss opportunities for clients or, worse, commit malpractice." Yes, malpractice!!!

- More detailed discussion and citations to authorities can be found in my article, entitled title "Patent & Trade Secret Complementariness: An Unsuspected Synergy," which memorializes my 2008 Foulston Siefkin Lecture at the Washburn University School of Law and which is published at 48 Washburn Law Journal, p.1, Fall 2008.

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