Insights, News & Events

PROTECTING AGAINST THE RISK OF TRADE SECRET EXPOSURE ARISING FROM BIOTECH INDUSTRY COLLABORATION

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Biotechnology companies in the healthcare/pharmaceutical realm are in an exceptionally competitive field, with many companies competing against each other for a chance to market similar innovative therapeutics. These companies bear significant research-intensive costs to develop new products and processes. As is true for most industries, collaboration can be beneficial for biotech companies, allowing companies of all sizes to enhance their research and development, product portfolio, and marketing channels. Indeed, collaboration is on the rise in the biotech industry, most notably in the many collaborative efforts among biotech companies to ensure people get safe and effective vaccines to combat the Covid-19 pandemic. According to the Winter 2021 BDO Biotech Brief, collaboration has been crucial for biotech companies in recent years, and it is only getting more important. BDO reports that 50% of biotech companies are planning to collaborate on commercialization in 2021.

While all of this collaboration will no doubt lead to profitable and beneficial outcomes, it can also lead to both intentional and unintentional exposure of a company's confidential information. And without the proper protections in place, a company seeking the benefits of collaboration can quickly find itself deprived of some of its most valuable assets – its trade secrets. A recent case highlights the risks and provides some best practices for employers to consider.

Trade Secret Basics

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In the United States, trade secrets are protected by state and federal law. The vast majority of states and the District of Columbia have enacted some form of the Uniform Trade Secrets Act (UTSA). Under the UTSA, a "trade secret" is defined as information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- 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
- is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Trade secret protection can cover any type of information, with the only requirements being that the information has potential economic value and the company used reasonable efforts to keep the information secret. While patents can provide robust protection for some intellectual property, they cannot be obtained to protect all of the confidential information a biotech firm may want to keep from the hands of competitors. In addition, while patents provide protection, they require disclosing the invention to the public.

Trade secrets, by contrast, protect innovation by keeping that innovation secret. When properly protected, trade secrets theoretically can have an infinite lifespan, but will be lost if the information being protected becomes known to the public.

Recent Case Provides Stark Reminder to Biotech Industry

Even if you implement proper preventive measures to protect trade secrets, collaboration does not come without its risks. One very recent case illustrates the risk that biotech and pharmaceutical companies take when they simply explore potential collaborations with competitors.

In June of this year, the Third Circuit Court of Appeals vacated a lower court's ruling in *Oakwood Laboratories v. Thanoo*, opening the door for Oakwood Laboratories to pursue claims for trade secret misappropriation from a would-be collaborator, Aurobindo Pharma U.S.A, Inc. and Oakwood's former employee-scientist, Dr. Bagavathikanun Thanoo.

Dr. Thanoo was a key player in Oakwood Laboratories' "Microsphere Project," a 20-year, $130 million project to develop injectable sustained-release drug products using a complex and rare microsphere technology. In 2013, Aurobindo approached Oakwood about a possible collaboration, specifically to involve Aurobindo's manufacture of an active pharmaceutical ingredient for Oakwood. Subject to a nondisclosure agreement, Oakwood shared with Aurobindo confidential information, including a 27-page memorandum describing the Microsphere Project. Ultimately, Aurobindo declined to proceed with the collaboration, citing financial considerations.

Subsequently, Aurobindo hired Dr. Thanoo – who immediately set up a research and development program concerning microspheres for Aurobindo. His new company, which had no previous experience in microspheres, announced to its shareholders that it would have microsphere products ready for clinical testing in just one to four years, despite a relatively small investment of only $6 million.

Oakwood filed suit against Dr. Thanoo and Aurobindo for breach of the nondisclosure agreement and trade secret misappropriation, among other claims. Oakwood asserts that Aurobindo's products could not have been developed within the rapid timeframe without Dr. Thanoo's assistance and the use of Oakwood's trade secret information. The case is still pending, so it remains to be seen whether the court will find that Oakwood did enough to protect its trade secret information. But this case serves as cautionary tale to other companies considering collaborative ventures, regardless of its outcome.

Best Practices for Biotech Collaboration

Through intense research and technologic breakthroughs, biotech firms and their ideas are revolutionizing the healthcare industry and amassing significant profits. However, companies in this space face significant risks of trade secret disclosure from the growing number of firm-to-firm collaborations. In order to stay competitive in this rapidly growing industry, it is crucial to develop and implement the right intellectual property strategy and preventative measures.

In order to benefit from the trade secret laws, biotech companies must take reasonable measures to maintain the

secrecy of their confidential information. These efforts may include educating employees on what information is to be kept secret, labeling key documents as “confidential” or “secret,” restricting access to physical premises, restricting access to electronic files through password protection and other security measures, and/or requiring employees and others to sign confidentiality and nondisclosure agreements (NDAs). When evaluating collaborative opportunities and during the collaborative process itself, you should implement similar measures with respect to outside individuals, including the business professionals and scientists who must gain access to confidential information in order to assess the suitability of the potential venture and to carry out any subsequent collaborative efforts.

Conclusion

We will monitor these developments and provide updates as warranted, so make sure that you are subscribed to Fisher Phillips’ Insights to get the most up-to-date information direct to your inbox. If you have further questions, contact your Fisher Phillips attorney, the author of this Insight, or any attorney in our Employee Defection and Trade Secrets Practice Group.