Turning Gold Dust into Gold:
How to Identify and Protect Your Trade Secrets

What Are Trade Secrets

- Confidential information that confers a competitive advantage to owner by virtue of being unknown by others.
- Almost opposite of patents, where the invention is published and declared
- Every successful business has trade secrets or a secret sauce that differentiates it from competitors and sustains its market position

Famous Examples of Trade Secrets

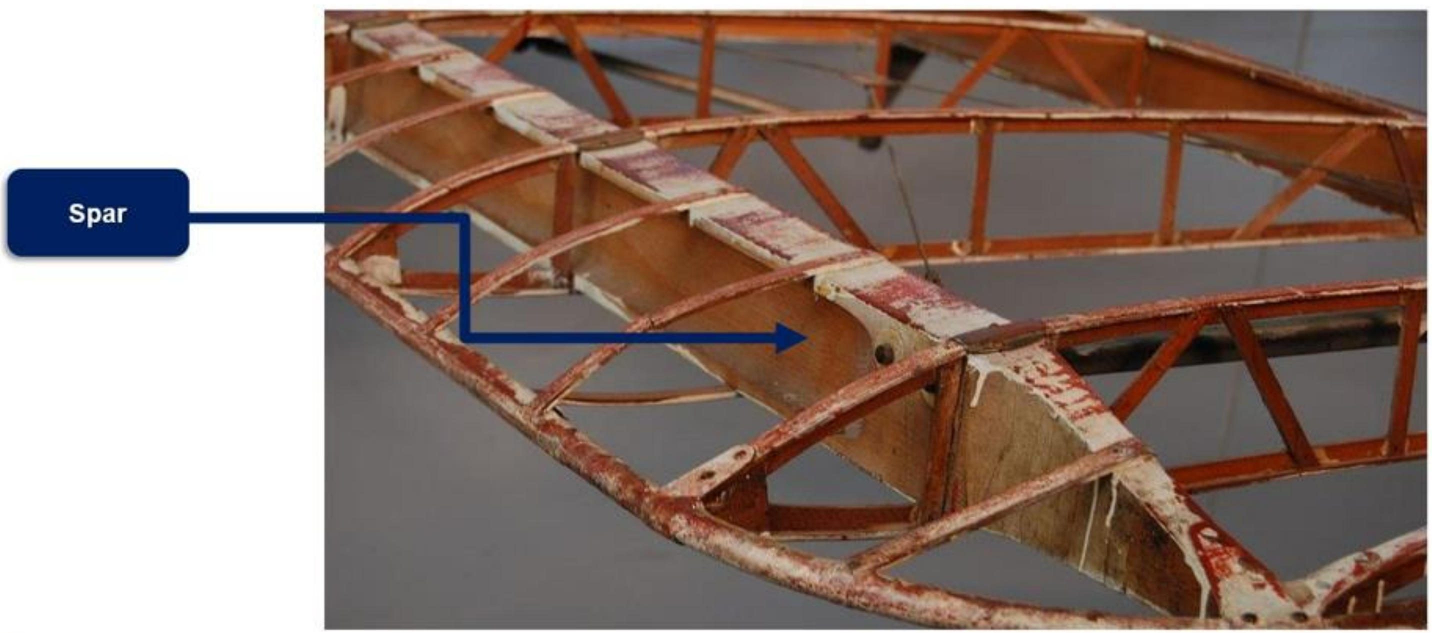
- ✓ Coca-Cola formula (not recipe but weights, process)
- ✓ New York Times Bestseller List (what's a bestseller, how do they compile)
- ✓ Baseball: Lena Blackburne Rubbing Mud
- ✓ WD-40

Less Famous Still Golden Examples

- Source Code for a web application
- Supply Chain measures lowering cost, saving inventory, sourcing
- Marketing Plan for a business
- Protocols or Processes that give a competitive advantage
- Negative Know-How -- R&D information about what did not or will not work has value

Why companies need to identify and protect trade secrets, these sometimes can be used as assets in a company's portfolio

***ALCOA, Inc. v. Universal Alloy* –** ALCOA (through subsidiary Arconic) sued, alleging trade secret misappropriation by United Allow and requested $264 Million in damages. The alleged secrets were the design and process to make metal spars for aircraft wings.



https://en.wikipedia.org/wiki/Spar_(aeronautics)

ALCOA INC. V. UNIVERSAL ALLOY CORPORATION

BREAKDOWN OF THE "LOSE, LOSE, LOSE" SCENARIO

TRADE SECRET DISPUTE

Alcoa alleged that UAC misappropriated its trade secrets related to the "large press stretch form extrusion parts" it manufactures for Boeing.

This proprietary process, developed over 25 years, was crucial to Alcoa's competitive edge in the aerospace industry.

SETTING THE STAGE FOR LITIGATION

UAC hired former and current Alcoa employees and consultants who allegedly disclosed these trade secrets leading to the misappropriation.

UAC's counterclaim alleged that Alcoa's suit was "sham litigation" and filed a motion for summary judgment on issues including reverse engineering, statute of limitations, and reasonable efforts to preserve secrecy.

INSUFFICIENT PROOF

In the legal arena, Alcoa faced substantial challenges. The federal jury ultimately agreed with UAC's defense, determining that NONE of the trade secrets claimed were Alcoa's property. Additionally, Alcoa's handling of document production was also problematic, raising concerns about compliance with its obligations.

LOSE →

LEGAL LOSS

The misappropriation of trade secrets led to a significant financial blow for Alcoa, with a reduction of $200 million in sales to Boeing .

The loss of a major client and the associated revenue underscored the severe impact on Alcoa's financial stability.

LOSE →

ADDITIONAL LOSSES

The case lasted almost nine years (Jan 2011 to Sept 2023) & included multiple stages of legal proceedings.
Although the exact total cost is unknown, the involvement of multiple high-profile law firms indicates significant financial expenditure, including attorney fees, expert witness fees, and expenses related to the appointment of a Special Master.

LOSE

Source: CaseLaw Arconic Corp v. Universal Alloy Corp, U.S. District Court for the Northern District of Georgia, No. 1:15-cv-01466

Phillips 66 $604 Million

- Propel Fuels sued Phillips 66 claiming the stole trade secrets about a clean fuel formula during negotiations for a venture/purchase
- 5 week trial verdict
- $604 Million
- Litigation Funders are Now Showing up at Trade Secret panels looking for cases to finance

- **Other than NDAs, a survey estimated that 80% of companies do nothing proactive on the front end to collect, identify, and value any trade secrets -- gold dust sitting there.**

- **70% of CEOs in a survey admitted taking intellectual property from a previous employer to a new one**

- Likely the least understood and most valuable asset

Recent Trends in Trade Secret Litigation

- Since the DTSA (18 U.S.C. § 1839) was passed in 2016, the number of civil trade secret cases filed in federal court has increased by 30%

- Over the past 30 years, trade secret litigation in federal courts has doubled roughly every decade, while federal litigation has decreased overall
- Unlike other IP litigation, trade secret litigation is spread evenly among federal courts around the country
- **In the majority of trade secret litigation, an employee or former employee is the alleged misappropriator**

Strategies For Safeguarding Your Gold

Why Trade Secret Policies are Important

1. Required by law
2. Most IP is digital
3. Cameras/recorders/computers everywhere
4. Travel and remote work
5. Personal email accounts
6. Portable Storage (USBs, hard drives)

Policies Should Address the Following

1. Identification of Trade Secrets
2. Access and Use
    - To maintain secrecy
    - To protect against claims of misappropriation
3. Monitoring and Enforcement

Identification of Trade Secrets

Identification

1. Identify
2. Define
3. Label
4. Value (*Next Advisor Continued, Inc. v. Lending Tree, Inc.*, 2017 NCBC 51)

Identification of Trade Secrets

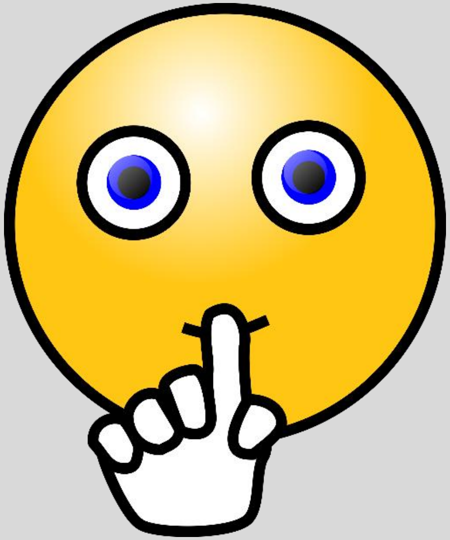
Some Categories:

- Formulas and manufacturing methods
- Computer software and code
- Pricing, quotation, costing formulas
- Customer lists, sales history, product preferences
- Compilations of business information

A proactive and dynamic exercise

Access and Use

To be a **Trade Secret**:



1. Hint: It has to be **SECRET**!

2. Meaning it must be subject to *reasonable* efforts to maintain its secrecy. N.C.G.S. § 66-152(3)(b).

Access and Use

1. What is reasonable is entirely fact specific and case-by-case
2. It depends on:

- The type of information:

  - physical vs. electronic

- The industry:

  - sales vs. manufacturing

- The employee:

  - R&D vs. accounting

What is **NOT** Reasonable

Efforts found **NOT** Reasonable:

- Mere intention is insufficient
- Employees’ implicit duty to protect information
- General business practices are insufficient
- Confidential stamp where no policy and not used consistently
- Occasional reminders of confidential nature
- Failing to inform what is secret

Secrets **NOT** Protected

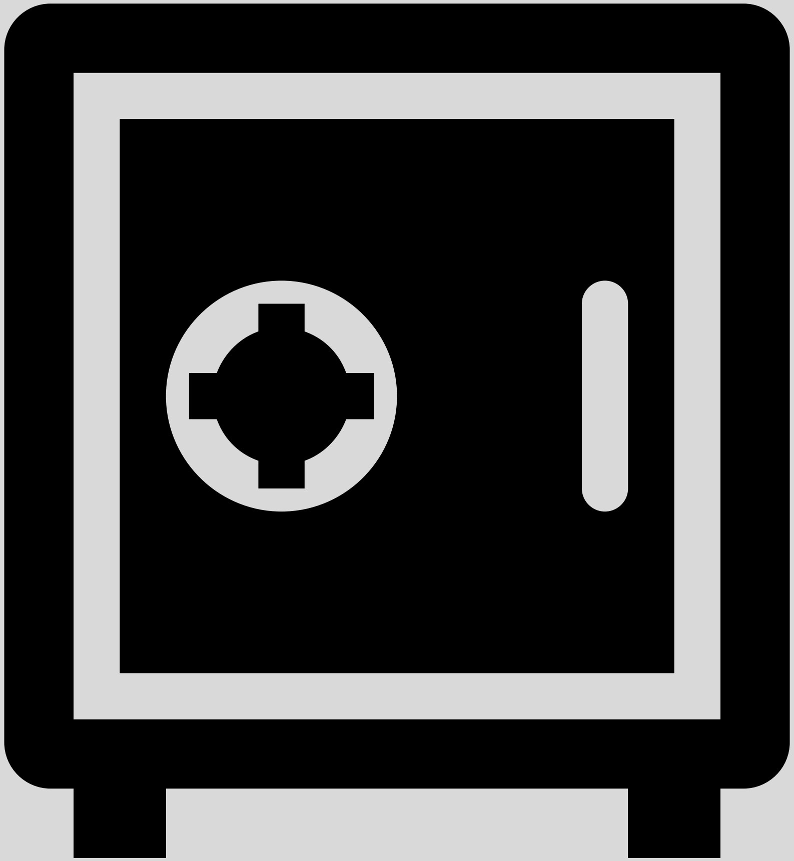
Yellowfin Yachts, Inc. v. Barker Boatworks, LLC, 898 F.3d 1279 (11th Cir. 2018)

- Limited access to the information (<5%)
- Maintained it on a password-protected computer system
- Implicit understanding info was confidential

Considerations to Protect Secrets

How information is:

1. Stored
2. Accessed
3. Shared/
   Communicated



How Information Stored

1. Physical Security Measures
    - Guarded entrance
    - Locked doors or filing cabinets
    - Visitor access, key card access
    - Restricted areas, warning signs
    - Prohibiting photography or cell phones
    - Label confidential documents
    - Clean desk policies
    - Shredding boxes

How Information Stored

2. Technology Security Measures
   - Restricted Access (VPN, Wi-Fi, document groups)
   - Limiting people with access
   - Passwords, encryption, remote deletion
   - Use of storage devices (USB’s, hard drives)
   - Restricting flow of information
   - Segregation of information
   - Unnamed or coded ingredients
   - “Read Only” (no ability to print, download, email)
   - Two-Factor authentication
3. Must also consider cyber security

How Information is Accessed

1. Who has access – not one size fits all
   - R&D has different access than HR
   - Depends on employee position
2. What can they access
   - Consider different levels/tiers of access
3. How is it accessed
   - Only on site vs. remote
   - Access while traveling, emailing
4. When is it accessed
   - Only during business hours, only with witness present, etc.

Monitoring and Enforcement

Best if policies in place before separation or litigation

1. When employee accessed information
2. What information accessed
3. Was that information saved

Importance of Monitoring

To prove misappropriation, company must prove someone took the trade secret ***without authorization***.

1. Access alone doesn’t cut it;
2. Must be unauthorized access or direct evidence of actual use
3. Must show what was taken and how it was taken

Differing Measures

<u>Measures</u>:

- Logs (download, keystroke, printing)
- Remote monitoring, remote deletion
- Download monitoring
- Video cameras
- External storage device alerts

Doing Business with Trade Secrets

Sharing and transferring sensitive information

1. Confidentiality agreements/NDA's with third parties
2. How info transferred person to person
   - Email, USB, shared drives/servers, cloud transfers, etc.
   - Can employees access/use personal emails
   - Remote working policies

What Can You Do Today?

1. Understand and identify your trade secrets
2. Understand and learn how they are handled
3. Understand your physical and IT controls and capabilities
4. Assess and implement reasonable policies to protect your trade secrets

Preventing Departing Employees from Mining Your Gold

Post-Employment

- **The risk of losing confidential information is <u>highest when an employee is leaving</u>**
  - Conduct exit interviews and have departing employees sign “Exit Agreements”
    - Contemporaneous record of what was returned
    - The Exit Agreement should contain a certification that all confidential and trade secret information belonging to the employer was returned
  - Departing employees should be reminded of their confidentiality/ non-complete obligations
    - Provide them with copies of these signed agreements and have them acknowledge receipt in writing
    - Provide notice that they are expected to honor these agreements

Post-Employment

- Departing employees **must delete** any confidential information they have from anywhere they still have it in their possession (e.g. smartphones, home computers) and acknowledge having done so
  - Personal email accounts
    - *Angel Oak Mortg. Sols. LLC v. Mastronardi*, 593 F. Supp. 3d 1234 (N.D. Ga. 2022)
- Departing employees must return their company computer, phone, thumb drives, etc.
  - Departing employees should sign forms documenting what was returned (and perhaps what was not)
  - These assets should be tracked by serial numbers (chain of custody)
  - A forensic image should be preserved of the hard drive of departing employee's computer

Post-Employment

- Account names and passwords should be shut down promptly
- What is your company's email retention policy? Deletion of contents of email account within a certain number of days?
  - If that is your policy, make exceptions for high-risk employees, (e.g., V.P. of Sales, Head of R&D)
  - You might need to investigate or use as evidence later
  - Do not want to destroy potential evidence (spoliation)
- It costs < $1000 to make a forensic image of a hard drive

Yellowfin Yachts, Inc. v. Barker Boatworks, LLC, 898 F.3d 1279 (11th Cir. 2018)

The 11th Circuit upheld district court finding that "**no reasonable jury could find that [the plaintiff employer] engaged in reasonable efforts to secure the Customer Information**" where:

- Employer allowed the accused employee to store information on a personal laptop and phone and "never asked [the employee] to delete the information from his personal devices after he left the company."

If anything during this process raises concerns then the employer, with the assistance of counsel, should begin an investigation into the departing employee’s activities

Unfortunately, the legal department cannot control everything

Emails produced in litigation

Email produced in litigation

Email requesting that a company's sales force obtain "select competitive samples and pricing information" at an industry trade show and the response from one of the sales reps:

I'll see how good of a crook I am next week [redacted]
------Original Message------
[redacted]

To All [redacted] Sales Representatives:

We still are in need of select competitive samples AND pricing information - especially contract pricing information!!

Again we will be giving [redacted] Bonus Points used for the contest for any and all samples/information received in the next 2 weeks.

Email produced in litigation

Another Scenario: Imagine a Company President asks the V.P. of Marketing for the sales of a group of the company's largest customers. Rather than taking the time to obtain the information from the different sources, the V.P. of Marketing decides the easiest way to get this information is to ask a friend who works for the Company's largest competitor and then sends back the following email to the Company president:

Per our discussion here is what I had as GPO sales - dated back to [redacted]

[redacted]

$1.5 million
$2.6 million
$2.8 million
$4.1 million
$ .5 million*

I am expecting a more updated group of numbers from my mole sometime this week.

Email produced in litigation

Next, he sends a series of emails to his friend at the Company's largest competitor:

[redacted]

I am breaking one of my rules here so if you can help me great. If not I understand.

[redacted] has asked me for an estimate of [redacted] for all of the major [redacted].

Without too much research - just off the top of your head - can you indicate if I am in the ball park.

What ever you can provide off the top of your head is all I need. They do not need too proprietary.

Thanks for your insight

Email produced in litigation

She sends him the information. In another email he requests more, different information:

[redacted]

When you get a chance can you give me a call. - maybe over your lunch hour or sometime you can talk freely and not on a [redacted] phone. I have a few questions regarding [redacted] I think you can help me with.

Employees within a particular industry <u>**will**</u> (a) move between the companies in that industry and (b) continue to communicate with each other.

They will also share information that their employers deem to be confidential, proprietary and/or trade secrets

Emails like this <u>are</u> being sent by people in <u>your</u> companies.

Trade Secret Misappropriation Protection Strategies for Hiring and Onboarding

Strategies for Onboarding to Protect Your Trade Secrets

- Identify obvious risk situations
  - New employees coming from competitors
- Execute tight confidentiality and non-disclosure agreements
- Consider covenants not to compete

Execute Tight Confidentiality and Non-Disclosure Agreements

- All employees who will have access to trade secret or confidential information should sign a **well-drafted** non-disclosure agreement

- If you use any kind of outside assistance, e.g., independent sales agents, you should enter into confidentiality agreements with them as well and place restrictions on access to confidential information

- At least one case found the lack of a non-disclosure agreement dispositive

Preventing New Employees from Bringing Fool’s Gold into your Company

Strategies for Onboarding to Defend Against Accusations of Misappropriation

- Identify obvious risk situations
- Implement interview and follow up procedures
- Execute onboarding agreements with new employees
- Implement policies that new employees may not use computers, phones or other devices used in prior employment with competitors

1. Identify Obvious Risk Situations

- Employees from competitors expose the hiring company to increased risk
- Sales positions have access to customer lists and pricing information
- R&D and technical positions have access to technical information
- Others who have access to a competitor’s trade secret information should also be treated with particular care

2. Interview Policies and Procedures

- Interviewers should not ask questions about the interviewees' knowledge of a competitor's confidential information
- Interviewers should not communicate with their co-workers about what a potential employee might know about a competitor's information
- It is appropriate and prudent to ask for copies of the employee's restrictive covenants and confidentiality agreements.

3. Onboarding Agreements

- Incoming employees should be required to sign an acknowledgement that they will not bring or use confidential information from a competitor

- It should be simple and clear

3. Onboarding Agreements

Footlocker.com
Eastbay

[redacted]

We are excited that you will be joining Eastbay. The purpose of this letter is to set out some important terms regarding you joining Eastbay.

As we have discussed, it is important that when you join Eastbay, you are not to retain or otherwise bring with you any confidential or proprietary information, knowledge or data (including any materials or information containing trade secrets) that you obtained from your prior employer.

Specifically, you agree not to bring with you, use, or otherwise disclose to Eastbay or induce Eastbay to use any such confidential or proprietary information belonging to any previous employers or elsewhere and you represent that your performance as an employee of Eastbay does not and will not breach any agreement to keep in confidence, any such confidential or proprietary information. You further agree not to use any such confidential or proprietary information to either solicit any employee of your prior employer to join Eastbay or to induce any customer of your prior employer to direct its business to Eastbay.

You also represent that, except as you have already disclosed to Eastbay, you are not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secrets or confidential or property information in the course of your work with Eastbay or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party.

In addition, all product resulting from you work with Eastbay will be original, and you will not infringe on the rights of any third party, including without limitation, intellectual property rights, such as rights pertaining to patents, trademarks, copyrights, and trade secrets.

As we also discussed, it is Eastbay's policy that any orders you took, negotiated, received, worked on, or knew about while under the employ of your previous employer belong to that employer. Under no circumstances should you take any action to cause such orders to be withdrawn, delayed or changed by the customer (schools, school districts, athletic clubs, etc.) or suggest or take any action to cause such orders to be subsequently submitted to Eastbay.

We wish to maintain our high standard of integrity in all business matters and avoid even the appearance or suggestion of impropriety. Please confirm your understanding of this policy by signing in the space provided. Failure to abide by the policy may result in disciplinary action, up to and including termination.

[redacted]

Signature Date

FootLocker.com/Eastbay, 111 South First Avenue, Wausau, WI 54401 715-845-5538

They create an opportunity to discuss the importance of diligently making sure that the employee does not have remnant information from his or her former employer at home or on personal devices

3. Onboarding Agreements

Footlocker.com

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Sincerely,
Tricia Hoover

[redacted] above terms regarding my [redacted]

FootLocker.com/Eastbay, 111 South First Avenue, Wausau, WI 54401 715-845-5538

Point 1 – do not retain or bring to us any confidential information

3. Onboarding Agreements

Footlocker.com
Eastbay

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[redacted] above terms regarding my [redacted]

FootLocker.com/Eastbay, 111 South First Avenue, Wausau, WI 54401 715-845-5538

Points 2 & 3

- Do not use any confidential info

3. Onboarding Agreements

Footlocker.com

Eastbay

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Tricia Hoover

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FootLocker.com/Eastbay, 111 South First Avenue, Wausau, WI 54401 715-845-5538

Point 4 – New employee is not subject to covenant not to compete or confidentiality agreement

3. Onboarding Agreements

<u>Point 5</u> – we are trying to be an ethical company

Footlocker.com
Eastbay

[redacted]

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4. Onboarding Policies

- Incoming employees should not be permitted to use the same computer they used in prior work for a competitor


SECURITY