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JANUARY 2023

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Avoid Trade Secret Lawsuits In The Life Sciences Talent War

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Allegations of intellectual property and trade secrets walking out of one life sciences company and into a competitor are becoming commonplace. Some studies estimate that U.S. companies lose between 1% and 3% of GDP to trade secret misappropriation every year — that works out to hundreds of billions of dollars per year in aggregate losses.

Damage awards in trade secret cases have been growing significantly. In 2020, a jury awarded a trade secret plaintiff more than $2 billion in damages, and the legal fees alone in a significant trade secret litigation can amount to millions of dollars. Today's technology makes it easier than ever for departing employees to retain information from their prior employers — whether intentionally or inadvertently.

At the same time, life sciences companies are locked in a competition for talent. One-third of C-suite and human capital leaders in the life sciences and pharma sectors say that talent scarcity is a major pain point, and more than half plan to hire extensively this year. Biotech companies in particular saw record amounts of venture capital flow into the industry last year, leading to a fierce market for qualified executives and scientists.

Unfortunately, the confluence of these two trends means that claims of trade secret misappropriation may be on the rise in the life sciences industry. Hiring executives or scientists from a competitor can be complicated and risk legal claims. Life sciences companies can take a few proactive steps that may help limit the risk of trade secret claims when competing for talent in a tight labor market.

WHAT IS A TRADE SECRET?

Trade secrets are an important form of intellectual property protection in the life sciences industry. Generally speaking, the trade secret law is broad and protects "all forms and types of financial, business, scientific, technical, economic, or engineering information." To qualify for trade secret protection, the information must derive "independent economic value . . . from not being generally known . . . and not being readily ascertainable through proper means." Also, the secret information's owner must have taken "reasonable measures to keep [the] information secret." While the laws vary in some technical regards from state to state, the core concept is the same: The law protects any information that can derive economic value from not being generally known.

Trade secrets differ from patent protections in some significant ways. Non-patentable subject matter such as raw data or naturally occurring phenomena can qualify for trade secret protection. Life sciences companies might consider manufacturing optimizations for producing a biologic drug or a promising set of genetic modifications at the R&D phase to be trade secrets. Unlike patents for inventions that must be registered with the U.S. Patent and Trademark Office, there are no formal requirements for registration of a trade secret with the government or anyone else. By definition, competitors cannot analyze the existing trade secrets of their competitors to avoid potential claims of infringement. Generally speaking, once an inventor seeks patent protection for an invention, it can be difficult or impossible to maintain that invention as a trade secret, because the invention must be described in detail to qualify for patent protection. Therefore, keeping a trade secret secret is its only protection.

EXAMPLES OF LIFE SCIENCES TRADE SECRET LAWSUITS

In recent years, the life sciences industry has seen a dramatic increase in litigation over alleged trade secret misappropriation.

In one recent case, a biotech company alleged it spent more than 20 years and $130 million developing a process

for manufacture of microspheres, a drug delivery technology. The biotech alleged that its proprietary R&D information was misappropriated by a competitor in two ways. First, the biotech alleged the competitor stole secret information shared through due diligence during negotiation of a potential partnership. Second, the biotech alleged that a former key scientist quit employment with the biotech to work for the competitor. The biotech alleged that after receipt of the confidential diligence information and hiring the key scientist, the competitor was able to announce that it had a competing clinical candidate with only two years of research and a $6 million investment.

In particularly egregious instances, a company's receipt and use of a competitor's trade secrets can give rise to criminal liability. For example, recently, two founders of a Chinese biotech company were each sentenced to over a year in prison after pleading guilty to conspiracy to commit theft of trade secrets and wire fraud in connection with forming their biotech company. In that case, the defendants were developing biosimilar products to compete with an established biotech company. The defendants admitted they improperly obtained documents from their competitor, some of which contained the competitor's trade secrets. The defendants hired employees away from their competitor to work for their new company. In doing so, they learned that several of the employees surreptitiously brought with them confidential and proprietary documents from the competitor. The new biotech then used some of the stolen documents to develop the biosimilar product, and the defendants admitted they made no effort to discourage their employees from using the documents or information they brought with them. In fact, they admitted they sometimes personally used and instructed others to use the confidential, proprietary, or trade secret information brought from the competitor.

These are extreme examples that led to litigation, but even an innocent or inadvertent retention of information by an employee may cause significant distraction and legal fees for the new employer. Once a former employer discovers that its former employee retained confidential information and is working for a competitor, it may be difficult to resolve a dispute short of expensive litigation. A recent survey of in-house counsel showed that the fees companies spend on trade secret litigation may run into tens of millions of dollars, depending on the amount at stake in the litigation.

AVOIDING TRADE SECRET CLAIMS

There are a few practical measures that life sciences companies should consider taking when hiring employees from a competitor that may help avoid or minimize the risk of a trade secret claim.

Plan for confidentiality restrictions

When hiring from a competitor, assume that the candidate is subject to post-employment restrictions. Many employees are subject to at least a nondisclosure agreement (NDA) that covers nonpublic information they learned during the course of their employment with the former employer. In making an offer to a candidate, consider whether and how strict compliance with their confidentiality obligations to their former employer could limit their ability to perform the new role. If the candidate's work for the competitor is particularly close to the work he will be performing in the new role, consider developing a plan to avoid contamination.

Carefully examine a candidate's employment restrictions before making an offer

Many employment agreements in the life sciences industry include post-employment restrictive covenants. The most well-known are noncompete agreements, which typically restrict an employee's ability to perform work for a competing company. Noncompete agreements are enforceable in most states, at least to some degree. Other restrictive covenants include nonsolicitation agreements, which can limit an employee from encouraging other employees from leaving their employment with the company. Nonsolicitation agreements come into play most often when a company considers hiring a group of employees away from a competitor. An employee subject to a nonsolicitation clause should avoid participating in efforts to attract candidates to the new employer. When hiring an employee from a competitor, assess whether there are any post-employment restrictive covenants and assess whether their employment would breach any contractual obligations.

Educate and empower candidates to minimize the risk of trade secret litigation

The first line of defense against claims of misappropriation is the incoming employee. As early as the initial offer stage, it may be appropriate to start discussing affirmative steps the candidate would take when leaving the old employer. Incoming employees should be encouraged to comply with their legal obligations to their prior employer. Consider including language that makes employment contingent on the candidate's affirmation that he has not retained any proprietary information and will not use any such information in the course of performing his duties. Encourage respect for third-party intellectual property rights and be clear that your company does not want anything from the candidate's old employer, regardless of how mundane.

Take requests for information seriously

Even with prophylactic measures like these, hiring a talented executive or scientist from a competitor may lead to letters from lawyers. These types of letters range in tone from a "reminder" that does not request a response, to a request for information, to demands for certifications. Each situation is different, so there is no one preferred approach to responding to a request for information from an employee's former employer. However, generally speaking, if a former employer has invested in sending a letter regarding the former employee's access to confidential information, then the recipient should assume they are taking the situation seriously.

Trade secret law is broad and can lead to significant disputes between competitors. Life sciences companies are particularly at risk for claims of trade secret misappropriation when hiring executives or scientists from a competitor. When doing so, a few simple proactive measures may help limit the risk of an expensive lawsuit.

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