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7C Competition, Two Concurrent Sessions & Trademark Law. Trade Secrets

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Session 7C

Emily C. & John E. Hansen Intellectual Property Institute

**TWENTY-NINTH ANNUAL CONFERENCE
INTERNATIONAL INTELLECTUAL PROPERTY
LAW & POLICY**

Friday, April 22, 2022 – 10:35 a.m.

**SESSION 7: COMPETITION, TWO CONCURRENT SESSIONS &
TRADEMARK LAW
7C. Trade Secrets**

Moderator:

Victoria A. Cundiff

Paul Hastings LLP, New York

Speakers:

Camilla Alexandra Hrdy

University of Akron, School of Law, Akron

The Value in Secrecy

Max Haedicke

Albert-Ludwigs-Universität Freiburg, Freiburg

Protection of Trade Secrets in German Patent Litigation

James Pooley

James Pooley, A Professional Law Corporation, Menlo Park, California

Compliance With the “Reasonable Efforts” Element of Trade Secrecy

Panelists:

Thomas D. Pease

Quinn Emanuel Urquhart & Sullivan LLP, New York

Mark F. Schultz

University of Akron, School of Law, Akron

JAMES POOLEY: We have three speakers today and the first will be Camilla Hrdy from University of Akron. Camilla, go ahead.

CAMILLA A. HRDY: Great. Thanks, Jim. Sorry, Vicki is not here for this, but she's heard this talk before, so no problem. The topic of my paper is the elusive and I argue understudied requirement of independent economic value. We all tend to assume that-- we are all here familiar with the elements of trade secrecy and we tend to assume that secrecy and reasonable efforts to maintain secrecy are really the big hitters when it comes to what the elements are, but the big take-home from my paper is that this requirement of independent economic value is also very important and that courts do tend to overlook it.

I argue that it actually plays an important role in the law by separating mere secrets or information that a company or individual might very well want to keep secret and try really hard to keep secret from protectable trade secrets that actually drive actual or potential economic value from secrecy. I'll go back in time a little bit here under the common law, we did have the restatement giving us the notion of what a trade secret ought to be. The first year statement said, "A trade secret may consist of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use." This is referred to as the notion of competitive advantage.

A trade secret always had to give its owner some kind of a competitive advantage, and we saw that stated a lot in the common law. Commentators tend to focus on that, used in business requirement of the common law which of course has now been eliminated, but I zoom in on the competitive advantage point which has not been eliminated. Indeed was carried forward into the UTSA, now the DTSA. Under the DTSA, the super unwieldy language that the information has to derive independent economic value actual or potential from not being generally known to another person who could obtain value from the information's disclosure or use.

So crucially, I spent a lot of time in the paper on statutory interpretation. Not going to bore you with that, but I just want to note that that term, "Independent," which is a little-- you're like, "What's that about?" The way I interpret that is that it's there to emphasize that the value has to come specifically from secrecy. If you have, as you often do, a trade secret that consists of both public and non-public aspects, the value that you're asserting has to come from the secret aspects.

The way that we see on the ground in cases that the reality is that courts don't really pay much attention to independent economic value, it comes up much, much, much less in the cases than secrecy or certainly than reasonable efforts to maintain secrecy. Why is that? There's a bunch of prevailing assumptions that I think are actually somewhat rational at first glance. I think the notion is and the reason courts don't tend to heavily scrutinize information's value, is simply that courts assume that any information that is kept reasonably secret and that ends up in court has at least potential economic value sufficient to satisfy the statute.

The notion is that well, somebody bothered to keep the information secret, somebody has bothered to spend the resources to bring this case, and now people are arguing over the right to use or disclose the information. Surely, it must have at least potential economic value from secrecy or at least potential value to someone. There's a lot of assumptions underlying this and I don't think that they are correct

or at least not in all cases, not enough to justify writing off this requirement of economic value. I don't want to go through all of them, but I'll just note it's not always true that information that companies keep secret and use reasonable efforts to keep secret has any value whatsoever.

It's not always true that investment in development, so-called sweat work, shows that information has value from secrecy. Third, and this is really important, most trade secret cases are not the spying or hacking case where somebody's caught red-handed trying to get the crown jewels, rather they're brought against employee's insiders who have lawful access to the information already and are accused of breaching some duty. We don't have that bad act from which to presume value.

Then finally I just want to point out that it's not necessarily true that people only go to court when something of value is at issue. As we all know, companies, humans will litigate for all kinds of reasons ranging from, in this case, I think enmity, anti-competitive reasons, employee retention reasons, you don't want your star employee to leave. Maybe they just don't want the information to get out. Long story short, I don't think it's true that any information that ends up in court has the requisite independent economic value from secrecy.

For this paper, I looked through a lot of cases. Hundreds of cases, and I was responding to the notion from people like Vicki Cundiff who's not here, but others as well who suggested that there's a new trend in the courts to pay more attention to economic value and to dismiss cases for failure to satisfy economic value. I found that that was to some degree true. Yes, the majority of cases it doesn't come up, they don't discuss it, but I did find quite a few cases post-DTSA where courts are talking about economic value and finding that it's not satisfied and they're even willing to dismiss the case at that very early stage. Sometimes permanently without leave to amend.

It's worth noting the pre-DTSA case yield dynamics because that case actually did go to trial, a bench trial on economic value, and the plaintiff lost. Failed to show that its software code derived independent economic value from secrecy. The issue in the case was basically that only around eight lines of that code were actually secret and the plaintiff failed to show that those eight lines of code gave the company a competitive advantage because a lot of the code was open source. This opens the door to this notion that economic value can be a real problem when you get to trial.

Then all these other cases I looked at that show it can be a problem even before that stage of judgment. I will discuss a couple of-- if I have time, I'll discuss just quickly, two or three cases here, but I want to show you the sort of-- because, of course, I arranged these into a sort of typology. I figured out four situations where value comes up and that tracks these cases.

JAMES POOLEY: Camilla, we're going to have to cut it very short because you're out of time.

CAMILLA A. HRDY: We can talk about that more in the Q&A, and there's a lot of stuff I think interactions with Jim's paper as well. The short of it is that value is an issue. It does come up. There are a bunch of situations where it can happen and I hope you'll check out my paper to see what that is. I guess I can stop there

and then as we find that we have more time later I can talk more about some of these newer cases. Does that make sense?

JAMES POOLEY: It does. Camilla, thank you so much. It's very intriguing and interesting. We'd like to hear now from our two commentators, Tom Pease and Mark Schultz. Tom, how about you go first.

THOMAS D. PEASE: Sure. Just picking up on what Camilla said a moment ago about this independent economic analysis inquiry that's done upfront. How does that dovetail with the court separate consideration of the damages to be awarded? Is it the same inquiry and does it, I guess, require some sort of solidification of what the trade secrets are in fact going to be because I know those tend to play out and evolve over time?

CAMILLA A. HRDY: That's a really good question and they are separate inquiries. You can have an assessment of what the damages will be completely separate from the question of do you have that legally requisite independent economic value. To be clear, courts pretty much never require in order to show the requisite potential economic value. They don't require you to put forward an assessment of damage, is there any quantifiable amount? They are separate inquiries.

MARK F. SCHULTZ: I thought that was the interesting thing here. It's more about a connection than proving a particular dollar value. It's the connection between the economic value and the secrecy itself. I'm wondering whether you think that is the kind of requirement that litigators might pick up on, a defendant might pick up on as something, or a judge might pick up on something that it potentially allows earlier resolution of a case. It seems like the linkage issue may be easier to bring up on the summary judgment than the more fact heavy discussion of reasonable efforts or even what's generally known or readily ascertainable.

CAMILLA A. HRDY: Higher percent. A lot of the cases I was looking at, these ones that dismiss really early, one example is this Danaher v. Gardner case, the court permanently dismissed the plaintiff's attempt to show that it's had an internal template that it used lead company meetings. What it looked like was that this was really useful within the company, but there was zero evidence and zero pleadings showing that this would have been valuable to anyone else.

Now, who knows what the real case was? Maybe if we'd gone all the way to trial and gotten some more fact finding, we could have found actually, this was pretty valuable to others. The way the court dealt with it was to say, "Look, you haven't pled it. The way you've pled the case there's no way you're going to be able to plead this and then dismiss permanently." I think it is a tool that allows early dismissal of actions in certain situations. I don't know, I'd be curious to know what your --

[crosstalk]

VICTORIA A. CUNDIFF: I'm willing to interject. I would say to our audience, by the way, hi, I'm Vicki Cundiff from Paul Hastings and I think we've shown that if you sometimes somehow have ephemeral trade secret links to conferences that [chuckles] that's a way of preventing access. Sorry to join in progress. I think we do need to move to Max now but we will open up to a more complete discussion later on. Thank you so much.

Max Haedicke is going to be talking with us about trade secret protection in Europe in patent litigation. This is going to be a topic of interest to patent litigators, trade secrets lawyers, and those like Mark Schultz who have focused on comparative law from the beginning. Max, if you can please get us started. [silence] Oh, next.

MAX HAEDICKE: I want to say thank you to the Fordham team, especially to Hugh and I hope that next year we'll all be together in person again. Actually, I'm going to talk about patent law in the trade secret context. I therefore want to change the perspective a little bit from regular trade secret litigation where the trade secrets are the subject matter for proceedings.

I will talk about patent litigation, where sometimes trade secrets must be disclosed, for example, to identify a FRAND rate, or to identify the features of an allegedly patent-infringing device.

Patent owners were very unhappy with the situation in Germany because they considered the means to protect trade secrets to be insufficient. The holder of a trade secret could let the court restrict the access to court files and restrict the access of the public to proceedings, but German law does not accept in-camera proceedings, and most importantly, no protective orders, no confidentiality clubs. Once information was out, at least the other party, was able to use it, without any restrictions.

So the courts suggested a contractual Non Disclosure Agreement. Last year, steps have been taken to protect trade secrets in patent proceedings. We have inserted a new section into our Patent Act which basically says that recently adopted Trade Secret Act can also be applied in patent proceedings.

With regard to the notion of "trade secrets" in patent proceedings further discussions are necessary. We are not yet as far in our analysis as Camilla has presented it. We are just in the beginning of understanding the implication of trade secret law here. I don't want to go through the definition, it's very similar to U.S. law, and perhaps the economic value should also be of importance. The courts may order confidentiality with regard to parties, attorneys, experts. All this is still open and subject to discussion. The law is just in the making.

How does it work in practice? Basically, you have to apply and the court will have to decide whether or not such an order will be issued. How are things in our future Unified Patent Court? Actually, they seem to be similar to the revised German law. The UPC may order the disclosure of evidence in proceedings and can issue directly enforceable orders for that.

In sum, the situation was unsatisfactory for patent holders, it has improved to a certain degree, it may also be improving in the UPC. The protection has increased. I think these are good news for every company which wants to litigate in Europe.

Finally, it is necessary to look at the issue from both sides. Protecting trade secrets leads to less transparency in court proceedings.

German law and also other jurisdictions value very high the constitutional right to be heard. Also, the publication of judgments provides guidelines for future actions, especially FRAND proceedings.

It is necessary to be able to discuss the judgments. Academic discussion is important and if everything is secret, done behind closed doors, there is no academic discussion anymore. We also should make sure that we don't have a closed shop of attorneys who have information of how to determine FRAND licenses. Protection of trade secrets in litigation is important, but we shouldn't spill the baby with the bath tub. I thank you very much for your attention. Again, it's a pleasure to be with you. Thank you very much.

VICTORIA A. CUNDIFF: Thank you so much, Max. One thing about the Fordham Conference is that it helps us to see issues arising throughout the world and I'm always struck by how similar the issues are and where we can perhaps help each other toward resolution. Perhaps Thomas or Mark would want to comment.

We have similar issues going on right now in the United States. Maybe Thomas and then Mark can jump in.

THOMAS D. PEASE: Yes, sure. I'd say 75% to 80% of my practice is patent-related and the other 20% trade secret related. Many times these disputes are worldwide in nature and people are always looking to Germany as a particularly useful forum to bring these patent cases particularly when it involves FRAND issues or high technology. Yet the concern that clients often have is the extent to which their information can be maintained in confidence not only technical information like source code, for example, if they wanted to produce it to establish a prior art reference but also things like license agreements.

If the German courts are now going to be recognizing confidentiality concerns and making it possible to share that information, even if it's not quite the full protection we might get here in the US, I think that can only help expand the incentive for people to litigate their cases in Germany where it makes sense to do so.

VICTORIA A. CUNDIFF: Mark, I know in the early days leading up to the EU directive you were carefully examining this issue across the EU and the rest of the world. Any comments?

MARK F. SCHULTZ: Sure. I think the European Commission when it was drafting the directive or getting ready to propose it commissioned some studies, particularly the Baker and McKenzie report did a survey of European businesses and they found a large percentage of the businesses had not brought trade secret claims because of concerns about disclosure during litigation. It was definitely thwarting parties from asserting claims that they thought were valid. In some countries, the issues were more difficult than others. Like in Italy, there was a requirement of full publication of the basis of the decision that was potentially interpreted as requiring the revelation of trade secrets which tends to scare litigants away.

I think this has some value. In the patent context, I do find it a bit of a potentially odd approach to deem all these things trade secrets. It has the advantage for the parties, I suppose, but it also presents a challenge of defining things with trade secrets. If you start litigating in this context over whether something's a trade secret, it may be somewhat counterproductive. There may be a broader category of confidential business information that merits protection in the context of litigation that may or may not meet all the requirements of trade secrecy. It may be something

like a particular FRAND rate, may or may not be a trade secret in the strict definition of the sense.

May be fair to keep confidential in the context of litigation, unless there's some broader public policy reason to not protect it and Max alluded to the public policy reasons at the end. It may be that a more nuanced analysis may deal with the needs of the party and litigation and their willingness to litigate and their need to vindicate their claim versus public interest that may be a little different from some of the trade secret considerations. We see this when parties have to file through regulatory filings and governments sometimes agree to protect certain information and regulatory filings in order to get more full disclosure.

VICTORIA A. CUNDIFF: Before we move on to Jim Pooley and taking your metaphor, Max, just to throw a little bit of water in the wine. I might mention that in the U.S. right now, a case is actively being litigated attracting considerable attention from academia, from organizations, and two courts in which the trial court held that because a patent right is a public grant, everything relating to that grant including all license fees should be made public. The Federal Circuit which hears all appeals from patent cases has said, "That's too broad," and is remanding for a more nuanced consideration of whether certain information is commercially sensitive.

It's not of public interest and should be redacted. The issues you are outlining are certainly not resolved in the United States for some of the reasons that Mark and Thomas have mentioned.

MAX HAEDICKE: Just to respond very quickly. I think Mark touched on a very important issue. The problem is that in the patent field, we borrowed some of the provisions of this directive and the Trade Secret Act and tried to squeeze it into patent proceedings and it doesn't really fit. If you look at the Patent Act, it only refers to procedural provisions and not to the definition of trade secret. There is probably space for defining trade secrets and patent litigation differently from defining it in the Trade Secret Act. All these things are still open but I think we need to take a different way in patent law. We cannot just copy one to one everything we have in the Trade Secret Act.

VICTORIA A. CUNDIFF: With that, we'll turn to Jim Pooley, but we'll be hearing from everyone else later on as well. Jim Pooley is well known to our audience wearing many different hats. He's going to be talking with us about reasonable measures to protect trade secrets which intersects nicely, actually, with both of our prior topics. Jim, if you can get us started and then we'll chime in with questions.

JAMES POOLEY: Thank you, Vicki. It looks like Camilla and I are both vying for the element of trade secrecy which is most neglected. All I can say is that reasonable measures, although it's been with us from the beginning, under the Restatement of Torts was not an element; it was merely a suggestion. It was one of the six factors, which for curious reasons, continue to be referred to in modern trade-secret law, but that's neither here nor there. The point is it is very much a required element under the Defend Trade Secrets Act and the Uniform Act, under somewhat different wording: reasonable measures versus reasonable efforts. One says reasonable under the circumstances, the other just implies the same thing.

Again, the issue has not received a whole lot of attention. I want to focus today for everybody on three don'ts. Three things not to do and one thing to do as we're looking at this issue in litigation. The first one is don't ignore it. Just like Camilla has said with respect to value, courts are paying a lot more attention to this sort of thing than they had in the past, particularly in federal courts. There's a serious risk here for plaintiffs. In a case I was involved with last year, it went to trial with a lot of hard evidence about misappropriation, some real technology in it, and so forth, but ultimately, the jury rejected the case largely on the basis of reasonable efforts.

Because jurors understand that behavior by the plaintiff is a reflection of value, that matters when you go in to actually litigate these things. And that leads to my second "don't": don't ignore the issue and don't conflate secrecy – that is general knowledge or readily ascertainable – or value with this issue. They do relate and they can reinforce each other but they are distinct. Reasonable efforts assumes that you have already satisfied the secrecy and value elements and what it does is it demands from the plaintiff something more. Something where the plaintiff has signaled the secrecy and value of this information through its behavior.

That's one of the things that in litigation makes this a distinct and very interesting element. Again, secrecy and the extent to which something actually is a secret, how difficult it would be to figure out, its high value, and so forth. These things all relate. In fact, we'll see that when we get to the final "do" but they have to be addressed separately. The third "don't" is don't fall into the checklist trap. The trap of treating this issue as if it can be resolved by a checklist of reasonable measures.

You can go to the case law and you can see what judges have approved in various cases that have dealt with this issue. The problem is these cases typically come up on motions to dismiss or motions for summary judgment where the judge is just looking for triable issues of fact and decent explanation of what the case is about. It's very easy to just let it go through and not pay attention to it. Particularly when in most cases it's not really a big issue, the plaintiff usually has engaged in efforts that appear reasonable. It's easy to say, "Well, we have this checklist of best practices if you will and so we can just check them off and we're there." Instead, the focus has to be on what is reasonable for that secret in that risk environment, which is very contextual.

The "do" here is to do a risk management analysis that addresses these issues. In each case, what is the value, the relative value, in particular, of the information? What is the threat environment which typically as Camilla says comes from employees, with some sloppy third-party NDA practice coming close behind? Then what mitigation measures are available to reduce that risk that would be worth it in terms of the out of pocket costs or the inconvenience of security measures, because security comes with some inconvenience. But what really is interesting is when you look at and you compare the behavior of a plaintiff when there wasn't a dispute, and how they were acting with respect to information that they're saying in litigation is existential and the most valuable thing on the face of the planet. Conclusion: plaintiffs look at this issue before filing, make sure you don't have a big problem. Defendants, seriously attack the issue, if you can, but only if it looks like the plaintiff was sloppy.

VICTORIA A. CUNDIFF: Thank you, Jim, and there's an obvious connection to Camilla's discussion and perhaps both of you would like to comment on these factors are in the statutes, and they've been in the case law long before they were in the statutes. Why do you think up until the scholarship and efforts of both of you, among others, why do you think courts and litigants have forgotten about these points, these requirements? Maybe starting first with Camilla, as you noted, there hasn't been a lot of discussion of economic value and now it seems that there's more, what's changed?

CAMILLA A. HRDY: I will say I think value wins is more neglected. I think reasonable efforts, certainly some empirical research show that reasonable efforts is addressed more often but it's interesting that one is in first restatement the other isn't. I want to address-- it's related to your question, Vicki, why is this ignored? I want to address the interface between Jim's talk on reasonable efforts and my talk on value and my question is, reasonable efforts is supposed to show, at least according to Judge Posner and Rockwell, it's supposed to help prove bad acts, it's also supposed to show value. One question that I've had trouble with is, okay, if a plaintiff has taken reasonable measures to protect their secrets, pre-litigation.

They've done all the right things, that supports value because if the negative were the case, if the party had done nothing, it's very easy and some courts do to say, "Well, this information clearly has no value, you didn't take any effort to protect it." My question just to Jim is like, "Well, even if the plaintiff has gone through all the hoops, and done good, secrecy precautions, they've done all the right things, they've used digital precautions, they have everybody sign the right contracts, does that really show that the information has the legally requisite value?" In particular, I want to address the category of information, I call it a type failure, but it's the category of information that a company would really like to keep secret, because it doesn't want it to get out because it would be bad for its reputation but it doesn't have commercial value in the ordinary way. For that kind of information, you could do everything legally proper to keep it secret, and yet it doesn't actually have values of a legal kind.

JAMES POOLEY: Well, Camilla, that's a really good point and I think you've made it earlier in your presentation, that you have to pay attention to the value of proving reasonable efforts as a necessary but not sufficient condition for getting there and yes, you can put on what looks like a really lovely Kabuki dance of measures of secrecy, creating the impression that your organization is a Fort Knox and so forth. If it's all just about whether the fact that you've painted your machines blue instead of red. What difference does it make? That just leads us back to the fact that this is an algorithm and you must address each element; and you're doing us all a good service by drawing our attention to value.

CAMILLA A. HRDY: Yes, because I think--

VICTORIA A. CUNDIFF: Mark, I wonder from your observations on a comparative basis, if you've seen these issues play out in some of the countries that you've been studying.

MARK F. SCHULTZ: I think the issue of reasonable efforts is probably the one that's more likely to be addressed. I think value is just like Camilla talked about. In many places, there's a tendency to assume value because people are fighting over

it or bothered to protect it. That's, I think, a less focused on issue, but everyone knows that it's kind of everyone thinks about reasonable efforts. By the way, I think one thought too is there's a little bit of discussion just now about the order in which things get addressed. Of course, we all realize that sometimes courts will take up the easiest element to get rid of a case with. They may say there were no reasonable efforts, maybe this stuff doesn't even have value but if reasonable efforts is something they can get rid of a case on summary judgment, they'll do it. That's something that can happen as well.

VICTORIA A. CUNDIFF: I'm wondering, Thomas, and Max may have views that certainly in patent disputes, much of what is at the heart of the dispute can't be claimed as a trade secret because it's disclosed in a patent but as you both referenced, there may be commercial aspects of the case that do want to be claimed as a trade secret and have you encountered these discussions about well, how do we know that what you want to seal is a trade secret to begin with?

THOMAS D. PEASE: Yes, I've seen that come up in a lot of different ways, and in fact, going back to your original question, to Jim and Camilla about why is it that we're all of a sudden seeing this newfound focus on reasonable efforts and intrinsic economic value? I think what it is, is trade secret as a claim for relief I think has exploded in the last few years. You see huge damages numbers that are coming out now and unlike a patent case, where you're limited to an invention that's narrowly defined within some specific claim language, you have a lot more flexibility when a company feels that some other company has wronged it to define a claim. If you could show that there's some conduct that gives rise, supports at least to claim misappropriation, you may have a claim against them.

I think companies are turning the trade secret, in the first instance, much more than they were in the past and in response, the people defending those companies who are accused of trade secret misappropriation, are now scouring the statutes and the statutory language and looking for any hook on which to base a defense. Camilla mentioned earlier, this notion of I think it was apportionment, and when you think about it, like, okay, let's say the trade secret. Out of all the stuff taken, the trade secrets itself resides in let's say, six to eight lines of code. Well, then you can use that as a hook all the way down the road, then focus the effort on what were the reasonable efforts to make to protect those six to eight lines of code?

What's the intrinsic value of those six to eight lines of code? From the defendant's side, just keep parsing away the case to something narrower, narrower, narrower, to try, and keep the value for the potential damages as low as possible. I don't have any empirical research to support that theory but it occurs to me that, I think, that's what's happening and that we're going to see, at some point, every single aspect of these statutes scrutinized in the hope that it might support another arrow in the quiver of the defendants.

MARK F. SCHULTZ: I would just agree that it's natural evolution, the more claims we see, the higher the stakes, the better the lawyering, the evolution. I'm surprised that when I developed or worked with some others to develop our own set of trade secret materials years ago, we're able to pull some really dumb cases out of some of the '70s and '80s reporters where courts really didn't look at hardly any of the elements, they just feel like defendant did something shady, and they're

offended by it and the court waives its hand and assumes the elements are met and gives a little lecture in the opinion about bad behavior.

I think you're going to see that kind of thing less and less because it's becoming a more sophisticated practice. Judges are more familiar, there's a better body of case law, there's better briefing. I think that's part of what's happening too.

JAMES POOLEY: Yes, and it's federal. We now in fact have a federal law even though the Federal Circuit a few years ago in the Tian Rui case assumed that there was federal common law, it doesn't matter anymore. We actually have one and it's getting applied with some vigor. Look, defendants pursue the parsing of and narrowing the trade secret but when it comes to the eight or nine lines of code that really drive the result, the one thing we have to be careful about is they drive that result in context of the relationship between those eight or nine lines of code and the rest of the code and the efficiency and effectiveness of it with that little engine in it.

It's not always just that one part and this gets into combination secrets and synergies. That's a part of this. To the general point of wow, there's a lot of litigation going on here, big verdicts, and so forth. These nuances give litigators a lot of room for developing facts and arguments that could drive a result.

It's not just cases from the '70s, it's some much earlier and currently, judges are influenced and certainly, juries are influenced by the morality play aspects of trade secret litigation. They do want to punish bad actors, and they bring all of that personal experience with them. We have to just constantly remind ourselves about this reality. This area of the law is fault-based, unlike patents, where you can be infringing just walking down the street unaware. The same is not true for trade secrets.

VICTORIA A. CUNDIFF: Connecting some of this discussion to our earlier remarks that Max set us off on relating to sealing, sometimes people think, "Oh, these questions about reasonable measures and economic value," we'll deal with that in due course, in a case, either on a motion for summary judgment, preliminary injunction, or at the end when the damages experts roll in, or the reasonable measures experts come rolling in.

Actually, these issues can permeate the case. When there are questions about should particular pleadings or should particular evidence be sealed or not, because a clever defendant will say, "Wait, this document attempts to seal much more than the eight lines of code." Of course, we're not conceding those eight lines of code have economic value, either but all that ought to be sealed is this little tiny bit.

The plaintiff is likely going to be saying, "No, no, no, it's contextual. We need the whole document to be sealed." These issues get played out in perfunctory sealing motions as well as substantively. I'm wondering, Max, I know it's early on in seeing how things are going to go in patent litigation but I'm wondering when commercial parties are saying, "Look, I want to seal information about the terms of my private license agreement, not a FRAND license, or there are other commercial items that I would like to seal." Is there a focus on well, is it a trade secret or what's your rationale for wanting us to seal it to begin with?

MAX HAEDICKE: It's a very good question and it's very hard for me to answer it because we do not have any cases yet. I can only say that efforts are being made, that motions are being filed with the courts. Basically what they do is they use paragraph two of the Trade Secret Act with the definitions that you have just been talking about. I think all this discussion of whether or not it fits, whether or not a simple license should be sealed or not, has not been discussed yet.

VICTORIA A. CUNDIFF: In order to do that, certainly, the hybrid litigators, but hybrid in the sense of patents and trade secrets and across jurisdictions are going to have to be thinking about carefully.

JAMES POOLEY: I hope Max can keep us informed about these developments as they go on because among other things, Germany is a very popular destination for patent and other forms of IP litigation. Here in the US, we have our crazy §1782 procedures, which can send U.S. trade secrets overseas, and knowing what foreign tribunals, foreign to the U.S. tribunals, can and will do and what will be the effectiveness of what they can do with protective orders is very, very important to us.

VICTORIA A. CUNDIFF: Jim, for context and the benefit of some of our audience members who may not be familiar with 1782, could you give us the close notes version?

JAMES POOLEY: Oh yes. This section of the law was enacted back at a time when I guess the post-war feel-good environment obtained. We thought the U.S. as a matter of policy could encourage other countries to adopt a U.S.-style discovery by making our own system open to them. There is this provision that allows anyone who's engaged in a foreign judicial or arbitral proceeding to petition a U.S. federal court to force somebody who holds trade secrets that might be relevant to that action to hand them over so that they can be sent and used in the other proceeding. The law has been on the books for decades now and it has so far had zero effect other than causing some countries to actually erect a barrier to cooperation of this sort. There we are.

VICTORIA A. CUNDIFF: As Jim explains, we are going to be looking in keen interest, Max, on some of the developments that you've mentioned. Do our other panelists want to jump in on some of those interesting conversation? We've got more questions too.

CAMILLA A. HRDY: I wanted to air a question from the audience.

MARK F. SCHULTZ: I saw a question from the audience I thought I wanted to address too.

VICTORIA A. CUNDIFF: Very good.

MARK F. SCHULTZ: There's one addressed to you first, Camilla. The first one is-

CAMILLA A. HRDY: The first one says how does this view square with the idea that a trade secret plaintiff comes to court to seek remedies usually damages? Is there a normative reason to address value at the liability stage instead of the remedy stage? With regard to the damages question, as we've seen, a lot of times injunctions are at issue initially, but then that's not necessarily what the plaintiff is seeking at the end of the day.

I absolutely think there's a normative reason to address value and reasonable measures early at the liability stages or the remedy stage. In patent law, you don't say, "Oh, okay, there's something that's clearly they spent a lot of money developing. We know it's not novel or non-obvious, but let's just wait to see what it's like at the remedy stage to see if there's any damages involved, and then we'll decide whether it's protectable." My basic answer here is --

VICTORIA A. CUNDIFF: Actually, by the way, Judge Posner suggested that we do exactly that go to the end at the beginning in patent cases and look at damages, but that didn't fully catch on.

CAMILLA A. HRDY: Which contradicts the whole point of conserving judicial resources because if it's not IP, and courts should be able to determine that at the outset. We shouldn't wait to see what the ultimate-- how much money is potentially lost from the use of this information because there's costs. There's costs to litigation for the court system and then there's costs for defendants in the way of employee mobility, speech, competition, all that stuff.

I think there's a really good reason for giving courts at least the tools to assess whether this qualifies under the statute because otherwise, you really could see a lot of frivolous cases going really, really far because obviously, yes, sure, there's if all standard, plausibility standard all that you can dismiss claims early in the case but if you don't have the legal criteria on which to act, then you can't get rid of those cases. I think it's really important to not conflate value as a criteria of protectability with the question of damages.

VICTORIA A. CUNDIFF: I'd like to interject for a moment in the Oakwood against Thanoo, which is a popular case and from the Third Circuit last year, the court seems to suggest that trade secrets can be valuable, even if it's not tied to money, and that there can be value for a lot of other reasons aside from money, and that losing control of a trade secret can impair value of that asset. I wonder if that's an issue. Does economic value mean, you got to show that it has dollars and cents value, or are other kinds of measures of value appropriate?

CAMILLA A. HRDY: I would very strongly say it doesn't just mean about dollars and cents value. In fact, one of the other points of what I was finding was that some of these value failures weren't about the amount. They were about other issues, including the type. Great line of cases there is a diversity statistic case is where we got some folding, saying your diversity statistics, the numbers in your firm, that doesn't have the right kind of economic value.

If you can show that it's a strategy and you've developed the right magic mix and that that gives you a competitive advantage, well, that's something else, but just information about the composition of your workforce, that's not. It doesn't have economic value, so that doesn't have to do with dollars and cents. Then there is, of course, when you have really old information. We've all seen that. If information is just too old, and even if you spend a lot of money developing it, it no longer belongs in court. I guess the theme here is we don't overwhelm the courts. That's something that's increasingly concerning to me is there's a lot of resources wasted on letting people fight over stuff that just maybe isn't worth the work fight.

JAMES POOLEY: Honestly, that's one of the reasons we have ready ascertainability as a standard. It is to weed out things that are so trivial in terms of

their protectability that the courts shouldn't bother. You can apply the same general standard to other aspects that can be accurately determined to be trivial.

THOMAS D. PEASE: I think one point that might be worth making is that I figured out from a litigator who's done both the plaintiff side and the defense side of it, when you're on the plaintiff side, you're really going through a dance at the very beginning to try and figure out what that trade secret is that you define because, like Jim said, if you define it so broadly that it encompasses material that's readily ascertainable, then you've destroyed your own trade secret.

Yet at the same time, you want to capture what it is that the other side has and you may not know exactly what they have. You want to be flexible and you want to define your trade secrets, hopefully, if you're the plaintiff through some iterative process without being accused of engaging-- I think one court called it a shifting sands approach to trade secret definition. You're playing this game and it might be hard if you take a stand very early on the value of your trade secret without knowing how you're going to define that trade secret, I could imagine that might backfire.

As to Josh's point in the second question, if you do come up with some protocol and then don't follow it. I have seen that happen both in trade secret cases or even in patent cases where somebody's relying on the opinion of counsel where you said, okay, you must do a, b and c, and then you don't actually do it. That can be really, really damaging evidence that, "Okay. Well, you agreed what the protocol was and you didn't follow it," so it's tough.

JAMES POOLEY: Let me just say that planning for that is part of the process of doing your risk management analysis because whatever mitigation techniques you choose, let's say it's some policy that you're going to mark things and you're going to mark them with three different kinds of legends depending on what sort of things they have. Well, part of what you do is look at the operational risk of whether or not you can actually get people to do that. If you can't, then you have to move to something a little simpler in order to avoid exactly that kind of blowback.

MARK F. SCHULTZ: We're framing this in terms of litigation, which is fine. It's just, I think, you wouldn't want the implication to be, "Don't have a policy because you're better off without a policy because if you get caught not following it, it looks bad." First, you want a policy. Second, you want a policy you actually can enforce. Third, you want a policy that you actually do follow. That's something that's in the context of counseling businesses and consultants on trade secrets, they counsel them to have a set of best practices that take trade secrets seriously that probably at the management level, there are decisions about what can be effectively implemented and there's an assessment about cost-benefit and identification of procedures that can do it.

When you deal with third parties, for example, I did my practice, I'd have a lot of clients, we did a lot of licensing of databases we protected with contracts and trade secrecy, and in our push down terms to third parties, we were insisting on things like audit provisions and they'd have to send us notice every year that they were continuing to comply with our procedures. They would argue with us that they were cumbersome, but we'd say, "It's not just enough to have this piece of paper,

we need to be able to prove that you followed it too." That's the whole from the beginning. Before you're in litigation, you have to think like that so that you have an enforceable policy.

JAMES POOLEY: Well said.

VICTORIA A. CUNDIFF: It takes us back to Camilla's observation that having whizbang measures to protect your trade secrets doesn't convert information that wasn't a trade secret into a trade secret. It's not even an absolute proxy for value, but as organizations try to think about how they protect information, the amount of effort they put into it is going to be informed by value. As Jim points out, and picking up on your point, Mark, it's not just something you should be thinking about on the courthouse steps. If you've got a trade secret, you want to be figuring out how important is it and how do you protect it before there's ever any litigation, and hopefully, there won't be a litigation.

If there is, you're going to be focusing on whether you've mapped the elements, and as Max and others have cautioned, how are you going to make sure that the litigation itself doesn't compromise the trade secrets that do have value and that you have protected? I think we have time for a very brief wrap-up. I don't know if there are further questions from the others.

CAMILLA A. HRDY: I have a question for --

MAX HAEDICKE: A question.

CAMILLA A. HRDY: Oh, yes. Go ahead.

MAX HAEDICKE: If I may. Do you use the same analysis, whether or not there's a trade secret, in deciding whether a protective order is issued or a sealing order is issued? Is it exactly the same or do you use different techniques?

JAMES POOLEY: Maybe I can jump in here. We need to separate out protective orders, which enhance the ability to exchange information and discovery by getting it out there to the other side under restrictions, and separate them from sealing orders where one of the big concerns is the transparency of court proceedings and the right of the public to know what's going on.

We're very, very generous and loose on the standards that apply in the first case. On the second one, we are much more conservative, but it leads to some difficult points that Vicki brought up earlier. What happens when a judge decides something in the course of a case where he says, "Wait a minute, I can't seal the courtroom for that. I can't seal the records for that. That doesn't qualify as a trade secret." What? The judge isn't supposed to be deciding what's a trade secret, that's a fact issue for the jury, but we still have to figure out how to actually run these cases. Figuring out that balance between judge and jury can be tough.

VICTORIA A. CUNDIFF: Of course, in some litigation, the defendant is going to push really hard to be sure that information isn't sealed, which then compromises the trade secret as to the world. We have built in some procedures under the Defend Trade Secrets Act to enable the trade secret owner to make the presentation to the court and to appeal, but litigation can be a very dangerous game if this isn't thought through. It may be that the court through what they think of as administrative matters can put the trade secret in very grave danger.

MAX HAEDICKE: Thank you.

Session 7C

VICTORIA A. CUNDIFF: Mark Schultz, of course in some of your early research, you were focusing particularly in the EU of why weren't people bringing trade secrets cases, and that was one of the insights you found. Well, I think that the red hand is about to hit zero, so thank you so much for such an interesting conversation. Terrific papers. I hope people will refer to them. Max, we're all going to be knocking on your door to see what's happening.

MAX HAEDICKE: Next year, I'll give you a new report.

VICTORIA A. CUNDIFF: Thank you.