



Klarquist

Utility Patent Or Trade Secret?

Klaus Hamm

November 1, 2017

PATENT

TRADE SECRET

WHICH IS BETTER?

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974)

PATENTS

Chief Justice
Burger (majority):

“Trade secret law provides far weaker protection in many respects than the patent law.”

TRADE SECRETS

Justice Marshall
(concurrence):

“State trade secret law provides substantial protection to the inventor . . . protection which in its unlimited duration is clearly superior to the 17-year monopoly afforded by the patent laws.”

HISTORY

PATENTS

- 1400s in England & Italy
- U.S. Constitution (Art. I, § 8, Cl. 8)
- Federalist No. 43 (Madison)
- 1790 patent act
- Jefferson & Washington signed patents
- Edison, Bell

TRADE SECRETS

- Roman slave law?
- Early 1800s common law
- 1939 Restatement
- 1979 UTSA
- Economic Espionage Act of 1996
- 2016 Defend Trade Secrets Act

HISTORY

**ADVANTAGE =
PATENTS**

PRESTIGE

PATENTS

- Certificate
- \$ Bonus
- CV
- Valuation

TRADE SECRETS

- “Top secret”

PRESTIGE

ADVANTAGE =

PATENTS

PUBLIC PURPOSE

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974)

PATENTS

- “To promote the progress of science and useful arts,...” Art. 1, § 8, Cl. 8
- Encourage innovation by patentees
- Encourage innovation by third party innovators

TRADE SECRETS

- Encourage innovation
- Commercial ethics
- “A most fundamental human right, that of privacy...”

PUBLIC PURPOSE

ADVANTAGE =

BOTH

PROPERTY

PATENTS

- “A patent is property” *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933)

TRADE SECRETS

- Dissent (Douglas): “A trade secret, unlike a patent, has no property dimension.” *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974)
- “[T]rade-secret property right under Missouri law . . . is protected by the Taking Clause of the Fifth Amendment” *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984)

PROPERTY

ADVANTAGE =

BOTH

SOURCES OF LAW

PATENTS

- Complex
- Federal statute
- CFR; MPEP; USPTO guidance
- Case law: federal courts, PTAB, ITC
- Federal Circuit

TRADE SECRETS

- State law
 - Uniform Trade Secrets Act
 - Other state law
- Federal statute
- Many courts of appeals

SOURCES OF LAW

**ADVANTAGE =
PATENTS**

WHICH LAW PREVAILS?

PATENTS

- Does not preempt trade secrets law
Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974)
- Preempts conflicting state law
Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989)

TRADE SECRETS

- Does not preempt patent law
- § 1838: DTSA does not preempt state law (except whistleblower)
- State trade secret law preempts “conflicting” state law
 - ORS 646.473: preemption
 - ORS 646.461: exception for contract, criminal, public entity

WHICH LAW PREVAILS?

ADVANTAGE =

NEITHER

SECURING RIGHTS

PATENTS

- §§ 111-115
- Average time: 25.3 months
- Cost: \$10K+

TRADE SECRETS

- § 1839(3)(A): reasonable efforts to maintain secrecy
- Alarms, ID badges, firewalls, passwords, fences, contracts, etc.

SECURING RIGHTS

**ADVANTAGE =
TRADE SECRETS**

KEEPING RIGHTS

PATENTS

- § 282: presumption of validity
- PTAB/Federal Court
- Prior art (§§ 102, 103)
 - *Helsinn v. Teva* (Fed. Cir. 2017)
- §§ 101, 112 invalidity
- Maintenance fees
- Expiration

TRADE SECRETS

- Disclosure
 - No NDA
 - Filings
 - Patent application
- Previously known
- No maintenance fees, expiration

KEEPING RIGHTS

ADVANTAGE =

PATENTS

SCOPE

PATENTS

- § 101: “any new and useful process, machine, manufacture, or composition of matter”
- “[I]mplicit exception: Laws of nature, natural phenomena, and abstract ideas” *Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014)

TRADE SECRETS

- § 1839(3): information that “derives independent economic value, actual or potential, from not being generally known...and not being readily ascertainable”
- “all...types of financial, business, scientific, technical, economic, or engineering information, including...”
- DTSA: “whether tangible or intangible”

SCOPE

ADVANTAGE =

NEITHER

DEFINING COVERAGE

PATENTS

- During prosecution
- Claims
- *Markman*

TRADE SECRETS

- No Need
- Licensing
- Litigation
 - Cal. § 2019.210
 - FRCP 26
 - *Iqbal/Twombly*

DEFINING COVERAGE

**ADVANTAGE =
TRADE SECRETS**

DURATION

PATENTS

- Expires 20 years from filing

TRADE SECRETS

- Indefinite
(until disclosure)

DURATION

**ADVANTAGE =
TRADE SECRETS**

EXCLUSIVITY

PATENTS

- Exceptions: License, dueling patents

TRADE SECRETS

- Not exclusive
- ORS 646.461/§ 1839(5)
 - Reverse engineer
 - Independent development

EXCLUSIVITY

ADVANTAGE =

PATENTS

GEOGRAPHIC REACH

PATENTS

- § 271(a): “makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States”
- § 271(f): exporting components
- § 271(g): importing product by process
- PCT; foreign patents

TRADE SECRETS

- State law – in state harm
- Federal law
 - § 1836 permits suit regarding a trade secret “related to a product or service used in, or intended for use in, interstate or foreign commerce”
 - § 1837 applies to conduct outside U.S. if (a) U.S. party or (b) act in furtherance in U.S.

GEOGRAPHIC REACH

ADVANTAGE =

TRADE SECRETS

LITIGATION COST

PATENTS

- <\$1m at risk: \$873k
- \$1m-\$10m at risk: \$2.2m
- \$10-\$25m at risk: \$3.5m
- >\$25m at risk: \$6.3m

\$\$\$\$

TRADE SECRETS

- <\$1m at risk: \$516k
- \$1m-\$10m at risk: \$1.2m
- \$10-\$25m at risk: \$1.9m
- >\$25m at risk: \$4m

\$\$\$

LITIGATION COST

**ADVANTAGE =
TRADE SECRETS**

VENUE

PATENTS

- Federal court only
 - “No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents...” § 1338
- § 1400(b) venue limitation. *TC Heartland LLC v. Kraft Food Brands LLC* (2017)
- Federal Circuit only. § 1295

TRADE SECRETS

- Federal court: federal and/or state claims (supplemental or diversity jurisdiction)
- Broad § 1391(b) venue
- State court: state and federal claims

VENUE

**ADVANTAGE =
TRADE SECRETS**

WHO CAN SUE?

PATENTS

- **Constitutional standing: only owner and exclusive licensee**
- **“Prudential standing”:** must join all potential plaintiffs

TRADE SECRETS

- **§ 1836(b)(1): “owner”**
- **§ 1839(4): “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed”**
- **State law: “possession of the secret, not the possession of some abstract or academic legal right of ownership in the secret”**

WHO CAN SUE?

ADVANTAGE =

?

STATUTE OF LIMITATIONS

PATENTS

- § 286: 6 years damages
- No “true” statute of limitations
- Laches rare. *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC* (2017)

TRADE SECRETS

- § 1836(d) & ORS 646.471: 3 years from discovery or reasonably should have discovered
- “continuing misappropriation constitutes a single claim”
- Laches rare

STATUTE OF LIMITATIONS

ADVANTAGE =

PATENTS

PROVING LIABILITY

PATENTS

- **Infringement**
 - § 271: make, use, sell, offer to sell, import, certain exports
 - All elements/DOE
 - Strict liability
- **Inducing & contributory**

TRADE SECRETS

- **Misappropriation**
 - Acquiring, disclosing, using through improper means (theft, bribery, misrepresentation, breach duty/contract, espionage)
- **Scienter: knowledge or reason to know**

PROVING LIABILITY

ADVANTAGE =

PATENTS

REMEDIES

PATENTS

- Damages
- Enhanced damages
- Injunction
- Attorneys' fees

TRADE SECRETS

- Damages
- Enhanced damages
- Injunction
- Attorneys' fees
- Seizure

REMEDIES

ADVANTAGE =
TRADE SECRETS

DAMAGES

PATENTS

- **§ 284**
 - “in no event less than a reasonable royalty”
 - “damages adequate to compensate for the infringement” (lost profits)
- **Trebling (willful)**
- **§ 287: marking hurdle**

TRADE SECRETS

- **ORS 646.467:**
 - “not be less than a reasonable royalty”
 - “damages adequate to compensate for misappropriation” (lost profits)
- **+ Punitives 2x (willful/malicious)**
- **Unjust enrichment**

DAMAGES

**ADVANTAGE =
TRADE SECRETS**

OVERALL

PATENTS

- Prestige/History
- Reverse engineering protections
- Exclusivity
- No scierer requirement

TRADE SECRETS

- Cheap/easy to secure rights
- Non-patentable subject matter
- Indefinite duration
- Litigation advantages: cost, venue, remedies

OVERALL

ADVANTAGE =

IT DEPENDS

Klarquist

One World Trade Center
121 SW Salmon Street, Suite 1600
Portland, Oregon 97204

P: 503.595.5300

F: 503.595.5301

www.klarquist.com

