



HOW TO AVOID TRADE SECRET THEFT: LAW, STATISTICS AND STRATEGIES

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How to Avoid Trade Secret Theft: Law, Statistics and Strategies

by Martin Medeiros, Esq., CIPP/USⁱ

Take a moment and think of time when someone stole something from you. Perhaps the perpetrator broke into your car, home, dorm or apartment. Maybe your credit card was stolen. How did you feel, emotionally? Anger, violation or fear are typical responses. When it comes to intellectual property, we may not feel the same way personally. But we should, there are many victims in trade secret theft, loss of jobs, months of unemployment, and bankruptcy.

Generally, intangible assets make up the vast majority of the value of publicly traded companies.ⁱⁱ Specifically, trade secrets occupy a special place. There is a crisis in trade secret theft. Losses domestic and abroad are taking great toll from companies. Large awards of damages are up 50% according to one researcher. In 2011 PricewaterhouseCoopers LLP and Create.org estimated that trade secrets alone are responsible for a reduction in the United States' gross domestic product (GDP) of [1-3% in 2011](#). Little has changed in seven years with the White House estimating between 1-3% of GDP was lost in 2018 in their [Annual Report to Congress](#). For perspective, total R&D spending is about 2.8%. Essentially, this negates any GDP growth or all our cutting-edge innovation. This loss is attributable to trade secret theft. We need to learn how to avoid this loss.

Last year the Medeiros Law Group looked at five studies examining hundreds of reported trade secret cases in order to answer one question: how to protect your trade secrets given finite resources. Now, with the Defend Trade Secrets Act (DTSA) over 3 years old, we have more data.

In this paper we will review the state statutes in Oregon and Washington, short review the federal DTSA; review recent cases in the United States, look at new non-compete legislation, review aggregated data from trade secret scholarship and identify risky behaviors to help corporate counsel avoid misappropriation with three imperative projects you should begin now. The same issues are persistent. A new approach in trade secret process protection design is needed.

Introduction

Trade secrets, those things we keep secret, that provide a competitive advantage and have an actual or prospective economic value, may form the largest intangible asset class of your organization. This is especially true for service intensive and technology companies.

But what actually is a trade secret? Think formulas, recipes, customer lists, vendor lists, methods, processes, technical knowhow and other information you don't want the public generally, and your competitors specifically, to grab.

Compared to other intellectual property such as copyrights, patents and trademarks, where disclosure is required to obtain the full benefit, trade secrets need to be a well-kept secret. The value can be real, very real. Over eighty percent of the value in the S&P 500 includes intangible assets. [ii] Start-ups, or early stage companies without a patent, copyright, or trademark portfolio, may maintain nearly 100% of their value in trade secrets. There are protections on the state and federal level.

State Statutes

On the state level, the Uniform Trade Secrets Act (UTSA) was adopted and modified by most states. Even though about 47 states adopted the UTSA, courts still like the Restatement of Torts for the definition of trade secret.ⁱⁱⁱ The Restatement of Unfair Trade Practices definition is not used as often.^{iv} For example in Oregon the enjoinder part of the Oregon Revised statutes reads as follows:

- **ORS 646.463 Enjoining misappropriation; payment of royalties; affirmative acts.**
- (1) Actual or threatened misappropriation may be temporarily, preliminarily or permanently enjoined. Upon application to the court, an injunction shall be vacated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
- (2) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of the misappropriation that renders a prohibitive injunction inequitable.
- (3) In appropriate circumstances, the court may order affirmative acts to protect a trade secret.

Next door in Washington, they opted for a slightly more concise version in the Revised Code of Washington^v, as follows:

- **RCW 19.108.020**
- **Remedies for misappropriation—Injunction, royalty.**
- (1) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

- (2) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
- (3) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order. [**1981 c 286 § 2.**]

Substantively, they may be similar, but case law will guide the trajectory of its application given the nuances and changes in the wording. Below is a visual comparison of the differences.

UTSA Injunction Visual Comparison

• Oregon

- ORS 646.463 Enjoining misappropriation; payment of royalties; affirmative acts.
- (1) Actual or threatened misappropriation may be temporarily, preliminarily or permanently enjoined. Upon application to the court, an injunction shall be vacated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
- (2) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of the misappropriation that renders a prohibitive injunction inequitable.
- (3) In appropriate circumstances, the court may order affirmative acts to protect a trade secret.

• Washington

- RCW [19.108.020](#)
- Remedies for misappropriation—Injunction, royalty.
- (1) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
- (2) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
- (3) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.
- [[1981 c 286 § 2.](#)]

Generally, courts identify trade secret misappropriation as present when: (1) the information that was unfairly used in trade incorporates a trade secret; (2) the party claiming the trade secret designation took reasonable steps to preserve the secrecy of the trade secret, and (3) the defendant misappropriated the secret or used improper means, in breach of a confidential relationship, to acquire the trade secret.^{vi}

How to Stop Employee Trade Secret Theft in the 9th Circuit Without Inevitable Disclosure Doctrine?

Non-Compete litigation is in decline according to this data from Beck Reed and Riden (BRR). Trade secrets overall in decline as well, and DTSA actions creeping up after only two full years after its enforcement. Less than 200 DTSA cases were decided in 2018. The BRR data is also supported by other sources. Employee misappropriation still involves the largest trade secret infringement cause.

Given California, Oregon and now Washington have greatly curtailed trade secret protections using non-competes requiring strict regulatory compliance, how do you stop the number one source of misappropriation?

Other jurisdictions enjoy the “inevitable disclosure doctrine” in *Pepsico, Inc. v. Williams E. Redmond, Jr., et. al.* which says that working in the same industry for a competitor generally leads to disclosure of secrets. The tools are the same. Comply with state’s non-compete laws, create systematic evidentiary trail of trade secrets, and use uniform trade secret act and DTSA.

Federal Statutes

Defense of Trade Secrets Act (DTSA)

Federally in the United States, the Defense of Trade Secrets Act (DTSA) restates trade secret concepts and provides structure to the federal cause of action, introduces whistleblower protection, civil seizure and reporting elements.^{vii} This forms a new line of cases that add more protection than ever to this form of intellectual property. We expect over 200 DTSA decisions to be rendered in 2019. Proving these cases focuses on process.

To quickly review, the DTSA it provides:

- Federal cause of action for the misappropriation of trade secrets;
- Entitled to seize “property necessary to prevent the propagation or dissemination of the trade secret”;
- Remedies:
 - Equitable: injunction;
 - At Law: monetary damages, including damages for the actual loss suffered by the theft and damages for any unjust enrichment the misappropriating party receives from the theft;
- 2x actual + unjust enrichment “exemplary damages” (willful and malicious)
- Loser pays prevailing party’s attorney’s and;
- No actual and exemplary damages (up to 2x) and attorney’s fees *unless* Employee had notice of certain DTSA provisions.

Theft of Trade Secrets, 18 U.S. Code § 1832.

(a)Whoever, with intent to convert a trade secret...—

(1) steals, or without authorization appropriates, ..., or by fraud, artifice, or deception obtains such information;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, ...such information;

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(3) receives, buys, or possesses such information, knowing ---stolen ...;

(4) attempts ...); or

(5) conspires ...,

shall, except in subsection (b), be fined ... or imprisoned not more than 10 years, or both.

(b)Any organization ...fined =<\$5,000,000 or 3 times the value of the trade secret, including expenses for research and design and other costs ...

Economic Espionage Act, 18 U.S. Code § 1831.

This involves the alter ego(a)benefit foreign, agent, government...;

(2)unauthorized conveyance of trades secret;

(3)known to hold stolen trade secrets;

(4) attempt; or

(5)conspires,

Individuals: fined =<\$5,000,000 or imprisoned not more than 15 years, or both.

(b)Organizations. Fined =<of \$10,000,000 or 3 x the value of the stolen trade secret to the organization, including expenses for research and design ...

Computer Fraud and Abuse Act^{viii}

Not just traditional “hackers,” but

- Persons intentionally accessing a computer without or exceeding authorization
- Involving an interstate or foreign communication, or
- Knowingly with intent to defraud, accesses a protected computer without or exceeding authorization
- Obtains value in excess of the statutory minimum amount

New Legislation in Washington

HB 1450 Washington – Restricts Non-Competes

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To summarize the new legislation in Washington:

- Applies to: Enforceable against both employees and individual contractors;
- Duration: If \leq 18 months it is presumed fair;
- Choice of Law: Washington Choice of Law and Venue is required or imputed;
- Notice: Notice is required of all terms at acceptance or earlier in order to be enforceable;
- Compensation Requirements:
 - $>$ \$100,000 per year or employee,
 - $>$ \$250,000 per year. *Adjusted annually for inflation.
 - $<$ 2x Minimum Wage cannot be restricted from working a second job; as long as safety and employer's scheduling expectations are not interfered with.
 - Duty of employee loyalty intact
- **Lay off:** Non-compete is void unless compensated for base salary for entire period of non-compete.
- **Damages:** Aggrieved party gets \$5K or actual and attorneys' fees, expenses and costs.
- **Active:** January 1, 2020.

Appealing Cases

In trade secret cases, many are often dismissed when the defendant files for summary judgment and discovery shows no systems or process to identify trade secrets, proof the secrets have value, proof they provide a competitive advantage and proof they are kept secret. Many are dismissed for failure to meet the basic definition of trade secret.

Reeser's Food v. Bob Evans (OR 2013/16)

- Trade Secret: Sausage Baking Techniques
 - Breach of contract (NDA)
 - Misappropriation
 - Conversion
 - Directed to pursue settlement efforts in 2016.
 - TAKEAWAY: Food recipes and methods are rich grounds for misappropriation.

Settled: Willamette Country Music Festival, Inc. v. Bi-Mart Corporation (OR. 2011)

Trade Secret: customer lists, leases, and contracts with providers

TAKEAWAY: Customer list.

ADA Motors, Inc. v. Butler (Wash. Ct. App. 2014)

- Once ∇ established sales, burden shifts to Δ

- Δ must prove what portion of those sales were not attributable to the misappropriated trade secret
- Appeals court overturned a jury's finding of no damages
- the jury instructions had misstated the law, and in doing so had improperly shifted the burden of proof from the defendant to the plaintiff.
- The instruction, the appeals court held, was a “misstatement of law” given that “the plaintiff’s initial burden is to prove only ‘sales,’ not ‘damages from sales,’ before the burden shifts to the defendant.”
- TAKEAWAY: Prove sales of trade secret containing good, service or software.

Settlement: Move v. Zillow, (Wash. 2014)

- Trial Court: court did not allow injunction based on inevitable disclosure.
- No actual misappropriation
- Settlement Reached 2016 \$130M.
- TAKEAWAY: Inevitable disclosure not discussed, simply ignored.

National Football Scouting v. Rob Rang, 912 F.Supp.2d 985 (W.D. WA 2012)

- Athletic score were copyrightable, but opinion of writer was transformative enough to be fair use. MSJ throwing out © infringement GRANTED.
- Δ motion for summary judgment DENIED on trade secret claim as genuine issues of fact needed to be determined.
- The contract states that "the scouting information (including the grades) in the Scouting Reports are trade secrets that derive independent economic value from not being generally known."
- TAKEAWAY: Great case on good “IP Layering Practice” Classification important: all “information” is not a “trade secret”

Mayne & Mertz, Inc. v. Quest Exploration, LLC, (WD LA 2009)

- Contract’s silence on the duration of a duty of confidentiality may cause the duty to be extinguished by the parties’ mutually-agreed release of contractual obligations.
- TAKEAWAY: Survival of confidentiality obligations, check number and clause
- PRACTICE TIP: *“The following shall survive termination of this Agreement Section 3 (Payment), Section 12 (Confidential Information), ...”*

Unum Grp. v. Loftus, 220 F. Supp. 3d 143 (D. Mass. 2016).

- Plaintiff (insurance and investment products company) wanted parting employee to return documents.
- Defendant alleges he took documents to show violation of law and was giving them to his attorney.
- Defendant claimed whistleblower immunities.
- But no lawsuit filed that the documents supported.

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- Held: Defendant is not a whistleblower, but misappropriator. Defendant to return documents. Defendant's motion to dismiss based on whistleblower status denied.
- Takeaway: Whistles must be blown for wrongdoing.

Christian v. Lannett Co., Civil Action No. 16-963 (E.D. Pa. Mar. 29, 2018)

- Title 7 case.
- Defendant counter claimed whistleblower immunities to claim of trade secret theft.
- After Plaintiff's employment was terminated she retained over 22,000 pages of confidential material. Plaintiff disclosed this material to counsel
- Produced to Defendant in discovery related to the discrimination claims.
- Plaintiff moved to dismiss saying she was immune from liability "because the only alleged disclosure of trade secrets took place after the effective date of the [D TSA] occurred through a production of documents provided to her attorneys in confidence, pursuant to federal discovery ruse."
- Held: Defendant prevailed. Counterclaim successful – no misappropriation under those circumstances.
- Takeaway: Whistles are blown for wrongdoing in any type of case.

Arizant Holdings Inc. v. Gust 668 F. Supp. 2d 1194 (2009)

This case involved an employee who forwarded emails to himself; the former employer allowed employee to maintain email even after termination. Summary judgment granted to defendant.

Held: No improper trade secret acquisition because there was no policy against forwarding emails; and no valid trade secret was found, because the forwarded emails contained only a list of five publicly available websites.

Takeaway: Make a policy on forwarding emails.

Scherer Design Group, LLC v. Ahead Engineering LLC, No. 18-2835 (3d Cir. 2019)

Can an employer use social media account of suspected trade misappropriating employee on company laptop, preloaded with employee monitoring software pre-installed to prove case.

Holding: The third Circuit held that the unclean hands doctrine did not bar an employer's claims against its former employee for trade secret misappropriation though the employer had previously installed and used software that allowed for the monitoring prior to the termination of employment. The facts are important here:

- Chad Schwartz, left company because he was not given equity and announced to compete. Refused to sign non-compete, poached Scherer employees to work at Ahead Engineering LLC and Far Field Telecom LLC.
- Co-Worker David Hernandez, on company laptop left facebook account logged on. In it, employer uncovered alleged plans to steal client information and intellectual property to bring to their next company.

- Scherer brought suit against the former employees claiming trade secret misappropriation under state and federal law.
- Defendants argued that injunctive relief was inappropriate because of the doctrine of unclean hands and argued that there was a violation of Hernandez's privacy.
- The U.S. District Court for the District of New Jersey granted the preliminary injunction against the defendants which prevented them from contacting Scherer's clients, and the Appeals Court agreed.

Takeaways:

1. In order to invoke the unclean hands doctrine:
2. Establish "unconscionable act",
3. Act related to the claim in which equitable relief is sought.
4. Make a policy on no expectation of privacy and social media policy.

US v. United Microelectronics Corporation, et al. (N.Dist. Cal. CR 18465)

An indictment September 27, 2018 by the Department of Justice alleging trade secret violation by Chinese-controlled Taiwan company. Damages claimed included \$8.75Billion.

Eight specific trade secrets stolen in a 233-page PDF document with comprehensive and detailed beginning-to-end manufacturing process for Micron's 25nm DRAM product; Excel Spreadsheets containing Implant Conditions Tables contained implant data required to make each of the various different 24 transistor types required to make a 25nm DRAM product.

Takeaway:

1. "Know Your Customer/subsidiary/client" is a best practice for banks and now asset acquirers.
2. Clients need to specify what is trade secret with clarity to help themselves (and DoJ) if they want to enforce criminal sanctions.

Qualcomm v. Apple

Apple alleged to have stolen trade secrets from Qualcomm and shared them with Intel Corporation after Qualcomm allowed Apple access to its source code and tools for LTE modem chipsets to cut Qualcomm out of supplying new iPhone Chips.

The initial claim alleged by Qualcomm stated that Apple breached a software-licensing contract by sharing confidential details regarding Qualcomm's chips with engineers at Intel Corporation.

A motion to amend the complaint filed accused Apple of stealing trade secrets "for the purpose of improving lower-quality modem chipsets, including those manufactured by Intel, a competitor of Qualcomm, to render such chipsets useable in Apple devices with the ultimate goal of diverting Qualcomm's Apple-based business." This alleged end around would get Qualcomm out of supplying new iPhone Chips.

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While the lawsuit was first scheduled to be heard in April 2019 much has happened. In order:

2nd Day of trial settlement reached. Terms of settlement:

- Apple will make a payment to Qualcomm for an undisclosed amount.
- 6 + 2 Year global patent licensing agreement, which may be extended for another two years.
- Qualcomm to supply parts to Apple for multiple years
- Takeaway: Qualcomm modems will most likely appear in the iPhone.

But...

July 25 –

- Apple acquires the majority of Intel's smartphone modem business for \$1 billion
- 2,200 Intel employees will join Apple.
- Apple will acquire IP and equipment from Intel as well.
- Close toward the end of the year.

Takeaway: Strategic litigation and deal-making is critical to your strategic Intellectual Property plan.

You can find the [proceedings in this link](#).

Huawei Lessons 华为课 : The Tale of “Tappy”

T-Mobile v. Huawei

2014 Robot arm taken from T-Mobile by employee unauthorized to be in the laboratory. Huawei defended on prior publication in patents and promotional videos.

At trial, T-mobile Asked for \$500M but jury award: \$4.5M

Takeaway: Card key access of authorized personnel in secured areas must be enforced.

US v. Huawei

- Filed January 16, 2019. Extensive email evidence of bosses berating engineers to steal from T-Mobile.
- Trial date of March 2, 2020

Takeaway: Do not tell employees to steal trade secrets.

Aggregated and Updated Data from Studies

We've refreshed the five studies examining hundreds of reported trade secret cases in order to address key components of protecting trade secrets: identifying risky corporate

behaviors, identifying which industries are at the highest risk, and how to avoid misappropriation.

Corporate counsel know about broad-brush requirements of a trade secret, and that is where alleged misappropriators typically get off the hook: if the company does not have a process documenting compliance with the law, the bad actor has no consequences. Those that can document trade secrets enjoy an average eight figure damages award. A high standard on showing value is not limited to the United States. At last year's "road show" conference on Intellectual Property Protection in China, hosted by the United States Patent and Trade Mark Office, one speaker said "if you don't protect trade secrets and they are easily stolen, they must not be worth anything." Once your intellectual property counsel catches her breath at this blame-the-victim defense, there is a certain truth to this. Those that can document trade secrets as important and worthy of protection, enjoy an average eight figure damages award in the cases reviewed.

Risk Profile Derived from the Cases Studied

Resources are limited, how do companies allocate resources to capture the value of trade secrets? Learn from the mistakes forged on the anvil of litigation. Study the cases, design a process and follow the process. A review of the cases studies will help us get the takeaways on the risk assessment.

Lerner Study.^{ix}

The first data set we will look at is from Harvard University and the National Bureau of Economic Research.^[viii] The period studied was from the 20th century through 2010. We can glean some trends as far as industries that rely on trade secret as well as other data; however, this research is dated and some trends may change; for example, more misappropriation cases were filed in state court, but this may be a factor of most data being acquired before the DTSA.

Takeaways from Lerner:

- Trade Secrets Upheld. Trade secrets being upheld at an increasing rate.
- Industries Impacted. These include, in descending order with most trade secret misappropriation to least: Software; Business Services; Insurance Agents and Brokers; Electronic Companies and Accessories; Professional and Commercial Equipment; Service Dwellings and Other Buildings; Laundry Cleaning; Eating and Drinking Places.^x

The Almeling Study.

The Almeling et. al. study^{xi} looked at a fairly comprehensive data set as compared to Lerner from 1950-2007; a follow up article was done in 2011. The trade secret decisions trend still tracks the Lerner study, essentially exponential growth, although not so much after 2007 where it remained fairly constant.

Takeaways from Almeling

- Source of Misappropriation. Employees are the largest source of misappropriation, with business partners running a relatively close second.

- **Type of Trade Secret.** The data departs from the Lerner data as far as classification, attributable to the way Almeling reviewed the cases. Technical knowhow, customer lists and internal business processes are at the top of the list.

The Elmore Study.

Data presented by J. Elmore, examines a much larger data sample set than Lerner, and Almeling in some areas, but the trend seems the same as far as growth in trade secrets so it adds little surprises. The Elmore review focuses on damages. The study advances the Lerner data by five years through 2015.

Takeaways from Elmore

- **Litigation Growth.** The growth follows a similar trend. Elmore uses the term “exponential” growth in litigation, while this is not an exaggeration in the long term, it is not true in the short term.
- **Classification of Trade Secret.** Classifications are different in the various studies. Elmore uses the following approach: technical knowhow is high with general “business information” such as customer lists, being the most ubiquitous classification. In descending order, largest to smallest; business information, technical know-how and software.

The Searle Study.

Of less importance to corporate counsel but more to law enforcement, perhaps, is a survey in the United Kingdom by Nicola Searle^{xii}, which sampled 21 criminal misappropriation cases. Corporate espionage and the relatively small sample size aside, the judgments for this level of malfeasance numbered in the tens if not hundreds of millions.

Takeaways from Searle

- **Espionage Prevalent.** Corporate Espionage carries with it high fees and potential jail time and is important as privacy remains an increasingly expensive imperative in various jurisdictions, such as the European Union.
- **Large Damages.** Damages claimed by the State are extraordinarily large, especially in the European Union.

The Rowe Study.

Researcher Elizabeth Rowe^{xiii} dealt with a smaller sample than some others but larger than Searle. Rowe focuses on size of award and time of dispute. The average award on a trade secret is perhaps the most important data. Broken up into two separate segments, average awards in 2000 to 2014 were \$11,354,315.34. A fifty percent increase in four years is significant.

An important issue is also how much time it will take to go the full term of the dispute to trial. The average resolution to trial was found to be three 3 years which may be beyond many organizations' ability to tolerate such a risk.

Takeaways from Rowe

- Large Judgements. Eight figure judgments increased 50% over time period studied
- Average Time to Trial. Time to trial, 3 years.

Check List of Best Practices

Systems Based Strategic Plan

The first thing you can do is have a strategic plan. Medeiros Law Group has done several dozen strategic plans, primarily in professional services, technology and manufacturing. Plans are best done off site with stakeholders in a format that encourages a systems approach to intellectual property protection generally and trade secrets specifically. At these sessions, best practices are presented but there is a caveat: after time, best practices become the lowest common denominator in competitive industries. Forecasting is needed.

Redraft Non-Disclosure Agreements and Confidentiality Agreements

Approximately 78% of all confidentiality obligations the Medeiros Law Group reviews are not compliant with the DTSA. This is important as without the disclosure, no actual and exemplary damages (up to 2x) and attorney's fees, are available. The contractor or employee must have notice of certain DTSA provisions regarding whistle blower protection.

Work in "reasonable steps" in your trade secret plan.

Once you have a plan meaningful to your organization, you must take "reasonable steps". The protection of trade secrets are identified both in court cases and by the *Center for Responsible Enterprise and Trade*, who published a report outlining six practices in support of trade secret protection. Essentially they follow the following maxims:

Evidence is not Just for Trial.

Processes, policies and contracts must be in place to provide an evidentiary trail of a trade secret.

Identify Potential Losses and Cost

Risk management needs to be involved. Risks to loss must be identified and addressed on an ongoing basis.

Dedicate Team

Teams including experienced legal counsel who completed a plan, employees and contractors must be in place to protect the trade secrets claimed, whether market data, financial data, customer or supplier data. Persons who are responsible for its identification and protection must be in place.

Physical and Digital Security Systems

Physical and digital security must be in place to protect secrets specifically.

Test it with Experienced Parties.

Ensure the security is in place and tested. Note that many white hat companies that conduct “penetration tests” fail. Periodic monitoring, audits of processes, and testing of security systems must be in place.[vii]^{xiv}

We will add three more:

Assume Anomalous Code is a Breach Event and Act Fast

Many companies get anomaly reports from their IT outsources, providers and security consultants and three errors are typically made: 1. Management process is not in place to prioritize and get the anomaly to the chief security officer (CSA) or chief information officers’ (CIO’s) attention; 2. resources are not allocated to plug the breach under budget concerns; or, 3. the anomaly is ignored.

Document Evidence of Value

Value capture is one thing, proof of value is another. This is why judges in the cases reviewed, demand litigants prove or disprove.

Emotionally Connect with Staff of Trade Secret Importance.

Trade secret awareness must be part of your culture to work effectively. The vast majority of cases demonstrate companies have no process in place to protect these assets, or, if they have a policy, it is generally not followed because the staff does not viscerally know what this means. Someone is stealing from you, taking your job and putting you and your employer out of business. A “have I got your attention?” message is important.

Three Imperatives to Manage the New Trade Secret Crisis for Corporate Counsel

This paper indicates two areas of value: trade secret value itself is accelerating and disputes worth fighting about as trade secret litigation is becoming a larger part of the intellectual property litigation scene.

Also, this paper speaks to two areas of loss. From the billions of dollars in litigation cited in this paper, companies who should know better, do not. They repeat the same expensive errors and incur the same losses. They do not pay attention to corporate counsel. Finally, the United States by the Department of Justice is moving on known trade secret infringers. These may not help the situation: blaming the client and hoping the criminal prosecutions will stop the theft is ineffective. Three imperative action items are needed for corporate counsel:

- Make a strategic plan on trade secret protection system.
- Connect with staff and vendors on an emotional level to ensure compliance.
- Make compliance with the system easy.

Plan and System

Employees and business partners remain the largest sources of trade secret leakage. Labor favorable legislation on the west coast of the United States requires corporate counsel to be meticulous about non-disclosure, non-solicitation and non-compete enforcement. If any resources are devoted to this, it should be done right. A robust intellectual property plan focused on-boarding and off-boarding package for employees and equity holders is essential. Vendor and premises visitor security is essential. Having physical secret places, such as labs, with background checked access only with *enforced* limited access, is essential. Reported cases show at least those who end up in litigation, process is not followed, if it exists at all.

As in years past in Medeiros Law Group publications, industries with more intangibles, such as technical assets, software, service and information, or know-how driven entities are most vulnerable. Artificial intelligence, machine learning and digitized heuristics and stochastic model firms, must undergo a strategic assessment on the way they conduct the classification to define a process, capture value and determine it as a trade secret.

Connect with Employees and Vendors on an Emotional Level

We change our behavior and make decisions based on emotion, we justify those decisions with logic. Be fair to employees and ensure they know what type of information is treated as secret (which may involve privacy law), what information is merely confidential and what information is actually a trade secret. And why it matters to them personally.

Make Employee and Vendor Compliance Easy

Protecting trade secrets requires effort. A resolution to engage experienced intellectual property protection attorneys who have managed processes maximize the value of intellectual property is a start for your company and is required to uphold shareholder value and fiduciary responsibility. A mandate is that the effort must not be so great that nobody follows the process. Trade secret protection compliance *must be made part of the culture* and not destroy worker and vendor productivity.

As corporate counsel, can you say to your clients' competitors, shareholders, vendors, employees, court and *yourself honestly*, "Here are my trade secrets. We've protected these with this method for years by our enforced and audited processes, this is why it has value and here is how you can easily protect them" - then you have done your job.

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represented the world's largest software, e-commerce, telecommunications, banks and airlines in thousands of business transactions.

ⁱⁱ Ocean Tomo LLC suggests 87% of Standard and Poor's 500 companies hold their value in intangible assets. <http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>.

ⁱⁱⁱ "Despite UTSA's widespread adoption, the Restatement is often referred to by courts during ... deliberations in applying UTSA." Milgrim on Trade Secrets § 1.01[1] re: Restatement of Torts § 757.

^{iv} "A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." Restatement of Unfair Trade Restatement (3d) of Unfair Competition § 39 (1995).

^v RCW 19.108, et. seq. Uniform Trade Secrets Act.

^{vi} See, e.g., *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1165 (1st Cir. 1994).

^{vii} Definitions and defenses. 18 U.S. Code § 1839 – Definitions. **(5)**the term "misappropriation" means—(A) 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 (B) disclosure or use of a trade secret of another without express or implied consent by a person who—(i) used improper means to acquire knowledge of the trade secret; (ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—(I) derived from or through a person who had used improper means to acquire the trade secret; (II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or (iii) before a material change of the position of the person, knew or had reason to know that— (I) the trade secret was a trade secret; and (II) knowledge of the trade secret had been acquired by accident or mistake; **(6)** the term "improper means"— (A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and (B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition; ..."

^{viii} 18 U.S.C. §1830 et seq.

^{ix} Lerner, Josh, Using Litigation to Understand Trade Secrets: A Preliminary Exploration (August 2006). Available at SSRN: <https://ssrn.com/abstract=922520> or <http://dx.doi.org/10.2139/ssrn.922520>.

^x This data runs counter to the number of chemical cases reporting trade secret filings in other jurisdictions; for example, China lists chemical processes as a leading issue with trade secret misappropriation of reported cases.

^{xi} David S. Almeling, et al., "A Statistical Analysis of Trade Secret Litigation in Federal Courts," *Gonzaga Law Review* 45, no. 2 (2010); and David S. Almeling, et al., "A Statistical Analysis of Trade Secret Litigation in State Courts," *Gonzaga Law Review* 46, no. 1 (2011).

^{xii} Nicola Searle, "Damages Valuations of Trade Secrets: Evidence from the Economic Espionage Act of 1996," working paper of the 4th Annual Conference of the EPIP Association (September 2009).

^{xiii} Rowe, Elizabeth A., Unpacking Trade Secret Damages (July 1, 2016). University of Florida Levin College of Law Research Paper No. 17-25. Available at SSRN: <https://ssrn.com/abstract=2842325> or <http://dx.doi.org/10.2139/ssrn.2842325>.

^{xiv} <https://www.tradesecretsinsider.com/wp-content/uploads/sites/323/2015/07/Reasonable-Steps.pdf>