



## A holistic approach to managing your trade secrets' health

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*Delving into the holy trinity of trade secret health, Tangibly Inc's Christopher Buntel and Mark Handfelt outline the ultimate trade secret protection approach for businesses*

In medicine, doctors often use a holistic approach to manage a patient's health, assessing them as a whole in order to treat the underlying causes of symptoms with the goal of better long-term health at lower costs. This approach also mitigates risks associated with treating repeating series of emergent symptoms and conditions, each of which require uncertain and expensive medical interventions.

A firm's IP assets, especially trade secrets, can be similarly managed. By looking at your enterprise as a whole, taking account of factors such as culture and education, you can better manage current and future IP assets with the goal of maintenance and enforceability over the long term at lower costs. This approach mitigates risks associated with having to react to repeating instances of emergent threats, each of which require uncertain and expensive legal interventions.

It is a near certainty that everyone will fall ill at some point during their life. Similarly, in today's world, we are experiencing increased employee mobility and decentralised innovation, cross-border supply chains, complex technological collaborations and increasingly high valuations placed on intangible assets. It is a near certainty that, at some point, your firm will have to react to consequences of a trade secret escaping with a departing employee, being stolen by a competitor, or misappropriated by a bad actor. Improving your firm's holistic trade secret health will reduce the risk, severity and costs of these situations.

The IP big three (ie, patents, trademarks and copyrights) are well understood and managed. Thousands of patent attorneys and agents worldwide, as well as mature software platforms and search, docketing and reporting tools are available to assist clients in protecting those assets.

In contrast, largely due to the developing macro-economic and employment trends described above, trade secret management, protection and enforcement are only beginning to gain the focus and attention they deserve. This transition is making clear the need for new software tools and processes to make managing such assets easy and cost efficient.

Much insight can be gained by looking at recent legislation and litigation involving trade secrets. These can tell us what has worked well in protecting valuable company trade secrets, and what mistakes were made that led to the loss of a valuable asset.

### Health lesson one: the trinity you need for holistic trade secret health

Health practitioners often discuss a trinity of mind, body and soul, with all three contributing to one's holistic health (or lack thereof). All three need to be present in balance for a person to be happy, healthy and vibrant.

Healthy trade secrets, meaning those that are protectable and enforceable, likewise require a balanced trinity in order to deliver value to their owners. In this context, one can think of mind as the trade secret being specifically defined and articulated, the body of the trade secret being its limited access, and the soul being that it must be subject to written confidentiality obligations restricting its disclosure.

#### The mind: a specifically defined and articulated trade secret

*Mallet v Lacayo* (20-3584 (3d Cir 2021)) perfectly showcases the need to specifically identify your trade secrets. The facts detailed two Mallet employees taking thousands of electronic documents with them to a competitor. These employees concealed their new employment from Mallet and, using knowledge they obtained during their prior employment, helped

accelerate development of a new competitive product line. On those facts, the district court enjoined the defendants from any use of Mallet's "confidential information, proprietary and/or trade secret information", which included the "manufacture, distribution or sale" of any products competitive to Mallet's.

The defendants appealed the injunction because Mallet had defined the misappropriated trade secrets as the:

overall body of knowledge that connects ... the development, production, application and implementation of the [product] ... coupled with Mallet's proprietary equipment which go hand in hand with a formulated solution.

The district court further refined this into 13 categories of information to which the injunction applied, without elaborating on what information included in these categories constituted a trade secret, confidential information, or public knowledge.

Notwithstanding its acknowledgement that the defendants engaged in clear and obvious acts of deceit, the appeal court vacated the injunction because Mallet's overly broad description of its trade secrets did not "sufficiently identify the information it claims as a trade secret". The court also stated that to succeed on a claim for misappropriation of trade secrets, the plaintiff must: "*inter alia*, offer evidence that specifically identifies its trade secrets and show that they exist."

### **The body: limited access to the trade secret**

The requirement of limited access to trade secrets is highlighted in *Smash Franchise Partners LLC v Kanda Holdings* (CA 2020-0302-JTL (Del Ch, 13 August 2020)). The defendants expressed interest in acquiring a Smash franchise and soon after decided to start a competing business. While doing so, they continued to feign interest in the franchise opportunity, gathering Smash information in writing and via video and telephone conferences.

When the plaintiff learned of the competing business, it sought, among other things, a preliminary injunction barring the defendants from competing with them based on trade secret misappropriation. Similar to Mallet, the court commented on the defendants' conduct, stating it to be "disingenuous and underhanded" and a "campaign of deceit". Unfortunately for the plaintiff, the court also noted that the record was clear: much of the information the plaintiff had asserted to be secret and subject to an NDA had been publicly disclosed in various video and telephone conferences, as well as in documents distributed by the plaintiff, including to people not subject to an NDA or other obligation of confidentiality. Because the information had been publicly disclosed, the court ruled that it did not qualify as a trade secret and therefore an injunction was not appropriate.

### **The soul: written confidentiality obligations**

Finally, the tenet that without a contractual obligation to maintain confidentiality, trade secrets cannot be enforced, is perfectly illustrated in *Amgen Inc v California Correctional Health Services* (47 Cal App 5th 716, 260 Cal Rptr 3d 873 (2020)). In this case, Amgen was legally required to provide advance notice of proposed price increases to certain customers. It emailed this to about 170 registered customers, labelling both the email and the notice as confidential. Amgen had no contract or agreement with the recipients to keep the contents confidential or to not further disclose or distribute the notice. When members of the media requested the defendant to provide the price increase notices it had received, Amgen intervened and asked the trial court to enjoin the disclosure because the notice contained trade secret information. The trial court agreed, concluding that the price increase notice was a trade secret despite its disclosure to the 170 registered users, and granted a preliminary injunction prohibiting its disclosure by the defendant.

On appeal, the court noted that disclosure of the notice to an unknown number of recipients, none of whom were bound to keep it confidential, prevented it and the information contained in it from being a secret. The appellate court further stated that while the information contained in the notice was undoubtedly a trade secret while it remained within Amgen:

Public disclosure, that is the absence of secrecy, is fatal to the existence of a trade secret. If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.

Accordingly, the lower court's order granting the preliminary injunction was reversed.

Not only must there be a contract providing a duty to maintain confidentiality, the contract itself must be sufficiently crafted to provide the desired protection. In *EMC Outdoor v Stuart* (Civil Action 17-5172 (ED Pa, 28 June 2018), EMC signed an agreement with its employees. The agreement contained several restrictive covenants which EMC believed survived employment if the employee went to work for another company. When two dismissed employees started working for a

competitor, EMC sued, alleging breach of contract regarding confidential information and trade secrets. Unfortunately for EMC, the agreement provided that the confidentiality obligations survived termination by the employee only, and did not cover instances where the employee had been terminated.

These cases showcase the need for the full trinity of a clearly identified trade secret, a limited number of people with access to it, and proper contracts creating a duty of confidentiality in order to defend it.

## Health lesson two: everyone has a trade secret problem eventually

Nobody wants their trade secrets to be stolen or misappropriated, but it is happening with increasing frequency. The most common scenario involves an ex-employee taking valuable trade secrets with them to a competitor or to start their own competing firm. Approximately 85% of trade secret litigation involves a former employee or business partner (Cornerstone Research, 2016). Trade secret theft can be intentional (from a bad actor), but it also can be unintentional. A naive ex-employee who may not know better or who was not properly trained on trade secrets by their management is a common example.

A 2017 survey by Baker McKenzie reported that 20% of participating companies have had trade secrets stolen. Unsurprisingly, another 11% did not even know if their trade secrets had been stolen. Only 31% of companies had inventories or procedures in place to control trade secret loss, and all surveyed organisations were most fearful of trade secret loss involving former employees.

While trade secrets have been receiving a surge in attention and discussion of late, such theft is not a new phenomenon. In 1988, a survey by the US National Criminal Justice Reference Service found that 48% of 150 companies surveyed had been victims of such theft (LF Mock and D Rosenbaum, D Discussion Paper: A Study of Trade Secrets Theft in High-Technology Industries; NCJRS No 116839 (1988)).

The longer you remain in business, and the more employees that come and go from your company, the more likely it becomes that you will have a trade secret problem. Being aware of the risks can inform better policies and procedures to protect yourself.

## Health lesson three: do not wait until you have a problem

Many people think little about their medical health, essentially believing themselves to be bulletproof. When they finally do have a medical problem, it can be a very rude awakening. Similarly, many companies, especially start-ups and SMEs, pay attention to trade secrets only after something bad has happened. It is an 'aha' moment when an ex-employee, for example, goes to a competitor and this competitor releases a near-identical product soon thereafter.

Federal legislation, such as the Defend Trade Secrets Act and the EU Trade Secret Directive (2016/943), does not outline a specific requirement detailing which proactive protection methods must be used by a trade secret owner. Rather, the Defend Trade Secrets Act requires that "the owner ... has taken reasonable measures to keep such information secret", while the Trade Secretes Directive provides that "[the trade secret] has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret". Reasonable efforts are required, but an outline of specific efforts to take is not defined by the statutes.

What constitutes a 'reasonable' effort will vary according to the trade secret and the situation of the owner. For example, a small start-up may not be expected to put the same amount of effort and resources into protecting trade secrets as a large multinational company (see Puroon, *Inc v Midwest Photographic Res Ctr, Inc*, 16 C 7811 (ND Ill, 2 November 2018) and *Elmer Miller, Inc v Landis*, 625 NE2d 338, 342 (Ill App Ct, 1993)).

That said, doing anything is better than doing nothing and one's efforts should be roughly proportional to the owner's situation and value of the trade secret. Surprisingly, doing little or nothing is quite common. For example, one study showed that 11% of trade secret litigations were lost because the trade secret owner failed to take even "reasonable measures" to protect the trade secret. ("Reasonable Measures for Protecting Trade Secrets: A Primer" by S Grimes and S Murphy, *Law360*, 27 February 2019).

Litigation is expensive, and the chance of success is significantly higher if preventative and proactive measures are taken earlier rather than later. As far back as 1736, Ben Franklin observed that: "An ounce of prevention is worth a pound of cure." In a way, trade secret litigation is won or lost years before it even starts!

## Health lesson four: being healthy about trade secrets is a daily habit

Managing your trade secrets is not a 'one and done' event. Rather, it is critical to maintain the relevant mindset and culture, as well as an appropriate process. A simple snapshot of your trade secret assets, people and contracts will quickly become out of date and be worth little if the process is sporadic or intermittent. Trade secrets are a dynamic asset, not a static one.

Employees come and go, all while technological advancements are being made at impressive rates. Contracts such as NDAs often expire because parties fail to proactively monitor renewal or expiration dates.

Even seemingly mundane HR processes related to employee onboarding and offboarding present opportunities to better manage trade secrets and mitigate associated risks. When onboarding new staff, emphasise that they cannot bring unauthorised trade secrets from their previous employment. Show them the language in their employment offer letter or similar agreement where they agree not to do so. Similarly, when staff depart, HR should remind them of their continuing obligation to maintain the secrecy of company trade secrets and not take them to their new employer. With high-value employees, or employees moving to a significant competitor, the new employer should be notified in writing not to use any trade secrets that the employee may know. A simple message communicating that your company takes its obligation to respect another's IP rights seriously, and you expect that competing company will do the same, may be the spoonful of sugar that best conveys your message.

Many companies have done an admirable job building a patent culture where employees are trained and recognised for contributing to patents. Employees are educated on patent licensing, the importance of invention disclosure forms and not presenting or disclosing material before a patenting decision has been made. Many companies have monetary incentives for

the submission of invention disclosures or patent application filings, with additional bonuses paid upon grant of a patent. Some companies even have KPIs around patents, and recognise their annual top inventors with awards, dinners, or additional monetary payments.

Trade secrets deserve the same level of respect and recognition. Companies can require and track employee training on trade secrets, as well as recognising a firm's top contributors to trade secrets. Trade secret awareness should be built into company culture and management of trade secrets should be integrated into normal business practices.

## Health lesson five: understand the facts and overcome misconceptions

Just as some people choose to use folk wisdom to manage their health, there are many misconceptions about trade secrets and their management.

Recent high-profile trade secret litigation involving billions of dollars and high-value technological advances have led people to believe that fighting over trade secrets is the sport of technological titans, but the facts paint a different picture.

Internal analysis by Tangibly Inc showed that of 500 cases involving trade secret misappropriation, financial and insurance industries were two of the top four categories of litigants, behind IT services and consulting. The most common source of the disputes were former employees that took customer lists with them to their new employer.

Another misconception is that trade secrets constitute the black sheep of the IP family, a messy drawer of ideas that will not or cannot be patented. Many patent review processes look at an invention disclosure in terms of 'will it be patented?'. If not, the innovation is typically shunted into a trade secret category. Unfortunately, most of those trade secret innovations are rarely, if ever, reviewed again.

A better option is to first treat your innovations as valuable trade secrets. Ideas that are patentable can be reviewed and if selected, moved into a patent workflow. Even after a patent application is filed, the technology should continue to be treated as a trade secret until the application is published.

## Health lesson six: set holistic goals and find your path

The wise Yogi Berra said: "You've got to be very careful if you don't know where you are going, because you might not get there." Another saying derived from a famous Chinese proverb is: "A journey of a thousand miles begins with a single step." So too with your trade secret journey; plan where you are going and take the necessary first step to get there.

There are three parts to planning any journey: where you start, where you want to end up, and how you get there.

An initial trade secret audit is the best place to start your trade secret journey. Simply focus on identifying assets, people and contracts.

What are your trade secret assets? Initially identify technology, business processes, HR and legal information that you believe provides your firm a competitive advantage. At this stage, consider creating a 'pick list' or 'shopping list' of the most relevant types of trade secret assets that you can use consistently to make identification easier, more thorough and efficient.

Who are the people who have or need access to each of these assets, and have they acknowledged said assets' status as trade secrets? Be sure to include not only your employees, but also interns, consultants, contractors, suppliers, collaborators and others who may be outside of your organisation that have access to the trade secrets. Have these people been trained in the proper identification and handling of trade secrets, and is the training documented?

What contracts do you have with those people, and do they cover the trade secret assets? Contracts can include employment agreements, employee handbook acknowledgements, nondisclosure agreements, consulting agreements, joint venture agreements and others. Can you readily determine the status of the contracts? Are they still in force, have they been amended or supplemented, are they about to expire (or have they expired and need renewal) and where are they located?

Check your vision and goals for your trade secret programme against your inputs and outcomes. Will you use it purely as insurance against future trade secret problems, or are there other uses, such creating cultural awareness or supporting enterprise valuations?

Finally, what is your roadmap and schedule for training and deployment? Will you go via each department, each site, or by employee level? What will your educational and tracking programs look like? How will you motivate your employees to create

and thereafter protect your trade secrets, both during and after employment?

## Your diagnosis

Just like with your own health, it is never too late to start better managing your trade secret health. A proactive and holistic view of trade secret management will position your firm to better capture value associated with trade secrets and support successful efforts to enjoin any theft or misappropriation of them. Any other approach, including no approach, is doomed to fail.

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