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# PROVING INDEPENDENT DEVELOPMENT: A WINNING DEFENSE AGAINST TRADE SECRETS MISAPPROPRIATION CLAIMS

Presented by:  
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**Why Should I Care About  
Trade Secret Claims?**

**What's My Best Defense?**

**How Can I Make Sure I Have  
That Defense?**

# WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

## TRADE SECRET CLAIMS ARE ON THE RISE

Defend Trade Secrets Act (DTSA)



Injunctions



Large Damage Verdicts



Patent Infringement Cases  
Less Effective, More Expensive



Front-page News: *Waymo v. Uber*



## WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

### Is Your Company At Risk?

#### Does your company...

- Hire employees who worked for a competitor?
- Use independent consultants?
- Engage in M&A discussions with other companies?
- Engage in joint development work with other companies?
- Assess technology under an NDA for the purpose of acquiring or licensing in technology?

#### Was your company...

- Founded by individuals who previously worked in the same or similar industry?
- Founded on technology that was acquired or licensed in from another company?

## WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

### TRADE SECRETS CASES ARE DIFFERENT THAN OTHER CASES

#### Breach of Contract Claim

35. As described above, Shippo breached **Section 3.8 of the Agreement** by contacting and working with entities at the USPS to obtain certification to use its own API to provide USPS postage, such API comprising technology that is substantially similar to Endicia's ELS API.

#### Trademark Infringement Claim

138. On information and belief, all RESPONDENTS import into the United States and/or sell for importation certain insulated beverage containers and labels and packaging materials thereof that bear marks that infringe the **Rambler® Trademark**.

# WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

## TRADE SECRETS CASES ARE DIFFERENT THAN OTHER CASES

### Copyright Infringement Claim

173. On information and belief, Respondents Alibaba; DHgate; Bonanza; Wish; Huizhou Dashu Trading Co., Ltd.; Huagong Trading Company Ltd.; and Tan Er Pa Technology Co., Ltd. import into the United States and/or sell for importation certain insulated beverage containers and packaging materials thereof with labels that infringe the YETI Rambler® Colster® Copyright.

### Patent Infringement Claim

222. Respondent Alibaba infringes the '397 Patent through its sale for importation and/or importing of certain infringing insulated beverage containers, including but not limited to the SHOP2882199 Store's, the YE TI Store's, and Respondent Huizhou Dashu Trading Co., Ltd.'s counterfeit Colster® Drink Holder products.



# WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

## TRADE SECRETS CASES ARE DIFFERENT THAN OTHER CASES

### Trade Secret Infringement

75. AMAX owns trade secrets relating to at least (i) competitive bidding worksheets, quotes and strategies, (ii) sales training questions, (iii) customer lists, (iv) OEM testing questions and information, (v) sales playbook, (vi) list of industry standards with which AMAX complies, (vii) sales training module, (viii) competitive marketing materials and analysis, and (ix) confidential AMAX supplier and cost information.

78. Without AMAX's authorization and in violation of their agreements and obligations owed to AMAX, Defendant Pham acquired and misappropriated these trade secrets, used them, and unless restrained, will continue to do so.

# WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

## EASY TO FILE, BUT HARD TO DEFEAT

### Plaintiff

- Asserts multiple, broad trade secrets
- Matches a few buzz words to assert “misappropriation”
- Controls evidence about access to trade secrets
- Relies on circumstantial evidence
- Uses discovery to find more “misappropriation”
- Evolves asserted trade secrets

**Defendant must prove a negative**





# WHY SHOULD I CARE ABOUT TRADE SECRET CLAIMS?

## CASE COMPARISON (5/2016 – 5/2017)

### Patent Cases

- 4,547 filed
- 3,044 terminated
- Median: 123 days
- 99 Injunctions (2%)
- 4 trials

**Terminated: 67%**

### Copyright Cases

- 4,816 filed
- 2,674 terminated
- Median: 128 days
- 180 Injunctions (4%)
- 4 trials

**Terminated: 56%**

### DTSA Cases

- 339 filed
- 128 terminated
- Median: 140 days
- 33 Injunctions (10%)
- 6 trials

**Terminated: 38%**

Source: Lex Machina

**Why Should I Care About  
Trade Secret Claims?**

**What's My Best Defense?**

**How Can I Make Sure I Have  
That Defense?**

## WHAT IS MY BEST DEFENSE?

### UNDERSTAND PLAINTIFF'S BURDEN

#### 1. Plaintiff Owns a “Trade Secret”

- a. Information is “secret” and
- b. Subject to reasonable measures to keep it secret and
- c. Valuable to Plaintiff by not being known

#### 2. Defendant “Misappropriated” Plaintiff's Trade Secret

- a. Acquired by improper means or
- b. Used or disclosed without authorization

#### 3. Plaintiff Harmed by Defendant's Misappropriation

- a. Lost profits or
- b. Unjust enrichment or
- c. Reasonable royalty

## WHAT IS MY BEST DEFENSE?

No HARM, No FOUL?

### 3. Plaintiff Harmed by Defendant's Misappropriation??

- a. Lost profits or
- b. Unjust enrichment or
- c. Reasonable royalty

**Defendant should always challenge damages,  
BUT**

- Will not end case early
- Discovery is necessary
- Battle of experts
- Summary judgment very rare
- Even if no / minimal damages, Plaintiff can still seek permanent injunction

## WHAT IS MY BEST DEFENSE? GOT TRADE SECRETS?

### 1. Plaintiff Owns a “Trade Secret”??

- a. Information is “secret” and
- b. Subject to reasonable measures to keep it secret and
- c. Valuable to Plaintiff by not being known

### Defendants often challenge trade secret status, BUT

- Plaintiff in control of relevant evidence
- Defendant will need discovery from Plaintiff and/or public domain
- Plaintiff can assert multiple trade secrets
- Plaintiff can modify / amend asserted trade secrets
- Summary judgment not very likely

## WHAT IS MY BEST DEFENSE?

### I DIDN'T DO IT!!

#### 1. Defendant “Misappropriated” Plaintiff’s Trade Secret??

- a. Acquired by improper means or
- b. Used or disclosed without authorization

#### Defendant in Control of Evidence, BUT

- Defendant must prove a negative – no use or disclosure
- Plaintiff can amend / modify trade secrets
- Plaintiff can rely on circumstantial evidence
- Defendants often rely on on-boarding, training and agreements, but what if not followed??
- Hard to end case early / win summary judgment



## WHAT IS MY BEST DEFENSE?

BEST DEFENSE IS A GOOD OFFENSE

### 1. Defendant “Misappropriated” Plaintiff’s Trade Secret??

- a. Acquired by improper means or
- b. Used or disclosed without authorization

### Don’t Try to Prove What You Didn’t Do. Prove What You DID Do – *Independent Development*

- Defendant in complete control of evidence
- Doesn’t matter what trade secrets are asserted
- Doesn’t matter if trade secrets are modified / amended
- Now Plaintiff must prove the negative
  - Plaintiff retains of proof – must prove there was no independent development. *Moore v. Kulicke & Soffa Industries*, 318 F.3d 561 (3d Cir. 2003)

**Why Should I Care About  
Trade Secret Claims?**

**What's My Best Defense?**

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That Defense?**

# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## PROOF OF “INDEPENDENCE”

### Key to Defense, “INDEPENDENT”

- Create documentation
- Maintain documentation
- Detailing who, what, when and where of technology development

### Seems easy, BUT . . . .

- Document “retention” policies
- Collaborative Electronic workplaces
- Open-source development
- New “Scrum” and “R.A.D.” project development methodologies



# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## GOT PROOF?

### Establish Policy of Preserving Proof

#### Guided by Business Record Exception to Hearsay:

1. The record was made and kept in the course of regularly conducted business activity;
2. The record is one that is routinely made and kept in the course of business, in the business's usual practice;
3. The record was made at or near the time of the event that it records; and
4. The record was made by a person with knowledge, or from information transmitted by a person with knowledge, and who reported such knowledge in the regular course of business.



# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## GOT PROOF?

### Educate “Exposed” Departments (R&D, Sales, Marketing)

#### Memorialize “sources” at the time work is done:

1. Internal development (Patent and Copyright application, Lab notebook, invention disclosure with witness signature, version controlled documents and software, prototypes)
2. Acquire or license-in technology (purchase orders, agreements)
3. Public domain (dated articles, books, pictures, citations, other documentation)

#### Maintain development records as regular course of business

#### Collect and preserve development records from departing employees

#### Collateral benefits:

- More patents
- Employees less likely to use others' trade secrets



# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## PROOF: THE GOOD, THE BAD AND THE UGLY

### Good

- Patent / Copyright Application
- Lab Notebooks (Physical or Electronic)
- Witnessed Invention Disclosure Forms (but usually not detailed enough)
- Version controlled source code in source code repository
- Version controlled user-created documents in document management system
- Physical prototypes and past product samples

### Bad

- Email with attachments
- Electronic documents in share drives (watch out for document properties)
- Non-version control wikis, Google docs, etc.

### Ugly

- Loose leaf paper sitting in 100s of boxes at Iron Mountain



# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## LAB NOTEBOOKS

**Invention disclosure forms not good substitute**

**Use bound notebooks with consecutive numbered pages**

**Value proportional to detail, and care taken to date and sign**

**Include detail sufficient to enable anyone of ordinary skill to understand**

- Pictures, computations, circuit diagrams, test results, procedures, observations, calculations, formulas, sketches, photos

**Provide context: project names and subject matter**

**Include names of others involved in work**

**Electronic Lab Notebooks**

- Adoption issues
- Lack of functionality
- Cost
- Accessibility
- Supervision

# HOW TO PROVE INDEPENDENT DEVELOPMENT?

## WHAT ABOUT MARKETING AND SALES?

### Marketing / Sales Team Doesn't Keep Lab Notebooks, So . . .

Use Document Management System, if possible

Pay attention to Document Properties

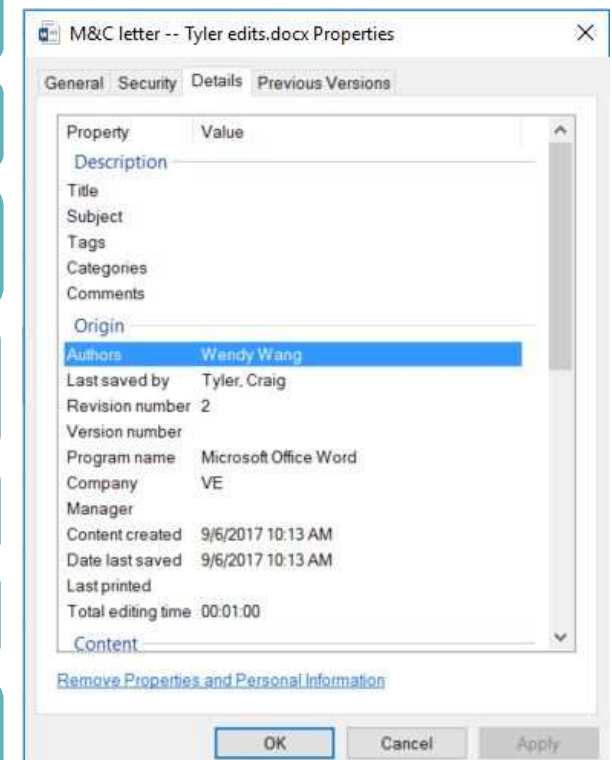
Note all “Sources” of photos, data used in presentations

Maintain dated copies of original content created, and public domain materials used

Do not use “Templates” from previous employer

Do not use “Sales Tools” from previous employer

Do not use similar format in presentations from previous employer



## HOW PROVE INDEPENDENT DEVELOPMENT? WHAT ABOUT KEEPING IT CLEAN?

**Independently develop technology/software as a substitute for technology received from or disclosed by a licensor, partner or other party**

### Clean Room Basics

- Separation of teams:
  1. Specification Team – describes functionality for work in “specification”;
  2. Coding / Development “Clean” Team – create and test the new, replacement technology; and
  3. Coordination Team – to oversee and enforce “clean room” requirements
- Wall off “contaminated” employees and information from “Clean” Team
- Enactment of rules to separate flow of information among teams
- Strict adherence to rules
- Document independent development work

## HOW PROVE INDEPENDENT DEVELOPMENT?

### CLOSING THOUGHTS



Independent development can be a  
virus that can infect others.

— Noam Chomsky —

AZ QUOTES

## SPEAKER BIOGRAPHY



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### Education

The University of Texas School of Law, J.D., 1995

The University of Texas at Austin, B.S., Mechanical Engineering, 1992

Craig has significant experience in complex intellectual property litigation involving complicated technology in a variety of industries. Craig focuses on litigating and trying trade secret and patent infringement/validity matters for clients in the LED, LCD, software, Internet, telecommunications, medical device, pharmaceutical, gaming, e-learning, semiconductor, VoIP, computer-associated hardware, and oil and gas industries. In his 20-year career, he has litigated more than 160 technical cases involving claims of trade secret misappropriation and/or patent infringement cases, including eleven trials, in state and federal courts in Texas, Delaware, California, New York, New Jersey, Massachusetts, Florida, Kansas, Utah, Michigan, Minnesota, Wisconsin, Nebraska, Oregon, Oklahoma, Arizona, and Nevada.

Craig also provides guidance, counseling, and coordination of IP (patent, copyright, trademark and trade secret) enforcement and defense efforts throughout the world. Specifically, he has assisted clients with patent-related issues in Japan, Taiwan, China, Germany, the Netherlands, the UK, France, Australia, and Canada. Through this work, Craig has developed a global network of trusted patent prosecutors and IP litigators, and these relationships enable him to counsel clients regarding patent enforcement issues outside the United States.

Craig has extensive experience in related technical litigation matters, such as breach of contract, trademark infringement, Lanham Act, copyright infringement, enforceability of covenants not to compete, and unfair competition claims. He has in-depth experience and training in ex parte/emergency proceedings for temporary and preliminary injunctions involving trade secret misappropriation, breach of contract, and patent infringement claims in both federal and state courts in Texas and other states.

An accomplished appellate lawyer, Craig has experience before the Court of Appeals for the Federal Circuit and the Court of Appeals for the Fifth Circuit. He is a member of the appellate bars of the Court of Appeals for the Federal Circuit, the Court of Appeals for the Fifth Circuit, and the United States Supreme Court.

In addition to his courtroom litigation experience, Craig has significant experience in AAA and JAMS arbitration proceedings. He has prosecuted patent and trademark applications before the United States Patent and Trademark Office, negotiated complex software and patent license agreements, drafted employment agreements concerning ownership of intellectual property, and counseled clients regarding the ownership, development, and protection of their intellectual property.

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