



HR Toolkit Series, Part 4

Protecting Proprietary Information and Trade Secrets

September 20, 2018

What is Proprietary Information?

1. Of, relating to, or involving a proprietor
 2. Of, relating to, or holding as property
- » Black's Law Dictionary (10th ed. 2014)
 - » "Belonging to ownership; owned by a particular person; belonging or pertaining to a proprietor; relating to a certain owner or proprietor.
 - » Black's Law Dictionary (6th ed. 1990)

Bottom line: Business property that you rightfully own or hold.

What is a Trade Secret?

- » “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;
 - 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); see also Va. Code 59.1-336(“...including but not limited to, a formula, pattern, compilation, program, device, method, technique, or process....”)

Bottom line: Property that you take reasonable measures to safeguard and that is economically valuable as a result.

Examples

Claims Associated with Proprietary Information and Trade Secret Theft

- » Conversion
- » Trade Secret Misappropriation (federal and/or state; civil and/or criminal)
- » Breach of Contract (NDA's, Confidentiality, Non-Compete, Non-Solicitation, Teaming Agreements)
- » Breach of Fiduciary Duty
- » Tortious Interference (with contract and/or business expectancy)
- » Conspiracy (common law and statutory)
- » Unfair Trade Practices statutes
- » Unfair Competition
- » Computer Fraud and Abuse Act (18 U.S.C. 1030)
- » Other Computer Crimes statutes (civil and/or criminal liability) (See, e.g. Va. Code 18.2-152.12)

What is “Misappropriation”?

- A. **acquisition** of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- B. **disclosure or use** of a trade secret of another **without** express or implied **consent** by a person who:
 - I. used improper means to acquire knowledge of the trade secret;
 - II. at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was —
 - I. derived from or through a person who had used improper means to acquire the trade secret;
 - II. acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or
 - III. derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or
 - III. before a material change of the position of the person, knew or had reason to know that
 - I. the trade secret was a trade secret; and
 - II. knowledge of the trade secret had been acquired by accident or mistake.

18 U.S.C. § 1839(5); see also Va. Code § 59.1-336

Examples

What is “improper means”?

- A. includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; **and**
- B. does not include reverse engineering, independent derivation, or any other lawful means of acquisition;

Compare other UTSA definitions

The Defend Trade Secrets Act of 2016

- » Impact
 - Federalized trade secret suits
 - More trade secret litigation / more access to federal courts
- » In 2017, the number of trade secrets actions in federal court jumped to 1,134 from an average of around 900 per year from 2009-2016.
- » C.D. of California leading the way

DTSA's Most Common Remedies

- » Compensatory damages in 3 potential forms:
 - (i) actual losses;
 - (ii) unjust enrichment damages that are not calculated in computing actual loss;
or
 - (iii) in lieu of such damages, a “reasonable royalty for the misappropriator’s unauthorized disclosure or use of the trade secret.”
- » Exemplary/punitive damages for “willful and malicious” misappropriation in amount of two times compensatory damages
- » Attorneys’ fees for “willful and malicious” misappropriation
- » Injunctive relief for “actual or threatened misappropriation”
- » Also beware: Court may award fees: if a claim of misappropriation “is made in bad faith” or “a motion to terminate an injunction is made or opposed in bad faith.”
- » See 18 U.S.C. § 1836(b)(3)

DTSA's Unique Features

- » Must involve interstate commerce – "related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. 1836(b)(1)
- » Provides for an *ex parte* pre-trial seizure of property remedy
 - "only in extraordinary circumstances" – 18 U.S.C. 1836(b)(2)(A)(i)
 - how elusive and deceitful has the defendant been?
- » Any difference between "**reasonable under the circumstances**" under many UTSA provisions and only "**reasonable measures**" under DTSA?
- » No pre-emption - DTSA "shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret..." 18 U.S.C. § 1838

DTSA's Unique Features

- » Whistleblower protection – 18 U.S.C. § 1833(b)(1)-(2)

An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made:

- I. “in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney”; **and**
- II. “solely for the purpose of reporting or investigating a suspected violation of law”; or
- III. “in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”

Also applies to whistleblower’s retaliation lawsuits, provided the whistleblower keeps the trade secret under seal and does not disclose the trade secret except pursuant to a court order.

- » How do you provide notice of this protection?

- In employment agreement; **or**
- By cross-referencing in an employment policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law. -- 18 U.S.C. § 1833(b)(C)(1)-(2).

- » What if you don’t comply?

- “the employer may not be awarded exemplary damages or attorney fees” – 18 U.S.C. § 1833(b)(C)(3).

FAR Prohibition on Certain Confidentiality Agreements

- » **Issue:** Former employee or competitor claims that NDA is unenforceable because FAR prohibits certain confidentiality agreements.
- » **Discussion:** FAR Subpart 3.909 prescribes:
 - FAR 52.203-18, Prohibition on Contracting with Entities that Require Certain Internal Confidentiality Agreements or Statements-Representation (Jan 2017)
 - Requires an offeror to represent that employees or subcontractors will not be required to execute NDAs that restrict lawfully reporting fraud, waste and abuse to federal agencies
 - FAR 52.203-19 Prohibition on Requiring Certain Internal Confidentiality Agreements or Statements (Jan 2017)
 - Prohibits contractors from requiring employees or subcontractors to execute or comply with such NDAs
 - Requires notice to employees and subcontractors such prohibitions in preexisting NDAs are no longer in effect
 - Requires inclusion of clause in subcontracts

FAR Prohibition on Certain Confidentiality Agreements

- » Strategies for Complying with FAR prohibition Without Compromising Ability to Enforce Legitimate Nondisclosure Concerns
 - Modify existing NDAs to clarify that reports of potential fraud, waste, or abuse to designated government officials are not restricted/prohibited by NDA
 - Consider including reference to Company Code of Conduct and ability to report internally
 - FAR prohibition applies only to disclosures TO designated investigative or law enforcement representatives of federal agency (i.e., not to public disclosures or disclosures to competitors)

Ways to Protect and Enforce

- » Have acknowledged policies in place
- » Make policies available
- » Have contracts executed
 - (e.g., NDA's / Confidentiality agreements that provide for injunctive relief and other legal relief)
- » Define and illustrate your proprietary and confidential information.
- » Mark / designate it.
- » Update / remind personnel and promote a culture of protection.
- » Orientation and periodic training
- » Have restricted access and security measures
- » Password protection plus other technical, administrative and physical considerations
 - (e.g., file share/cloud access, monitoring, doors and locks)

Ways to Protect and Enforce

- » Email policy (applicable to work and personal accounts)
- » Social media policy
- » USB device / file copy limits
- » Remote working and telecommuting issues (expectations in privacy considerations).
- » Assess foreseeable threats and adjust security measures if necessary
- » Procedure if your data is inadvertently disclosed
- » Conduct self-audits
- » Exit interviews
- » Notify and obtain acknowledgement / certification upon departure

Enforcement Considerations

- » Protection of your business property
- » Business effect
- » Expense, time, and distraction
- » Media and public domain potential
- » Lost key individual(s) or group
- » Lost work or incumbent status
- » Involvement of government customer
- » Relationship with applicable competitor
- » Jury or bench as trier of fact
- » Whistleblower retaliation
- » Counterclaim potential

What, Whom, and How to Pursue

- » What is the objective?
- » The departing employee(s) and/or the competitor/new employer?
- » To send the demand/notice letter, negotiate, or file?
- » Injunctive relief and/or damages
- » Protest?

Ways to Potentially Avoid Becoming the Hiring Defendant

- » Be proactive
- » Don't wait for the demand letter or complaint
- » Vet the applicant on what he/she did, what general information he/she used or has, and for any restrictive covenants
- » Obtain legal advice on enforceability of any restrictive covenant agreements prior to hiring
- » Advise new hire not to bring, use or disclose
- » Obtain acknowledgement by new hire of same
- » Monitor
- » Abandon hiring decision or terminate
- » Wall off
- » Adjust work or project assignment or other employment terms
- » Negotiate
- » Provide for counsel for new hire

Dealing with Some Typical Defenses

- » “It’s in my head”
- » Computer forensics impact
 - Can be indicia of “threatened or actual” misappropriation.
- » Also, look to statements and acts of defendant.
- » ”But he’ll inevitably disclose it, Your Honor....”
- » Some factors to consider if inevitable disclosure applies:
 - whether the former employer possesses a "trade secret";
 - the employee's position at his former employer;
 - whether the employee possesses an extensive and intimate knowledge of his former employer's trade secrets;
 - the degree to which the employee's former employer and new employer are in competition;
 - whether the employee can effectively perform the duties of his new position without disclosing, using, or relying on his former employer's trade secrets;
 - whether there are other circumstances that indicate the employee or his new employer are unable or unwilling to safeguard the former employer's trade secrets.
- » From DTSA: an injunction can’t “prevent a person from entering into an employment relationship” and “conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows” 18 U.S.C. § 1836(3)(A)(i)(I).

Dealing with Some Typical Defenses

- » “It’s not a trade secret” *or* “So what if I took it.”
- » Focuses on the threshold issue
 - Did you adequately safeguard it / take reasonable measures to protect it?
- » Can depend on who is the trier of fact and at what stage of litigation

Dealing with Some Typical Defenses

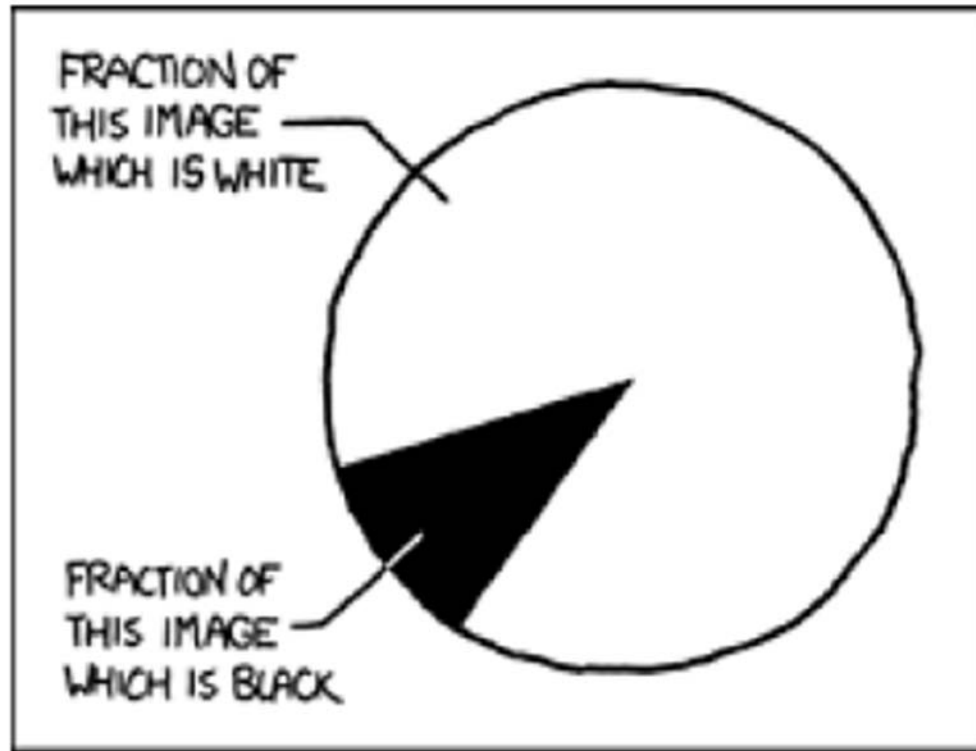
- » “It’s Government Property”
- » Did the Government pay for it in whole or part?
- » Did title pass to the Gov’t or is the Gov’t just a licensee?
- » What data rights passed to the Gov’t?
- » What are terms of the prime and subcontract at issue?
- » FAR / DFAR regs at issue
- » Christian doctrine apply if silent?
- » How is it being delivered to the Government under your contract?
- » How did the Defendant obtain it???!?
- » Often requires government contracting practices testifying experts and *Touhy* subpoenas to government third parties at issue.

Disclosure of Technical Data and Software Developed Under or Used to Perform Government Contracts

- » **Issue:** Former employee or competitor claims information cannot be treated as a trade secret or as confidential information because it was developed under or used to perform prior or current government contracts, and has been made available to competitors and other third parties by government
- » **Discussion:** FAR Part 27 and DFARS Part 227 and contract clauses define the license rights the Government receives:
 - Unlimited Rights – Data and software first developed under government contracts or funded exclusively with government funds
 - Restricted Rights (software)/Limited Rights (technical data) – Software and data developed independently of government contracts or funded exclusively at private expense
 - Government Purpose Rights – (DFARS) Software or data developed through variety of efforts or mix of funding
 - Commercial Computer Software License – (FAR) Software that qualifies as a Commercial Item

Key Definitions

» What is Technical Data?



Disclosure of Technical Data and Software Developed Under or Used to Perform Government Contracts

» Key Concepts and Requirements:

- Must apply proper restrictive legend prescribed in FAR or DFARS upon delivery
- Proposal must identify any software or technical data that will be provided to the government with other than unlimited rights
- If challenged, Contractor bears burden of proving source of funding or development effort

Consequences of Failure to Mark



Disclosure of Technical Data and Software Developed Under or Used to Perform Government Contracts

- » Strategies For Addressing Former Employee And Competitor Claims That Software And Technical Data Used To Perform Government Contracts Do Not Qualify As Trade Secrets
 - Ensure that all software and technical data is properly marked (consider applying customary commercial legends in addition to FAR/DFARS legends)
 - Remember – Government normally only holds a **license**, not title (i.e., ownership) in software or data
 - If Government does not hold unlimited rights, then no right for any recipient to use beyond scope of Government's rights
 - What about software or data in which the Government has Unlimited Rights?
 - Burden should be on former employee or competitor to show that it has obtained express license right from Government



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and Government Contract developments!**

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- » H&K GovCon Blog www.gov-con-blog.com



» Questions?

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Kara Ariail practices in the area of employment law counseling and litigation. Ms. Ariail works closely with employers in a range of industries to provide ongoing counseling and training designed to minimize the risk of litigation and maximize employee retention and productivity.

She regularly advises clients on a wide range of employment issues, including successful hiring, employee performance management and termination strategies; development and implementation of anti-harassment and other personnel policies; evaluating reasonable accommodation obligations under the Americans with Disabilities Act and state disability laws; achieving compliance with the Family and Medical Leave Act; and wage and hour compliance.

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Practice

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Education

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Brandon H. Elledge



- **Brandon Elledge** practices in the areas of commercial litigation and employment counseling.
- He regularly appears before state and federal courts in and outside of Virginia on business- and employment-related disputes and has tried several cases first chair.
- Mr. Elledge's litigation practice includes, among other things, the representation of companies and government contractors seeking to enforce restrictive covenants and claims against employees and other parties, such as trade secret theft, conspiracy, breach of fiduciary duty and computer-related offenses.
- Mr. Elledge also represents companies in the defense of such business tort and other intellectual property claims, as well as in the defense of alleged violations of non-compete, non-solicitation and non-disclosure agreements.
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- **Terry Elling’s** practice covers the spectrum of traditional government contracts counseling and litigation, including claims; bid protests; Suspension and Debarment; and compliance with material contract and legal requirements (such as labor standards, domestic source requirements, Contractor Standards of Conduct; SBA programs, Cost Principles/Cost Accounting Standard, rights in technical data and software).
- Mr. Elling also regularly represents and advises clients on:
 - Diligence with respect to government contracts and related issues in the course of corporate transactions (mergers and acquisitions), financings, and vetting of potential teammates.
 - Procurement Integrity, organizational and personal conflicts of interest issues relating to federal contractors and their employees.
 - Safeguarding contractors’ rights in technical data, software, and other IP.
 - Investigations of allegations of Civil False Claims Act violations and other improprieties.
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 - Cost, Cost Accounting Standards and other “Audit Defense” matters, esp. those involving DCAA/DCMA and GSA Schedule Contracts.
- A retired Army Judge Advocate and active in many professional associations. Past President of NOVA Chapter, NCMA; General Counsel, American Society of Military Comptrollers.

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