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Paths for protecting innovation: comparing trade secrets and patents

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Scope of Protection

Venue and Jurisdiction

Curing Defects in Rights

Potential of Government Interference

Discovery Differences

Damages

Prospective and Retrospective Rights



Retrospective Rights

Trade Secret: can be shaped and expanded during litigation

Patent: limited ability to modify scope of claims during litigation

Current Rights

Trade Secret: can be amorphous and malleable

Patent: defined by claims and tied to specification

Prospective Rights

Trade Secret: can be expanded to encompass derivative works

02 Micro Intern. Ltd. v. Monolithic Power Sys., Inc., 399 F. Supp. 2d 1064, 1074 (N.D. Cal. 2005)

Patent rights defined by the claims

See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc)

Date of alleged
infringement /
misappropriation

- **Trade Secret**

- Experiments using trade secret can constitute “use” even if experiments do not yield commercial product. *02 Micro Intern. Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064, 1074 (N.D. Cal. 2005)
- Misappropriation occurs even with independent improvement to trade secret. *BladeRoom Group Ltd. v. Emerson Elec. Co.*, 331 F. Supp. 3d 977, 986 (N.D. Cal. 2018), *vacated and remanded on other grounds*, 11 F.4th 1010 (9th Cir. 2021)

- **Patent**

- Claims can potentially cover after-arising technology when “claim language does not limit the disputed phrases to any particular type of technology.” *Superguide Corp. v. DirecTV Enters., Inc.*, 358 F.3d 870, 878 (Fed. Cir. 2004)
- Literal infringement possible for after-arising technology, if claims “drafted broadly enough.” *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1371-72 (Fed. Cir. 2008) (PCR kit for hepatitis C testing found to infringe even though detection method purportedly not known by POSITAs at time application filed)

How to Protect Derivative Works?

- Patents
 - Continuations and continuations-in-part
 - 35 U.S.C. § 120
 - Risk of double patenting
 - *Gilead Scis., Inc. v. Natco Pharma Ltd.*, 753 F.3d 1208 (Fed. Cir. 2014) (later granted patent can render earlier granted patent obvious)
 - *In re Collect*, 81 F.4th 1216 (Fed. Cir. 2023) (differing PTA in family can result in ODP)
- Trade Secret
 - Keeps “priority” date for derivative works
 - Can be like a CIP prosecuted during litigation without prosecution bar

Litigation-Focused Considerations in Comparing Protection

	Patent	Trade Secret
Duration of Protection	20 years	As long as information is kept secret
Registration Requirement	USPTIO registration requirement	No registration requirement
Disclosure Requirement	POSITA can make and use invention without undue experimentation	None
Cost	Attorney + Filing fees	Maintain reasonable measures of secrecy
Venue	Federal courts, ITC	Federal courts, ITC, state courts
Risk of Loss	Inequitable conduct, laches, ODP, invalidity	Independent discovery, reverse engineering, statute of limitations
Criminal Charges	No	Yes + Seizure under criminal section of DTSA

Differences in Protections?

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Patent	Trade secret
District court 35 U.S.C. § 271 et seq	District court 18 U.S.C. § 1836(b)
ITC 19 U.S.C. § 337(a)(1)(B)	ITC 19 U.S.C. § 337(a)(1)(A)
	State court state UTSA and other trade secret statutes

Patent venue: limited under 28 U.S.C. § 1400(b):

- Defendant's state of incorporation **or**
- Any district where the defendant has a regular and established place of business

TC Heartland LLC v. Kraft Foods Group Brands LLC, 137 S.Ct. 1514 (2017)

- Defendant must have:

- **Physical** location in district
- “Regular and established” place of business; and
- Must be the place of the defendant

In re Gray Inc., 871 F.3d 1355 (Fed. Cir. 2017)

Trade secret venue: broader

- 28 U.S.C. § 1391

State Court Can Be Option

Appian Corp. v. Pegasystems Inc., No. 2020-07216 (Va. Cir. Ct.)

- Appian filed suit against Boston-based “Pega” and individual defense contractor who collaborated with Pega
- Contractor called “our spy” in Pega emails
- Appian: kept case in Virginia Circuit Court by joining contractor—who lived in VA—and only asserting state law claims
- Fairfax County, VA jury awarded Appian **\$2 billion USD** in damages

Note: diversity jurisdiction can be complex

- Question: what if both plaintiff and defendant are foreign?



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Can You Cure Defects in Ownership?

- Patent: Potentially YES
 - Assignment agreement can retroactively cure patent ownership defects
 - See, e.g., *Schwendimann v. Arkwright Adv. Coating Inc.*, 959 F.3d 1065, 1073-75 (Fed. Cir. 2020) (affirming reformation of earlier assignment contract under state law and finding plaintiff had standing to sue)
 - But inventor must cooperate
 - *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1468 (Fed. Cir. 1998) (case dismissed because co-inventor refused to join suit and then licensed his ability to do to defendant)
- Trade Secret: Potentially NO
 - *Alcatel USA, Inc. v. Cisco Sys., Inc.*, 239 F. Supp. 2d 645, 659–60 (E.D. Tex. 2002)
 - Summary judgment of no trade secret misappropriation granted where third-party employee—not plaintiff—owned copyright and exclusive right to publish alleged trade secret software

Trade Secret: Difficult to Cure Defects in Trade Secret Protection

- *Call One, Inc. v. Anzine*, No. 18-cv-124, 2018 WL 2735089, at *9 (N.D. Ill. June 7, 2018)
 - Trade secret owner failed to mark alleged trade secrets “CONFIDENTIAL” despite company policy
- *Yellowfin Yachts, Inc. v. Barker Boatworks, LLC*, 898 F.3d 1279, 1300 (11th Cir. 2018)
 - Plaintiff gave defendant access to alleged trade secret despite Defendant’s refusal to sign employment agreement
 - Plaintiff failed to mark information as confidential





□ *Hagler Sys., Inc. v. Hagler Group Glob.*, No. 120-cv-26, 2020 WL 2042484, at *9 (S.D. Ga. Apr. 28, 2020)

- Engineering files labeled “PROPRIETARY AND CONFIDENTIAL”
- Files only accessible through private database software by employees with login credentials
- Access to facilities limited to employees with RFID tags, who were monitored by security cameras
- Information only shared with customers after management approval and NDAs



□ *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198, 1206-07 (E.D. Cal. Mar. 13, 2020)

- All employees signed confidentiality agreements
- Employee handbook included clear policies
- Declaration stating that access to confidential information was on “need to know” basis



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Possibility of Government Interference

- Criminal trade secret statute 18 U.S.C. § 1832

- Criminal trade secret actions arise:

- **Sua Sponte**

- *Waymo LLC v. Uber Techs., Inc.*, 252 F. Supp. 3d 934 (N.D. Cal.), *aff'd*, 870 F.3d 1342 (Fed. Cir. 2017)

- Following denial of motion to compel arbitration, court *sua sponte* referred case to U.S. Attorney's Office. *Waymo LLC v. Uber Techs., Inc.*, No. 17-cv-939-WHA, Dkt. 428 (N.D. Cal. May 11, 2017)
 - In later criminal suit, Levandowski sentenced to 18 months in prison.

- **Following a civil suit**

- *United States v. Kolon Indus., Inc.*, 926 F. Supp. 2d 794 (E.D. Va. 2013)

- Criminal case followed verdict in civil suit that include trade secret misappropriation claims, *E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 871 F. Supp. 2d 513, 515 (E.D. Va. 2012)

- **When national security is implicated**

- *United States v. Xiang*, 67 F.4th 895, 899 (8th Cir. 2023)

- Monsanto employee sent trade secrets to personal email account before leaving to work for competitor
 - Purchased one way ticket to Shanghai day after exit interview
 - Charged with trade secret misappropriation under 18 U.S.C. §§ 1832(a)(1); (a)(5)



- DTSA provides for *ex parte* seizure in civil suits under 18 U.S.C. § 1836:
 - “[T]he court upon *ex parte* application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”

- *Shumway v. Wright*, No. 19-cv-58, 2019 WL 8137119, *3-11 (D. Utah Aug. 26, 2019)
 - *Ex parte* seizure granted where Defendants provided false and misleading information, concealed identities, and hid information.

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Differences in Discovery Rules

- Patent:
 - Vary by **District**
 - Local Rules e.g., Scheduling Order for Patent Cases (D. Del.)
 - Vary by **Judge**
 - Order Governing Patent Cases
 - Judge Albright (W.D. Tex.)
 - Judge Gilstrap (E.D. Tex.)
- Trade secret:
 - No “trade secret” local rules
 - California Code of Civil Proc. § 2019.210
 - “In any action alleging the misappropriation of a trade secret under [CUTSA], before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity”



Discovery Implications in Foreign Cases

- Compliance with foreign data laws
 - e.g., China’s Personal Information Protection Law
- Depositions
 - e.g., China does not permit taking of depositions for use in foreign courts
- Attorney-Client privilege laws
 - e.g., U.S. Courts either apply the “touch base” or “comity” approach when deciding to apply foreign or domestic privilege law
- Employee mobility
 - e.g., Statutory and non-statutory non-competes are common in China
- Preservation of data and cultural differences



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Differences in Damages

- Patent damages
 - Reasonable Royalties
 - Lost Profits
 - *VLSI Tech. LLC v. Intel Corp.*, ___ F.4th ___, 2023 WL 8360083 (Fed. Cir. Dec. 4, 2023)
 - \$2.1 billion damages award (recently set aside because damages awarded not attributable to infringement)
- Trade Secret damages
 - Actual loss
 - Reasonable Royalties
 - Disgorgement = profits + cost savings from using trade secrets
 - *Motorola Solutions, Inc. v. Hytera Commc'ns Corp.*, 495 F. Supp. 3d 687, 695 (N.D. Ill. 2020)
 - \$764 million (later reduced to \$543 million - \$272.1 million compensatory damages, \$271.6 million in punitive damages)
 - *HouseCanary, Inc v. Title Source, Inc.*, 612 S.W.3d 517, 521 (Tex. App. 2020)
 - \$235.4 million in compensatory, \$470.8 million in punitive damages (later reduced to ~\$201 million on appeal) for violation of TUTSA and other state law tort claims

