

Proactively Protecting Trade Secrets: Cautionary Tales and Takeaways

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ROADMAP

1. Identification of trade secrets
2. Strategies for protection
3. Claims when trade secrets are used inappropriately
4. Case, criminal, and regulatory developments
5. Key takeaways



1. IDENTIFICATION OF TRADE SECRETS

- “Sufficiently secret to derive economic value . . . from not being generally known . . . [by competitors].”
- “Not generally known to others who could benefit from using it.”
- “Even a slight competitive edge . . . ”
- “...independent financial value or that provides a business advantage insofar as such information is not common knowledge or readily accessible.”

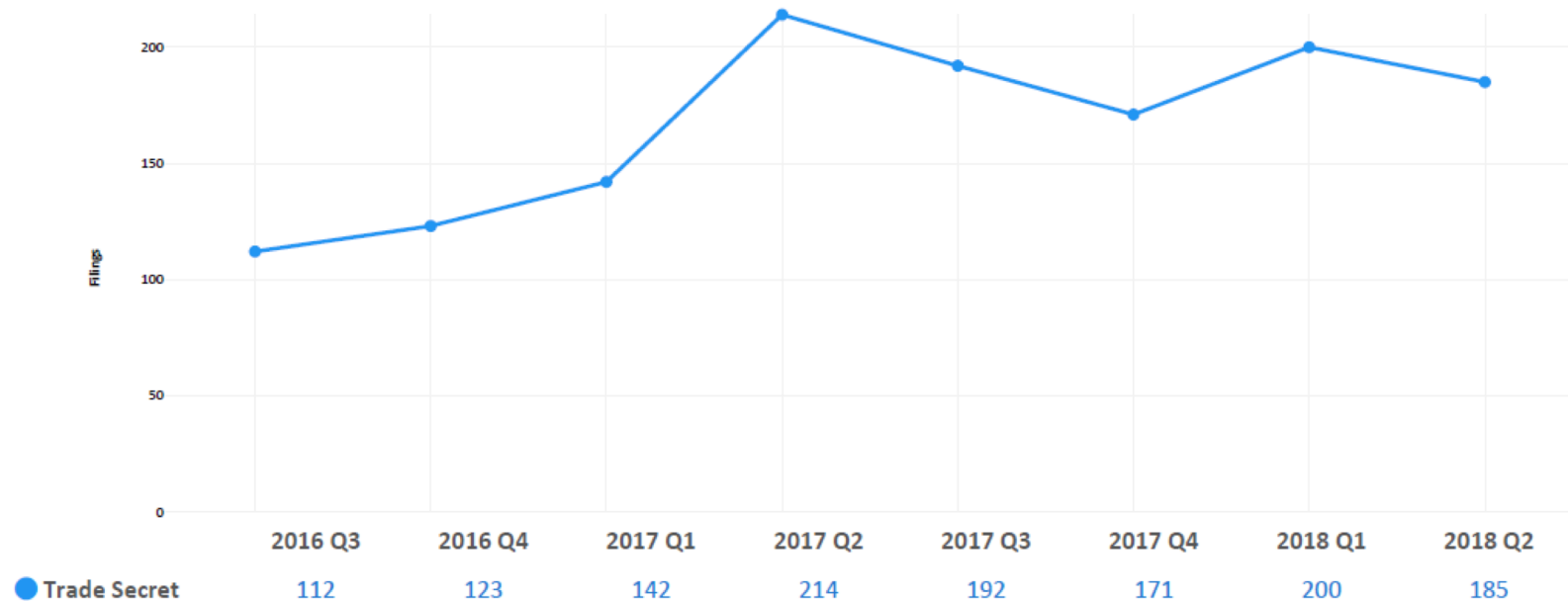
COMMON EXAMPLES

- Secret recipes/formulas
- R&D information
- Inventions
- Client lists
- Secret methods
- Search algorithm



DTSA CASES FILED: 5/11/16 - Q2 2018

Figure 2: DTSA Cases Filed from May 11, 2016 to 2018 Q2



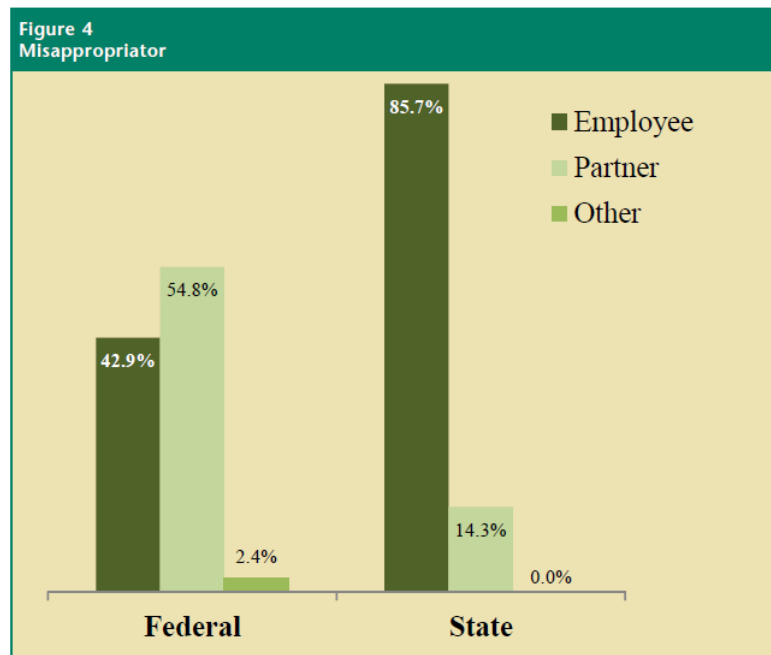
Source: Lex Machina Trade Secret Litigation Report 2018 (7/18)

TOP DISTRICT COURTS FOR TRADE SECRET LITIGATION FILINGS – 2009 –Q2 2018

C.D. Cal	533	6%
N.D. Ill	417	5%
S.D.N.Y.	372	4%
D.N.J.	331	4%
E.D. Pa	304	3%
Other courts	6,797	78%

Source: Lex Machina Trade Secret Litigation Report 2018 (7/18)

WHO'S DOING THE STEALIN'?



Elmore, J., "A Quantitative Analysis of Damages in Trade Secrets Litigation," Forensic Analysis Insights.
(http://www.willamette.com/insights_journal/16/spring_2016_11.pdf)

DTSA v. TUTSA

Defend Trade Secrets Act of 2016 ("DTSA")

[F]inancial, business, scientific, technical, economic, or engineering information . . . if—

(A) reasonable measures taken to keep it/them secret; and

(B) the information derives independent economic value, not generally known or readily ascertainable by others

Texas Uniform Trade Secrets Act ("TUTSA")

[I]nformation (formulas, patterns, compilations, programs, devices, methods, etc.) . . . that:

(A) derives independent economic value, not generally known or readily ascertainable by others; and

(B) Is the subject of efforts reasonable under the circumstances to maintain secrecy.

2. PROTECTION STRATEGIES



2. PROTECTION STRATEGIES – PRACTICAL

- Build a culture of confidentiality
 - Onboarding procedures
 - Continuing education
 - Employee feedback / hotline



PROTECTION STRATEGIES – PRACTICAL (cont.)

- Confidentiality designations (documents, e-mails)
- Login/password protection
- Dividing project steps among different groups
- Restricted access (physical and electronic)



PROTECTION STRATEGIES – PRACTICAL (cont.)

- Data encryption
- Exit interviews
- Forensic reviews
- Use of locks and keys



PROTECTION STRATEGIES

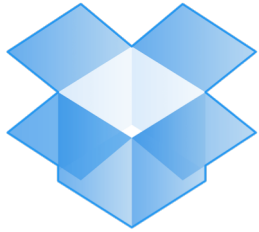


PROTECTION STRATEGIES – LEGAL

- Confidentiality / Non-Disclosure agreements
- Non-Compete agreements
- M&A agreements
- Licensing agreements



PROTECTION STRATEGIES – BEWARE OF THE CLOUD



Dropbox



Google Drive



CLOUD-BASED USAGE RISKS

- Third-party providers
- Loss of control / hackers
- Ease of accessibility
- Difficult to detect breaches
- Rogue employees



PROTECTING CLOUD-BASED INFORMATION

- Do your homework
 - Understand the level of data protection (encryption, etc.)
 - Understand the location of the data
 - Does the provider have cyber-risk insurance?
- Negotiate the terms of service
 - What is the provider's access?
- Liability for breaches



PROTECTING CLOUD-BASED INFORMATION (cont.)

- Prohibit personal cloud use for company materials
 - Install software to limit access to cloud solutions not approved by the company
- Ensure policies address cloud-based usage



PROTECTING CLOUD-BASED INFORMATION (cont.)

- Multi-phase authentication
- Create, train on, reinforce, and enforce a policy for cloud-based storage



3. CLAIMS FOR INAPPROPRIATE USE

- Computer Fraud and Abuse Act (18 U.S.C. § 1030 *et seq.*)
- Breach of contract
- Tortious interference
- Breach of fiduciary duty
- Misappropriation
- Unjust enrichment



4. CASE AND REGULATORY/CRIMINAL DEVELOPMENTS

CASES INVOLVING ALLEGATIONS OF EXTERNAL THEFT

- *Qualcomm, Inc. v. Apple Inc. et al* (filed Sept. 24, 2018, settled 4/19)
 - Apple sued for allegedly stealing trade secrets and sharing them with Intel
- *Flexible Techs., Inc. v. Sharkninja Operating LLC* (D. De. Mar. 29, 2019)
 - Defendant's motion to dismiss denied
 - Plaintiff identified trade secrets with sufficient particularity
 - Complaint alleged vigilance by plaintiff to keep information secret



RECENT CASES AND LEGISLATIVE DEVELOPMENTS (cont.)

CASES INVOLVING ALLEGATIONS OF INTERNAL THEFT

- *TLS Mgmt & Mktg. Servs. LLC v. Rodriguez-Toledo* (D. Puerto Rico Sept. 28, 2018)
 - Court denied trade secret status to documents underlying a trade secret
 - Documents left exposed in a Dropbox account “simply were not protected to a reasonable degree”
 - Company didn’t use advanced Dropbox protection settings, restrict sharing links and files, or label files and folders as “confidential,” “proprietary,” or “secret”

RECENT CASES AND LEGISLATIVE UPDATES (cont.)

CASES INVOLVING ALLEGATIONS OF INTERNAL THEFT

- *Ruby Slipper Café v. Belou* (E.D. La. Mar. 19, 2019)
 - Court denied defendants' DTSA MSJ
 - “The question of whether certain information constitutes a trade secret ordinarily is best resolved by a fact finder...”
 - “There are questions of material fact regarding whether the information Belou acquired constitutes trade secrets, and how he acquired it, that preclude summary judgment”



RECENT CASES AND LEGISLATIVE UPDATES (cont.)

CASES INVOLVING ALLEGATIONS OF INTERNAL THEFT

- *Integrated Process Sols., Inc. v. Lanix, LLC* (D. Minn. Mar. 18, 2019)
 - Court **denied** plaintiff's DTSA injunction request
 - In TRO, plaintiff asked court to order defendants to follow their statutory and common law duties
 - Counsel's broad list of trade secret categories at oral argument was insufficient
 - Defendant submitted affidavit saying he didn't take or use information

RECENT CASES AND LEGISLATIVE UPDATES (cont.)

YES I STOLE A TRADE SECRET BUT...

- *MEI-GSR Holdings, LLC v. Peppermill Casinos, Inc.* (Nev. May 3, 2018)
 - Def's employee caught in the act of unlawfully accessing confidential information of Plf; trade secret litigation ensues
 - Use of Plf's proposed jury charge and verdict for Plf because trade secret could've been ascertained by third-party reverse engineering
 - "A defendant's acquisition of information by improper means does not preclude the defendant from demonstrating that the information is readily ascertainable by other persons"

CRIMINAL DEVELOPMENTS



U.S. DOJ cracks down on trade secret theft



→ 4/18: Yanjun Xu, Deputy Director of the Chinese Ministry of State Security, is indicted in the S.D. Ohio for conspiracy to steal trade secrets and commit economic espionage

→ 9/18: federal grand jury in SFO indicted United Microelectronics Corporation and Fujian Jinhua Integrated Circuit Co., Ltd. on economic espionage charges related to theft of trade secrets

→ 2/19: criminal charges announced against Huawei Tech. for alleged trade secrets theft

LEGISLATIVE DEVELOPMENTS



Senate Judiciary Committee creates IP subcommittee to combat IP theft

→ 2/19: Senate Judiciary Committee creates bi-partisan committee to address policy issues regarding patents, copyrights, trademarks, and trade secrets

5. TAKEAWAYS

DTSA LITIGATION SUCCESS ISN'T GUARANTEED

- TROs are granted on the merits in 7/10 cases
- The success rate for preliminary injunctions on the merits drops to 6/10 cases
- The success rate for permanent injunctions on the merits drops to 1/10 (with 3 out of 4 being on consent judgment)



Source: Lex Machina Trade Secret Litigation Report 2018 (7/18)

TAKEAWAYS (cont.)

YOU WILL NEED TO ESTABLISH TRADE SECRET STATUS AND REASONABLE PROTECTION TO PREVAIL ON A DTSA CLAIM

- Beware of bestowing trade secret status on something that isn't a trade secret
- Confer with business partners to ensure proper designations
- Beware of the “what we think we do” versus “what we really do” trap



TAKEAWAYS (cont.)

UNDERSTAND THE PLEADING SCRUTINY

- Most courts require the identification of trade secrets with specificity
- Generalities are dangerous
- Can you articulate reasonable measures and confirm their use?



TAKEAWAYS (cont.)

AN OUNCE OF PREVENTION THROUGH A TRADE SECRET AUDIT IS WORTH A POUND OF CURE

- Are your agreements DTSA-compliant?
- Do your policies address trade secrets, access, etc.?
- Do you have active controls in place and are they used?



TAKEAWAYS (cont.)

CLOUD-BASED USAGE AND STORAGE FOR TRADE SECRETS PRESENT COMPLEX ISSUES

- Do you understand how the cloud is used?
- Do your policies address cloud-based activity?
- Do you understand the provider's TOS?



TAKEAWAYS (cont.)

JURY CHARGE LANGUAGE:

1. Did [Plaintiff] own a trade secret in the information listed below?
2. Did [Defendant] misappropriate [Plaintiff's] trade secret?
3. What sum of money, if any, if paid in cash, would fairly and reasonably compensate [Plaintiff] for its damages, if any, caused by [Defendant's] misappropriation, if any?

TAKEAWAYS (cont.)

KEEP TABS ON LEGISLATIVE UPDATES

- Expect heightened scrutiny of actions by foreign governments
- Expect increased litigation / indictments



Q&A

