Pharmaceutical Executive

Can You Keep a Secret?

Trade secret laws are simple and enforceable. Here's how your company can protect itself. **BY RICK RICHMOND AND BRENT CASLIN**

Pharmaceutical companies big and small depend heavily on information, much of it confidential and valuable. From low-tech customer lists and marketing plans to the coveted results of expensive biotech research, the pharma industry is built on confidential information that must be protected, making the law of trade secrets a key component in a company's strategy to protect its intellectual property.

That protection goes both ways. Pharma companies must also avoid being accused of misappropriating another firm's trade secrets. Litigation is expensive, and losing a trade secret case can be disastrous. Imagine a pharma company, after spending millions to research and market a new drug, is suddenly sued for misappropriation, enjoined from selling the product, and ordered to open up its computers to prove it developed the drug on its own. Good companies—that made common but avoidable mistakes—have been thrust into that very circumstance, and some firms have been hit with enormous judgments for trade secret misappropriation. In fact, in the past several years, pharma industry defendants have suffered trade secret verdicts greater than $50 million. Defendants in other industries have been walloped with trade secret judgments of $500 million or more. To put it mildly, trade secret claims are not only serious, they can be potentially catastrophic.

Knowing the basics of trade secret law, implementing thoughtful and clear policies about the receipt and use of confidential information, and using old-fashioned common sense, will go a long way toward avoiding disputes. This article outlines the basics of trade secret law and describes the practical steps pharma companies can take to protect confidential information so that, if it is wrongfully taken, trade

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secret rights can be enforced. It also offers practical advice on how companies can prevent misunderstandings and accusations that might lead to an unwanted appearance in court.

The Three-Part Rule

Unlike other federal legislation governing intellectual property, such as patent, trademark, and copyright law, there is no civil trade secret law at the federal level. Instead, the civil law of trade secrets is found in state legislation. Most of these state laws are based on a model statute called the Uniform Trade Secrets Act (UTSA). The rules governing trade secrets thus vary from state to state, but the general principles are consistent and easy to understand. For the most part, trade secret law is built on three simple principles. Simply stated, if (1) a trade secret exists and (2) it is misappropriated, then (3) UTSA should provide a remedy.

What is a trade secret? UTSA defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that (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."

Trade secrets can exist in unscientific things such as customer lists, product plans, financial information, business strategies, and marketing data. Or they can exist in scientific forms, such as formulas and results of years of testing sophisticated drugs or treatment programs. A business plan might even be a trade secret. Early last year, Dr. On-call, a company from Palo Alto, California, filed a trade secret claim against Roche Diagnostics, alleging the theft of its business plan for internet-based medical advice.

Regardless of whether the information is an internet-based business plan, biotech research, or a simple customer list, it must truly be a secret. Others cannot know it. A single unprotected disclosure revealing the information, such as an internet posting, a press release, or a speech to colleagues at a conference, may destroy the UTSA protections. Although the rule that the information must be kept secret sounds simple, ill-advised and unintended disclosures by employees destroy trade secrets all the time. Executives charged with enforcing a company's intellectual property rights should never forget that, to enforce trade secret rights, the information must be a secret to begin with and must have been kept a secret.

Theft and misappropriation. The second principle of trade secret law, the requirement of a "misappropriation," requires more explanation. First, and easiest to remember, is that UTSA prohibits the wrongful acquisition of trade secrets, including buying or acquiring a trade secret known to be stolen. Known cases of outright theft are not as common as novels and movies depict. In the few instances in which the crooks are caught, they tend to settle quickly to avoid negative publicity and potentially severe punishment. The 1996 introduction of federal criminal penalties for trade secret theft might also contribute to the small number of reported cases involving outright trade secret theft.

UTSA also prohibits the improper use and disclosure of trade secrets that were revealed only for a limited purpose. These cases are less glamorous but much more common than the theft cases so attractive to script writers. They are also the ones pharma companies must work the hardest to avoid.

Disputes regarding improper use or disclosure frequently arise after parties end a relationship in which they shared confidential information. The relationships can be between companies—such as joint ventures and partnerships, or negotiations in anticipation of such relationships—or between a company and one of its employees. In most of these cases, a party received confidential information with permission to use it for a specific purpose only. For example, in merger negotiations, one party might be shown the other's pricing schemes and customer contact database but is given permission to review the information only to consider the potential merger. Similarly, a biotech firm may reveal to a Big Pharma company the specifics of a new drug and treatment results but only for the purpose of considering a joint marketing agreement. Disputes arise when the disclosing party comes to believe that the receiving party has used or disclosed the confidential information for reasons other than those permitted by their confidentiality agreement. (See "The 'Ex' Factor.")

Damage awards. Although rules vary from state to state, UTSA provides broad remedies for those able to show misappropriation. In trade secret cases, plaintiffs almost always seek damages based on actual losses and frequently seek to have the defendant give up its ill-gotten profits. In May 2003, following a three-week trial in a federal court in the Southern District of

The "Ex" Factor

Most cases alleging the improper use or disclosure of a trade secret fall into one of two categories:

1. The Former-Partner Dispute. In this scenario, Company A and Company B share information after signing a confidentiality agreement. The information swap is for a specific purpose. It may last for just a few moments (as with a product pitch), for months (during merger negotiations), or for years (such as where two companies work together on treatment research). After the relationship ends, one of the companies learns that the other is launching a product similar to the one discussed or researched under the protections of the confidentiality agreement. The allegedly aggrieved company files suit, believing the other party is using its protected information.

2. The Former-Employee Dispute. This scenario occurs when an employee with knowledge of a company's proprietary information goes to work for the competition. The first company is certain that the former employee is telling the competition everything about its research, formulas, business techniques, or other confidential information. The company files suit to prevent the former employee from using its confidential information for the competition. Recently, a Baxter employee who joined Bayer was accused of copying trade secrets relating to the manufacturing processes used in a hemophilia treatment product. The case resulted in an injunction preventing the new employer from copying or reviewing any of the new employee's computer files.

California, a jury awarded more than $13 million in lost opportunities to Ichor Medical Systems, resulting from misappropriation of its method of using electroporation as a means of delivering therapeutic agents.

In addition to damages and lost profits, immediate relief in the form of injunctions or temporary restraining orders may be available depending on the jurisdiction and circumstances of the misappropriation. Injunctions almost always affect companies' operations and, in some cases, can affect entire product lines. That happened to Natural Biologics just last year following a trade secret lawsuit brought by Wyeth, in which a federal court in Minnesota enjoined Natural Biologics from engaging in research or development of any natural conjugated estrogen products.

Those who suspect a former employee or partner of misappropriating trade secrets but believe it would be difficult to prove such a claim should keep in mind that courts sometimes fashion novel remedies. In a dispute between Bayer and Roche, for example, a high-level Bayer marketing executive went to work for Roche. Bayer was not able to prove actual misappropriation, but there was enough suspicion of threatened misappropriation that the federal court ordered Roche and the former executive to submit to periodic discovery so that Bayer could determine if any of its confidential marketing information was being used at Roche. The court's decision effectively prevented the former marketing executive from improperly using Bayer's information because Bayer was able to watch his every move. Other courts have also granted unique remedies and, depending on the circumstances of the case, the nontraditional remedy such as the discovery order against Roche might be as good as winning the case outright.

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Keep It Secret

Trade secret remedies rarely permit the victim of an actual misappropriation to be completely compensated for the expensive and distracting nature of litigation. And before a company can recover for the theft of a trade secret, it must prove that it made reasonable efforts to keep the secret truly secret. Simple mistakes, such as displaying information at a trade show or discussing the information in a speech to colleagues, can allow valuable information to slip into the public domain where it can be used by anyone. Most of the methods used to maintain confidentiality should be obvious:

- Maintain security at physical plants.
- Use computer passwords.
- Establish policies regarding confidentiality.
- Ensure that confidentiality policies are distributed to all employees and placed in employee handbooks.
- Limit the number of employees with access to confidential information.
- Conduct mandatory training programs about confidentiality agreements and the handling of such information.
- Discipline or fire employees who improperly disclose the company's confidential information or wrongfully use the confidential information of a competitor.
- Discuss the importance of confidentiality with departing employees and require them to confirm the return of all confidential documents and to agree that they will not use any confidential information in connection with their new job.
- Include in all written employment agreements and vendor agreements a provision regarding confidentiality.
- Sign nondisclosure agreements or put confidentiality provisions in all company agreements under which any confidential information will be revealed.
- If specific information is to be released to another firm, specify that information in the agreement so that there is no confusion as to what is a company "secret" and what is not.

Special consideration should also be given to agreements under which the company discloses confidential information, such as those used in the context of joint-venture discussions or product pitches. At the time the confidentiality agreement is signed, it must be clear to all parties what information is confidential and thus protected by the agreement. If there is no clarity at the time of signing, there is certain to be confusion later. It is not uncommon for parties, years after signing a confidentiality agreement, to have totally different understandings about what information the agreement protected, who brought what information to the relationship, and what information was jointly developed and thus is jointly owned. Companies can avoid this type of dispute by specifically designating the precise information that is to be kept confidential. It can be done in the confidentiality agreement itself or in an exhibit or side letter. Not addressing this most basic issue at the outset can cause major headaches later.

The far-sighted executive will also keep in mind that his company may one day have to convince a court that it took steps to maintain the confidentiality of its trade secrets. Thus, all policies and related communications should be prepared and distributed in writing. Business records that prove the company tried to maintain confidentiality should be retained and updated. Maintaining records may seem like a nuisance when the relationship is rosy, but it is not difficult. When the relationship sours, proving the company made efforts to maintain confidentiality might be impossible without records.

The final word with respect to protecting the company's trade secrets is the need for speed. Courts are generally reluctant to help those who had good reason to suspect misappropriation but did nothing about it. If there is any concern about actual or expected misappropriation, company counsel should be contacted immediately, and a decision about how to handle the situation should soon follow. In this area of the law, the old adage "better safe than sorry" is certainly true. Temporary restraining orders can often be prepared and filed with a court in less than a week.

Avoid Being Defendant

Allegations of trade secret misappropriation can be as costly as the loss of an actual trade secret, and every effort should be made to avoid them. Clearly communicated company policies are always essential. Every company should have a strongly worded policy prohibiting the theft or other wrongful acquisition of trade secrets. Building a corporate culture centered on integrity is critical, and confidential information should be placed only in the hands of honest, principled employees. It almost goes without saying that employing those with integrity lowers the chance that a departing employee will one day take the firm's secrets to the competition. (See "Defense Against Defectors.")

Defense Against Defectors

If, in spite of a company's best efforts, a key employee with knowledge of confidential information defects to a competitor, all may not be lost. In some states, the defecting employee can be stopped from doing a job that inevitably requires him to think about, and thus use or disclose, the confidential information in his head. The so-called Inevitable Disclosure Doctrine prevents an employee with confidential information from working in a new position with a competitor if the employee would inevitably use the former firm's information in the new position. The doctrine removes the need for the former employer to prove that the employee is actually misappropriating trade secrets. The doctrine implies misappropriation if the former employer can show that the nature of the new position would inevitably result in the employee using confidential information from his former position.

Pharma executives should consider use of this unique doctrine to prevent knowledgeable key employees from jumping ship to work for the competition. The strategy worked for Maxxim Medical in 1999, after one of its high-level managers left for a direct competitor. Basing its decision on the Inevitable Disclosure Doctrine, a court in the Southern District of Texas entered a preliminary injunction against the former manager preventing him, for one year, from working for a direct competitor.

Every pharma company should also have a strongly worded policy prohibiting the use or disclosure of information gained from third parties pursuant to an agreement that calls for confidentiality. Here again, the company must have a clear understanding of what information is confidential, who owns it, and precisely how that information can and cannot be used. Too often, sophisticated and well-run companies sign broadly worded standard-form confidentiality agreements covering "all confidential information disclosed by the disclosing party," which permit no use "other than that specifically authorized by the disclosing party."

The problem is that nobody is certain what information is confidential and what uses are authorized by the agreement. Executives must insist that their lawyers use clear language in their agreements, specify the confidential information covered, and communicate to the business people who will handle the information what uses or disclosures are acceptable under the agreement. If the confidentiality agreement states that the only uses are those authorized in writing, insist that the other party provide a written authorization for each use necessary to the relationship.

The necessity for company policies and efforts to maintain the confidentiality of third-party information depends greatly on the circumstances in which confidential information is received from others. The business executive should ask himself the same question a juror would ask during jury deliberations: What did the company do to ensure that the information remained confidential and was only used according to the terms of the agreement? The worst answer: "Nothing. The confidentiality agreement was filed away in the general counsel's office where no one saw it until the company was sued for violating it."

Better answers will reference:

- written company policies about confidential information
- written reminders of policies and updates when necessary
- clear instructions outlining the receipt of confidential information, the purpose of that receipt, and the company's obligations to maintain the information as secret
- "Chinese walls" that keep information in different divisions separate and notification of those efforts to the owner of the confidential information
- written records of all policy communications and efforts to maintain the other party's information as secret.

Such efforts will go a long way toward convincing a juror that the company had taken reasonable and appropriate action.

Spell It Out

In many agreements, the party revealing its information usually has a broad view of what is covered by the agreement. Its executives may even believe that they have discovered a unique business opportunity known only to them, which would make the specifics of their product, the ingredients, their marketing research, and even the opportunity to conduct business in the precise manner they described all trade secrets.

On the other hand, the receiving party usually has a narrow view of what is covered by the agreement, because it may have seen other presentations with similar information, it may have been working on similar products and opportunities, and it may know that much of the information communicated by the discloser is far from secret. It is much better to discover and resolve such misunderstandings up-front, rather than by way of a subsequent lawsuit alleging misappropriation.

Keeping that in mind will pay dividends. Clear policies and proactive efforts will help protect a company's trade secrets and prevent the competition from wrongfully claiming that it misappropriated theirs. PE

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