

Trade Secret Misappropriation for Nonprofits

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Trade Secret Misappropriation: Legal Framework

- **State Law**
 - 49 states, variations on Uniform Trade Secret Act (UTSA)
 - New York, common law
- **Federal Law**
 - Defend Trade Secrets Act (DTSA), 2016
 - Pre-2016 needed diversity or federal claim to bring in federal courts
 - Does not preempt/replace state law
 - Trade secret must be used or intended for use across state lines, and some misappropriation acts must have taken place after enactment
 - Provides for, in extraordinary circumstances, *ex parte* seizure to prevent propagation or dissemination of the trade secret

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What Is a “Trade Secret”?

- More than “confidential” information.
- Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
 - Derives independent economic value, actual or potential, from not being generally known to the public or to other 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.

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Examples of Trade Secrets

- Coca-Cola formula
- Google search algorithm
- Nonprofits
 - Donor / customer / mailing lists and donation amounts
 - *N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 44 (2d Cir. 1999) (customer lists developed through substantial effort and kept confidential may be a trade secret, as long as not readily ascertainable).

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What Is “Misappropriation” of a Trade Secret (TS)?

- (i) acquisition of a TS of another by a person who **knows or has reason to know** that it was acquired by improper means [e.g., theft or bribery]; or
- (ii) disclosure/use of a TS of another without express or implied consent by a person who
 - (A) used improper means [e.g., theft or bribery] to acquire knowledge of the TS; or
 - (B) at the time of disclosure or use, **knew or had reason to know** that his knowledge of the TS was
 - (I) derived from/through a person who had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain secrecy or limit use; or
 - (III) derived from/through a person who owed a duty to maintain secrecy or limit use; or
 - (C) before a material change of his [or her] position, **knew or had reason to know** that it was a TS and that knowledge of it had been acquired by accident or mistake.

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Reasonable Measures to Protect Trade Secrets

- Fact-based inquiry: company size, trade secret value, etc.
- Guidance:
 - Identify trade secrets
 - Differentiate trade secrets from other confidential information
 - Marking?
 - Procedures / policies
 - Employees
 - Contracts / trade secret agreements / training
 - Limit access (need-to-know-basis), where possible
 - Mark information as trade secrets?

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Reasonable Measures to Protect Trade Secrets (cont.)

- Third parties / vendors
 - Non-disclosure agreements
 - Address access, storage restrictions, return/destruction
- Electronic storage of trade secrets
 - Thumb drives, password protected
 - Network servers
 - Security
 - Access
 - Data download alerts

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Damages, Remedies, and Other Options

- Types of Injunctive Relief
 - Temporary restraining order
 - Preliminary injunction
 - Permanent injunction
- Burden for Injunctive Relief
 - Irreparable harm
 - Likelihood of success on the merits
 - Balancing of the equities
- Monetary Damages
 - Lost value of trade secret/confidential information
 - Lost value of investment of development
 - Disgorgement of profits

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Reasonable Measures: Case Examples

- **HCC Ins. Holdings, Inc. v. Flowers** (N.D. Ga. 2015) (employees signing general confidentiality agreement not reasonable measures to maintain secrecy; trade secret status lost).
- **Broker Genius Inc. v. Zalta** (S.D.N.Y. 2017) (despite employee restrictions and anti-hacking safeguards, preliminary injunction denied as information provided to customers without confidentiality restrictions).
- **Alzheimer's Disease Res. Ctr., Inc. [ADRC] v. Alzheimer's Disease & Related Disorders Ass'n, Inc. [ADARDA]** (E.D.N.Y. 2013).
 - ADARDA and ADRC (former Long Island chapter) disaffiliated from one another.
 - ADARDA sent mailings out under the name “Alzheimer’s Association – Long Island Chapter”
 - Former Long Island chapter alleged misappropriation of trade secrets (donor list).
 - Trade secret misappropriation claim was dismissed because the ADRC donor list was freely shared with ADARDA; no confidentiality agreement was required.

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How Does an Organization Protect Its Trade Secrets/Confidential Information?

- Confidential Information Policy:
 - Define confidential information and trade secrets
 - Broad definitions versus narrow definitions
 - National Labor Relations Act issues – concerted activity
 - Reporting procedure for questions and violations
 - Incorporate the reasonable person into the policy
- Information Technology Policy
 - Access codes
 - Need-to-know basis
 - No expectation of privacy in organization e-mail or equipment
 - Trip wires

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How Does an Organization Protect Its Trade Secrets/Confidential Information? (cont.)

- Employment Offer Letters/Agreements
 - “Empty briefcase” representation *in writing*
 - Other acknowledgments – sensitivity of confidential information/trade secrets & injunctive relief
 - Arbitration or court?
 - Prevailing party attorneys’ fees
 - Waiver of bond or other security
 - Re-start the clock for breaches (non-solicitation)
- Employee Training
 - Separate managers and non-managers
 - Train IT staff

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How Does an Organization Protect Its Trade Secrets/Confidential Information? (cont.)

- Former Employees:
 - Request return of information
 - Reminder letters
 - Cease and desist letters
 - Notice to new employers/competitors

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What if an Organization Suspects Theft of Trade Secrets or Other Confidential Information?

- Preservation of Information
 - Remote access of devices
 - Suspension of automatic recycling
 - Preservation notices to potential custodians
- Internal Investigation
 - Review server activity
 - Interview relevant witnesses
- Outside Assistance
 - Forensic consultant for help with metadata and other information
 - Outside counsel
- Avoid Disparate Treatment

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Trade Secret Audit

- Identify / track trade secrets
- Review and modify policies / procedures, as appropriate:
 - terms of employment / employment agreements / employee training
 - access
 - third party / vendor agreements
- Review / modify IT systems and safeguards

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Q & A

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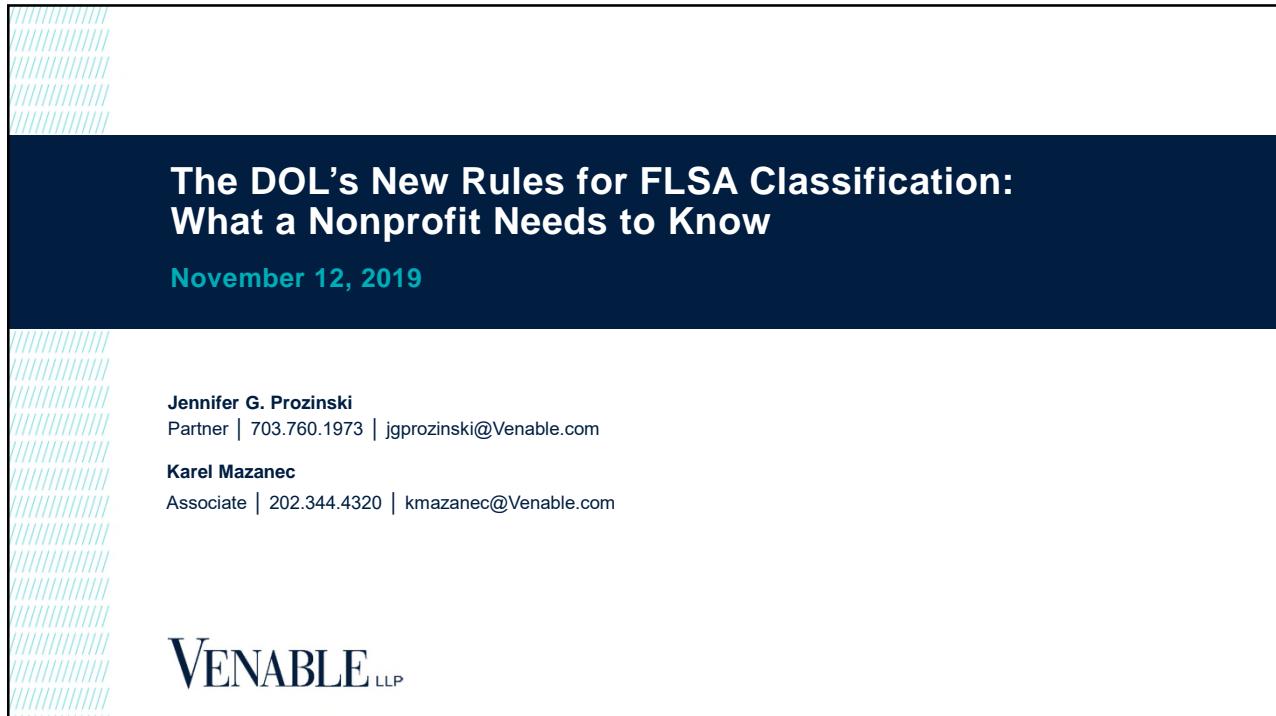
Thank You!

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The DOL's New Rules for FLSA Classification: What a Nonprofit Needs to Know

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