



Training Academy Session # 26

Tips for Protecting and Enforcing Your Trade Secrets

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Session Overview

1. Basis, Requirements, and Examples (Slides 3-11)
2. Misappropriation (Slides 12-17)
3. Damages and Other Remedies (Slides 18-21)
4. Tips for Minimizing Disputes (Slide 22)

Why Trade secrets?

- Protect valuable information for a competitive edge
- Fill in some gaps left by other forms of IP protection
- Billions of dollars in losses to holders of trade secrets

Differences Between Trade Secrets and Patents

- Patents
 - Government examination process
 - Mandatory disclosure
 - Calculable and definite monopoly term
 - Strict liability enforcement
- Trade Secrets
 - Private establishment
 - Indefinite life
 - Enforcement only against misappropriation

Legal Bases

Prior patchwork

- Federal civil law, including ITC actions
- Federal criminal law (18 USC §1831)
- Uniform Trade Secrets Act (adopted by 47 states and DC)
- Unfair competition statutes (state and Federal)
- Common law trade secret misappropriation and unfair competition
- Restatement (First) of Torts § 757

Legal Bases

- Defend Trade Secrets Act (DTSA) –18 USC § 1836
 - Creates civil action and original jurisdiction in Federal courts for misappropriation of trade secrets
 - Creates *ex parte* seizure order remedy
 - Creates a remedy for damages for a wrongful seizure
 - Allows (1) injunction, (2) damages awards, (3) exemplary damages, (4) attorneys fees to the prevailing party in special circumstances

Legal Bases

- DTSA Civil Action, 18 USC § 1836(b)(1)
 - “An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”

Definition

- “[A]ll forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if:
 - (A) the owner thereof has taken **reasonable measures to keep such information secret** and
 - (B) the information derives **independent economic value**, actual or potential, from **not being generally known** to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information”
 - 18 U.S.C. § 1839(3)

Examples of Trade Secrets

- The “secret formula” to Coca-Cola
- Internal annealing process for the manufacture of tires
- Customer list
- Software source code

How to Protect a Trade Secret

- Employment agreements with confidentiality provisions
- Confidentiality agreements
- Password encoded or other limited access
- Physical barriers to access
- Don't talk about it or publish it

How to Lose a Trade Secret

- Carelessness
- Legal Acquisition and Reverse Engineering
- Independent Invention

Misappropriation

- Acquisition through improper means; or
- Disclosure or use without express or implied consent by a person who
 - Used **improper means to acquire** knowledge
 - **Knew** or had reason to know trade secret was derived or **acquired under circumstances requiring secrecy** or from a person required to maintain its secrecy
 - Before a material change in position, knew or had reason to know that it was a **trade secret** and had been acquired by mistake or accident

Misappropriation

- Defining the trade secret
- Maintaining secrecy
- Meeting the standard for seizure
- Calculating economic loss
- Calculating unjust enrichment
- Obtaining evidence of trade secret theft
- Determining when punitive damages are appropriate

Sufficiently Identifying the Trade Secret

- Sufficient specificity to allow defendants to know what they are defending against
- *Coda Dev. S.R.O. v. Goodyear Tire & Rubber Co.* (N.D. Ohio, March 31, 2023) [Ohio TS law]
 - General allegations of “knowledge” or “design” without specific articulation will not suffice
 - Too many interpretations
 - Vague, functional terms

Sufficiently Identifying the Trade Secret

- *XpandOrtho, Inc. v. Zimmer Biomet Holdings, Inc.* (S.D. Cal. March 15, 2022)
 - “geometry, dynamics, and kinematics of” a device, coupled with specific examples
- *Talon Indus., LLC v. Rolled Metal Prods.* (D. N.J. Aug. 30, 2022)
 - General description coupled with specific examples can adequately define a trade secret

Status as a Trade Secret

- *GateGuard, Inc. v. Amazon.com Inc.* (S.D. N.Y., Feb. 16, 2023)
 - Service Agreement
 - “Unauthorized” reverse engineering
- *Turret Labs USA, Inc. v. CargoSprint, LLC* (2nd Cir. 2022)
 - Computer software functionality requires access restrictions and confidentiality agreements

Proving Misappropriation

- *Apple Inc. v. Rivos, Inc.* (N.D. Cal., Aug. 11, 2023)
 - Mere possession does not circumstantially prove “disclosure or use”
 - Failure to return lawfully acquired information not necessarily proof of acquisition by improper means
- Tip – actively discourage new employees from retaining confidential information of prior employer

Damages

- Typical measures of damages
 - Plaintiff's losses
 - Lost market share
 - Price diminution
 - Defendant's gains
 - Head-start on development
 - Defendant's profits from sales of products/services derived from the trade secrets
- Generally subject of expert analysis looking at the market and subjecting it to “but-for” reconstruction

Damages

- Model Jury Instruction
- To the extent that it is not duplicative (that is, double counting), you may award either:
 - (1) the amount (i) of [name of plaintiff]’s actual damages suffered as a result of [name of defendant]’s misappropriation of [name of **trade secret**]; and (ii) [name of defendant]’s unjust enrichment that is a result of [his/her/its] misappropriation of [name of **trade secret**], even if that amount is more than the actual damages suffered by [name of plaintiff]

OR

 - (2) the amount of a reasonable royalty for [name of plaintiff]’s unauthorized disclosure or use of [name of **trade secret**].
- If you choose to award [name of plaintiff] damages, you must choose to award damages based on either (1) actual damages plus unjust enrichment or (2) a reasonable royalty.

Damages – “Saved Costs”

- *PPG Indus. V. Jiangsu Tie Mao Glass Co.* (3rd Cir., 2022)
 - Unjust enrichment theory – plaintiff can recover amount saved by defendant in skipping R&D process
 - Court can look to owner’s R&D costs as indicative

Other Remedies

- Injunction
 - Prevent use/disclosure (early litigation)
 - Prevent subsequent use
 - Head-Start Period
- Ownership
 - Equitable
 - Contract

Minimizing Trade Secret Disputes in Joint Ventures

- Limit Exposure
- Notify
- Demand Clarity
- Return/destroy Information at the end

Speakers



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