Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 95

Jordan Grotzinger: Welcome to episode 95 of the Trade Secret Law Evolution podcast. Here with my partner, Tom Pease out of our New York office. And although we've done this 94 times, this is the first time in front of a live audience. So this should be fun. And we're going to revisit a subject that we've addressed on [00:00:30] the podcast before, but it's been years. And that subject is choosing between patent and trade secret protection. The biggest change in that world since the last episode on that subject was AI, which we will cross today as we discuss that choice. So Tom, why don't you introduce yourself and say a few words about what you do in your practice?

Tom Pease: Yeah. So I'm Tom Pease. I'm a shareholder at Greenberg Traurig in the New York office. I've been practicing 32 years [00:01:00] and I've done primarily patent and trade secret litigation. But over the last three to five years, I've really developed a sub-practice in working with startups to help them build and develop IP portfolios. And these are startups from startups at the very seed capital stage to those that have gotten $300 million funding rounds. And so, one of the gating questions we're typically dealing [00:01:30] with is, do we seek patent protection? Do we seek trade secret protection? Where do we draw the line and how do we think about it?

Jordan Grotzinger: Thank you. You look good for 32 years of practice. I'm not going to date myself. And because we have an audience, I don't usually do this, but I'll briefly introduce myself. I'm Jordan Grotzinger. I co-chair the Los Angeles litigation department at Greenberg Traurig, and most of my practice is trade secret related. We've been doing this podcast for seven years. Seven [00:02:00] years ago, there wasn't really regular audio content that one could listen to on a commute, which kept you up to speed at a high level. So we created it and we're approaching 100 episodes. We've been downloaded in 70 countries. So I hope you had your coffee and enjoy. Okay. So Tom, at the highest level, what's the difference between patent protection and trade secret protection?

Tom Pease: Okay. So they're both types of intellectual property. [00:02:30] Patent protection, you're getting a limited monopoly for a period of time. You get the right to exclude others from making, using or selling your invention, but you're also disclosing in a way that people can make real use out of your invention. So you're putting something in the public domain. Trade secret is something that derives its benefit from being secret. You get independent economic value out of it and the whole point is that you're not disclosing it the way you [00:03:00] would with patent.

Jordan Grotzinger: So has AI changed the analysis in terms of the choice of those two kinds of protection or is it just the same old, do we choose trade secrets or patents?

Tom Pease: I think fundamentally it's the same analysis. AI introduces nuance and complexity to the questions you're looking at. And those questions are inherently factual, but at bottom you are looking at, do I want to put this in the public domain through [00:03:30] a patent or is it something I think can realistically be kept secret?

Jordan Grotzinger: At a high level, what are the legal sources of patent law versus trade secret law?

Tom Pease: So patents come directly from the Constitution and then there's the Patent Act 35 USC that sets forth the laws relating to how patents work. And then you have an entire administrative superstructure laid over it where you have the patent office. Trade secrets originally came from the common law. [00:04:00] You now have the Uniform Trade Secrets Act, which is implemented in every state across the United States except for two. And even more recently you have the Defend Trade Secrets Act, the DTSA, which is federal and overlaps to a great extent with what you already have in the UTSA, but with a new federal commerce or foreign commerce component to it.

Jordan Grotzinger: And DTSA is 10-years-old now, but interestingly, the UTSA, which I don't think has been [00:04:30] revised or materially revised for over 30 years, there are some changes being contemplated and I believe Ken and a co-panelist are going to address those pending changes in this conference. So we'll look forward to that. Okay. I'm a trade secret guy. Basically what I know about patents is what's written in this thing. So I'm going to ask you some questions about patents. You could do the same for me relative to trade secrets. [00:05:00] First, what's the quid pro quo built into patent law?

Tom Pease: The quid pro quo, the bargain is one that the public benefits from. So yes, you're getting this limited exclusion for a period of years, but you get that in return for disclosing your invention in a way that others who are skilled in that art can make use of. You're giving a disclosure that someone can use to make [00:05:30] and use that invention. And so that's the quid pro quo. You're benefiting the public by placing that invention out there.

Jordan Grotzinger: What does it take to get a patent? What are the hurdles?

Tom Pease: So you've got to file a patent application. To obtain a patent, it's got to be patentable subject matter as they say. So it's got to be a new machine manufacturer composition process. It can't be directed to an abstract idea, [00:06:00] a law of nature, a natural phenomenon. So you've got to have patentable subject matter and then you've got to meet the statutory requirements. It's actually got to be new. It's got to be useful. It's got to be non-obvious over what's already known out there. And then you've got to meet certain description requirements. You've got to actually describe your invention and you've got to do it in a way, like we said, that's what they call enabling. It allows people to make and use that invention.

Jordan Grotzinger: [00:06:30] I've heard there's a significance to 18 months in patent law. What is that?

Tom Pease: It's a complicated procedure. You can file what's called a provisional application and that can be kept secret if you don't turn it into a real application. But once you file a so-called real application, after 18 months, it's typically going to be published unless you intervene to ask that it not be published and you've got to meet certain hurdles to do that. Or there's a secrecy order, which is very, very unusual. It's going to be out there. And so [00:07:00] you should have in mind when you're seeking patent protection that what you write up, what you describe as your invention is actually going to be out there in the public domain after some period of time. And that's typically 18 months.

Jordan Grotzinger: What does an IP owner get for choosing patent protection?

Tom Pease: They get a number of things. I mean, number one, they get, as we said, the right to exclude. They get an asset that they can either sell or monetize or license. We sometimes talk about it as erecting a moat. You're creating a moat that can [00:07:30] keep others who would otherwise come in and take your invention at bay. You can hold them off if you've got sufficient patent protection.

Jordan Grotzinger: For a period of time.

Tom Pease: For a period of time.

Jordan Grotzinger: And that, so you've kind of gone over some of the pros of patent protection. What are the cons?

Tom Pease: Well, the con, which is palpable here as we're talking about trade secrets is you're taking your invention and you are describing it in a way that anyone can learn it. You've got to [00:08:00] know that what you've described is going to be in the public domain, and at some point people will be free to use it. And frankly, people might be free to use it from the start if they think they can't get caught. And so that's a calculus that you have to think about.

Jordan Grotzinger: So today in 2026, if someone publishes a patent application, are they effectively feeding AI systems? And is that a good or a bad thing or it depends, like any good lawyer would say?

Tom Pease: Yeah, [00:08:30] I think it does depend, but I do think you should assume that the second your patent application is published, that it's being ingested into the LLMs. Every single LLM that's out there is monitoring patent filings around the world and ingesting them. And so it is very quickly going to be gobbled up, so to speak. And so there's no way to get it back.

Jordan Grotzinger: Do you think, because this relates to a question you'll probably ask me, but do you think there will be some [00:09:00] reforms to address that happening? I

mean, that sounds like an inherently scary thing for potential patent owners that AI sees everything, gobbles it up, learns faster than us and goes on to the next step or a hundred steps way more efficiently than humans can. Do you see developments in the law that might address that?

Tom Pease: People are talking about it. I've had conversations with people at the patent office and [00:09:30] people working closely with the patent office and its directors and they are talking about are there things that can be done to stop that? Although I don't think there's any real movement to prevent the publication of patent.

Jordan Grotzinger: All right. Want to talk about trade secrets?

Tom Pease: Why don't we start from the beginning and what makes something a trade secret? What do you need to show?

Jordan Grotzinger: So the DTSA, the Federal Defend Trade Secrets Act, which is largely parallel to the UTSA, and in my opinion, quite substantively [00:10:00] parallel to the two states that don't adopt the UTSA. A trade secret can be almost any kind of information as long as it's subject to reasonable measures to keep it secret and not generally known or readily ascertainable by proper means. I like to say that in a little more plain of a way, which is a trade secret can be basically anything as long as it's secret, valuable because it's secret [00:10:30] and subject to reasonable measures. And I said, the second element that I recited under the DTSA, let me expand on that a little bit. It's reasonable measures, number one. And number two, it has independent economic value because it's not generally known or readily ascertainable by proper means.

That independent economic value element, again, just speaking a little more plainly for me, I think it basically means [00:11:00] it's something that's valuable because it's secret. Now those are two separate components, value and secrecy as the Comet Technologies Court discussed in the episode we recently did, Greg, but with respect to independent economic value for trade secret purposes, they're really intertwined. And I believe that in the plainest of English, that just means that the thing is valuable [00:11:30] because of its secrecy. So there has to be both value and secrecy baked into the IP. So to sum up, it's anything that's secret, valuable because it's secret and subject to reasonable measures to keep it that way.

Tom Pease: With patents, you have a patent office that decides whether something's patentable and then issues a patent. I'm assuming there's nothing like that in a trade secret context, is that right?

Jordan Grotzinger: That's right. And you could say that's one of the pros of choosing trade secret protection instead [00:12:00] of patent protection. Number one is you never have to disclose it. You can keep it secret as long as you can keep it secret. We all think about the most famous trade secret, the formula for Coca-Cola, been

secret for over a hundred years. I'm sure the company plans to keep it that way for hundreds of more years, but I hear we only have a decade maybe more, so it's moot. So you never have to disclose a trade secret, [00:12:30] which is a potential pro. There is no duration to the protection, unlike with patent protection, which does have a time limit. Also, because you don't have to lawyer up ... Well, I shouldn't say that. Not the same way you do for patent protection. You don't have to file an application, you don't have to prepare documentation.

So in terms of cost and speed, if your thing is secret and valuable because it's secret and it hasn't been disclosed, you can immediately [00:13:00] say this is a trade secret as long as you immediately implement reasonable measures to keep it secret. Another pro is there are strong remedies for misappropriation, unjust enrichment, actual damages, if not duplicative, injunctive relief and double damages if the misappropriation was willful. And if none of those quite fit, you can also, if you're a plaintiff, get a reasonable royalty. So the remedies menu is quite [00:13:30] robust.

Tom Pease: So in a patent context, you do have these delays. You have to file. And so you're saying you can go right to the gate. As soon as you sense that someone's misappropriated your trade secret, you can go after them at that point.

Jordan Grotzinger: Well, you got to start thinking about it before the misappropriation. What I was talking about is designating something a trade secret as opposed to patenting it, which makes the probably secret part public. You [00:14:00] definitely don't wait until misappropriation. If you've got a piece of intellectual property that's secret, valuable because your competitors don't know about it and it hasn't been disclosed, you can say right then, "Okay, we're going to treat this as a trade secret." What you have to do right then is implement reasonable measures to keep it secret, not perfect measures. Misappropriation doesn't destroy the trade secret status. In fact, there are remedies which I discussed, but reasonable measures. [00:14:30] And the way I like to think about reasonable measures, which has been touched on in some of the panels this morning, is it really falls into four buckets, contracts and corporate policies, technology.

Those two might be the most important these days. Physical, lock the office, lock the drawers. We had a lawyer that I met at one of these conferences a couple of years ago who [00:15:00] works for a space company and she was telling me about their. I mean, warehouse doesn't do it justice, but this giant property with these machines that the company doesn't want other people to see. So that's a perfect example of where actual physical protection comes in. The property has to be guarded. And bucket number four is education and training. You need to regularly educate and train your employees [00:15:30] to know about their confidentiality obligations and know how to treat secret intellectual property.

Tom Pease: We've used the term misappropriation quite a bit and the corollary in the patent land is infringement. What is misappropriation? What do you have to show?

Jordan Grotzinger: So misappropriation is, so broadly it's acquisition use or disclosure, and also broadly, it's when it's done [00:16:00] or happens wrongfully. So if someone acquires somebody else's trade secret and they know it's somebody else's trade secret, that's misappropriation. If someone uses or discloses somebody else's trade secret and they knew or should have known that it was somebody else's or they got it by mistake, that can be misappropriation. So in sum, it's some combination of wrongful acquisition use or disclosure, that's [00:16:30] misappropriation.

Tom Pease: So in that sense, it's a little bit different than patents where patents, you can innocently infringe a patent. You might never have known, you might have independently developed that technology that happens to infringe and that's still infringement. It sounds like it's a little bit different in the trade secret context.

Jordan Grotzinger: It's a little bit different, although it's somewhat that innocence part is a little bit overlapping too. For example, mere possession of somebody else's trade secret is not by itself misappropriation. [00:17:00] There's got to be another fact that gives the person or company that received it knowledge that they shouldn't have it or some sort of evidence showing culpability.

Tom Pease: Now, in the context of the benefits of pros of trade secret protection, how would you think about it in the context of the companies I represent, for example, the AI startups? How should they be thinking about trade secret protection and whether it's a benefit [00:17:30] to them?

Jordan Grotzinger: Well, I think that depends on the asset, right. Did you say AI startups?

Tom Pease: Yeah.

Jordan Grotzinger: Yeah. So AI startups, I think what I've read anyway is that those companies are designating certain processes and methodologies and algorithms as trade secrets for the reasons I said it's good to get a trade secret, right. You don't have to disclose it. The secrecy lasts forever if you [00:18:00] implement effective enough measures and it doesn't cost anything to file an application. But I think the answer to that question is it does depend on the asset.

Tom Pease: So what are the cons of trade secrets? What are their downsides?

Jordan Grotzinger: So the downsides are, there are a few. Number one, it doesn't protect against innocent inventions. So [00:18:30] if Greg has a trade secret, but I had independently invented the same thing, he can't sue me. So innocent invention is not protected against. Relatedly, and as we've addressed in the panels,

reverse engineering is an exception to misappropriation. If you can unpack the asset and figure out by yourself without stealing somebody else's secrets how to make something, that [00:19:00] is not misappropriation. And of course, in the AI age, AI has supercharged the ability to reverse engineer and the law is going to have to catch up, otherwise the exception is going to eat the rule. And as the last panel started to discuss, I think the law has already began that discussion in the Compulife case from 2020, which involved the technological process of [00:19:30] scraping data. The defendant in that case argued that, "Hey, anybody can scrape. I scraped. I got it. So it came from the public, so it's not secret."

And the court said, "Not so fast." The court said "not so fast" because it said that, "By using scraping, you were doing something that perhaps wasn't humanly possible," and that relates to the requirement that a secret can't be readily ascertainable [00:20:00] by proper means. So I think the law, starting with cases like Compulife, is going to have to address AI, and specifically if the use of AI to reverse engineer is or is not acquisition by proper means. My prediction is that it must be limited, otherwise you're going to have a whole class of assets with no real limit that will just be [00:20:30] stripped of potential trade secret protection because AI can reverse engineer it.

And I don't see the courts letting that happen to such a broad extent, but we'll see. It's why evolution is a word in our title and we'll follow that. More cons. If you lose the trade secret, it's permanent. So there's no going back. If it's out in the public, it is no longer secret from that point forward. [00:21:00] There's a statute of limitations, generally three years. And lastly, as we've discussed, there is an ongoing burden. Even though you don't have to pay money or file an application like you do in patent, what you do have to do, and as a practical matter, what costs time and money is implementing and enforcing your reasonable measures to keep the IP secret. That has to be forever. And if that stops, it's not [00:21:30] a secret anymore. So those I would say are the cons.

Tom Pease: Just from my own experience, I've seen instances in working with companies where they have these great policies in place and they certainly go through the motions of protecting them, but then you have a rogue employee or two who heard the CEO say something positive about open source commitments and now is feeding those secrets into open source communities or posting them online. So my take on that, and I'm curious [00:22:00] what your reaction is, you've always got to be vigilant. Even when you have everything written down, everything seems like it's perfectly in order. There are things that could be happening that you're unaware of that you've got to be on top of and keep those trade secrets intact.

Jordan Grotzinger: You're absolutely right. And to your example about the rogue employee overhearing a conversation and then improperly using secrets, yeah, that's a problem, but it doesn't necessarily mean [00:22:30] that there's no more trade secret. The test is reasonable measures, not perfect measures. The law recognizes that misappropriation can happen, and if it does, there are remedies, but your measures have to have been reasonable. So in your example, we don't

know enough to say whether the measures were reasonable. If that company had all the policies, the contracts, the employee handbook [00:23:00] clauses, the confidentiality clauses, the education and training, the password protection, et cetera, et cetera, the more the better when it comes to reasonable measures. So maybe that's actionable, maybe not. What's the first question you ask a startup founder when they come to you with a new AI related innovation?

Tom Pease: I don't start immediately with patentability. It's more about visibility. Because [00:23:30] to take a step back, my take on this, having gone through this exercise many times now, is that the innovations that that particular business have may be both patentable and subject to trade secret protection. And the question is, where do you draw the line? And the way to resolve that, or at least think about it, is what is going to be readily accessible to people out there, especially with the benefit of AI tools? [00:24:00] What can people figure out from just looking at your product?

What can people figure out from using it or looking at your documentation? If people can figure it out, then it's likely going to be in your interest to seek patent protection on that feature so you can get build a moat and you can exclude others from using it. On the other hand, if it's something that you can truly keep secrets, such as model weights for an LLM, [00:24:30] and you're sure you can keep it secret, then you should feel comfortable protecting it as a trade secret, but then make sure you walk through all the steps you just discussed, Jordan, so that you don't inadvertently undo that protection.

Jordan Grotzinger: Okay. As usual, we could keep talking, but we do have an agenda, so let's wrap it up. Give me a one-liner to summarize patent protection.

Tom Pease: You get strong limited protection for a period of time, but the quid pro [00:25:00] quo is you're putting your invention in the public domain so others can use it.

Jordan Grotzinger: And I guess for trade secret protection, it would be disclose nothing potentially forever, but you only get to protect against theft and not against honest discovery and low upfront costs, but a continuing cost for maintaining those reasonable measures. So let's wrap it up. Thank you, Tom. Thanks for everybody that attended. [00:25:30] This was great. I hope you found it interesting. The bread and butter of our podcast is to go over developments in the law, but every few episodes we have an industry voices series where I'll have an in-house counsel on to discuss some issue related to trade secrets. So if you're interested in coming on, please contact me, and thanks very much. Until next time, I'm your host, Jordan Grotzinger.