

# 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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