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FEATURE

Trade Secret Litigation Is Different: Should Patent Law Concepts Be Imported?

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Trade secret theft is on the rise, due in large part to the immense value of information in the modern economy and its relative ease of movement across national boundaries and oceans. Regular headlines relate to cyber espionage and trade sanctions for technology theft. The thieves—sometimes state-sponsored—often do not even try to hide their intention, which is to acquire technology and information without the time and cost of research, development, and ramp-up. Against this backdrop, trade secrets have emerged as a critical part of asset protection. Trade secret litigations can be among the most newsworthy—often with civil and criminal elements—and have resulted in very large damage awards.

Patent litigation has been aggressively pursued by companies for decades, and, as a result, many litigants, attorneys, and judges in the technology litigation space are far more familiar with patent litigation procedures than with trade secret litigation. On the surface, the two may not appear so different. Indeed, the technology in a trade secret case about a formula, process, or software can look like the technology in a patent case. And litigants are picking up on that.

We are seeing increasing efforts to import patent law concepts into trade secret cases in incongruous ways. For instance, borrowing concepts from patent litigation, some argue that before discovery can begin, trade secret owners must: identify their trade secrets with patent-like specificity; “chart” the individual elements of their trade secrets and identify aspects of those trade

secrets that may already be in the public domain; and litigate only a subset of “representative” trade secrets. These are just a few examples of ideas now percolating in district courts throughout the country.

Trade secrets and patents, however, are fundamentally different. Patent-litigation concepts are often ill-suited to trade secret cases. Though patents and trade secrets are both used to protect innovations, the similarities between the two are limited, and indeed, patent litigation procedures can be antithetical to the fair and efficient handling of trade secret disputes. Courts and litigants should be aware of these differences, as well as the dangers of conflating the two areas of law.

Trade Secrets and Patents Are Fundamentally Different

It has been said more than a few times that only trade secrets and patents protect ideas. And it is a truism of intellectual property law that every patent begins its life as a trade secret. While true, these statements suggest a false identity between trade secrets and patents that can be misused as a basis for parallel litigation procedures.

Trade Secrets Cover a Far Broader Scope of Information Than Patents

Patents protect inventions, but trade secret law protects information.¹ While in some circumstances trade secret formulas and processes can look very much like patented inventions, trade secrets also cover business plans, customer lists, and pricing and supply information that has not been traditionally thought of as intellectual property, and indeed may have more in common with tangible property in some instances.² Trade secrets may even include the concept of “negative know-how”—i.e., information about what does *not* work. Trade secrets, therefore, encompass an incredibly broad body of information extending far beyond the types of inventions that are patentable.

Trade Secrets and Patents Are Generated Differently

Unlike patents, trade secret law does not purport to serve a public policy purpose through public disclosures. Rather, the existence and value of trade secrets fundamentally depends on secrecy. Thus, there is no public document, and no equivalent of government-issued patent claims, prescribing the scope of a trade secret. Rather, a trade secret’s existence is sometimes not realized until it has been misappropriated, and enforceability is often established for the first time in court.

Patents, on the other hand, are fundamentally different because they serve a public policy goal through public disclosure, and they are issued officially by a governmental body—the U.S. Patent and Trademark Office (USPTO). At the USPTO, an inventor must publicly disclose the invention in an application and then publicly prosecute that application to obtain a patent. Along the way, the applicant must demonstrate that the invention is novel, nonobvious, useful, and sufficiently described in the patent specification. When the USPTO issues a patent, the inventor obtains the right to exclude others from practicing the patented invention for a limited time, and the patent is presumptively valid (while still subject to court challenge). Then the patent holder has rights against anyone who practices the invention, regardless of how they developed it or their intention. None of this holds true for trade secrets.

Trade Secrets Confer Narrower Exclusionary Rights Than Patents

Trade secret misappropriation occurs only through the unlawful acquisition, disclosure, or use of the trade secret owner's information. Thus, one who independently develops information is not liable for misappropriation, even if that information matches exactly a trade secret held by another. Indeed, two or more people can hold the very same information as a trade secret simultaneously. Trade secret law, in other words, protects only against theft (or breaching confidence or exceeding authority), not against reverse engineering or independent development. Due in part to these limitations, trade secret owners often seek to bolster their rights by insisting on confidentiality agreements as a condition to sharing their information.

This is in stark contrast to patents. Practicing a patented invention is a strict liability offense. A patent owner has the right to exclude others from practicing the disclosed invention, even where the accused infringer arrived at the invention by reverse engineering or independent development.

Trade Secret and Patent Cases Are Litigated Differently

Given some of these differences between patents and trade secrets, it is not surprising that the two are litigated in significantly different ways.

Trade Secret and Patent Litigations Start in Different Ways

Trade secret litigation usually arises with a breach of confidentiality. Often, the party whose confidentiality has been breached does not yet know what information has been taken and may

only know that some information was transmitted under suspicious circumstances, such as files being printed, purged, sent outside the company, or downloaded. In such circumstances, only the alleged wrongdoer will know what was taken or used, and only discovery will reveal what information is really at issue.³ The alleged breach of confidentiality may also constitute a breach of contract, such that both a trade secret and a contract claim can be advanced simultaneously.

In contrast, patent litigation begins with a more concrete understanding of the alleged intellectual property at issue and alleged wrongdoing. Patent cases often begin when the patent holder learns, through the public release of a product, that another entity is practicing the patented invention. The patent holder can then meticulously compare the accused product or method with the patent claims and identify which claims are allegedly infringed. The asserted patent claims, which were already issued by the USPTO and are presumed valid, determine the scope of intellectual property to be enforced. The accused products or methods determine the nature and scope of the alleged infringement.

Trade Secrets Are Not Presumed to Exist or to Be “Valid”

In court, the plaintiff must show that its information meets the requirements of a trade secret under applicable statutory or common law. The existence of a trade secret is therefore determined by the judge or a jury, often as late as summary judgment or trial.

In contrast, a patent case begins with an already issued patent that is presumed valid. This presumption of validity may be tested through a federal district court case or, more recently, through the inter partes review (IPR) process—a process by which the USPTO reconsiders patentability. But in patent litigation, the existence of the plaintiff’s asserted rights is not considered for the first time in court as it is in trade secret cases.

Trade Secrets Are Not “Construed”

There is no requirement to “construe” trade secrets. Indeed, the meaning of the secret is not often the central issue in a trade secret case. The key issues, rather, are typically whether and how the information was acquired, disclosed, or used, and the value of that information. To the extent that the meaning of the secret or an applicable contract must be interpreted in order to decide the case, this is often done on summary judgment or at trial.

Patents are again distinct in this regard. Because patents grant the right to exclude, courts are careful to determine appropriate limitations on the scope of the patentee's rights early in the case. The key example of this is claim construction. In most patent cases, the court will "construe" the asserted claims during discovery to solidify the scope of the invention for the rest of the case.

Efforts to Import Patent Practices into Trade Secret Cases

The discussion above demonstrates just some of the many differences between trade secret and patent cases. Surprisingly, courts and litigants have sought to import three ill-fitting approaches from patent litigation into trade secret litigation.

Pre-Discovery Trade Secret Identification

Patent litigation begins with the assertion of allegedly infringed patent claims that have already been issued by the USPTO. Mirroring the concreteness of asserted patent claims, some argue that a trade secret holder must identify its asserted trade secrets with patent-like specificity before discovery can begin. For instance, in some states, including California, discovery cannot proceed until the plaintiff has identified its trade secrets with "reasonable particularity." Case law in other states supports a pre-discovery identification practice, with varying rules as to the required level of specificity. Though trade secret identification is an important part of trade secret litigation, this process often turns into a satellite litigation that delays discovery and the resolution of the case's merits. Such delay may be unwarranted when the plaintiff has substantial evidence of misappropriation but requires discovery to learn what secrets specifically were taken. Moreover, the court is not confirming the rights already established at the USPTO in a trade secret case. Those rights are to be established in court for the first time, if at all.

Pre-Discovery Trade Secret "Charting"

In patent litigation, patent holders are often required to submit charts comparing each element of the asserted claims with the corresponding alleged infringing element of the accused product. Similarly, the accused infringer is often required to submit charts comparing each asserted prior art reference with the element of the asserted patent claims that it contends are anticipated or obvious. These documents are often exchanged during discovery.

Taking this practice and accelerating it, some trade secret litigants have asked courts to require, *before* discovery, that trade secret owners "chart" their trade secrets, identifying separately the

aspects of each trade secret that are either innovative or are a unique combination of information in the public domain. There is an incongruity here: the proof required for patent infringement or invalidity is distinct from that required for trade secret misappropriation. Patent litigation requires the patent holder to show infringement, whereas trade secret misappropriation may be established by acquisition, disclosure, or use. And there are real risks that this exercise and its resolution can take months and proceed without sufficient targets or boundaries. Delaying discovery to engage in this process may be imprudent when discovery itself is the proper avenue to determining the acquisition, disclosure, or use.

“Representative” Trade Secrets

It is common for a patentee to assert multiple claims from multiple patents in a single litigation. Courts and litigants have recognized the expense and complication that can result from litigating so many claims, especially for the purposes of presenting the case to a jury. Thus, courts sometimes require plaintiffs to limit their case to “representative claims”—a subset of allegedly infringed patent claims that presumably adequately represent the full scope of the plaintiff’s patent rights. Courts impose the representative claims requirement at various phases of litigation, including before claim construction, before trial, or both. The theory underlying this practice is that if a defendant infringes one claim, it often does not matter how many other claims are infringed, and the plaintiff should thus “pick its best” claims on which to proceed.⁴

Similarly, in some cases involving numerous asserted trade secrets, litigants have argued that the plaintiff should have to reduce the number of asserted trade secrets in order to streamline the case. The stage of the case at which “representative trade secrets” are chosen may inform whether or not the effect is merely “streamlining” versus curtailing the plaintiff’s rights. For example, at the start of a case, selecting representative trade secrets may be nearly impossible, given the number of trade secrets that can be at issue and the need for discovery to determine the scope of any misappropriation.

Yet, litigants have made this argument at various phases of trade secret cases, including prior to or early in discovery. For example, in one case in the Northern District of California, the magistrate judge ordered that discovery could not be conducted on thousands of trade secret schematics, and must be limited instead to a representative subset thereof.⁵ After discovery, the defendant moved in limine to exclude any evidence regarding the nonrepresentative trade secrets. The court rejected this argument, holding that the magistrate’s order was merely a discovery order, not

a dispositive exclusion of the plaintiff's other trade secrets.⁶ In other cases, however, courts have indeed ordered the reduction of trade secrets for dispositive purposes.⁷

Requiring the selection of representative trade secrets under the wrong circumstances can curtail the trade secret owner's ability to enforce its rights to all misappropriated information. This risk is elevated when the alleged trade secrets relate to a wide variety of information, a risk that may not be as substantial in a patent case where all asserted claims relate to a single invention. The exercise may also make no sense where the assertion of multiple trade secrets does not materially add to the issues to be considered in the case.

Practices to Be Considered

Trade Secret Identification Should Be Harmonized with Discovery

At some point in every case, a plaintiff must identify its trade secrets. Doing so serves the important function of providing the defendant notice of the scope of its alleged wrongdoing. But this seemingly simple provision of notice is not so straightforward. Trade secrets are, by definition, secret. This creates a problem unique to trade secret litigation—the information at issue cannot be identified in a public complaint without destroying its trade secret status. Moreover, as noted above, at the outset of a trade secret case, the plaintiff often knows only that some breach of confidentiality has occurred but cannot learn what information has been taken or how it has been used until conducting discovery. Overly rigid and exacting procedures for trade secret identification are in some cases akin to demanding that the victim of a burglary provide a definitive and final list of everything that was stolen before being allowed to view the items found in the burglar's possession. In many cases, this does not make sense.

By requiring a trade secret plaintiff to identify its trade secrets with particularity prior to discovery, and limiting the plaintiff's case to those trade secrets identified with such particularity, courts may limit protection of other trade secrets where misappropriation comes to light in the course of discovery (or would have come to light but for limited discovery). This risk increases when courts restrict plaintiffs' ability to amend their trade secret identifications during discovery. Additionally, the notion that highly specific trade secret identification streamlines cases may be an overstatement, given potential satellite litigation regarding identification. Faced with early and binding trade secret identification requirements that can delay a case for months, some litigants have wondered if they should not just drop their trade secret claims and proceed purely with a

parallel breach of contract case. That would be an odd result from widespread adoption of early trade secret identification.

There are other ways to afford defendants sufficient notice of the trade secrets at issue without causing undue delay or curtailing the plaintiff's rights. Some courts permit plaintiffs to set forth *categories* of trade secrets and the circumstances of the misappropriation, without treating specific trade secret identification as a gate to discovery. Courts can also require trade secret identification in response to interrogatories (including the right to supplement), contemporaneously with other discovery. Active management of the docket is necessary to ensure that the proper discovery is provided at the appropriate times.

Another approach would be requiring a "trade secret identification" category of initial disclosures.⁸ Fittingly, Federal Rule of Civil Procedure 26(a)(1)(E) requires only that a party disclose "information then reasonably available to it" and permits relatively free amendment. Rule 26 therefore harmonizes nicely with the realities of trade secret litigation, and its application to trade secret identification would not preclude plaintiffs from listing categories of information and proceeding to discovery in cases where the defendant exclusively possesses the details of the misappropriation.

The Aims of Trade Secret "Charting" Should Be Addressed through Standard Procedure

Requiring pre-discovery trade secret charts (i.e., requiring the identification of the aspects of each asserted trade secret that are innovative or a unique combination of public information) can also be imprudent as a gate to discovery. Unchecked, this requirement can force the trade secret owner to begin proving its claim, specifically its possession of a trade secret meeting the governing legal definition, before proceeding to discovery. This approach conflates the pleading stage of the case with summary judgment.

However, egregious deficiencies in the plaintiff's allegations in the complaint that it owns trade secrets can sometimes be addressed on a motion to dismiss. The nature of and proof of the asserted trade secrets can be further explored in discovery, including through interrogatories targeting the information that would be included in a trade secret chart. Whether the asserted trade secrets meet the applicable legal standard can be finally decided either on summary judgment or at trial. The issue of "secrecy" does not warrant a departure from these well-

established procedures, and attempts to short circuit this process by requiring proof prior to discovery will in many cases be imprudent and cause undue delay.

“Representative Trade Secrets” Should Not Be Required Prematurely

Like patents, trade secrets have been described as property rights meriting constitutional due process protection.⁹ The constitutional concerns¹⁰ with respect to representative patent claims therefore apply with equal force to trade secrets. This risk increases where a plaintiff is ordered to reduce its trade secrets prior to discovery. Given that a plaintiff may not know the scope of misappropriation at the outset, there is a risk that the representative trade secrets will not adequately represent the entire scope of information that the defendant misappropriated.

Also, requiring the reduction in the number of asserted trade secrets does not always aid case management, especially prior to discovery. In practice, reducing the number of trade secrets does not guarantee a reduction in the amount of discovery.

Litigation can be organized and streamlined without requiring a plaintiff to limit the number of asserted trade secrets early in the case. Where a plaintiff asserts a multitude of trade secrets, they can often be grouped into manageable categories, which may often set appropriate boundaries for discovery and provide sufficient notice to the defendant of the plaintiff’s allegations. Plaintiffs can be further limited by restrictions on the number of discovery requests to be served and depositions to be taken. At the summary judgment phase, plaintiffs are limited by restrictions such as briefing page limits and argument time limits. And few savvy litigants will proceed to trial on hundreds of trade secrets that cannot be easily grouped, unless truly necessary. Doing so might not only confuse the jury but also create a daunting problem in apportioning damages.

Conclusion

The recent surge in trade secret litigation has revealed a need for procedures to manage the unique challenges of those cases. Though it may be tempting to fill the gaps with existing patent procedures, this is not a panacea, and imposing such procedures prior to discovery creates heightened risks. As explained above, though trade secrets and patents are both used to protect innovations, they are fundamentally different and are litigated very differently. Therefore, the effort to improve trade secret procedures should not be approached as a repurposing of patent concepts, but rather should recognize and address the unique function of trade secret law,

including the importance of discovery in trade secret cases. With this approach, practical concepts can be tailored to ensure that the fair and robust enforcement of trade secrets is possible.

Endnotes

1. Trade secrets are defined by the Defend Trade Secrets Act as “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing” if the owner “has taken reasonable measures to keep such information secret” and “the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” 18 U.S.C. § 1839(3).
2. Although tangential to this article, there is debate about whether or not trade secrets are really intellectual property. Indeed, before the rise in trade secret litigation, this area of law was often referred to as “trade secrets and noncompetes” and was more closely associated with employment disputes than intellectual property.
3. Courts have often recognized this reality. *See, e.g.*, *St. Jude Med. S.C., Inc. v. Janssen-Counotte*, 305 F.R.D. 630, 640 (D. Or. 2015); *BioD, LLC v. Amnio Tech., LLC*, No. 2:13-cv-1670-HRH, 2014 WL 3864658, at *5 (D. Ariz. Aug. 6, 2014); *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007).
4. Despite this being a relatively common practice, courts have cautioned that the practice of representative claims could encroach on patentees’ constitutional due process and jury trial rights. *See, e.g.*, *In re Katz Interactive Call Processing Pat. Litig.*, 639 F.3d 1303, 1311–13 (Fed. Cir. 2011); *Sherwin-Williams Co. v. PPG Indus., Inc.*, No. 2:17-cv-01023-JFC, 2018 WL 6732883, at *4 (W.D. Pa. Nov. 14, 2018).
5. *Via Techs., Inc. v. ASUS Comput. Int’l*, No. 14-cv-03586-BLF, 2016 WL 5930280, at *3 (N.D. Cal. Oct. 12, 2016).

6. *Via Techs., Inc. v. ASUS Comput. Int'l*, No. 14-cv-03586-BLF, 2017 WL 3051048, at *2 (N.D. Cal. July 19, 2017).

7. *See, e.g., TNS Media Rsch., LLC v. TRA Glob., Inc.*, 977 F. Supp. 2d 281, 313 (S.D.N.Y. 2013).

8. This is already happening in certain federal district courts under the Mandatory Initial Discovery Pilot Project, a three-year study authorized by the Judicial Conference of the United States, to determine whether requiring parties in certain civil cases to respond to a series of focused and mandatory discovery requests, before undertaking further discovery, will reduce the delay and cost currently associated with discovery. This approach replaces initial disclosures with seven discovery requests intended to accelerate the disclosure of relevant information, such as relevant documents, facts, legal theories, witnesses, and agreements.

9. *Zotos Int'l, Inc. v. Kennedy*, 460 F. Supp. 268, 273 (D.D.C. 1978) (“The Court finds that a trade secret is a property interest within the scope of the Due Process Clause of the Fifth Amendment.”).

10. *See supra* note 4.

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