

Litigation Strategies For When Trade Secret, Patent Converge

By **Vincent Ling** (July 16, 2020, 2:58 PM EDT)

In the digital era and against the backdrop of increasing employee mobility, trade secret law is becoming an ever more important means of protecting intellectual property.

Since the enactment of the federal Defend Trade Secrets Act in 2016, the number of trade secret cases in federal courts has risen to new levels. In the same period, patent litigation has dipped substantially, coinciding with developments in the law that have been perceived to be less favorable to patentees.



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The convergence of these trends has focused a spotlight on the interplay between patent and trade secret litigation, which businesses and attorneys alike should understand to navigate the future of intellectual property rights. This article draws on statistics to reveal litigation trends and offers examples of how patent and trade secret rights may be implicated in a case. It also examines strategic considerations based on similarities and differences between patent and trade secret litigation.

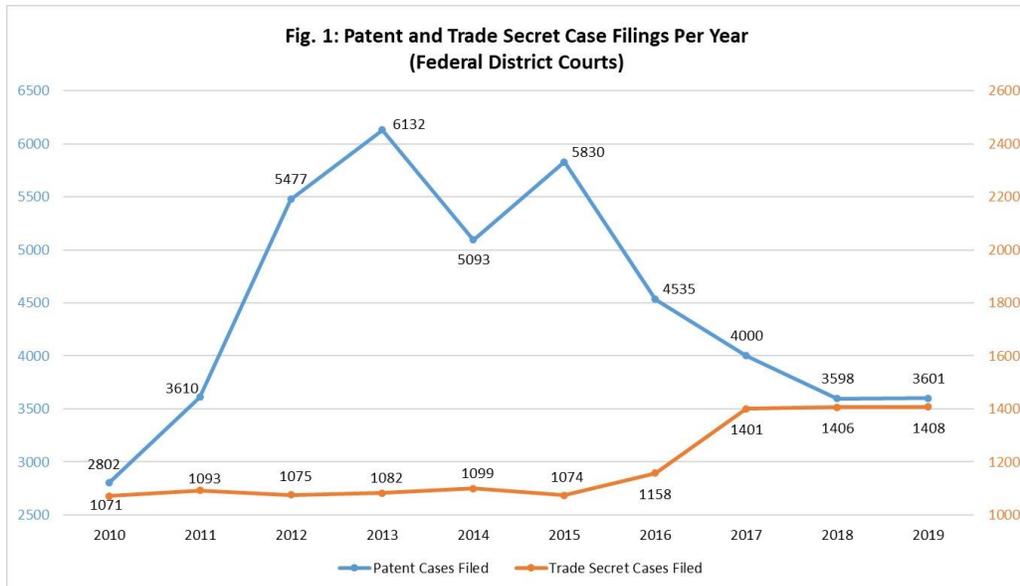
Background and Trends

Patents grant their holders the right to exclude others from using the patented invention for a specified period of time.[1] In comparison, trade secret law guards more narrowly against misappropriation and is usually not a practical option for innovations that can be easily reverse engineered.

Nonetheless, trade secrets also offer certain advantages: For instance, they can provide an indefinite competitive advantage, for as long as they remain trade secrets. They also do not need to satisfy patentability requirements. Rather, the basic requirements for trade secrets are that they: (1) are the subject of reasonable efforts to maintain secrecy; and (2) derive independent economic value from not being generally known or readily ascertainable.[2]

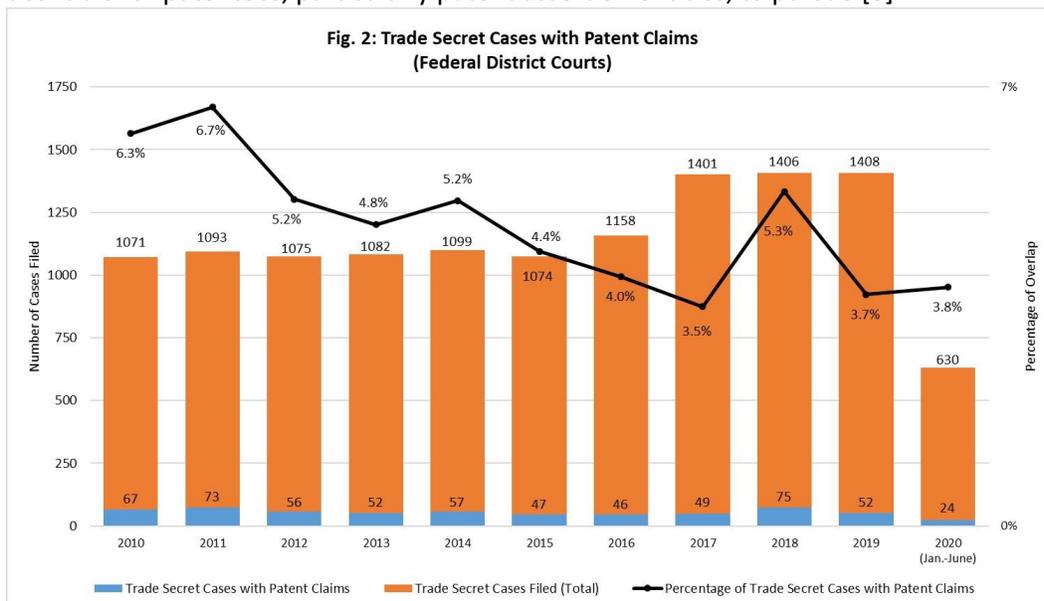
Unlike patent law, which is exclusively federal, trade secret law varies from state to state. When Congress passed the DTSA in 2016, it created a federal cause of action for trade secret misappropriation.[3] The DTSA, however, has not supplanted state law and expressly does not preempt it; rather, it has increased access to federal courts and, along with that, access to a uniform set of procedural and evidentiary rules and to a bench that more regularly handles complex litigation such as patent cases.

From 2015 to 2017, the year after the DTSA's enactment, the number of trade secret cases filed in federal courts increased by 30%. It has remained steady since then.[4] As state filing statistics are not readily available, it is difficult to determine whether those cases would have otherwise been filed in state court or, instead, represent an overall increase in trade secret litigation. Regardless, the higher volume of trade secret cases in federal courts is notable.



Meanwhile, as shown in Figure 1, the number of patent lawsuits filed in district court has decreased every year since 2015, dropping in 2019 to less than 60% of the peak level.[5] This decrease has been well-documented and attributed to several possible factors.[6] The U.S. Patent and Trademark Office's Patent Trial and Appeal Board has remained a popular venue for accused infringers to challenge the validity of patents through proceedings like inter partes review.[7]

And in the past decade, the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court have issued high-profile decisions — such as on damages, subject matter eligibility, "exceptional case" findings and venue — that some have perceived as making patent infringement litigation less desirable for patentees, particularly patent assertion entities, to pursue.[8]



The assertion of trade secret and patent claims in the same case remains relatively uncommon. A Lex Machina report from April 2020 observed that patent claims have been filed in only 4.8% of trade secret cases in federal court in the last decade.[9] A breakdown of this data, shown in Figure 2, reveals a general downward trend in the proportion of such overlapping cases.[10]

This trend is consistent with the overall decrease in patent litigation. And, in view of the concurrent rise in district court trade secret cases, it may point to a slightly growing tendency to litigate trade secret claims over patent claims when both are available.

Relationship Between Trade Secrets and Patents in Litigation

It should not be all that surprising that the vast majority of trade secret cases do not also raise patent claims. Trade secret misappropriation and patent infringement are fundamentally different theories. The former often revolves around a story of deceit, betrayal or theft, where information was acquired, used or disclosed through improper means.

These cases frequently involve ex-employees or business partners who allegedly violated confidentiality or nondisclosure agreements, making both the means of misappropriation and the underlying agreements focal points in the litigation. Such thematic elements are typically absent in patent infringement cases.

In addition, pursuing overlapping trade secret and patent theories potentially creates tension for a claimant. Patents and trade secrets are often discussed as alternatives: There is a trade-off between disclosing an invention in return for monopoly rights in a patent for a limited time, or keeping the information secret and having only the right to control its dissemination for as long as the information remains a trade secret.[11]

To be sure, patents and trade secrets may coexist in some circumstances — for example, undisclosed information learned during research and development or proprietary methods for making a patented product may still qualify for trade secret protection.

However, asserting both types of rights on closely related subject matter may invite allegations that the written description of an asserted patent should have disclosed more information or that an alleged trade secret was actually disclosed in the patent. Furthermore, a claimant generally cannot obtain a double recovery for the same injury under different theories, so there may be limited upside in pressing both types of claims for the same accused product.[12]

The intersection of trade secrets and patents also goes beyond cases in which a claimant may have both types of claims. As one example, trade secret defendants can use patents as evidence to show that alleged trade secrets have actually been disclosed publicly.[13]

As another example, a patent defendant may argue that an asserted patent was improperly obtained through trade secret misappropriation and is thus invalid.[14] A party might also seek correction of patent ownership under Title 35 of the U.S. Code, Section 256, or assignment of a patent, on the basis that absent trade secret misappropriation, it would be the true owner of the patent.[15]

Strategic Considerations in Litigation

The next section provides a brief comparison of strategic considerations in trade secret and patent litigation, which may inform what claims or issues to raise and when and where to raise them.

Variations in Substantive Law and Choice of Forum

While patent law is governed exclusively by federal law, it is important to consider the state-by-state variations in trade secret law, including in statutory definitions, statutes of limitations, preemption of common law claims and remedies.[16]

Many federal courts have thus far applied the same substantive analysis to DTSA and state law claims, citing statutory similarities, legislative intent, lack of precedent under the DTSA, or the parties' agreement that relevant portions of the federal and state laws do not materially differ.[17]

But in other instances, courts have found that the DTSA does not conform with state law in certain respects, such as extraterritorial reach.[18] Therefore, trade secret litigants should consider the contours of state law, even when not asserting a state law trade secret claim. Similarly, when asserting both DTSA and state law trade secret claims, litigants should consider whether to argue that the analysis for those claims should differ in any respect.

Furthermore, pursuing trade secret theories raises interesting strategic questions regarding the choice of forum between federal and state courts — a choice unavailable in patent infringement suits.

For example, on the one hand, a trade secret litigant may prefer federal court in order to litigate under the federal rules of procedure and evidence, draw a judge who has patent case experience, or ensure that an appeal will be heard by a federal court of appeals.

On the other hand, there may be advantages to litigating in state court. Unlike federal law, which requires jury verdicts to be unanimous unless otherwise stipulated,[19] some states allow for less than unanimous civil verdicts.[20] The parties might also consider whether the expected jury pool in state court is more favorable than in federal court and whether procedural differences could impact the likelihood of early case resolution.

Notably, if a trade secret claimant wishes to be in state court, it would not be able to assert DTSA or patent claims in the same case. On the other hand, a trade secret claimant's assertion of patent claims, when available, would further position any appeals to be heard specifically by the Federal Circuit, which may be particularly helpful if the claimant wants to rely on analogous principles from patent law.

Comparison of Inflection Points

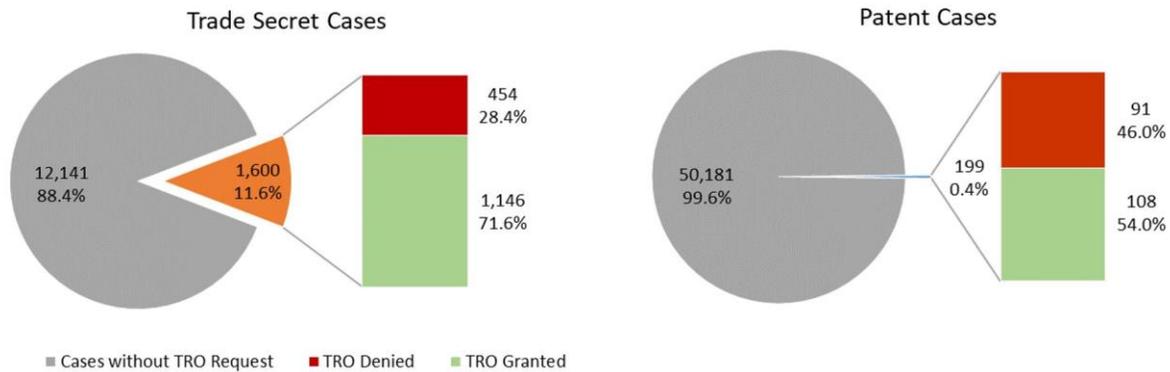
There are also several inflection points across trade secret and patent litigation that present interesting comparisons.

Early Injunctive Relief

As illustrated in Figure 3, trade secret claimants sought a temporary restraining order in almost 12% of federal cases in the last decade — about 30 times more frequently than claimants in patent cases

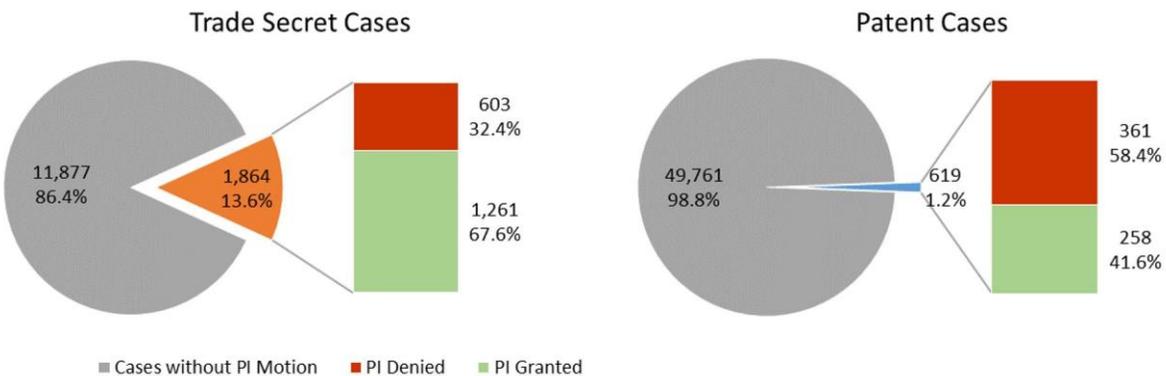
(0.4%). Courts also granted TRO requests in federal trade secret cases at a higher rate (71.6%) than in patent cases (54.0%).[21]

Fig. 3: TROs in Federal Court, 2010–June 2020



In addition, as shown in Figure 4, trade secret claimants moved for a preliminary injunction in almost 14% of federal cases, more than 10 times as often as patent claimants (1.2%).[22] Federal courts granted more than 67% of those motions in trade secret cases, compared to about 42% in patent cases. The Lex Machina data did not reveal any significant change in these rates following the enactment of the DTSA.

Fig. 4: Preliminary Injunctions in Federal Court, 2010–June 2020



One explanation for the differences in frequency and outcome of early injunctive relief is that trade secret claimants may more often be able to present a narrative of deceit and theft, especially involving ex-employees, when discussing the equities. Courts may also be more willing to find a likelihood of irreparable harm — one of the prerequisites to early injunctive relief — in trade secret cases than in patent cases.

For instance, some courts have opined that the loss of a trade secret from improper public disclosure in particular cases would not be measurable by monetary damages.[23] A claimant may also be able to show irreparable harm in the form of loss of good will, loss of long-term investment or unfair competitive advantage that cannot be assigned monetary value.[24]

The strength of the argument for early injunctive relief might increase as well when a trade secret claimant crafts its request for injunctive relief narrowly, such as prohibiting the use of a particular USB device containing allegedly stolen materials.

Streamlining Discovery

Procedures for streamlining discovery provide another opportunity for parties to narrow issues in both patent and trade secret cases. Many district courts, for instance, have adopted local patent rules to force parties to show their cards well before trial, including by identifying infringement and invalidity contentions on a claim limitation-by-claim limitation basis.[25]

Similarly, some courts have required the identification of alleged trade secrets with reasonable particularity before allowing discovery related to the trade secrets, to reduce inefficiencies in discovery and avoid surprises later in litigation. California is so far the only state to have a statutory requirement for such trade secret identification.[26] But Delaware,[27] Florida,[28] Massachusetts,[29] New York[30] and North Carolina[31] state courts have adopted similar requirements through case law.

Some federal judges have cited a growing consensus of courts from around the country for requiring claimants to identify trade secrets with reasonable particularity as a way to control the timing and sequence of discovery.[32] And some have been willing to diverge from their state court counterparts on this issue.[33]

Trade secret litigants thus should be prepared to litigate the scope of alleged trade secrets relatively early in a case and to understand how a court may be inclined to rely on a requirement for trade secret identification or other mechanisms to narrow issues in a case.

Trial

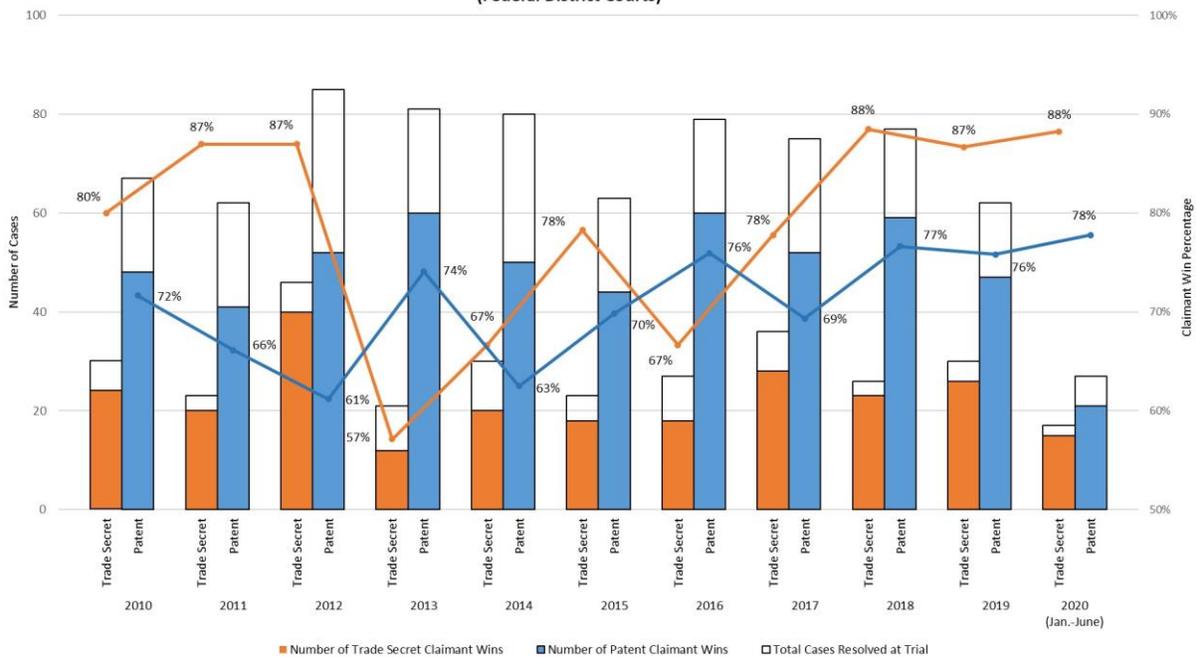
A trade secret misappropriation claim brings a risk that proprietary information may be disclosed during litigation, particularly at trial. A claimant should weigh this risk, which is usually less of a central concern in patent litigation, as trial approaches.

Once at trial, the misappropriation theme in a trade secret case can be powerful. As noted above, the claimant's theory in a misappropriation case is often one of unethical conduct — conduct that would involve individual actors, not just faceless corporations.

The impact of this theme may be reflected in the win rate at trial for trade secret claimants, which has been higher than for patent claimants in almost every year of the past decade, shown in Figure 5.[34] In the last three years, that win rate (upwards of 87%) has been about 10 percentage points higher than for patent claimants.

This phenomenon might be partially explained by the fact that a patent defendant may advance multiple invalidity challenges and need prevail on only one to defeat the patent claim. Furthermore, jury instructions in patent cases are commonly longer and more complex than in trade secret cases, and simpler instructions may favor plaintiffs to the extent they reduce jury confusion.

Fig. 5: Proportion of Claimant Wins in Cases Resolved at Trial (Federal District Courts)



Note that the statistics in Figure 5 include only cases that made it past summary judgment and reached a trial result, and they exclude post-trial motions and appeals. For trade secret cases terminated in the same period — Jan. 1, 2010 through June 30, 2020 — Lex Machina data show that the overall win rate on the merits in federal court was about 13% for trade secret claimants compared to 6% for patent claimants, and about 3% for trade secret defendants, compared to 4% for patent defendants.

Outside of resolution on the merits, more than two-thirds of both trade secret and patent cases appear to have been resolved through settlement, with the remaining cases resolved on procedural grounds.

Of course, there may be additional inflection points in both trade secret and patent cases. The comparisons highlighted above, though, are worth considering in developing a strategy for resolving trade secret and patent litigation.

Conclusion

While trade secret and patent protections are different in many respects, it is important to consider their interplay in litigation, particularly in view of recent trends and the expanded availability of federal courts for trade secret litigation. How federal courts, particularly those with substantial patent dockets, handle trade secret claims will continue to be of great interest to litigants and practitioners alike.

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[1] 35 U.S.C. §154(a).

[2] See 18 U.S.C. §1839(3); Uniform Trade Secrets Act §1(4).

[3] 18 U.S.C. §1836(b)(1).

[4] See, e.g., Rachel Bailey, Lex Machina Trade Secret Litigation Report 3, Figs. 1, 2 (Jason Maples ed., Apr. 2020) [hereinafter Lex Machina 2020 Trade Secret Litig. Rep.].

[5] Figure 1 was compiled from data and categorizations on Lex Machina's platform, for cases filed between January 1, 2010, and December 31, 2019. The graph uses proportional vertical axes to allow for relative comparison.

[6] See Geneva Clark, Lex Machina Patent Litigation Report Fig. 1 (Rachel Bailey & Jason Maples eds., Feb. 2020) [hereinafter Lex Machina 2020 Patent Litig. Rep.]; Q1 2020 Patent Dispute Report, Unified Patents (Mar. 31, 2020), <https://www.unifiedpatents.com/insights/2020/18/q1-2020-patent-dispute-report>.

[7] See, e.g., Clark A. Jablon, *Is the Sky Falling in the US Patent Industry?*, informationdisplay.org (May/June 2020), <https://onlinelibrary.wiley.com/doi/epdf/10.1002/msid.1116>.

[8] See, e.g., *id.*; Christopher J. Hamersky, *Fiddling with Federal Circuit Precedent: The Commercial and Qualitative Impact of Recent Supreme Court Reversals on the U.S. Patent System*, 30 Fordham Intell. Prop. Media & Ent. L.J. 935 (2020).

[9] Lex Machina 2020 Trade Secret Litig. Rep. at Fig. 4. Lex Machina defines a "patent case" as "[a] case with one or more claims involving patent infringement, invalidity, or unenforceability." Lex Machina 2020 Patent Litig. Rep. at 37.

[10] Figure 2 was compiled from data and categorizations on Lex Machina's platform, for actual cases filed in each calendar year between 2010–2019, as well as between January 1 and June 30, 2020.

[11] See Theory and Benefits of Patent Protection, 2 E-Commerce and Internet Law 8.02 (Apr. 2020 update).

[12] See *Tex. Advanced Optoelectronic Solutions, Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1328 (Fed. Cir. 2018).

[13] See, e.g., *Accent Packaging, Inc. v. Leggett & Platt, Inc.*, 707 F.3d 1318, 1329 (Fed. Cir. 2013); *Big Vision Private Ltd. v. E.I. DuPont De Nemours & Co.*, 1 F. Supp. 3d 224, 269–72 (S.D.N.Y. 2014), *aff'd*, 610 F. App'x 69 (2d Cir. 2015).

[14] See, e.g., *Leap Wireless Int'l, Inc. v. MetroPCS Commc'ns, Inc.*, No. 06-240, 2007 WL 541428, at *4–5 (E.D. Tex. Feb. 15, 2007) (holding that trade secret counterclaim in patent infringement suit was compulsory).

[15] See, e.g., CODA Dev. S.R.O. v. Goodyear Tire & Rubber Co., 916 F.3d 1350, 1359 (Fed. Cir. 2019) (concluding correction-of-inventorship claims pled alongside trade secret claims were plausible).

[16] See Trade Secrets, 50 State Statutory Surveys: Intellectual Property: Trademarks and Trade Secrets, 0120 SURVEYS 3 (Dec. 2019); Sid Leach, Anything But Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act (2015).

[17] See, e.g., Zirvi v. Flatley, 433 F. Supp. 3d 448, 464 (S.D.N.Y. 2020) (noting that courts in S.D.N.Y. "often use New York state law cases when discussing misappropriation claims under the DTSA because the Second Circuit Court of Appeals has not yet addressed the DTSA in a reported opinion and the requirements are similar under state and federal law"); Alta Devices, Inc. v. LG Elecs., Inc., 343 F. Supp. 3d 868, 877 (N.D. Cal. 2018) ("The elements of misappropriation under the DTSA are similar to those under the [California Uniform Trade Secrets Act]" (internal quotation marks and citation omitted)); Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp., No. CV 16-2499, 2017 WL 1105648, at *7 (E.D. Pa. Mar. 24, 2017) ("Congress intended the DTSA to apply in substantially the same way as the states' trade secrets laws, but with a much broader geographic and jurisdictional reach."); Kuryakyn Holdings, LLC v. Ciro, LLC, 242 F. Supp. 3d 789, 797 (W.D. Wis. 2017) ("[T]he parties agree that substantively the UTSA and DTSA are 'essentially the same,' and that courts may look to the state UTSA when interpreting the DTSA." (citations omitted)).

[18] See, e.g., vPersonalize Inc. v. Magnetize Consultants Ltd., No. 2:18-CV-01836-BJR, 2020 WL 534505, at *13 (W.D. Wash. Feb. 3, 2020) (analyzing extraterritorial reach of DTSA claim and state-law claim separately).

[19] Fed. R. Civ. P. 48(b).

[20] See, e.g., Cal. Const., art. I, §16 (requiring 3/4 jury vote for civil verdict in California); N.Y. C.P.L.R. §4113(a) (requiring 5/6 jury vote for civil verdict in New York); Tex. R. Civ. P. 292 (allowing 5/6 jury vote for civil verdict in Texas in some circumstances).

[21] Figure 3 was compiled from data and categorizations on Lex Machina's platform, for cases pending between January 1, 2010 and June 30, 2020.

[22] Figure 4 was compiled from data and categorizations on Lex Machina's platform, for cases pending between January 1, 2010 and June 30, 2020.

[23] See, e.g., N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38, 49 (2d Cir. 1999) ("[L]oss of trade secrets cannot be measured in money damages' because '[a] trade secret once lost is, of course, lost forever.'").

[24] Melvin F. Jager, Irreparable harm, 2 Trade Secrets Law §7:5 (Apr. 2020 Update).

[25] See Robert A. Matthews, Jr., 1 Annotated Patent Digest § 2:25 (June 2020 update).

[26] See Cal. Code Civ. Proc. §2019.210.

[27] SmithKline Beecham Pharm. Co. v. Merck & Co., 766 A.2d 442, 447 (Del. 2000).

[28] AAR Mfg., Inc. v. Matrix Composites, Inc., 98 So. 3d 186, 188 (Fla. Dist. Ct. App. 2012).

[29] Alnylam Pharm., Inc. v. Dicerna Pharm., Inc., No. 15-4126, 2016 WL 4063565, at *2 (Mass. Super. Apr. 6, 2016).

[30] MSCI Inc. v. Jacob, 36 Misc. 3d 211, 213 (Sup. Ct. 2012).

[31] Analog Devices, Inc. v. Michalski, 579 S.E.2d 449, 453 (N.C. Ct. App. 2003).

[32] Vesta Corp. v. Amdocs Mgmt. Ltd., 147 F. Supp. 3d 1147, 1153 (D. Or. 2015) (quoting StoneEagle Servs., Inc. v. Valentine, No. 12-1687, 2013 WL 9554563, at *2 (N.D. Tex. June 5, 2013)).

[33] Compare Powerweb Energy v. Hubbell Lighting, Inc., No. 12-220, 2012 WL 3113162 (D. Conn. July 31, 2012), with Edgewell Pers. Care Co. v. O'Malley, No. X08FSTCV176038381S, 2019 WL 7425133, at *5 (Conn. Super. Ct. Nov. 15, 2019); compare Cvent, Inc. v. RainFocus, Inc., No. 17-00230, 2019 WL 7837157, at *2 (D. Utah Apr. 4, 2019), with USA Power, LLC v. PacifiCorp, 2016 UT 20, 372 P.3d 629, 649 (2016).

[34] Figure 5 was compiled from data and categorizations on Lex Machina's platform, for cases terminated between January 1, 2010 and June 30, 2020.