



Manufacturing Success: Trade Secrets Basics

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Trade Secrets – The Value

- Value of trade secret theft: 1-3% US GDP (\$227-\$682 billion)
- Surveys show trade secrets are the **most important IP**
- 2016-2020 = \$1.29 billion in damages
- Famous Example – Coca-Cola
 - Market cap: \$265.95 billion
 - Brand value: \$87.6 billion (2021)
 - Has kept formula secret for over 100 years



Trade Secrets – The Risk

Companies surveyed report that:

- 80% recognize trade secrets critical to business
- 33% had trade secrets stolen in last 10 years
- Only 35% have adequate trade secret protection
- 75% expect the risk of trade secret theft to increase
- 90% of loss comes from insiders (employees & business partners)



Examples

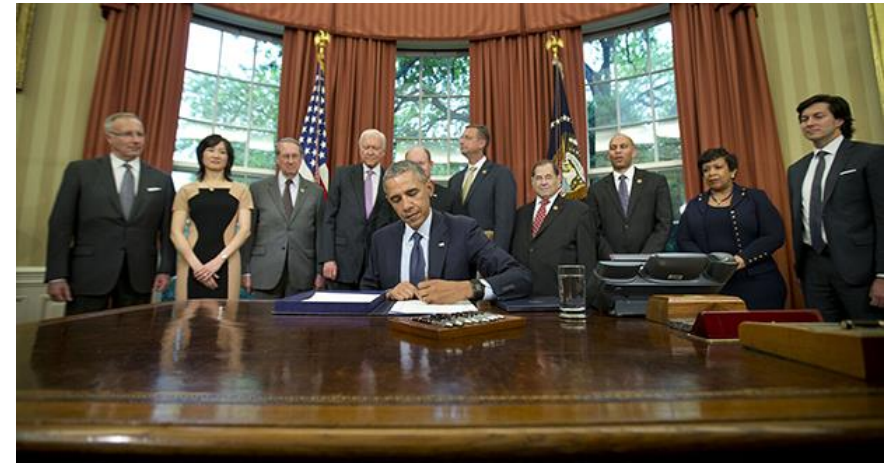
- Uber autonomous driving subsidiary accused of stealing trade secrets from Google's autonomous driving subsidiary.
- Settled in February 2018 by providing Google with a \$245M equity stake in Uber.

(<https://www.newyorker.com/magazine/2018/10/22/did-uber-steal-googles-intellectual-property>)



Trade Secrets – The Solution

- Pre-litigation protection strategies
- Litigation tools – Defend Trade Secrets Act (DTSA)



President Barack Obama signs the Defend Trade Secrets Act of 2016 on May 11, 2016 in the Oval Office of the White House.
(AP photo: Pablo Martinez Monsivais)



Trade Secrets – DTSA

- Criminal statute
- Example: Hytera indictment
- Conspiracy to commit trade secrets theft, possession of stolen trade secrets
- Hytera charged with directing former Motorola employees to steal circuit designs, source code, etc.
- Civil suit led to \$544 million award



Trade Secrets – What Are They?

- **DTSA provides a broad definition:**
 - Trade secret includes information of any form
 - Any type (financial, business, scientific, technical, economic, or engineering information)
 - So long as:
 - (1) actually a secret;
 - (2) reasonable measures to maintain secrecy; and
 - (3) independent economic value is derived from that secrecy.



Trade Secrets – Examples

- Formulations
- Manufacturing processes
- Customer lists/contacts
- Financials
- Source code and algorithms
- Proprietary pricing
- Designs/blueprints
- *Know-how



Trade Secrets – What Are They NOT?

- Inadequately protected trade secrets
- Publicly available information (Astros sign stealing)
- Reverse engineering
- Contractually defined confidential information?
- Patents: Publication in patent ends trade secret

– *Cajun Services Unlimited, LLC v. Benton Energy Service Co.*, 2019 WL 2410933 (E.D.La. June 7, 2019)



Patent or Trade Secret? Consider:

- Is it a secret? Value from secrecy?
- Likelihood of maintaining secrecy?
 - Employees, customers, product in circulation
 - Trade secret indefinite if you keep the secret
 - Patent 14/20 years
- Reverse engineering / independent discovery
 - Still patent infringement, but not trade secret misappropriation
- Demand in industry
 - Expect to have widespread adoption – broad licensing potential
- Patent some aspects, maintain trade secrets for others?
 - “[A] company can maintain trade secret protection in the undisclosed aspects of a product, even if it has publicly disclosed other aspects of the same product.” *Life Spine, Inc. v. Aegis, Inc.*, 8 F. 4th 531 (7th Cir. 2021)



Trade Secrets – Examples

- Trade secret identification: *Mallet and Co. Inc. v. Lacayo*, 16 F.4th 364 (3d Cir. 2021)
- Commercial baking release agents
- Rival hires Mallet employees, accelerates competitive product development
 - Mallet had NDAs, non-competes, restrictive access, network passwords in place
 - Evidence of misappropriation (email to personal account, wiped devices)
- What’s the trade secret?
 - Food product: ingredients are published, though ingredient ratios not
 - Patents on formulations and manufacturing processes
 - Distinguish patents from “know how” developed
- District Court enjoins use of 13 categories of information (arguably some in patents)
- Third Circuit reversed on appeal for insufficient identification of trade secret



Trade Secrets – Examples

- *Oakwood Labs. LLC v. Thanoo*, 999 F.3d 892 (3d Cir. 2021)
- Specialty pharma (microsphere tech \$130 million, 20 years)
- Deal with Aurobindo collapses, Aurobindo hires the talent
 - To market within a year with \$6 million investment
- What's the trade secret?
 - Multiple amended complaints dismissed for specificity
 - Design, R&D, test methods/results, variables affecting
 - Particular memo disclosed in negotiations under NDA
 - Third Circuit reverses - description sufficient



Trade Secrets – Examples

- *Oakwood Labs.* (cont'd)
- “Use” misappropriation is broad, includes “all the ways one can take advantage of trade secret information”
- Key is gaining economic benefit, competitive advantage, other commercial value, or similar exploitative purpose
- Not necessarily “replication”
- Includes R&D boost
- Damages can include avoided R&D costs



Trade Secrets – Pre-Litigation Strategies

- Internally Define and Classify
 - Index?
 - Where to keep?
 - Only for the most important trade secrets?
 - Pros v. cons
 - Most important – know what you have!
 - *Mallet* and *Oakwood* cases: specificity in trade secret definition and injunction



Trade Secrets – Pre-Litigation Strategies

- **Preventing misappropriation of your trade secrets**
 - Know what you need to protect
 - Management buy-in and employee education
 - Teach why it matters
 - Consider training in addition to handbooks/policies
 - Onboarding, continuing training, reinforce at departure
 - Labeling, access restrictions
 - Limiting system access and use (“need to know”)
 - Do engineer/development and sales staff need equivalent access?



Trade Secrets – Pre-Litigation Strategies

- **Preventing misappropriation of your trade secrets**
 - Confidentiality agreements
 - Noncompetition agreements in judicial decline
 - Data security for remote workforces
 - BYO device policies
 - Exit protocol and access termination
 - Log download activity
 - Hold off on device and server space recycling?
 - “Great resignation” in an employee’s market



Trade Secrets – Pre-Litigation Strategies

- **Limiting risk of misappropriation of others' trade secrets**
 - Screening as part of hiring process
 - Hiring from a competitor?
 - Restrictive covenants?
 - Reasons to hire apart from knowledge gained from competitor?
 - New employee agreements/representations – not bringing documents
 - “Inevitable disclosure”



Trade Secrets – Pre-Litigation Strategies

- **To sue or be sued?**
 - Is it really a trade secret?
 - Harm?
 - Cost?



Trade Secrets – Litigation Tools

- DTSA enacted 2016
- Steady case filings into pandemic
- COVID-related mobility driving cases?

Steady Case Filings Since 2017



June 24, 2021 Lex Machina/LexisNexis *Trade Secret Litigation Report*



Trade Secrets – Litigation Tools

- **Ex Parte Seizure – A new protection tool under DTSA**
 - Inadequacy of civil remedies
 - Immediate and irreparable injury
 - Harm without seizure outweighs harm of seizure
 - Likely to show trade secret improperly misappropriated
 - Show person against whom seizure is sought has the trade secret
 - Describe “reasonable particularity” property to be seized and location
 - The person against whom seizure is sought will destroy, move or hide
 - No seizure if trade secret owner publicizes it



Trade Secrets - Litigation Tools

- **Injunction (18 USC 1836(b)(3))**
 - Prevent actual or threatened misappropriation
 - May require “affirmative actions to be taken to protect the trade secret”
 - Cannot “prevent a person from entering into an employment relationship”
 - Limitations “shall be based on evidence of threatened misappropriation and not merely on the information the person knows”



Trade Secrets – Litigation Strategies

- Burn hot but not long (usually)
- Temporary restraining order and preliminary injunction
 - Likelihood of success on merits of underlying claim
 - Irreparable harm
 - Balance of harms
 - Public interest
- Ex parte, TRO (or not), expedited discovery, evidentiary hearing
- Bond?



Trade Secrets - Litigation Strategies

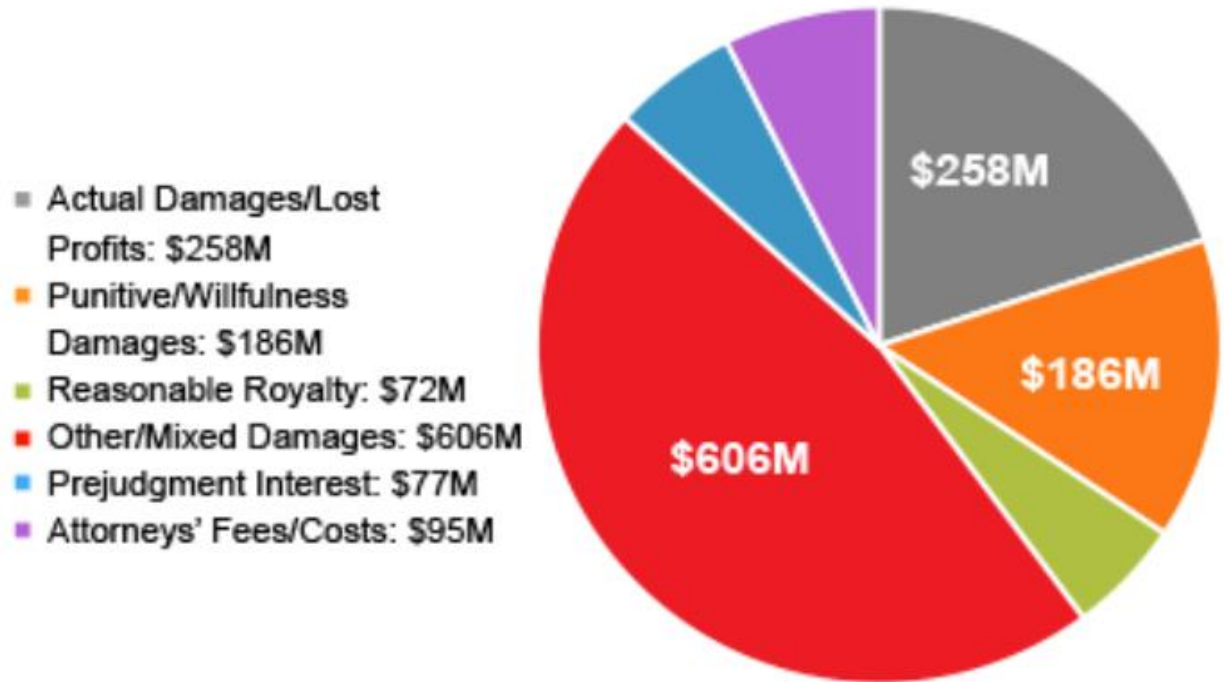
- **Discovery**

- Plaintiff must prove the trade secret
- Defendant will exploit
- Depositions, document production, written discovery
- Confidentiality orders



Trade Secrets - Litigation Risk

Damages Breakdown
2016-2020



- Seizure
- Damages
 - Actual loss and unjust enrichment or royalty
 - Lost profits
 - R&D costs
- 2x damages
 - Willful misappropriation

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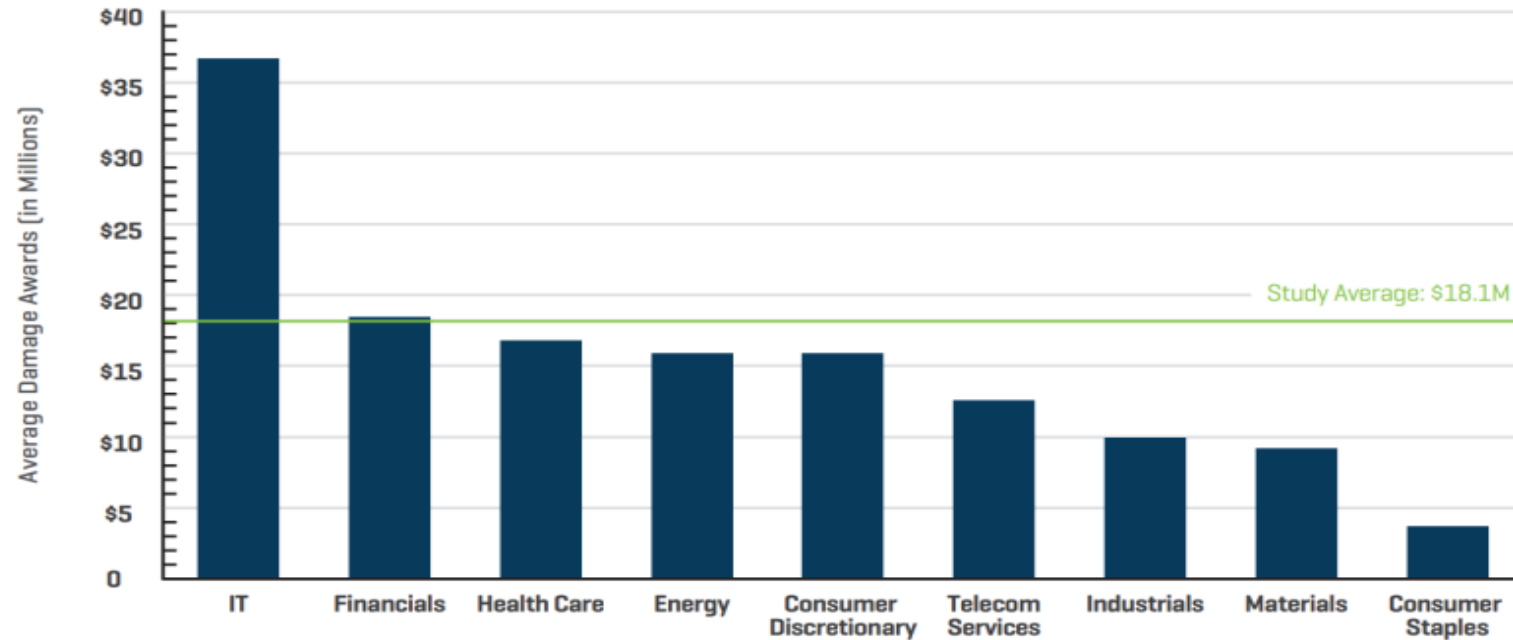
Trade Secrets - Litigation Risk

- Fees (18 U.S.C. 1836(b)(3)(D))
- “Reasonable” attorney’s fees to prevailing party if:
 - Bad faith claim (or defense)
 - Willful or malicious misappropriation
 - Cumulative



Trade Secrets - Litigation Risk

Average Damage Awards by Industry*



*Excluding *E.I. duPont v. Kolon Industries*

Source: *Trends in Trade Secrets Litigation: 2020*
www.stout.com



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