

# Knobbe Martens

## Knobbe Practice Webinar Series: Strategic Considerations for Trade Secrets

### Part I

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# Types of Intellectual Property

# Types of Intellectual Property

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- ❖ **Patents** - Right to exclude others from making, using, selling, importing a new and useful process, machine, manufacture, or composition of matter ([www.uspto.gov](http://www.uspto.gov))



- ❖ **Trademarks** - Right to prevent use of marks that are likely to confuse consumers; can greatly enhance marketing strategies ([www.uspto.gov](http://www.uspto.gov))



- ❖ **Copyrights** - Right to prevent unauthorized copying, distribution, etc. of original authorship works ([www.copyright.gov](http://www.copyright.gov))



- ❖ **Trade Secrets** - Protect internal methods, materials; right to prevent unauthorized use (can protect against use of proprietary information)

# Types of Intellectual Property

IDEAS

PATENTS

TRADE SECRET

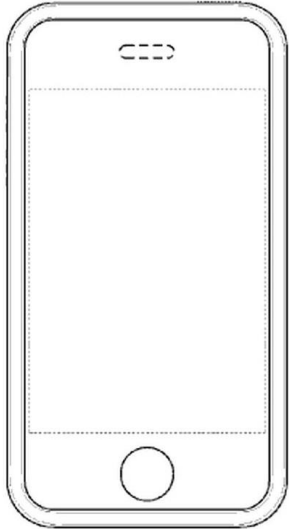
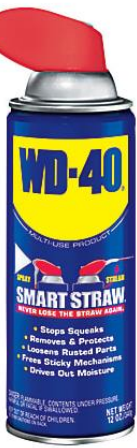
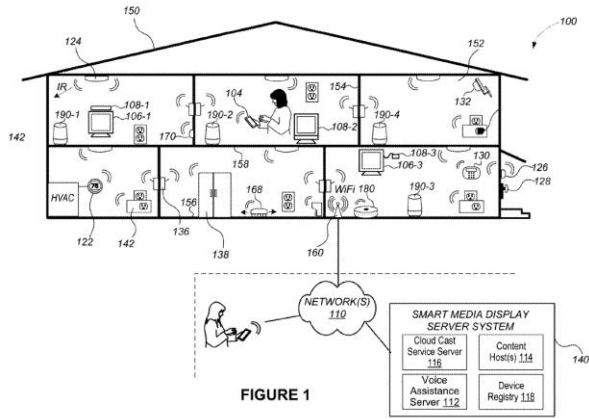
EXPRESSION

DESIGN PATENT

COPYRIGHT

BRAND NAME

TRADEMARK



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instruction 1;
instruction 2;
{other instructions.}
instruction n;

if policy_not_loaded
  report_error;
  return_default_value;
if policy_doesn't_match_DP_specification
  report_error;
  return_default_value;
if_context_unavailable
  report_error;
  return_default_value;
{other errors handled by the wrapper.}

EVALUATE_DECISION_POINT_USING_A_DCM

if valid_output
  return_policy_decision;
else
  report_error;
  return_default_value

switch(output_value)
  value_1: instruction_A;
  value_2: instruction_B;
  {other output values.}
  value_n: instruction_N;
  
```



# Fundamentals of Trade Secrets

## Characteristics of Trade Secrets

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- Information having some form of economic benefit or identifiable value to the owner
- Economic value/identifiable value is attained from information that is not known to the public or independently developed
- Owner has taken and continues to take reasonable efforts to maintain confidential nature of information

## Examples of Trade Secret Information

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- No Overlap with Patent Protection
  - Customer information/Compilation of information;
  - Membership or employee lists
  - Pricing data
  - Marketing methods
  - Sources/vendors
  - Scientific data/results

## Examples of Trade Secret Information

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- Possible Overlap with Patent Protection
  - Specifications and tolerances
  - Designs
  - Training data for AI/ML
  - Algorithms
  - Testing materials



# Benefits of Trade Secrets

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- Use/Implementation
  - No limitation of use or incorporation of trade secret into products or services
  - Value: Economic value/benefit of the trade secret can be utilized in perpetuity as long as information maintains its economic value AND confidential nature is maintained
- Enforcement:
  - State and Federal laws regarding trade secret misappropriation
    - Disclosure or use of trade secret information
    - Trade secret information was obtained improperly (e.g., espionage) or was provided with duty of confidentiality (e.g., Employee agreements with confidentiality obligation)
  - Note: Trade secret laws do not protect against deriving trade secret information by reverse engineering products/services provided by trade secret owner
  - Note: Trade secret laws do not protect against independent development

# Timing Considerations – Comparison of Patents and Trade Secret

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- Patents
  - Domestic Filings
    - Deadline: No more than one year from possible disclosure or use of inventive concept
    - Best Practices: Filing prior to any possible disclosure or use of inventive concept
    - First to File: First to file with US Patent Office will “win” between concurrently developed
    - Duration: 20 years from earliest claim priority
  - International Filings
    - Deadline: Filing prior to any possible disclosure or use of inventive concept – No one year grace period
    - Note: Rights to pursue international filings can be preserved through filing of US applications and additional IP treaties (PCT)
- Trade Secret
  - Domestic Filings (Not Applicable)
    - Deadline: There is no active trade secret registration. Establishment and preservation of trade secrets will be based on Company procedures and policies
    - Enforcement of trade secret infringement can be based on Federal Trade Secret Act or individual state versions
    - Duration: Infinite provided confidentiality is maintained
  - International Filings
    - No common international trade secret laws

# Trade Secret Misappropriation and Enforcement

# Overview of Trade Secret Misappropriation Statutes

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- **State Law:** Forty-six states had adopted some variation of the Uniform Trade Secrets Act (UTSA). The UTSA defines trade secret as information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
  - 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
  - Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- **Federal Law:** Defend Trade Secrets Law (DTSA) - 2016
  - The majority of courts have implied or even expressly held that the definition of a trade secret is the same under the DTSA and state trade secret law.
  - Many of these courts still rely on pre-DTSA state law cases in analyzing DTSA claims.
  - Note: at least one court has held that the DTSA defines trade secrets more broadly than state laws.

## Overriding General Observation for Trade Secret Misappropriation

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- Absent exceptional circumstances, no single factual component is dispositive to the outcome of the analysis. Rather, the typical trade secret misappropriation analysis involves the factually-specific consideration of a combination of:
  - the nature of the technology in question and its amenability to trade secret protection (e.g., the complexity of the technology, the public nature of product/services incorporating the technology, or the working knowledge of experts);
  - the nature and format of the trade secret information (e.g., employees hired with knowledge, exchange of technical drawings/documents, or access to facilities); and
  - the specific information regarding the development of the products/services accused of the misappropriation (e.g., substantiating independent development, successful reverse engineering, or alternative publicly available sources).

## Trade Secret Enforcement – Available Remedies

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- Actual damages suffered as a result of the misappropriation of their trade secrets
- Unjust enrichment gained by the defendant as a result of the misappropriation, to the extent it differs from the plaintiff's actual damages
- Reasonable royalty for the use of their trade secrets, in some instances
- Exemplary damages where the infringement is willful and malicious
- Attorneys' fees where the infringement is willful and malicious
- Injunctive relief

# Knobbe Martens

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## Knobbe Practice Webinar Series: Strategic Considerations for Trade Secrets

### Part II

May 26, 2022

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# Protecting Innovation as a Trade Secret

# Intellectual Property Review Committee

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- Formation
  - Decision making authority regarding execution of IP strategy
  - Representation:
    - Sales
    - Marketing
    - Engineering/Product Development
    - Management
    - Finance
    - Legal
- Meeting Frequency
  - Aligned with Company development cycle
  - Best Practice: Proactive decisions based on timing considerations for IP

# Protecting Innovation – Trade Secret vs. Patents

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## Trade Secret

- Subject Matter
  - Trade secret law protects the misappropriation of any information having economic value that is not publicly available.
  - No definition of information that is included or excluded:
    - Ideas
    - Data
    - Business Information
    - Executable Code

## Patent

- Subject Matter
  - Patent law protects ideas embodied as a new, useful and non-obvious concept(s)
  - Exclusions:
    - Pure business methods
    - Diagnostics
    - Business Information
    - Executable code (e.g., expression)
  - Scope and protection for patentable subject matter will vary by jurisdiction

### Note:

It may be possible to select a combination of patent protection and trade secret protection for different aspects of products and services

# Protecting Innovation – Trade Secret vs. Patents

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## Trade Secret

- Value Proposition
  - ROI can be based on incorporation of trade secrets in product/services for competitive advantage
  - Trade secret owner can also license third parties under duty of confidentiality
    - Technology
    - Know-How
  - Trade secret does not protect against third party infringement of patents
  - Trade secrets can be licensed as part of sales of assets (assuming confidentiality is maintained)

## Patent

- Value Proposition
  - ROI can be based on sales of product/services incorporating claimed subject matter in which patent(s) facilitate market entry or market preservation
  - Patent owner can also license third parties with no requirement of a duty of confidentiality
    - Scope of license will need to match the scope of the claims
  - Issued patents do not protect against third party infringement of patents
  - Patents are property rights that can be assigned

# Protecting Innovation – Trade Secret vs. Patents

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## Trade Secret

- Timing Considerations
  - Trade secret protection is immediate
  - Trade secrets can be licensed and used immediately
  - Trade secret misappropriation may be enforced immediately without requiring any form of registration

## Patent

- Timing Considerations
  - Patent protection requires an application and registration
  - Several time based criteria for establishing eligibility for applying for patents
  - Patent and patent applications can be licensed immediately
    - Value proposition for pending applications may be more limited
  - Enforcement limited to issued patents in appropriate jurisdiction
    - No single international patent

# Protecting Innovation – Trade Secret vs. Patents

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## Trade Secret

- Enforcement Considerations
  - No registration process for trade secrets to enforce
  - State and Federal trade secret misappropriation laws in the United States
  - No trade secret protection if:
    - Accused party can establish independent development
    - Accused party reverse engineered product
    - Trade secret becomes publicly available
  - Enforcement scope will be limited to protectable aspect(s) of the trade secret, not the product/service embodying the trade secret
  - Trade secret misappropriation may be potentially enforced internationally without individual registrations per country
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## Patent

- Enforcement Considerations
  - Only issued patents can be enforced
  - Patent infringement litigation is governed exclusively by Federal law
  - No patent protection if:
    - Time bars
    - Improper subject matter for patents
    - Prior art
    - Independent development/reverse engineering will not necessarily be a defense to patent infringement
  - Enforcement scope will be limited to claimed subject matter, not any product/service incorporating the patentable subject matter
  - Patent enforcement is limited to a single jurisdiction

# Protecting Innovation – Trade Secret vs. Patents

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## Trade Secret

- Cost Considerations
  - No legal fees or costs for trade secret protection (no active registration)

## Patent

- Cost Considerations
  - Legal fees and costs for preparing and filing individual patent applications
  - Legal fees and costs for maintained pending applications and issued patents

# Protecting Innovation – Trade Secret vs. Patents

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- Is this a feature that is discoverable in a product/service sold to the public?
- Is this a feature that can be easily reverse engineered from a product/service to the public?
- Is this a feature that competitors will be able to independently develop?
- Is this feature/product/service in a marketplace in which participants focus on patent protection?
- Is there interest in generating licensing value in the idea/concept? Does that require technical know-how?
- Is the idea/concept core to the business?



# Trade Secret Programs

## Overriding General Observation for Trade Secret Misappropriation

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- Absent exceptional circumstances, no single factual component is dispositive to the outcome of the analysis. Rather, the typical trade secret misappropriation analysis involves the factually-specific consideration of a combination of:
  - the nature of the technology in question and its amenability to trade secret protection (e.g., the complexity of the technology, the public nature of product/services incorporating the technology, or the working knowledge of experts);
  - the nature and format of the trade secret information (e.g., employees hired with knowledge, exchange of technical drawings/documents, or access to facilities); and
  - the specific information regarding the development of the products/services accused of the misappropriation (e.g., substantiating independent development, successful reverse engineering, or alternative publicly available sources).

## Offensive – Preserving Trade Secrets

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- Confidentiality must be established prior to any potential disclosure and must be maintained
- Reasonable business processes should be defined to establish and maintain confidential nature
  - Employee training
  - Audits
  - Technology implementation
- Clear and well-defined process for third-party interactions
  - Appropriate NDAs
  - Document labeling and identifiers
  - Confirmation of transmitted information
  - Logging and tracking exchange
  - Auditing third-parties

## Defensive – Managing Trade Secrets

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- Reasonable business processes should be defined to establish and maintain confidential nature of received trade secrets
  - Employee training
  - Audits
  - Technology implementation
- Clear and well-defined process for third-party interactions
  - Appropriate NDAs
  - Procedures for receiving document labels and identifiers
  - Confirmation of received information
  - Logging and tracking exchange
- Exclusions
  - Documenting independent development and isolating individuals
  - Documenting reverse engineering

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