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THE ROLE AND VALUE OF TRADE SECRETS IN IP MANAGEMENT STRATEGIES

Karl F. Jorda
David Rines Professor of Intellectual Property Law & Industrial Innovation
Director, Kenneth J. Germeshausen Center for the Law of Innovation & Entrepreneurship
Franklin Pierce Law Center
Two White Street, Concord, NH 03301 USA

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ROLE AND VALUE OF TRADE SECRETS IN IP MANAGEMENT STRAGEGIES

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I. Introduction

- In our knowledge-based high-tech era it is important to exploit the overlap between IP categories for dual or multiple protection.
- This is true especially between patents and trade secrets.
- Patents and trade secrets are not incompatible but dovetail: the latter can protect volumes of collateral know-how.
- This results in synergistic integration and secures invulnerable exclusivity.
- Most technology licenses are hybrid licenses covering patents and trade secrets.
- Licenses under patents without access to collateral know-how are insufficient for commercial use of patented technology.

II. Integration Strategy For IPRs

From former fragmentation by specialties, IPRs, are now a "seamless web," due to progress in technology and commerce, per Professor Jay Dratler.

Professor Dratler was the first one to "tie all the fields of IP Together." "Integrative treatment." (Intellectual Property Law: Commercial, Creative, and Industrial — 1991)

In 1997 the authors of "Intellectual Property in the New Technological Age" (Professors Merges, Merrell, Lemly & Jorde) also

- avoid the fragmented coverage
- approach IP as a unified whole and
- concentrate on the interaction between different types of IPRs.

Thus we now have a unified theory in the IP world, a single field of law with subsets and significant overlap between IP fields. Several IPRs are available for the same IP or different aspects of the same IP for dual or multiple protection. Not taking advantage of the overlap misses opportunities or, worse, amounts to malpractice.

II. Integration Strategy For IPRs
(continued)

Especially for high-tech products, trademarks and copyright protection may supplement patents, trade secrets and mask works for the product's technological content.

One IPR category is center of gravity and more important.

Other IPR categories are then supplementary but very valuable to

- cover additional subject matter
- strengthen exclusivity
- invoke additional remedies
- standup if primary IPR becomes invalid

and thus provide synergy and optimize legal protection.

Multiple forms of protection are especially important in the fields of biotechnology and computer.

The most important strategy is exploiting the overlap between patents and trade secrets.

Illustrative examples are:

- GE's industrial diamond process technology
- Wyeth's Premarin process
- Pizza Hut decision

Multiple Protection In Biotech

Protection for a diagnostic kit involving monoclonal antibodies:

- product patent on the test kit
- process patent on the preparation of the antibodies
- trade secrecy for production know-how
- copyright for test kit's instructions
- trademark

Multiple Protection For Computers

A data processing system can involve:

- patented hardware and software
- patented computer architecture on circuit designs
- patented business methods
- trade secret production processes
- copyrighted microcode
- copyrighted operating system
- copyrighted instruction manual
- semiconductor chips protected as mask works
- consoles or keyboards protected by design patents
- or as trade dress under trademark principles
- trademark registration

IP Integration Concepts

EXPLOIT THE OVERLAP

DEVELOP A FALL BACK POSITION

CREATE A WEB OF RIGHTS

BUILD AN IP ESTATE

BUILD A WALL

BUILD A RINGFENCE (India)

OVERPROTECT

LAY A MINEFIELD

for

SYNERGISTIC EFFECT

via

DUAL OR MULTIPLE PROTECTION

Intellectual Property (IP)
&
Intellectual Property Right (IPRs)

IP	IPRs
Invention	Patent
Know-how	Trade Secret
Brandname	Trademark
Work of Authorship	Copyright

Intellectual Property (IP)
&
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IP	IPRs
Invention	Patent, Trade Secret
Know-how, Invention	Trade Secret
Brandname	Trademark
Work of Authorship	Copyright

II. The Importance Of Trade Secrets

Trade secrets are the "crown jewels" of corporations — not the "cesspool of the patent system."

Mark Halligan: "Trade secrets are the IP of the new millennium and can no longer be treated as a stepchild."

James Pooley: "Forget patents, trademarks and copyrights…trade secrets could be your company's most important and valuable assets."

Trade secret misappropriation cost Walt Disney $240 million and Cargill $300 million.

88% of responses in an IPO Survey indicate trade secrets to be the really important intellectual assets because patents have limits: patentability requirements, publication, invent-around feasibility.

II. The Importance Of Trade Secrets
(continued)

Trade secret protection operates without delay and undue cost against the world — unlike patents which are territorial and so expensive to obtain and maintain that only very selective foreign filing is done.

Patents are tips of icebergs in an ocean of trade secrets

- Trade secrets cover over 90% of new technology
- Over 80% of technology licenses cover trade secrets or are hybrid licenses

Trade Secrets are the "workhorse of tech transfer." (Bob Sherwood).

III. Patent/Trade Secret Interface

As a practical matter, licenses under patents without access to associated, collateral know-how are often not enough, because patents rarely disclose the ultimate scaled-up commercial embodiments of products and processes.

"In many cases, particularly in chemical technology, the know-how is the most important part of a technology transfer agreement." (Homer Blair).

"It is common practice in industry to seek and obtain patents on that part of a technology that is amenable to patent protection, while maintaining related technological data and other information in confidence. Some regard a patent as little more than an advertisement for the sale of accompanying know-how." (Peter Rosenberg).

III. Patent/Trade Secret Interface
(continued)

In technology licensing "(r)elated patent rights generally are mentioned late in the discussion and are perceived to have 'insignificant' value relative to the know-how." (Michael Ward, Honeywell VP Licensing).

"Trade secrets are a component of almost every technology license…(and) can increase the value of a license up to 3 to 10 times the value of the deal if no trade secrets are involved." (Melvin Jager).

"One potential shortcoming of focusing on patents as a measure of innovation, besides the fact that it ignores the other types of intellectual property, is that patents are often valueless absent the 'know-how' that translates protected intellectual property into viable products." (Gavin Clarkson, Harvard).

"A company with one or more patents for its technology will usually have substantial valuable technical and business information related to, but outside the direct coverage or disclosure obligations of, its patents. The company can maintain vigorous efforts in both areas of legal protection. (Jerry Cohen, Perkins, Smith & Cohen).

"It is frequently stated that know-how is the most valuable element of technology transfer. This is consistent with the writer's own experience." (Robert Goldscheider).

Failed Brazilian tactic — translate foreign patents

CIBA-GEIGY examples: Eastman Kodak & DuPont licenses.

IV. Patent/Trade Secret Complementariness

- Supreme Court (*Kewanee Oil*, 1974): perfectly viable alternatives.
- Not mutually exclusive but mutually reinforcing — dovetail, in harmony
- "Coexistence is well-established." (Don Chisum).
- Inextricably intertwined: Most R&D data and collateral know-how cannot and need not be included in patent applications — grist for trade secrets.
- Trade secrets precede, accompany and follow patents.
- Tom Arnold: it's "flat wrong" to assume that "because the patent law requires a best mode requirement, patents necessarily disclose or preempt all the trade secrets that are useful in the practice of the invention."

IV. Patent/Trade Secret Complementariness
(continued)

1. In the critical R&D state and before any patents issue, trade secret law "dovetails" with patent law.

2. Assuming that a development has been enabled and the best mode described, all collateral know-how not disclosed, whether or not inventive, can be retained as a trade secret.

3. All R&D data, including data pertaining to better modes, developed after filing, again whether or not inventive, can also be protected as trade secrets.

4. With respect to technologically complex developments consisting of many patentable inventions and volumes of associated know-how, complementary patenting and secreting is tantamount to having the best of both worlds

The question is not whether to patent or to padlock but rather what to patent and what to keep a trade secret.

Best policy and strategy is to patent as well as to padlock.

V. The Best Mode Requirement

The "*best mode*" requirement applies

- only to the knowledge of the inventor,
- only at the time of filing and
- only to the claimed invention.

Hence best mode requirement is no impediment, because —

1. Patent applications are filed early in the R&D stage to get the earliest possible filing or priority date.

2. The specification normally describes in but a few pages only rudimentary lab experiments or prototypes.

3. The best mode for commercial manufacture and use remains to be developed later.

4. Patent claims tend to be narrow for distance from the prior art.

5. 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.

VI. Exemplary Trade Secret Cases

1. GE's exclusive industrial diamond process technology
   - Holds patents (some expired) and trade secrets
   - Refused to grant licenses
   - Fast-track GE scientists stole trade secrets for Far Eastern interests for million dollar payments
   - In the end got caught, tried, jailed

2. Wyeth's exclusive Premarin manufacturing process
   - Has market exclusivity since 1942
   - Patents expired decades ago
   - Closely guards its trade secrets
   - Natural Biologies stole these trade secrets
   - Wyeth sued, got sweeping injunction

VI. Exemplary Trade Secret Cases
(continued)

3. Pizza Hut case
   - Pizza Hut supplier, C&F Packing, invented and patented a manufacturing process for pizza sausage toppings and kept improvements secret
   - Pizza Hut misappropriated trade secrets and got sued
   - Court decision:
     1) patents are invalid on on-sale bar grounds (on Summary Judgment)
     2) trade secrets are enforceable and Pizza Hut had to pay $10.9 million (after trial)

VII. Conclusion

The foregoing discussion and cases show the importance and value of trade secrets and the merits of marrying patents and trade secrets to exploit the overlap and thereby secure invulnerable exclusivity.

"One can have the cake and eat it."

Goseicho Arigato Gozaimashita.

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