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Keeping Your Trade Secrets Secret: And What To do When They are Misappropriated ...

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What Laws Protects Your Business?

- Trade Secret Protection Acts – Defend Trade Secrets Act (federal) and Uniform Trade Secrets Act (state)
 - The information must be a protected trade secret
- Confidentiality Agreements
 - Extend beyond information that qualifies for trade secret protection
- Non-Compete Agreements
 - Protects company from unfair competition with former employees
- Unfair and Deceptive Trade Practices
 - Vague protections against unfair competition

Employee Protections

- Utilize confidentiality and non-disclosure agreements for all employees
 - Agreement should protect all confidential information from disclosure, not just trade secrets
- Utilize non-compete agreements for certain employees
 - Restricts employee's ability to move to a competing business for a limited period of time after end of employment
- Establish written policies and procedures governing use and disclosure of confidential information
- Periodic Training
 - Train employees on what information the company protects as confidential and trade secret information
 - Train employees to report confidentiality breaches
- Employee Termination
 - Require employees to return all company property at end of employment
 - Conduct exit interviews to ensure return of company property

Security

- Secure building and limit access to outsiders to the extent feasible
- Require guests to sign-in and be escorted by employee
- Store physical documents in locked rooms or file cabinets and limit those with access to keys

Electronic Protections

- Limit electronic access to documents based on each employee's job duties
 - Every employee should not be able to access all electronically stored trade secret
 - Receptionist should not have access to electronically stored design documents
 - Manufacturing employees should not have access to electronically stored price documents
- Consider programs that tracks and stores who is accessing confidential documents

Third-Party Access

- Identify the third parties that reasonably need access to trade secrets
- Limit the trade secrets that are disclosed to each third party
- Require all third parties with access to confidential information to sign non-disclosure agreements
- Label all confidential and trade-secret documents distributed outside the company
- Require return or destruction of confidential documents

Enforcement

- Enforce all written policies and procedures regarding confidential information
- Take timely action against breaches and potential breaches of confidentiality, non-disclosure, and non-compete agreements

Protecting Your Trade Secrets

- In order to protect your trade secrets, you need to know:
 - How to define a trade secret
 - The requirements for protecting those trade secrets
 - What constitutes a misappropriation
 - What remedies are available under the relevant statutes

Defend Trade Secrets Act

- In 2016, Congress passed DTSA, which gives trade secret owners a powerful option to bring trade secret lawsuits using federal law, whereas before only state law authorized their lawsuits. An owner of a trade secret that is misappropriated may bring a federal civil action if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.
- Do not need diversity jurisdiction; it is a federal private cause of action.
- There are broad and strong remedies, including seizure of computers and materials; and
- Whistle-blower protections requiring new contract language in NDAs and confidentiality agreements with contractors, consultants and employees.

Defend Trade Secrets Act – Trade Secret Definition

- Under the DTSA, a trade secret means: all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, 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 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.

Defend Trade Secrets Act - Misappropriation

- Misappropriation under the DTSA is the “acquisition of a trade secret of another person **who knows or has reason to know** that the trade secret was acquired by improper means or disclos[es] or use[s] a trade secret of another without express or implied consent.”
- Improper means includes, among other things, acquisition “under circumstances giving rise to a duty to maintain the secrecy of the trade secret.” Notably, reverse engineering is not improper. So, while “improper means” includes theft, breach of a duty to maintain secrecy and espionage, it does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

Defend Trade Secrets Act – Remedies

- The DTSA allows for several types of remedies:
- Injunctive relief may be granted
- Damages may be awarded based upon actual loss, unjust enrichment, or a reasonable royalty.
- Recovery for both economic loss and unjust enrichment to the extent unjust enrichment is not addressed in the calculation of economic loss.
- If the misappropriation is willful and malicious, damages may be increased up to 2x the base amount.
- Reasonable attorney's fees may be awarded to the prevailing party if the claims was made in bad faith or the misappropriation was willful and malicious, among other reasons.

Defend Trade Secrets Act – Civil Seizure

- The DTSA also includes a lengthy civil seizure provision allowing the court, upon a proper showing, to enter an ex parte seizure of property.
- A regular injunction or TRO would be inadequate.
- Immediate and irreparable harm will occur absent a seizure.
- The balance of harms favor seizure.
- The applicant shows a likelihood of success on the merits.

Defend Trade Secrets Act – Civil Seizure (cont.)

- The party to which an injunction would be issued against would evade, avoid, or not comply with order
- The statute limits seizure to “extraordinary circumstances”
- In the seizure, the allegedly improper materials can be taken and held for up to 7 days before a further hearing.
- The applicant has not publicized the requested seizure.

Defend Trade Secrets Act – Whistle Blower Protection

- Provides protections to employees and contractors who report suspected violations.
- It provides immunity to a whistle blower who discloses a trade secret in confidence to a Federal State or local government official ... solely for the purpose or reporting or investigating a suspected violation of the law.
- Protects employee's ability to disclose trade secret in confidence and under seal in an anti-retaliation lawsuit.
- Employers need to provide notice of immunity in any contract with an employee that governs the use of trade secret.
- If employer does not, it may not recover “exemplary damages or attorney’s fees” against the employee due to the employee’s disclosure of the trade secret – includes consultants or contractors.

North Carolina Trade Secret Protection Act – Trade Secrets Definition

- The NCTSPA defines a trade secret as business or technical information, including but not limited to a formula, pattern, program, device, compilation or information, method, technique, or process that derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- Very similar to the DTSA.

North Carolina Trade Secret Protection Act – What do courts consider to determine if a trade secret

- When determining whether information is a trade secret, the North Carolina Courts have considered:
 - The extent to which information is known outside of the business
 - The extent to which it is known to employees and others involved in the business
 - The extent of the measures taken to guard the secrecy
 - The value of the information to business and competitors
 - The amount of effort or money expended in developing the information
 - The ease or difficulty with which the information could be properly acquired or duplicated by others

North Carolina Trade Secret Protection Act – Improper Conduct

- The NCTSPA defines misappropriation as “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.”
- The NCTSPA does not make knowledge or reason to know that the information is a trade secret an element of misappropriation.
- However, knowledge or reason to know significantly impacts the remedies available under the statute.

North Carolina Trade Secret Protection Act – Remedies

- The NCTSPA allows for actual damages that are measured by either the economic loss to the owner or unjust enrichment of the defendant – whichever is larger – and a reasonable royalty if it would be unreasonable to enjoin the continued use after judgment.
- Also proscribes damages for a misappropriation made by mistake in good faith so that the only remedy may be injunctive relief or royalties for continued use.
- Punitive damages are available if the misappropriation was willful or malicious.
- Injunctive relief is available.
- Injunctive relief may condition use of the trade secret on the payment of a reasonable royalty.

North Carolina Trade Secret Protection Act – Remedies (cont.)

- Knowledge or reason to know that the information is a trade secret has significant effects on the remedies available.
- No damages are available for use prior to time defendant know or had reason to know it was a trade secret.
- If the defendant has materially changed his position prior to knowledge, then he cannot be enjoined, but may be required to pay a royalty.

North Carolina Trade Secrets Protection Act – Civil Seizure

- The NCTSPA does not provide for civil seizure

North Carolina Trade Secrets Protection Act – Attorney's Fees

- Attorney's fees are available to the prevailing party if the claims of misappropriation was made in bad faith or if the misappropriation was willful or malicious.

Forensic Investigations

- PRESERVE, PRESERVE, PRESERVE!!!
- Bring in data collection experts as soon as you learn your information may be under attack
- Forensic examinations can recreate the conducts of former employees in the days and months while they were plotting against the company
 - What files they accessed
 - What files they created
 - What files they transferred
 - What devices they connected to your property
 - What cloud devices they accessed from your property

It can be Joe Pesci's "Case Cracker"

- Provides evidence vital to draft allegations in Complaint and Motion for Preliminary Injunction.
- Provides evidence vital to obtaining preliminary injunction.
- Forms basis of discovery plan that can set traps for former employees, bring dishonest conduct to light, and help develop motions to compel and motions for forensic investigation of other devices in defendants control.
- Then, you really have unlocked the case cracker.
- *Red Valve v. Titan Valve*