

Trade Secrets on the Rise

Protecting Intellectual Property in the Post-AIA
World

Thomas McNulty
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Trade Secret Basics

Trade Secret – information that is:

- (a) not generally known to or reasonably ascertainable by the public;
- (b) for which reasonable steps are taken to maintain secrecy thereof; and
- (c) which provides some actual or potential economic benefit to the holder of the information.

Examples - formula, practice, process, design, legal instrument, pattern, compilation of information, sales methods, customer or client lists, cost and pricing information, distribution methods, supplier lists, research “dead ends”

Introduction to Trade Secrets

Trade Secrets are Defined By Their Value and Their Secrecy

An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are:

1. the extent to which the information is known outside of the business;
2. the extent to which it is known by employees and others involved in the business;
3. the extent of measures taken to guard the secrecy of the information;
4. the value of the information to the business and its competitors;
5. the amount of effort or money expended in developing the information;
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.

Restatement of Torts § 757, Comment B

Introduction to Trade Secrets

Trade Secrets are Defined By Their Value and Their Secrecy

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (i) **derives independent economic value, actual or potential, from not being generally known** to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- (ii) is the **subject of efforts that are reasonable** under the circumstances **to maintain its secrecy**

Uniform Trade Secrets Act § 1(4)

Uniform Trade Secret Act vs. Common Law

- Uniform Trade Secrets Act (“UTSA”)
 - Recognized by 47 states
- Common Law – Restatement of Torts
 - MA, NY, MN
- Defend Trade Secrets Act of May 2016
 - created Federal cause of action for trade secret misappropriation
 - provides for *ex parte* civil seizure of property to prevent dissemination of trade secrets
 - does not preempt state trade secret law

Reasonable Steps to Maintain Secrecy

- Identify the Information as Secret
 - Mark documents as Secret, Confidential, or Proprietary
 - Segregate electronic data to Confidential folders, use firewalls, passwords, encryption of transmissions of data
- Restrict access
 - Keep information under lock and key
 - Limit access only to those with a need to know or use the information, both within the company and externally
- NDA's for those with access
 - Employees, customers, licensees, vendors, contractors
 - Identify the secret information they have received

Patents v. Trade Secrets

■ Trade Secret Protection

- No requirement for novelty, non-obviousness, or subject matter eligibility requirements (e.g., no *Alice Corp.* concerns)
- Potentially unlimited term, so long as value and secrecy continue to exist
- Immediate effect, no cost/time to deal with governmental agency
- No strict liability – must show misappropriation

■ Patent Protection

- No immediate effect
- Costs (drafting and prosecution fees, maintenance fees)
- Limited term
- Strict liability

Patents Eliminate Trade Secrets

“[A] design of a device could not be a trade secret because it had been patented—and thus ***revealed to all the world***—before any dealing between the parties.”

- *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200 (5th Cir.1986).

- Key considerations for deciding between patents and trade secrets
 - How easily may the invention be reverse engineered?
 - How likely is a patent application to be allowed?
 - How amenable is the information to being maintained as a trade secrets?
 - How long is the information likely to have value?

Non-Disclosure Agreements

Keys to Effective Non-Disclosure Agreements:

- Incorporate the disclosing party's trade secret list into the agreement and require that the receiving party **acknowledge the validity of all trade secrets identified on the list** or thereafter added to the list.
- Acknowledge **specific steps** that the receiving party **must take** to maintain secrecy within the agreement in addition to a general confidentiality obligations.
- Create procedures for identifying trade secrets that are subsequently disclosed to the receiving party
- **FOLLOW THROUGH** on such procedures

Non-Disclosure Agreements - Limitations

- A confidentiality agreement cannot make secret that which was not secret at the time of the agreement

Lanier Prof'l Servs., Inc. v. Ricci, 192 F.3d 1, 5 (1st Cir.1999).

- Confidentiality agreements are legitimate when used to protect truly proprietary information. ***Experience is not confidential.***

Kenyon Int'l Emergency, Servs., Inc. v. Malcolm, No. H-09-3550, 2010 WL 2303328, at *2 (S.D.Tex. June 7, 2010)

Licensing Trade Secrets – Considerations

Licensing In	Licensing Out
Ensure permission to use information that is public, made known to you in good faith	Prohibit reverse-engineering, “independent development” by licensee
Ensure licensor has a requirement to maintain the secrecy	Specify requirements of licensee to maintain secrecy
Identify the people who are to have access	Require licensee to have NDA’s with those gaining access
Possibly identify status of development prior to obtaining trade secret information	Require acknowledgement of the validity of the trade secrets

Licensing Trade Secrets – General Considerations

- Exclusive? Geographic or field of use restrictions?
- Ownership and rights to variations or improvements
- Authorization before filing patents, publishing papers
- Incorporate all prior NDA's
- Assignable/sublicensable?
- State under whose law the agreement is to be construed
- Fee-shifting provisions, arbitration clauses
- Term, disposal of trade secrets, and what obligations survive (e.g., secrecy obligations)

Trade Secret Misappropriation

- (i) **acquisition** of a trade secret of another by a person who knows or has **reason to know** that the trade secret was **acquired by improper means**; or
- (ii) **disclosure or use** of a trade secret of another **without express or implied consent ...**

Uniform Trade Secret Act § 1(2)

Trade Secret Misappropriation

- Often arises as a result of contract (NDA, employment contract, etc.), so additional contract claims may lie:
 - Breach of contract, unjust enrichment, unfair competition, etc.
- Injunctive relief available (but may not put the cat back in the bag)
- Criminal Statutes may apply
 - Economic Espionage Act, Mail & Wire Fraud, RICO, National Stolen Property Act, Fraud and Related Activity, various state criminal statutes

Trade Secret Policies

Identify Trade Secrets and Maintain a Trade Secret List

- Identify trade secret in product development cycle
- Choose between patents and trade secrets
- Maintain a list of trade secrets and trade secret categories

Perform Trade Secret Audits

- Periodic trade secret audits
- Review recent development efforts to identify new, commercially valuable information or technology
- Review competitive information

Trade Secret Policies – Trade Secret Rules

Establish Rules for Each Trade Secret on Your List:

- What level or category of employee is entitled to see or have access to the trade secret?
- Where will the trade secret be stored, physically and electronically?
 - What physical barriers should be maintained to access the trade secret?
 - What electronic barriers to access should be established?
- Communicate trade secret policies to employees
- Enforce the policy when violations occur

Trade Secret Policies – Avoid becoming a Defendant

- Establish and follow policies regarding new employees
 - Zero tolerance for violations of prior employment agreements, NDA's and the like
 - Written confirmation from new employees of this policy
 - Beware the Inevitable Disclosure Doctrine
- Establish and document a corporate culture
- Establish clean rooms for product design
 - Maintain written record of independent development
- Ensure identification, with specificity, of trade secrets being received as part of NDA
 - Keep internal documentation of disclosures made under the NDA

Conclusions

- Trade secrets exist in any information that has commercial value and is not generally known.
- Seeking patent protection for your trade secrets will likely destroy any disclosed trade secrets.
- Seeking FDA approval will not necessarily destroy your trade secret so long as you designate the material as trade secret under FDA rules.
- Establish clear internal policies for the protection of trade secret information.
 - Establish lists of trade secret information
 - For each trade secret, establish physical and electronic barriers to disclosure.
 - Enforce internal trade secret policies.

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Thomas McNulty
Lando & Anastasi, LLP
One Main St.
Cambridge MA 02142

tmcnulty@lalaw.com

www.lalaw.com

<https://dmassiplitigation.com/>