



PROGRAM MATERIALS

Program #3094

June 10, 2020

**To Trade Secret or not to Trade
Secret- That is THE question!**

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Trade Secrets

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JUNE 2020



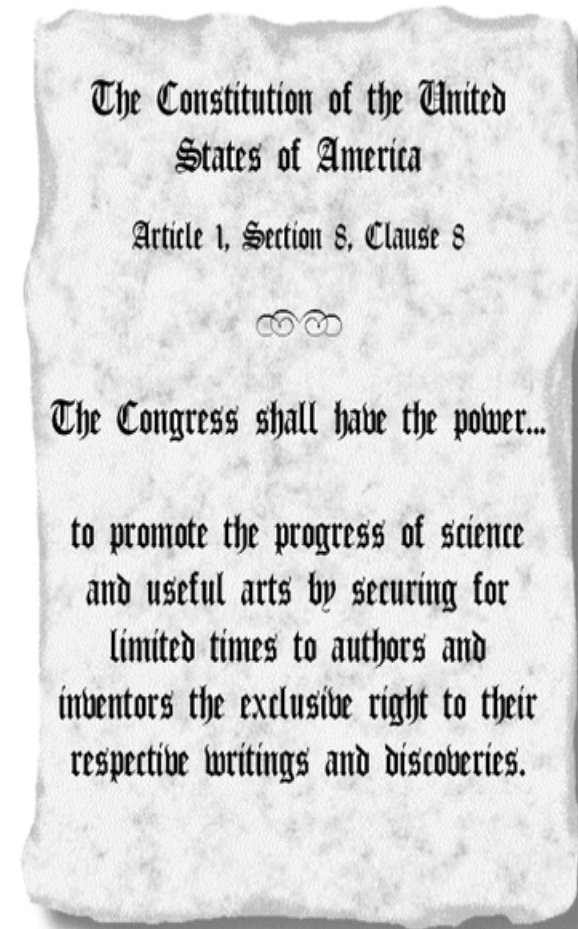
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WHAT IS INTELLECTUAL PROPERTY?

U.S. Constitution- IP

*“Congress has the power to
promote the Progress of
Science and useful Arts,
by securing for **limited**
Times to Authors and
Inventors the **exclusive**
Right to their respective
Writings and **Discoveries**”*

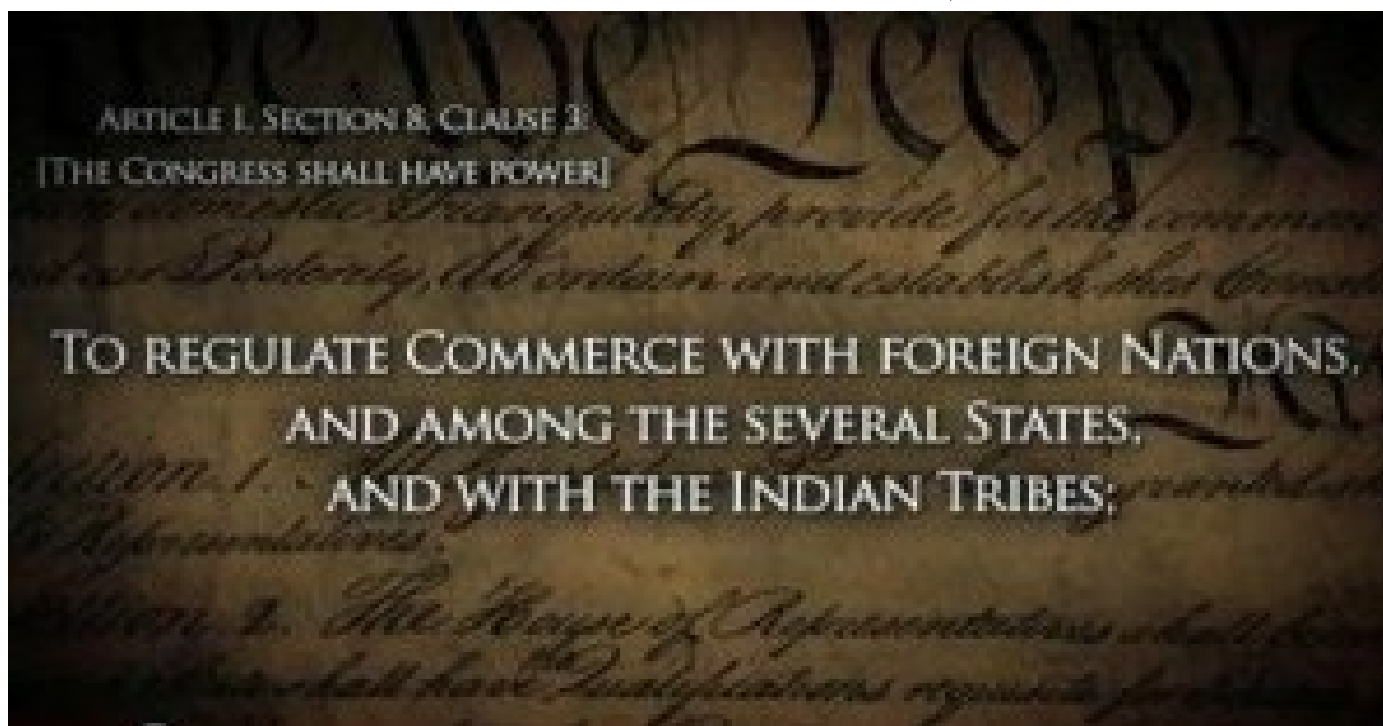
Art. 1, Sec. 8, Cl. 8





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- Commerce Clause- Article I, Section 8





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Definition:

- Intellectual property (IP) is any work or invention that is the result of creativity and can be protected by statute or legislation, the physical embodiment of intellectual efforts
- Includes inventions, discoveries, know-how, show-how, processes, unique materials, original data, and other creative or artistic works.
- Property = The Right to Exclude

Purpose:

- encourage innovation that benefits the public
- allow the public to use the information
- protect the rights of authors, inventors and businesses

Foundation:

- Owners are granted certain exclusive rights to a variety of intangible assets
- Promote Creative Solutions





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Ideas are not protectable



- IDEA is the first critical step, but without some identifiable embodiment of the idea there can be no intellectual property protection obtained.
- **Patent**- a set of exclusive rights granted by a sovereign state to an inventor or their assignee for a limited period of time (monopoly) in exchange for the public disclosure of the invention.
- **Trademark**- exclusive rights in a distinctive sign or symbols used in commerce to identify product or service source. Protection of your brand.
- **Copyright**- bundle of exclusive rights to copy, distribute, adapt, perform, display expressive work for a limited time





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OVERVIEW- TYPES OF IP

- **Patents & Trade Secrets:** inventions (machines, methods, ornamental designs, plants)
- **Trademarks:** a recognizable word, sign, design, logo, or other item which identifies the source of products or services and distinguished from others
- **Copyrights:** expressive works including literary (novels, poems and plays), audiovisual (films, music); visual (drawings, paintings, photographs, sculptures, and architectural designs)





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Patents (and Trade Secrets)





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TRADE SECRET

- Formula, practice, recipes, process, design, instrument, pattern, or compilation of information which is not generally known or reasonably ascertainable, by which a business can obtain an economic advantage over competitors or customers.
- **Secret Sauce; Confidential information, Classified information**

Advantages:

- not limited in time- Patent is limited to 20 years
- continues indefinitely as long as the secret is not revealed – Must disclose everything in a Patent to the public
- No registration costs
- Immediate effect- no formalities

IT'S YOUR CHOICE!



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- No patent for its formula
- Has protection for many more years than 20
- Refused to reveal its trade secret under at least two judges' orders
- No Protection if reverse engineered
- **FDA will keep your Trade Secret!**



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- Famous TRADE secrets:

THE GOOGLE SEARCH ALGORITHM

KFC

WD40

NY TIMES BEST SELLERS LIST

LISTERINE

KRISPY KREME

MCDONALDS BIC MAC SECRET SAUCE





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Uniform Trade secrets Act

- Trade secrets are defined broadly under the Uniform Trade Secrets Act to include:
- “ Information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following: (i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. ”



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Congress wanted to replace the “patchwork of state trade secrets laws” by enacting the DTSA.⁹

DTSA Benefits: “single, national standard” for trade secret misappropriation with “clear rules” and “predictability for everyone involved.”

DTSA- doesn't preempt state trade secrets law and that it should apply in substantially the same way, but with a much broader geographic and jurisdictional reach.





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Defend Trade Secrets Act of 2016



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A Federal Cause of Action

The DTSA provides a uniform statute to be applied nationwide in federal court; gives companies the powerful option of filing suit in federal court, thus adding an important additional tool for American companies, especially those with a national footprint, to enforce their intellectual property rights.





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Definition of Trade Secret:

Broad- allowing a wide range of proprietary information to fall within the purview of trade-secret protection under the statute. Specifically, 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.”



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Misappropriation- Under the DTSA, misappropriation is defined as follows:

1. 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
2. disclosure or use of a trade secret of another without express or implied consent by a person who—
 1. used improper means to acquire knowledge of the trade secret;
 2. at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—
 1. derived from or through a person who had used improper means to acquire the trade secret;
 2. 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
 3. 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
3. before a material change of the position of the person, knew or had reason to know that—
 1. the trade secret was a trade secret; and
 2. knowledge of the trade secret had been acquired by accident or mistake





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Civil Seizure:

preventative tool employed prior to a formal finding of misappropriation in which a court, on ex parte application by a trade-secret owner, may “issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”

may be ordered only in “extraordinary circumstances” and requires a showing that:

- an order pursuant to Fed. R. Civ. P. 65 or other equitable relief would be inadequate;
- an immediate and irreparable injury will occur if seizure is not ordered;
- harm to the applicant from denial of a seizure order: (1) outweighs the harm to the person against whom seizure is ordered; and (2) substantially outweighs the harm to any third parties by such seizure;
- the applicant is likely to succeed in showing that the person against whom the order is issued misappropriated or conspired to misappropriate a trade secret through improper means;
- the person against whom the order will be issued has possession of the trade secret and any property to be seized;
- the application describes with reasonable particularity the property to be seized and, to the extent reasonable under the circumstances, the property’s location;
- the person against whom seizure is ordered would destroy, move, hide, or otherwise make such property inaccessible to the court if put on notice; and
- the applicant has not publicized the requested seizure.





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Within one year of enactment and every six months thereafter, the Attorney General submit a publicly available report on, inter alia: (1) the scope and breadth of theft of trade secrets of American companies occurring outside of the United States; (2) the extent to which theft outside the United States is sponsored by foreign governments or instrumentalities; (3) the ability of trade-secret owners to prevent misappropriation of trade secrets outside of the United States; and (4) recommendations for actions that may be undertaken to reduce the threat of misappropriation of trade secrets of American companies occurring outside of the United States.



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In *United States v. O'Rourke* (N.D. Ill.,
October 9, 2019),



The court compared this situation to one involving attempted distribution of illegal drugs, explaining that “a would-be cocaine buyer cannot avoid criminal responsibility even if the only substances he managed to purchase were fakes planted by police officers.” “Therefore, if the jury concluded that O’Rourke believed a document was a trade secret when he took it, he is guilty of attempted theft even if the document ultimately was not a trade secret....” Opinion at 6-7.



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2018- Uber will pay Waymo 0.34% of its equity, a share which is valued at approximately \$245 million. The settlement also contains an agreement prohibiting Uber from using Waymo's confidential information in its autonomous vehicle technology.



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Law Changes

Trade secret laws- changing around the world.

Japan's Unfair Competition Prevention Act- updated January 1, 2016

EU Directive on Trade Secrets was passed on June 8, 2016, and enacted by member states on June 9, 2018, (although a few countries were late doing so).

China's Anti Unfair Competition Law was updated on January 1, 2018, and then again on April 23, 2019.

Increased Litigation

The number of trade secret disputes are increasing at both state and federal level reveals some insightful data.

- 25% of all cases originated in the industrial sector.
- 46% of trade secret cases involved multiple forms of trade secrets.
- IT, consumer discretionary, and healthcare saw major increases in cases.
- Trade secrets related to computer software, computer technology, customer information, pricing information, supplier relationships, and designs/blueprints made up significant percentage of cases.
- Plaintiffs received favorable decisions 69% of the time. Defendants/counter-claimants 24%, with 7% of cases split.
- Damages awarded in 52% of federal cases. Top 5 cases were each over \$100 million.





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Organization for Economic Co-operation and Development (OECD) Base Erosion and Profit Sharing (BEPS) Guidelines

-include trade secrets as an intangible asset requiring proper management.

-EU's Anti Tax Avoidance Directive (ATAD) enacted on January 1, 2019, relates to intangibles including trade secrets.

Patent Box Tax Regimes in a number of jurisdictions now allow trade secrets as qualifying IP.

The International Accounting Standards Board standard 38 (IAS 38) defines an intangible asset as: "an identifiable non-monetary asset without physical substance." IAS 38 specifies the three critical attributes of an intangible asset to be:

- identifiable
- control (power to obtain benefits from the asset)
- future economic benefits (such as revenues or reduced future costs)

IAS 38 contains examples of intangible assets such as customer lists, copyright, patents, and franchise agreements. Trade secrets qualify as far as IAS 38 is concerned, provided that three attributes above are satisfied.



BETTER POLICIES FOR BETTER LIVES

12 Examples of Intangible Assets



Patents



Films



Customer Lists



Goodwill



Copyrights



Use Rights



Internet
Domain Names



Brands and
Trademarks



Proprietary
Software



Order
Backlogs



Franchise
Agreements



Trained
Workforce

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- Asset Management System
- NDAs
- Supply Chain
- Consultants, Freelancers
- Company with partner overseas.
- Corporate Governance -management, cohesive policies, proper guidance, well defined processes, KPIs and metrics, and decision-rights for a given area of responsibility.
- Defining the Rules of your Organization
- Education of employees
- Policy
- Culture

