

LITIGATORS CORNER:

Patent or Trade Secret: Which One is Best?



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As intellectual property attorneys, we all know that there is more than one way to protect the novel ideas and secrets that are the core of our clients' businesses. The most common form of protection is a patent, which protects an invention, a new machine or apparatus, composition, article of manufacture or process that passes muster as non-obvious. Of course, getting a patent is rigorous and time-consuming, requiring an application, followed by many exchanges of written communications with the Patent Office. Once the patent issues, all of this material is publicly available.

There is an alternative form of protection that many inventors should consider using, either instead of, or in addition to, a patent. This alternative is keeping the invention as a trade secret. Trade secrets, originally governed by the common law, were developed by our courts over many years; now most states have enacted some form of the Uniform Trade Secrets Act. Trade secrets have some wonderful advantages over patents: They don't require that the invention be new or non-obvious, and they don't have to meet the require-

ments of Section 101 of the patent laws. Perhaps most importantly, trade secrets can last a long, long time. One famous example is the formula for Coca-Cola, a trade secret for over one hundred years. See *Coca-Cola Bottling Company of Shreveport, Inc. v. The Coca-Cola Co.*, 107 F.R.D. 288 (D. Del. 1985), which comments that the formula for Coca-Cola, Merchandise 7X, "is one of the best-kept trade secrets in the world."

Trade secrets can overlap with patents, but they are not identical. A trade secret is any "technical or non-technical data, a formula, pattern, compilation, program, device, method technique, drawing, process, financial data, or list of actual or potential customers or suppliers" that is "sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use." Trade secrets have disadvantages – most importantly that someone who independently derives a trade secret can use it, whereas a patent can be infringed even by another inventor of the same invention.

Both a patent and a trade secret can be used to protect an invention and, oddly, in diametrically opposite ways: one protects the invention by disclosing it, and the other performs its protective function by concealing it. In this month's column, I will touch on just a few aspects of the interface between these two important forms of intellectual property. Which form should you use? How do they overlap, and what happens when you pursue both kinds of protection at once? What are the advantages and disadvantages of each? Throughout this column, I will use examples of how this choice (patent vs. trade secret) can affect your client's possible future litigation.

The first and most important consideration is the likely efficacy of the protection scheme you choose for your client. Suppose your inventor makes a product that, once made public, is easily obtainable by competitors and can be readily analyzed or "reverse-engineered." In this case, a patent may be your only avenue of protection since, if you do not obtain a patent, anyone will be able to duplicate and sell your client's invention. Take two

of our clients as examples. Each is a physician. One invented a new type of catheter for hemodialysis that allows blood to flow in two directions in the same catheter; the other, a set of instruments to install artificial knees much more accurately. Each invention qualified for protection. Although both inventions were totally unique, once sold and in use, each could easily be analyzed and then duplicated. For this reason, trade secret protection would only have been useful during the developmental stage; patent protection was crucial for the long haul.

On the other hand, another of our clients makes welding fittings, using some specialized machines. The finished fittings are made to published standards issued by regulatory bodies. These standards govern the thickness of the pipe, the kind of material used and the shape of the bevel on the end of the pipe. Examining the finished fitting alone, it would be difficult — if not impossible — to figure out how these fittings were made. In this instance, a patent is far inferior to a trade secret, since the trade secret is not revealed in the product that is sold, and because the trade secret, as opposed to a patent, has an unlimited lifetime. In addition, a patent would require disclosure of the structure and operation of the machine used to manufacture the fittings, and would therefore destroy its trade secrets.

I mentioned earlier the elaborate record-keeping that results from applying for a patent. An advantage of trade secrets is the **lack** of any administrative record that can be used to narrow the scope of the trade secret, or to create some kind of estoppel limiting its coverage. This leads to other advantages in a future lawsuit: With a trade secret, there will be no Markman hearing, no depositions of inventors, no depositions of prosecuting attorneys, no arguments about prior art, no endless quibbling over the meaning of statements in the file history, and no revision of any claim construction on appeal.

Another issue arises when an inventor with a new idea seeks to protect it using both trade secrets and a patent. The overlap must be carefully handled, and can have both good and bad consequences. In one of our cases, the inventor created a new electronic fuel-injection system for two-stroke engines used in snowmobiles. He included a "fuel map" that was used by a microprocessor in the electronic fuel injection to figure out how much fuel to inject at various throttle positions and engine speeds. This information certainly qualified as a trade secret, because prior attempts at two-stroke fuel-injected engines

failed to achieve success. It also qualified for protection under the patent laws.

In fact, our inventor got a patent. But, before we were involved in the case, he had given deposition testimony, which the defendants argued proved their “best mode” defense to patent infringement. They claimed that our inventor had withheld from his patent application what he believed to be the best fuel map for use in his invention, and that he had known at the time he filed his application what the best fuel map was. The “best mode” requirement of Section 112 of the patent statutes requires that the inventor, as part of his bargain with the public, disclose the best way he knows of practicing his invention at the time the patent application is filed. The reason for this “best mode” requirement is that, without it, the inventor would get his time-limited monopoly, but the public would not learn the best way of using the invention once the patent runs out.

The defendants in this case were successful in avoiding the patent, because they persuaded the court to enter a summary judgment of non-infringement, at which point, the case appeared to be in serious trouble. The defendants were riding high. Their minds were focused on the patent, so they failed to appreciate the risk posed by our client’s trade secrets. They even failed to seek an identification of the trade secrets before trial, and attempted to include the issue of validity of the patent in the trial. Even worse for them, the fuel map trade secret they misappropriated was exactly the one they argued was not disclosed in the patent. In backing away from the fire, they fell through a trap door. The result was a \$75 million dollar judgment in favor of our clients — the inventor and his company.

As you can see, no one — except our firm — was able to envision what the consequences of the use of both patent and trade secret protection would be. The defendants felt they had won because they used their “best mode” defense to derail the patent. They did not pay adequate attention to the fact that trade secrets existed and had been misappropriated by their engineers and business people. We thought the case was damaged by the loss of the patent, but kept on plugging. Our client won big.

There are a couple of lessons to be learned from this. First, if you opt for patent protection in preference to trade secret protection, be sure the “best mode” requirement is fulfilled. Otherwise, you are better off sticking with trade secret protection from the beginning. You may well develop trade secrets concerning the details of manufacturing models of machines embodying the invention, what are the best materials to use, and so forth. But you may later need to prove that these trade secrets were not known at the time of the original invention — something that might not be easy to do years later. Or you may have to prove that the trade secrets deal, not with the whole invention, but only with details — that is, how a person of ordinary skill in the art would implement the invention.

It is certainly possible to intelligently use multiple forms of protection. In another of our cases, our client pursued both patent and trade secret protection. (He used copyright protection as well, but that’s a subject for another day). Before filing his patent application, he disclosed his scanner radio software and circuitry to the defendants. But he did so under a confidentiality agreement that limited the use of his trade secrets to evaluation only. The agreement also required that documents

evidencing the secrets be returned upon this demand, and that our client’s permission be sought prior to any use of the trade secrets beyond evaluation.

Even though they had signed our client’s agreement, the defendant plowed ahead, using the trade secrets in its scanner radio products. We chose to leave the patent out of the case, since we doubted we could prove infringement of the carefully drawn claims. But the trade secrets were another matter. We successfully proved their misappropriation and use by the defendants, and achieved a \$2.9 million dollar award for our client. Had we tried to plead patent infringement, we might have run head-on into the argument that the patent was no good because the inventor had withheld some facts necessary to comply with the “best mode” requirement.

What are the lessons here? First, be aware of the comparative advantages and disadvantages of each kind of protection. Two, be very careful about the interface between patent and trade secret protection. Inventors have to know that when filing for a patent, they must disclose everything needed by a person of ordinary skill in the art to make and use the invention. If in doubt, err on the side of disclosure. The third lesson: if you are involved in litigation, ask yourself whether you need to plead every possible theory. If your answer is “no,” leaving out a patent, especially if the case for infringement is marginal, may be the right thing to do. The litigation will be much simpler as a result. Sometimes, especially in litigation, less is more, particularly in these days of very burdened federal courts. **IPT**