

You Can't Take It With You:

Evolving Issues in Enforcing Trade Secret Protections When
Employees Leave and in Joint Projects

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Using fact scenarios drawn and adapted from cases, we will discuss

- ▶ Measures businesses should take to ensure their proprietary information is secure
 - ▶ Agreements
 - ▶ Security measures
 - ▶ Culture
- ▶ What to do when a business suspects a trade secret has been misappropriated
 - ▶ Investigation
 - ▶ Determining objectives and desired outcomes/remedies
 - ▶ Initial actions against the misappropriating party
 - ▶ Developing and following a strategy for remedies
 - ▶ Quantifying the damage

What is a trade secret?

- ▶ UTSA: A “trade secret” is defined as “information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
 - ▶ “(1) 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
 - ▶ “(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” (Cal. Civ. Code § 3426.1(d).)
- ▶ DTSA: A “trade secret” is defined as “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, 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 thereof 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”. (18 U.S.C. § 1839(3).)

AI Trade Secrets Go Missing (*Faraday Future v. Evelozcity, Inc.*)

- ▶ Faraday is a new company that has been developing electric autonomous vehicles. Faraday sued Evelozcity claiming that, before Faraday's former CFO Stefan Krause left the company, he solicited other Faraday employees to join him at Evelozcity and arranged for the misappropriation of Faraday trade secrets. Faraday claims that its forensic analysis determined that the information included plans for parts in vehicles, material specs, cost lists, financial spreadsheets, information about Faraday's proprietary Variable Platform Architecture (VPA) system, confidential power train information, and vendor information. Faraday has been rocked by top level executive and designer departures for months.

The Issues - Securing Information for the New Tech Company

- ▶ Firm Culture
- ▶ Agreements
 - ▶ Confidentiality
 - ▶ No proprietary information from prior employer or owned by employee
 - ▶ Non-compete
- ▶ Inventory and Value Trade Secrets
- ▶ IT Security
 - ▶ Faraday
 - ▶ Evelozcity - “Chinese wall”; document process of developing product/technology to prove no use of prior employer’s trade secrets
- ▶ Policies and Practices
- ▶ Exit Practices
- ▶ Objectives in Litigation - prevent use of info; damages; royalties

Be careful at whom you point your finger - HouseCanary's Counterclaim against Title Source

- ▶ House Canary, Inc., a data analytics start-up focused on house appraisals and comps, entered into a mutual NDA with Title Source, an affiliate of Quicken Loans. They later entered into a Master Software License Agreement, subsequently amended, pursuant to which HouseCanary granted TS access to HouseCanary's Appraiser app, including a highly sensitive backend, for 120 days, so that TS could evaluate it. HouseCanary alleged that it discounted its fee to \$5 million a year in consideration for access to TS's database of historical appraisal data. TS filed a complaint for declaratory judgment that it need not pay the \$5 million in annual fees on the grounds that HouseCanary had breached the contract. Based upon evidence from a presentation, which was posted on the internet, by TS allegedly using HouseCanary's proprietary information, after TS filed suit, HouseCanary filed a counter-claim alleging that TS never provided its database, never paid HouseCanary and misappropriated five key models and methods. The verdict was for HouseCanary, awarding \$201.6 million for the value of the misappropriated trade secrets, \$403.2 million for exemplary damages for the appropriation, \$33.8 million for fraud in connection with the November 2015 contract, and \$67.6 million in exemplary damages for the fraud.

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The Issues - Securing Information When Working with Other Companies

- ▶ Agreements with Other Company
 - ▶ Purpose of Relationship - weigh benefits and risks
 - ▶ Restrictions on Use of Information - prohibitions on reverse engineering
 - ▶ Non-disclosure
 - ▶ Value of software - internal or in agreement?
- ▶ Agreements with Company's Own Employees
- ▶ Policing Compliance and IT Security
 - ▶ Internal
 - ▶ Relationship with other company

The Issues - Initial steps when a theft is suspected

- ▶ The Investigation: To Determine the Validity of Report
 - Conduct cursory search of offices
 - Photograph potential evidence
 - Micro-dot equipment to identify it
 - Perform computer preservation
 - Analyze findings
 - Speak with the Victim Company management and in-house counsel

The Issues - Initial steps when a theft is suspected

- ▶ The Investigation: Seeing lots of smoke; finding the fire
 - ▶ Consider Ongoing Forensic Preservation and Review
 - ▶ Consider Phone Logs
 - ▶ Consider Remote Access Logs into Corporate and Computing Network
 - ▶ Identify, and speak with, a Product Specialist
 - ▶ Consider other investigative support services
 - ▶ Consider contacting Law Enforcement?
- ▶ Other actions:
 - ▶ Network Sniffers
 - ▶ Packet Capturing Software
 - ▶ Monitoring five computing devices
 - ▶ Remote Connection to Suspect Company Server Discovered
 - ▶ Locate and identify various off-site addresses
 - ▶ Physical Surveillance On and Off-site - hidden cameras?
 - ▶ Employee privacy issues

The Issues - Litigation

- ▶ Other pre-litigation planning
- ▶ Preemptive lawsuit - risks
- ▶ Objectives - damages? Prohibit use? Royalty? Other?
- ▶ Steps in Litigation
 - ▶ Preliminary relief - benefits and risks
 - ▶ DTSA - limited procedure for seizure of misappropriated trade secrets
 - ▶ Discovery - requirement to define trade secret (CA)
 - ▶ Protecting information during litigation
 - ▶ Showings
 - ▶ Valuable information
 - ▶ Reasonable efforts to maintain secret

The Issues - Litigation (cont'd)

- ▶ Damages and other remedies
 - ▶ Value of trade secret - benefit of cost savings for not having to develop information
 - ▶ Lost profits - reduced market share
 - ▶ Unjust enrichment - where plaintiff's actual losses cannot be determined and there's no overlap
 - ▶ Double damages - malicious misappropriation
 - ▶ Injunctive relief - reasonable royalty

Client/Customer Lists

- ▶ “PwKPEY” is a consulting firm with several areas of practice. One of its smaller areas of practice was bolstered by the hiring of a three-person senior team in the same area of practice from another firm that dissolved. One of the three-person senior team was appointed head of the practice group. After five years building the practice for the firm, and growing the personnel in the practice group from others at the firm and new hires, the head of the practice group informs the managing partner of the firm that he and core members of his group are leaving, and within 24 hours they are gone. Within a week of the departure, PwKPEY notices that firm clients have begun shifting their work to the practice group at its new firm.

The Issues - Client Lists

- ▶ Trade secret?
- ▶ Inevitable disclosure
- ▶ Permitted use of client list information

Bios and Contact Information

- ▶ **Lauren Mutti**, Vice President - Labor & Employment Counsel, Southern Glazer's Wine & Spirits, 972 392 8254, lauren.mutti@sgws.com: Lauren oversees a team that provides solution-oriented, practical advice to the leading wine and spirits distributor in the U.S., operating in 45 states and Canada. Prior to joining SGWS, Lauren was a partner in Dallas at Jackson Walker, LLP in the labor and employment group. Lauren is a long-time LGBT advocate and is currently on the Board of Directors for Lambda Legal.

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- ▶ **Jeffrey Bajorek**, KPMG LLP, 212 954 5644, jeffreybajorek@kpmg.com: Jeffrey provides valuation advisory services related to mergers and acquisitions, corporate restructuring, internal planning, and litigation matters within the financial service, technology, retail, industrial, and consumer discretionary industries. Since joining KPMG in 2011, he has advised on numerous high profile acquisitions, government mandated divestitures, legal entity consolidations, and joint-venture formations for tax and financial reporting purposes. He has significant experience performing valuations of intangible assets including but not limited to customer relationships, internally developed technology, trade names, patents, non-competition agreements, and licenses. In addition, he has extensive experience performing valuations of businesses and partial business interests as well as valuation analyses substantiating goodwill and know-how. He is a member of the American Society of Appraisers, Open Finance, and OutNext Leadership.

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- ▶ **William Weinberger**, Parker Milliken, 213 683 6665, wweinberger@pmcos.com: William joined Parker Milliken as a shareholder in 2004, joined its Board of Directors in 2006, and became the firm's CFO and chair of its Litigation Practice Group in 2018. He has represented businesses and entrepreneurs in a variety of industries, including real estate development, investment and management, accounting, aerospace parts manufacturing, pharmaceutical manufacturing, medical services, entertainment and high-tech. Mr. Weinberger has represented clients in business and employment litigation matters in the trial courts of the State of California and all districts of the U.S. District Court in California, the California Courts of Appeal, the U.S. Ninth and Sixth Circuits Courts of Appeals, and the Ninth Circuit Bankruptcy Appellate Panel. He was one of the founders of the National LGBT Bar Association, a result of a meeting of LGBT attorneys during the 1987 March on Washington.