



PROTECTING THE CROWN JEWELS... TIPS AND TRENDS IN TRADE SECRET LAW

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April 21, 2023



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Agenda

- Increasing use of trade secrets to protect intellectual property
- Trade secrets vs. patents
- Statutory frameworks of trade secret protection
- Elements of a trade secret protection claim
- Tips and closing remarks

Trade Secret Statistics

- Trade secret theft is a major problem, costing US companies as much as \$300 billion per year
- Over 90% of the time, the alleged thief is a [ex-]employee or business partner
- Almost 95% of trade secret cases involve theft of customer lists and/or technical information
- California courts handle more trade secret cases than any other state

New Popularity of Trade Secret Cases

- Trade secret damages awards in 2022:
 - Appian v. Pegasystems: \$2B jury damages award
 - Versata v. Ford Motor: \$105M jury damages award
 - Coda v. Goodyear: \$64M jury damages award
- Why?

Increasing Awareness of Trade Secrets [1]

2021 Survey by The Economist, Intelligence Unit:

- Trade secret protection not just responsibility of Legal and IT, but also C-Suite and Board.
- Threats: cybersecurity weakness > leaks by personnel
- Obstacles: weak cybersecurity > in-house inexperience
- Priorities: cybersecurity > NDA > personnel access restrictions
- Everyone agrees need for increased expenditures to protect trade secrets.



Why the newfound focus on cybersecurity?

Increasing Awareness of Trade Secrets [3]

2019 Bloomberg Law Big Law Business Quick Pulse Survey:

- Roughly 33% of companies surveyed said that they had trade secrets stolen in the last 10 years
- 75% of the companies surveyed expected the risk of trade secret theft to increase in the next 5 years
- 80% stated that protecting trade secrets is a high level priority
 - Most common types of protection?
- 40% stated that the biggest impediment to preventing theft is lack of awareness that a theft even occurred

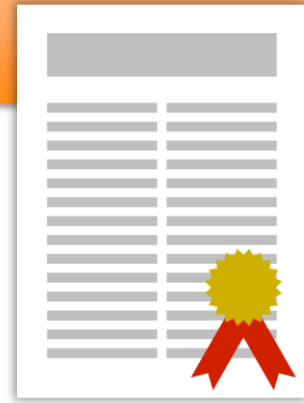
Patents vs. Trade Secrets

	 Patents	 Trade Secrets
Claimed invention	Public	Secret
Duration of exclusivity	Up to 20 years	Can be forever
Evidence of invention needed	Tangible & Defined	Less tangible, less defined
Costs involved	Expensive to obtain	Expensive to maintain
Licensable?	Easy	Complicated
Oversight/Policing	Not a lot needed	Requires constant vigilance
Independent development	Covered	Undermine

When to Protect with a Patent vs a Trade Secret

- What factors might favor patenting an invention?
- What factors might favor protecting an invention as a trade secret?

However, there are potential risks of using both patents and trade secrets!



Famous Trade Secrets



Secret recipe:
11 herbs & spices



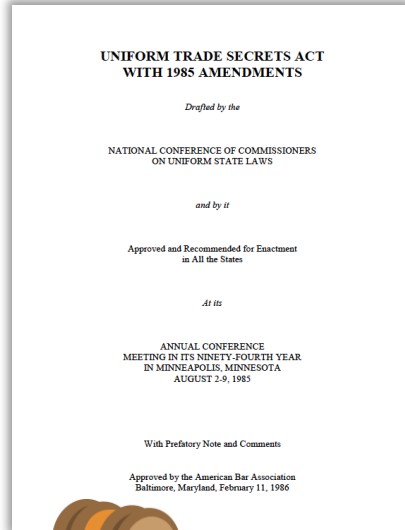
Secret formula



Examples of Trade Secrets: Biotech

- Manufacturing specifications
- Physician prescribing habits, patient preferences/habits
- Non-public drug sales data
- Clinical trial data/methodologies
- Diagnostic platforms & proprietary biological databases
- Biologics (long clinical development timeline)
 - Reference protein drug production
 - Isolation
 - Storage and delivery
- Datasets for Development of AI Diagnostic Tools

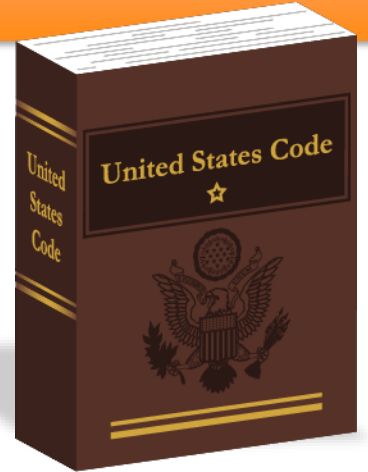
Statutory Framework of Trade Secret Law: Pre-DTSA



- The Uniform Trade Secrets Act (UTSA)
- Adopted by all states (and DC) except New York

Statutory Framework of Trade Secret Law: Federal

- Federal **Defend Trade Secrets Act (DTSA)**
 - Signed into law May 11, 2016
- Key differences?



What Is a Trade Secret?

- DTSA and UTSA similarly define a trade secret:

Information that is secret in that it

Derives *independent economic value* from not being generally known to the public or to “persons who can obtain economic value from its disclosure or use”

Is the subject of efforts that are *reasonable under the circumstances* to maintain its secrecy

The owner of the claimed trade secrets has the burden of proving both elements

What are “reasonable measures”?

- Reasonableness in view of industry standards



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What Is Misappropriation?

- Again, the DTSA and UTSA have similar definitions of misappropriation:

Acquisition of a trade secret by *improper means* by a person who knows or has reason to know of such improper acquisition

Disclosure or *use* of a trade secret *without consent* by a person who:

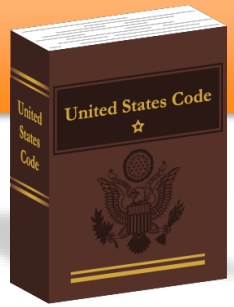
- Used improper means to acquire the trade secret or
- Knew or had reason to know the information was a trade secret

Remedies for Trade Secret Misappropriation

- Injunctive relief
- Damages
- Why the recent rise in large damages awards?



Seizure Order Under the DTSA



- Ex parte seizure is the most significant difference between DTSA and UTSA
 - Procedure
 - Is it used as intended?
 - Case examples

Trade Secret Litigation – What Makes it Unique?

- Both State and Federal courts have jurisdiction if the suit includes a DTSA claim
- Cases are frequently decided at or shortly after the preliminary injunction stage
 - Injunctions are granted more often than they are denied
- Protective orders and filing under seal are standard
- Many cases turn on how the trade secret is defined
 - California UTSA requires the plaintiff to disclose the claimed trade secrets with *reasonable particularity* before it can begin discovery

Waymo vs. Uber

- Filed Feb. 23, 2018, N.D. CA
- Trade secrets related to self-driving vehicles
- Senior Waymo employee, Anthony Levandowski, left for Uber
 - Brought **14,000** files he had copied
- Hotly and publicly litigated
- Waymo obtained a preliminary injunction
- The case settled shortly after trial began
 - Waymo received Uber stock worth about \$245 million
- Key Takeaways?

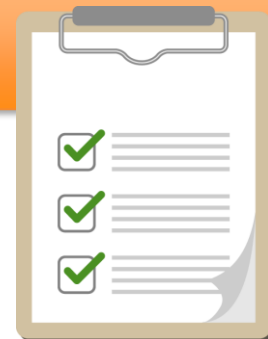
Appian Corp. v. Pegasystems, Inc.

- Jury awarded \$ 2 billion
- Unjust enrichment claim
- \$23 million in attorneys' fees
- Why is this different from *Waymo*?

Trade Secrets: Criminal Prosecution

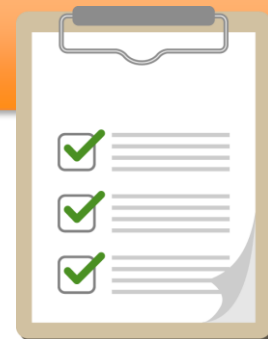
- Trade secret misappropriation can lead not just to civil liability, but in egregious cases to criminal prosecution in state or federal court
 - Examples
 - How to prepare/what to know

Tips for Trade Secret Owners



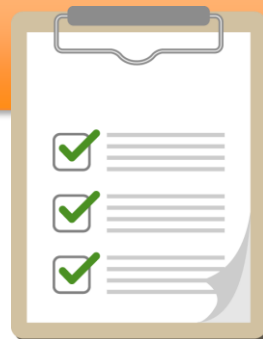
- Clearly identify information that is a trade secret
 - Mark trade secret information
 - But do not over mark
 - When using both patents and trade secrets to protect IP, clearly distinguish what is a trade secret from what is in the patent
 - Trade secret information that appears in a patent application can lose trade secret character

Tips for Trade Secret Owners



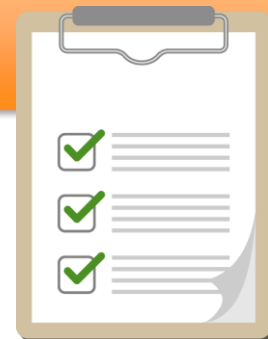
- Take reasonable precautions to maintain secrecy
 - Limit access to trade secret information
 - Maintain security where trade secret information is kept
 - Have anyone having access to trade secrets – including employees, visitors and contractors – sign NDAs
 - Perform a detailed review of departing employees’ computers and other devices
 - Have departing employees confirm confidentiality obligations
 - Conduct regular inventories of trade secret information

Tips for Companies That May Face Claims



- Any company that hires new employees or is given access to another company's trade secrets is vulnerable to a claim
- Have new employees affirm they are not bringing previous employer's trade secrets
- Educate employees on the importance of keeping trade secrets secret
 - Repeat education on a periodic basis

Tips for Companies That May Face Claims



- When your company is exposed to another company's trade secrets (e.g., during due diligence), make sure that:
 - All trade secret information obtained is secured and inaccessible
 - Separate the people exposed to trade secrets from product design, engineering, sales and marketing people
- Have a process in place to respond to misappropriation claims
 - Immediately involve counsel
 - Immediately identify and isolate sensitive information
 - Interview potentially involved employees
 - Be prepared to take appropriate remedial action, if necessary

Trade Secret Trends

- Theft using flash drives and other portable electronic storage devices is increasing
- Theft using cloud storage is occurring more and more
- BYOD (Bring your own device) policies can create trade secret risks for employers
- Some courts have found that password protection alone is not enough to reasonably protect trade secrets
- Cyberterrorism is on the rise—hacking by foreign governments or organized crime is a real threat to trade secrets

Final Thoughts

- If your company is considering bringing a trade secret case, make sure that the trade secret is important to the company's success and that you have taken the proper steps to protect the trade secret.
- If your company is a trade secret defendant, preserve evidence and identify and investigate any involved employees.
- If a former employee is involved, cooperation between the companies can often resolve disputes early. Look for ways to cooperate without compromising your own trade secrets.
- Preliminary injunctive relief is time consuming, expensive, and often case determinative.
- Large damage awards are much more likely in cases that don't involve injunctive relief



Thank you!

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