


Trade Secrets & Startups


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The usual disclaimers

- This is not legal advice – see your own lawyer for that; by necessity, time limits me to incomplete remarks, in any event.
 - These are my personal comments and opinions, not those of my employer or of any client.
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Secrecy . . . Can be Everything . . . Or Nothing

- Your business starts as . . . a secret
 - It generates . . . secrets
 - If there is demand for the product you can sell as a result of those secrets, **THEY HAVE VALUE**
 - Then, the challenge is to **KEEP THOSE SECRETS**
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The Law Balances Your Interest in Your Secrets with Other Public And Private Interests

- The rights of your employees to leave and seek other employment
 - The rights of others to FAIRLY discover those secrets . . . if then can
 - The advancement of science and technology, with its public benefits, that depends on the sharing of knowledge and building on the successes of others
 - The public interest in open access to our courts and justice system
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What can be a Trade Secret?

- Almost anything that can provide a competitive advantage to a business
 - For example:
 - Processes & Equipment to implement processes
 - Formulas (Coke?)
 - Product designs
 - Source code
 - Sources (vendors, raw material locations)
 - Customer contacts
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The Law Does Not Protect a Trade Secret Unless You Keep it Secret . . . Or Really Try

- What do you have to do?
 - Start from the very beginning: Don't play "catch up" later
 - Think in terms of both keeping secrets AND being able to convince a jury you did everything **reasonably** possible to safeguard the company jewels.
 - "Loose lips sink ships" . . . NDAs to lock down your team, advisors, investors, others – e.g., hiring candidates, vendors, customers
 - Compartmentalize
 - Physical premises security
 - IT security – including e-mail, social media, etc.
 - Booby traps
 - Development records
 - Copy protection and other technology tools (tracers)

The Law Does Not Protect a Trade Secret Unless You Keep it Secret . . . Or Really Try - #2

- Periodically
 - Audit your IP and identify your TS and decide on protection measures; Document, Film, Record Think EVIDENCE
 - Audit your adherence to your intended measures
 - Remind employees, collaborators, investors and others of the importance of continued secrecy
- Act fast when a breach/misappropriation is discovered

Pros and Cons

- Some Pros
 - Immediate
 - Typically, not very expensive
 - No legal formalities
 - Flexible
 - Indefinite duration
 - Judges and the public have innate understanding and appreciation
 - Damages can be considerable; injunctions possible (incl. fast temp. inj.)
 - Access to both state and federal courts (recent) – and the state laws are pretty uniform
 - Possible criminal sanctions

Pros and Cons #2

- Some cons:
 - Fragile – easily lost
 - Requires self-discipline and overhead to maintain secrecy
 - No protection against independent recreation or reverse engineering except by contract
 - Effectiveness is very dependent on the nature of the secret
 - Breadth of the secret not clear until tested in court
 - Sometimes investors may not see a sufficient barrier to entry by competitors
 - The only protection is against bad behavior

Enforcement

- Civil
 - Sue wrongdoer in state or federal court
 - Damages
 - Injunction (can be prophylactic and tied to non-compete or “inevitable disclosure”)
 - Seizure (DTSA)
 - The federal cause of action is new (more later)
- Criminal
 - Theft
 - Computer Crime
 - Economic Espionage Act
 - Others

The big enforcement challenges

- Cost of litigating
 - But a lot less than patents
- Avoiding loss of the TS in the course of litigation
- Difficulty of defining the TS and making a judge/jury understand the technology
- Valuing technology in its early stages
 - Pre-theft business plans carry a lot more weight than valuations created for litigation
- The risk of appearing like the 800 lb. gorilla


Defend Trade Secrets Act

- Passed in May, 2016
- Builds on the Economic Espionage Act and gives a private right of action in federal court (You do not have to convince the US Atty to bring charges.)
- Limited injunction against a departing employee – no application of “inevitable disclosure” doctrine
- If injunction not possible, potential reasonable royalty for continued use
- Damages for actual loss and for unjust enrichment
- Double damages for “willful” or “maliciously” misappropriated TS
- 3 yr S/L
- Increases criminal penalties to > \$5M or 3x value (incl. devel.)

Defend Trade Secrets Act – cont'd

- Protects the TS in the litigation and
 - Allows court to accept submission “under seal”
 - Provides that disclosure in court does not void the TS.
- Creates federal and state “whistleblower” protection against a charge of TS misappropriation for employees disclosing to their lawyer or to the government in confidence in connection with reporting a suspected violation of law, or made “under seal” in a lawsuit
 - Employers must notify employees

Relationship to Patents

- TS and patents on same subject matter are incompatible
 - Patent system is based on disclosure, the opposite of secrecy
 - Can be complementary
 - *Until patent is published/issues*
 - In some cases, that require careful legal counsel and implementation
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Thank You

