

## **The Growing Trade Secret Problem**

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### **Statement of the problem**

Corporations are paying serious attention to the trade secret problem now, in a way they never have before. There are several motivations for this change. Patents have never been weaker or more easily defeated, and patent offices worldwide are getting stricter about what can be patented. No longer will you be granted a patent for putting a computer chip in a pinball machine or a refrigerator, for example.

Further, software methods have been ruled to be not patentable, as they do not constitute a device. If someone with a pencil could do the same thing, albeit it takes a thousand years, it is not patentable.

At the same time, the Federal Trade Commission is on the verge of issuing a ban on non-compete clauses in employment contracts. For years corporations have been able to threaten litigation against former employees going to a competitor without ever having to defend their trade secrets, but that will no longer be the case.

It is now becoming necessary to identify and defend one's trade secrets in litigation without the benefit of in terrorem provisions in employment contracts. This is a growing problem because most companies have never conducted a trade secret audit and have no experience in the litigation aspects of trade secrets law.

### **What are the trade secrets?**

Proof of a trade secret is a litigation cause of action.

The Defend Trade Secrets Act of 2016 (DTSA) was one of the biggest legal changes in intellectual property law since the passage of the Lanham Act in 1948. It created a new federal cause of action for trade secret misappropriation. Now litigants can file a cause of action in federal court without alleging diversity or concurrent jurisdiction.

The first three substantive filings in a trade secret case are: (1) the complaint filed by plaintiff; (2) the response filed by defendant; and (3) the defendant's motion to compel the identification of the trade secrets with reasonable particularity and specificity. The motion to compel will ultimately be granted by the court once the protective order is granted. It only makes sense. The plaintiff must disclose the alleged trade secrets and the evidence of actual or threatened misappropriation. Unlike in the complaint, no hand-waving will be allowed.

However, most plaintiffs in DTSA cases cannot identify the trade secrets at issue to respond to the motion to compel. There was no pre-filing investigation, no trade secret audit, and no historical inventory of the trade secrets.

So the Plaintiff scrambles, with yellow pads and Dunkin Donuts, and outside counsel and forensic experts, to create the alleged trade secrets that will be at issue. There will be many hours meeting with in-house experts, engineers, and product designers to construct the trade secrets at issue in the litigation.

In small corporations, there are a few people one needs to interview -- three or four, half a dozen, maybe ten -- but in big corporations it is a huge problem. The trade secrets are not widely known even in the company.

In large corporations, there will be many interviews. Trade secrets are not all known by a few people. The knowledge required to generate a complete trade secret inventory could spread across hundreds of people, in multiple locations, even across the globe in many countries.

Meanwhile, the clock on that motion to compel is ticking. If the plaintiff cannot respond within thirty days to tell the court and the defendant what was stolen, then on what basis or evidence does the plaintiff rely to support the bald allegations of trade secret misappropriation.

### **How do you know they are trade secrets, and which ones are best to litigate?**

Thirty days have passed and, after a 24/7 massive effort, plaintiff's counsel has met the deadline for responding to the motion to compel the identification of the alleged trade secrets. You are ready to serve the responses, under a protective order, upon the defendants.

Except. How do you know these fabricated trade secrets will survive strict scrutiny under the Federal Rules of Civil Procedure and the Federal Rules of Evidence in the courtroom?

The jury, for each trade secret you allege to have been misappropriated, must make two decisions: (1) Is it really a trade secret? (2) Was it in fact misappropriated?

Further, the court will not allow the plaintiff to litigate hundreds of trade secrets that were allegedly misappropriated. Judicial resources are limited. The court will likely restrict the plaintiff to a single-digit number of trade secrets to litigate.

This is the growing trade secret problem: most trade secret cases fail on the first question, not the second question. Is it a trade secret? The jury never gets to the second question. The trade secret litigator arrives at the same quandary he faced months ago working on the response to the motion to compel. Are these really trade secrets? Can he prove that to a jury? Has he picked the best subset of trade secrets to argue to the jury? Out of the hundreds stolen?

### **The problem with current efforts under way**

Trade secrets are now the hotbed of intellectual property. Trade secret conferences, webinars, and products are proliferating as the interest in trade secrets grows.

There are various topics. What reasonable measures are required to protect trade secrets? What are the steps necessary to manage trade secrets? How should trade secret provisions be drafted in employee and vendor agreements? What are the requirements for the ownership of a trade secret? The list goes on and on.

What is missing is the protocol for the "identification" of trade secrets not just the assumption that a trade secret exists. How do we know what the trade secrets are?

### **What's the solution?**

The solution is automated trade secret asset management utilizing the six-factor test identified by the American Law Institute in 1939 after a review of over 100 years of caselaw in the 19th Century. The six factors are:

- (1) The extent to which the information is known outside the business.
- (2) The extent to which the information is known by employees and others involved in the business.
- (3) The extent of measures taken by the business to guard the secrecy of the information.
- (4) The value of the information to the business and competitors.
- (5) The amount of time, effort and money expended by the business in developing the information.
- (6) The ease or difficulty with which the information could be properly acquired or duplicated by others.

Today, the six-factor test has been adopted by virtually every state and federal court in the United States.

The attraction of the six-factor test is its ability to evaluate any potential trade secret under any set of circumstances. It is extraordinarily versatile and compatible with modern trade secret law.

The authors have developed and commercially deployed the Trade Secret Examiner® software platform that identifies, classifies and blockchains trade secrets. This is the solution to the growing trade secret problem. See [www.thetso.com](http://www.thetso.com).

The trade secret owner can now identify and classify trade secrets and insure success litigating trade secret misappropriation claims utilizing the six-factor test. The perplexing question—what is the trade secret?—can now be answered.

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