



A SPECIAL REPORT

Intersection of patents and trade secrets: often precarious

The two forms of protection can coexist, but their relationship requires a delicate balance for both to survive.

BY ALLAN GABRIEL

Patent and trade secrets law offer two legally distinct methods for protection of intellectual property. Patents provide, for a limited term, the right to exclude others from practicing the patented invention in return for the dedication of information describing and enabling the practicing of the invention to the public. Trade secrets protection affords protection against the misuse of information having independent economic value maintained in secrecy by prohibiting the use and disclosure of that information by others.

Traditionally, inventors and their employers have been faced with a decision as to whether an idea or information should be protected by means of obtaining a patent or by trade secrets law. Patents and trade secrets can coexist, but their relationship requires a delicate balance for both to survive. A legal misstep may leave only one, with the other extinguished by invalidity or disclosure.

Recent decisions in patent law have been perceived as weakening patent protection while trade secrets law is in the midst of a resurgence. Patent-eligible subject matter has been the sub-

ject of court decisions potentially circumscribing the scope of patentability. *Bilski v Kappos*, 130 S. Ct. 3218 (2010). Patents themselves are becoming harder to defend. In *KSR v. Teleflex*, 550 U.S. 398 (2007), the U.S. Supreme Court loosened the test for obviousness, a basis for rejection of inventions.

Reasonable royalty substitutes for damages are subject to defenses, gaining credence with the courts, that there is a lack of evidence demonstrating that the patented feature at issue is the sole or predominant factor in customer demand for the infringing product. Enhanced damages in the patent context are also subject to case law restriction. In *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007) the U.S. Court of Appeals for the Federal Circuit held that a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. Injunctive relief is no longer the virtually automatic result of patent infringement liability. *eBay Inc v. Merc Exchange*, 547 U.S. 388 (2006).

Trade secrets law has resisted this trend. Trade secret status can be afforded to virtually any type of information used by a busi-

ness that has sufficient economic value such that maintaining its secrecy affords advantages over competitors. Negative know-how (the road not to follow and what does not work) is protectable as a trade secret. Novelty is not required for trade secrets protection. The scope of proof of actionable misappropriation is broad. Misappropriation can be proved by circumstantial evidence. Trade secrets misappropriation damages can include both actual losses and an unjust enrichment component to the extent that it is not included in the calculation of actual damages. Willful and malicious misappropriation of trade secrets provides a basis for the trial court to award additional damages in the amount not exceeding twice the amount of compensatory damages. Finally, injunctive relief is one of the primary remedies in trade secrets cases because protecting against further or threatened misappropriation is a well-recognized mechanism to maintain secrecy and avoid further wrong.

THEIR INTERACTION, HISTORICALLY

The interaction between trade secrets and patents historically involved a perspective that precluded the simultaneous recognition of

both forms of protection for a particular subject matter. In *Stutz Motor Car v. Reebok*, 909 F. Supp. 1353 (C.D. Calif. 1995), and a number of cases thereafter, the courts have noted the general proposition that a claimed trade secret is extinguished upon the issuance of a patent. This proposition is true irrespective of whether the patent is subsequently declared invalid or whether the subject matter is disclosed, but not claimed, in the patent. It is also true for disclosure in a foreign patent, which has the same effect as disclosure in a U.S. patent. *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 587 F.3d 1339 (Fed. Cir. 2009). Furthermore, the disclosure of a supposed trade secret in a patent need not be the source of the accused misappropriator's knowledge of the secret. In *Hickory Specialties Inc. v. Forrest Flavors Int'l Inc.*, 12 F. Supp. 2d 760 (M.D. Tenn. 1998), aff'd 215 F.2d 1326 (6th Cir. 2000), the 6th Circuit upheld a finding that information disclosed in a patent is not protectable as a trade secret even if the trade secret defendant did not learn of the supposed secret from the patent, but rather through his employment with the plaintiff.

The best-mode and written-description requirements of patent law intersect with the concept of disclosure and potential loss of trade secret status. One of the acknowledged purposes of the best-mode requirement set forth in 35 U.S.C. 112 is to "prevent the simultaneous enjoyment of both patent and trade secret protection for a single invention." *Picard v. United Aircraft Corp.*, 128 F.2d 632 (2d Cir. 1942).

However, not all best-mode disclosures vitate trade secret status. In *Glaxco Inc. v. Novopharm Ltd.*, 830 F. Supp. 871, 881 (E.D.N.C. 1993), aff'd 52 F.3d 1043 (Fed. Cir. 1995), the Federal Circuit affirmed the trial court's determination that there was no failure to meet the best-mode disclosure requirement as long as the inventor discloses the best mode known to him or her and the inventor is not aware of the best mode of practicing the invention that others in his corporation are aware of. The Federal Circuit rejected the argument that looking solely to the inventor's knowledge in a best-mode analysis fosters a "head in the sand" mentality for corporate applicants.

Ironically, the modes of practicing an invention not known to the inventor, and likely reflective of the commercial application of the invention by the patentee, are both amenable to trade secret protection and insulated from an attack for failure to disclose that method pursuant to the best-mode requirement. Put another way, the commercial embodiment of an invention is not necessarily the best mode. It is not synonymous with the best mode that the patent holder offers to the public. Furthermore,

the failure to disclose a commercial mode does not automatically result in a failure to comply with the best-mode requirement. As the Federal Circuit has noted, "the best mode requirement ensures that inventors do not conceal the best mode known to them when they file a patent application, but the 'best mode' is that of practicing the claimed invention. It has nothing to do with mass production or with sales to customers having particular requirements." *Christianson v. Colt Industries Operating Corp.*, 822 F.2d 1544, 1563, judgment vacated and remanded, 486 U.S. 800 (1988), subsequent appellant opinion, 870 F.2d 1292 (7th Cir. 1989).

Neither production details nor operating conditions need necessarily be disclosed to meet the best-mode requirement, as long as the means of achieving the invented results are disclosed. *Juno Lighting Inc. v. Cooper Industries Inc.*, 17 U.S.P.Q.2d 1802, 1803 (N.D. Ill. 1990). A best-mode disclosure may be adequate even though it does not make it possible for skilled workers to duplicate the inventor's best mode. *Scripps Clinic & Research Foundation Region v. Genentech Inc.*, 927 F.2d 1565 (Fed. Cir. 1991), clarified on denial of reconsideration, 18 U.S.P.Q.2d 1896 (Fed. Cir. 1991), and overruled on other grounds by *Abbott Laboratories v. Sandoz Inc.*, 556 F.3d 1282 (Fed. Cir. 2009). In trade secrets actions, it is the method, formulation or process of the commercial embodiment of an invention that, while possibly the subject of claims in a patent and not disclosed within the patent, is often the subject matter of trade secrets litigation.

The impact of the failure to disclose best mode, while invalidating a patent, does not serve to preclude the assertion of a trade secrets claim on the very same information not disclosed in the patent that resulted in the best-mode violation. In *Hickory Specialties Inc. v. Forrest Flavors Int'l Inc.*, 12 F. Supp. 2d 760 (M.D. Tenn. 1998), aff'd 215 F.2d 1326 (6th Cir. 2000), the court held that state law on trade secrets was not pre-empted merely because "secrets" should have been disclosed under the enabling or best-mode requirements of the patent laws.

ONE RECENT CASE

The written description required by 35 U.S.C. 112 has also been subject to Federal Circuit scrutiny and it, too, has an impact on trade secrets claims. *Atlantic Research Marketing Systems Inc. v. Troy*, No. 0711576, (D. Mass. May 11, 2010), involved patent infringement and trade secrets misappropriation claims filed by a company against its former employee with a counterclaim seeking to invalidate the asserted claims on the basis of failure to comply with

the 35 U.S.C. 112 written-description and best-mode requirements.

The patentee argued and established at trial that its invention was a secret until its patent issued. According to the patentee's own arguments, the claims revealed that the inventor invented and possessed the technology, but the specification did not. The patentee sought damages for misappropriation of its trade secrets for the invention at the heart of its patent claims, but not beyond the publication date of its issued patent. The court concluded that, under the patentee's own theory, its patent cannot satisfy the written-description requirement. The court found that, based upon the inventor's own testimony, the specification did not reveal that the inventor had possession of the claimed invention as of the filing date, that the inventor and his assignee intended to hide from the world the invention that was a claimed trade secret and that the claims in the invention are invalid for lack of written description because the disclosure in the application did not reasonably convey to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date.

The inventor also admitted at trial that he had possession of the best mode for practicing his invention (not adequately disclosed by the written description) and that he deliberately kept that best mode secret, not disclosing it and instead intending to protect it as a trade secret. Thus, the court concluded that the claims at issue also failed to satisfy the best-mode requirement. The plaintiff did succeed on its trade secrets claim, with the jury returning a verdict in the plaintiff's favor for misappropriation of trade secrets and breach of fiduciary duty on the very secret that had not been disclosed in the patent, whose nondisclosure resulted in the invalidation of the asserted claims based upon failure to comply with the written-description and best-mode requirements.

The tightrope over the intersection of patent and trade secrets law may seem precarious. However, negotiating it successfully can give the intellectual property owner the best of both worlds.

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