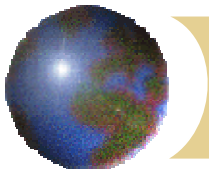


***INTERNET ISSUES:
PROTECTING TRADE SECRETS
NEW E-DISCOVERY RULES***

William R. Denny

Potter Anderson & Corroon LLP

September 26, 2006



Agenda

- ✦ What is a Trade Secret?
- ✦ Tracking Down the Anonymous Blogger
- ✦ Strategies to Protect Trade Secrets
- ✦ Impact of New E-Discovery Rules
- ✦ Special Responsibility of Lawyers

Target Stores Suck

FYI: Articles/info/misc postings about Target and Wal-Mart.

Friday, September 15, 2006

Suit: Blogger posted Target trade secrets

This article has relevance to the Directives, but if you want to skip it just scroll down to get to the Directives.

=====

Atlanta Business Chronicle
Friday 10-15-06
By Justin Rubner, Staff Writer

Suit: Blogger posted Target trade secrets

Target Corp. is on the hunt for a feisty blogger who has allegedly posted the retail giant's secrets on the Internet.

The Minneapolis-based company is suing the unidentified "John Doe", who is believed to live in Georgia, in Federal Court for posting Target's anti-theft procedures on Web sites and various retail employee forums on the Internet in July.



Target Stores AP Directives for 2006

AP Directives

Revision: 01-2006 Effective: 02-22-2006

PREFACE

A. Directives

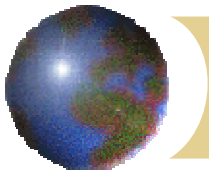
Assets Protection (AP) Directives are the basic guidelines by which we conduct our business. As an AP team member, you are expected to follow the Assets Protection Directives at all times. Violation of any Directive shall be handled according to the applicable coaching and corrective action policy (see Corporate Policies - Counseling and Corrective Action).

Directives are to be followed by all team members and if you are instructed to violate a Directive you must immediately notify your supervisor. If the order involves your supervisor, notify the next level AP team member.

The Directives are in addition to, and not intended to supersede any company policies and procedures. The Directives are not contracts, expressed or implied. Following the Directives does not guarantee continued employment by Target.

NOTE: If you become involved in situations that are not covered by a Directive, you are expected to act in Target's best interests and in a manner that avoids liability.

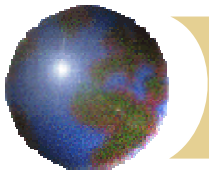
B. Note. Caution. Warning Statements



What is a Trade Secret?

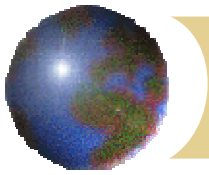
✿ State Law - 6 Del. C. § 2001





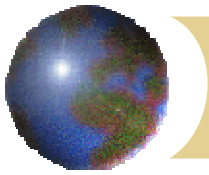
What is a Trade Secret?

- ✿ “Trade Secret” is **information**, including a formula, pattern, compilation, program, device, method, technique or process, that (a) derives **independent economic value** from not being generally known by others who can obtain economic value from its disclosure; and (b) is subject to **reasonable efforts to maintain secrecy**.



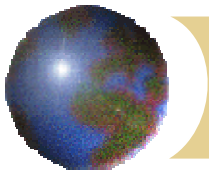
The Purpose of Trade Secrets

- ✿ The outstanding difference between a patent and a trade secret is:
 - ❏ A patentee has a monopoly as against all the world.
 - ❏ The owner of a secret process has no right, except against those who have contracted, expressly or by implication, not to disclose the secret, or who have obtained it by unfair means.



Why Choose Secrecy Over a Patent?

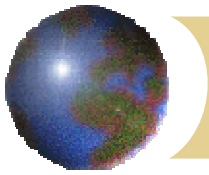
- ✚ Material may not be patentable.
- ✚ Concern that a patent may be unenforceable
- ✚ Less expensive and time consuming than a patent.



Why Choose Secrecy Over a Patent?

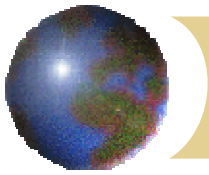
- ✿ A Patent requires disclosure of the invention, and is valid for only 20 years.

- ✿ A trade secret is valid as long as the process or invention remains secret
 - e.g., the secret formula for Coca-Cola



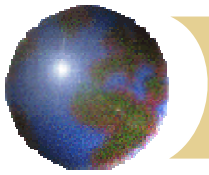
Essential Elements of a Trade Secret

- ❖ Confidential, not generally known by others in the field.
 - ❑ need not be completely unknown
- ❖ Not readily ascertainable by proper means from publicly available information.
- ❖ Derives business value from not being generally known.



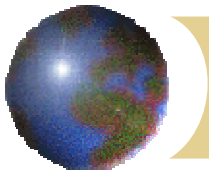
Essential Elements of a Trade Secret

- ✿ Provides the possessor with some commercial advantage
- ✿ Subject to reasonable efforts to maintain secrecy
 - ▣ Intent is not enough



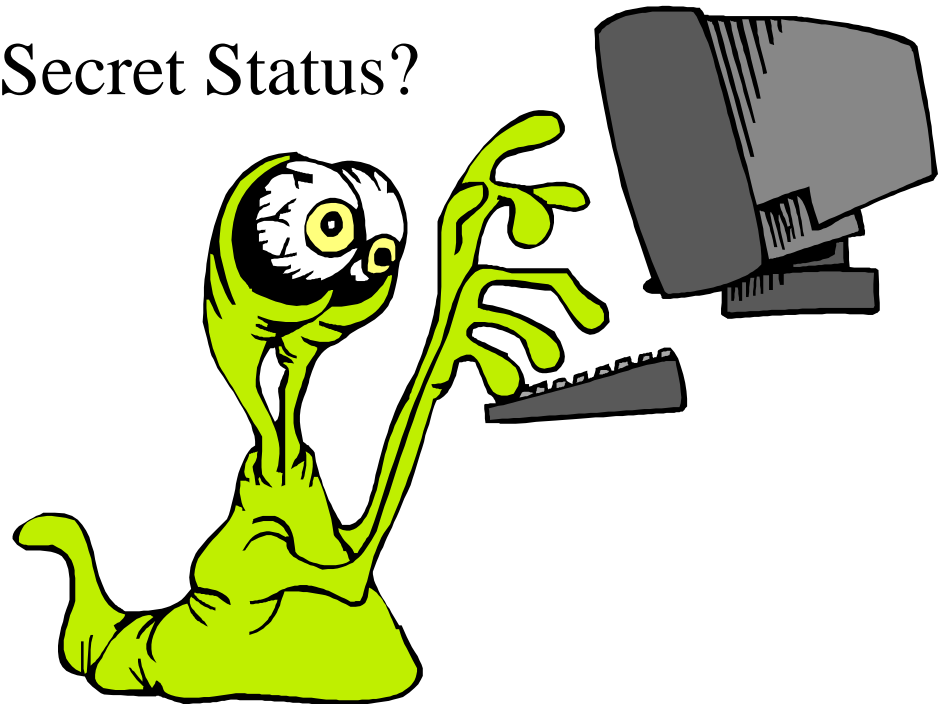
Examples of Trade Secrets

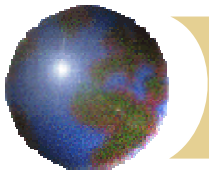
- ⊕ Customer lists
- ⊕ Formulas,
- ⊕ Recipes
- ⊕ Technical data
- ⊕ Processes
- ⊕ Methods
- ⊕ Software
- ⊕ Training manuals
- ⊕ Blue prints, drawings, patterns
- ⊕ Business plans
- ⊕ Operating manuals
- ⊕ Does not need to be an invention



Trade Secrets on the Internet

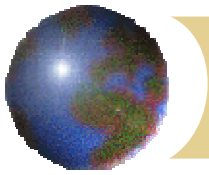
- ✚ Accessible by up to 900 Million People!
- ✚ Hard to Erase.
- ✚ Does this Destroy Trade Secret Status?
- ✚ Depends on:
 - ▣ Extent of Publication
 - ▣ Level of Interest





How to Detect Trade Secrets on the Internet?

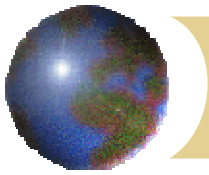
- ✚ Monitor Internet with Existing Staff.
- ✚ Hire Scouring Agencies to Review Blogs, Message Boards, Chat Rooms, Other Outlets.
- ✚ Courts More Likely to Find Existence of Trade Secret if Holder Has Been Vigilant.



What to Do if Trade Secret is Posted?

✚ “Catch 22” Situation

- ✚ Legal Action Required to Salvage Trade Secret
- ✚ Legal Action Also Has Effects of:
 - Publicizing Exposure
 - Confirming Validity of Information
 - Removing Doubts of Blogger’s Credibility
 - Reputational Damage



Alternative Solutions?

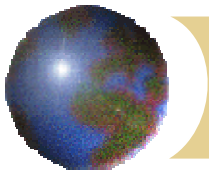
❖ Do Nothing

- ❑ Can Destroy Trade Secret Status
- ❑ Can Encourage Future Leaks

❖ Internal Investigation

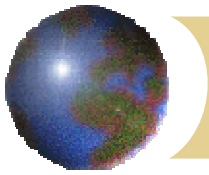
- ❑ Hurts Employee Morale
- ❑ Distracts Resources from Core Business





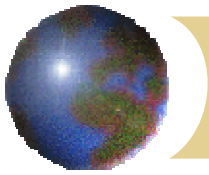
Factors in Choosing Best Course

- ✚ Value of the Trade Secret
- ✚ Anticipated Costs of Pursuing Leak
- ✚ Importance of Trade Secret to Business
- ✚ Precedential Value of Current Situation
- ✚ Anticipated Public Backlash
- ✚ Likelihood of Recovering Trade Secret



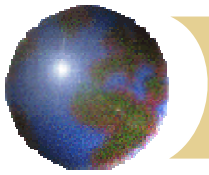
Identifying Anonymous Blogger

- ❖ High Standard of Proof to Overcome Free Speech Considerations
 - ❑ Protects Blogger from Harassment Suits
 - ❑ Blogger may Argue that Content of Statement is Protected
- ❖ First Amendment Does Not Protect Wrongful Disclosure of Trade Secret



Balancing Test

- ❖ *Dendrite International, Inc. v. Doe*
 - ❖ Undertake Efforts to Notify Anonymous Posters that they are Subject to Subpoena.
 - ❖ Identify Exact Statements Constituting Actionable Speech.
 - ❖ Prove Each Element of Cause of Action on *Prima Facie* Basis.
 - ❖ Balance First Amendment Right Against Strength of *Prima Facie* Case.



Delaware Approach

☀ *Doe v. Cahill*, 884 A.2d 451 (Del. 2005).

- ☒ Notification Requirement

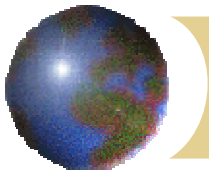
- ☒ Need to Satisfy Summary Judgment Standard

 - Motion to Dismiss Standard Too Easy

 - Protects Anonymous Poster's Constitutional Rights

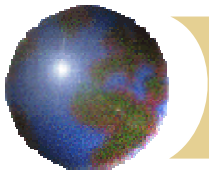
- ☒ Other *Dendrite* Elements are Redundant

- ☒ Questions Credibility of Blogs or Message Board Postings



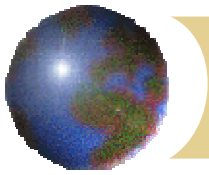
Proving Blogger is Employee

- ❖ Important to Prove Blogger is Bound by Confidentiality Agreement
 - ❖ Coax Blogger to Reveal Fact
 - ❖ Challenge Information Through Other Anonymous Posts
 - ❖ Internal Investigation into Access to Information



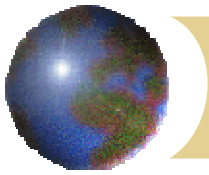
Uncovering the Anonymous Blogger

- ✦ Once Court is Satisfied, Subpoena Issues.
- ✦ Discovery Requests must be Narrowly Tailored.
- ✦ Typically, Subpoena is Directed to Internet Service Provider hosting Blog or Message board.



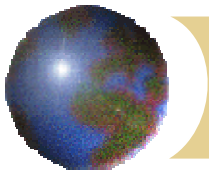
Uncovering the Anonymous Blogger

- ❖ Log Identifies Internet Protocol (IP) Address for Each Post
- ❖ Domain Name Service (DNS) Identifies Entities to which IP Addresses are Registered.
- ❖ IP Addresses Lead to Blogger's ISP



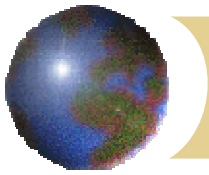
Strategies to Protect Trade Secrets

- ✚ Identify Trade Secrets
- ✚ Have Employees Sign Confidentiality Agreement
- ✚ Limit Access to Need to Know Basis
- ✚ Have an Employee Policy Handbook



Strategies to Protect Trade Secrets

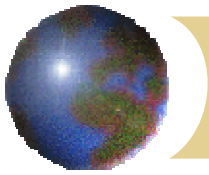
- ⊕ Virtual and Physical Security
- ⊕ Restrict Portable Storage Devices
- ⊕ Avoid Emailing or Posting Trade Secrets
- ⊕ Monitor Internet
- ⊕ Non-disclosure Agreements with Outsiders



Remedies for Misappropriation of Trade Secrets

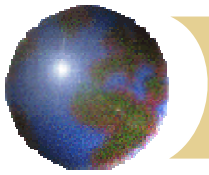
- ⊕ Injunctive relief
- ⊕ Damages
 - ▣ actual loss
 - ▣ exemplary damages up to twice the actual damages
- ⊕ Attorney's fees





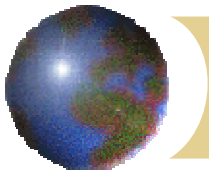
New E-Discovery Rules

- ✿ New Federal Rules effective Dec. 1, 2006
- ✿ Local Rules of District of Delaware
- ✿ Importance to IP Lawyers
 - Know Potential Issues Involving Electronically Stored Information
 - Avoid Future Litigation Issues
 - Fulfill Professional Obligations



Special Responsibility of Lawyers

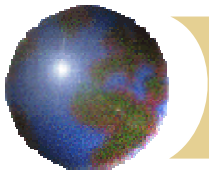
- ❁ Delaware Lawyers' Rules of Professional Conduct
 - ❁ In all professional functions a lawyer should be “competent, prompt and diligent.” Preamble, Section 4.
 - ❁ A lawyer shall provide competent representation, which means he or she must possess the “legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation.” Rule 1.1
 - ❁ A lawyer shall not “unlawfully alter, destroy or conceal a document . . . having potential evidentiary value . . . [or] counsel or assist another person to do any such act.” Rule 3.4(a).
 - ❁ It is professional misconduct for a lawyer to engage in conduct that is prejudicial to the administration of justice. DLRPC 8.4(d).
- ❁ These apply to all attorneys – litigation and corporate counsel, in-house and outside counsel – alike.



Special Responsibility of Lawyers

✦ Once a party is on notice that certain e-data is relevant to the litigation at hand, the obligation to preserve this evidence runs first to *counsel*, who has the duty to timely advise his client of its obligation to retain pertinent documents that may be relevant to the litigation.

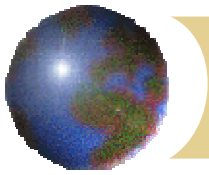
▣ *Telecom Int'l Am., Ltd. v. AT & T Corp.*, 189 F.R.D. 76, 81 (S.D.N.Y. 1999).



Special Responsibility of Lawyers

✿ The central question in a dispute over spoliation of evidence was whether defendant *and its counsel* had taken "all necessary steps to guarantee that relevant data was both preserved and produced."

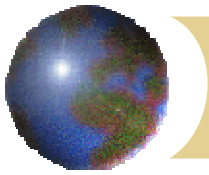
■ *Zubulake v. UBS Warburg LLC* case, 2004 WL 1620866 (S.D.N.Y. July 20, 2004) at *7.



Special Responsibility of Lawyers

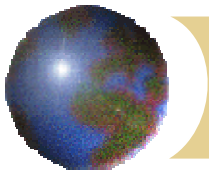
In analyzing whether counsel had discharged their duty, Zubulake Court stated that counsel have a duty to:

- monitor compliance so that all sources of discoverable information are identified and searched to locate relevant information;
- become fully familiar with their client's document retention policies and data retention architecture;
- advise their client to issue a "litigation hold" at the outset of the litigation (or whenever litigation is reasonably anticipated);
- communicate directly with "key players" or persons who are likely to have relevant information;
- instruct all employees to produce electronic copies of their relevant active files; and
- ensure that all back-up tapes (and other back-up media) that are subject to preservation are identified and stored in a safe place.



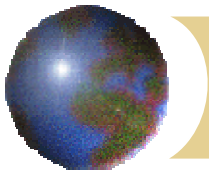
New Federal Rules

- ❖ Offer Broad Definition of “Electronically Stored Information”.
- ❖ Mandate Early Consideration of E-Discovery Issues
- ❖ Address Cost Issues Specific to E-Discovery.
- ❖ Provide Safe Harbor for Following Document Retention Plan in Good Faith.



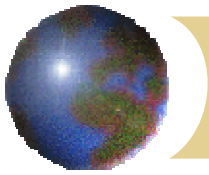
New Limits to E-Discovery

- ✦ Limits Scope of Discovery of Electronically Stored Information.
- ✦ “Not Reasonably Accessible” refers to Undue Burden or Cost on Producing Party.
- ✦ Two-tier System:
 - ✦ Burden on Responding Party to Identify Inaccessible Sources of Information.
 - ✦ Requesting Party May File Motion to Compel.



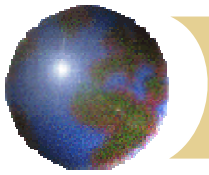
New Limits to E-Discovery

- ❖ Inaccessible Information May Be Produced for Good Cause Shown, such as:
 - ❖ Request is not cumulative;
 - ❖ Information is not more easily accessible elsewhere;
 - ❖ Benefit of Production Outweighs Burden



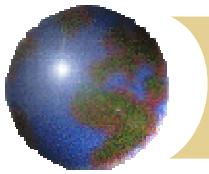
Privilege Issues

- ❖ New procedure to address Inadvertent Production
 - ❖ Disclosing Party may Notify Other Party Within “Reasonable Time” that Privileged Material Has Been Disclosed.
 - ❖ Receiving Party Must Sequester or Destroy Material Described, Pending Ruling on Privilege.



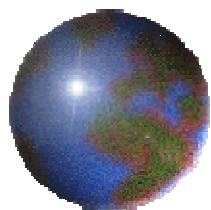
Delaware's Default Standards

- ⊕ Address E-Discovery Issues Early
- ⊕ Requirement for E-Discovery Liaison
- ⊕ Sequence of E-Discovery
- ⊕ Search Techniques Used in E-Discovery
- ⊕ Format for E-Discovery Production
- ⊕ E-Document Retention
- ⊕ Treatment of Privileged E-Documents
- ⊕ Apportionment of E-Discovery Costs



Parties and their counsel cannot engage in "know-nothing, do-nothing, head-in-the-sand behavior in an effort consciously to avoid knowledge of or responsibility for their discovery obligations"

- ❏ *Metropolitan Opera Ass'n, Inc. v. Local 100, Hotel Employees & Rest. Employees Int'l Union*, 2004 WL 1943099, at *25 (S.D.N.Y. Aug. 27, 2004).



Questions?

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