



Trade Secrets Walking Out The Door

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Trade Secret & IP Theft



- 2002 ASIS Report re 2002 Survey:
 - 138 companies from Fortune 1000 & US Chamber SME members
 - Trade Secret & IP losses of \$53-59 Billion
 - 40% had incidents during past year
 - Average loss in R&D: 404k; in Financial Data: \$356k

ASIS/PWC/US Chamber Survey

Table 3.5 Reported Incidents of Proprietary Information Loss by Areas of Risk

Areas of Risk	Percent ¹ Companies Reporting Loss Incidents	Total Reported Incidents ²
Customer Lists and Related Data	36	19
Strategic Plans and Roadmaps	25	18
Financial Data	27	16
Research and Development	49	13
Merger/Acquisition	16	11
Manufacturing Data	16	9
Unannounced Product Specifications	11	7
Prototypes	15	6
Second Party Information	4	6

- 1 Percent is based on 55 responding companies that reported losses in Table 3.1. These companies can experience loss incidents in more than one area of risk.
- 2 Number of reported incidents shows incidents reported by companies that experienced a loss in this area of risk. The total number of incidents reported in this survey is 105 based on data from 55 responding companies who reported losses in Table 3.2. As a result, companies reporting proprietary information loss incidents identified an average of 1.9 incidents in the reporting period.

ASIS/PWC/US Chamber Survey

Table 3.1 Risk Factors Associated With Proprietary Information and Intellectual Property Loss by Industry Group and Revenues

Risk Factor	All Responding Companies
Former Employees	1
Foreign Competitors	2
On-site Contractors	3
Domestic Competitors	4
Computer Hackers	5
Vendors/Suppliers	6
Current Employees	7
Strategic Partners	8
Intelligence Services	9
OEMs/Outsource Manufacturers	10
Media	11

¹ Results are based on 138 responding companies.

Trade Secrets vs Patents

- Patent law does not pre-empt trade secret protection even for patentable information—*Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974)
- Can contract for continuing royalty in exchange for trade secret disclosure, whereas patents expire. *Aronson v. Quick Point Pencil Co.*, 99 S. ct. 1096 (1979)
- Patents require disclosure – some very valuable inventions are not patented but protected by trade secret law (e.g., Coca Cola®)

Trade Secrets - UTSA

- Uniform Act adopted in 44 states plus USVI and DC; bills introduced in NY and MA this year (still not adopted, and no bills, in in NJ, NC, TX & WY)
- "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.



Reasonable Efforts to Maintain Secrecy



- Reasonable “under the circumstances” - No requirement of extreme or unduly expensive measures to protect from flagrant espionage
- Examples:
 - Advising employees of existence of trade secret;
 - Limiting access to “need to know basis;”
 - Controlling plant access.



Misappropriation

- “Misappropriation” means:

- Acquisition of trade secret by one who knows or has reason to know trade secret acquired by *improper means*; or
- Disclosure *or use* without express or implied consent by person who:



- used *improper means* to acquire knowledge of it; or
- At time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
 - Derived from or through one who utilized *improper means* to acquire it;
 - Acquired under circumstances giving rise to duty to maintain secrecy or limit its use; or
 - Derived from or through person who owed duty to Plaintiff to maintain secrecy or limit its use; or
- Before material change of position, knew or had reason to know that it was a trade secret and knowledge of it was acquired by accident or mistake.

Improper Means

- “Improper means” under the UTSA *include*:
 - Theft;
 - Bribery
 - Misrepresentation;
 - Breach or inducement of a breach of a duty to maintain secrecy;
 - Espionage through electronic or other means
- Not exclusive list: “commercial ethics”

Proper Means

- Discovery by independent invention;
 - Discovery by reverse engineering;
 - Discovery under a license from the owner;
 - Observation in public use or display;
 - Obtaining from published literature
- However, some otherwise “proper means” may be *improper* under the circumstances, e.g.:
 - Going to work for a company to gain exposure to its secrets with intent of setting up own company or going to work for a competitor;
 - Airplane overflight for reconnaissance of plant layout during construction

Remedies

- Injunctive Relief:
 - Can enjoin actual *and threatened* misappropriation
 - Terminate when trade secret ceases to exist plus additional, reasonable, time to eliminate commercial advantage
 - In exceptional circumstances (such as where change of position before knows of a misappropriation), may condition continued use on payment of reasonable royalty.



Remedies



- Damages:
 - Unless inequitable to award (such as where change of position prior to knowledge), entitled to award of damages;
 - Can include actual loss and the unjust enrichment that not included in actual loss;
 - May opt for reasonable royalty in lieu of damages measured by other methods;
 - If willful and malicious, judge may award exemplary damages up to twice the amount above

Attorney's Fees

- May be awarded where:
 - Claim of misappropriation is made in bad faith;
 - Motion to terminate injunction is made or resisted in bad faith; or
 - Willful and malicious misappropriation exists.



Miscellaneous

- Preservation of Secrecy in Legal Proceedings Mandatory
 - Discovery protective orders;
 - *In-camera* hearings;
 - Sealing records of action;
 - Prohibiting disclosure by participants in the proceedings absent prior court approval.
- Limitations of Actions
 - Act recommends three years after misappropriation is discovered, or by the exercise of reasonable diligence *should have been* discovered;
 - Continuing misappropriation considered a *single* claim (statute to run from the initial misappropriation, but on discovery)

Inevitable Disclosure Cases

- Employee cases particularly difficult
 - Entitled to use general knowledge gained in past employment if acquired in due course;
 - Anti-competitive impact and public policy
 - Distinguish where there is a restrictive covenant and where there isn't;
 - Not clear if is actually a "doctrine" as it is sometimes called, or just an equitable rule of proof – one factor to determine if there is a threat of disclosure
 - *E.I. Dupont de Nemours & Co. v. American Potash & Chemical Corp.*, 200 A. 2d 428 (Del. Ch. 1964)(first known case to use "inevitable" terminology was in context of determining "threat" of disclosure)
 - Note that UTSA permits enjoining of "threatened" misappropriation and "misappropriation" includes "use" by one who acquires by improper means or under duty to maintain its secrecy

Inevitable Disclosure - PepsiCo

- *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995):
 - Relied on Illinois' UTSA; was one of first UTSA decisions;
 - "may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."
 - Applied to non-technical employee – business manager in charge of marketing plans.

Inevitable Disclosure – PepsiCo Cont'd

- Seventh Circuit factors:
 - Employee must possess “extensive and intimate knowledge;”
 - Positions must be so similar that employee would have no choice but to rely on the trade secrets to perform new job;
 - Lack of candor by employee or new employer indicative of willingness to exploit despite confidentiality agreement or representations that would not disclose.

Inevitable Disclosure – Split in Jurisdictions

- Majority that have considered have adopted some form of the “doctrine.” See, *Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443, 1460 (Cal. App. 2002) (rejecting the doctrine as creating a *de facto* covenant not to compete, counter to public policy favoring employee mobility):
 - Adopted in some form by: NDIII., IL, WDMo., SDTex, D. Minn., D.Utah, D. Conn., AK, DE, NJ, OH.
 - Distinguished or decided on other grounds in: D.Md, EDMich, SDInd., ID & NC.
 - “Small but growing band of cases rejecting:” SDFla, WDNY, SDNY, VA

Individual States

- See Comment, “An Overview of Individual States’ Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?” 55 SMU L. Rev. 621 (2002) for state by state discussion and analogy to pornography – “know it when they see it, but can’t agree on its definition”

Summary & Conclusions

- These are factually intense cases, generally no hard and fast rules or bright lines;
- Conduct of parties many times determinative:
 - Did Plaintiff take reasonable measures to protect the secret?
 - Did Defendants engage in improper means such as copying, hacking, bribing or lying?
- Use express agreements in addition to trade secret protection but be careful not to limit trade secret protection in the agreements

Q&A

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Table 3.4 Average Dollar Value and Percent of Dollar Loss by Areas of Risk

Areas of Risk	Average Dollar Value Loss per Incident ¹	Percent of Dollar Value Loss by Area
Research and Development	\$404,375	43
Financial Data	356,035	38
Second Party Information	164,706	11
Customer Lists and Related Data	117,000	5
Other Sources	20,342	3
• Prototypes	*	*
• Strategic Plans and Roadmaps	*	*
• Manufacturing Data	*	*
• Merger/Acquisition	*	*
• Unannounced Product Specifications	*	*

¹ Results are based on 55 responding companies that reported losses in Table 3.2.

* Insufficient cell size to calculate findings.