



Coexistence of Trade Secrets and Patents

Presenter: Robert Downs
January 20, 2016



Birch
Stewart
Kolasch
Birch LLP

AGENDA

- What are Trade Secrets
- Benefits of Trade Secrets
- Risks
- Background
- Recent Developments
- Relationship with Patents
- Scenarios
- Defend Trade Secrets Act of 2015

What are Trade Secrets

- (Uniform Trade Secrets Act) “trade secret” is
- information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

What are Trade Secrets

Tradeoff

- Trade Secrets protect information and resources that are secret; However, protection is lost if and when the secret becomes publically known.
- Subsequently, there are other forms of intellectual property protection including: copyright or patent protection.

What are Trade Secrets

Who owns the Trade Secret?

- new technology developed by an employee
- trade secret developed by external contractor

Benefits of Trade Secrets

- do not have a deadline for potentially getting a patent in the future on some invention embodied in the secret
- protection for proprietary information:
- e.g., specific code that is a reason for exceptional performance may be valuable as a trade secret
- especially important for trade secrets that are not susceptible to being reverse-engineered

Risks

- For many companies, trade secrets are among most valuable assets, but are vulnerable to cyberattacks, espionage, etc.
- Most corporate secrets are lost through insiders, and those having confidential access to secrets.
- With development of ubiquitous digital devices with massive storage and robust wireless communications, and sophisticated techniques for attack, the risk of accessing trade secrets has profoundly increased.

Background

- (Common Law) Evolved out of practices during nineteenth century industrialization involving transfer and sharing of secrets in business, e.g., promises of confidentiality. The beneficiary should enjoy a property right in the expectation of secrecy.
- 1939 Restatement of Torts: harmonize state common law

Background

- 1979 Uniform Trade Secrets Act
- expanded scope of protection; for example, to include negative secrets, such as results of failed experiments.
- “reasonable efforts” were made part of required proof to establish a protectable secret.
- “misappropriation” changed to more strict actionable where the actor had reason to know that acquisition had been accomplished by improper means.

Background

1996 Economic Espionage Act

- signed into law based on a particular focus on the challenge of foreign state-sponsored theft of trade secrets (e.g., via the Internet)

Background

- 2012 NSF Report
- Manufacturers were more than three times as likely as nonmanufacturers to rate patents as important to their business
- Businesses having R&D activities reported trade secrets and copyrights as particularly important to their business
- Information sector businesses rated copyrights and trade secrets as considerably more important than did businesses in the manufacturing sector.

Recent Developments

Recent calls for federal trade secret law

- it is not possible to protect trade secrets through federal law in the same way that can be accomplished by a patent, trademark or copyright, so infringement has to be litigated on a state-by-state basis
- increase in global commerce; complex supply chains
- national economy has become primarily knowledge-based
- state law is still not uniform
- economic advantages of federalization of trade secrets for businesses that heavily rely on secrecy

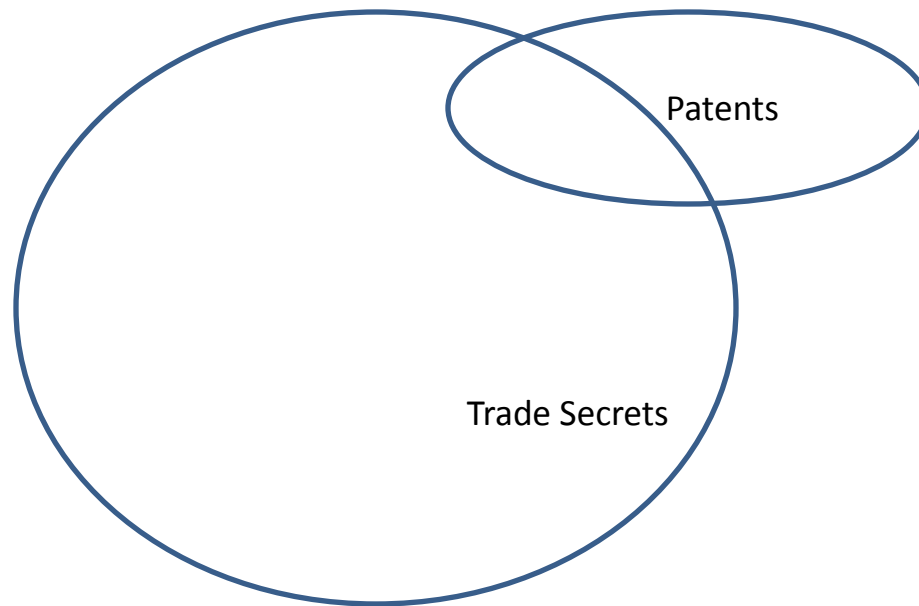
Recent Developments

- Presidents Xi (China) and Obama agreed not to conduct or knowingly support cybertheft of trade secrets; greater judicial protection
- Trans-Pacific Partnership: countries are working toward international agreement on trade secret protections
- Copyright Preemption: the federal Copyright Act preempts state law claims if those claims are brought against works falling within the subject matter of copyright

Relationship with Patents

- Myth: trade secret protection is incompatible with patent protection; if one applies for a patent, they lose their trade secret.
- Reality: *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974): patents do not pre-empt trade secrets

Relationship with Patents



Relationship with Patents

- The ideas considered in the development of a patent application start off as a trade secret.
- At some point a decision is made as to which ideas should be converted from trade secret into a patent asset, and what information remains as a trade secret.

Relationship with Patents

- Provided recent 101 decisions, patent protection has thinned.
- Trade Secret protections are on the rise with broad protection and expansive remedies for trade secret misappropriation.
- Under AIA, an accused patent infringer can now rely upon “prior user” trade secrets to defeat alleged patent infringement claims.

Relationship with Patents

- the Economic Espionage Act of 1996 was brought as a result of a realization that, at the birth of the *Internet revolution*, protection of trade secret assets was in the economic and national security interest of the United States.
- trade secret assets are continuing to increase in importance in a world that promotes “copying” technology rather than “innovation.”
- “negative knowledge” (what doesn’t work) is a critical trade secret

Relationship with Patents

Info that may not be included in patents, but may be subject to trade secret:

- preliminary ideas leading up to a patented invention; lab notebooks
- info on what failed, or what was considered
- details of particular implementation
- pending patent applications
- improvements made after filing a patent application

Scenarios

How are Trade Secrets Lost or Stolen?

- leakage to contractors, temporary workers, out-sourcing
- state-sponsored theft: money to be made in stealing high tech IP
- wireless technology: interception of communication without consent
- small data storage devices

Scenarios

- Reverse Engineering
- jailbreaking-type actions or attacks by contractors to develop clones, or competing devices
- Improper Licensing
- Inducing employees to reveal trade secrets

Scenarios

Oreo cream recipe

- Walter Liew was found guilty of economic espionage and trade secret theft after selling the oreo cream recipe to Chinese state-owned entities.

Scenarios

Oculus

- Facebook acquired Oculus in 2014 for \$2 billion
- May 2015, Total Recall Technologies (TRT) brought suit on grounds of trade secret misappropriation against Luckey (Oculus)
- 2011 contract, which included a *nondisclosure agreement* signed by Luckey to develop a prototype of a head-mounted 3D display.
- TRT alleges that Luckey took information he learned from the partnership, as well as the prototype that he built for TRT, and passed it off to others as his own.

Scenarios

- January 2016
- Luckey argued that TRT was not a party to the contract, rather, only Thomas Seidl, one of TRT's partners, entered the agreement.
- Luckey argued that TRT voluntarily sent the device to Luckey.

Scenarios

Software developer

- FBI arrested Jiaqiang Xu for allegedly stealing source code from his former employer after he had allegedly offered the trade secret to an FBI agent.
- Shortly after leaving the company, Xu stated that he was willing to consider offering up the allegedly stolen source code so that a fictitious company could develop its own platform.

Scenarios

Fitbit

- (May 2015) Jawbone sued Fitbit after its announcement of its initial public offering.
- Jawbone claimed Fitbit stole trade secrets by way of former Jawbone employees that now work for Fitbit.
- In particular, Jawbone alleges that it conducted analysis of its former employees' work computers, which revealed the downloading of confidential information and in some cases forwarded the information to personal email addresses.
- (June 2015) a week before the initial public offering, Jawbone filed a second lawsuit for patent infringement.
- (September 2015) Fitbit accused Jawbone of patent infringement.
- (December 2015) Fitbit urged the judge to give it access to sealed Jawbone documents detailing the trade secrets.

Scenarios

Company accused of misappropriating trade secret from an inventor

- Inventor presented a design to a manufacturer, and signed a Nondisclosure Agreement
- Manufacturer obtained a patent on the design about one year later
- lawsuit settled; manufacturer paid the inventor

Defend Trade Secrets Act

- Believed that time-critical nature of interstate and international misappropriation of valuable trade secret information requires an immediate and sophisticated response mechanism, and neither state law nor EEA criminal framework provides a satisfactory solution.
- Fill the gap in Copyright and Patent Federal cause of actions

Defend Trade Secrets Act

- David Kappos on behalf of the Partnership of American Innovation stating, “Trade secrets are an increasingly important form of intellectual property, yet they are the only form of IP rights for which the protection of a federal private right of action is not available. The Trade Secrets Protection Act will address this void, and the PAI supports its swift enactment.”

Defend Trade Secrets Act

Federal Courts can provide:

- transparent set of procedural rules
- resolve ex parte matters fairly, in cross-border litigation
- unified approach to discovery, when confronted with actors in multiple jurisdictions
- more predictable discovery procedures for plaintiffs

Defend Trade Secrets Act

- December 2, 2015
- Senate Judiciary Committee moved forward with hearings on the DFTA.

The End

