

# Trade Secret Case Management Judicial Guide (2023)

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## **Foreword**

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## Preface

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As the knowledge economy expanded and concerns about trade secret misappropriation mounted in the digital age, federal policymakers undertook efforts to reinforce trade secret protection a decade ago. These efforts came to fruition with passage of the Defend Trade Secrets Act of 2016 (DTSA). This landmark legislation, modeled on the Uniform Trade Secrets Act, elevated and expanded trade secret law's role in the federal intellectual property system. DTSA fully opened the federal courts to trade secret litigation as well as added several new features, including an *ex parte* seizure remedy and whistleblower immunity.

DTSA added to the large and growing federal caseloads. It also exposes more federal judges, relatively few of whom studied or litigated trade secret cases prior to their judicial appointments, to the distinctive challenges of trade secret litigation.

As with patent litigation, federal judges have implemented innovative approaches to managing trade secret litigation based on the distinctive features of these intangible resources. As with patent litigation, with its pretrial claim construction process, courts have developed practical strategies for identifying the protected trade secrets at issue. This task is complicated by the need to insulate trade secrets from public disclosure. Moreover, trade secret law often involves requests for pre-trial equitable relief, which demands additional intensive case management. Furthermore, unlike patent law, federal trade secret law includes criminal law provisions. The interplay of civil and criminal trade secret cases further complicates case management.

Drawing on the PATENT CASE MANAGEMENT JUDICIAL GUIDE (3d ed. 2016)—with chapters organized in the stages of litigation and guided by an early case management checklist—the TRADE SECRET CASE MANAGEMENT JUDICIAL GUIDE provides judges with a comprehensive resource for surveying trade secret law and managing trade secret litigation.



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## **Chapter 1: Introduction**

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# Chapter 1: Introduction

## 1.1 The Emergence and Salience of Federal Trade Secret Litigation

For much of American history, trade secret protection was solely based on common law. It emerged before and during the Industrial Revolution as an amalgam of tort, contract, and property principles aimed at maintaining commercial morality and promoting technological innovation. It provided a complement to patent law for protecting know how, business strategy, processes, and product innovations that were kept secret and were not readily ascertainable. By the early twentieth century, courts came to recognize a distinct body of trade secret law, which the American Law Institute synthesized in §§ 757-59 of the RESTATEMENT OF TORTS (1939).

In 1968, the National Conference of Commissioners on Uniform State Law recognized the growing importance of trade secret protection and interest in the development of a uniform state law for consideration by state legislatures. That effort led to the promulgation of the Uniform Trade Secrets Act (UTSA), approved in 1979 and amended in 1985. Since then, every state (and the District of Columbia), with the exception of New York, have enacted some version of the UTSA.

Notwithstanding its state law character, many civil trade secret cases were brought in federal courts through diversity and pendent jurisdiction.

Congress enacted the Economic Espionage Act (“EEA”) in 1996. The EEA dealt exclusively with criminal liability for trade secret misappropriation, although it followed the broad language of the UTSA to define its scope. Congress did not adopt a corresponding federal civil trade secret statute at that time, citing a lack of time to develop consensus on an appropriate framework.

In the two decades following the passage of the EEA, trade secrets became increasingly valuable to U.S. industry. Increased digitization and other techniques for clandestinely accessing and transporting trade secrets out of organizations including across state and international borders posed growing risks to trade secrets. The lack of a fully national trade secret regime posed challenges in securing evidence and remedies for some claims of misappropriation. Victims of misappropriation did not always have reliable access to federal courts to pursue civil claims for misappropriation, since absent a federal trade secret statute, federal jurisdiction over trade secret claims required either a closely related claim under federal law or complete diversity of citizenship. The EEA’s criminal remedies were not a practical solution for many misappropriation cases.

These and other concerns prompted Congress to pass the Defend Trade Secrets Act in 2016. For the most part, the DTSA amended the EEA to add a non-preemptive private civil right of action for trade secret misappropriation in federal courts, “modeled on the Uniform Trade Secrets Act,” H. REP. NO. 114-529, 114<sup>th</sup> CONG., 2D SESS., DEFEND TRADE SECRETS ACT OF 2016 (2016). It defines trade secret misappropriation using substantially the language of the UTSA. Hence, federal courts often look to the rich body of state law trade secret jurisprudence in construing the DTSA, even as a growing body of federal law is developing construing the DTSA.

The DTSA augmented the UTSA by providing for an ex parte seizure remedy in “extraordinary circumstances” and immunizing whistleblowers from trade secret liability when sharing confidential information in the course of reporting suspected illegal activity to law enforcement or when filing a lawsuit.

With the growth of digital technology, bioscience, and other information and innovation-based economic sectors, trade secret protection has become increasingly important, as has federal trade

secret litigation. Passage of the DTSA has produced a wave of federal trade secret claims in district courts, which are frequently filed in conjunction with supplemental claims under applicable state trade secret law.

The goal of this treatise is to provide federal judges, judicial clerks, practitioners, and litigants with a practical guide for managing trade secret litigation. We also hope that this treatise will be valuable for intellectual property and civil procedure scholars, and their students, as they learn and study this salient area of federal law. This chapter summarizes distinctive features of trade secret litigation and explains how the treatise is organized.

## **1.2 Distinctive Features of Trade Secret Litigation**

Trade secret litigation has both similarities with and significant differences from other types of civil and criminal litigation. It also parallels and differs from other types of intellectual property—patent, copyright, and trademark—litigation. Three such differences stand out: (1) the tensions surrounding protecting trade secrets over the course of litigation in public tribunals; (2) the high emotional level in many trade secret litigations; and (3) the potentially complex interplay between civil and criminal trade secret actions.

### **1.2.1 The Challenge of Identifying Trade Secrets and Then Protecting Them throughout the Litigation**

Perhaps the key difference relates to the subject matter: secrets. The secret nature of the information at issue poses significant challenges for case management because of the public nature of federal litigation and freedom of expression. Patent cases also involve aspects of secrecy—such as unpublished patent applications that might bear on validity and business strategy related to damages—but secrecy in trade secret litigation goes to the very heart of the cause of action: that the information that was allegedly misappropriated was not known or readily ascertainable.

Unlike a patent, which affords an exclusive right against the public at large, trade secrets are relative rights. While the trade secret owner will necessarily need to disclose the secret to some third parties, such as employees or commercial partners, to exploit it, once a trade secret is disclosed by the trade secret owner without restriction or is broadly revealed by third parties without authorization, it cannot be a secret. Those who learn of the secret through publicly accessible websites or publications are free to use that knowledge. The bell cannot be unrung. Moreover, those who independently develop information claimed by another as a trade secret are free to use and disclose it—so long as their development was in fact independent.

Trade secret disputes also present an early “identification” problem that differs from disputes arising over other forms of intellectual property. In patent, copyright, and trademark cases, the intangible resource has already been identified and registered with a regulatory body (or, in the case of unregistered trademarks, made public through use), and therefore can be publicly specified in the pleadings. The protected information claimed to be at issue in a trade secret case cannot be disclosed in public filings, however, without destroying the very subject matter of the plaintiff’s legal claim. Yet defendants need to know what the secrets are that they have allegedly misappropriated and the court needs to know what the case is all about to be able manage and decide it.

This produces three interrelated quandaries at the outset of a trade secret case:

- (1) Do the pleadings adequately set forth a cause of action under the familiar *Twombly* and *Iqbal* standards?
- (2) When, how, with what level of specificity, and subject to what protective order provisions will the trade secret owner be required to reveal its trade secrets to the defendant?
- (3) What is the boundary between protectable trade secrets and general knowledge and skill?

The first of these questions requires the plaintiff to provide more than vague, conclusory statements that restate the elements of a trade secret to survive a motion to dismiss. The second quandary often requires the court to assist the parties in customizing the discovery process to ensure that the trade secrets stay protected during the course of litigation while facilitating the exchange of sensitive information, often to competing business enterprise defendants. This typically entails fashioning an appropriate protective order that takes into consideration the trustworthiness of the various players in the litigation drama: counsel, litigants, employees, experts, and possibly others. Plaintiffs will understandably be concerned that the very effort to enforce their trade secrets could result in the loss of what may be their most valuable business assets. At the same time, defendants will want to know what they are accused of misappropriating. And the public (including journalists) will be interested in what may be high profile disputes affecting important industries. Consequently, courts will often be called upon to tailor and enforce protective orders and oversee the trade secret identification process.

The third question is primarily a question on the ultimate merits, although it may inform management of the first two. Its resolution will require the court and the ultimate factfinder to delve into the thorny question of where general knowledge and skill end and protectable trade secrets begin. This assessment inevitably involves an appreciation of the technologies or information at issue, which may be beyond the general knowledge of the court. The court and factfinder may need the assistance of experts to sort out these issues to determine liability and frame the contours of any ultimate relief.

Compounding these challenges, trade secret owners often seek immediate equitable relief to prevent the defendant and third parties from using or disclosing a trade secret before trial. Yet, for the reasons noted above, the contours of the alleged trade secrets and any improper encroachment upon them will often be difficult to assess with precision before there has been sufficient discovery to reveal what information is at risk and to fully test claims of misappropriation. And defendants will fear that early equitable relief on an incomplete record will interfere with their business operations.

Moreover, the secrecy imperative runs through the entire litigation process, not simply the pleading stage. The court must take care to ensure that hearings and filings with the court during the pretrial and trial stages do not disclose trade secrets to the general public. In enacting the EEA, of which the DTSA is now a part, Congress recognized that victims of trade secret thefts could face a dilemma between reporting the matter to law enforcement and concerns that the trade secret will be disclosed during discovery or during a criminal trial. To alleviate this concern, the Act authorizes the court “to enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets.” 18 U.S.C. § 1835(a). At the same time, the court must balance the public’s interest in knowing about civil and criminal proceedings against the trade secret owner’s right to limit access to the trade secrets themselves.

### **1.2.2 High Emotional Quotient**

Complicating all of these issues is the fact that many trade secret cases are hotly contested battles that have the emotional intensity of child custody cases. Many trade secret cases pit a business enterprise against business partners, former employees, and contractors who have left the business to form or work for a competing enterprise. In some cases, the former associates are actual family members. But even if not related by blood or marriage, the ties between the plaintiffs and defendants can run deep. Co-founders of companies often have deep and continuing personal, financial, and social bonds. And the alleged misappropriation represents not just a competitive injury but a betrayal of sacred trust. The trade secrets are the product of countless hours devoted to a shared enterprise. They are the intellectual offspring of a joint relationship. The departure of a business associate or former employee can be like the dissolution of a marriage. And where the former colleague competes with the prior business, it can feel like an extreme form of disloyalty.

Trade secret protection can become intertwined with noncompetition agreements and other contractual restraints on the activities of former business associates and employees. The enforceability of such restraints on trade varies according to state law. Even where permitted, such restraints are typically required to be narrowly tailored to protect only legitimate interests, including trade secrets. Absent enforceable noncompetition agreements, employees are generally free to take their general knowledge and skill with them, even to competing enterprises. But therein lies one of the difficulties alluded to above: distinguishing protectable trade secrets from general knowledge and skill.

A second challenging tension may arise if an employee or contractor believes that an employer is engaged in unlawful activity. The employee might plan or be reporting sensitive information to the government as part of a False Claims Act case or other whistleblower action. In such cases, there is a risk that the plaintiff may use a trade secret claim to attempt to silence the whistleblower and gain backdoor discovery of what the government might be investigating. To guard against this overreach, the DTSA immunizes whistleblowers from liability under federal and state trade secret law for disclosure, in confidence, of trade secrets to government officials and attorneys solely for the purpose of reporting or investigating a suspected violation of law.

Another sensitive and difficult pattern relates to economic espionage cases in which the claim is made that an organization, potentially backed by a foreign government, has embarked upon a scheme, sometimes years in duration, to acquire trade secrets to assist development of a competing business or industry. These concerns can lead to both civil and criminal cases and have become more common and salient with growing concerns about international, sometimes state-backed, espionage. These cases can be especially difficult to investigate and prosecute as a result of the discovery and jurisdiction impediments posed by international borders and the challenges posed by encrypted digital files. Some may pose concerns relating to sovereign immunity as well as diplomatic issues.

As a result of these patterns, judges in such cases may have to deal with especially high levels of distrust and willingness to escalate the litigation for business, personal, and criminal liability reasons.

### **1.2.3 The Interplay of Civil and Criminal Proceedings**

Criminal trade secret investigations or suits are often known or anticipated to be underway during the pendency of a civil proceeding involving trade secrets. Both the government and the defendant in a civil case may have reasons for seeking a stay of the civil proceedings pending resolution of the criminal case. The government may seek a stay of the civil proceeding or of discovery in the civil proceeding to prevent interference with its investigation. The defendant may seek a stay to avoid having to invoke the Fifth Amendment during an active criminal investigation. On the other hand, the plaintiff in a civil case may want to pursue its claim expeditiously. Although most “garden variety” trade secret disputes do not include a criminal component, these are just some of the tensions that courts and litigants need to navigate when dealing with potentially parallel civil and criminal proceedings.

### **1.3 Using this Guide**

Unlike conventional federal law treatises, which typically emulate the structure of the pertinent federal statute, this TRADE SECRET CASE MANAGEMENT JUDICIAL GUIDE is organized around the stages of trade secret litigation. It provides busy federal judges with the key issues to focus upon for *each phase* of a trade secret case. It follows the same structure as the PATENT CASE MANAGEMENT JUDICIAL GUIDE, which is familiar to many federal judges.

*Trade Secret Primer.* Chapter 2 provides a comprehensive overview of trade secret law, tracing its legal sources, history, requirements, whistleblower immunity, defenses, and remedies. It then contrasts trade secrets with other forms of intellectual property, surveys common coincident claims and international aspects.

*Early Case Management.* Building upon Chapter 2’s survey of trade secret law, Chapter 3 frames the critically important early case management phase and sketches a flexible plan for the initial case management conference. As § 1.2 previewed, trade secret litigation typically unfolds quickly, often with the trade secret owner seeking preliminary equitable relief. The court must be ready to assist the parties in crafting a protective order, trade secret identification process, and a discovery plan. Chapter 3 offers a detailed checklist for guiding early case management and a suggested case management order that will anticipate common litigation challenges and facilitate the exchange of information, scheduling of trial stages, and promotion of efficient resolution of the case through litigation or settlement.

*Trade Secret Identification.* Chapter 4 guides the court through the nuanced process of identifying the trade secrets: the nature of the identification process (a procedural rule, not a merits determination), the timing of identification, the format for trade secret identification, the particularity of identification, access to the identification, and amending the identification. This issue is unique to trade secret law and thus this chapter focuses on a process that may be new to those adjudicating or litigating a trade secret case for the first time.

*Preliminary Relief.* Chapter 5 discusses the legal standards for evaluating requests for pre-trial equitable relief and expedited discovery in furtherance of such requests, provides examples of evidence that has been found to weigh in favor of or against pre-trial equitable relief, and offers guidance in framing orders granting equitable relief and in managing the entire process, including conducting post-hearing case management conferences following resolution of requests for preliminary equitable relief. It includes templates, tables illustrating relevant evidence, and illustrative orders.



*Discovery.* Chapter 6 presents the distinctive challenges of discovery in trade secret cases. It examines common discovery mechanisms, protective orders, dealing with the particular types of records often arise in trade secret cases (such as forensic images of devices, source code, employee records, and personal vs. work accounts and devices), management of disputes, (including requests to seal documents), discovery from international sources, and common discovery motions. It also discusses the challenging question of how to balance the presumption of open access to the courts and court record with the need for owners of trade secrets to protect the secrets from public disclosure to avoid their destruction.

*Summary Judgment.* Chapter 7 addresses the summary judgment phase of trade secret litigation. Recognizing that many of the core issues in trade secret litigation are fact intensive, it addresses burdens of proof, the amenability of particular substantive issues to summary adjudication, expert declarations, and useful ways of managing and streamlining the summary judgment process and conducting summary judgment hearings.

*Experts.* Chapter 8 explores the role of experts in trade secret litigation. It first examines the principal areas in which experts are used and then discusses the court's gatekeeper role in preventing unreliable expert testimony from being considered by the jury.

*Pre-Trial Case Management and Trial.* Chapter 9 assists courts in managing the lead up to trial, covering the pretrial conference. Chapter 10 then maps out the distinctive issues that frequently arise in trade secret cases, including late pretrial motions, jury pre-instruction, burdens of proof and persuasion, managing confidentiality in the courtroom, motions for judgment as a matter of law, jury instructions and verdict form, injunctions after trial, exemplary damages, and attorney's fees.

*Criminal Trade Secret Case Management.* Chapter 11 presents substantive law and case management issues associated with criminal trade secret prosecutions. It includes detailed discussion of the elements of proof, identifying the trade secrets, venue, defenses, confidentiality (including protective orders, trade secret owner participation, and cooperation between the government and the victim), extraterritorial application, whether to stay a parallel civil case, and sentencing/penalties.

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## 2.1 Introduction

Trade secret law emerged through the synthesis of tort, contract, and property common law principles in the nineteenth century, evolved into a distinct branch of intellectual property law in the twentieth century, and was comprehensively but not preemptively federalized in the twenty-first century. Trade secret protection is increasingly intertwined with employment law and the rapidly emerging field of privacy law. Nearly every business and public enterprise, from high technology companies to universities and government institutions, use trade secret protection to some extent. Nonetheless, trade secret law was rarely taught as a distinct subject until relatively recently even though it has long been the most widely used form of intellectual property protection.

This chapter traces the development of trade secret law in § 2.2 before summarizing its requirements, immunity, defenses, and remedies in §§ 2.3–2.6. Due to the wide adoption of the UNIFORM TRADE SECRETS ACT (UTSA) and the patterning of the DEFEND TRADE SECRETS ACT (DTSA) on the UTSA, U.S. trade secret law has become a relatively uniform body of national law. Hence, we present trade secret law as a largely cohesive, harmonized national regime. We distinguish distinctive rules, such as the *ex parte* seizure provision and significant variations in state implementation of the UTSA. The chapter also examines trade secret law's interplay with other intellectual property modalities (§ 2.7) and common coincident claims (§ 2.8). The final section explores international aspects (§ 2.9).

## 2.2 Sources of Authority

Today, every state and the federal government protect trade secrets. Unlike the patent and copyright systems, and like trademark protection, trade secret protection emerged in the United States principally through common law development. It was not until the late-twentieth century that most state legislatures adopted and harmonized statutory trade secret protection. The UTSA, hammered out in the late 1960s and 1970s, established a unifying framework that most states adopted in the 1980s. Every state except for New York has since adopted some form of the UTSA. A number of states have established criminal trade secret laws since the 1960s, but it was not until 1996 that the U.S. Congress enacted federal criminal trade secret legislation, the ECONOMIC ESPIONAGE ACT (EEA). In 2016 Congress substantially augmented the EEA through the DTSA by adding civil remedies for misappropriation.

Also unlike the federal patent and copyright regimes, federal trade secret law does not preempt state statutory and common law trade secret protection. Thus, trade secret claimants can assert both state and federal protection. Since passage of the DTSA, there has been a significant increase in federal trade secret claims.

### 2.2.1 Historical Development: From Common Law Roots to RESTATEMENTS OF THE LAW and State Statutes

The Industrial Revolution brought about vast advances in technological progress as well as innovation in legal regimes for promoting such progress. Patent law played a central role in enabling inventors to appropriate a return on their investment in research and development. Nonetheless, patent protection was too costly, unwieldy, and limited to protect the full range of technological and business innovations and know-how. Factory owners and other innovative businesses came to use physical security around their facilities, nondisclosure agreements, and other techniques to secure protection for the broader range of technological advances and strategic information driving their competitive advantage. Courts gradually recognized and reinforced these

practices through the development of trade secret law built on two core principles: maintaining commercial morality (preventing commercial espionage) and promoting technological innovation.

In contrast to patent protection, trade secret law could not protect those product features and techniques that were evident from publicly available information, including the products and services themselves. Nonetheless, it provided an effective means for protecting many process and product innovations and business strategies that were not readily ascertainable by the public.

The common law of trade secret protection expanded upon the norms of the mercantilist era trade guilds. In these preindustrial economies, craftsmen passed along their trade knowledge to their apprentices with the understanding that the know-how would be kept secret during the apprenticeship period. After this training, the apprentice was free to practice the trade. These trust-based protections were reinforced by custom, guild rules, and close-knit communities.

This informal system, governed principally through social norms, eroded as industrialization shifted production to factories and labor mobility increased. Factories operated on a far larger scale than traditional craft enterprises and without the social and guild constraints on the dissemination of proprietary techniques and know-how. Whereas patents afforded protection for larger, discrete advances, smaller-bore, incremental know-how was more vulnerable to misappropriation in the impersonal, specialized factory setting. By the early-nineteenth century, factory owners in England pressed for a broader form of protection for workplace trade secrets. The know-how behind industrial processes gradually gained recognition in and protection from common law courts. *See Newbery v. James*, 35 ENG. REP. 1011, 1011-12 (Ch. 1817); Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441, 450-88 (2001). The practice spread to the United States by the mid-nineteenth century and developed rapidly. *See Vickery v. Welch*, 36 Mass. (19 Pick.) 523, 525-27 (1837) (granting specific performance of a contractual agreement regarding the “exclusive use” of a secret method for making chocolate); MELVIN F. JAGER, *TRADE SECRETS LAW* § 2:3 (2013).

Trade secret law has long been justified on two distinct grounds: property rights and unfair competition grounded in tort. Courts routinely characterize trade secrets as “property.” *See, e.g., Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889) (holding that “independent of copyright or letters patent, an inventor or author has, by the common law, an exclusive property in his invention or composition, until by publication it becomes the property of the general public”). They routinely granted injunctive relief to prevent disclosure. The nature of the “property” interest is, however, limited by the relational character of trade secrets. *See Robert G. Bone, A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241, 251–60 (1998). As the Court in *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868), noted, if a party “invents or discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it, but he has property in it which a court of chancery will protect against one who, in violation of contract and breach of confidence, undertakes to apply it to his own use, or to disclose it to third persons.” The Court explained that courts of equity would intervene to “prevent such a breach of trust, when the injury would be irreparable and the remedy at law inadequate.” *Id.* Thus, injunctions were available for breaches of trust “in the course of his said confidential employment.” *Id.*

An alternate explanation for much of trade secrets law is what might be described as a “duty-based” theory, or what Melvin Jager calls “the maintenance of commercial morality.” 1 MELVIN

JAGER, TRADE SECRETS LAW §1.03 (2013), at 1–4. Justice Oliver Wendell Holmes questioned the “property” view of trade secrets in *E.I. du Pont & Co. v. Masland*, 244 U.S. 100, 102 (1917), preferring to characterize these rights in relational terms.

[T]he word ‘property’ as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore, the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs.

*Id.*

Closely related to *Masland*’s theory of “breach of confidence” is the contract basis for trade secret law. While not always applicable, many trade secret cases arise out of a “duty” explicitly stated in a contract, such as a technology license or an employment agreement. The tort-based breach of duty theory merges in those cases with a standard common law action for breach of contract.

The *Eastman* case illustrates these principles in action. See *Eastman Co. v. Reichenbach*, 20 N.Y.S. 110, 116 (N.Y. Sup. Ct. 1892), *aff’d sub nom. Eastman Kodak Co. v. Reighenbach*, 29 N.Y.S. 1143 (N.Y. Gen. Term 1894). In the late-nineteenth century, Eastman (Kodak), a pioneering developer of photographic technology, brought suit against former high-level employees who departed to start a competing business using secret information that they helped develop at Eastman. They had executed assignment agreements covering all inventions, discoveries, and improvements in photography that they might make, discover, or invent while at Eastman and agreed to maintain company secrets in strict confidence and not to disclose or make improper use of them. The Court enjoined defendants’ competing venture on the ground that “[t]his is not legitimate competition, which it is always the policy of the law to foster and encourage, but it is *contra bonos mores* [against good morals], and constitutes a breach of trust which a court of law, and much less a court of equity, should not tolerate.” 20 N.Y.S. at 116.

Trade secret protection could encompass information that was not generally known to the public so long as the employer undertook reasonable precautions to preserve secrecy. This latter requirement brought nondisclosure agreements (NDAs) into common practice. Failure to guard against disclosure of trade secrets by employees and contractors would jeopardize trade secret protection.

Published by the American Law Institute (ALI) in 1939, the RESTATEMENT OF TORTS was the first major synthesis of the developing U.S. trade secrets law. Three sections were devoted to this area of law: § 757 defined the scope of protectable trade secrets and the act of misappropriation; § 758 dealt with acquisition of a secret by mistake; and § 759 defined liability for acquisition of business information that does not qualify as a trade secret. In 1979, the RESTATEMENT OF TORTS was melded into the UTSA, described further in § 2.2.2. The UTSA emerged as the primary source of trade secret law as a result of its wide adoption by state legislatures. This led the ALI to abandon coverage of trade secrets in RESTATEMENT OF TORTS, SECOND. Nonetheless, courts continue to reference the classic first RESTATEMENT OF TORTS encapsulation of trade secret law.

In 1995, the ALI once again covered trade secret law in the RESTATEMENT (THIRD) OF UNFAIR COMPETITION. This RESTATEMENT defines a trade secret as “any information that can be used in

the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others,” § 39, thereby maintaining consistency with the UTSA. Similar to the UTSA, this definition contrasts with that in the earlier RESTATEMENT OF TORTS in the following ways: (1) information does not have to be “in use”; (2) information can have “potential value,” such as, most notably, “negative secrets” (that is, information about what does not work or works less well); and (3) any valuable information qualifies, even though it might relate to a single or “ephemeral” event (such as a bid).

Although trade secret law developed through state common law evolution, the U.S. Supreme Court has made some of the most important pronouncements regarding the principles and contours of trade secrecy protection and its interplay with patent law. In the companion cases of *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), the Supreme Court held that state unfair competition laws protecting against confusion as to the source of goods could not be used to protect lamp designs that were determined to be unpatentable and hence in the public domain. The Court held that the Constitution granted Congress the exclusive power to legislate in the field of patents and copyrights, preempting any state law that “touches upon the area of these federal statutes.” *Stiffel*, 376 U.S. at 229. Consequently, the imposition of state law liability for copying of an unpatented article, freely available to the public, impermissibly “interfere[d] with the federal policy, found in ART. I, § 8, CL. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.” *Compco*, 376 U.S. at 237.

The Supreme Court laid any concern that trade secret laws were similarly vulnerable to federal preemption to rest in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). In this landmark ruling, the Court traced the underpinnings of trade secret law in finding that it had long served as an independent means of protection that is consistent with the patent system and hence posed no conflict justifying preemption. The Court emphasized that trade secret law played an important role in the sharing of knowledge and innovation while also allowing for efficient business practices. The Court recognized that trade secret law promotes commercial ethics and encouraged innovation, noting the fundamental, perhaps counterintuitive, principle that enforceable secrecy enables sharing and dissemination of technology. The Court reaffirmed that state trade secret protection has coexisted harmoniously with federal patent protection in *Bonito Boats, Inc. v. Thunder Craft Boats*, 489 U.S. 141, 155-56, 161, 166 (1989).

In *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984), the Supreme Court held that trade secrets are a form of property, noting that they “have many of the characteristics of more tangible forms of property. A trade secret is assignable. A trade secret can form the *res* of a trust, and it passes to a trustee in bankruptcy.” *Id.* at 1002–04.<sup>1</sup> Based on this determination, the Court held that trade secrets are subject to the Taking Clause of the Fifth Amendment.

### 2.2.2 Uniform Trade Secrets Act and State Variations

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<sup>1</sup> The Court distinguished Justice Holmes “confidential relationship” dictum in *E.I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. at 102, noting that “Justice Holmes did not deny the existence of a property interest; he simply deemed determination of the existence of that interest irrelevant to the resolution of the case.” *See Monsanto*, 467 U.S. at 1004 n.9.



By the mid-twentieth century, “the body of state and federal law that ha[d] traditionally coped with [industrial espionage] languish[ed] in a deepening maze of conflict and confusion.” *See Note, Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378 (1971). Recognizing this doctrinal muddle and the growing economic importance of trade secret protection, the American Bar Association (“ABA”) established in 1968 a special committee to investigate the drafting of a uniform trade secret act to harmonize protection among the states. Over the course of the next decade, that committee drafted and refined the UTSA, which the National Commission on Uniform State Laws promulgated in 1979. After resistance within the profession and ABA, the Commissioners amended the UTSA in 1985, which made changes to the Act’s provisions on injunctions, damages, and the effect of the legislation on other state laws. 14 U.L.A. 433, 436.

The major drawback of the UTSA is that it is not uniform. As noted above, there were two versions promulgated by the National Conference of Commissioners, one in 1979 and another in 1985. Some states adopted the first, some the second, some a combination of the two. And many states have customized the statute quite a bit. For example, California has dropped the “readily ascertainable” language from its definition of a trade secret, and requires a plaintiff to describe its trade secrets “with reasonable particularity” before discovery can begin. CAL. CIV. CODE § 3426.1(d)(1); CAL. CODE CIV. PRO. § 2019(d). Illinois also eliminates the “readily ascertainable” requirement, prohibits royalty injunction orders, imposes a five-year limitations period and allows permanent injunctions. S.H.A. 765 ILCS §§ 1065/1-1065/9. *See generally*, JAGER, TRADE SECRETS LAW § 3.04 (2000). Idaho requires that computer programs carry a “copyright or other proprietary or confidential marking” to be protected. Idaho Code § 48-801(4). Georgia has a five-year statute of limitations, and limits protection of customer lists to physical embodiments, effectively permitting an employee to use whatever can be carried in (human) memory. *See Porex Corp. v. Haldopolous*, 284 Ga. App. 510, 644 S.E.2d 349, 352 (2007) (explaining Georgia’s divergence from UTSA on statute of limitations).

Only New York has not yet adopted the UTSA, electing to protect trade secrets under common law and applying the RESTATEMENT OF TORTS framework. Because of the UTSA’s importance, we reproduce its primary provisions here.

### **Uniform Trade Secrets Act, with 1985 Amendments**

#### **§ 1. Definitions**

As used in this [Act], unless the context requires otherwise:

- (1) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;
- (2) “Misappropriation” means:
  - (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
  - (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
    - (A) used improper means to acquire knowledge of the trade secret; or
    - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

- (I) derived from or through a person who had utilized improper means to acquire it;
- (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
- (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(3) “Person” means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) “Trade secret” means 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.

### **2.2.3 Federal Economic Espionage Act and State Criminal Laws**

Over half of the states have enacted criminal laws directed specifically at trade secret theft. Although a number of states have patterned their laws on New York’s and New Jersey’s, limiting coverage to embodiments of technical information, others (for example, Ohio and California) have chosen to employ a broader definition akin to the civil definition of trade secrets, which includes various forms of business data, such as customer lists and marketing plans. The debate concerning appropriate state law coverage has diminished somewhat with the passage of the federal EEA, which followed the broad language of the UTSA to define its scope.

Prompted by concerns about international espionage and the applicability of various statutes concerning the theft of “property,” the EEA imposes heavy criminal fines and prison sentences for individuals or corporations convicted of engaging in trade secret theft. *See* 18 U.S.C. §§ 1831-39. The EEA distinguishes between two classes of trade secret misappropriation: (1) foreign espionage, prohibiting misappropriation that benefits any foreign government, foreign instrumentality, or foreign agent, governed by § 1831; and (2) general trade secret misappropriation, governed by § 1832. Although relatively broad, § 1831 does not encompass foreign companies unless they are “substantially owned, controlled, sponsored, commanded, managed or dominated by a foreign government.” 18 U.S.C. § 1839(1).

Unlike the UTSA and the subsequent DTSA, the EEA prohibits attempted violations of the Act. *See* 18 U.S.C. §§ 1831(4); 1832(4). In *United States v. Pin Yen Yang*, 281 F.3d 534, 540-544 (6th Cir. 2002), the Sixth Circuit, analogizing the EEA to federal drug laws, held that a defendant who intends to steal a trade secret and commits an overt act towards acquiring what the defendant believes to be the trade secret can be guilty of attempted trade secret misappropriation even if the information that the defendant acquires was not actually a trade secret. While agreeing with the general thrust of this interpretation, the Seventh Circuit questioned whether the sale of information

already known to the public could be deemed a substantial step toward the offense, a requirement for an attempt crime. *See United States v. Lange*, 312 F.3d 263, 268-69 (7th Cir. 2002) (*referencing Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447 (1993) for the proposition that criminal attempt requires that the prosecutor establish a “dangerous probability” of success and observing that “selling a copy of *Zen and the Art of Motorcycle Maintenance* is not attempted economic espionage, even if the defendant thinks that the tips in the book are trade secrets”). Another distinctive feature of the EEA is its potential application beyond the boundaries of the United States.

Chapter 11 delves into the details of the Economic Espionage Act.

### **2.2.4 Defend Trade Secrets Act**

In the two decades following the passage of the EEA, U.S. industry became increasingly concerned about a fundamental increase in trade secret exposure and the lack of a fully national trade secret regime. Along with rapid advances in electronic storage and communication of data came increased risks to information security. Federal court filing was often not possible, since it required either a closely related claim under federal law or complete diversity of citizenship. Also, the EEA’s criminal remedies were not a practical solution, with an average of only seven to eight prosecutions each year. *See* JAMES POOLEY, TRADE SECRETS § 2.05[1]. Trade secret holders therefore began to push Congress to provide for a federal trade secret misappropriation cause of action.

These concerns prompted Congress to pass the Defend Trade Secrets Act in 2016. For the most part, the DTSA amended § 1836 of the EEA to provide a non-preemptive private civil right of action for trade secret misappropriation in federal courts, “modeled on the Uniform Trade Secrets Act,” H. REP. NO. 114-529, 114<sup>th</sup> CONG., 2D SESS., DEFEND TRADE SECRETS ACT OF 2016 (2016). It defines trade secret misappropriation using the language of the UTSA. The DTSA augments the UTSA by defining “improper means”:

(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and

(B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

Hence, federal courts look to the rich body of state law trade secret jurisprudence in construing the DTSA.

The DTSA augmented the UTSA by providing for an *ex parte* seizure remedy in “extraordinary circumstances” and immunizing whistleblowers from trade secret liability when sharing confidential information in the course of reporting suspected illegal activity to law enforcement or when filing a lawsuit.

## **2.3 Sources of Authority**

A trade secret plaintiff must show both the existence of a trade secret and that the defendant(s) misappropriated or threatened to misappropriate the trade secret in order to prevail. UTSA §§ 2, 3.

### **2.3.1 Existence of Trade Secret**

The existence of a trade secret claim can be broken down into three essential elements: (1) the subject matter involved must qualify for trade secret protection, meaning information, such as “a formula, pattern, compilation, program, device, method, technique, or process,” UTSA § 1(4); (2)

the information must derive “independent economic value from not being generally known to, or not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use,” UTSA § 1(4)(i); and (3) the holder of the trade secret must have taken “reasonable efforts” “under the circumstances to maintain secrecy,” UTSA § 1(4)(ii).

### **2.3.1.1 Information Not Generally Known, Readily Ascertainable, or Part of the “Employee’s Tool Kit”**

The UTSA defines the scope of information potentially protectable as a trade secret broadly. As the Iowa Supreme Court has explained, “there is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret. We believe that a broad range of business data and facts which, if kept secret, provide the holder with an economic advantage over competitors or others, qualify as trade secrets.” *Economy Roofing & Insulating Co. v. Zumaris*, 538 N.W.2d 641, 647 (Iowa 1995).

Trade secret information can range from highly complex and inventive industrial processes to soft drink formulas, customer lists, employee salaries, licensing rates, and marketing plans. The information need not be novel nor non-obvious to be protectable, and thus is far broader than the scope of patentable subject matter. *See CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 850 (1st Cir. 1985). The information can also be known to competitors, but it cannot be “generally known.” USTA § 1. But if the principal entity that could obtain economic benefit from the information is aware of it, there is no trade secret. *See UTSA § 1* (Commissioners’ cmt.).

Although some early cases imposed a use element, courts in many jurisdictions and the UTSA renounced such requirement as unduly restricting protection for valuable research and development. *See* RESTAT. (THIRD) UNFAIR COMP. § 39 cmt. e (1995); UTSA § 1(4)(i) (defining “trade secret” as information that derives independent economic value, “actual or *potential*,” from not being generally known (emphasis added)). The classic example of information that has value even though it is not in actual use is “negative know-how,” or knowledge of what does not work. *See Gillette Co. v. Williams*, 360 F.Supp. 1171, 1173 (D. Conn. 1973) (acknowledging trade secrets in “research avenues [] *not* worthy of pursuit” (emphasis in original)); *Courtesy Temporary Serv., Inc. v. Camacho*, 222 Cal.App.3d 1278, 1287–88, 272 Cal.Rptr. 352, 357–58 (1990) (extending protection to list of customers that had not purchased the plaintiff’s services). Such information derives independent economic value because its disclosure to a competitor could potentially allow the competitor to avoid fruitless research approaches and shorten the competitor’s time to market with a competing product.

A trade secret may include elements that are in the public domain if the trade secret itself constitutes a unique, “effective, successful and valuable integration of the public domain elements.” *Rivendell Forest Prods., Ltd. v. Ga.-Pac. Corp.*, 28 F.3d 1042, 1046 (10th Cir. 1994); *see also Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202 (5th Cir. 1986) (“[A] trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which in unique combination, affords a competitive advantage and is a protectible secret.”) (quoting *Imperial Chem. Indus. v. Nat’l Distillers & Chem. Corp.*, 342 F.2d 737, 742 (2d Cir. 1965)).

Information may be protectable as a trade secret even if it can be reverse engineered provided that the reverse engineering cannot be accomplished easily, quickly, or inexpensively. *See* § 2.4.2. If the information could be reverse engineered easily, it would be “readily ascertainable by proper

means” by persons who could obtain economic value from its disclosure or use and, therefore, would not qualify as a trade secret. The point at which the effort required to reverse engineer the alleged secret is so trivial that the information is no longer protectable defines the zone of ready ascertainability. *See* RESTAT. (THIRD) UNFAIR COMP. § 39, comment f: “Self-evident variations or modifications of known processes, procedures or methods . . . lack the secrecy necessary for protection as a trade secret.” Although the plaintiff trade secret owner bears the burden of proof to show that the information is not readily ascertainable in all states except California, the question of whether information claimed is readily ascertainable typically arises as a defense to trade secret misappropriation. Therefore, we explore this issue further in § 2.4.3.

One of the fundamental policies that informs and constrains trade secret decisions is the interest of the public and of individual employees in the individual’s freedom to move from one job to another. As the Seventh Circuit has explained:

That is not to say that [a former employee] may not have derived some benefit from his access to the collective experience of [his employer] (experience to which [the employee] himself doubtless contributed significantly during the course of his employment). It is rather to say such information comprises general skills and knowledge acquired in the course of employment. Those are things an employee is free to take and to use in later pursuits, especially if they do not take the form of written records, compilations or analyses. Any other rule would force a departing employee to perform a prefrontal lobotomy on himself or herself. It would disserve the free market goal of maximizing available resources to foster competition. . . . It would not strike a proper balance between the purposes of trade secrets law and the strong policy in favor of fair and vigorous business competition.

*AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1205 (7th Cir. 1987) (*quoting Fleming Sales Co. v. Bailey*, 611 F.Supp. 507, 514 (N.D. Ill. 1985)) (citations omitted)).

Thus, every employee has a personal tool kit that they can take with them as their career develops. The kit includes general knowledge, personal skill, and “tricks of the trade” that increase productivity and ability to create, some of which are learned and developed at the employer’s cost). Such skills make employee more valuable to the employer; but nonetheless belong the employee, who is free to take them to the next job.

Given the importance of these competing interests and principles in a free society, the boundary between that which belongs to the employee and that which is a protectable secret of the employer can be very difficult to define. There are no bright lines, only factors that suggest how the circumstances of a given case might point in one direction or the other. If the employee had a great deal of experience in the industry before joining the company, for example, a court might be more skeptical that the employee’s knowledge falls on the trade secret side of the line. If the claimed secret is specialized or unique to the plaintiff’s business, it is more likely to qualify as a trade secret. Similarly, information that is easily distinguished from matters of skill is more likely to be viewed as a trade secret than that which is closely related to or enmeshed with an employee’s skills.

### **2.3.1.2 Economic Value from Secrecy**

Mirroring the common law doctrine that a trade secret reflect “competitive advantage,” RESTAT. (THIRD) UNFAIR COMP. § 39, Reporters’ Note, the UTSA requires that a plaintiff prove that the claimed secret “derives independent economic value, actual or potential, from not being

generally known.” § 1(4)(i), as does the DTSA, 18 U.S.C. § 1839(3)(B). Thus, the value derived from the secret must be independent of the value that is intrinsic to the good or service, or that derives from other factors. See *Bellwether Community Credit Union v. Chipotle Mexican Grill*, 2018 U.S. Dist. LEXIS 182717 at \*28 (D. Col. Oct. 24, 2018) (holding that credit card data that was hacked is not a trade secret because the data have no independent value apart from their connection to an underlying financial account); *Epicor Software Corp. v. Alternative Technology Solutions, Inc.*, 2013 U.S. Dist. LEXIS 109278 at \*4 (C.D. Cal. May 9, 2013) (dismissing trade secret counterclaim based on alleged misappropriation of Internet Protocol address and port number of defendant’s cloud server because defendant did not allege information had independent economic value and did not claim data on server had been taken).

The quantum of economic value must be more than trivial. For example, slight variations on similar processes used throughout an industry might not be sufficient. It is also not enough that the secret is merely different, unique, or unorthodox. See *Dynamics Research Corp. v. Analytic Sciences Corp.*, 400 N.E.2d 1274, 1286 (Mass. App. 1980) (observing that “[u]niqueness without more is not commensurate with possession of a trade secret”). However, the incremental value of the secret need not be great, just not trivial. See *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 728 (7th Cir. 2003) (creating “clickety-clack” sound on wooden train track that took less than a half hour and a dollar’s worth of material was sufficient; value lay in the “intuitive flash of creativity”). Thus, it is not necessary to show an enormous investment in research; significant value can derive from a lucky discovery.

The trade secret owner has the burden of proving that the information, by virtue of its secrecy from the competition, provides an advantage. Proving this directly, however, is often impractical, particularly if the trade secret plaintiff must prove what its competition is doing. This is especially the case where the plaintiff’s secret consists of a combination of elements some of which are in the public domain. See *Boeing Co. v. Sierracin Corp.*, 108 Wash.2d 38, 738 P.2d 665, 675 (1987) (noting that a “trade secrets plaintiff need not prove that every element of an information compilation is unavailable elsewhere. . . . Trade secrets frequently contain elements that by themselves may be in the public domain but together qualify as trade secrets.” (citations omitted)).

Thus, courts allow plaintiffs to prove economic value by circumstantial evidence, such as investment in research and development, extent of security precautions taken, use of similar information by competitors, and the fact that others have been willing to pay for access to the information. See *Bernier v. Merrill Air Eng’rs, Inc.*, 770 A.2d 97, 106 n.6 (Me. 2001) (listing the following factors to consider in assessing independent economic value: “(1) the value of the information to the plaintiff and to its competitors; (2) the amount of effort or money the plaintiff expended in developing the information; (3) the extent of measures the plaintiff took to guard the secrecy of the information; (4) the ease or difficulty with which others could properly acquire or duplicate the information; and (5) the degree to which third parties have placed the information in the public domain or rendered the information ‘readily ascertainable’ through patent applications or unrestricted product marketing” (citation omitted)). If a plaintiff fails to offer testimony showing economic value, a Court may reject efforts to claim value based on the trivial usefulness of the information. See *Yield Dynamics, Inc. v. TEA Systems, Inc.*, 154 Cal.App.4th 547, 566-569, 66 Cal.Rptr.3d 1 (2007) (affirming finding that minor software code “segments” lacked sufficient value to qualify as trade secrets; plaintiff submitted only “vague” evidence that routines could be helpful when writing new code, failed to show that experienced engineers could not have written same code, and failed to offer evidence of the relative value of the code segments as a proportion

of defendant's software; Court found code of value only to the parties to the lawsuit, rather than to competitors).

### 2.3.1.3 Reasonable Efforts to Maintain Secrecy

The plaintiff must prove as part of its *prima facie* case that it has undertaken "reasonable efforts" "under the circumstances" to maintain the information as a secret. *See* UTSA § 1(4)(ii); DTSA, 18 U.S.C. §1839(3)(A). Through this requirement, trade secret law protects a class of information against even nontrespassory or other lawful conduct. *See Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*, 925 F.2d 174, 178 (7th Cir. 1991). It does so by requiring that the trade secret claimant show it has engaged in reasonable efforts to maintain the secrecy of such information. This requirement also guards against competitors acquiring the information. There must be reasonable efforts preventing trade secret information about products and operations from flowing freely or easily to competitors. At the same time, such efforts need not be impregnable. They need to be reasonable under the circumstances, implying a form of cost-benefit analysis.

To establish the right, one must be diligent in protecting information, but absolute security is not required. The "reasonable[ness]" standard ensures that there will be some close cases that will entail difficult line-drawing. "[I]f the value and secrecy of the information are clear, evidence of specific precautions taken by the trade secret owner may be unnecessary." RESTAT. (THIRD) UNFAIR COMP. § 39 cmt. g. The defendant will find it challenging to persuade a trial judge that the plaintiff's efforts to protect the secrecy of its information were unreasonable as a matter of law. What is "reasonable" is usually a fact determination reserved for the jury. *See Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452, 455 (8th Cir. 1987) (summary judgment may be granted on the basis of lack of reasonable efforts "only in an extreme case"); *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179–80 (7th Cir. 1991) (explaining that ("[i]f trade secrets are protected only if their owners take extravagant productivity-impairing measures to maintain their secrecy, the incentive to invest resources in discovering more efficient methods of production will be reduced, and with it the amount of invention"; and that "perfect security is not optimum security"); *see also* § 7.1.2.4 (discussing the standard for summary judgment standard regarding reasonable efforts).

There is no bright-line test to determine what amount or types of safeguards are reasonable to protect the secrecy of proprietary information. The Seventh Circuit has said that such a determination "requires an assessment of the size and nature of [the plaintiff's] business, the cost to it of additional measures, and the degree to which such measures would decrease the risk of disclosure." *See In re Innovative Constr. Sys., Inc.*, 793 F.2d 875, 884 (7th Cir. 1986); *see also Niemi v. NHK Spring Co., Ltd.*, 543 F.3d 294, 301–304 (6th Cir. 2008) (reasonable measures depend on circumstances and reasonableness may differ for large and small businesses). The guiding principles focus on a cost-benefit analysis. Within a very wide band of discretion, the trade secret owner is to consider the value of the secret, the nature of the threat to disclosure, and the cost of any particular security mechanism.

Although the trade secret owner must act reasonably, neither perfect nor "heroic" measures are necessary. In *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970, the defendant learned secrets about DuPont's process technology by aerial photography of a plant under construction. The Court held that "we need not require the discoverer of a trade secret to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available . . . To require DuPont to put a roof over the unfinished plant to guard its secret would impose an enormous expense to prevent nothing more than a school boy's trick."

If evidence of a confidential relationship and secrecy is strong, courts may relax the requirement to show reasonable precautions. “When other evidence establishes secrecy and the existence of a confidential relationship, courts are properly reluctant to deny protection on the basis of alleged inadequacies in the plaintiff’s security precautions.” RESTAT. (THIRD) UNFAIR COMP. § 39, comment g, Reporters’ Note.

Among the types of safeguards that have been held sufficient to establish “reasonable efforts” “under the circumstances” include:

- having a written trade secret protection plan and following it, *see Vacco Indus., Inc. v. Van Den Berg*, 5 Cal.App. 4th 34, 42, 6 Cal.Rptr. 2d 602, 605 (1992);
- educating employees as to which documents contained trade secrets and keeping those documents in a locked room, *A.H. Emery Co. v. Marcan Prods. Corp.*, 268 F.Supp. 289, 300 (S.D.N.Y. 1967), *aff’d*, 389 F.2d 11 (2d Cir. 1968);
- closing to outsiders a clean room where the secret was practiced, educating employees as to the confidential nature of the information and requiring them to sign nondisclosure agreements, *see Micro Lithography, Inc. v. Inko Indus. Inc.*, 20 U.S.P.Q.2d (BNA) 1347, 1349–51 (Cal. Ct. App. Apr. 9, 1991) (secrecy was reasonable even though a trusted supplier was permitted access);
- eliminating access to a computer tool containing trade secrets and restricting the distribution of software, including to the manufacturer of the computer used by the supplier of the computer tool, *see Otis Elevator Co. v. Intelligent Sys., Inc.*, 17 U.S.P.Q.2d (BNA) 1773, 1775–79 (Conn. Super. Ct. July 18, 1990);
- restricting employee access to computers, restricting other access to employees, and prominently mentioning in an employee handbook the competitive importance of the information; *see Infinity Prods., Inc. v. Quandt*, 775 N.E.2d 1144, 1146–47 (Ind. Ct. App. 2002), *aff’d in pertinent part*, 810 N.E.2d 1028 (Ind. 2004);
- placing proprietary legends on all trade secret documents, restricting physical access to the facility, imposing visitor restrictions, and keeping drawings and copies of patent applications in locked files, *see Allis-Chalmers Mfg. Co. v. Cont’l Aviation & Eng’g Corp.*, 255 F.Supp. 645, 650 (E.D. Mich. 1966);
- requiring employees to sign confidentiality agreements, restricting access to computer system, placing proprietary notices on software, including nondisclosure provisions in licensing agreements, and shredding source code printouts, *see CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F.Supp. 337, 357 (M.D. Ga. 1992);
- protecting software with confidentiality notices, requiring passwords to prevent unauthorized access, and placing information in restricted storage, *see Com-Share, Inc., v. Computer Complex, Inc.*, 338 F.Supp. 1229, 1234–35 (E.D. Mich. 1971), *aff’d*, 458 F.2d 1341 (6th Cir. 1972);
- restricting access to production processes and equipment area, requiring employees to sign nondisclosure agreements, issuing employees identification badges, and notifying suppliers of trade secrets, *see CPG Prods. Corp. v. Mego Corp.*, 214 U.S.P.Q. (BNA) 206, 208–09 (S.D. Ohio Jan. 12, 1981);
- using code to identify chemical formulas in all written and oral communications, labeling raw materials in code, and using confidentiality agreements, *see Kelite Corp. v. Khem Chems., Inc.*, 162 F.Supp. 332, 334–35 (N.D. Ill. 1958);



- keeping trade secret machine physically segregated within a facility, allowing it to be operated only by a small number of employees, and never using the machine in the presence of outsiders, *see Greenberg v. Croydon Plastics Co.*, 378 F.Supp. 806, 813–14 (E.D. Pa. 1974);
- removing business information from view during visits by third parties, keeping pricing in special books, using passwords for computer access, and keeping other information under lock and key, *see Sunbelt Rentals, Inc. v. Head & Engquist, Equip., L.L.C.*, 620 S.E.2d 222, 227 (N.C. Ct. App. 2005);
- attaching electronic sensors to trade secret documents, *see Religious Tech. Ctr. v. Netcom On-Line Comm’n Servs., Inc.*, 923 F.Supp. 1231, 1254 (N.D. Cal. 1995); and
- maintaining internal secrecy by dividing the process into steps and separating the various departments working on the several steps; using unnamed or coded ingredients, *see People v. Pribich*, 21 Cal.App.4th 1844, 1846, 27 Cal.Rptr. 2d 113, 114 (1994).

Courts frequently consider the use of duly executed nondisclosure agreements (“NDAs”) by employees, contractors, and business associates provided access to proprietary information to be an important safeguard. NDAs are an efficient means of securing proprietary information. *See, e.g., Surgidev Corp. v. Eye Technology, Inc.*, 828 F.2d 452, 455 (8th Cir. 1987), *Warehouse Solutions, Inc. v. Integrated Logistics*, 610 Fed. Appx. 881, 885 (11th Cir. 2015) (holding that “though not dispositive, the absence of a written non-disclosure agreement is relevant to assessing whether [plaintiff] took reasonably available steps to preserve the program’s secrecy”); *cf. Alpha Pro Tech, Inc. v. VWR International LLC*, 984 F.Supp.2d 425, 439 (E.D. Pa. 2013) (declining to rule that oral confidentiality agreements are per se unreasonable).

Although there are no hard and fast rules for determining when efforts to maintain secrecy are inadequate, courts have found security measures to be inadequate in the following circumstances:

- deliberate public disclosure of proprietary information, *see VSL Corp. v. Gen. Techs., Inc.*, 44 U.S.P.Q.2d (BNA) 1301, 1303 (N.D. Cal. July 21, 1997) (marketing information included drawings, measurements and samples); *Integral Sys., Inc. v. Peoplesoft, Inc.*, 1991 U.S. Dist. LEXIS 20878 (N.D. Cal. July 19, 1991) (disclosure of trade secrets in bids and presentations to prospective clients);
- failing to place confidentiality markings on materials containing and describing software, *see Gemisys Corp. v. Phoenix Am., Inc.*, 186 F.R.D. 551, 558 (N.D. Cal. 1999); *Motor City Bagels, L.L.C. v. Am. Bagel Co.*, 50 F.Supp. 2d 460, 480 (D. Md. 1999);
- conducting public tours of plant operations without requiring secrecy agreements, *see Arco Indus. Corp. v. Chemcast Corp.*, 633 F.2d 435 (6th Cir. 1980); *Shatterproof Glass Corp. v. Guardian Glass Co.*, 322 F.Supp. 854 (E.D. Mich. 1970), *aff’d*, 462 F.2d 1115 (6th Cir. 1972);
- filing trade secret documents with a Court without placing the documents under seal, *see Religious Tech. Ctr. v. Lerma*, 897 F.Supp. 260, 266 (E.D. Va. 1995); *but see Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 418–19 (4th Cir. 1999) (late sealing order preserved secrecy where there were no significant third-party acts in

the interim); *Gates Rubber Co. v. Bando Chem. Indus.*, 9 F.3d 823, 849 (10th Cir. 1993) (same);

- employing hit-or-miss methods to protect secrecy, requiring some but not all key employees to sign confidentiality agreements, and failing to identify for employees the information regarded as trade secret, *see MBL (USA) Corp. v. Diekman*, 112 Ill. App. 3d 229, 67 Ill. Dec. 938, 445 N.E.2d 418, 221 U.S.P.Q. (BNA) 725 (1983) (UTSA); *Abrasic90 Inc. v. Weldcote Metals, Inc.*, 364 F. Supp. 3d 888 (N.D. Ill. 2019) (DTSA); and
- allowing employees to take job manuals home and to keep them when they quit, *see Buffets, Inc. v. Klinke*, 73 F.3d 965 (9th Cir. 1996).

As these decisions reflect, the “reasonable efforts” standard entails consideration of both the appropriateness from a cost-benefit standpoint of the measures and the care taken in implementing them. Sloppy implementation of sensible security measures can destroy trade secrecy. Section 8.2.3 discusses the use of expert witnesses in considering the “reasonable measures” requirement.

### **2.3.2 Actual or Threatened Misappropriation: Improper Acquisition, Use, or Disclosure**

Once the existence of trade secret protection is established, the plaintiff must prove that the defendant misappropriated or threatened to misappropriate the trade secret. Trade secret law defines misappropriation to include: (1) acquisition of protected information through “improper means”; and (2) disclosure or use of a trade secret in breach of an express or implied obligation to the trade secret holder not to disclose or appropriate the trade secret or with knowledge or reason to know that it was a trade secret.

In contrast to Hollywood films and high-profile media accounts of trade secret controversies, most trade secret cases do not arise from skullduggery by outsiders, but rather from breach of an obligation to the trade secret holder not to disclose or appropriate the trade secret. Such an obligation can arise by *express contract* or an *implied duty*. Even in the absence of an express contract, most employees are held to a duty to protect their employers’ interests in their secret practices and information. Even where the duty arises by explicit contract, however, public policy limitations on the scope and duration of the agreement can come into play, in some cases resulting in substantial judicial modification of the explicit obligations laid out in the contract. *See* §§ 2.4 (dealing with whistleblower immunity), 2.5.8 (public policy exception), 2.8.1.1 (employee restrictive covenants).

It is useful to divide misappropriation into the two independent bases for establishing the misappropriation element of a trade secret cause of action: (1) acquisition by improper means, UTSA § 2(i); and (2) unauthorized disclosure or use of a trade secret, UTSA § 2(ii). It is also important to comment on trade secret law’s treatment of threatened misappropriation.

#### **2.3.2.1 Acquisition by Improper Means**

The UTSA prohibits the acquisition of trade secrets by improper means, regardless of whether the trade secrets are disclosed or used. *See* UTSA § 1(1); DTSA, 18 U.S.C. § 1839(5). As defined by the UTSA, “‘improper means’ includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.” UTSA § 1(1). The definition is broad and includes nearly any manner of unauthorized acquisition of protected information other than reverse engineering through proper means. *See* RESTAT. (THIRD)

OF UNFAIR COMP. § 43 cmt. c (noting that “acquisition of a trade secret can be improper even if the means of acquisition are not independently wrongful. The propriety of the acquisition must be evaluated in light of all the circumstances of the case, including whether the means of acquisition are inconsistent with accepted principles of public policy and the extent to which the acquisition was facilitated by the trade secret owner’s failure to take reasonable precautions against discovery of the secret by the means in question.”). See § 2.5.2 (discussing reverse engineering). Independent discovery would also be excluded because it would not constitute acquisition. See § 2.5.1.

Cases of outright theft, misrepresentation, or breach of a duty to maintain secrecy are generally relatively straightforward, but determining what constitutes “improper” means can require careful assessment of the facts. For example, courts can find improper means where a person authorized to access information exceeds that authorization. Thus, an employee who downloads or copies trade secret information after deciding to tender his or her resignation commits a wrongful act. In a widely debated case, the Fifth Circuit held that a trade secret misappropriation had occurred through “a school boy’s trick” when a competitor took aerial photographs of a DuPont factory under construction from public air space. See *E.I. du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970). However, the same Court later held that it was not improper for a competitor to observe a factory from a public highway. See *Interlox Am. v. PPG Indus.*, 736 F.2d 194, 201 (5th Cir. 1984). And new technologies can also alter the subtle calculus of what behavior is deemed acceptable: Satellite photography and other Internet search capabilities may themselves have rendered the *DuPont* case moot.

The means of misappropriation need not be physical or tangible. As one Court observed, “[i]t does not matter whether a copy of [the plaintiff’s] drawing came out in a defendant’s hand or in his head.” *Sperry Rand Corp. v. Rothlein*, 241 F.Supp. 549, 563 (D. Conn. 1964). Nonetheless, employees are not expected to erase all information that they learn in the course of their work. As the RESTATEMENT (THIRD) OF UNFAIR COMPETITION Section 42, comment d, explains:

Courts are . . . more likely to conclude that particular information is a trade secret if the employee on termination of the employment appropriates some physical embodiment of the information such as written formulas, blueprints, plans, or lists of customers. However, although information that is retained in the employee’s memory may be less likely to be regarded as a trade secret absent evidence of intentional memorization, the inference is not conclusive.

RESTAT. (THIRD) UNFAIR COMP. § 42, cmt. d. Thus, memorizing a trade secret could constitute misappropriation. See *First Financial Bank, N.A. v. Bauknecht*, 71 F.Supp.3d 819 (C.D. Ill. 2014) (holding that defendant had violated ILLINOIS TRADE SECRET ACT by memorizing bank’s customer lists and using the information at his new job); but cf. *Tactica Int’l, Inc. v. Atlantic Horizon Int’l, Inc.*, 154 F.Supp. 2d 586, 606 (S.D.N.Y. 2001) (observing that “[r]emembered information as to specific needs and business habits of particular customers is not confidential”).

Courts have sought to delineate the scope of improper means by focusing on the permissible balance of competitive intelligence-gathering. As a general matter, courts recognize that fair means of increasing competition, including the use of competitive intelligence, are beneficial. Thus, even though condemning the use of an airplane to photograph a chemical plant under construction, the Fifth Circuit observed that “for our industrial competition to remain healthy there must be breathing room for observing a competing industrialist. A competitor can and must shop its competition for pricing and examine his products for quality, components, and methods of

manufacture.” *E.I. duPont de Nemours & Co.*, 431 F.2d at 1016. The key is the sometimes subjective notion of fairness. Thus, while it is perfectly acceptable to gather a competitor’s secrets by observing its presentation at a convention or visiting areas of a competitor’s facility open to the public, it is improper to do so by gaining entry through false pretenses. *See Mattel, Inc. v. MGA Entertainment, Inc.*, 801 F.Supp.2d 950 (C.D. Cal. 2011) (use of false credentials to gain access to private showroom at trade fair held to be acquisition by improper means), *vacated on other grounds* 705 F.3d 1108 (9th Cir. 2013); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 785 (5th Cir. 1999); *Cont’l Data Sys., Inc. v. Exxon Corp.*, 638 F.Supp. 432, 435–36 (E.D. Pa. 1986). Even though courts generally view the shredding of trade secrets documents as among the spectrum of measures that can reasonably be taken to protect the secrecy of information, rummaging through a competitor’s trash is usually seen as improper. *See B.C. Ziegler & Co. v. Ehren*, 141 Wis.2d 19, 30, 414 N.W.2d 48, 53 (1987); *Tennant Co. v. Advance Mach. Co.*, 355 N.W.2d 720, 725 (Minn. Ct. App. 1984); *Drill Parts & Service Co. v. Joy Manufacturing Co.*, 223 U.S.P.Q. 521, 526 (Ala. 1983); Conn. Gen. Stat. 35-51(a) (including “searching through trash” within the definition of “improper means”).

The growing use of information storage on publicly accessible data networks has become a fertile area of controversy over what constitutes “improper means.” In an early case, the court held that unauthorized access to a computer system, undertaken in order to reverse engineer software contained in it, was characterized as a “wiretap.” *See Technicon Data Systems Corp. v. Curtis 1000, Inc.*, 224 U.S.P.Q. 286, 288 (Del. Ch. 1984). Indeed, hacking into a computer system, even if accessed through a public website, can violate federal computer access laws and therefore constitute improper means. *See Physicians Interactive v. Lathian Systems, Inc.*, 2003 WL 23018279 at \*8, 69 U.S.P.Q.2d 1981 (E.D. Va. 2003), *overruled in part on other grounds by ForceX, Inc. v. Technology Fusion, LLC*, 2011 U.S. Dist. LEXIS 69454 at \*11 (E.D. Va. 2011). Yet as we explore further in § 2.7.4, the scope of “unauthorized access” under the COMPUTER FRAUD AND ABUSE ACT continues to evolve.

Another area of improper means is the hiring of another’s employees for the purpose of acquiring confidential information. In cases where the purpose of the hiring is to gain unauthorized access to the other’s trade secrets, such actions constitute misappropriation and they can also give rise to liability based on a theory of interference with the employee’s obligations to the former employer. *See CDW LLC v. NETech Corp.*, 906 F.Supp.2d 815, 818 (S.D. Ind. 2012) (inducement of employees to breach their confidentiality obligations as part of a systematic raid). Circumstances that can lead to a finding of unlawful raiding include: focusing efforts on one company as a source of new employees, often coupled with targeted advertising or recruiting activities; the payment of unusually high compensation to the new employees (creating an inference that access to confidential information is being purchased); and an unusually short time between the new employees’ arrival and the solution of what had been long-term, vexing technical problems.

### **2.3.2.2 Unauthorized Use or Disclosure**

The second basis for proving misappropriation relates to unauthorized use or disclosure. The UTSA definition of this prong is somewhat convoluted:

- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
  - (A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his [or her] knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

UTSA § 1(2)(ii). The DTSA formulation is similar. *See* 18 U.S.C. § 1839(5). This definition, however, boils down to a few basic and relatively straightforward responsibility principles. Much of this misappropriation prong turns on the notion of authorization or consent. It also concerns knowledge of trade secret status.

First, the definition requires that the disclosure or use of the trade secret be done without express or implied consent of the trade secret owner. Thus, this prong does not come into play if the discloser or user has trade secret owner consent, whether express or implied. This element, therefore, brings into play the scope of consent.

If the first element is satisfied, subsections (A) – (C) identify a knowledge component. Subsection A imposes liability on those who disclose or use trade secrets that they obtained through improper means. Thus, it overlaps with the first misappropriation basis—acquisition of trade secrets through improper means. *See* § 2.2.2.1. Subsection (B) imposes liability on those who knew or had reason to know that the information was a trade secret at the time that they disclosed or used the information. Subsection (C) deals with situations in which the discloser or user of trade secret information acquired the information *through accident or mistake*. It imposes liability on them only if they materially changed their position after learning or having reason to know that the information was protected.

In general, no liability will attach to someone who acquires trade secret information without notice that it belongs to another. *See Pelican Bay Forest Prods. v. W. Timber Prods.*, 297 Or. Ct. App. 417, 432 (2019) (competitor might not have initially known that the information it acquired from a new employee had been misappropriated, but because plaintiff had later sent the competitor a cease and desist letter explaining the misappropriation, there was an issue of fact as to whether the competitor's subsequent use of the customer information constituted misappropriation); *Ferrolite Corp. v. Gen'l Aniline & Film Corp.*, 207 F.2d 912, 923 (7th Cir. 1953). When the recipient is placed on notice of another's rights, however, he or she may thereafter be liable for misappropriation based on the disclosure or use of the information.

The most common allegation of trade secret misappropriation involves breach of a confidential relationship. *See* David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 59 (2011) (reporting that 93 percent of all trade secret cases are between parties who know each other). The RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 explains that a confidential relationship is established in the following circumstances:

(a) the person made an express promise of confidentiality prior to the disclosure of the trade secret; or

(b) the trade secret was disclosed to the person under circumstances in which the relationship between the parties to the disclosure or the other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure,

(1) the person knew or had reason to know that the disclosure was intended to be in confidence, and

(2) the other party to the disclosure was reasonable in inferring that the person consented to an obligation of confidentiality.

Whereas the express confidentiality prong is relatively straightforward to assess, the implied confidential relationship prong is more complicated. *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953), provides a good illustration of an implied confidential relationship. Before his death, Smith developed the idea of containerized shipping, involving construction of ships especially designed to carry uniformly sized steel freight containers that could be locked into place and lifted with cranes onto compatible rail and truck chases. After Smith's accidental death, the executor of his estate entered into negotiations with Dravo Corp. to sell the business. During the course of the negotiations, Smith's executor shared various forms of confidential information, including patent applications, blueprints, a prototype, and letters of inquiry from possible users. In addition, Dravo sent representatives to inspect Smith's design and manufacturing facilities. After the parties failed to reach an agreement on a sale of the technology, Dravo announced to it "intended to design and produce a shipping container of the widest possible utility" for "coastal steamship application . . . [and] use . . . on the inland rivers and . . . connecting highway and rail carriers." The Seventh Circuit concluded that

plaintiffs disclosed their design for one purpose, to enable defendant to appraise it with a view in mind of purchasing the business. There can be no question that defendant knew and understood this limited purpose. Trust was reposed in it by plaintiffs that the information thus transmitted would be accepted subject to that limitation. '[T]he first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations. If there is any disadvantage in the fact that he knew the plaintiffs' secrets, he must take the burden with the good.'

*Smith*, 203 F.2d at 376 (quoting *E.I. duPont deNemours Powder Co. v. Masland*, 244 U.S. 100,102). As the Court noted, Defendant's own evidence disclosed that it did not begin to design its container until after it had access to plaintiffs' plans and its engineers referred to plaintiffs' patent applications to avoid infringement. These evidentiary facts, together with the striking similarity between defendant's and plaintiffs' finished product, amply established breach of an implied confidential relationship.

Other courts have been more cautious in finding misappropriation based on implied confidential relationships. In *Omnitech Int'l v. Clorox Co.*, 29 U.S.P.Q.2d 1665 (5th Cir. 1994), the Court held that it was not an actionable "use" of a trade secret for the defendant to evaluate it in the course of trying to decide whether to (a) acquire the company or (b) take a license to use the trade secret. In *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532 (11th Cir. 1996), the Court expressed the concern that trade secret claims based on implied confidential relationships were subject to abuse. The Court rejected Bateman's allegation that such a relationship existed because Bateman had not "made it clear to the parties involved that there was an expectation and obligation of confidentiality." By contrast, the Fifth Circuit in *Phillips v. Frey*, 20 F.3d 623, 631-32 (5th Cir. 1994), found an implied confidential relationship to exist in the course of negotiations over the

sale of a business despite the fact that the disclosing party did not request that the information remain confidential.

### **2.3.2.3 Threatened Misappropriation**

A plaintiff can carry its burden by proving actual or *threatened* misappropriation. *See* UTSA, § 2. Liability for threatened misappropriation is important because it can be impossible to restore the trade secret owner to its prior competitive advantage once the information is disclosed to the public. Courts cannot unring the bell or effectively order scrubbing of the Internet. The trade secret is often lost as regards third parties—individuals or entities outside of a contractual relationship with the trade secret owner—and if the market effects are large, the wrongdoer might not be in a financial position to compensate the trade secret owner for its loss. Consequently, trade secret enforcement should not and need not await the completion of misappropriation. Courts can act proactively, a topic to which we return in the discussion of remedies.

## **2.4 Whistleblower Immunity**

The DTSA *immunizes* whistleblowers from liability under federal and state trade secret law for disclosure of trade secrets, in confidence, to government officials and attorneys solely for the purpose of reporting or investigating a suspected violation of law. DTSA, § 7 (codified at 18 U.S.C. § 1833(b)(1)(A)). The provision also immunizes disclosure of trade secrets “in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal,” *id.* at § 1833(b)(1)(B). *See* Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1 (2017).

### **2.4.1 Crafting of the DTSA Whistleblower Immunity Provision**

This provision was crafted to address a challenging public policy problem: the threatening and filing of trade secret complaints against employees and contractors, as well as their counsel, who report allegations of illegal conduct to government law enforcement officials. Various studies showed the inherent risks of whistleblowing, including the ways in which corporations chill whistleblowing. *See* Menell, 105 CALIF. L. REV. at 37-44. Standard NDAs are broadly drafted, sweeping within its reach all corporate information that is not public and sternly proscribing any breach. As a result, potential whistleblowers were in an especially precarious position. They faced significant financial exposure compounded by severe career repercussions for reporting of illegal activity, a critically important check on corporate wrongdoing. Whistleblower counsel were also in a difficult situation of not knowing whether viewing allegedly incriminating documents for purposes of advising a client or sharing those documents with the government violated trade secret protections. At the same time, companies faced risks that an employee or contractor might disclose trade secrets that could get out into the public sphere, thereby destroying lawful and valuable trade secrets. That risk, however, can be addressed by confidentiality protections.

In drafting DTSA, Congress balanced these competing interests by *immunizing* from trade secret liability whistleblower disclosures to the government and their attorneys through confidential channels when done solely to report or investigate a suspected violation of law. This framework addresses trade secret owners’ concerns about public disclosure of their information in several ways. First, the DTSA whistleblower immunity provision does not authorize whistleblowers to disclose trade secret information to the public or use the information for purposes other than reporting or investigating a suspected violation of law. They cannot, for example, disclose trade secrets to the New York Times, upload them to publicly accessible

websites, share the information with competitors, or start a competing business without losing the immunity shield. Second, whistleblower laws—such as the federal FALSE CLAIMS ACT and SEC and IRS whistleblower provisions, and state analogs—require that complaints are filed confidentially<sup>2</sup> and that government employees are bound by confidentiality rules.<sup>3</sup> Thus, these statutes are meant to ensure that whistleblower complaints do not threaten trade secrecy. Furthermore, attorneys are bound by rules of professional conduct that prevent them from disclosing trade secret information improperly. They are also familiar with the use of protective orders to ensure the protection of trade secrets. The whistleblower immunity provision also prevents trade secret claimants from using trade secret actions against potential whistleblowers to engage in fishing expeditions into law enforcement investigations.

Thus, Congress established a balanced protective zone—a functional cone of silence. In the words of Senate Judiciary Committee Chairman Charles Grassley, a co-sponsor of the whistleblower immunity provision, “[t]oo often, individuals who come forward to report wrongdoing in the workplace are punished for simply telling the truth. The amendment I championed with Senator Leahy ensures that these whistleblowers won’t be slapped with allegations of trade secret theft when responsibly exposing misconduct. It’s another way we can prevent retaliation and even encourage people to speak out when they witness violations of the law.” See Press Release, Office of Senator Chuck Grassley, Leahy-Grassley Amendment Protecting Whistleblowers Earns Unanimous Support in Judiciary Committee (Jan. 28, 2016). Senator Leahy added that “[w]histleblowers serve an essential role in ensuring accountability. *It is important that whistleblowers have strong and effective avenues to come forward without fear of intimidation or retaliation.* The amendment I authored with Senator Grassley takes another important step in our bipartisan efforts to protect whistleblowers and promote accountability.” *Id.* (emphasis added).

Congress’s express grant of *immunity* rather than an affirmative defense is critical to employees’ protective zone. See Peter S. Menell, *The Defend Trade Secrets Act Whistleblower Immunity Provision: A Legislative History*, 1 BUS., ENTREPRENEURSHIP & TAX L. REV. 397 (2017) (hereinafter cited as “Menell, DTSA Legislative History”). The provision of immunity is based on the concern that corporations can “bully” and deter potential whistleblowers through the mere threat of costly trade secret litigation, regardless of whether it is ultimately successful. 162 Cong. Rec. S1636 (2016). Hence, the immunity provision requires courts to place the burden of proof on the trade secret owner seeking to impose liability on a potential whistleblower and resolve the applicability of the immunity provision expeditiously. Congress further reduced deterrence of and

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<sup>2</sup> See FALSE CLAIMS ACT, 31 U.S.C. § 3730(b)(2) (2012) (“The complaint shall be filed in camera, shall remain under seal for at least 60 days, and shall not be served on the defendant until the court so orders.”); DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT, 15 U.S.C. § 78u-6(h)(2) (2012) (providing that, subject to certain exceptions, “the Commission and any officer or employee of the Commission shall not disclose any information, including information provided by a whistleblower to the Commission, which could reasonably be expected to reveal the identity of a whistleblower,” and requiring other regulatory entities with which information is shared to also maintain the confidentiality of information).

<sup>3</sup> See 18 U.S.C. § 1905 (“Whoever, being an officer or employee of the United States or of any department or agency thereof, . . . or being an employee of a private sector organization who is or was assigned to an agency under chapter 37 of title 5, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties . . . shall be fined under this title, or imprisoned not more than one year, or both; and shall be removed from office or employment.”).



confusion over reporting allegedly illegal conduct by requiring companies to “provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” 18 U.S.C. § 1833(3)(A).

#### **2.4.2 Immunity Rather than Affirmative Defense**

The first reported case to address the DTSA whistleblower immunity provision treated the safe harbor as an affirmative defense and not an immunity. *See Unum Group v. Loftus*, 220 F.Supp.3d 143, 147 (D. Mass. 2016). That result appears to be contrary to Congressional intent and put the former employee who invoked the immunity protection in the type of precarious position the DTSA was designed to avoid. *See Peter S. Menell, Misconstruing Whistleblower Immunity Under the Defend Trade Secrets Act*, 1 NEV. L.J. F. 92, 97 (2017).

Unum Group, a Fortune 500 insurance company, hired Timothy Loftus in 1985 and promoted him to Director of Disability Insurance Benefits in 2004. In September 2016, Unum’s in-house counsel interviewed Loftus as part of an internal investigation of claims practices. Later that week, Loftus removed several boxes of information and a laptop computer from the Unum offices after usual business hours. Unum requested that Loftus return these materials. Loftus refused to return the documents, although he did return the laptop. Through his counsel, Loftus informed Unum that the documents “may be evidence or otherwise have a material bearing on certain matters which are the subject of both historical and current governmental inquiries concerning the business practices of Unum” and that the documents had been secured to prevent their destruction “pending both internal and apparent external investigations of misconduct at Unum.” On October 21, 2016, Loftus’ counsel informed Unum’s counsel that Loftus provided the documents to his counsel to obtain an “analysis of his legal position vis a vis his employer and the issue of his employer’s compliance with the regulatory settlement agreement to which it was a party.” Nonetheless, Unum sued Loftus for federal and state trade secret misappropriation as well as state law conversion.

Loftus filed a motion to dismiss the lawsuit on grounds of whistleblower immunity. Without providing any specific evidence, Unum Group challenged Loftus’s assertion and propounded discovery into a wide range of issues. Rather than assess whether Loftus enjoyed immunity from liability, the Court declined to dismiss the trade secret misappropriation claim and exposed Loftus to the full discovery and other burdens and risks that the DTSA eliminated.

As the U.S. Supreme Court has explained, the purpose of immunity is to extinguish liability before litigation gets underway, just as a vaccine immunizes the patient against disease, and thus differs from a “defense” to liability. In *Saucier v. Katz*, 533 U.S. 194, 200-01 (2001), a case applying qualified immunity to a claim that a Secret Service agent had used excessive force in removing a protester, the Court stated that immunity is not a “mere defense” to liability but an “immunity from suit.” The Court stressed that immunity issues must be resolved as early as possible based on the public policies animating the grant of immunity. In the context of qualified immunity, for example, the “concern of the immunity inquiry is to acknowledge that reasonable mistakes can be made as to the legal constraints on particular police conduct.” *Id.* at 205. Officers have difficulty in assessing the amount of force that is required in a particular circumstance. If their mistake as to “what the law requires is reasonable, however, the officer is entitled to the immunity defense.” *Id.* In the DTSA context, the purpose of the immunity is to eliminate the need for a whistleblower to undergo the expense and strain of defending a trade secret lawsuit and to prevent potential prosecutorial targets from using trade secret litigation to gain access to

confidential investigations. *See* § 2.4.1; Peter S. Menell, *The Defend Trade Secrets Act Whistleblower Immunity Provision: A Legislative History*, 1 BUS., ENTREPRENEURSHIP & TAX L. REV. 397, 420-24 (2017).

By treating the DTSA immunity as a mere affirmative defense and not as an immunity from suit, the *Loftus* decision undermined the public policies animating the DTSA's immunity designation. Although Unum Group had the right to challenge Loftus's assertion of immunity, it should have borne the burden of proof. If the Court had staged the case so as to avoid placing the whistleblower in the kind of circumstances that deterred whistleblowing prior to the DTSA, the result would have been more consistent with both statutory text and the legislative history of the DTSA.

Congress immunized employees and contractors from trade secret liability for consulting counsel and reporting allegedly illegal activity confidentially. Uncertainty about the existence, scope, and requirements of a public policy defense, *see* § 2.5.8, and imposing on lay whistleblowers the requirement of demonstrating that they provided only "relevant" information was viewed by the drafters as undermining the important public purpose of encouraging whistleblowers to come forward. *See* Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1, 129-36, 146, 154 (2017) (discussing the amorphous state of traditional trade secret law's public policy exception, the difficulty for whistleblowers of screening documents under exigent circumstances, and the resulting Catch-22 for whistleblowers; recommending that the safe harbor be structured as an immunity from liability); Peter S. Menell, *The Defend Trade Secrets Act Whistleblower Immunity Provision: A Legislative History*, 1 BUS., ENTREPRENEURSHIP & TAX L. REV. 397, 423 (2017) (quoting Senators Grassley and Leahy emphasizing the need to ensure that "whistleblowers have strong and effective avenues to come forward without fear of intimidation or retaliation").

The DTSA regime, which provides employees and contractors a clear, straightforward, and reasonable procedure for consulting counsel, promotes the public interest in encouraging law enforcement and ferreting out corporate fraud while providing appropriate protection for legitimate trade secrets. Under the approach taken in *Loftus*, by contrast, any trade secret owner can require a whistleblower to defend a trade secret lawsuit merely by alleging that there is a dispute over the employee's motivation for providing trade secret documents to their attorney.

A further problem created by treating the whistleblower immunity as an affirmative defense is that it may undermine government investigatory policies. The False Claims Act authorizes whistleblowers to file lawsuits in the name of the government to redress fraud against the government but requires the whistleblowers to first file their complaint under seal and serve it on the government, not the defendant, and to provide the government all material evidence and information in their possession supporting their allegations. 31 U.S.C. § 3730(b)(2). The purpose of the seal is to protect the government's investigation, *see State Farm Fire & Cas. Co. v. United States ex rel. Rigsby*, 137 S.Ct. 436, 443 (2016), which routinely (and ideally) occurs without notice to the defendant. *See* CLAIRE M. SYLVIA, *THE FALSE CLAIMS ACT, FRAUD AGAINST THE GOVERNMENT* § 11:11 (3rd ed. 2016 & Supp.) State false claims act cases are typically initiated the same way. *See id.* at §§ 12.1 to 12.2. Similarly, SEC, CFTC and IRS whistleblower investigations are initiated in confidence and without notice to the defendant that a whistleblower initiated the matter. *See id.* at §§ 2:25, 2:28, 2:29. Enabling the target of an investigation to use a trade secret case against a potential whistleblower to gain discovery about a potentially sealed

complaint is thus contrary to the balance Congress has chosen in several contexts, including the DTSA.

The predicate for a whistleblower's immunity will rarely be part of the plaintiff's trade secret claimant's complaint against the whistleblower. Hence, courts should expect the issue to be raised by the defendant whistleblower in a motion to dismiss and should look favorably on such a motion unless the trade secret owner presents credible factual allegations that the defendant does not qualify for the immunity. And if such allegations are made, the Court should stage the litigation to avoid imposing undue burdens on a defendant who may ultimately qualify for the immunity. Section 3.5.2 delves into effective ways of managing invocation of whistleblower immunity.

## **2.5 Defenses**

Although the UTSA contains only one express defense to trade secret liability, a statute of limitations, the definition of misappropriation requires the trade secret owner to prove that the defendant either acquired the trade secret by improper means or, more commonly, through a breach of confidence. Thus, a defendant can avoid liability to the extent it can show that it arrived at the trade secret information through any proper means—most notably, independent discovery or reverse engineering. A defendant may also assert other common affirmative defenses to a trade secret misappropriation claim, including that the trade secret is readily ascertainable, statute of limitations, laches, unclean hands, *res judicata*, collateral estoppel, or a public policy exception. In addition, the DTSA preserves state protections of employee mobility.

### **2.5.1 Independent Discovery**

Independent discovery is a defense to a trade secret misappropriation claim on which the defendant bears the burden of proof, similar to reverse engineering. *See* § 2.4.2. The DTSA expressly provides that independent invention is not an improper means of acquiring a trade secret. 18 U.S.C. § 1839(6)(B); *see also Raytheon Co. v. Indigo Sys. Corp.*, 895 F.3d 1333 (Fed. Cir. 2018) (crediting evidence of independent invention by a former employee after he left plaintiff's employ); RESTAT. (THIRD) UNFAIR COMP. § 43 ("Independent discovery and analysis of publicly available products or information are not improper means of acquisition.").

The first time a trade secret is rediscovered, there are two owners of the same trade secret; as rediscovery is repeated, the number of owners grows (and with it the risk of loss through deliberate or accidental public disclosure), until so many possess the same secret that it can no longer qualify as such because it is deemed generally known. Along the way, with each independent discovery, the secret is diminished in value simply because it enjoys a lesser degree of exclusive control.

To be "independent" in this context, acquisition of the secret must not be derived from knowledge gained in confidence, directly or indirectly, from the secret's owner, or from knowledge gained by espionage or other improper means. In general, independent discovery occurs in one of two ways: either the new discoverer was engaged in a similar business or research and its parallel path happened to lead to the same place; or a competitor decided to "reverse engineer" the secret from publicly available information or products. Either way, the result is that the new discoverer has acquired its own information and is not liable to the original owner and is under no legal requirement to keep the information secret.

### **2.5.2 Reverse Engineering**

Reverse engineering—defined as “starting with the known product and working backward to divine the process which aided in its development or manufacture,” *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974)—is widely accepted as a legitimate means of discovery of trade secret information. In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 160-61 (1989), the Supreme Court preempted a Florida statute prohibiting “plug molding” of boat hulls in part on the ground that it interfered with federal patent law. The Court recognized that reverse engineering is “an essential part of innovation” and concludes that any state law that discourages reverse engineering necessarily “reduces this competitive incentive.” *Id.* The DTSA expressly provides that reverse engineering is not an improper means of acquiring a trade secret. 18 U.S.C. § 1839(6)(B).

Thus, the legitimacy of reverse engineering should be viewed not as an unfortunate limitation on trade secret protection, but rather, as an indispensable element of a balanced regime law without which state trade secret law would likely be preempted by patent law. *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (viewing state trade secret protection as complementary with federal patent protection). In *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 405 (9th Cir. 1982), the Court reversed an injunction against the publication of tubular lock codes assembled over time by locksmiths in creating new keys for owners. In rejecting the suggestion that the lock owners were impliedly required not to disclose this information, the Court explained that “such an implied obligation . . . would, in effect, convert the Company’s trade secret into a state-conferred monopoly akin to the absolute protection that a federal patent affords.” *Id.* As the Court noted in *Bonito Boats*, the threat of legitimate reverse engineering encourages inventors to make innovations that could qualify for patenting, and refusing to allow reverse engineering as a defense in trade secrets would reduce competition. *See* 489 U.S. at 164 (1989).

It should therefore be clear that reverse engineering is not equivalent to simply “copying.” Although copying aspects of a product may be the ultimate objective, the fundamental purpose of reverse engineering is discovery, albeit discovery of a path already taken. Importantly, the reverse engineer is entitled to protect the results of his or her work as its own trade secret. *See* UTSA § 1, comment at 14 U.L.A. 439 (“[I]f reverse engineering is lengthy and expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering.”).

In order to avoid accusations of misappropriation while reverse engineering, companies will often engage in clean room protocols. *See* P. Anthony Sammi, Christopher A. Lisy & Andrew Gish, *Good Clean Fun: Using Clean Room Procedures in Intellectual Property Litigation*, 25 INTELL. PROP. & TECH. L.J. 3, 6 (2013). These clean room protocols include defining specifications so that the research team does not use any protected information, creating a research design where the team is isolated from any protected information and thoroughly documents its independent research efforts, and establishing a coordination team to screen information as it goes in and out of the clean room, thoroughly documenting information that is passed in and out.

It is critical, however, that the entity pursuing a reverse engineering strategy acquire the product (including software) that is the target of reverse engineering through “fair and honest means, such as purchase of the item on the open market.” UTSA § 1, comment at 14 U.L.A. 438; *see also Kadant, Inc. v. Seeley Mach., Inc.*, 244 F.Supp.2d 19, 38 (N.D.N.Y. 2003) (finding that reverse engineering is permissible “so long as the means used to get the information necessary to reverse engineer is in the public domain, and not through [a] confidential relationship with the

maker or owner of the product”); *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992) (enjoining use of reverse engineered software program that was based on sourced code obtained under false pretenses from the Copyright Office). Thus, gathering information through unauthorized entry into a computer system is not an acceptable means for reverse engineering parts of the system. *See, e.g., Telerate Sys., Inc. v. Caro*, 689 F.Supp. 221, 233 (S.D.N.Y. 1988) (connection to customer’s computer violated license agreement); *Technicon Data Sys. Corp. v. Curtis 1000, Inc.*, 224 U.S.P.Q. (BNA) 286, 288 (Del. Ch. 1984). Moreover, a properly designed and executed reverse engineering project can become irretrievably corrupted by the introduction of improperly procured information.

A second important caveat is that the process of reverse engineering must not infringe any other rights of the original trade secret owner. For example, if by taking apart a product one “discovers” its design or method of manufacture, this establishes no right to use the information if to do so would infringe a valid patent. The same is true of rights under trademark<sup>4</sup> and copyright.<sup>5</sup>

Several courts have held that parties to a commercial contract may agree not to reverse engineer a product or system. *See, e.g., Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003) (considering mutual consent as an “extra element” negating copyright preemption); *Creative Snacks, Co. v. Hello Delicious Brands LLC*, 2018 U.S. Dist. LEXIS 53852, at \*18 (M.D.N.C. Mar. 30, 2018) (granting preliminary injunction against reverse engineering in violation of purchase contract). *But see Aqua Connect, Inc. v. Code Rebel, LLC*, 2012 WL 469737, at \*2 (C.D. Cal. Feb. 13, 2012) (refusing to enforce End User Licensing Agreement provision prohibiting reverse engineering as violative of CAL. CIV. CODE § 3426.1 (stating that “[r]everse engineering alone shall not be considered improper means”). This is an important issue not only for those who are parties to such contracts, typically as licensees of the trade secret owner, but also for those who might engage in reverse engineering with the assistance of others who are contractually bound, thereby risking claims of misappropriation or interference. *See, e.g., Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 785 (5th Cir. 1999) (holding that it was improper to obtain copy of secret software by misleading customer of trade secret owner to believe that maintenance was being performed); *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999) (same).

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<sup>4</sup> *See Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1528 (9th Cir. 1992) (noting that the rights owner in effect had provoked trademark “infringement” by requiring code that would necessarily trigger screen display of its trademark, but nonetheless declining to find trademark infringement on functionality grounds).

<sup>5</sup> *See Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992). Nonetheless, courts have authorized the copying of entire computer programs for purposes of deciphering unprotectable code elements and reverse engineering noninfringing programs. *See Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520–27 (9th Cir. 1993); *Sony Comput. Ent., Inc. v. Connectix Corp.*, 203 F.3d 596, 606 (9th Cir. 2000). Congress has partially codified this ruling in the DIGITAL MILLENNIUM COPYRIGHT ACT. 17 U.S.C. § 1201(f)(1) (crafting an exception to copyright law’s ban of circumvention of technological protection measures authorizing “a person who has lawfully obtained the right to use a copy of a computer program [to] [] circumvent a technological measure that effectively controls access to a particular portion of that program for the sole purpose of identifying and analyzing those elements of the program that are necessary to achieve interoperability of an independently created computer program with other programs”).

Notwithstanding the viability of the reverse engineering defense, “theoretical” reverse engineering (this is how the defendant *could* have done it) is not a defense to a claim of misappropriation. *See Smith v. Dravo Corp.*, 203 F.2d 369, 374 (7th Cir. 1953) (“Pennsylvania will not deny recovery merely because the design could have been obtained through inspection. Rather, the inquiry in that jurisdiction appears to be: How did defendant learn of plaintiffs’ design?”); *Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953) (“It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs’ publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs’ detriment.”). A defendant can, however, argue that the alleged trade secret was readily ascertainable, which would negate the existence of the trade secret. *See MEI-GSR Holdings, LLC v. Peppermill Casinos, Inc.*, 416 P.3d 249, 254 (Nev. 2018) (rejecting jury instruction that would allow finding of misappropriation of readily ascertainable information if it had been acquired by improper means). Thus, the ease of reverse engineering could serve to undermine the trade secret claim.

### 2.5.3 Readily Ascertainable

As noted in the definition of a trade secret, information that is “*readily ascertainable* by proper means” does not qualify for trade secret protection. UTSA § 1(4)(i). In most jurisdictions, the plaintiff must establish the elements of trade secret protection as part of its prima facie case. In California, however, the defendant bears the burden of proving as an affirmative defense that an alleged trade secret is readily ascertainable. CAL. CIV. CODE § 3426.2(d). California dropped the “not readily ascertainable” standard from the definition of a trade secret because it was thought that proving this negative would put too great a burden on the owner; but the official comments to the statute make it clear that the identical standard is available to the defendant as an affirmative defense. *See James Pooley, The Uniform Trade Secrets Act: California Civil Code § 3426*, 1 SANTA CLARA HIGH TECH L.J. 193, 198–99 (1985); *Syngenta Crop Prot., Inc. v. Helliker*, 138 Cal.App.4th 1135, 1172, 42 Cal.Rptr. 3d 191, 218 (2006) (assuming that ready ascertainability forms part of the analysis of what qualifies as a trade secret). *But see Abba Rubber Co. v. Seaquist*, 235 Cal.App.3d 1, 21 n.9, 286 Cal.Rptr. 518, 529 n.9 (1991) (noting the official comment, but erroneously observing that “under California law, information can be a trade secret even though it is readily ascertainable,” and that “ease of ascertainability is irrelevant to the definition of a trade secret”).

As a practical matter, defendants must typically raise the contention that the alleged trade secret is readily ascertainable. Where the trade secret is not publicly disclosed, the Court must assess whether the information is readily ascertainable. As noted in § 2.2, this question can be seen as the flip side of reverse engineering. Even if the defendant did not reverse engineer the alleged trade secret through proper means, the information may be so easily deciphered that it is “readily ascertainable,” thereby negating the existence of trade secrecy.

A secret that is less than impenetrable may nonetheless be exceedingly difficult and time consuming to “reverse engineer,” and such difficulty can establish a protectable trade secret. The real problem lies in defining the point along the spectrum at which the time and effort involved in figuring out the formula or recreating the list is so trivial that the law should not recognize the information as a protectable trade secret. This area—which represents the zone of “ready ascertainability”—has inherently fuzzy boundaries. The Prefatory Note to the UTSA refers to *Wesley-Jessen, Inc. v. Reynolds*, 182 U.S.P.Q. 135, 145 (N.D. Ill. 1974), in which relief was denied

because the claimed secret could be discovered from the marketed product (a camera) “by an engineer in a couple of days of study.” The concept is described further in the official comments to UTSA, but no definitive yardstick is provided. The RESTATEMENT addresses the subject in similarly vague terms. *See* RESTAT. (THIRD) UNFAIR COMP. § 39, comment f (stating that information “contained in published materials reasonably accessible to competitors” or “readily ascertainable from an examination of a product on public sale or display” does not qualify as a secret). As to accessibility of publications, the Reporters’ Note states that presence of the information in obscure publications might not be enough to defeat secrecy.

In making this assessment, courts do not look to the general public, but rather those within the trade, i.e., those who can benefit from the information and are often best positioned to ascertain the information. *See Precision Moulding & Frame, Inc. v. Simpson Door Co.*, 888 P.2d 1239, 1243 (Wash. Ct. App. 1995). Nonetheless, a defendant cannot escape liability by confining the group to “persons involved in a particular application of certain information or a particular process.” *Id.*

Courts routinely consider circumstantial evidence in assessing if information is “readily ascertainable.” For example, the precautions taken by the plaintiff to protect the information are relevant to the issue. *See Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179 (7th Cir. 1991). The apparent inability of potential competitors to duplicate the information, *see Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163, 170 (5th Cir. 1969), as well as the willingness of others to pay for it, *see Clark v. Bunker*, 453 F.2d 1006, 1010 (9th Cir. 1972), may be considered. An inference of secrecy may also be drawn from the fact that the defendant resorted to improper means to obtain the information. *See* RESTAT. (THIRD) UNFAIR COMP. § 39, comment f (“When a defendant has engaged in egregious conduct in order to acquire the information, the inference that the information is sufficiently inaccessible to qualify for protection as a trade secret is particularly strong.”); *Clark*, 453 F.2d at 1010 (9th Cir. 1972).

#### **2.5.4 Statute of Limitations**

In most states that have enacted the UTSA, as well as under the DTSA, the trade secret owner must file their trade secret complaint within three years from the date of actual discovery of the misappropriation, or from the time that in the exercise of reasonable diligence, it should have been discovered. UTSA § 6. Some states have enacted longer statute of limitations periods. *See, e.g.*, ME. REV. STAT. ANN. tit. 10, § 1547 (four years in Maine); 765 ILL. COMP. STAT. 1065/7 (five years in Illinois); Ala. CODE §8-27-5 (two years).

The UTSA codifies the common law “discovery rule” exception, which operates to toll the statute until the plaintiff has become aware of “enough suspicious circumstances that would lead a reasonably prudent person to discover the harm.” *Mass. Eye & Ear Infirmary v. QLT Phototherapeutics, Inc.*, 412 F.3d 215, 239–40 (1st Cir. 2005). Similarly, a defendant’s deliberate concealment of the relevant facts should operate to extend the limitations period. *See Telex Corp. v. Int’l Bus. Machs. Corp.*, 367 F.Supp. 258, 360 (N.D. Okla. 1973). However, tolling requires more than the trade secret holder’s unilateral expectation of licensing; if the defendant has only indicated that it was reviewing submitted materials, there is no basis for a claim that the plaintiff was “lulled into not filing suit.” *GeoVector Corp. v. Samsung Elecs. Co.*, 234 F.Supp.3d 1009, 1015 (N.D. Cal. 2017). Indeed, absent a defendant’s active concealment, constructive notice may be sufficient to begin the statutory period. *See Informatics Applications Grp., Inc. v. Shkolnikov*, 836 F.Supp.2d 400, 421–22 (E.D. Va. 2011) (holding that publication of a patent application constitutes constructive knowledge for purposes of discovering a claim based on misappropriation).

of trade secrets and commences the statute of limitations). However, in *Raytheon Co. v. Indigo Systems Corp.*, the Court held that past suspicions of raiding employees and the termination of a consulting relationship between the parties did not, as a matter of law, put the plaintiff on “permanent inquiry notice” or impose “a constant duty to investigate all acts of competition by [the defendant] for evidence of misappropriation.” 688 F.3d 1311, 1318 (Fed. Cir. 2012).

The UTSA and the DTSA reject the concept of misappropriation as a “continuing tort,” where the limitations period begins to run again each time the defendant engages in a new act of unauthorized use or disclosure. *Cf. Twister B.V. v. Newton Rsch. Partners, LP*, 364 S.W.3d 428, 439 (Tex. App. 2012); *see also* 18 U.S.C. § 1836(d). Rather, the limitations period runs from the first of a continuing series of misappropriations. *See, e.g., Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292–93 (9th Cir. 1969) (“The fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated.”); *Cadence Design Sys., Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 223, 57 P.3d 647, 651, 127 Cal.Rptr.2d 169, 174 (2002) (distinguishing “claim” from “misappropriation”: the latter can occur multiple times, enhancing the value of the former, but “a claim for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once” (emphasis in original); an additional misappropriation in the same relationship does not reset the limitations clock). New York is the one state that has does employ the continuing tort theory. *See, e.g., Andrew Greenberg, Inc. v. Svane, Inc.*, 830 N.Y.S.2d 358, 362 (N.Y. 2007) (“We further reject defendants’ argument that plaintiff’s cause of action against the individual defendants for misappropriation of trade secrets is barred by the statute of limitations . . . [D]efendants concede that a continuing tort theory may apply to such a claim where the plaintiff alleges that a defendant has kept a secret confidential but continued to use it for commercial advantage.”).

Where the single claim approach is applied, a plaintiff pursuing multiple defendants has one claim for each such defendant, rather than a single claim (and single statute of limitations) for all defendants together. *Cypress Semiconductor Corp. v. Superior Ct.*, 163 Cal.App.4th 575, 583–84, 77 Cal.Rptr. 3d 685, 691 (2008). The triggering event against each such defendant turns on the plaintiff’s knowledge, not the state of mind of each separate defendant. *Id.* at 693. However, where a plaintiff has more than one trade secret claim against a single defendant and the claims are related, the statute begins to run on all the separate claims at the same time. *HiRel Connectors, Inc. v. United States*, 465 F.Supp. 2d 984, 988 (C.D. Cal. 2005) (applying California UTSA).

Sections 3.4.1.3.6 3.4.2.2 and 7.3.3.1 discuss case management of statute of limitations defenses.

### 2.5.5 Laches

Closely related to the statute of limitations defense is laches, which, as an equitable defense, depends on the particular circumstances of the case. Its essential elements are inexcusable delay in bringing suit and (unlike the statute of limitations) prejudice to the defendant as a result. *See Anaconda Co. v. Metric Tool & Die Co.*, 485 F.Supp. 410, 427 (E.D. Pa. 1980); *FMC Corp. v. Spurlin*, 596 F.Supp. 609, 615 (W.D. Pa. 1984). Recent Supreme Court decisions arguably nullify the application of the laches doctrine under the DTSA. *See SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 580 U.S. 328 (2017) (holding that laches cannot be asserted as a defense against damages for alleged infringement that occurred within the PATENT ACT’s six-year limitations period); *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663 (2014) (holding that



laches could not be invoked to preclude adjudication of a claim for damages brought within the COPYRIGHT ACT's three-year limitations period).

### **2.5.6 Unclean Hands**

Unclean hands is often asserted as an affirmative defense to trade secret misappropriation, perhaps reflecting a lack of understanding that this discretionary equitable doctrine applies only to conduct that is closely related to the matter alleged in the complaint. For example, it is not appropriate to deny plaintiff relief for trade secret misappropriation because it requires its employees to sign contracts that contain unenforceable non-competition covenants. *See Winston Rsch. Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 140 n.4 (9th Cir. 1965). Nor may the defense be based on the contention that the plaintiff "wrongfully terminated" the defendant. *See Vacco Indus., Inc. v. Van Den Berg*, 5 Cal.App.4th 34, 53, 6 Cal.Rptr.2d 602, 613 (Cal. App. 1992).

But the defense may be invoked when the plaintiff has engaged in the same type of unfair competition that is the basis of its complaint against the defendant. *See, e.g., Future Plastics, Inc. v. Ware Shoals Plastics, Inc.*, 340 F.Supp. 1376, 1384 (D.S.C. 1972) (questioning whether the plaintiff Impact should "be allowed to enjoin the defendants from committing the same acts of which it has been guilty," given that "Impact was conceived in the same sin of which it now accuses the defendants"). *But see MicroStrategy, Inc. v. Bus Objects, S.A.*, 331 F.Supp.2d 396, 419 (E.D. Va. 2004) ("The proper rule is not simply one of hypocrisy or general bad character. It is not enough to claim that the opposing party engaged in similar conduct at some point in the past. Instead, the inequitable conduct must concern the actual events at issue.").

### **2.5.7 Res Judicata or Collateral Estoppel**

*Res judicata* or collateral estoppel bars a plaintiff who has unsuccessfully asserted similar claims against the defendant or one with whom the defendant is in privity from re-asserting those claims. *See Cisco Sys., Inc. v. Alcatel USA, Inc.*, 301 F.Supp.2d 599 (E.D. Tex. 2004) (plaintiff that lost on trade secrets claim barred from new suit asking for declaratory judgment of "ownership" of allegedly misappropriated software). However, for the defense to be effective, the second case must effectively involve the same claims and parties as the first. *See Russo v. Baxter Healthcare Corp.*, 919 F.Supp. 565 (D.R.I. 1996).

In deciding whether the claim has been previously litigated, courts may employ the same analysis and rationale as in cases involving whether the matter involves a "continuing tort" for statute of limitations purposes. *See Sec. People, Inc. v. Medeco Sec. Locks, Inc.*, 59 F.Supp.2d 1040, 1043 (N.D. Cal. 1999); *see also Allied Erecting & Dismantling Co. v. Genesis Equip. & Mfg.*, 805 F.3d 701, 708 (6th Cir. 2015) (affirming dismissal of claim based on later misappropriation of same secrets involved in earlier litigation).

Increasingly, trade secret litigation may occur in foreign courts. Judgments from other countries may be given *res judicata* effect by U.S. courts under the doctrine of comity. *LG Display Co. v. Obayashi Seikou Co.*, 919 F.Supp.2d 17 (D.D.C. 2013) (Korean Supreme Court judgment recognized with respect to subsequent trade secret litigation filed in United States because plaintiff had full and fair opportunity to litigate its claims in Korea).

### **2.5.8 Public Policy Exception**

Although the UTSA lacks any express exceptions to trade secret liability, *see* UTSA § I(A)(3), courts have long recognized that trade secret protection can “implicate the interest in freedom of expression or advance another significant public interest,” RESTAT. (THIRD) UNFAIR COMP. § 40, comment c, and developed a limited privilege to disclose trade secrets. *See* DAVID W. QUINTO & STUART H. SINGER, 1 TRADE SECRETS: LAW AND PRACTICE § 3.02; MELVIN F. JAGER, TRADE SECRETS LAW § 3.14 (2013); JERRY COHEN & ALAN S. GUTTERMAN, TRADE SECRETS PROTECTION AND EXPLOITATION (1997).<sup>6</sup> This privilege, however, is murky. The RESTATEMENT (THIRD) OF UNFAIR COMPETITION notes that the exception

depends upon the circumstances of the particular case, including the nature of the information, the purpose of the disclosure, and the means by which the actor acquired the information. A privilege is likely to be recognized, for example, in connection with the disclosure of information that is relevant to public health or safety, or to the commission of a crime or tort, or to other matters of substantial public concern.

RESTAT. (THIRD) UNFAIR COMP. § 40, comment c.

Although as noted a privilege is likely to be recognized in certain circumstances involving areas of substantial public concern, one might expect a Court to examine such a claim skeptically, and to reject it if the defendant’s motivation was primarily to protect a private interest. *See Merckle GmbH v. Johnson & Johnson*, 961 F.Supp. 721, 733 (D.N.J. 1997) (holding that disclosure of information to foreign court as part of patent infringement claim was not subject to privilege, even though the public might have a general interest in protecting valid patents). *But cf. Southwestern Energy Co. v. Eickenhorst*, 955 F.Supp. 1078, 1084 (W.D. Ark. 1997) (holding that attorney’s filing of litigation based on information obtained from confidential pre-suit settlement discussions was not a “competitive use” and therefore not an act of misappropriation).

In addition to this general public policy exception, DTSA’s whistleblower immunity provision, discussed in § 2.4, provides a categorical exemption for employees or contractors subject to NDAs to disclose information “in confidence to a Federal, State, or local government official,” “or to any attorney” “solely for the purpose of reporting or investigating a suspected violation of law,” 18 U.S.C. § 1833(b)(1)(A), or “is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal,” *id.* § 1833(b)(1)(B). This provision nullifies cases such as *Cafasso, United States ex rel. v. General Dynamics C4 Systems, Inc.*, 637 F.3d 1047, 1062 (9th Cir. 2011), *JDS Uniphase Corp. v. Jennings*, 473 F.Supp.2d 697, 702 (E.D. Va. 2007), and *Jefferies v. Harris County Community Action Ass’n*, 615 F.2d 1025, 1036 (5th Cir. 1980), that required “that the employee conduct be reasonable in light of the circumstances,” *Jefferies*, 615 F.2d at 1036, and “held that the employer’s right to run his business must be balanced against the rights of the employee to express his grievances and promote his own welfare,” *id.* at 1036 (internal quotation marks omitted). *See also X Corp. v. Doe*, 805 F.Supp. 1298 (E.D. Va. 1992), *aff’d*, 17 F.3d 1435 (4th Cir. 1994) (using a balance-of-hardship test when deciding whether to grant a preliminary injunction against the disclosure of documents by former in-house counsel filing FALSE CLAIMS ACT claim).

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<sup>6</sup> Some other nations expressly provide for a public policy exception. *See, e.g.*, Israel Commercial Torts Law, § 7(2)(2), 5759-1999 (“A person shall not be liable for misappropriation of a trade secret if . . . [u]se of the trade secret is justified as a matter of public policy.”).

### 2.5.9 Improper Limitations on Employee Mobility

Although both the UTSA and the DTSA provide that “actual or threatened misappropriation” may be enjoined, courts in some states have interpreted the UTSA as allowing injunctions based on the so-called “inevitable disclosure” doctrine, which in its benign form is nothing more than an application of “threatened misappropriation” in which a departing employee’s behavior justifies the inference that they cannot be trusted to maintain confidentiality. *See PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1270 (7th Cir. 1995) (finding that district court’s preliminary injunction prohibiting a senior executive from assuming a directly competitive position for six months was not an abuse of discretion where, among other things, executive was found to have engaged in “out and out lies” about his intended role in shaping new organization’s competitive, stating that: “PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game” but also observing that “the facts of the case do not ineluctably dictate the district court’s conclusion”); *cf. Molon Motor and Coil Corporation v. Nidec Motor Corp.*, 2017 WL 1954531, at \*5 n.13 (N.D. Ill. May 11, 2017) (noting in discussing the so-called “inevitable disclosure” doctrine that “calling a line of reasoning a ‘doctrine’ poses the risk of ossifying the ‘factors’ into a rigid test”). The “inevitable disclosure” language is used by some courts to summarize evidentiary showings pointing to an ongoing imminent risk of “threatened misappropriation.” These showings are almost always based in part on improper acts and not simply information that an individual knows.

In its more controversial form, “inevitable disclosure” is decoupled from the employee’s actual behavior and is used when seeking injunctive relief against the abstract risk that when an employee who knows trade secrets moves to a close competitor the mere similarity of roles necessarily imperils secrecy. Whether called “inevitable disclosure” or “threatened misappropriation,” under the DTSA, enjoining a former employee from working even in a directly competing business is prohibited without specific evidence of threatened misappropriation. The DTSA provides that a Court may not “prevent a person from entering into an employment relationship,” and requires “that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.” 18 U.S.C. § 1836(b)(3)(A)(i)(I). *See United Healthcare Servs., Inc. v. Louro*, No. 20-2696 (JRT/ECW), 2021 WL 533680, at \*5 (D. Minn. Feb. 12, 2021) (emphasizing that to win on an application for a preliminary injunction to prevent “threatened” misappropriation under an “inevitable disclosure” theory, the moving party must show that there is a “high degree of probability” of inevitable disclosure and that “Mere knowledge of a trade secret is not enough, even where the person with such knowledge takes a comparable position with a competitor,” (citation omitted), enumerating factors to consider and concluding that under both the UTSA and the DTSA, plaintiff’s showings “do not meet the high bar for inevitable disclosure.”).

Injunctions limiting employment in light of evidence of “threatened” misappropriation, however, are available under the DTSA. *See Waymo LLC v. Uber Techs.*, 2017 WL 2123560, at \*10-\*13 (N.D. Cal. May 11, 2017) (limiting particular employment activities based on specific evidentiary findings found to establish threatened misappropriation).

Because the civil enforcement section of the DTSA “does not preempt any other provision of law,” 18 U.S.C. § 1836(f), a trade secret owner may assert and present evidence to support the application of the “inevitable disclosure doctrine” in those states that recognize it under the UTSA. Section 2.6.1.1 explores this doctrine further in discussing trade secret remedies. Sections 5.2 and

5.8 delve into the evidence and factual showings pointing toward and away from a finding of imminent threatened misappropriation sufficient to support a claim for pre-trial injunctive relief.

## **2.6 Remedies**

The UTSA and the DTSA provide a broad array of injunctive, compensatory, and exemplary remedies.

### **2.6.1 Injunctive Relief**

The UTSA and the DTSA authorizes injunctive relief to address actual or threatened misappropriation. UTSA § 2; DTSA, 18 U.S.C. § 1836 (3)(A). As noted previously, *see* § 2.3.2.3, proactive trade secret remedies can be especially important due to the evanescence of trade secret protection. It is useful, therefore, to begin this section with deeper examination of the “inevitable disclosure” doctrine.

#### **2.6.1.1 “Inevitable Disclosure” Doctrine**

As discussed in § 2.5.9, the so-called “inevitable disclosure” doctrine anticipates that key employees exposed to valuable trade secrets may under some circumstances will be unable to work at competitive enterprises without necessarily making use of or disclosing trade secrets. *See Nat. Starch Chem. v. Parker Chem.*, 219 N.J. Super. 158 (App. Div. 1987) (affirming injunction prohibiting employee who did not have a non-compete agreement from engaging in the 5% of his assigned employment found likely to require him to necessarily use trade secrets); JAMES POOLEY, TRADE SECRETS: LAW AND PRACTICE § 2.09[2][c] (cataloguing states that have applied or rejected the inevitable disclosure doctrine). It functions as a form of implicit non-compete agreement.

Some cases after the decision in *PepsiCo v. Redmond* entered preliminary injunctions enjoining competitive employment absent either proof of trade secret misappropriation or an enforceable non-competition agreement. *See Uncle B’s Bakery, Inc. v. O’Rourke*, 920 F.Supp. 1405 (N.D. Iowa 1996) (citing *PepsiCo* with approval and entering preliminary injunction enjoining former plant manager at a bagel manufacturer from working for any competing business within a 500-mile radius); *Avery Dennison Corp. v. Finkle*, 2002 WL 241284 (Conn.Super. Feb. 1, 2002) (enjoining executive who knew plaintiff’s trade secrets from continuing executive employment with competitor, conditioned on payment by plaintiff). Courts have also granted preliminary relief barring competitive employment in the absence of a non-compete agreement for a limited time where evidence showed actual misappropriation. *See, Novell Inc. v. Timpanogos Rsch. Grp.*, 46 U.S.P.Q.2d 1197 (D. Utah 1998) (preliminarily enjoining employee from working for competitor for nine months, reasoning that the secrets likely to be disclosed would turn stale over time; evidence showed that employee had willfully used and disclosed trade secrets and attempted to cover up evidence of these acts). At least one Court has adopted what might be called a “partial inevitable disclosure” injunction. In *Merck & Co. v. Lyon*, 941 F.Supp. 1443 (M.D.N.C. 1996), the Court enjoined a pharmaceutical marketing director from discussing his former employer’s products or pricing for a period of two years, but refused to enjoin him from competing employment altogether absent a “showing of bad faith.”

Other courts, particularly, but not limited to, those in California, reject “inevitable disclosure” altogether absent affirmative proof that absent an injunction disclosure of trade secrets is “threatened.” The California Court of Appeals emphasized that the doctrine “is contrary to California law and policy because it creates an after-the-fact covenant not to compete restricting

employee mobility.” *Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443, 1447 (Cal. Ct. App. 2002). The court further explained that the doctrine

permits an employer to enjoin the former employee without proof of the employee’s actual or threatened use of trade secrets based upon an inference (based in turn upon circumstantial evidence) that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is not merely an injunction against the use of trade secrets, but an injunction restricting employment.

*Id.* at 1461-62; *see Earthweb, Inc. v. Schlack*, 71 F.Supp.2d 199, 310-311 (S.D.N.Y. 1999) (finding that the inevitable disclosure doctrine treads “an exceedingly narrow path through judicially disfavored territory,” and that absent evidence of actual misappropriation by an employee, “the doctrine should be applied only in the rarest of cases.”); *Campbell Soup Co. v. Giles*, 47 F.3d 467, 472 (1st Cir. 1995) (denying requested preliminary injunction, noting that the former employee was unlikely to disclose the trade secrets and that the record contained no indication that he was dishonest or inclined to breach the NDA); *Holton v. Physician Oncology Servs.*, 742 S.E.2d 702, 705-06 (Ga. S.Ct. 2013) (discussing criticisms of the inevitable disclosure doctrine and holding that “that the inevitable disclosure doctrine is not an independent claim under which a trial court may enjoin an employee from working for an employer or disclosing trade secrets”).

As discussed in § 2.5.9, the DTSA declines to adopt an inevitable disclosure rule that would override the public policy of states favoring employee mobility. *See* S. REP. NO. 114-220, 114th Cong., 2d Sess., DEFEND TRADE SECRETS ACT OF 2016 12 n.12 (2016). To avoid doing so, the DTSA requires that proof of threatened future misappropriation be based on evidence of conduct and intent and not simply inferred from the employee’s position or knowledge. 18 U.S.C. §1836(b)(3)(A)(i). That section provides that a court may:

(A) grant an injunction

(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not

(I) prevent a person from entering into an employment relationship, and that the conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or

(II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.

The SENATE REPORT explains that “[t]hese limitations on injunctive relief were included to protect employee mobility, as some have expressed concern that the injunctive relief authorized under the bill could override State-law limitations that safeguard employee mobility and thus could be a substantial departure from existing law in those states.” S. REP., S. 1890 at 12. As noted in § 2.5.9, however, the DTSA does not preempt the UTSA and hence courts can continue to apply the doctrine in fashioning remedies for violations of state trade secret causes of action.

Sections 5.2 and 5.8 discuss the availability of preliminary injunctive relief to prevent actual, threatened, or inevitable misappropriation and summarize evidence supporting or pointing away from a finding of “threatened misappropriation” warranting relief. Section 5.8.7 discusses “inevitable disclosure” in greater detail.

### **2.6.1.2 Provisional Injunctions**

Due to the need to act quickly to prevent the destruction of trade secrecy, trade secret owners often pursue provisional injunctions as a means to stabilize the competitive playing field before full-blown trade secret litigation can unfold. This puts courts in the difficult position of having to quickly come up to speed on the dispute. The two most common types of pretrial injunctions in trade secret cases are the temporary restraining order (TRO) and the preliminary injunction.

#### **2.6.1.2.1 Temporary Restraining Order**

When a plaintiff gives notice of a TRO application, it typically notifies the defendant only on the day it files its papers. *See Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 422 (4th Cir. 1999). The defendant may often have only one or two days to prepare a written opposition. Depending on the Court, a TRO may issue on the papers or may issue following an oral argument, which can occur within hours of the defendant's submission of its opposition papers.

Courts will typically apply a two-part test to determine whether to issue a TRO:

- (1) If it clearly appears from specific facts shown by an affidavit or by verified complaint that immediate and irreparable injury, loss, or damage will result to the applicant before the adverse party or that party's attorney can be heard in opposition; and
- (2) That applicant's attorney certifies to the court in writing that the efforts, if any, which have been made to give the notice and the reasons supporting the claim that notice should not be required.

If granted, a TRO will remain in effect only for a short period before an application for a preliminary injunction can be heard. Pursuant to FED. R. CIV. P. 65(b), a TRO may issue for not more than 14 days and may be extended for not more than an additional ten "for good cause shown."

Section 5.3.2 discusses consideration of TRO's with and without notice.

#### **2.6.1.2.2 DTSA *ex parte* Seizure Order**

The DTSA augmented the UTSA by authorizing the granting of *ex parte* seizure orders, but only in "extraordinary circumstances." *See* 18 U.S.C. § 1836(b)(2)(A)(i). Reflecting concerns that "a defendant [may seek] to flee the country or plan[] to disclose the trade secret to a third party immediately or is otherwise not amenable to the enforcement of the court's orders," S. REP. NO. 114-220, 114th Cong., 2d Sess., DEFEND TRADE SECRETS ACT OF 2016 9–10 (2016), Congress established the *ex parte* seizure remedy as a safety valve for circumstances in which the normal process of a temporary restraining order is inadequate because the defendant will not comply with it and would destroy or hide the evidence if given notice of the proposed seizure. *See* 18 U.S.C. § 1836(b)(2)(A)(ii).

An *ex parte* seizure order is available only when the evidence clearly shows, in addition to the usual irreparable harm and balance of equities, that the alleged wrongdoer (1) "would evade, avoid, or otherwise not comply" with any alternative form of order; (2) has actual possession of specific property containing a trade secret; (3) either misappropriated the secret or conspired with someone else to do so (this excludes innocent third parties such as cloud providers or ISPs); and (4) would "destroy, move, hide, or otherwise make [the secret] inaccessible" if given notice. *See* 18 U.S.C. § 1836(b)(2)(A)(ii); *Blue Star Land Servs. v. Coleman*, 2017 WL 11309528 (W.D. Ok. Aug. 31, 2017) (ordering seizure of computer devices and usernames and password information required to overcome encryption); *AVX Corp. v. Junhee Kim*, 2017 WL 11316598 (D.S.C. Mar. 13, 2017) (ordering *ex parte* seizure). *But cf. Cochran USA, Inc. v. Filiba*, 2018 U.S. Dist. LEXIS 185726

(D.D.C. Mar. 9, 2018) (declining to order *ex parte* seizure request notwithstanding that defendant was a flight risk).

A seizure order must (1) include findings and conclusions; (2) “provide for the narrowest seizure of property necessary;” (3) prohibit access by the plaintiff or copying of the information; (4) specify the seizure conditions for law enforcement; (5) set a hearing within seven days; and (6) require a bond. *See* 18 U.S.C. § 1836(b)(2)(B). All seized materials must be deposited with the Court and maintained in confidence until after the noticed hearing. The Court may appoint a special master to separate trade secret information from other matter and to “facilitate the return” of the unrelated property and data. *See* 18 U.S.C. § 1836(b)(2)(D)(iv).

Section 5.3.1 discusses case management issues relating to *ex parte* seizure orders.

#### **2.6.1.2.3 Preliminary Injunction**

The preliminary injunction motion will also be handled on an expedited basis, although the Court will have greater opportunity for briefing and a hearing before acting. In assessing whether to issue a preliminary injunction, courts must carefully weigh the following factors: “(1) whether the movant has shown a reasonable probability of success on the merits; (2) whether the movant will be irreparably injured by denial of such relief; (3) whether granting preliminary relief will result in even greater harm to the nonmoving party; and (4) whether granting preliminary relief will be in the public interest.” *See SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1254 (3d Cir. 1985) (citations omitted). If ordered, the preliminary injunction will then remain in place until the case is tried or settled.

Although irreparable harm is no longer presumed in trade secret cases, *see First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1140 (10th Cir. 2017) (noting that the UTSA and the DTSA merely authorize and do not mandate injunctive relief and therefore do not allow a presumption of irreparable harm); *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 559 F.3d 110 (2d Cir. 2009), trade secret owners can often prove irreparable harm by showing that the trade secret will be lost if the information is disclosed. The absence of irreparable harm may be shown by the adequacy of a plaintiff’s remedy at law, such as the availability of easily calculated compensatory damages or by evidence that the wrongful conduct and its consequences have ceased.

The balance of interests regarding an injunction reflects the tension present in determining whether information should be subject to protection at all. The plaintiff has a legitimate interest in protecting the valuable fruits of its efforts, the defendant in freedom to engage in fair competition, and the public in promoting both innovation and vigorous competition. Balancing requires that the Court examine a wide variety of circumstances bearing on these interests, such as the nature and extent of the misappropriation, delay by the plaintiff in seeking relief, equitable defenses, and the appropriateness of remedies other than an injunction.

The threat of misappropriation must be real; it is not enough that the plaintiff harbors an apprehension of the possibility of wrongful conduct. *See, e.g., Kelly Servs., Inc. v. Green*, 535 F.Supp.2d 180, 186–87 (D. Me. 2008) (denying an injunction where plaintiff offered only speculation that defendant misused secrets; defendant submitted evidence that he could perform new job without misuse of former employer’s secrets). The fact that one disclosure has occurred does not necessarily justify an injunction against further disclosure, in the face of evidence that it is unlikely. *See First Health Grp. Corp. v. Nat’l Prescription Adm’rs, Inc.*, 155 F.Supp.2d 194, 236–37 (M.D. Pa. 2001) (holding that because secret bid information had already been used and ultimately published, plaintiff failed to show anything other than “possibility” of further

misappropriation). And an injunction should not be granted merely to prevent an inadvertent disclosure or to eliminate any motivation the defendant might have to infringe the plaintiff's rights. *See Cambridge Filter Corp. v. Int'l Filter Co.*, 548 F.Supp. 1301, 1307 (D. Nev. 1982) (denying injunction against misuse of customer information). Nevertheless, circumstances may be such that the likelihood of disclosure or misuse by a competitor appears overwhelming to the Court. This has led to the development of the so-called "inevitable disclosure" doctrine, under which certain circumstantial evidence indicating a likelihood of misappropriation may be sufficient to support an injunction. *See Aspect Software, Inc. v. Barnett*, 787 F.Supp.2d 118 (D. Mass. 2011) (issuing an injunction where language of non-competition agreement prohibited working for competitors when it was "reasonably likely" that former employer's trade secrets would be disclosed or used).

The plaintiff bears the burden on an application for preliminary injunctive relief. In addition, if the defendant has raised plausible defenses, the plaintiff must establish a substantial likelihood of success on those issues. *See Oce N. Am., Inc. v. Caputo*, 416 F.Supp.2d 1321, 1325 (S.D. Fla. 2006). As a practical matter, however, circumstantial proof that strongly suggests a misappropriation—such as substantial similarity of a product or process, or one developed in record time—may shift the burden of persuasion to the defendant to demonstrate that the matter is not secret or that development was independent of any exposure to plaintiff's information. In making its determination, the Court may conduct an evidentiary hearing.

A plaintiff must also meet the specificity requirements of FED. R. CIV. P. 65 in order to obtain a TRO or preliminary injunction. Rule 65(b) requires a plaintiff to present "specific facts in an affidavit or a verified complaint clearly show[ing] that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition." From a practical standpoint, it may be difficult for a plaintiff to identify specific harms caused by the defendant's use of plaintiff's trade secrets given the inherent difficulty in predicting future events and identifying the harm with specificity.

Chapter 5 explores case management issues relating to preliminary injunctive relief.

### **2.6.1.3 Post-Trial Injunctive Relief**

Following a trade secret misappropriation verdict, the plaintiff can seek injunctive relief to protect the trade secrets. In general, courts balance the following factors in determining whether to issue injunctive relief: (1) whether the plaintiff has suffered irreparable harm; (2) whether remedies available at law, such as monetary damages, are inadequate to compensate for the injury; (3) consideration of the balance of hardships between the plaintiff and defendant; and (4) the effects of injunctive relief on the public interest. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

The purpose of a trade secret injunction is to prevent a threatened or continuing misappropriation. The question is how the order should be framed in order to meet that objective. In most cases, the order will restrain use or disclosure of certain information.

Due to the nonexclusive character of trade secrets, *see* § 2.6.1, injunctive remedies are typically more time-limited and conditional than those used in patent, copyright, and trademark cases. The UTSA provides that "[u]pon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation." UTSA § 2(a). The Comment accompanying this provision explains that



the general principle . . . is that an injunction should last for as long as is necessary, but no longer than is necessary, to eliminate the commercial advantage or ‘lead time’ with respect to good faith competitors that a person has obtained through misappropriation. Subject to any additional period of restraint necessary to negate lead time, an injunction accordingly should terminate when a former trade secret becomes either generally known to good faith competitors or generally knowable to them because of the lawful availability of products that can be reverse engineered to reveal a trade secret.

For example, assume that A has a valuable trade secret of which B and C, the other industry members, are originally unaware. If B subsequently misappropriates the trade secret and is enjoined from use, but C later lawfully reverse engineers the trade secret, the injunction restraining B is subject to termination as soon as B's lead time has been dissipated. All of the persons who could derive economic value from use of the information are now aware of it, and there is no longer a trade secret under Section 1(4). It would be anti-competitive to continue to restrain B after any lead time that B had derived from misappropriation had been removed.

If a misappropriator either has not taken advantage of lead time or good faith competitors already have caught up with a misappropriator at the time that a case is decided, future disclosure and use of a former trade secret by a misappropriator will not damage a trade secret owner and no injunctive restraint of future disclosure and use is appropriate. *See, e.g., Northern Petrochemical Co. v. Tomlinson*, 484 F.2d 1057 (CA7, 1973) (affirming trial court's denial of preliminary injunction in part because an explosion at its plant prevented an alleged misappropriator from taking advantage of lead time); *Kubik, Inc. v. Hull*, 185 USPQ 391 (Mich.App.1974) (discoverability of trade secret by lawful reverse engineering made by injunctive relief punitive rather than compensatory).

UTSA § 2, Comment; *see MicroStrategy, Inc. v. Bus. Objects, S.A.*, 369 F.Supp.2d 725, 732 (E.D. Va. 2005) (identifying factors used by federal courts in considering a motion to dissolve injunction, and holding that the moving party has the burden of proof in showing that trade secrets no longer qualify as such).

Due to the distinctive and often idiosyncratic nature of the harm caused by trade secret misappropriation, courts have developed a wide range of remedial tools for crafting injunctive relief. The principal options include limitations on the defendant's employment activities, product injunctions, affirmative obligations to protect trade secrets, and imposition of a constructive trust.

Section 10.8 discusses case management issues relating to permanent injunctive relief.

#### **2.6.1.3.1 Limitations on Employment and Related Activities**

Considerations of policies regarding employee mobility continue beyond the stage of evaluating initial requests to impose limitations on accepting particular employment and may continue to the consideration of the proper scope of any permanent injunctions after trial. As discussed at §10.8.4, a “permanent” injunction is not necessarily or even generally “perpetual.” Courts have developed the concept of a “head start” injunction that is calibrated to restore as closely as possible the pre-misappropriation competitive playing field. In *Winston Research Corp. v. Minnesota Mining & Manufacturing Co.*, 350 F.2d 134 (9th Cir. 1965), the Court confronted the question of how to remedy ex-employees' rapid development of a competing product using their prior employer's trade secrets. Plaintiff urged that the defendant employees should be enjoined in perpetuity from using or disclosing the trade secrets. Defendants argued that such relief

would effectively force the employees to exit the field. While recognizing the societal interests in employee mobility and the freedom to apply general skills, knowledge, and ingenuity, the Court recognized that

restrictions upon an employee's disclosure of information that was developed as a result of the employer's initiative and investment, and which was entrusted to the employee in confidence, are necessary to the maintenance of decent standards of morality in the business community. Unless protection is given against unauthorized disclosure of confidential business information by employees, employee-employer relationships will be demoralized; employers will be compelled to limit communication among employees with a consequent loss in efficiency; and business, espionage, deceit, and fraud among employers will be encouraged.

*Id.* at 138. In balancing the considerations, the Ninth Circuit declined the trade secret owner's request for a perpetual injunction and affirmed the District Court's remedy barring the defendant from disclosing or using the trade secrets for a period of two years and assigning certain patent applications derived from those trade secrets to the trade secret owner. The remedy took into consideration that the trade secrets would shortly be fully disclosed, through no fault of the defendant, as a result of public announcements, demonstrations, and sales and deliveries of the trade secret owner's Mincom machines. The Court noted that

[a] permanent injunction would subvert the public's interest in allowing technical employees to make full use of their knowledge and skill and in fostering research and development. On the other hand, denial of any injunction at all would leave the faithless employee unpunished where, as here, no damages were awarded; and he and his new employer would retain the benefit of a headstart over legitimate competitors who did not have access to the trade secrets until they were publicly disclosed. By enjoining use of the trade secrets for the approximate period it would require a legitimate [trade secret owner] competitor to develop a successful machine after public disclosure of the secret information, the district court denied the employees any advantage from their faithlessness, placed [the trade secret owner] in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.

*Id.* at 142.

Such head start injunctions are not limited to disputes with employees and can apply to organizations. They can be calibrated to deal with a wide range of circumstances. Courts have held that an indefinite injunction that extends beyond the head start period is inappropriate. *See Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1318 (Fed. Cir. 2018). In rejecting a "temporally unlimited" injunction, the Eighth Circuit explained the rationale for limiting injunctions in time:

[E]xtending the injunction beyond the time needed for independent development would give the employer 'a windfall protection and would subvert the public interest in fostering competition and in allowing employees to make full use of their knowledge and ability.'

We believe the part of the injunction prohibiting disclosure of trade secrets must be limited in duration and, accordingly, reverse in part and remand the case to the district court for consideration of the time it would take a "legitimate competitor" to independently reproduce the information contained in the product and vendor files. On remand, the district

court should also modify the language of the injunction to expressly state that Harris may use that information which is already in the public domain.

*Sigma Chem. Co. v. Harris*, 794 F.2d 371, 375 (8th Cir. 1986); see generally Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit upon Its Duration: The Uniform Trade Secrets Act Reconsidered*, 17 B.U. J. SCI. & TECH. L. 173, 191–98 (2011) (collecting cases regarding durational limits). Courts have applied similar considerations in fashioning the duration of preliminary injunctive relief, as evidenced in the *PepsiCo v. Redmond* case (limiting preliminary injunction to six months). See also *Verigy US, Inc. v. Mayder*, 2008 WL 564634 (N.D. Cal. Feb. 29, 2008) (granting a five-month preliminary injunction to account for the lag time defendant would have faced in getting to market absent misappropriation).

#### **2.6.1.3.2 Production Injunctions**

In some instances, courts will grant an injunction prohibiting the defendant from manufacturing any product of the type that it previously manufactured using the trade secret information. See, e.g., *Viscofan, S.A. v. U.S. Int’l Trade Comm’n*, 787 F.2d 544 (Fed. Cir. 1986); *Molex, Inc. v. Nolen*, 759 F.2d 474, 477 (5th Cir. 1985); *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1180 (5th Cir. 1983); *Aerosonic Corp. v. Trodyne Corp.*, 402 F.2d 223 (5th Cir. 1968); *AutoPartSource, LLC v. Bruton*, 2013 U.S. Dist. LEXIS 99396 (E.D. Va. July 16, 2013); *E.I. DuPont de Nemours v. Kolon Indus.*, 894 F.Supp. 2d 691 (E.D. Va. 2012), *remanded for new trial* 564 F. App’x 710 (4th Cir. 2014); *Gen. Elec. Co. v. Sung*, 843 F.Supp. 776 (D. Mass. 1994); *Head Ski Co. v. Kam Ski Co.*, 158 F.Supp. 919, 924 (D. Md. 1958); cf. *O2 Micro Int’l Ltd. v. Monolithic Power Sys., Inc.*, 399 F.Supp.2d 1064 (N.D. Cal. 2005) (recognizing the availability of a product injunction but denying such relief). One Court explained that when “the misappropriated trade secrets are inextricably connected to the defendant’s manufacture of the product, a use injunction is ineffective because the misappropriator cannot be relied upon to unlearn or abandon the misappropriated technology.” See *E.I. DuPont de Nemours*, 894 F.Supp.2d at 711. Stated otherwise, the issuance of a product injunction is warranted if the misappropriator would have difficulty completely divorcing its knowledge of the misappropriated trade secrets from a future production or product to which the trade secrets related. See *Monovis, Inc. v. Aquino*, 905 F.Supp. 1205, 1234. The DTSA does not expressly provide for a product injunction, although, among other things, the general rules applicable to injunctive relief permit an enjoined party to seek to modify an injunction in the face of changed circumstances.

#### **2.6.1.3.3 Affirmative Acts to Protect Trade Secrets**

The UTSA authorizes courts to compel a defendant to carry out “affirmative acts to protect a trade secret” “in appropriate circumstances.” UTSA § 2(c). The accompanying comment identifies the return of “the fruits of misappropriation,” such as “stolen blueprints” or “surreptitious photographs or recordings.” See *Tracer Rsch. Corp. v. Nat’l Env’t Serv. Co.*, 843 F.Supp. 568, 580 (D. Ariz. 1993), *rev’d on other grounds*, 42 F.3d 1292 (9th Cir. 1994). Courts have also ordered:

- the destruction of materials containing or embodying trade secrets, see *Gladstone v. Hillel*, 203 Cal.App.3d 977, 988, 250 Cal.Rptr. 372, 379 (Cal. Ct. App. 1988);
- the destruction of materials, see *QZO, Inc. v. Moyer*, 358 S.C. 246, 256, 594 S.E.2d 541, 547 (S.C. Ct. App. 2004);

- the assignment of rights to the trade secret owner by the misappropriator of inventions derived from the trade secrets, *see Cubic Corp. v. Marty*, 185 Cal.App.3d 438, 451, 229 Cal.Rptr. 828, 834–35 (Cal. Ct. App. 1986);
- the assignment of patents, *see Winston Rsch. Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 140 (9th Cir. 1965);
- the notification by the misappropriator to customers of the injunction, *see Cubic Corp. v. Marty*, 185 Cal.App.3d 438, 451, 229 Cal.Rptr. 828, 834–35 (1986);
- the sealing of trial records, *see In re Adobe Sys., Inc. Secs. Litig.*, 141 F.R.D. 155, 161–62 (N.D. Cal. 1992);
- and obligation to monitor the behavior of a former employee, *see Equus Comput. Sys., Inc. v. N. Comput. Sys., Inc.*, 2002 U.S. Dist. LEXIS 13539, at \*16 (D. Minn. July 22, 2002).

Sections 5.2.3.1, 5.3.1.4 and 10.8.3 further discuss affirmative acts to protect trade secrets.

#### **2.6.1.3.4 Constructive Trust**

Courts can also impose a constructive trust where a defendant has taken and misused trade secrets in breach of a fiduciary or confidentiality duty. *See Tlapek v. Chevron Oil Co.*, 407 F.2d 1129, 1133–34 (8th Cir. 1969). Moreover, courts can impose a constructive trust on a third party if it is unjustly enriched by the fraudulent actions of a party who violates a confidential relationship. *See, e.g., EEMSO, Inc. v. Compex Techs., Inc.*, 2006 U.S. Dist. LEXIS 67225, at \*30–31 (N.D. Tex. Aug. 31, 2006).

### **2.6.2 Compensatory Damages**

In addition to or in lieu of injunctive relief, the UTSA, UTSA § 3(a) and the DTSA, 18 U.S.C. § 1836 (b)(3)(B)(i)(I) authorize a Court to award damages for the actual loss caused by misappropriation and provide that a complainant may also disgorge damages also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss. The Comment to the UTSA explains that monetary recovery for trade secret misappropriation is “appropriate only for the period in which information is entitled to protection as a trade secret, plus the additional period, if any, in which a misappropriator retains an advantage over good faith competitors because of misappropriation.” *See Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949) (providing no remedy for the period subsequent to disclosure of trade secret by issued patent); *Carboline Co. v. Jarboe*, 454 S.W.2d 540 (Mo. 1970) (limiting recoverable monetary relief to the period that it would have taken misappropriator to discover trade secret without misappropriation).

#### **2.6.2.1 Actual Loss**

The plaintiff bears the burden of proving with reasonable certainty the damage caused by the defendant’s misappropriation. Although a jury may “approximate” damages within a reasonable range, recovery for speculative matters is not permitted. *See Storage Tech. Corp. v. Cisco Sys., Inc.*, 395 F.3d 921, 926–28 (8th Cir. 2005) (rejecting the theory that damage could be based on price paid in later acquisition of ex-employees’ new company). However, it is enough that plaintiff prove only the fact of damage with reasonable certainty; as in other matters of tort law, uncertainty as to the amount of damage is not a bar to recovery. *See Electro-Minatures Corp. v. Wendon Co.*, 771 F.2d 23, 27 (2d Cir. 1985).

The economic loss attributable to trade secret misappropriation can manifest in various ways. Trade secret owners commonly use lost profits resulting from the misappropriation as the measure of compensation. Lost profits are based on the incremental loss, which is usually higher than the average profit margin. *See C. Albert Sauter Co. v. Richard S. Sauter Co.*, 368 F.Supp. 501, 515 (E.D. Pa. 1973). As in patent damages cases, the plaintiff must establish the decline in sales resulting from the misappropriation. *See Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978); PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE §§ 7.3.4.7, 8.3.4.1, 14.4.3.2.1 (3d ed. 2016). The decline in sales following a misappropriation is relevant in establishing lost profits. Also as in patent cases, plaintiff's provable losses may include not only lost sales but price erosion, i.e., the extent to which plaintiff was required to meet the unfair competition by reducing its prices. Profits may even be awarded for a product that has not yet been marketed if plaintiff proves its probable success. *See DSC Commc'ns Corp. v. Next Level Commc'ns*, 107 F.3d 322, 329 (5th Cir. 1997).

Monetary damages can also include the value of lost business opportunities. *See Eagle Grp., Inc. v. Pullen*, 114 Wash.App. 409, 420, 58 P.3d 292, 299 (Wash. 2002). Some courts have also permitted plaintiffs to recover for costs and expenses incurred as a result of the misappropriation. *See, e.g., Dozor Agency, Inc. v. Rosenberg*, 218 A.2d 583, 585–86 (Pa. 1966) (allowing recovery of plaintiff's expenses, including postage, office supplies and portions of salaries incurred in attempting to retain the business). Courts have also awarded damages for reputational harm caused by trade secret misappropriation. *See World Wide Prosthetic Supply, Inc. v. Mikulsky*, 246 Wis.2d 461, 471–72, 631 N.W.2d 253, 258–59 (Wis. 2001). The plaintiff's loss can also include the fair market value of secret information destroyed by the defendant's unauthorized public disclosure of the trade secret. *See Precision Plating & Metal Finishing, Inc. v. Martin-Marietta Corp.*, 435 F.2d 1262, 1263 (5th Cir. 1970).

As discussed below, the DTSA and many versions of the UTSA authorize the award of a reasonable royalty for misappropriator's unauthorized disclosure or use of a trade secret.

### **2.6.2.2 Reasonable Royalty**

There are two types of situations where awarding royalty relief is appropriate in trade secret cases. The first arises when a Court imposes a royalty in lieu of an injunction where it would be “unreasonable” to prohibit future use. *See* UTSA § 2(b); DTSA 18 U.S.C. § 1836(b)(3)(A)(iii). The second arises where a reasonable royalty serves as an appropriate measure of damages. *See* UTSA § 3(a); DTSA, 18 U.S.C. § 1836(b)(3)(B)(i)(II).

#### **2.6.2.2.1 In Lieu of Injunctive Relief**

Where circumstances make it unreasonable to prohibit future use of misappropriated trade secrets, the UTSA authorizes courts to “condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.” UTSA § 2(b). The DTSA contains a similar provision. *See* 18 U.S.C. § 1836(b)(3)(A)(iii). This provision can effectively give an “innocent misappropriator” who inextricably incorporates the plaintiff's trade secrets into its business or product before learning of the plaintiff's interest in those secrets the equivalent of a compulsory license.

Some courts have stretched this rule to extend to some misappropriators whose acts were not found to be innocent. In *Kilbarr Corp. v. Business Systems Inc.*, 679 F.Supp. 422, 426 (D.N.J. 1988), *aff'd*, 869 F.2d 589 (3d Cir. 1989), the Court ordered a royalty in lieu of an injunction

simply because “too much time ha[d] passed and too many events had occurred to turn back the clock.” *Id.* at 426. In some other cases, courts have ordered a royalty in lieu of injunction on public interest grounds. *See Republic Aviation Corp. v. Schenk*, 152 U.S.P.Q. (BNA) 830, 834–35 (N.Y. Sup. Ct. 1967) (armament and control systems for jet fighters); *cf. Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982) (Navy’s use of land for training pilots). Another Court entered a permanent injunction but stayed it and allowed the payment of a royalty based on the defendant’s showing that it could reverse engineer the trade secrets within a relatively short time. *See Boeing Co. v. Sierracin Corp.*, 716 P.2d 956, 957–58 (Wash. Ct. App. 1986).

#### **2.6.2.2.2 Reasonable Royalties as a Form of Compensatory Damages**

The UTSA and DTSA also authorize the award of a reasonable royalty as a measure of compensatory damages for a misappropriator’s unauthorized disclosure or use of a trade secret. *See* UTSA § 3(a); DTSA, 18 U.S.C. §1836 (b)(3)(B)(i)(ii). The availability of a reasonable royalty under the UTSA varies by state. Some states have adopted versions of the UTSA which limit the availability of royalties. *See, e.g.,* CAL. CIV. CODE §3426.1 (limiting the availability of a reasonable royalty award to circumstances when “neither damages nor unjust enrichment caused by misappropriation are provable” and limiting the duration to “no longer than the period of time the use could have been prohibited”); IND. CODE § 24-2-3-4(b) (similar rule). Other states do not expressly authorize the award of a reasonable royalty. *See* ALASKA STAT. ANN. § 45.50.915 (West 2007); ARK. CODE ANN. § 4-75-606 (West 2004); CONN. GEN. STAT. ANN. § 35-53 (West 2005); LA. REV. STAT. ANN. § 51:1433 (2003); WASH. REV. CODE ANN. § 19.108.030 (West 2013).

The use of the hypothetical license, or “royalty,” approach can be particularly appropriate in cases where the secret information was used to improve a manufacturing process or a part of a manufactured product, or where the defendant has not yet profited from the misappropriation. *See Linkco, Inc. v. Fujitsu Ltd.*, 232 F.Supp.2d 182, 186 (S.D.N.Y. 2002).

As in patent cases, the analysis posits a “hypothetical negotiation” in which the trade secret owner is willing, albeit reluctantly, to grant an interest in the secret. Some decisions assessing the appropriateness of particular royalty calculations look to methods suggested by patent law *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y. 1970); PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE §§ 7.3.4.7, 7.4.3.2.1-2, 8.3.4.2, 14.4.3.1.4 (3d ed. 2016). Under this framework, courts examine a broad range of factors including the effect on the parties’ competitive posture; the terms of other licenses; the value of the secret to the plaintiff, including the cost of its development; and the nature and extent of the defendant’s intended use. This method of determining damages focuses on the time of the misappropriation and attempts to fix the amount that the defendant would have been willing to pay to get the secret information properly. *See Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 536 (5th Cir. 1974).

Other cases and authorities consider additional or different factors, recognizing differences in the patent and trade secret rights. *See Vt. Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142 (2d Cir. 1996); *MacDermid Printing Sols. LLC v. Cortron Corp.*, 833 F.3d 172, 191–92 (2d Cir. 2016) (holding that it was sufficient for expert to assume that plaintiff would not have agreed to an amount less than its cost to develop the secret); Jon Putnam, TRADE SECRET VALUATION: SHOULD GEORGIA PACIFIC BE ON YOUR MIND? PRACTICING LAW INSTITUTE, TRADE SECRET COURSE HANDBOOK No. 252840 (2018).

The fact that a plaintiff might have been willing to license its trade secrets does not in itself require a royalty measure of damages, or prevent an unjust enrichment measure. *See Russo v. Ballard Med. Prods.*, 550 F.3d 1004, 1020–21 (10th Cir. 2008). It may matter less what the defendant later did with the information than what it hoped to do; indeed, damages may be awarded for misappropriation of information that was never used at all. *See Storagecraft Tech. Corp. v. Kirby*, 744 F.3d 1183, 1186 (10th Cir. 2014) (holding that a reasonable royalty is the appropriate measure of damages where defendant did not gain personally and competitor to which disclosure was made did not commercially use trade secrets). Thus, the “royalty measure” gets at the actual value of that which was taken.

### 2.6.2.3 Disgorgement of Profits

Reflecting unjust enrichment principles, the UTSA also authorizes the plaintiff to disgorge the defendant’s ill-gotten gains attributable to the misappropriation that are not taken into account in computing the plaintiff’s actual loss. UTSA § 3(a); 18 U.S.C. § 1836 (3)(B)(i)(II); RESTAT. (THIRD) UNFAIR COMP. § 45 (providing that “[o]ne who is liable to another for an appropriation of the other’s trade secret . . . is liable for the pecuniary loss to the other caused by the appropriation or for the actor’s own pecuniary gain resulting from the appropriation, whichever is greater, unless such relief is inappropriate” for a variety of other considerations); *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 172–79, 385 N.E.2d 1349, 1358–61 (Mass. 1979). An award of the defendant’s net profits may be appropriate even when the defendant does not use the trade secret in competition with the plaintiff. *See Collelo v. Geographic Servs., Inc.*, 727 S.E.2d 55, 61 (Va. 2012) (“[T]he Trade Secrets Act does not require that one who is accused of misappropriating a trade secret use the allegedly misappropriated trade secret to compete with the holder of the trade secret.”). This might be expressed as profits on sales made possible by product development that was accelerated by the misappropriation. *See Engelhard Indus., Inc. v. Rsch. Instrumental Corp.*, 324 F.2d 347, 353 (9th Cir. 1963).

With proper support, the plaintiff can recover the entirety of the defendant’s profit. *See C&F Packing Co. v. IBP, Inc.*, 224 F.3d 1296, 1304 (Fed. Cir. 2000). However, the defendant can limit disgorgement to the portion of defendant’s profits attributable to the misappropriation. *See Med. Staffing Network, Inc. v. Ridgway*, 670 S.E.2d 321, 330 (N.C. App. 2009) (reversing trial Court’s award of defendant’s net profits and remanding to determine profits attributable to misappropriation).

In some cases, the defendant’s gain from misappropriation flows from savings of time, effort, and business risk—avoided development costs. In that event, a restitutionary remedy might be aimed at disgorgement of this benefit using the “standard of comparison” method—comparing the cost to the defendant of achieving its objective to what the cost would have been absent the misappropriation. *See Int’l Indus., Inc. v. Warren Petroleum Corp.*, 248 F.2d 696, 699 (3d Cir. 1957). In performing this calculation, the trier of fact may consider the plaintiff’s cost of developing the trade secret as proof of what the defendant avoided. *See, e.g., Salsbury Labs., Inc. v. Merieux Labs., Inc.*, 908 F.2d 706, 714 (11th Cir. 1990) (awarding one-third of the amount plaintiff had spent on development and marketing of vaccine). In appropriate circumstances, the cost and likelihood of successful reverse engineering should also be considered. *See Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1318 (Fed. Cir. 2018) (vacating jury award that was not limited to head start period following successful reverse engineering). In some cases, a defendant’s unjust enrichment can be calculated based on the defendant’s cost savings by not having to engage in its own development effort. This can be

measured directly using avoided costs or by using fair market value of the secrets as a proxy. *See Cardiocall, Inc. v. Serling*, 492 F.Supp.2d 139, 154 (E.D.N.Y. 2007) (awarding plaintiff its purchase price of third-party software defendant misappropriated and used to take business from plaintiff). Establishing damages for the benefit conferred does not require proof that the defendant has succeeded in making a profit and can be based on the value of what was received. *See Epic Sys. Corp. v. Tata Consultancy Servs. Ltd.*, 2017 U.S. Dist. LEXIS 162288, at \*17 (W.D. Wis. Sept. 29, 2017) (awarding \$140 million for use of secret information to create a “comparative analysis” that helped the defendant to compete with the plaintiff’s product).

New York has not adopted the UTSA. Notably, New York’s common law does not generally award the defendant’s avoided development costs as a remedy. *See, e.g., E.J. Brooks Co. v. Cambridge Security Seals*, 31 N.Y. 3d 441, 105 N.E. 3d 301 (2018).

The RESTATEMENT (THIRD) OF UNFAIR COMPETITION discusses allocation of burdens in proving disgorgement of profits:

The traditional form of restitutionary relief in an action for the appropriation of a trade secret is an accounting of the defendant’s profits on sales attributable to the use of the trade secret. The general rules governing accountings of profits are applicable in trade secret actions. The plaintiff is entitled to recover the defendant’s net profits. The plaintiff has the burden of establishing the defendant’s sales; the defendant has the burden of establishing any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits. . . . The defendant must account not only for profits earned on sales of products incorporating the trade secret, but also on other sales dependent on the appropriation. . . .

If the trade secret accounts for only a portion of the profits earned on the defendant’s sales, such as when the trade secret relates to a single component of a product marketable without the secret, an award to the plaintiff of defendant’s entire profit may be unjust. . . .

RESTAT. (THIRD) UNFAIR COMP. § 45 cmt. f. Under this framework, the plaintiff has the burden of establishing the defendant’s sales “attributable to the trade secret.” *See ADA Motors, Inc. v. Butler*, 432 P.3d 445, 451 (Wash. App. 2018). The burden then shifts to the defendant to prove deductions from that amount to determine net profits.

### **2.6.3 Interplay of Injunctive Relief and Compensatory Damages: No Double Recovery**

Although the UTSA recognizes that both injunctive relief and compensatory damages can be awarded as part of a remedial package, the effective relief cannot overlap. Thus, while it is entirely proper to award damages for accumulated misuse and at the same time to enjoin future use of the trade secret, or to award future damages even after entry of a preliminary injunction but no permanent injunction, *see Resman v. Karya Property Mgm’t, LLC*, 2021 WL 3403935 (E.D. Tex. March 18, 2021), it would be inappropriate to enter both a forward looking injunction and a money judgment that included compensation for both past and future losses. *See* UTSA § 3, comment, 14 U.L.A. 456 (“A claim for actual damages and net profits can be combined with a claim for injunctive relief, but, if both claims are granted, the injunctive relief ordinarily will preclude a monetary award for a period in which the injunction is effective.”).

### **2.6.4 Exemplary Damages**

The UTSA and the DTSA authorize the award of “exemplary,” or punitive, damages if “willful and malicious misappropriation exists” of up to double the compensatory damage award. UTSA §



3(b); DTSA 18 U.S.C. § 1836(b)(3)(C). The UTSA Comment analogizes this authority to the discretion afforded judges in patent cases to award up to treble damages. *See* 35 U.S.C. § 284.

The phrase “willful and malicious” covers behavior that is motivated by spite or ill will and disregards the rights of another with knowledge of probable injury. *See Am. Sales Corp. v. Adventure Travel, Inc.*, 862 F.Supp. 1476, 1480-81 (E.D. Va. 1994). Among the factual findings that have been held to justify exemplary damages involved “calculated, deliberate and reprehensible” conduct, misrepresentation, and attempts to cover up theft of documents. *See Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387, 1394 (4th Cir. 1971).

The Seventh Circuit has held that an award of exemplary damages under the UTSA is subject to Constitutional due process limitations. *See Epic Sys. Corp. v. Tata Consultancy Svcs., Ltd.*, 980 F. 3d 1117 (7th Cir. 2020). The question of the interplay of a state law limitation on exemplary damages (which authorized the amount award) and the Constitution was not preserved.

### **2.6.5 Attorney’s Fees**

The UTSA and DTSA authorize the award of attorney’s fees, within the judge’s discretion, to the prevailing party where: “(i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists.” UTSA § 4; DTSA, 18 U.S.C. §1836(b)(3)(D). The UTSA Comment notes that this provision

allows a court to award reasonable attorney fees to a prevailing party as a deterrent to specious claims of misappropriation, to specious efforts by a misappropriator to terminate injunctive relief, and to willful and malicious misappropriation. In the latter situation, the court should take into consideration the extent to which a complainant will recover exemplary damages in determining whether additional attorney’s fees should be awarded.

The UTSA Comment and the text of the DTSA also reserves the award of attorney’s fees to the judge even in cases tried to a jury, following the patent law model. *See* 35 U.S.C. § 285.

## **2.7 Distinctive Features of Trade Secret**

### **2.7.1 Distinctions from and Interplay with Patent, Copyright, and Trademark Protection**

#### **2.7.1.1 Patent**

If trade secrets can be described as the universe of potentially useful (but not generally known) information, then patent law covers a small galaxy within that universe. Patents—exclusive rights granted by the federal government—protect claimed inventions and discoveries meeting specified subject matter, novelty, non-obviousness, and disclosure requirements, as opposed to potentially useful, not generally known information. These inventions and discoveries include new and useful processes, machines, manufactures, and compositions of matter. 35 U.S.C. § 101. Patent rights are defined precisely by a set of written “claims.” This differs substantially from trade secrets, which often are not clearly identified expressly until they are litigated.

A major difference between patent and trade secret protection is the exclusivity of the right. A patent confers the right to exclude others from making, using, selling, offering for sale, or importing the claimed invention for 20 years from the filing of the patent application. Trade secret law provides no exclusivity but merely protects against impermissible means of discovering, using, or disclosing the secret. Of course, so long as no one else makes the discovery, the holder possesses

a unique and potentially permanent advantage. But trade secret protection brings with it the constant concern that others will land on the same spot. As the Supreme Court has said, “where patent law acts as a barrier, trade secret law functions relatively as a sieve.” *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 490 (1974).

Publication of a patent destroys, prospectively, any trade secret in the information expressed in the patent. *See Scharmer v. Carrollton Mfg. Co.*, 525 F.2d 95, 99 (6th Cir. 1975); *see also Tewari De-Ox Sys., Inc. v. Mountain States/Rosen, L.L.C.*, 637 F.3d 604, 612 (5th Cir. 2011) (observing that publication of a patent application discloses any proprietary information contained therein). However, trade secret rights are maintained in any collateral but related information that is not disclosed in the patent. *See Atlantic Rsch. Mktg. Sys., Inc. v. Troy*, 659 F.3d 1345, 1357 (Fed. Cir. 2011) (jury allowed to decide whether trade secret existed that was not disclosed in patent). Moreover, if a misappropriation has already occurred by the time a patent issues, the claim survives, and the defendant faces the risk of a “head start” injunction prohibiting use of the (former) secret for a period of time necessary to purge the unfair advantage acquired by the misappropriation along with any applicable damages. However, if a patent application is denied or withdrawn before publication, the claimed matter can remain a trade secret indefinitely.

The Supreme Court ruled in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) and later reaffirmed in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) that federal patent protection does not preempt state trade secret protection. The Court in *Kewanee* viewed the two regimes as complementary. In *Bonito Boats*, the Court emphasized that trade secret law is consistent with the patent philosophy of preserving the availability of matter in the public domain, does not bar reverse engineering or independent discovery of the secret matter, and protects a fundamental right of privacy.

### **2.7.1.2 Copyright**

Unlike both patent protection and trade secret protection, copyright law does not protect inventions nor information, but only original expression. Although traditionally focused on the expressive arts—such as literary, artistic, and musical expression—copyright law has become more relevant to technological pursuits through its protection of computer software and design features. Various limiting doctrines aim to bar copyright protection for functional features of copyrightable works. *See Baker v. Selden*, 101 U.S. 99 (1879); 17 U.S.C. § 102(b) (“In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”); 17 U.S.C. § 101 (definition of “[p]ictorial, graphic, and sculptural works” excludes “mechanical or utilitarian aspects”). The boundary between expression and function can, however, be difficult to delineate.

Although the COPYRIGHT ACT preempts “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright” subject to limited exceptions, 17 U.S.C. § 301, such restrictions do not generally bar trade secret protection. Assuming that a work qualifies as copyrightable subject matter, grants of rights by state law are preempted if they are “equivalent” to any of the exclusive rights established by the COPYRIGHT ACT, principally reproduction, the making of derivative works, and distribution. Because trade secret claims are based on confidentiality, they are not preempted by the COPYRIGHT ACT. *See Computer Associates Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 717–21 (2d Cir. 1992).

The interplay of trade secret protection and copyright protection arises most significantly with regard to copyright registration and deposit. Although copyright registration is not a prerequisite to copyright protection, it affords copyright owners various benefits, such as presumption of ownership and validity, eligibility for statutory damages, attorney fees, and costs of suit, and is required to enforce copyright protection in court or at the ITC. The Copyright Office provides special rules that allows software companies to register their source code without jeopardizing trade secret protection. If the source code contains trade secrets, the owner can choose one of several options for submitting only a portion of the source code that will maintain its secrecy. *See* U.S. COPYRIGHT OFFICE, COPYRIGHT REGISTRATION OF COMPUTER PROGRAMS, CIRCULAR 61 (rev. 5/2020) (providing, for example, the submission of the first and last twenty-five pages of the code while blocking out the portions containing trade secret material, provided that the blocked out portions are less than fifty percent of the deposit), <https://www.copyright.gov/circs/circ61.pdf>.

Thus, copyright and trade secret protection can and often do coexist. The “publication” inherent in claiming copyright protection does not necessarily destroy the required secrecy so long as distribution of the work is controlled (for example by distributing computer programs only in object code form) and limited to those who are bound by confidentiality obligations. However, failure to provide by contract that a work is “for hire” can result in ownership by an individual acting as an independent contractor (even if called an “employee,” *see Cmty for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 (1989) (basing the employee determination on the RESTAT. AGENCY)), preventing the employer from asserting a trade secret interest in the information it contains. Nonetheless, assuming that formalities are met, both trade secret and copyright protection can subsist and afford the owner broader and more effective protection than either alone.

### **2.7.1.3 Trademark**

Trademark law protects the owner of a mark, as well as the public, from confusion that might otherwise arise from false or misleading information regarding a product and its source. Because trademark law is not directed at protecting information or inventions, there is virtually no overlap in the abstract with trade secret law. Trade secret claims may be brought in parallel with those based on the LANHAM ACT, which is not preemptive. *See World Wide Prosthetic Supply, Inc. v. Mikulsky*, 640 N.W.2d 764, 772 (Wis. 2002).

### **2.7.2 The Breadth of Trade Secret Subject Matter**

Trade secret law covers an enormous range of information. Its broad sweep reflects in part the goals of encouraging research and the sharing of sensitive information in modern business relationships.

By contrast, patents must “contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use” the invention. 35 U.S.C. § 112(a). The specification must conclude with claims “particularly pointing out and distinctly claiming the [patented] subject matter.” 35 U.S.C. § 112(b). The rights become enforceable only after the application has been reviewed approved by a patent examiner and published. While there are often questions as to the meaning and scope of patent claims, the record of patent claims is available for all to see. A trade secret, by contrast, is hidden from view, known only to the owner and the owner’s employees, contractors, and business partners, until it becomes relevant to a lawsuit, business transaction, or a few other circumstances, such as a governmental investigation or whistleblower action alleging fraud against the government or shareholders.

It is not necessary to describe most trade secrets at the level of detail required for patent claims. Due to the exclusionary nature of the patent right, it is necessary to provide detailed delineation so that competitors can predictably determine their exposure and alternatives. Patent litigation focuses on novelty and non-obviousness, which compare the claimed invention to the prior art, as well as infringement, which compares the accused device, method, or composition of matter to the accused product or method.

By contrast, trade secret rights are not exclusive. Other inventors are free to practice the same process or use a similar customer list that they have developed. Competitors may reverse engineer products to determine underlying trade secrets. Therefore, a trade secret description in litigation does not have to meet the “enablement” requirement of a patent application, which demands disclosure sufficient to teach skilled artisans how to make and use the claimed invention.

The touchstone of the flexible standard must be balance. One should be skeptical of extreme arguments on either side. The plaintiff should not be able to get away with gossamer conclusions or illusory collections of jargon that provide no guidance for discovery and no hope for a future disposition that intelligently distinguishes the nature of the secret from that which is well known, readily accessible, or nothing more than skill. On the other hand, recognizing that the notion of trade secrets covers an enormously broad area of information (vastly broader than patentable subject matter), and that trade secrets are by their nature often difficult to describe, the defendant should not be permitted to bring the lawsuit to a halt while engaging in a feckless search for the perfect and precise expression of the plaintiff’s claim. Chapter 4 explores the “identification issue” that pertains to trade secret litigation.

### **2.7.3 Common Fact Patterns in Trade Secret Cases**

Most trade secret lawsuits involve employees allegedly using their former employer’s secrets to benefit themselves or a competitor. One of the most frequently litigated issues in those lawsuits is who owns what information. Thus an often early issue is whether information constitutes a trade secret that belongs to the company or is part of the employee’s “personal tool kit” of skill and knowledge which can be taken from job to job.

Whether the employer owns an employee’s invention depends primarily on whether inventing is part of the job. If an invention results from work done by the employee within the scope of his or her assigned duties, then the employer owns it. The same rule applies to independent contractors hired to perform inventive work. Because this common law rule derives from the nature of the employment relationship, it applies even in the absence of a written contract that requires the employee to assign inventions. *See Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403, 407 (Fed. Cir. 1996).

If the employee is not “hired to invent” and the invention did not result from the employee’s assigned work, then the employee owns the invention. This rule is subject to several conditions. For example, if the employer’s trade secrets were used without authorization as part of the inventive process, then the employee may be liable for misappropriation. For another example, if the invention was created using other resources of the employer, such as equipment, supplies or employee time, then the employee’s ownership may be subject to state law recognition of the employer’s “shop right,” which grants the employer a nonexclusive royalty-free license to use, but not to transfer, the invention. *See United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *Beriont v. GTE Lab’ys, Inc.*, 535 F. App’x 919 (Fed. Cir. 2013); *cf. McElmurry v. Arkansas Power*

*& Light Co.*, 995 F.2d 1576, 1583 n.15 (Fed. Cir. 1993) (recognizing employer's shop right where inventor/patentee was a consultant).

Many trade secret cases arise where an employer detects unusual behavior by a departing employee. This may involve unauthorized or extraordinary accessing or downloading of files on a company's computer network, accessing restricted areas, and furtive email communications.

Another common fact pattern involves transactions between corporations in which confidential information is exchanged. Generally, confidentiality of a relationship is either defined by contract or, if not, can be inferred from the surrounding circumstances, including the disclosing party's reasonable expectation that the one who receives the information is doing so for a limited purpose. Disputes can arise, for example, when a strategic acquisition fails to materialize, and the entrusted party uses the information to compete with its erstwhile partner.

Other recurring fact patterns are discussed in § 3.13, addressing challenges and opportunities various patterns may pose for resolving disputes short of trial.

With the growing importance of computer networks and cloud-based information storage, trade secret misappropriation increasingly occurs in cyberspace. Common points of entry include recently departed employees who retain access to their former employers' computer systems, consultants, vendors, and customers who have limited access to cloud-based resources, and hackers who are able to circumvent security systems. In addition to raising trade secrecy concerns, these activities might also violate contractual limitations, employment contracts, and the COMPUTER FRAUD AND ABUSE ACT. We explore these common coincident claims in § 2.8.

#### **2.7.4 Combination Trade Secrets and Negative Trade Secrets**

Information will not be denied trade secret status merely because each element can be found somewhere in the public domain. Courts have consistently held that there can be discovery and value in the act of combining available ideas and data into something useful. One can also add a secret modification to public domain information and have a trade secret in the resulting combination.

This approach is frequently applied to processes and formulas, many aspects of which are derived or can be found in publicly available sources. Courts are thus required to distinguish between what happened (alleged misappropriation) and what might have happened. The plaintiff will contend that its approach reflects specialized knowledge and skill in combining the publicly available information, whereas the defendant will respond by showing how the asserted secret is little more than the application of conventional skills to known problems using available data. As in the context of patent law's nonobviousness doctrine, the Court will need to avoid hindsight bias—the concern that information is obvious after we know that it works. Courts sometimes reject this reverse-engineering-by-hindsight defense because the effort seemed to have been inspired or even guided by the defendant's knowledge of the trade secret.

Courts must also be attentive to proverbial “dogs that don't bark” in dealing with allegations that a defendant misappropriated negative trade secrets—i.e., information showing what doesn't work or works less optimally than other solutions. *See, e.g., Revere Transducers, Inc. v. Deere & Co.*, 595 N.W.2d 751, 767 (Iowa 1999) (affirming judgment of breach of confidentiality by employees for making device that although not a copy took advantage of knowledge of employer's problems with the original).

### **2.8 Common Coincident Claims**

Trade secrets claims are often joined with other causes of action. The most common coincident claims are breach of contract, employment-related disputes, business torts, privacy-related claims, and racketeering. This section concludes with a discussion of preemption.

### **2.8.1 Breach of Non-Disclosure Agreements and Other Contracts**

Contract law can be used to enforce an agreement of confidentiality based on a non-disclosure agreement. While the use of NDAs alone may not be sufficient in all cases to meet the reasonable efforts requirement, it is often a critical feature of the trade secret owner's efforts. *See Yellowfin Yachts, Inc. v. Barker Boatworks, LLC*, 898 F.3d 1279, 1300 (11th Cir. 2018) (finding that plaintiff did not take reasonable efforts to maintain the secrecy of its trade secrets where it had allowed defendant employee full access with no NDA and failed to demand return after employee departed). Even if an employee or contractor cannot be sued for trade secret misappropriation because the plaintiff cannot prove that the information at issue qualifies for trade secret protection, the plaintiff might nonetheless be able to pursue a separate breach of contract action based on the defendant's breach of the non-disclosure contract.

NDAs need not necessarily be in writing to be enforceable. *See Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714 (7th Cir. 2003). Even without an express agreement, certain relationships (such as employer/employee) are typically deemed by their nature to imply an obligation of confidence. *See Wilson Mfg. Co. v. Fusco*, 258 S.W.3d 841, 847 (Mo. Ct. App. 2008); *Abernathy-Thomas Eng'g Co. v. Pall Corp.*, 103 F.Supp.2d 582, 604 (E.D.N.Y. 2000); *United States v. Howley*, 707 F.3d 575, 580 (6th Cir. 2013). Further, when information is disclosed to one who should by the circumstances understand that it is to be used only for a limited purpose, that permission extends no further, and the disclosure will be deemed protected. Examples include the examination of a business by a prospective acquirer, and the provision of drawings and other information to a vendor to enable the fabrication of a device. *See Phillips v. Frey*, 20 F.3d 623, 632 (5th Cir. 1994); *Nat. Organics, Inc. v. Proteins Plus, Inc.*, 724 F.Supp. 50, 53 (E.D.N.Y. 1989).

The remedies for breach of contract can differ from trade secret damages. As § 2.6.2 discusses, trade secret law authorizes “damages for the actual loss caused by misappropriation” and disgorgement for unjust enrichment caused by misappropriation above and beyond actual loss—amounts that are generally not recoverable for breach of contract. Damages for breach of contract are “the natural and probable consequence of the breach.” *See Town & Country Linen Corp. v. Ingenious Designs LLC*, 2022 WL 2757643, at \*6 (S.D.N.Y. Jul. 14, 2022) (quoting *Kenford Co. v. County of Erie*, 73 N.Y.2d 312, 540 N.Y.S.2d 1, 537 N.E.2d 176, 178 (N.Y. 1989), and citing *Hadley v. Baxendale*, 156 Eng. Rep. 145 (Ex. 1854)).

On the other hand, the monetary recovery for trade secret misappropriation is limited to the period in which information is entitled to protection as a trade secret, plus any additional period in which a misappropriator retains an unfair advantage. By contrast, depending on the wording of the contract, courts will continue to enforce trade secret royalty agreements even after the trade secrets have ceased to be trade secrets. In *Warner-Lambert Pharm.Co.v. John J. Reynolds, Inc.*, 178 F.Supp. 655 (S.D.N.Y. 1959), *aff'd* 280 F.2d 197 (2d Cir. 1960), the Court rejected plaintiff's request to terminate royalty payments to the licensor of the formula for Listerine mouthwash after the formula entered the public domain, noting that plaintiff had received a significant benefit from the head start it received. In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Supreme Court refused to relieve the licensee continued payment of royalties after patent protection was denied and the product was being freely copied in the market. The Court emphasized that the parties had anticipated this possibility in their agreement since the contract called for a reduced

payment in the event a patent could not be obtained. In effect, the licensee became the only entity in the world burdened by a royalty in marketing this product. But like the licensee of Listerine, it had received unique value from the licensor by getting a head start on its competition.

### **2.8.1.1 Breach of Non-Disclosure Agreement to Report Allegedly Illegal Activity and the Public Policy Bar on Contract Enforcement**

Notwithstanding the general enforceability of NDAs, a breach of NDA action against a person who reports allegedly illegal information to the government (or consults with an attorney regarding such matters) fits squarely within the public policy exception to contract enforcement. Courts generally bar enforcement of contracts and contract terms that are contrary to public policy and a growing list of statutes and agency rulings make the enforcement or in some cases even the inclusion of such terms in contracts unlawful.

The RESTATEMENT (SECOND) OF CONTRACTS states:

- (1) A promise or other term of an agreement is unenforceable on grounds of public policy if legislation provides that it is unenforceable or the interest in its enforcement is clearly outweighed in the circumstances by a public policy against the enforcement of such terms.
- (2) In weighing the interest in the enforcement of a term, account is taken of
  - (a) the parties' justified expectations,
  - (b) any forfeiture that would result if enforcement were denied, and
  - (c) any special public interest in the enforcement of the particular term.
- (3) In weighing a public policy against enforcement of a term, account is taken of
  - (a) the strength of that policy as manifested by legislation or judicial decisions,
  - (b) the likelihood that a refusal to enforce the term will further that policy,
  - (c) the seriousness of any misconduct involved and the extent to which it was deliberate, and
  - (d) the directness of the connection between that misconduct and the term.

RESTAT. (SECOND) CONTRACTS § 178.

This limitation on contract enforcement encompasses a broad view of public policy. "Courts are not prohibited from deciding whether a contract is . . . against public policy simply because there is not a statute that specifically limits contract terms . . . [Such a ruling] is an inherent equitable power of the court and does not require prior legislative action." *State ex rel. King v. B & B Inv. Grp., Inc.*, 329 P.3d 658, 670 (N.M. 2014); see *Kashani v. Tsann Kuen China Enter. Co.*, 118 Cal.App.4th 531, 542 (2004) (noting that "[f]or purposes of illegality, the 'law' is a broad term"); *Cariveau v. Halferty*, 83 Cal.App.4th 126, 132 (2000) (stating that public policy "may be implied from the language" of a statute); *Green v. Ralee Eng'g Co.*, 19 Cal.4th 66, 80 (1998) (noting that a public policy may "be enunciated in administrative regulations that serve the statutory objective"). The application of this doctrine requires a balancing of various factors.

The DTSA whistleblower immunity provision as well as whistleblower statutes (such as the False Claims Act) and state public policies provide a strong foundation for whistleblowers to defend breach of NDA cause of actions targeting reporting of suspected illegal activity on the ground that such lawsuits are against public policy. See § 2.4.1; CAL. LABOR CODE § 1102.5(b) (forbidding retaliation against an employee who discloses "information to a government or law enforcement agency, where the employee has reasonable cause to believe that the information

discloses a violation of state or federal statute, or a violation or noncompliance with a state or federal rule or regulation”). Furthermore, confidential reporting of such activity in a manner that does not disclose alleged trade secrets minimizes the risks to trade secret owners of the loss of trade secret protection. *See Erhart v. Bofl Holding, Inc.*, 2017 WL 588390, at \*5-\*17 (S.D. Cal. Feb. 14, 2017) (rejecting summary judgment motions to defeat public policy defense); *Siebert v. Gene Security Network, Inc.*, 2013 WL 5645309, at \*2, \*7 (N.D. Cal. Oct. 16, 2013) (noting that although the FALSE CLAIMS ACT does not expressly address relator liability for breach of an NDA, the NDA could be unenforceable “if a ‘substantial public interest would be impaired’” by its enforcement (*quoting United States ex rel. Green v. Northrop Corp.*, 59 F.3d 953, 962 (9th Cir. 1995))).

In addressing application of the public policy bar on contract enforcement, courts should bear in mind that passage of DTSA’s whistleblower immunity provision in 2016 reinforces statutory recognition of the public policy insulating whistleblowers from retaliatory actions and affords whistleblowers immunity irrespective of the quantity of information involved, so long as their purpose in removing or retaining such information was proper. Thus, cases such as *Cafasso, United States ex rel. v. General Dynamics C4 Systems Inc.*, 637 F.3d 1047 (9th Cir. 2011), which subjected whistleblowers to a high burden to justify the amount of confidential information removed or retained even under exigent circumstances, have been effectively overruled.

#### **2.8.1.2 Employee Restrictive Covenants**

In addition to NDAs, a party may use other contractual measures to limit an employee from using or disseminating information gained in the course of employment. These often include assignment agreements, trailer clauses, non-competition agreements, and non-solicitation agreements.

#### **2.8.1.3 Assignment Agreements**

Assignments are generally enforceable with regard to inventions made within the scope of employment. In some cases, assignment agreements extend to all inventions made by an employee, whether or not at the employer’s facilities, during work hours, or within the scope of employment. Several states proscribe such broad covenants. *See, e.g.*, CAL. LAB. CODE § 2870 (prohibiting employers from requiring assignment of “invention[s] that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information” unless the invention relates to the employer’s current or demonstrably anticipated business); MINN. STAT. ANN. § 181.78 (1980); N.C. GEN. STAT. § 66–57.1 to 57.2 (1981); WASH. REV. CODE ANN. § 49.44.140 (1987). By contrast, Nevada automatically assigns inventions to an employer provided they were developed in the course of employment and relate to the scope of the employee’s work, whether or not the employee signs an invention assignment agreement. *See NEV. REV. STAT. ANN. § 600.500.*

#### **2.8.1.4 Trailer Clauses**

To discourage employees from withholding inventions made during their employment, employers sometimes impose a “trailer clause” assigning the employee’s inventions made during a period of time after they depart. In addition to controlling inventions made shortly after departure, employers might be able to lay claim to ideas conceived while the defendant was employed, even if those ideas are not put into practice until years after the defendant leaves her job. *See Motorola Inc. v. Lemko Corp.*, 2012 WL 74319, at \*6-13 (N.D. Ill. Jan. 10, 2012) (employment agreement



that required assignment of “ideas” as well as “inventions” could cover an idea developed at a former employer that wasn’t turned into a patent application until five years later); *see also Gen. Signal Corp. v. Primary Flow Signal, Inc.*, 1987 U.S. Dist. LEXIS 6929, at \*10-12 (D.R.I. Jul. 27, 1987) (enforcing trailer clause even though employee asserted that his breakthrough invention occurred five days after the expiration of the six months specified in the trailer clause, finding that “[t]he perfection of a flow meter proved to be a painstakingly intricate process involving extensive testing,” and that “that the concept of the ‘434 patent must have existed in the former employee’s mind before his employment with GSC ended”).

Although trailer clauses are generally enforceable to the extent that they are “reasonable,” such clauses are scrutinized carefully given the impact on employees who will find it difficult to be employed during the period. *See* RESTAT. (THIRD) UNFAIR COMP. § 42, comment g (noting that “[s]uch agreements can restrict the former employee’s ability to exploit the skills and training desired by other employers and may thus restrain competition and limit employee mobility. The courts have subjected such ‘holdover’ agreements to scrutiny analogous to that applied to covenants not to compete. Thus, the agreement may be unenforceable if it extends beyond a reasonable period of time or to inventions or discoveries resulting solely from the general skill and experience of the former employee.”); *Applied Materials, Inc. v. Advanced Micro-Fabrication Equip. (Shanghai) Co.*, 630 F.Supp.2d 1084, 1091(N.D. Cal. 2009) (rejecting specific one-year trailer clause incorporating a presumption that inventions made within one year of termination belonged to the former employer without a requirement that plaintiff show the invention was made using the property of the prior employer functioned as an invalid non-competition agreement); *GTI Corp. v. Calhoon*, 309 F.Supp. 762, 773 (S.D. Ohio 1969) (five-year period unreasonably restrictive); *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447, 452 (Ct. Cl. 1970) (holdover clause unenforceable where subject matter of invention, although within scope of large corporation’s business, was not within scope of employee’s job there); *see also Armorlite Lens Co., Inc. v. Campbell*, 340 F.Supp. 273, 275 (S.D. Cal. 1972) (holding that invention assignment clause in employment contract seeking to vest employer with ownership of invention created after employee’s employment ended and not based on employer’s trade secrets void to that extent under Cal. Bus. & Prof. Code § 16600). Particularly long or indefinite duration trailed clauses can be held unenforceable and run afoul of the antitrust laws. *See United Shoe Mach. Co. v. La Chapelle*, 99 N.E. 289 (Mass. 1912).

### **2.8.1.5 Non-Competition Agreements**

Non-competition clauses prohibit employees from competing with their former employer for a set period of time or within a particular geographic scope. Such agreements impinge upon labor mobility and the ability to pursue gainful employment. Employees’ livelihoods often depend on their ability to market their skills and knowhow, thereby raising critical public policy and social justice questions. States vary in their approach to enforcing such agreements. The availability of non-compete clauses is the subject of national debate in state legislatures, Congress, and before the Federal Trade Commission.

Currently, most states apply an overarching requirement of “reasonableness” to covenants not to compete, with California, North Dakota, and Oklahoma the exceptions. *See* MICH. COMP. LAWS § 445.774a (non-competition agreements enforceable if the agreement is “reasonable as to its duration, geographical area, and type of employment or line of business”). There is disagreement among the states, however, on what restrictions are reasonable. Several states have enacted and

more than half the states are considering or have recently considered enacting some restrictions on the use of non-competition agreements.

California bars non-competition agreements unless they fall within a narrow exception related to the sale of a business. *See* CAL. BUS. & PROF. CODE § 16600; *Edwards v. Arthur Anderson LLP*, 189 P.3d 285 (Cal. 2008). In 2016, California reinforced this policy by enacting CAL. LAB. CODE § 925:

- (a) An employer shall not require an employee who primarily resides and works in California, as a condition of employment, to agree to a provision that would do either of the following:
  - (1) Require the employee to adjudicate outside of California a claim arising in California.
  - (2) Deprive the employee of the substantive protection of California law with respect to a controversy arising in California.
- (b) Any provision of a contract that violates subdivision (a) is voidable by the employee, and if a provision is rendered void at the request of the employee, the matter shall be adjudicated in California and California law shall govern the dispute.
- (c) In addition to injunctive relief and any other remedies available, a court may award an employee who is enforcing his or her rights under this section reasonable attorney's fees.
- (d) For purposes of this section, adjudication includes litigation and arbitration.
- (e) This section shall not apply to a contract with an employee who is in fact individually represented by legal counsel in negotiating the terms of an agreement to designate either the venue or forum in which a controversy arising from the employment contract may be adjudicated or the choice-of-law to be applied.
- (f) This section shall apply to a contract entered into, modified, or extended on or after January 1, 2017.

While this provision bars employers from applying choice of law or jurisdiction provisions from another state to employment agreements for California employees, Section (e) authorizes employees represented by legal counsel to waive these protections. California courts have not yet addressed whether employees represented by counsel may waive CAL. BUS. & PROF. CODE § 16600.

A number of other states have enacted or are considering provisions prohibiting the employer from selecting a law of a state in which the employee does not primarily work as the governing law. A growing number of states are prohibiting the use of non-compete agreements with individuals earning below a specified annual or hourly wage. Some states are considering or enacting legislation barring the use of non-compete agreements in particular lines of business, limiting the duration of non-compete agreements, requiring that non-compete agreements be provided to employees or contractors a specified period of time before acceptance, requiring that employees be provided specific consideration for entering into non-compete agreements or requiring employers to advise employees of their right to have counsel review the agreements. Some states prohibit the enforcement of non-compete agreements against employees whose employment has been terminated other than for cause. Many states that permit the enforcement of non-compete agreements require that the restrictions be tied to specified "protectable interests," including the need to protect trade secrets or, in some states, particular kinds of customer relationships, and that they be narrowly tailored to protect those interests.

The differing approaches to the enforceability of non-competition agreements can generate races to the courthouse and complex choice of law issues where there is an argument that more than one state may have an interest in a dispute. Section 3.8.1.2 discusses how courts can manage “dueling courthouse” litigation

### 2.8.1.6 Non-Solicitation Clauses

The enforceability of customer non-solicitation clauses also varies nationally. Many states, following their own statutes or common law, enforce tailored restrictions prohibiting employees from soliciting the business of particular customers, particularly where the restriction is limited to customers with whom the employee personally dealt and is limited in duration. *See, e.g., ISCO Indus. v. Shugart*, 2014 U.S. Dist. LEXIS 72245, at \*12 (W.D. Ky. May 27, 2014) (holding that a “customer non-solicitation agreement is enforceable if the terms are reasonable”); *Env’t Servs., Inc. v. Carter*, 9 So.3d 1258, 1264 (Fla. Dist. Ct. App. 2009) (collecting cases). Some courts have construed customer nonsolicitation provisions to mean that it is only affirmative solicitation of the customer that is forbidden, although the parameters of “solicitation” and “acceptance” are not always clear. *See* Evan Belosa, I CAN’T CALL WHO? EMPLOYEE NONSOLICITATION OF CLIENTS COVENANTS UNDER NEW YORK LAW, VOL. 66, NO. 4, CCH LABOR LAW JRNL (Dec. 2015). Merely connecting with former customers or co-workers on LinkedIn, for instance, is usually not considered solicitation. *Bankers Life & Cas. Co. v. Am. Senior Benefits LLC*, 83 N.E.3d 1085, 1091 (Ill. App. Ct. 2017). Courts have also rejected claims of alleged violations based on speculation. *See GE Betz, Inc. v. Moffitt-Johnston*, 885 F.3d 318 (5th Cir. 2018) (requiring direct evidence of solicitation).

Some California courts have construed *Edwards v. Arthur Andersen* to permit the enforceability of agreements not to solicit the business of particular customers to circumstances only when the employee has used trade secrets to do so. *See Dowell v. Biosense Webster*, 179 Cal.App.4th 564, 575 (Cal. Ct. App. 2009). Other states, although taking a similar view, have permitted the court to reform customer nonsolicitation agreements that extend more broadly. *See Wells Fargo Ins. Servs. USA, Inc. v. McQuate*, 276 F. Supp. 3d 1089, 1109 (D. Colo. 2016) (reforming contract so that it prohibited solicitation of customers through the use of trade secrets).

Some employers choose to use restrictive contracts to prevent a departing employee from soliciting other employees to join them. Many states currently enforce some form of these non-solicitation agreements. New York, for example, has explained that “non-recruitment provisions are ‘inherently more reasonable and less restrictive than non-complete clauses.’... This is because a nonrecruitment provision does not impede an individual’s ability to procure new employment. Nevertheless, a non-recruitment provision still operates as an anti-competitive agreement and warrants judicial scrutiny beyond general contract principles.” *MasterCard Int’l Inc. v. Nike, Inc.*, 164 F. Supp. 3d 592, 600-01 (S.D.N.Y. 2016) (citations omitted).

The enforceability of employee non-solicitation agreements is unclear in California. Some courts applying California law have followed *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268 (Ct. App. 1985) and held that employee non-solicitation provisions are valid and enforceable; *Kindt v. Trango Sys., Inc.*, D062404, 2014 WL 4911796, at \*10 (Cal. Ct. App. Oct. 1, 2014). Other courts, drawing upon the teachings of *Edwards*, have held that broad non-solicitation provisions of employment agreements—barring employees from either “directly or indirectly” soliciting or recruiting, or causing others to solicit or induce, any fellow employee for a year after termination—

are void under California Business and Professions Code § 16600. *See AMN Healthcare, Inc. v. Aya Healthcare Servs, Inc.*, 239 Cal.Rptr. 3d 577, 587–90 (Cal. Ct. App. 2018).

More than ever, the terms of the applicable agreement and the specific facts around the alleged solicitation need to be carefully evaluated.

### **2.8.2 Breach of State Duty Claims**

The sharing of confidential information often imposes duties upon the recipient. These may include a fiduciary duty, duty of loyalty, and duty of confidence. The most common of these are the obligations of an employee to be loyal during his term of employment, and of the officer or manager who occupies the specially trusted position of “fiduciary.”

#### **2.8.2.1 Fiduciary Duty**

A related party may have a fiduciary duty with respect to the holder of confidential information. Although the label “fiduciary” is sometimes applied to the rank-and-file employee, more often it refers to the officer or manager who is entrusted with especially sensitive information and discretion. *See Avtec Sys., Inc. v. Pfeiffer*, 805 F.Supp. 1312, 1321 (E.D. Va. 1992). Because the fiduciary is in a unique position to cause harm, he or she is subject to obligations going beyond simple loyalty. Most significantly, a fiduciary usually bears the obligation to reveal to management any information indicating a threat of harm to the organization. *Id.* at 1321. While the courts have permitted a range of acts in preparation for forming a new company, the law is less clear when a fiduciary is communicating with an existing company or other third party that poses a competitive threat to the current employer.

#### **2.8.2.2 Duty of Loyalty**

During the period of employment, the law requires the employee to work only for the benefit of the employer. It obtains only during employment, as the employee is free, absent an enforceable covenant to the contrary, to compete with the former employer immediately upon termination. RESTAT. (SECOND) AGENCY § 396. Breach of loyalty sometimes overlaps trade secret misappropriation, but often consists primarily of independently wrongful acts. *See* RESTAT. (THIRD) UNFAIR COMP. § 42, cmt. a. To the extent that the claim contains elements that differ from the UTSA requirements, displacement provisions of the UTSA usually will not apply to a breach of loyalty claim. *See* UTSA, § 7, comment. *See* § 2.8.6.

#### **2.8.2.3 Duty of Confidence**

Some states also impose a duty of confidence on the recipient of confidential information. The claim for “breach of confidence” protects “information that does not qualify as a trade secret if the information is disclosed in confidence and later used in a manner that breaches the confidence.” *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 299 (2d Cir. 1986). Whether the claim sounds in tort, contract implied in law, or contract implied in fact is not entirely clear. Cases applying this theory rely on language from the RESTAT. TORTS § 757, cmt. B: “Although given information is not a trade secret, one who receives the information in confidential relation or discovers it by improper means may be under some duty not to disclose or use the information. Because of the confidential relation or the impropriety of the means of discovery, he may be compelled to go to other sources for the information.”

### **2.8.3 State Business Torts**

State common law may protect confidential information even where misappropriation does not rise to the level of a federal trade secret misappropriation claim. These state causes of action include interference with business advantage or contractual relations, false advertising, unfair competition, conversion, misappropriation, and unjust enrichment.

### **2.8.3.1 Interference with Business Advantage or Contractual Relations**

The tort of interference with business advantage or contractual relations is most frequently used in the trade secret context to establish liability for inducing someone, such as a current or former employee, to breach a duty of confidence. *Synergetics, Inc. v. Hurst*, 477 F.3d 949, 954, 957 (8th Cir. 2007). In *Bourns, Inc. v. Raychem Corp.*, 331 F.3d 704, 709 (9th Cir. 2003), the Ninth Circuit affirmed an \$18 million verdict under this doctrine, noting that defendant placed its employees “in positions where it was virtually inevitable that they would use” their former employer’s secrets. In appropriate circumstances, the theory may be asserted based on a “raid” of at-will employees. *See, e.g., CGB Occupational Therapy, Inc. v. RHA Health Servs. Inc.*, 357 F.3d 375, 388-389 (3d Cir. 2004); *Reeves v. Hanlon*, 95 P.3d 513, 520-21 (Cal. 2004) (emphasizing that the requirement of proving an independently wrongful act provides the right balance between fostering labor mobility and competition and “protecting against unlawful methods of competition”).

In many trade secret cases, the same facts used to establish a misappropriation claim can also prove interference. *See, e.g., Lyn-Flex W., Inc. v. Dieckhaus*, 24 S.W.3d 693, 700 (Mo. Ct. App. 1999). In order to not discourage vigorous but legitimate competition, the claim is subject to a defense of competitive “privilege” or “justification.” This defense in turn depends on the defendant’s innocence of acts that constitute unlawful restraint of trade or other “wrongful means.” RESTAT. (SECOND) TORTS § 768(1) (1979). Therefore, it is unavailable where the interference consisted at least in part of misappropriation of trade secrets by the defendant. *See Bushnell Corp. v. ITT Corp.*, 973 F.Supp. 1276, 1288-89 (D. Kan. 1997).

Some courts find tortious interference claims preempted by the UTSA. *See Frantz v. Johnson*, 999 P.2d 351, 358 (Nev. 2000) (preempting claims for tortious interference with contractual relations and with prospective economic advantage under Nevada UTSA because both “arose from a single factual episode” of misappropriation). Whether an interference claim is preempted by the “conflicting tort” provision that appears in most versions of the UTSA depends on its reliance on the same set of facts that prove a misappropriation; to the extent that the claim is supported by more than an alleged misappropriation, it is not preempted. *See Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 667 (N.H. 2006). Others courts consider the tort of interference with contract to be directed toward contract rights, and therefore not preempted because the tort falls within the UTSA’s preservation of contract claims. *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 586-87 (7th Cir. 2002); *Raven Indus., Inc. v. Lee*, 783 N.W.2d 844, 849 (S.D. 2010).

### **2.8.3.2 Unfair Competition**

Unfair competition is a state common law protection that has traditionally focused on “passing off” or “palming off” one’s goods as those of another. *See Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 136 F.Supp.2d 1271, 1283-90 (S.D. Fla. 2001). This claim is seen as a catchall theoretical rubric meant to apply to a variety of business conduct, and has become difficult to define. *See MCCARTHY ON UNFAIR COMPETITION AND TRADEMARKS* § 1.8. The Seventh Circuit stated that “most competition is ‘unfair’ in lay terms. . . . Competition is ruthless, unprincipled, uncharitable, unforgiving-and a boon to society, Adam Smith reminds us, precisely because of

these qualities that make it a bane to other producers.” *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1268 (7th Cir. 1992).

A number of states have enacted statutes directed to “unfair competition.” The effect of these laws may be to grant certain special remedies, such as private attorney general standing for actions involving widespread forms of fraud. As to the typical trade secret lawsuit, they may be useful in providing these broader remedies, but should not create additional rights (such as, for example, protection of data that do not qualify as trade secrets) if the fundamental wrong consists of theft of protected information. In states that have enacted the UTSA, the “displacement” section preempts claims based on a theory of unfair competition or “unfair trade practice” that derives from the trade secret misappropriation. *See, e.g., Leucadia, Inc. v. Applied Extrusion Techs, Inc.*, 755 F.Supp. 635, 636-37 (D. Del. 1991); *See also, Powell Prod., Inc. v. Marks*, 948 F.Supp. 1469, 1476 (D. Colo. 1996) (granting defendant summary judgment on “alternate” unfair competition claim).

New York common law also imposes liability for unfair competition where the defendant misappropriated information in bad faith and used it for its own benefit, where that information “did not fall within either trade secret or idea misappropriation.” *LinkCo, Inc. v. Fujitsu Ltd.*, 230 F.Supp.2d 492, 501 (S.D.N.Y. 2002). The District Court in *LinkCo* found that the plaintiff had a property right in information because it had invested its “labor, skill, expenditure, name and reputation” in it, *id.* at 502 (quoting *Metro. Opera Ass’n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 101 N.Y.S.2d 483, 492 (N.Y. Sup. Ct. 1950) (internal quotation marks omitted)), and ruled that the law of unfair competition “proscribes all forms of commercial immorality, the confines of which are marked only by the ‘conscience, justice and equity of common-law judges,’” *id.* at 501 (quoting *Demetriades v. Kaufmann*, 698 F. Supp. 521, 525 (S.D.N.Y. 1988)). Although flexible, New York’s unfair competition doctrine requires a showing improper behavior, such as acquisition of information through fraud or illicit means. *See Town & Country Linen Corp. v. Ingenious Designs LLC*, 556 F.Supp.3d 222, 291 (S.D.N.Y. 2021).

### 2.8.3.3 Conversion

Conversion is defined as “an intentional exercise of dominion or control over a chattel that so seriously interferes with the right of another to control it that the actor may justly be required to pay the other the full value of the chattel.” RESTAT. (SECOND) TORTS § 222A. Assertion of unauthorized control may consist of acquisition of possession of the chattel, its removal from where the owner had it, transfer of its possession to an unauthorized third party, withholding of its possession from the owner, use of the chattel, its destruction or alteration, or assertion of ownership of it. *Id.* at § 223. This doctrine has been applied to intangibles, including trade secrets. The majority rule is that conversion of a trade secret may be asserted when a document or other physical medium that embodies the secret is taken, but that if the original remains, and only a copy is removed, the tort does not apply. *See FMC Corp. v. Cap. Cities/ABC, Inc.*, 915 F.2d 300, 304-05 (7th Cir. 1990); *Bloom v. Hennepin Cnty.*, 783 F.Supp. 418, 440-41 (D. Minn. 1992); *JustMed, Inc. v. Byce*, 600 F.3d 1118, 1131 (9th Cir. 2010); *Thyroff v. Nationwide Mut. Ins. Co.*, 8 N.Y. 3d 283, 293 (2007). An exception exists when the intangible right is the sort that customarily is “merged into” a document, such as a certificate that confers a right. *See G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896, 907 n.15 (9th Cir. 1992) (finding that the defendant’s “use of [plaintiff’s] photocopied [FAA airworthiness certificate] deprived [plaintiff] of his property right as surely as if [defendant] had purloined the original [certificate] from [plaintiff’s] desk drawer and presented it to the FAA. The property right is in the use of [the

certificate] to obtain a governmental privilege, not in the physical possession of the . . . form.”). Conversely, some courts have dismissed a claim for conversion based on a taking of physical files, on the ground that only the information had value and a claim based on theft of information must be made exclusively under the UTSA. *See, e.g., Opteum Fin. Servs., LLC v. Spain*, 406 F.Supp.2d 1378, 1381 (N.D. Ga. 2005).

#### **2.8.3.4 Misappropriation**

Common law courts have developed two misappropriation tort doctrines: (1) quasi property “hot news” misappropriation; and (2) quasi contract idea protection.

##### **2.8.3.4.1 “Hot News” Misappropriation**

The “hot news” misappropriation doctrine traces to *Int’l News Serv. v. Associated Press*, where the Supreme Court established that the time value of news data was “quasi property” that could not lawfully be appropriated by a wire service from its rival’s publication, even though it had just been published to the world. 248 U.S. 215, 236 (1918). This case involved competing wire services during World War I. Lacking access to the European theater, International New Service (“INS”) purchased east coast editions of Associated Press’s (“AP”) news reports and paraphrased them for its own newspapers on the west coast, sometimes getting their stories out before AP’s reached west coast newspapers. Moreover, INS published these accounts under their own byline. Such news was not copyright-protected, so the Court looked to the common law to protect the labor driving the time-sensitive newspaper business. Characterizing INS’s practices as “unfair competition,” the Court emphasized not only offense to good conscience and deception of the public, but also the practical need for a rule that would guarantee some profit to the business that invested the original toil.

In view of persuasive dissents penned by Justices Brandeis and Holmes, judicial fears that such a vague doctrine would run amok, and the Supreme Court abolition of federal general common law in diversity cases (the grounds on which *INS* was decided), *see Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938), scholars predicted the demise of *INS* misappropriation doctrine. Nonetheless, the doctrine has lived on as a gap-filler to provide limited protection where trade secret (or other intellectual property) law did not reach. *See Imax Corp. v. Cinema Technologies, Inc.*, 152 F.3d 1161 (9th Cir. 1998) (allowing owner of movie projector equipment to recover on a common law misappropriation theory for the use of information disclosed in confidence despite the fact that the plaintiff could not prevail on its trade secret claim); *U.S. Sporting Prod., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 218 (Tex. App. 1993) (applying doctrine to commercial copying of a published recording of bird calls, describing the cause of action as a sort of unfair competition but distinguishing it sharply from trade secret). The latter decision “recognize[d] the elements of misappropriation as: (i) the creation of plaintiff’s product through extensive time, labor, skill and money, (ii) the defendant’s use of that product in competition with the plaintiff, thereby gaining a special advantage in that competition (i.e., a ‘free ride’) because defendant is burdened with little or none of the expense incurred by the plaintiff, and (iii) commercial damage to the plaintiff.” *Id.*

Courts have interpreted the doctrine cautiously so as to avoid conflict with the Copyright Act, *see* 17 U.S.C. § 301; COMMITTEE ON THE JUDICIARY, H.R. REP. NO. 94-1476, at 132 (1976) (explaining that “[m]isappropriation” is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as “misappropriation” is not preempted if it is in fact based neither on a right within the general scope of copyright as specified by section 106 nor on a right

equivalent thereto”). The doctrine has been explored under New York law, where the Second Circuit has held that *INS* survives, but only where:

- (i) a plaintiff generates or gathers information at a cost;
- (ii) the information is time-sensitive;
- (iii) a defendant’s use of the information constitutes free-riding on the plaintiff’s efforts;
- (iv) the defendant is in direct competition with a product or service offered by the plaintiffs;
- and
- (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product that its existence or quality would be substantially threatened.

*National Basketball Ass’n v. Motorola, Inc.*, 105 F.3d 841, 845 (2d Cir. 1997); *see also Barclays Capital Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876, 903-04 (2d Cir. 2011) (further narrowing the *INS* doctrine).

#### **2.8.3.4.2 Idea Protection**

Some states also recognize a quasi contract form of misappropriation liability associated with submission of ideas. In *Nadel v. Play-by-Play Toys & Novelties, Inc.*, 208 F.3d 368 (2d Cir. 2000), the Court recognized contract-based liability under New York common law where the parties enter into a pre-disclosure confidentiality agreement, the idea purveyor subsequently discloses the **information** to the prospective buyer, there is no post-disclosure contract for payment based on use, and the receiving party uses the disclosed idea. In *Apfel v. Prudential–Bache Securities, Inc.*, 81 N.Y.2d 470, 476-77, 600 N.Y.S.2d 433, 616 N.E.2d 1095 (1993), the New York Court of Appeals held that a showing of novelty to the buyer, as opposed to absolute novelty, will supply sufficient consideration to support a contract. The California Supreme Court has similarly recognized that “the act of disclosing an unprotectible idea, if that act is in fact the bargained for exchange for a promise, may be consideration to support the promise.” *Desny v. Wilder*, 46 Cal.2d 715, 729, 299 P.2d 257 (Cal. Sup. Ct. 1956).

Some courts consider whether an idea is sufficiently “concrete” in determining liability based on breach of implied contract and confidential relationship causes of action, although not in express contract claims. *See Burten v. Milton Bradley Co.*, 592 F. Supp. 1021, 1031 (D.R.I. 1984) (observing that “[i]deas are the most intangible of property rights, and their lineage is uniquely difficult to trace. Paternity can be claimed in the most casual of ways, and once such a claim is lodged, definitive blood tests are notoriously lacking.”), *rev’d on other grounds*, 763 F.2d 461 (1st Cir. 1985); *see also Hamilton Nat’l Bank v. Belt*, 210 F.2d 706, 708 (D.C. Cir. 1953) (noting in assessing a claim to protect the idea of organizing and sponsoring radio broadcasts of student talent shows that “[t]he law shies away from according protection to vagueness, and must do so especially in the realm of ideas with the obvious dangers of a contrary rule”).

#### **2.8.3.5 Unjust Enrichment**

Unjust enrichment is an equitable doctrine that allows recovery of a benefit realized at the expense of another without justification. *See, e.g., Schatt v. Curtis Mgmt.Grp., Inc.*, 764 F.Supp. 902, 915 (S.D.N.Y. 1991). It is applied in principle as a measure of damage under the Uniform Trade Secrets. As a separate theory of liability, however, it may add little to the properly-pled trade secret misappropriation action. One Court has held that it should not be used as a “fall back” position when the plaintiff is unable to prove a protectable trade secret. *Sheets v. Yamaha Motors*



*Corp., U.S.A.*, 849 F.2d 179, 184 (5th Cir. 1988) (“Sheets is not entitled to fall back on the equitable doctrine of unjust enrichment after failing to establish a trade secret due to his failure to make reasonable efforts to maintain secrecy.”); *cf.*, *Univ. of Colorado Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (state laws on fraud and unjust enrichment are “field preempt[ed]” by patent law to the extent that resolution of the claims depends on determining who invented technology that later issued as a patent); *see later proceedings* at 342 F.3d 1298, 1306 (Fed. Cir. 2003) (no patent preemption of unjust enrichment claim where that claim seeks “to remedy the breach of a contract implied in law” not to disseminate test results). Unjust enrichment theory, as a separate claim, is also displaced by the UTSA. In a non-UTSA jurisdiction, however, one Court found that non-secret, publicly disclosed information could form the basis for an unjust enrichment claim where one business had agreed not to share the information with third parties. *See Massachusetts Eye & Ear Infirmary v. QLT, Inc.*, 495 F.Supp.2d 188, 212 (D. Mass. 2007) (demand for plaintiff’s work “showed that [plaintiff] continued to possess valuable confidential information even after the public disclosures”). The Court’s reasoning was not particularly clear; the Court found that some of the “confidential” information at issue had not been publicly disclosed, and thus the case seemingly could have proceeded under a trade secret theory rather than an alternative unjust enrichment claim.

#### 2.8.4 COMPUTER FRAUD AND ABUSE ACT

The COMPUTER FRAUD AND ABUSE ACT (“CFAA”) imposes criminal and civil liability for unauthorized access or damage to a protected computer. It prohibits unauthorized access or access that exceeds authorization of computers. 18 U.S.C. § 1030(a)(1). Congress initially framed the CFAA in 1984 as a criminal law statute, but added a private cause of action (§ 1030 (g)) a decade later. Its reach is far narrower than trade secret misappropriation.

The CFAA defines “exceeds authorized access” to mean “to access a computer with authorization and to use such access to obtain . . . information in the computer that the accesser is not entitled so to obtain.” 18 U.S.C. § 1030(e)(6). In *U.S. v. Van Buren*, 141 S. Ct. 1648 (2021), the Supreme Court interpreted the CFAA’s “exceeds authorized access” provision to cover “those who obtain information from particular areas in the computer—such as files, folders, or databases—to which their computer access does not extend,” but not “those who . . . have improper motives for obtaining information that is otherwise available to them.” *See id.*, at 1652. Thus, the CFAA does not criminalize employees who merely violate a company’s computer policy. Rather, it is directed at computer hackers. *See id.*, at 1660 (citing with approval *Royal Truck & Trailer Sales & Serv., Inc. v. Kraft*, 974 F.3d 756, 760 (6th Cir. 2020) (holding that the CFAA is narrowly “aimed at preventing the typical consequences of hacking, rather than the misuse of corporate information”). The District Court in *FirstEnergy Corp. v. Pircio*, 524 F.Supp.3d 732, 743-44 (N.D. Ohio 2021), relying on *Royal Truck & Trailer Sales & Serv., Inc. v. Kraft*, held that a former employee’s accessing of information unrelated to his work on his employer’s computer network shortly after he was terminated did not violate the CFAA because he used proper authorization, even though he exceeded the scope of such authorization to take data and use it for unauthorized purposes.

The CFAA differs from trade secret liability in several other important ways. Plaintiffs must bring an action within two years of the date the act is complained or the date of the discovery of the damage and must allege that they suffered damage or loss. 18 U.S.C. § 1030(g). This can include the costs of restoring data or programs and lost sales from a website, but does not include lost revenue resulting from the theft of proprietary information. *See Andritz, Inc. v. Southern*

*Maintenance Contractor, LLC*, 2009 WL 48187 (M.D. Ga. Jan. 7, 2009); *Nexans Wires S.A. v. Sark-USA, Inc.*, 319 F.Supp.2d 468, 477 (S.D.N.Y. 2004). Second, the CFAA complaint must satisfy at least one of several threshold injury requirements:

- (I) loss to 1 or more persons during any 1-year period (and, for purposes of an investigation, prosecution, or other proceeding brought by the United States only, loss resulting from a related course of conduct affecting 1 or more other protected computers) aggregating at least \$5,000 in value;
- (II) the modification or impairment, or potential modification or impairment, of the medical examination, diagnosis, treatment, or care of 1 or more individuals;
- (III) physical injury to any person;
- (IV) a threat to public health or safety;
- (V) damage affecting a computer used by or for an entity of the United States Government in furtherance of the administration of justice, national defense, or national security.

18 U.S.C. § 1030(g) (referencing § 1030(c)(4)(A)(i)). Third, although CFAA authorizes courts to award “compensatory damages and injunctive relief or other equitable relief,” the regime focuses on “any impairment to the integrity or availability of data, a program, a system, or information” and “reasonable cost to any victim, including the cost of responding to an offense, conducting a damage assessment, and restoring the data, program, system, or information to its condition prior to the offense, and any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service.” 18 U.S.C. §§ 1030(e)(8) (definition of “damage”), (e)(11) (definition of “loss”). Although these definitions are for jurisdictional purposes and do not limit recoverable damages, *Frees, Inc. v. McMillian*, 2007 WL 2264457, at \*5 (W.D. La. Aug. 6, 2007), there is little guidance on the determination of compensatory damages in CFAA cases. *Cf. U.S. Gypsum Co. v. Lafarge N. Am.*, 670 F.Supp.2d 737, 744 (N.D. Ill. 2009) (finding that the plaintiff did not articulate a sufficient basis for damages suffered outside the scope of actual damage or loss); *Craigslist, Inc. v. RadPad, Inc.*, 2017 U.S. Dist. LEXIS 218351, at \*7 (N.D. Cal. 2017) (attributing \$160,000 of damages, based on collecting personal information (\$1 for each email address and \$1 for each phone number) from 80,000 emails in violation of Craigslist’s terms of use and CFAA violations). The Second Circuit has held, however, that damages for the unauthorized *use* of information acquired through violation of the CFAA are not recoverable under that Act. *See Nexans Wires S.A. v. Sark USA, Inc.*, 166 F. App’x 559, 652 (2d Cir. 2006).

## 2.8.5 RICO

The RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT (“RICO”) provides for enhanced (i.e., trebled) damages and attorneys’ fee awards in cases of repeated violations (a “pattern” of “predicate acts”) involving an “enterprise.” Until 1996, no federal statute criminalized trade secret theft as such; therefore, plaintiffs typically relied on the federal mail fraud and wire fraud statutes as sources of the requisite statutory violations, although some cases have recognized state law trade secret misappropriations as “predicate acts,” and violations of criminal provisions of the federal ECONOMIC ESPIONAGE ACT are expressly included in the definition. It is not necessary to prove prior criminal convictions.

Originally enacted as a tool in the fight against organized crime, RICO has been widely used in business litigation. Plaintiffs who wish to plead civil RICO in a trade secret case face two difficult challenges. The first is the requirement that the defendants have engaged in a “pattern of

rackeering activity.” The typical trade secret misappropriation case involves a single start-up business, a single “raid” on a group of employees, or a single act of misuse by a trusted business partner. These are more appropriately characterized as transactions than patterns. The second obstacle is proving an “enterprise” (i.e., the functional equivalent of a criminal organization) through which the defendant acted. Again, in the typical trade secret case, the defendants have not formed a separate criminal enterprise. The DTSA amended the RICO statute to specifically provide that trade secret theft is a predicate offense. *See* DTSA § 3(b), *amending* 18 U.S.C. § 1961(1) (adding “sections 1831 and 1832 (relating to economic espionage and theft of trade secrets)” to the list of predicate offenses); *Magnesita Refractories Co. v. Tianjin New Century Refractories Co., Ltd.*, 2019 WL 1003623, at \*8 (M.D. Pa. Feb. 28, 2019) (holding that a plaintiff alleging civil RICO and using DTSA as the only predicate offense must plead two or more acts of trade secret theft that occurred after May 11, 2016 (when DTSA became a predicate act for RICO) to withstand a motion to dismiss); *cf. Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp.*, 2017 WL 1105648, at \*8 (E.D. Pa. March 24, 2017) (allowing plaintiff’s RICO claim to proceed, finding that plaintiff had adequately alleged “a plausible pattern of racketeering activity”).

Courts are divided as to whether injunctive relief is available under the RICO statute. Some states have passed their own versions of RICO that may be applicable. Alleged RICO violators have attempted to conceal their schemes by claiming that their activities constitute trade secrets and that victims are prohibited from disclosing them.

Many federal courts or judges require the plaintiff to file a “RICO Case Statement” at the beginning of the case that sets forth the supporting facts and legal bases of their claims. *See Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 44 n.3 (1st Cir. 1991); U.S. District Court, Southern District of New York, RICO Statement (Hon. Kimba M. Wood), [https://nysd.uscourts.gov/sites/default/files/practice\\_documents/kmwRICOStatement.pdf](https://nysd.uscourts.gov/sites/default/files/practice_documents/kmwRICOStatement.pdf)

Section 3.4.1.5 discusses pleading a violation of the DTSA as a RICO predicate act.

### **2.8.6 UTSA and Preemption**

As noted in several of the sections on state business torts, the UTSA preempts or displaces common law claims such as conversion or unfair competition when they are premised on similar allegations. The DTSA does not preempt common law claims except with respect to matters covered by whistleblower immunity. *See* 18 U.S.C. § 1838; § 2.4.

UTSA drafters recognized that a potpourri of legal theories had been applied to trade secret misappropriation actions; indeed, displacement (preemption) of inconsistent and superfluous theories was one of the objectives of the Act. Section 7 provides:

(a) Except as provided in subsection (b), this Act displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.

(b) This [Act] does not affect:

(1) contractual remedies, whether or not based upon misappropriation of a trade secret;

(2) other civil remedies that are not based upon misappropriation of a trade secret;  
or

(3) criminal remedies, whether or not based upon misappropriation of a trade secret.

In *Burbank Grease v. Sokolowski*, 717 N.W.2d 781 (Wisc. 2006), the Wisconsin Supreme Court ruled that the state's version of the UTSA did not preclude enforcement of a state computer crimes statute (based on misappropriation of confidential information that fell outside of trade secret protection) over a sharp dissent noting conflicting decisions in other states and the legislative directive to interpret Wisconsin's statute "make uniform the law relating to misappropriation of trade secrets among the states." Wis. Stat. § 134.90(7). Cf. *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 123 Hawaii 314 (Haw. 2010) (preempting non-UTSA claim that would also simultaneously establish a claim for misappropriation of trade secrets).

The scope of UTSA preemption will depend in part on which version of the Act—1979 or 1985—the state enacted. Section 7 of the original version opted for broader preemption, declaring that the Act "displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret." Section 7(b) addressed the issue in a negative way, stating that it did not affect "contractual or other civil liability that is not based upon misappropriation of a trade secret." Thus, to the extent that any claim, however labeled, was based on an act of misappropriation, it was displaced. See *R.K. Enterprise, LLC v. Pro-Comp Mgmt., Inc.*, 158 S.W.3d 685, 689-90 (Ark. 2004) (under 1979 version of UTSA, no "election" of common law theory possible since all alternatives, including conversion, were displaced by statute). In the 1985 version, the exception language of Section 7(b) was expanded to apply to "contractual remedies, whether or not based upon misappropriation of a trade secret," as well as "other civil remedies" not based on misappropriation. However, even this narrower preemption clause has been held to prevent alternative claims, based on the same set of facts, for fraud and deceit, breach of fiduciary duty, conversion, quasi-contract, quantum meruit, unjust enrichment and unfair competition. See *On-Line Tech. v. Bodenseewerk Perkin-Elmer*, 386 F.3d 1133, 1145 (Fed. Cir. 2004) (plaintiff's claim that the defendant fraudulently misrepresented its evaluation of plaintiff's confidential technology was displaced, because "the ultimate injury to which the alleged fraud was directed was the misappropriation of [plaintiff's] trade secrets"); *Callaway Golf Co. v. Dunlop Slazenger Grp. Americas, Inc.*, 318 F.Supp. 2d 216, 219-21 (D. Del. 2004) (applying California law, holding negligence, conversion and unjust enrichment claims unavailable when "based entirely on the same factual allegations"). Moreover, even though the UTSA expressly preserves contractual remedies, this does not mean that one may protect through contract that which does not qualify as a trade secret.

The scope of UTSA preemption can differ from state to state. For example, Iowa did not include a preemption clause in its version of the statute and does not recognize "implied statutory preemption." *Sioux Biochemical, Inc. v. Cargill, Inc.*, 410 F.Supp.2d 785, 804-05 (N.D. Iowa 2006). The same situation applies in *New Mexico. Array Techs, Inc. v. Mitchell*, 305 F.Supp.3d 1256, 1275 (D.N.M. 2018). Elsewhere, results could be affected by each state's legislative history enacting the UTSA, each state's common law rules for the effect of comprehensive statutes on prior law, each state's rulings on the preemptive effect of other uniform acts such as the Uniform Commercial Code, and the degree to which each state has been tolerant or intolerant of tort claims based on information that is not a trade secret. Most of the published rulings thus far have addressed the question on motions to dismiss, and no court has yet issued a comprehensive ruling taking all of these issues into consideration.

Section 3.4.3 explores additional aspects of UTSA preemption.

## 2.9 International Aspects

Trade secret protections vary across the world, but are fairly well developed and predictable in numerous jurisdictions. Common law systems, such as those in the United Kingdom, Canada, and Australia, bear the closest resemblance to U.S. trade secret law. Enforcement is reasonably available in many parts of the world, although civil discovery as practiced in the United States is not generally available, and so most trade secret plaintiffs must rely on their own forensic investigation to generate the required evidence or to prompt criminal proceedings in which the authorities can seize evidence.

The United States has pioneered trade secret law, and other countries have followed suit. Indeed, Article 39 of the 1995 Trade Related Aspects of Intellectual Property Agreement (TRIPS, discussed in detail below) was patterned on the UTSA. The more recent EU Trade Secrets Directive also largely tracks the UTSA definitions of secrecy, reasonable efforts, and misappropriation. *See* Council Directive 2016/943, art. 2–5, 2016 O.J. (L 157/1) 1 (EC). Additionally, in the EU and similar civil law systems, in which a judge or other judicial officer takes charge of collecting the evidence through a series of hearings, and in which the standards are set primarily through statute and regulation, and much less by judicial interpretation, there are reasonably comprehensive rules governing confidential information. Although as noted discovery is virtually nonexistent, remedies can be swift and effective when the necessary facts are known.

Until the mid-1980s trade secret protection in Asia generally was a matter of private business dealings, with the law intervening only in a haphazard and unpredictable way. Since then, international pressure principally from the United States has generated significant strengthening of trade secret protection and improvements in business ethics.

In developing nations, intellectual property law is often seen as a means of economic exploitation by the industrialized countries, complicating efforts toward harmonizing and strengthening intellectual property laws. The rhetoric has been intense, directed mainly at patent rights and the developing countries' attempts to limit terms of protection and to impose compulsory licensing to domestic companies. But in other areas, and broadly in relation to trade secrecy and know-how, there is growing recognition that greater respect for the rule of law and business ethics can support the development of domestic industries and reverse dependence on imports.

We break the examination of international aspects of trade secrecy into four sections. Section 2.9.1 examines the trade agreements affects North America. Section 2.9.2 discusses the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement, the major international treaty governing intellectual property rights. Section 2.9.3. explores the most pertinent procedural aspects of transnational litigation. Section 2.9.4 discusses the U.S. International Trade Commission's authority to exclude imports produced in violation of trade secret rights.

### **2.9.1 NAFTA (Effective Prior to July 1, 2020)/USMCA (Effective on July 1, 2020)**

On December 17, 1992, the United States, Mexico, and Canada entered into a regional trading relationship through the North American Free Trade Agreement (NAFTA). Directed primarily at eliminating tariff and other barriers to free trade in North America, it also took aim at variations in trade secret protection. Mexico showed its commitment by amending its laws in anticipatory compliance. Although NAFTA was replaced on July 1, 2020 by the United States-Mexico-Canada Agreement (USMCA), its provisions provide useful background in understanding the current arrangements.

Article 1711 of NAFTA addresses trade secret protection. NAFTA largely tracks the UTSA, providing that signatories

provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:

- (a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;
- (b) the information has actual or potential commercial value because it is secret; and
- (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.

Reflecting Mexico's national law, NAFTA allows a country to require that secrets be reflected in a document or other record in order to be protectable. Moreover, the definition of "contrary to honest commercial practices" as set forth in Article 1721 requires that a party know or be "grossly negligent" in failing to know that the information was misused. Arguably this is a less demanding standard than the "know or should have known" criterion of United States law.

NAFTA also requires that signatory nations ensure confidentiality of information provided to government agencies as part of a licensure process for the marketing of pharmaceutical or agricultural chemical products using new chemical formulations. This requirement applies only if the data were developed with "considerable effort"; and there are exceptions to confidentiality when disclosure "is necessary to protect the public." Article 1716 requires that "judicial authorities" in member countries have the power to order injunctive relief to prevent violation of intellectual property rights.

NAFTA was replaced on July 1, 2020 by the United States-Mexico-Canada Agreement (USMCA). As regards trade secret protection, USMCA clarifies that state-owned enterprises must protect trade secrets. Article 20.69 requires each country to "ensure that persons have the legal means to prevent trade secrets lawfully in their control from being disclosed to, acquired by, or used by others (including state-owned enterprises) without their consent in a manner contrary to honest commercial practices."

The United States-Mexico-Canada Agreement (USMCA) replaced NAFTA on July 1, 2020. USMCA provides a number of civil judicial protections applicable to trade secret protection. Articles 20.70 and 20.72 provide that trade secrets shall remain in force so long as they: (a) they are secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) have actual or potential commercial value because they are secret; and (c) have been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret. Article 20.73 requires that judicial authorities have the authority to order prompt and effective provisional measures and Article 20.75 requires that judicial authorities have the authority to order appropriate remedies, including injunctive relief and damages. Article 20.74 requires that judicial authorities have authority to (a) order specific procedures to protect the confidentiality of any trade secret, alleged trade secret, or any other information asserted by an interested party to be confidential; and (b) impose sanctions on parties, counsel, expert, or other person subject to those proceedings, related to violation of orders concerning the protection of a trade secret or alleged trade secret

produced or exchanged in that proceeding, as well as other information asserted by an interested party to be confidential. Article 20.71 requires member countries to provide for criminal enforcement for the unauthorized and willful misappropriation of a trade secret. Article 20.76 provides that no member country shall discourage or impede the voluntary licensing of trade secrets by imposing excessive or discriminatory conditions on those licenses or conditions that dilute the value of the trade secrets.

### **2.9.2 GATT/TRIPs**

Annex C to the GATT Agreement of April 15, 1994, which brought to closure the long-running Uruguay Round of discussions and established the World Trade Organization (WTO), is titled “Trade-Related Aspects of Intellectual Property Rights” and referred to as the “TRIPs” Agreement. The following subsection set out the provisions of that agreement most directly related to the protection and enforcement of trade secret rights. These specific provisions are in addition to the treaty’s general prohibitions against discrimination that require that foreigners be given rights of enforcement and defense that are identical to those provided to citizens.

Given the number of signatory nations, and more importantly the number of countries that want to become members of the WTO, the terms of this treaty provide a framework for global harmonization of intellectual property rights. The transition provisions of the treaty (Article 65) permit varying periods for a member country to come into compliance, depending on whether it is a “developing country” or in the “process of transformation” to a market economy (five years), or a “least developed country” (ten years). However, the other benefits of becoming a member of the WTO are sufficiently attractive that many developing countries are (relatively) rushing to amend their laws to comply.

Article 39, paragraph 2 is the basic section defining trade secrecy. Although it speaks in terms of “undisclosed information,” the nature of the rights protected is clearly what we know as trade secrets. As with the NAFTA treaty, TRIPs recognizes the fundamental elements of relative secrecy, value, and reasonable steps to maintain secrecy. It also employs the same qualifier of “contrary to honest commercial practices,” which is defined in a footnote as meaning “at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.” Thus, the same concern exists that this may afford a lower level of protection (by raising the degree of culpability required to constitute a violation) than the level of protection generally provided under U.S. law. Moreover—and this is not an issue with NAFTA—it expresses the element of “value” without the additional clarifying phrase “actual or potential.”

Article 39 also contains language, virtually identical to that found in Article 1711 of NAFTA, directed at assuring the confidentiality of information submitted to government agencies regarding pharmaceutical or agricultural chemical products. Although there is no separate provision expressly prohibiting national laws that would set an arbitrary term of protection for secrecy, that effect seems implied by the language of paragraph 2, which requires member countries to protect undisclosed information “so long as” it meets the basic requirements of a trade secret.

Article 41 requires that member nations provide remedies that are “fair and equitable” and that are not “unnecessarily complicated or costly, or [which] entail unreasonable time limits or unwarranted delays.” Article 42 guarantees written notice of claims, representation by counsel,

and procedures to protect the confidentiality of information in litigation, “unless this would be contrary to existing constitutional requirements.” Article 43 requires the availability of subpoenas of evidence and permits summary judgment. Article 44 provides for injunctive relief, including orders barring importation of goods that “involve the infringement of an intellectual property right,” so long as the defendant had at least “reasonable grounds to know” of the infringement. Paragraph 2 of Article 44 permits a royalty in lieu of an injunction in limited circumstances.

Article 45 guarantees the right to recover compensatory damages subject only to the limitation that the infringer knew or had “reasonable grounds to know” of the infringement. It further provides that awards may, according to national law and the discretion of the judicial authority, include costs and attorney’s fees, and, without regard to the defendant’s knowledge of infringement, statutory damages. Article 46 requires that the judicial authorities have the power to order seizure and sale of “goods that they have found to be infringing,” as well as equipment used in the production thereof. Article 47 permits member countries to require an infringer to identify others who have been involved in infringing activity. Article 48 covers bonds, and Article 49 addresses administrative procedures. Article 50 requires that judges be given the power to make provisional orders preventing infringement and preserving evidence.

### **2.9.3 Transnational Litigation**

In view of the increasing global nature of commerce, intellectual property enforcement increasingly occurs in parallel in multiple nations, raising a host of complex jurisdictional, procedural, and case management issues. This section discusses three important aspects of transnational litigation: personal jurisdiction, service of process, and discovery from persons located in the U.S.

#### **2.9.3.1 Personal Jurisdiction in Transnational Litigation**

The threshold issue in most transnational litigation is personal jurisdiction, an issue that turns on whether “the defendant’s conduct and connection with the forum [State] are such that [it] should reasonably anticipate being haled into court there.” *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980)).

In many trade secret cases, the dispute arises between entities that engaged in negotiations in facilities in various nations. If a party executed a nondisclosure agreement in the United States, then personal jurisdiction most likely can be asserted here. *See Entek Corp. v. Southwest Pipe & Supply Co.*, 683 F.Supp. 1092, 1098-100 (N.D. Tex. 1988) (denying motion to quash as to foreign defendant that signed a nondisclosure agreement, but granting as to defendant whose only connection with the U.S. was to send to the Patent and Trademark Office an assignment of patent application for recordation). More generally, courts hold foreign defendants purposefully avail themselves to U.S. jurisdiction by engaging in a scheme to steal trade secrets. A foreign corporation may properly be sued based on the activity within the forum of its acknowledged agent. Jurisdiction over a foreign corporation’s officers may also be based on plaintiff’s allegations of a conspiracy. *See, e.g., Gen. Motors Corp. v. Lopez*, 948 F.Supp. 656, 665-666 (E.D. Mich. 1996) (noting also that jurisdiction over the foreign employer was derivative of the jurisdiction established over its officers).

Asserting jurisdiction becomes more complicated where a foreign government engages in commercial activity in the U.S. through owned or affiliated entities. When allegations of trade secret theft arise, the activity typically has taken place in the foreign jurisdiction. Meaningful relief in that country may seem illusory, and action in the U.S. may be blocked by the doctrine of



sovereign immunity. The trade secret plaintiff may, however, be able to circumvent that defense by focusing its pleading those aspects of the transaction that occurred in the U.S. *See BP Chemicals Ltd. v. Jiangsu Sopo Corp. Ltd.*, 285 F.3d 677 (8th Cir. 2002) (holding a Chinese-owned business liable for the acts of agent *disclosing* misappropriated trade secrets in the use). In subsequent proceedings, the Court held that satisfying the “commercial activity” requirement of the FOREIGN SOVEREIGN IMMUNITY ACT automatically satisfies constitutional due process standards for in personam jurisdiction. *BP Chemicals Ltd. v. Jiangsu Sopo Corp.*, 420 F.3d 810, 818 (8th Cir. 2005).

Some courts have based the personal jurisdiction on effects caused in the forum by actions taken by the defendant outside the forum. This has been applied, for example, where a plaintiff has agreed to divulge secret information in confidence to the defendant in a foreign jurisdiction, and the defendant thereafter breached the agreement; in such a case the defendant can be said to have expected that the harm would occur and that it would occur where the plaintiff was located. *See Paolino v. Channel Home Centers*, 668 F.2d 721, 724 (3d Cir. 1981) (“Inducing a Pennsylvanian to entrust [a trade secret] to [defendant] Air Control on a promise of confidentiality, and then misappropriating it, obviously would cause harm in Pennsylvania no matter where the misappropriation occurred.”); *ITR Am., LLC v. Trek, Inc.*, 2017 U.S. Dist. LEXIS 216172, at \*10 (S.D. Miss. Sept. 26, 2017); *S&D Trading Acad., LLC v. AAFIS, Inc.*, 494 F.Supp.2d 558, 567-68 (S.D. Tex. 2007) (jurisdiction found where day traders learned trade secrets during in-state training and contract formed in state, although the “trade secrets were allegedly misappropriated in China”). *Gen’l Motors Corp. v. Lopez*, 948 F.Supp. 656, 666 (E.D. Mich. 1996) (new employer subject to in personam jurisdiction for having “caused a consequence” in the forum state by providing “money, transportation, copying, and shredding facilities”); *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1204 (Fed. Cir. 2003) (defendant had procured a trade secret injunction against plaintiff in another jurisdiction, allegedly in violation of due process, and then sent notice to plaintiff and its customers in the forum state). This does not necessarily mean that a misappropriator can be sued wherever its action is alleged to have had an effect; there still must be some conduct by the defendant that was directed at the forum state. *See Arch Aluminum & Glass Co. v. Haney*, 964 So.2d 228, 235 (Fla. Dist. Ct. App. 2007).

If establishing jurisdiction will require access to facts the plaintiff does not possess, the Court may order the defendant to submit to discovery limited to those relevant predicate facts. *See, e.g., PST Servs., Inc. v. Larson*, 221 F.R.D. 33 (N.D.N.Y. 2004) (discussing factors on motion for discovery in aid of jurisdictional dispute).

Section 3.6.1 discusses case management of personal jurisdiction.

### **2.9.3.2 Service of Process**

Closely related to jurisdiction is service of process, which for the most part must be accomplished in accordance with the provisions of the Hague Service Convention. However, service by letters rogatory pursuant to state statutory procedure may be sufficient. The preferred method is to serve personally an officer of the company if one is present in the United States.

### **2.9.3.3 Foreign Trade Secret Litigation: Discovery from Persons Located in the U.S.**

Parties to foreign trade secret litigation can seek discovery from persons located in the U.S. Pursuant to 28 U.S.C. § 1782, the federal courts are authorized to order production of documents

or things “for use in a proceeding in a foreign . . . tribunal. . . .” See *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241, (2004); *Heraeus Kulzer, GmbH v. Biomet, Inc.*, 633 F.3d 591, 594 (7th Cir. 2011) (stating that discovery in the federal court system is far broader than in most foreign countries). If the District Court determines that discovery is appropriate, then the general rules governing U.S. discovery apply. See *Heraeus Kulzer, GmbH*, 633 F.3d at 596-599 (reversing District Court’s denial of all discovery requested without requiring the resisting party to negotiate with the requesting party); see also *Application of Consorcio Ecuatoriano De Telecomunicaciones S.A. v. JAS Forwarding (USA), Inc.*, 747 F.3d 1262, 1272 (11th Cir. 2014) (granting application for discovery and evaluating requests under normal discovery rules). Orders for discovery made under § 1782 are ordinarily immediately appealable, even though proceedings may be ongoing in the trial Court. *Heraeus Kulzer, GmbH v. Biomet, Inc.*, 881 F.3d 550, 563 (7th Cir. 2018).

Section 6.10.4 discusses case management of § 1782 petitions.

## **2.9.4 Import Exclusion: The U.S. International Trade Commission**

In addition to direct trade secret enforcement in state or federal court, trade secret owners can seek to block imports of products produced abroad in violation of U.S. trade secret protections through the U.S. International Trade Commission (ITC). See generally PETER S. MENELL, ET AL., SECTION 337 PATENT INVESTIGATION MANAGEMENT GUIDE (Lexis 2012). Under Section 337 of the TARIFF ACT, 19 U.S.C. § 1337, the ITC has jurisdiction to protect domestic markets against “unfair acts,” which includes intellectual property infringement in general, and trade secret misappropriation in particular. See *In re Certain Apparatus for the Continuous Production of Copper Rod*, 206 U.S.P.Q. 138, 157-58 (I.T.C. 1979) (refusing, however, under the circumstances of the case, to issue an exclusion order and instead issuing a “cease and desist” order). There must be a causal link shown between the misappropriation and the act of importation, and unlike statutory claims for patent, copyright, and trademark infringement, trade secret cases will be considered under the stringent test of injury to a domestic industry that generally prevailed before the OMNIBUS TRADE ACT OF 1988.

Because the robust common law and statutory protections for trade secrets in the U.S. do not exist in many foreign countries, the ITC can be an attractive forum for U.S. companies to seek redress for misappropriation of trade secrets that occurs overseas if the foreign actor attempts to import articles produced using the misappropriated trade secrets into the U.S. In addition to proving the traditional elements of trade secret misappropriation, the trade secret owner will need to prove that the importation of the articles produced using misappropriated trade secrets threaten “to destroy or substantially injure an industry in the U.S.” 19 U.S.C. § 1337(a)(1)(A)(i); see *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322 at 1335-37 (Fed. Cir. 2011) (finding potential for substantial injury to domestic industry despite evidence that trade secret owner did not practice the misappropriated trade secrets in the U.S.). Note that the Federal Circuit has held that electronic transmissions alone cannot be the subject of an ITC exclusion order. *ClearCorrect Operating, LLC v. Int’l Trade Comm’n*, 810 F.3d 1283, 1293-94 (Fed. Cir. 2015).

The ITC’s remedial powers are limited to exclusionary orders barring importation of the illicit articles. Since the ITC cannot award damages, petitioners typically file a parallel action in federal court and then request a mandatory stay of that action pursuant to 28 U.S.C. § 1659. If the ITC determines that an unfair trade practice has occurred through trade secret misappropriation, that finding can have preclusive effect in the district court action. See *Manitowoc Cranes LLC v. Sany Am. Inc.*, 2017 U.S. Dist. LEXIS 202860, at \*8 (E.D. Wis. Dec. 11, 2017) (granting summary

judgment of misappropriation under state law). Section 3.11 discusses related case management issues.

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### 3.1 Introduction

Federal courts have been hearing and resolving civil trade secret claims for well over one hundred years. See *E.I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917). Until the passage of the DTSA, federal courts heard these claims under diversity jurisdiction or through the exercise of supplemental or ancillary jurisdiction in cases asserting related claims under federal statutes. The trade secret claims themselves were governed by state law: first, under common law and since 1985, to a growing degree by the UTSA. The sole exception is New York, which follows the RESTATEMENT (FIRST) OF TORTS, §§ 757-759 (1939). While the UTSA as adopted by the states is not entirely uniform and contains some variations including on applicable statutes of limitations, the availability of particular remedies, and other matters that can have a significant impact on deciding particular cases, the Federal Circuit recognized in *Tianrui Group Co. v. ITC*, 661 F.3d 1322, 1337 (Fed. Cir. 2011) a national consensus on the broad principles governing trade secret law.

The DTSA conferred upon federal courts original, but not exclusive, jurisdiction over claims brought under the DTSA, 18 U.S.C. § 1836 (c), and established a federal substantive civil statute. The DTSA was enacted as an addition to the Economic Espionage Act, 18 U.S.C. §§ 1831-39, a federal criminal trade secret statute enacted in 1996. It is substantially patterned on, but is not identical to, the UTSA. With the exception of its whistleblower immunity provision, see 18 U.S.C. §§ 1833(b), 1838, the DTSA does not pre-empt state law.

The adoption of the DTSA means that judges in the federal courts will be increasingly likely to preside over trade secret claims, often brought in conjunction with supplemental claims under applicable state trade secret law. Many of these DTSA claims are coupled with additional claims, including supplemental claims that an individual defendant has breached a noncompetition or nondisclosure agreement designed to protect trade secrets or that an entity defendant has breached a nondisclosure or other agreement in connection with the exploration or wind down of a business relationship with another organization. Some are accompanied by claims for patent infringement, where an owner of intellectual property rights has elected to protect some rights under patent law while retaining others as trade secrets, or where the defendant is accused of having misappropriated information while it was a trade secret and then using it to make, use, or sell products or services once the owner has obtained patent protection for the information. Other trade secret claims arise in the context of larger business disputes, which may assert contractual, fraud, or other claims as well as claims for misappropriation. Trade secret disputes can be local in focus, relating to acts of misappropriation allegedly occurring in a single locale or, increasingly, and particularly under the DTSA, can include allegations regarding acts of misappropriation allegedly crossing state and international borders. Trade secret claims may also be mirrored by related federal and state criminal proceedings and investigations, arbitration proceedings, or proceedings before the U.S. International Trade Commission, as well as proceedings across multiple domestic or non-U.S. jurisdictions.

Many of the case management techniques some federal courts developed in addressing purely state law trade secret claims will be equally applicable to DTSA disputes. The DTSA brings with it additional issues for courts and litigants to consider.

### 3.2 Special Case Management Challenges Presented by Trade Secret Disputes

Trade secret claims, whether brought under state or federal law, differ from other intellectual property disputes. They require investigation into not only technical questions, often requiring the need for expert testimony, relating to the scope of the claimed right and whether it has been

subverted, or misappropriated, by the defendant, but also into broader historical facts regarding the relationship between the parties; how the trade secret owner has protected the information at issue (or not); whether defendant knew or should have known that its use or disclosure of information that has been allegedly protected as a trade secret was unauthorized; and what is known or is ascertainable, and with what degree of difficulty, in the relevant industry.

Many trade secret disputes also contain a significant emotional component resulting in heightened distrust between the parties. Trade secret disputes often involve formerly trusted insiders, whether former employees or former business partners or prospects. They can, however, involve outside “hackers” allegedly engaged in “espionage.” Plaintiffs often speak and think in terms of having been “betrayed” by defendants. This distrust, if not recognized and managed, can hamper cooperation and stall case progress.

Parties asserting trade secret claims frequently demand the Court’s immediate attention—if the misappropriation is not stopped, now, “a trade secret once lost is gone forever” and a “lost” trade secret cannot be recaptured, goes the refrain. Trade secret claimants may attempt to push their case to the front of the Court’s calendar by seeking immediate injunctive relief and expedited discovery. Defendants may be equally focused on obtaining an early ruling that the plaintiff’s claim is without merit or may contend that there is no reason to deviate from a normal schedule or at the least seek more time to respond. The filing of a request for immediate relief will virtually always trigger at the least a status conference with the parties and can often present an opportunity for the Court to map out the course of the dispute.

Because trade secret law does not rely on a public examination or registration system to stake out or register rights in advance of disputes, the question of what information is claimed to be at issue takes center stage early in nearly every trade secret dispute. Before a defendant can assess and defend against the claims, it must know what it is accused of having misappropriated. Before a court can determine what evidence is relevant from both sides to resolve discovery disputes, adjudicate requests for preliminary injunctive relief, or frame other equitable orders and appropriate monetary remedies, it must determine the nature and scope of the alleged trade secrets. But because pleadings asserting trade secret claims cannot reveal the trade secret without exposing it to the public (and thereby destroying the secret), initial pleadings often leave important unanswered questions. Courts have at their disposal a variety of special tools to direct plaintiffs to identify the information they claim to be trade secrets at an early stage without exposing them to public view or allowing the litigation to founder on assertions that the information has not been adequately specified.

Trade secret litigation also presents delicate issues regarding what evidence will be kept confidential and from whom. Disputes most often occurs between parties (including individuals) that either already are or plan to become competitors, each of whom zealously guards its own information. Unless well-managed, early litigation can bog down in considerations of what information must be kept confidential from whom and under what terms, with parties on both sides reluctant to produce information they claim to be confidential prior to entry of an appropriate and often strict protective order. Trade secret disputes also present issues regarding how to balance the public’s interest in access to the courts with the trade secret owner’s need to protect trade secrets from public disclosure during litigation. While these issues are also present in many kinds of commercial litigation, they can become acute in trade secret litigation and may call for special solutions. Importantly, the “trade secret privilege” often invoked to protect or even bar disclosure of some kinds of information in other kinds of commercial disputes does not bar production of relevant information pertaining to the very secrets at issue in trade secret disputes. The terms of a

protective order controlling how disclosure of that information will be made therefore become critical at an early stage of the litigation.

Trade secret disputes frequently involve requests for urgent equitable relief on an incomplete record to halt actual or “threatened” disclosure of trade secrets. The resolution of such requests may point the way to future discovery or motion practice, including motions for partial or complete summary judgment, or may create an opportunity to consider settlement on a more fully informed basis. If the case is not resolved on such a motion or through settlement, bringing a case to trial in a public forum regarding information that is alleged to be a highly valuable secret raises additional challenging issues.

These and other factors create the need for courts to manage disputes asserting trade secret claims actively from the outset. This chapter addresses ways litigants and courts can begin to manage predictable issues through early discussion and an early case management conference. Subsequent chapters explore some of these topics in greater detail, including: processes for identifying trade secrets (Chapter 4); handling requests for pre-trial injunctive relief, including *ex parte* and noticed motions for temporary restraining orders, early forensic preservation and review, requests for injunctive relief in aid of arbitration, expedited discovery and preliminary injunctions (Chapter 5); managing discovery, including protective orders, as well as managing requests to seal information in public filings (Chapter 6); considering summary judgment motions (Chapter 7); preparing for trial (see Chapters 8 and 9); and managing trials (Chapter 10). Chapter 11 addresses the distinctive issues involved in managing criminal trade secret litigation.

### **3.3 A Trade Secret Case Management Checklist to Structure the Initial Case Management Conference and Guide Subsequent Litigation**

The standard form of civil cover sheet in use in most district courts does not include a checkbox or other tool for flagging the fact that a new filing presents trade secret claims. It may therefore not be immediately apparent to the Court that a particular dispute presents those issues, particularly when other claims are asserted as well. Courts or individual judges may find it useful to post as part of their local rules or individual chambers rules a Checklist document pertaining to trade secret claims designed to help the parties focus on pertinent issues both at an Initial Case Management Conference and even prior to court intervention. In any event, litigants may find preparation of a Checklist to be useful in planning their pleadings and the overall course of the litigation.

Preparing a specialized Checklist and case management orders for actions arising under particular statutes or relating to particular subject matters is not unprecedented. Many courts have adopted special rules, standing orders or practices relating to other types of substantive claims such as, for example, requiring the submission of RICO case orders, *see, e.g.*, United States District Court, District of New Jersey, Local Rules and Appendices, Appendix O, Optional RICO Case Order, available at <https://www.njd.uscourts.gov/local-rules-and-appendices> and rules governing aspects of the management of patent claims adopted in many courts, *see, e.g.*, United States District Court, Northern District of California, Patent Local Rules, available at <https://cand.uscourts.gov/rules/patent-local-rules/>; United States District Court, Southern District of Texas, Rules of Practice for Patent Cases (amended April 18, 2022), available at <https://www.txs.uscourts.gov/sites/txs/files/rules.pdf>, United States District Court, District of Colorado, Patent Rules for the District of Colorado, available at <http://www.cod.uscourts.gov/CourtOperations/RulesProcedures/LocalRules/PatentLocalRules.aspx>. Courts have also developed special guidance for product liability filings, asbestos cases, and particular types of securities law claims as well as guidance on conducting Rule 26(f) conferences



regarding electronically stored information. *See, e.g.*, United States District Court, Northern District of California, available at [https://www.cand.uscourts.gov/filelibrary/1118/ESI\\_Checklist-12-1-2015.pdf](https://www.cand.uscourts.gov/filelibrary/1118/ESI_Checklist-12-1-2015.pdf). Trade secret disputes, which in the aggregate may involve rights alleged to be worth billions of dollars, can benefit from similar case management guidance.

Appendix 3.1 contains a proposed Checklist for the parties to discuss with each other before the Initial Case Management Conference. Appendix 3.2 provides a proposed Case Management Order template for trade secret cases. The Checklist focuses on key issues that often arise in trade secret cases and is a “quick guide” to the issues discussed in greater detail in this Chapter. Whether or not a particular jurisdiction orders the use of the Case Management Checklist or Case Management Order Template, parties in any case involving trade secret claims will likely benefit by using the Checklist in formulating a Complaint or Answer and planning overall case strategy. Further, the Checklist focuses the parties on issues they will need to address at an early stage, to meet to prepare for the Initial Case Management Conference and Rule 26(f) Conference and, ideally, to avoid the need for extensive motion practice to settle the pleadings and commence discovery. The parties should be prepared to discuss their answers to the Checklist with the Court and periodically return to the Checklist over the course of the case to see if their answers, and the need for judicial assistance, have changed. Courts may find it useful to require the parties to submit the completed Checklist to the Court in advance of the Initial Case Management Conference to help the Conference proceed efficiently and ensure that the Court is informed of the reasoning behind positions taken at the Conference.

The remainder of this chapter discusses in detail the legal issues and information requested in the Checklist and Case Management Order and their significance in managing the case.

While ideally a court would conduct an early conference with attorneys in cases asserting trade secret claims, and many judges have standing orders directing conferences within a matter of weeks of filing of any case, not every court is able to operate on that schedule absent a specific request by one of the parties for an early case conference. Such requests are often made by the Court or the parties in connection with a motion for early injunctive relief. Chapter 5 discusses developing case management orders in connection with a request for pretrial equitable relief as well as following any decision on a motion for preliminary injunction. That chapter ought to be read in conjunction with this chapter with regard to any case in which pretrial equitable relief is contemplated. The Court and the parties may find it appropriate to expand the discussion of pretrial equitable relief to a full Initial Case Management Conference regarding the projected path of the overall case.

### **3.4 Complaints**

Many common deficiencies in the initial pleading can be avoided through close attention to the following issues when drafting the pleading or can be productively addressed through early discussion and submission of an amended pleading pursuant to stipulation at an early stage.

#### **3.4.1 DTSA Claims**

Federal district courts have original, although not exclusive, jurisdiction over claims arising under the DTSA so long as the complaint satisfies the requisite pleading requirements.

##### **3.4.1.1 Standing to Sue**

The DTSA provides that “an owner” of a trade secret may bring a civil action for misappropriation. Under the statute, the term “owner,” with respect to a trade secret, means “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.” 18 U.S.C. § 1839(4). An ownership interest should be plausibly alleged as an essential element of a DTSA claim. *See Focused Impressions, Inc. v. Sourcing Group, LLC*, 2020 WL 1892062 at \*5-6 (D. Mass. April 16, 2020) (collecting cases and dismissing complaint for failure to make allegations regarding ownership); *Sentry Data Sys., Inc. v. CVS Health*, 361 F.Supp.3d 1279, 1293 (S.D. Fla. 2018). The question of whether a claimant holds rightful legal or equitable title to, or license in, the trade secret is a matter of state law, *cf.*, *e.g.*, *Enovsys LLC v. Nextel Commc'ns, Inc.*, 614 F.3d 1333 (Fed. Cir. 2010) (holding that legal title to a patent is a question of state law), which the DTSA does not alter.

### **3.4.1.2 Necessary or Indispensable Parties**

Unlike patent law, trade secret law does not impose separate joinder obligations apart from the general rules on joinder set forth in FED. R. CIV. P. 19 and the rules on intervention set forth in FED. R. CIV. P. 24. There is no uniform or federal statutory requirement that each owner or licensee be joined in a trade secret dispute before the case can proceed, although the Official Comment to Section 2 of the UTSA states that “Where more than one person is entitled to trade secret protection with respect to the same information, only that one from whom misappropriation occurred is entitled to a remedy.” Contracts between owners and licensees often address the issue of what party is entitled to bring suit against third party misappropriators.

The Federal Circuit has held that whether co-owners of trade secrets were necessary parties to an action asserting a Fifth Amendment taking involved a fact intensive inquiry governed by Rule 19, which it remanded to the trial Court. *Gal-Or v. United States*, 470 F. App'x 879, 885 (Fed. Cir. 2012). *Cf. Tullet Pre-Bon PLC v. BCG Partners, Inc.*, 427 F. Appx. 236 (3d Cir. 2011) (unpublished) (finding that American subsidiaries of foreign company engaged in inter-dealer broker business were “necessary parties” to company's action against competitor asserting misappropriation claims since non-named subsidiaries had clear interest in action and adjudication of plaintiff company's right to relief necessarily required determination of wrongfulness of competitor's conduct as to the subsidiaries).

Disputes arising from the alleged breach of a noncompetition agreement, which frequently accompany trade secret claims affect at least three interested parties: the former employer, the new employer, and the employee. However, all three parties are not necessarily named in the suit. Courts may be asked to determine whether the named parties are entitled to assert claims and whether any unnamed parties should be joined or permitted to intervene. *See Tullet Pre-Bon v. BCG and Acrisure Holdings, Inc. v. Frey*, 2019 WL 1324943 (D. Del. Mar. 25, 2019) (dismissing claims for breach of noncompetition agreement brought by parent nonsignatory to agreement, holding that alleged injury to a subsidiary from breach of a noncompetition agreement did not confer standing on the parent to enforce the noncompetition agreement). The parties and the Court will want to consider at an early stage whether the Court will be able to afford complete relief among the litigants without the inclusion of additional parties. *See 7 MOORE'S FED. PRAC. & PROC. CIV.* § 1604, n.31 and accompanying text (3d ed. 2022). Courts have not found a third party to be necessary or indispensable where the resolution of the dispute between the named parties will dispose of the claims and where the named party will adequately represent the interest of the non-named party, *see Fuel Avenue v. Nat'l Brokers of America, Inc.*, 329 F.R.D. 461 (S.D. Fla. 2019) (denying motion to intervene by organization allegedly formed by named defendant in violation

of noncompete agreement); *Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F.Supp.2d 954 (2009) (denying employee's motion to intervene in dispute between former and prospective new employer over whether the employee's hire constituted "threatened misappropriation").

Further, given the rapid pace with which state governments, Congress, and the Federal Trade Commission are evaluating the enforceability of noncompetition agreements, the parties and the Court will want to assess at an early stage the viability of any asserted claim relating to a noncompetition agreement.

### **3.4.1.3 Required Allegations**

DTSA complaints must allege, tracking the statute itself, facts making it plausible that:

1. the information at issue is used in, or intended for use in interstate or foreign commerce;
2. an act of misappropriation occurred after May 11, 2016;
3. the information is a trade secret;
4. misappropriation (wrongful acquisition, use, or disclosure of trade secrets) has occurred or is threatened; and
5. for any non-U.S. defendant, that "acts in furtherance" of the misappropriation occurred or are occurring in the United States.

Allegations should not simply parrot the language of the statute; rather, they must assert facts making the claims plausible in accordance with *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007) and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).

Each of these allegations is discussed in turn below.

#### **3.4.1.3.1 Interstate or Foreign Commerce**

The DTSA protects trade secrets related to a product or service used in or intended for use in interstate or foreign commerce. 18 U.S.C. § 1836(b)(1). This element has been held not to be satisfied by mere conclusory allegations. *See, e.g., DLMC, Inc. v. Flores*, No. 18-00352 DKW-RT, 2019 WL 309754 (D. Hw. Jan. 23, 2019) (dismissing DTSA claim where plaintiff failed to identify any nexus between interstate or foreign commerce and the alleged trade secret); *Hydrogen Master Rights, Ltd. v. Weston*, No. 2017 WL 78532, at \*10 (D. Del. Jan. 9, 2017) (same; dismissing DTSA claim without prejudice).

#### **3.4.1.3.2 Misappropriation after Effective Date of the DTSA**

The DTSA applies to misappropriation for which any act allegedly occurred on after May 11, 2016, even if some acts occurred prior to that date. *See Brand Energy v. Irex Contracting Group*, 2017 WL 1105648, at \*8 (E.D. Pa. March 24, 2017); *Adam Arms, LLC v. Unified Weapons Sys.*, 2016 U.S. Dist. LEXIS 132201 (M.D. Fla. Sep. 27, 2016) (denying motion to dismiss DTSA claim where complaint alleged wrongful use of trade secrets before and after the effective date; dismissing however, claim for wrongful acquisition of trade secrets, which was alleged to have been complete by the effective date); *Teva Pharm. USA Inc. v. Sandhu*, 291 F.Supp.3d 659, 674-75 (E.D. Pa. 2018); *Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Group*, No. 2016 WL 5338550 (S.D.N.Y. Sep't. 23, 2016) (allowing defendants to add a DTSA counterclaim where they alleged that plaintiff's improper use of the earlier misappropriated trade secrets continued after the Act's effective date). *But see Camick v. Holladay*, 758 F. App'x 604 (10th Cir. 2018) (finding that continued possession of a trade secret after the effective date, without more, does not constitute misappropriation under the DTSA). While this requirement is increasingly easy to satisfy given

the passage of time since May 2016, it should not be overlooked in the pleading when the acts complained of allegedly began before the DTSA's effective date.

#### **3.4.1.3.3 Existence of Trade Secret**

While a trade secret complainant need not disclose the trade secret(s) in the complaint, *it must do more than simply list general categories of information*. If that were not the case, then any claimant could survive a motion to dismiss a trade secret claim with conclusory statements that simply restate the elements of a trade secret. *Twombly* and *Iqbal* require more.

*Elsevier Inc. v. Doctor Evidence, LLC* 2018 WL 557906, at \*14 (S.D.N.Y. Jan. 23, 2018) (emphasis added). Chapter 4 discusses the proper identification of trade secrets.

Under the DTSA, 18 U.S.C. § 1839(c), plaintiffs must allege as non-conclusory facts, not simply that the information is not generally known or readily ascertainable by proper means but also that:

- (A) Plaintiff has taken reasonable measures to keep the information secret, *see Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc.*, 2016 WL 5338550, at \*6 (S.D.N.Y. Sep't. 23, 2016) (finding that pleadings sufficiently alleged reasonable measures by alleging plaintiff's actions in "making those who use it subject to confidentiality provisions and limitations, and only making it accessible through strictly controlled servers"); *cf. Dichard v. Morgan*, 2017 WL 5634110, at \*3 (D.N.H. Nov. 22, 2017) (dismissing DTSA claim with leave to replead where complaint failed to allege that the trade secret owner took any measures to protect the secrecy of information at suit) and
- (B) the information at issue derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information, *see First United Bank Ins. Sols. v. Inservices LLC*, No. CIV-22-682-R, at \*5-6 (W.D. Okla. Feb. 2, 2023) (finding allegation of economic value merely conclusory and dismissing claim, noting that "Plaintiff does not, for example, allege facts to support its contention that the secrecy of the information provided it with a competitive advantage."); *Pittsburgh Logistics Systems, Inc. v. LaserShip, Inc.*, 2019 WL 2443035 (W.D. Pa. June 12, 2019) (dismissing as conclusory claim simply tracking statutory language without alleging plausible facts to support economic value claim); *Democratic Nat'l Comm. v. Russian Fed'n*, 392 F.Supp.3d 410, 448 (S.D.N.Y. 2019) (holding that "[t]o survive a motion to dismiss, a party alleging that it owns a trade secret must put forth specific allegations as to the information owned and its value" (quoting *Elsevier Inc. v. Doctor Evidence, LLC*, 2018 WL 557906, at \*4 (S.D.N.Y. Jan. 23, 2018))); *ATS Grp., LLC v. Legacy Tank & Indus. Servs. LLC*, 407 F.Supp.3d 1186, 1197 (W.D. Okla. 2019) (stating that "[i]n order to plead a claim for violation of the DTSA, a plaintiff must allege that it lawfully owned information of independent economic value . . .").

#### **3.4.1.3.4 Misappropriation is Plausible**

A trade secret complainant must allege facts providing a plausible basis for its misappropriation allegations. Doing so may be challenging since trade secret owners might not have direct evidence of misappropriation at the time of filing. Importantly, the complainant need

not prove its case in the complaint itself. Rather, the complainant may rely on circumstantial evidence and reasonable inferences therefrom to state a plausible claim for relief where the evidence, *if proven to be true*, would support a finding for plaintiff. See *Oakwood Laboratories, LLC v. Thanoo*, 999 F.3d 892 (3d Cir. 2021); *Wisk Aero LLC v. Archer Aviation, Inc.*, 2021 WL 3771786 (N.D. Cal. Aug. 24, 2021); *Applied Biological Laboratories v. Diomics Corp.*, 2021 WL 4060531 (S.D. Cal. Sept. 7, 2021).

#### **3.4.1.3.5 “Acts in Furtherance” of Misappropriation in the United States**

The DTSA is part of the Economic Espionage Act, which provides that

This chapter also applies to conduct occurring outside the United States if—

- (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
- (2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837. District courts have held that this requirement is satisfied when the defendant, or “offender,” is a citizen or permanent resident alien of the United States or an act in furtherance of the offense was committed in the United States. See *Motorola Solutions, Inc., et al. v. Hytera Communications Corp. Ltd. et al*, 436 F.Supp.3d 1150, 1159-67 (N.D. Ill. Jan. 31, 2020). Courts have found a broad range of actions to constitute an “act in furtherance” sufficient to establish extraterritorial reach under the DTSA. For example, allegations that defendant accessed data on the plaintiff’s U.S.-based server (among other acts) have been found to be sufficient. See *Dmarcian, Inc. v. Dmarcian Europe BV*, 60 F. 4th 119 (4th Cir. 2023) (affirming district court’s finding that “a relatively low bar” for the “acts in furtherance” requirement and that “courts place less import on the scope of the acts committed within the United States than the tie between those actions and the misappropriation”); see also *Medcenter Holdings Inc. v. WebMD Health Corp.*, 2021 WL 1178129 (S.D.N.Y. March 29, 2021) (finding allegations of meetings between an employee of plaintiff and defendant’s CEO in Florida shortly before plaintiff’s employee resigned to work for defendant; the negotiation of an NDA between the parties in New York as, allegedly, a “trojan horse” for acquiring trade secrets; and the employee’s alleged consulting work for defendant under a contract calling for her services to take place partly in the United States sufficiently alleged “acts in furtherance” in the United States); *MedImpact Healthcare Sys., Inc. v. IQVIA Inc.*, 2020 WL 5064253, at \*14–15 (S.D. Cal. Aug. 27, 2020) (finding that allegations that defendants accessed U.S. servers and communicated with U.S. plaintiffs through phone calls, virtual meetings, board meetings, and correspondence sufficiently pled that misappropriation was “at work” and that acts in furtherance were committed in the United States); but see *ProV Int’l Inc. v. Lucca*, 2019 WL 5578880, at \*3 (M.D. Fla. Oct. 29, 2019) (finding no act in furtherance of the offense was committed in the United States where the amended complaint alleged no facts connecting defendant’s attendance at U.S. trade show with the alleged misappropriation; and the alleged damages resulting from the misappropriation “do not constitute part of the offense itself” but constitute the effects of a “ ‘fully completed operation.’”) (quoting *Luminati Networks Ltd. v. BIScience Inc.*, 2019 WL 2084426, at \*11 (E.D. Tex. May 13, 2019) (quoting *Yates v. United States*, 354 U.S. 298, 334 (1957))); see also §11.9.

#### **3.4.1.3.6 Discovery of Misappropriation and the Statute of Limitations**

The DTSA’s statute of limitations period is three years from the date that plaintiff knew, or with the exercise of reasonable diligence, should have known, of the misappropriation. In

comparison, the statute of limitations for criminal violations of the EEA under 18 U.S.C. § 3282 is five years and begins to run on the last day of defendant's continuing offense. *See* § 11.7.1. Because of this difference, this means that the government could bring criminal charges under the EEA that would be time-barred if lodged as a civil DTSA complaint.

In many DTSA cases, it will be readily apparent from the complaint that the alleged misappropriation occurred within the DTSA's three-year statute of limitations period. Where a plaintiff learned of the misappropriation more than three years (or applicable state law period) after it allegedly occurred, plaintiff should be prepared to allege facts making it plausible that defendant concealed the misappropriation and that plaintiff could not, with the exercise of diligence, have discovered the misappropriation earlier. While the statute of limitations is an affirmative defense, it has been held that a complaint that makes it apparent on its face that the claim arose outside of the limitations period can be dismissed absent a permitted explanation for the delay. *See Houser v. Feldman*, 2021 WL 4991127, at \*4 (E.D. Pa. Oct. 27, 2021)(citing *Wisniewski v. Fisher*, 857 F.3d 152, 157 (3d Cir. 2017)).

Depending on the facts alleged, the final resolution of any statute of limitations affirmative defense may require substantial discovery and may present factual issues that cannot be resolved until trial. *See B&P Littleford, LLC v. Prescott Machinery, LLC*, 1451, 2021 WL 3732313 (6th Cir. Aug. 24, 2021).

#### **3.4.1.4 Injury**

When a victim of misappropriation frames its complaint for actual or threatened misappropriation, it may not yet have suffered economic harm or be aware of the scope of any damages. Courts have held, however, “[b]y statutory definition, trade secret misappropriation *is* harm,” *Oakwood Laboratories, LLC v. Thanoo*, 999 F.3d 892, 913 (3d Cir. 2021) (emphasis in original), since it ends plaintiff's exclusive access or control over its information. This is a “real and redressable harm.” *Id.*, at 914. While quantifying the loss through monetary relief or preventing it through equitable relief is a subject for later in the case, “cognizable harm is pled when a plaintiff adequately alleges the existence of a trade secret and its misappropriation.” *Id.* at 913-14 (footnote omitted).

#### **3.4.1.5 Pleading a Violation of the DTSA as a RICO Predicate Offense**

The Racketeer Influenced Corrupt Organization (“RICO”) Act, 18 U.S.C. §1961, *et seq.*, provides for civil and criminal penalties, civil forfeiture, injunctive relief, treble damages, and attorneys' fees upon proof of a “pattern” of multiple prohibited offenses in interstate commerce by a “continuing enterprise.” Prior to the enactment of the DTSA, victims of trade secret misappropriation were generally forced to establish other “predicate offenses” such as mail fraud, wire fraud, or receipt of stolen property having a value of \$5,000 or more to state a RICO claim, and could not uniformly rely on violation of state trade secret law as a predicate offense. *See, e.g., Thermodyn Corp. v. 3M Co.*, 593 F.Supp.2d 972 (N.D. Ohio 2008) (stating, prior to the most recent amendments to the RICO statute, that “[m]isappropriating trade secrets is not a RICO predicate act. Thus, the relevant question here is whether there is an ongoing threat of wire fraud, mail fraud, or theft”). *See also, Mgmt. Comp. Servs. Inc. v. Hawkins, Ash, Baptie & Co.*, 883 F.2d 48, 51 (7th Cir. 1989) (viewing RICO as requiring a pattern of illegal activity; analogizing continued use of stolen trade secrets to using the proceeds from a theft and concluding that “[w]hen a thief steals \$100, the law does not hold him to a new theft each time he spends one of those dollars”); *Binary Semantics Ltd. v. Minitab Inc.*, 2008 WL 763575, at \*4 (M.D. Pa. March 20, 2008) (expressing

concern that plaintiff's theory that use of stolen trade secrets established a continued threat of future prohibited activity would mean that "every misappropriation of trade secrets could result in a RICO claim," stretching the statute "beyond what it was intended to reach.").

Some courts, however, found that wrongful receipt of trade secrets and subsequent use constituted separate offenses and further that each misappropriated trade secret could be the basis for a separate offense of receipt of stolen property. *See Gould, Inc. v. Mitsui Mining & Smelting Co.*, 750 F.Supp. 838 (N.D. Ohio 1990); *General Motors Corp. v. Ignacio Lopez de Arriortua*, 948 F.Supp. 670 (E.D. Mich. 1996) (finding that GM had stated a RICO claim by alleging that its former employees had joined Volkswagen AG in a management role, bringing with them twenty cartons of stolen documents with the intent to use them); *Avery Dennison Corp. v. Four Pillars Enterprise Co.*, 45 F. Appx. 479 (6th Cir. 2002) (affirming jury verdict of \$81 million which included an award under RICO and state law for wrongful acquisition and use of trade secrets).

The DTSA resolved some but not all of the debate by concurrently amending the RICO statute to make trade secret misappropriation under "18 U.S.C. §§ 1831 and 1832 [relating to economic espionage and theft of trade secrets]" a RICO predicate act. This does not mean, however, that stating a claim for violation of the DTSA or for misappropriation of multiple trade secrets necessarily states a RICO claim. A plaintiff asserting a RICO claim as to which a misappropriation of trade secrets is one predicate act must allege all of the other RICO requirements, which include:

- (1) the existence of an enterprise affecting interstate commerce;
- (2) that the defendant was employed by or associated with the enterprise;
- (3) that the defendant participated, either directly or indirectly, in the conduct or the affairs of the enterprise; and
- (4) that the defendant participated through a pattern of racketeering activity that included at least two racketeering acts.

18 U.S.C. § 1964(c).

From a case management perspective, the parties and the Court will want to confirm that a RICO claim in which theft of trade secrets is asserted as a RICO predicate offense conforms with all local rules and local case management requirements attendant to RICO claims as well as to the case management practices described within this chapter. Certain courts or judges require plaintiffs to submit with or within a specified number of days after filing any pleading asserting a RICO claim a "RICO Case Statement" that sets forth in specific detail the supporting facts and legal bases of their claims. *See, e.g.*, the requirement in the Southern District of New York to file a RICO statement within twenty days of filing a pleading asserting a RICO claim, [https://www.nysd.uscourts.gov/sites/default/files/practice\\_documents/kmwRICOSTatement.pdf](https://www.nysd.uscourts.gov/sites/default/files/practice_documents/kmwRICOSTatement.pdf); REID J. SCHAR, E.K. MCWILLIAMS, AND PHILIP B. SAILER, RICO: A GUIDE TO RICO LITIGATION IN THE FEDERAL COURTS, §8 7 (Jenner & Block 2021), available at [https://www.jenner.com/a/web/taV21sfHsERD37g5Wk8dA6/4HRMZQ/2021\\_RICO\\_Guide.pdf](https://www.jenner.com/a/web/taV21sfHsERD37g5Wk8dA6/4HRMZQ/2021_RICO_Guide.pdf).

From a substantive standpoint, judicial interpretation of the use of DTSA as a predicate act for civil RICO is evolving. It has been held, for example, that a plaintiff relying on DTSA as the only predicate offense must plead two or more acts of trade secret theft that occurred after May 11, 2016 to withstand a motion to dismiss. *See Magnesita Refractories Co. v. Tianjin New Century Refractories Co., Ltd.*, 2019 WL 1003623, at \*9 (M.D. Pa. Feb. 28, 2019). Focusing on differences in wording between the Economic Espionage Act and the Defend Trade Secrets Act, some courts have held that the criminal statute limits its reach to the point in time that a trade secret falls into unauthorized hands, and that the ongoing use of the trade secrets once obtained cannot be a

predicate act to establish a threat of continued criminal activity. *See Cross Border Solutions, Inc. v. Macias*, 2022 WL 562934, at \*10 (S.D.N.Y. Feb. 23, 2022), *relying on ESPOT, Inc. v. MyVue Media, LLC*, 492 F.Supp.3d 672, 694-95 (E.D. Tex. Oct. 2, 2020) (holding the RICO statute, 18 U.S.C. § 1832, specifically treats stealing and receiving trade secrets as a predicate act but not “using” the misappropriated trade secrets) and *Hardwire, LLC v. Ebaugh*, 2021 WL 3809078, at \*6-\*7 (D. Md. Aug. 26, 2021) (same). Given the potential complexities of RICO litigation, the Court will want to flag and the parties will want to discuss at an initial case management conference potential ways to resolve at an early time whether a RICO claim has been properly pled.

While the statute of limitations for DTSA violations is three-years, the statute of limitations for a civil RICO claim is four years. *See Agency Holding Corp. v. Malley-Duff & Associates*, 483 U.S. 143, 156 (1987).

### **3.4.2 State Law Claims for Trade Secret Misappropriation**

Many claims under the DTSA are supplemented by claims under applicable state trade secret law. Because the claims under these parallel regimes are typically closely intertwined, federal courts hearing DTSA cases consistently exercise supplemental jurisdiction over these state law claims, generally without challenge by the defendant. *See John Zink Co. v. Robertson*, 2022 WL 17547786 (N.D. Okla. Dec. 9, 2022) (finding jurisdiction over DTSA claim and exercising supplemental jurisdiction over claim under Oklahoma’s Uniform Trade Secrets Act). Where, however, the DTSA claim is dismissed, the Court may determine that it no longer has supplemental jurisdiction over the state law claims. *See* §3.6.2.2.

While many of the elements of state law misappropriation claims will be satisfied by pleadings required under the DTSA, state law provisions, particularly those relating to standing to sue, statute of limitations, preemption and substantive requirements, may raise special issues that should be assessed at an early stage. As explored in § 3.6, the Court will need to determine whether it has personal and subject matter jurisdiction over all of the parties and each of the non-DTSA claims and that the requirements to allege each claim are satisfied. If a fraud claim is asserted, for example, the claim will need to satisfy the pleading requirements of FED. R. CIV. P. 9(b).

#### **3.4.2.1 Standing to Sue**

Assessing standing to sue under the UTSA and New York common law depends on the language of the applicable statute or common law as adopted in the relevant jurisdiction as well as the terms of any applicable contracts between the parties specifying ownership rights. The UTSA provides that the victim, referred to at points as the “complainant,” may seek remedies for misappropriation but does not specify that the victim need be the “owner” of the trade secret. An official comment to the UTSA states that “whenever more than one person is entitled to trade secret protection with respect to the same information, only that one from whom misappropriation occurred is entitled to a remedy.” UTSA § 3, Official Comment (1985).

Cases decided under some versions of the UTSA have found that exclusive licensees, non-exclusive licenses, and persons lawfully possessing and having some rights to control trade secrets have standing to sue for misappropriation on the theory that under the specific state’s laws, any misappropriation destroys the value for all enjoying rights in the trade secret. *See, e.g., BladeRoom Group Limited v. Facebook, Inc.*, 219 F.Supp.3d 984, 990 (N.D. Cal. 2017) (explaining that exclusive licensee possessed allegedly secret information and had obligations of secrecy, entitling it to demand remedies against those who had allegedly misappropriated the information; and



holding that “the better focus for determining whether a party can assert a misappropriation claim is on that party’s possession of secret knowledge, rather than on the party’s status as a true owner”); *Metso Minerals Indus. Inc. v. FLSmidth-Excel LLC*, 733 F.Supp.2d 969 (E.D. Wisc. 2010) (non-exclusive licensee had standing to sue); *Faiveley Transp. USA, Inc. v. Wabec Corp.*, 758 F.Supp.2d 211, 220 (S.D.N.Y. 2010) (applying New York law and reaching same conclusion); *Williams-Sonoma Direct., Inc. v. Arhaus, LLC*, 304 F.R.D. 520, 527-28 (W.D. Tenn. 2015) (finding that “persons lawfully possessing and having some rights to control trade secrets had standing to sue” for misappropriation under Tennessee law). In *DTM Research, LLC v. AT&T Corp.*, 245 F.3d 327, 331-34 (4th Cir. 2001) (considering the Maryland UTSA), the Fourth Circuit held that “fee simple” ownership of a trade secret is not an element of a misappropriation claim and that mere “lawful possession” of the trade secret is sufficient to confer standing to sue for its misappropriation. Other circuits have followed the Fourth Circuit’s approach. See *Advanced Fluid Sys., Inc. v. Huber*, 958 F.3d 168, 177-80 (3d Cir. 2020); *Gaedeke Holdings VII LTD v. Baker*, 683 F. App’x 677, 684 (10th Cir. 2017); see also *Phyllis Schlafly Revocable Trust v. Cori*, 2022 WL 898760 (E.D. Mo. March 28, 2022) (finding that the Missouri UTSA does not limit standing to owners of a trade secret and permitting suit by non-owner parties allegedly suffering harm from misappropriation).

State statutes vary, however, on the question of whether ownership is necessary to confer standing to sue. Some state variations of the UTSA use the term “owner,” rather than “claimant” at various points when describing obligations and rights of the party seeking relief. See, e.g., N.C. Gen. Stat. § 66-153 (providing that “The owner of a trade secret shall have remedy by civil action for misappropriation of his trade secret”); and Colo. Rev. Stat. §§ 7-74-101 through 7-74-110 (2011) (noting that for information to be a trade secret, “the owner” thereof must have taken measures to prevent the secret from becoming available to persons other than those selected by “the owner” to have access thereto for limited purposes). Several courts have held that under the applicable state law one must own a trade secret to sue for misappropriation. See *Brigham Young University v. Pfizer*, No. 2:060-CV-890 FS, 2012 WL 1032769, at \*2 (D. Utah March 27, 2012) (holding that there is “ample authority for the proposition that one must own a trade secret to sue for its misappropriation”; and declining to follow *DTM Research v. AT & T Corp.*, 245 F.3d 327 (4th Cir. 2001)); but see *Xyngular Corp. v. Innutra, LLC*, 2013 WL 6916525 at \*8 (D. Utah Nov. 20, 2013) (commenting on *Brigham Young v. Pfizer* and holding that “[w]hile this is a correct statement, there is also ample authority for the proposition that one need not be an owner in the traditional sense to bring a misappropriation claim”; finding, however, that plaintiff had not presented sufficient evidence or allegations to establish standing to sue); *Woodfords Family Servs., Inc. v. Casey*, 2011 WL 6218101, at \*10 n. 10 (D.Me.2011) (holding that “in order to prevail on its claim for misappropriation of trade secrets, [plaintiff] must establish that it owns that which it is striving to keep secret.”); *Cytodyn, Inc. v. Amerimmune Pharm., Inc.*, 160 Cal.App.4th 288, 297, 72 Cal.Rptr.3d 600 (“Under the UTSA, a *prima facie* claim for misappropriation of trade secrets requires the plaintiff to demonstrate: (1) the plaintiff owned a trade secret . . .”) (internal quotation marks and citation omitted)). Texas has adopted a variation of the Uniform Trade Secrets Act that defines the “owner” of a trade secret as “the person or entity in whom or in which rightful, legal, or equitable title to, or the right to enforce rights in, the trade secret is reposed,” and further explains that if a party seeks recovery of damages on behalf of another person, “claimant” includes both that other person and the party seeking recovery or damages. TEX. CIV. PRAC. AND REM. CODE § 34A.002.

Given this variation in state law, the parties will want to consider standing at an early stage and be prepared to discuss the issue at the initial case management conference.

### 3.4.2.2 State Law Statutes of Limitations

The UTSA contains a three-year statute of limitations period. *See* UTSA § 6 (providing that “for purposes of this section, a continuing misappropriation constitutes a single claim of misappropriation”). Not all states, however, have adopted this period. State trade secret statutes currently vary between two to six years from “discovery,” typically defined as when the victim knew or by the exercise of “reasonable diligence” should have known, of the misappropriation. State laws also vary with respect to whether each act of unauthorized “use” of a trade secret triggers another limitations period. *See, e.g., Heraeus Medical GmbH v. Esschem, Inc.*, 2019 WL 2556820 (3d Cir. June 21, 2019) (observing that when enacting its version of the UTSA, Pennsylvania declined to adopt the UTSA’s single-claim treatment for continuing misappropriation of trade secrets). New York, the only state that has not adopted the UTSA, or any other civil trade secret statute, applies the three-year limitations period applicable to injury to property, N.Y. CPLR 213(4), and treats each successive use or disclosure as a separate tort triggering the running of a new statute of limitations so long as the information remains a trade secret. *See Lemelson v. Carolina Enterprises, Inc.*, 541 F.Supp. 645, 659 (S.D.N.Y. 1982).

A court confronting choice of law questions relating to the applicable statute of limitations or factual questions regarding when the plaintiff knew or should have known of an alleged misappropriation may wish to focus on these disputes early in the litigation as they might prove dispositive. The Court might wish to explore whether it is possible to sequence discovery and motion practice with this issue in mind to prioritize resources and stage case management.

### 3.4.2.3 State-Specific Substantive Provisions

Although the substantive elements of many state law trade secret claims closely track the DTSA requirements, there are some noteworthy differences. Nevada law, for example, provides that “[t]he owner of a trade secret is presumed to make a reasonable effort to maintain its secrecy if the word ‘Confidential’ or ‘Private’ or another indication of secrecy is placed in a reasonably noticeable manner on any medium or container that describes or includes any portion of the trade secret. This presumption may be rebutted only by clear and convincing evidence that the owner did not take reasonable efforts to maintain the secrecy of the trade secret.” NEV. REV. STAT. (NRS) 600 A. 032. The same statute includes a unique provision stating that a trade secret that has been posted to the Internet has not ceased to exist if the trade secret owner follows prescribed procedures to remove it. *See* NRS 600 A.055. Other state statutes vary in defining “improper means” of acquiring trade secrets, prohibiting or limiting particular monetary and equitable remedies orders, and other issues. While many of these variations will be developed over the course of a dispute, if any are believed to be pertinent to the early resolution of a portion of the dispute the parties should be prepared to discuss them at the initial case management conference.

### 3.4.3 Other State Law Claims; Preemption under State Trade Secret Law

Many trade secret claims, whether under the DTSA or state law, are accompanied by claims for breaches of non-disclosure or confidentiality agreements. Many trade secret owners use such agreements as one measure for protecting their trade secrets by giving authorized recipients of information notice that the trade secret owner claims rights in particular information and requires the recipient to comply with restrictions on the use and disclosure of that information. Trade secret lawsuits with business counterparties may include claims for breaches of license agreements, as well as other contract-based causes of action relating to the overall business relationship. Trade secret claims are also often accompanied by claims for breaches of noncompetition agreements.

The enforceability of such agreements is currently a subject for state law, which varies markedly, although attention is being given by Congress and the Federal Trade Commission to developing national legislation on the subject.

Successful claims for breach of contract and for interference with contract may result in different damages than those, including unjust enrichment damages or a reasonable royalty, that may be available for misappropriation of trade secrets. *See Town & Country Linen Corp. v. Ingenious Designs LLC*, 18-cv-5075 (LJL) (S.D.N.Y. July 8, 2022). Early recognition of this fact can be helpful in evaluating discovery requests and, ultimately, in responding to *Daubert* motions and motions *in limine* concerning expert testimony.

Plaintiffs often choose to assert additional state law claims. These may include, for example, claims arising under common law governing idea submission, *e.g. Apfel v. Prudential-Bache Securities Inc.*, 81 N.Y.2d 470 (N.Y. 1993) or claims for alleged breaches of implied-in-fact contracts to pay for ideas, *e.g., Desny v. Wilder*, 46 Cal.2d 715 (Cal. 1956); claims for unfair competition; claims for conversion; and claims for tortious interference with contract. Where the trade secret claimant asserts state law claims relating to information, the Court should consider whether those other claims are preempted by the applicable trade secret law.

The DTSA provides that, except for the whistleblower immunity provision, *see* § 3.5.2, it does not preempt other laws for the misappropriation of a trade secret. 18 U.S.C. §1838(f). By contrast, the UTSA “displaces conflicting tort, restitutionary, and other state law providing civil remedies for trade secret misappropriation.” *See* UTSA § 7(a). Section 7(b) of the UTSA excludes from preemption contractual remedies, other civil remedies not based on misappropriation of trade secrets, and criminal remedies. The trade secret laws of individual states, even those that have adopted a version of the UTSA, may differ in the wording or interpretation of their preemption provisions and the breadth of claims or remedies that they find their statute preempts.

The majority rule is that courts assess whether a claim, whatever its label, is premised on the same facts as the trade secret misappropriation claim. If so, it is preempted. *See ScaleFactor, Inc. v. Process Pro Consulting, LLC*, 394 F.Supp.3d 680, 686 (W.D. Tex. 2019) (breach of fiduciary duty claim preempted only insofar as it relies on allegations that defendants misappropriated trade secrets); *Waymo LLC v. Uber Techs, Inc.*, 256 F.Supp.3d 1059, 1063 (N.D. Cal. June 8, 2017) (unfair competition claim preempted to the extent claims were based on allegations that former employee misappropriated information that did not qualify as a trade secret); *UOP LLC v. Exterran Energy Sols., L.P.*, 2021 WL 4096560, at \*7 (W.D. Tex. Aug. 26, 2021) (unfair competition claim wholly preempted by Texas Uniform Trade Secrets Act where plaintiff failed to allege facts independent of its misappropriation claim); *MLB Advanced Media, L.P. v. Big League Analysis*, 2017 NY Slip. Op. 32617 (U), 2017 WL 6450546 (N.Y. Co. Dec. 18, 2017) (conversion claim preempted where defendant did not deprive plaintiff of use of allegedly confidential information by removing and subsequently returning binder containing information); *Blue Earth Biofuels v. Hawaiian Electric Co.*, 123 Haw. 314, 320-21 (Haw. 2010) (holding that if proof of a non-UTSA claim would also simultaneously establish a claim for misappropriation of trade secrets, it is preempted irrespective of whatever surplus elements of proof were necessary to establish it, but that to the extent “that the claim is “based upon wrongful conduct[,] independent of the misappropriation of trade secrets[,]” it will not be preempted); *Digital Envoy, Inc. v. Google, Inc.*, 370 F.Supp.2d 1025 (N.D. Cal. 2005), *vacated on other grounds*, 2006 U.S. Dist. LEXIS 6449 (N.D. Cal. Jan. 25, 2006) (common law and statutory unfair competition and unjust enrichment claims preempted where based on the same operative facts as the trade secret claim); *Acculmage Diagnostics Corp. v. Terarecon, Inc.*, 260 F.Supp.2d 941, 953–54 (N.D. Cal. 2003) (common law

misappropriation claim preempted); *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 666 (D.N.H. 2006) (conversion claim preempted); *Opteum Fin. Servs., LLC v. Spain*, 406 F.Supp.2d 1378 (N.D. Ga. 2005) (claim for *quantum meruit* preempted); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F.Supp.2d 968, 972 (N.D. Ill. 2000) (claim for breach of fiduciary duty preempted); *MicroStrategy, Inc. v. Bus. Objects, S.A.*, 429 F.3d 1344 (Fed. Cir. 2005) (claim for civil conspiracy preempted).

Other courts suggest that the mere presence of facts in a claim that go beyond trade secret misappropriation prevents a finding of preemption. See *Micro Display Sys., Inc. v. Axtel, Inc.*, 699 F.Supp. 202, 205 (D.Minn. 1988) (“[T]he court will allow plaintiff to go forward and maintain its separate causes of action to the extent that the causes of action have ‘more’ to their factual allegations than the mere misuse or misappropriation of trade secrets . . . If the facts at trial disclose that *the whole* of plaintiff’s case involves the misappropriation of trade secrets, those counts will be dismissed which are merely duplicative of the MUTSA.” (emphasis added.)); see also *LaFrance Corp. v. Werttemberger*, 2008 WL 5068653, at \*3 (W.D.Wash. Nov. 24, 2008) (“LaFrance alleges facts that are not necessary to the UTSA claim. Therefore, this common law claim is not dismissed.” (internal citation omitted.)); *Orca Communications Unlimited, LLC v. Noder*, 337 P.3d 545, 546 (Ariz. 2014) (“We hold that AUTSA does not displace common-law claims based on alleged misappropriation of confidential information that is not a trade secret.”).

This issue should be discussed at the case management conference and may need to be resolved through motion practice directed to specific claims.

#### **3.4.4 Patent Infringement Claims**

Trade secret claims are often accompanied by claims for patent infringement where the plaintiff has chosen to protect some information under patent law and some as a trade secret and the information protected by the two regimes does not overlap, see *Olaplex, Inc. v. L’Oreal USA, Inc.*, 855 F. App’x. 701 (Mem) (Fed. Cir. 2021); *Wisk Aero LLC v. Archer Aviation, Inc.*, No. 5:21-cv-02450–WHO, Dkt. #1 (N.D. Cal. April 6, 2021); *Waymo, LLC v. Uber Techs., Inc.*, 2017 WL 2123560 (N. D. Cal. May 15, 2017) (finding patent claims too weak to warrant preliminary injunctive relief but granting limited injunction to protect trade secrets). Appeals from cases in which a claim or compulsory counterclaim for patent infringement has been asserted at any time (even if the patent claim is dismissed) are heard by the Federal Circuit, 28 U.S.C. § 1295, which will apply the law of the regional circuit in assessing the trade secret claim. In managing a case asserting both patent and trade secret claims, the Court will want to apply any local patent case management rules to scheduling the events relating to the patent claims (such as any deadlines for holding a Markman hearing or filing infringement contentions) and coordinate the sequence of activities on the different claims. Further, it may become necessary to determine when particular acts occurred if the information at issue has been fully disclosed in a patent. If the information was maintained as a secret prior to publication of the patent, the plaintiff may be entitled to recover damages for trade secret misappropriation that occurred prior to publication. If the patent fully discloses the information at issue, the plaintiff may be entitled to remedies for patent infringement post-issuance.

### **3.5 Answer**

The defendant’s answer will include defenses and counterclaims. It might also invoke whistleblower immunity.

#### **3.5.1 Defenses**

Defenses asserted to trade secret claims differ under applicable law, but often include:

1. *Factual defenses*: The information at issue is not a trade secret (it is generally known in the relevant industry or readily ascertainable, does not have actual or potential economic value because of secrecy, or has not been the subject of reasonable measures to maintain secrecy); defendant did not have access to the claimed information; defendant was licensed or authorized by contract or by plaintiff's actions to use the information; or defendant has independently developed the information claimed to be a trade secret rather than misappropriating it. Defendant may assert that it owns a patent covering the information.
2. *Knowledge defenses*: The defendant did not know or have reason to know that the information was a trade secret, was acquired by improper means, or was disclosed or used without express or implied consent or that the information was derived from or through a person who had used improper means to acquire it or who owed a duty to the person seeking relief to maintain its secrecy or limit its use. Alternatively, the defendant may respond that its knowledge of the trade secret was acquired by accident or mistake and that defendant did not learn prior to a material change of position that the information was subject to duties limiting its use.
3. *Denials*: The defendant did not wrongfully acquire, use or disclose the information.
4. *Lack of Responsibility*: The defendant is not responsible for the acts of parties, such as employees or vendors, who are accused of having misappropriated the information.
5. *Technical legal defenses*: These include statute of limitations, laches, waiver, estoppel by conduct (distinguished from collateral estoppel), release, *res judicata*, collateral estoppel, unclean hands (which typically must relate to acts or information alleged as part of plaintiff's affirmative claims), and privilege or justification.

Other defenses may be available based on particular contractual terms (such as specific authorization for the challenged conduct, caps on liability, or other terms) or other applicable law. An answer may also assert counterclaims including, for example, claims for patent infringement or breaches of contract.

### **3.5.2 Whistleblower Immunity**

As discussed in § 2.4, an employee or independent contractor defendant may assert in response to a complaint that his or her actions are immunized by the DTSA's whistleblower immunity provision. *See* 18 U.S.C. § 1833(b)(1)(A). The DTSA immunizes "employees," defined to include contractors and consultants, from criminal or civil liability under any federal or state trade secret law "for disclosing trade secrets in confidence to a Federal, State, or local governments, either directly or indirectly, or to an attorney" "solely for the purpose of reporting or investigating a suspected violation of law, " or "in a complaint or other documents filed in a lawsuit or other proceeding, if such filing is made under seal." 18 U.S.C. § 1833(b)(1). DTSA also immunizes individuals who file a lawsuit for retaliation by their employer for reported a suspected violation of law from liability for disclosing trade secrets to their attorney and use of the trade secret information in the court proceeding so long as they file any documents containing trade secrets under seal and do not disclose the trade secret, except pursuant to Court order. 18 U.S.C. § 1833(b)(2).

If a defendant asserts the immunity, the parties should be prepared to address the issue with the Court at the earliest possible stage to determine the impact on management of the case. As

explored in § 2.4.1, Congress titled this provision as an *immunity* from liability rather than as an affirmative defense. This reflected Congress's sensitivity to the risks and burdens that trade secret litigation could impose on potential whistleblowers. The immunity classification was selected to deter those engaging in illegal activity from using trade secret lawsuits to intimidate or retaliate against whistleblowers. Furthermore, courts should be mindful to apply the whistleblower immunity provision in such a way as to prevent trade secret complainants from using discovery and evidentiary burdens to gain access they would not otherwise have to governmental investigations into alleged wrongdoing. The False Claims Act and some other federal and state whistleblowing regimes are designed to enable the government to conduct investigations without tipping off the defendant.

District courts can faithfully follow the letter and purpose of the DTSA whistleblower immunity provision through careful staging of case management and proper allocation of the burden of proof. As the U.S. Supreme Court has explained, the purpose of an immunity is to extinguish liability before litigation gets underway. *See Saucier v. Katz*, 533 U.S. 194, 200-01 (2001). In the DTSA context, the purpose of the immunity was to eliminate the need for a whistleblower to undergo the expense and strain of defending a trade secret lawsuit and to prevent investigatory targets from using trade secret litigation to probe government investigations. The DTSA whistleblower provision reflects the Congressional determination that insulating potential whistleblowers from trade secret liability if they are disclosing the information solely to consult meaningfully with counsel and to provide the government with confidential access to potentially incriminating evidence outweighs trade secret owners' right to unilateral control of trade secret information.

The trade secret complainant will understandably be concerned that a person or persons not authorized to have trade secret information—such as a former employee or contractor, their attorney, and/or government officials—may possess protected files or documents. Congress appreciated that concern in crafting the whistleblower immunity provision and struck a balance between trade secret protection and law enforcement, and built-in safeguards for the trade secret owner. As the DTSA provides, the immunity provision aims to ensure that trade secrets will remain in the care of trusted intermediaries. If the whistleblower uses or discloses the trade secrets for purposes other than confidential law reporting, then the immunity will not protect those acts.

Consequently, the Court's initial focus in a trade secret case in which the defendant asserts whistleblower immunity should be to assess the immunity question. This will require the Court to address some delicate questions with care, including not necessarily inferring that a defendant who declines to disclose its whistleblowing activity in a public filing or a filing accessible by the trade secret complainant lacks a proper basis for invoking immunity. A defendant invoking the immunity might choose to keep the basis for its assertion of immunity under wraps for several reasons. First, the defendant might not wish to, or may not be authorized by the government agency investigating potential wrongdoing, to disclose the government agency investigating the conduct or reveal the specific information that defendant has disclosed to that agency. As detailed in § 2.4.1, the federal False Claims Act and SEC and IRS whistleblower provisions, and many state analogs, require that whistleblower actions be filed under seal. This both ensures the protection of trade secrets and affords the government the ability to pursue undercover investigations. Second, the defendant might still be weighing whether to report the alleged illegal activity to the government. The Court should not force the defendant to reveal the basis for its invocation of whistleblower immunity in a public filing or even in a filing that is accessible by the trade secret

complainant. Doing so could unduly rush a potential whistleblower's decision to report potential illegal activity and interfere with government investigations.

On the other hand, both the Court and the trade secret complainant will want to take measures to detect whether the assertion of immunity is ill-founded or even a ruse to conceal misappropriation for commercial or other purposes not shielded by the immunity.

### **3.5.2.1 Where Defendant Discloses Basis for Whistleblower Immunity**

Where the defendant chooses to reveal the basis for invoking whistleblower immunity, as for example, occurred in *FirstEnergy Corp. v. Pircio*, 524 F.Supp.3d 732 (N.D. Ohio 2021), the trade secret complainant and the Court will have a relatively clear idea whether the immunity applies. If defendant's assertion of the immunity is sound and the trade secret complainant has no basis for undermining the immunity (such as by making plausible allegations that the defendant has used or disclosed the trade secrets for purposes other than to report or investigate illegal activity), then the Court should dismiss the trade secret complaint against the individual without prejudice. If the Court is concerned that the defendant might not reliably protect the trade secrets, then it could consider issuing an order barring the defendant from using the trade secret information for purposes other than investigating or reporting illegal activity—the activity protected by the immunity—and directing defendant to store any alleged trade secret documents or files in a secure location with a trusted custodian and return copies to the complainant following conclusion of the government's investigation. Such orders should not extend to the government itself, since, for example, federal government officials are already prohibited from publishing, divulging or making known any trade secret information. *See* 18 U.S.C. § 1905.

If the Court determines that the defendant is not eligible for whistleblower immunity, it should nonetheless not take any actions that would interfere with governmental investigations based on the alleged trade secret information.

Although it mischaracterized whistleblower immunity as an affirmative defense, the District Court in *FirstEnergy Corp. v. Pircio*, 524 F.Supp.3d 732 (N.D. Ohio 2021), prioritized the defendant's un rebutted invocation of DTSA immunity at the motion to dismiss stage in such a way as to spare the defendant of many of the burdens and costs of litigation. Consequently, it provides a useful framework for managing whistleblower immunity where the defendant has provided notice of the whistleblowing activity.

FirstEnergy Corp. brought a trade secret misappropriation action against Michael Pircio, a former employee of its outside auditing service based on its discovery that Pircio had downloaded proprietary files from a shared workspace in violation of a non-disclosure agreement. After the outside auditing firm demanded that Pircio delete any confidential information, and before plaintiff filed suit, Pircio's counsel promptly replied that his client had shared confidential documents with him and that counsel had provided them to a government agency. Tracking the language of the DTSA immunity, counsel wrote that Pircio had not shared any company information or documents with anyone other than his counsel and, through his counsel, with unspecified government officials. Plaintiff acknowledged these representations in the complaint. Based upon this record, Pircio brought a motion to dismiss based on the DTSA whistleblower immunity provision.

FirstEnergy opposed Pircio's motion to dismiss on the ground that discovery might show that Pircio did not use the trade secrets at issue "solely" to report or investigate suspected wrongdoing on the part of FirstEnergy. It did not, however, allege any specific facts supporting its allegation. The Court rejected the contention that the claim should survive in light of what discovery "might" show, noting that "discovery is not a fishing expedition, and Plaintiffs' speculation about what

discovery may reveal does not suffice to raise the right to relief they claim above the speculative level.” 524 F.Supp.3d at 738-39 (citing *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007); *Ashcroft v. Iqbal*, 556 U.S. 662, 678-79 (2009)). The Court therefore granted Pircio’s motion to dismiss the trade secret misappropriation complaint.

Although the case properly allocated the burden of showing that the immunity does not apply to the plaintiff, it states that immunity constitutes an affirmative defense and notes that courts are reluctant to dismiss complaints based on affirmative defenses at the pleading stage and before discovery has been conducted. *See* 524 F.Supp.3d at 741. This reading may, however, be seen as running counter to the intent of the DTSA whistleblower immunity regime and does not adequately insulate whistleblowers and government agencies from being forced to reveal government investigations or from having to defend a claim for misappropriation not plausibly alleged to rest on acts unprotected by the immunity. Courts should, of course, guard against the appropriation of trade secrets for purposes other than to report or investigate suspected wrongdoing. The DTSA, however, provides a clear staging and burden of proof framework for balancing the competing concerns and managing such claims in trade secret litigation.

### **3.5.2.2 The Proper Allocation of the Burden of Proving and Rebutting Whistleblower Immunity**

As described above, there may be justifiable reasons why a defendant might not wish or might not even be authorized by a government agency to explain the details underlying its invocation of trade secret immunity in a public filing or a filing accessible by the complainant. In fact, this is the most common setting in which the whistleblower immunity provision will be invoked.

If the defendant presents a sworn statement or verified pleading asserting that he or she is in compliance with the immunity provision—namely that his or her only disclosures have been made in confidence to a government official or an attorney solely for purposes of reporting or investigating a suspected violation of law or in complaints or other documents filed in a lawsuit or other proceeding, *see* 18 U.S.C. § 1833(b)(1)(B)—then, as described in §3.5.2.1, the burden shifts to the trade secret complainant to come forward with plausible factual allegations that the defendant does not qualify for the immunity—for example, that the defendant is using or disclosing the alleged trade secrets for a competing business. If the trade secret complainant fails to do so, then the Court should dismiss the complaint without prejudice, with leave to refile if plaintiff is able to come forward with plausible factual allegations controverting the immunity.

If the trade secret complainant makes plausible factual allegations or offers evidence that the immunity does not apply, then to resolve the question of the applicability of the immunity, the Court may be able to determine that the immunity is inapplicable. In some cases the Court may choose to exercise its discretion to structure a limited initial investigation into the immunity question. In some cases, to protect what would otherwise be a confidential governmental investigation, the Court might hold an *in camera* proceeding focused solely on the question of whether the defendant’s disclosures of alleged trade secrets have been made in compliance with the immunity provision.

As with any *in camera* proceeding, the trade secret complainant would likely raise concern about its inability to examine and respond to the defendant’s evidentiary showing, particularly in light of the possibility that the individual asserting whistleblower status might be inclined to attempt to disclose information to the Court that could prejudice the Court against the plaintiff or undermine unrelated aspects of the trade secret cause of action. The Court can minimize this risk by narrowing the scope of an *in camera* proceeding to focus on the question of *to whom* disclosures



have been made and for what purpose, rather than on the content of the whistleblower's claims of unlawful activity. The Court might also delegate resolution of the question of whether defendant is entitled to assert whistleblower immunity to a Magistrate Judge or appoint a special master to conduct the inquiry. In this way, the judge would be cordoned off from the inquiry, much as is done with review of documents as to which one party asserts attorney client privilege. As a further precaution to ensure compliance with the immunity, the Judge could issue an order barring the defendant from using or disclosing any alleged trade secrets beyond consulting with counsel and reporting illegal activity. The Court could also order that the defendant place any alleged trade secret documents or files in a secure location with a trusted custodian.

Absent plaintiff's presentation of plausible allegations or evidence that the defendant has disclosed plaintiff's trade secrets outside the scope of the immunity or has used the plaintiff's trade secrets improperly, the Court should be cautious in opening discovery beyond the immunity question and should not interfere with the defendant's ability to work with counsel and the government to investigate and report alleged violations of law in accordance with the statutory immunity. Courts should be especially vigilant to ensure that the trade secret litigation does not serve as a fishing expedition into what would otherwise be a confidential process by the party asserting whistleblower status to communicate with law enforcement representatives.

### **3.5.2.3 Where the Defendant Asserts that It Is Disclosing Information to Report Allegedly Illegal Activity but Does Not Qualify for Whistleblower Immunity**

A more complex scenario could arise where the defendant invokes the whistleblower immunity provision but does not qualify for its terms under the DTSA. Defendant may assert that it has disclosed information to the government but plaintiff also plausibly alleges that defendant has used the information for other purposes, such as in a competing enterprise. In this circumstance, the trade secret plaintiff may be entitled to pursue its claim for misappropriation. The Court may choose to enter an order to bar the defendant from using or disclosing the trade secret information other than to work with their attorney or the government in investigating or reporting violations of law. The mixed motive whistleblower/misappropriator situation does not, however, mean that the defendant violates trade secret law solely by reporting to the government. The public policy exception could well apply to that disclosure, *see* § 2.5.8, although not to further disclosures beyond the government. Furthermore, such uses would likely not result in any actionable harm to the trade secret complainant. The government is obliged to keep the information secret. If it violates that trust, then there could be a claim against the government. *See Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984). Defendant's unauthorized disclosures to third parties and unauthorized use would remain potentially actionable under the DTSA.

## **3.5.3 Counterclaims**

### **3.5.3.1 Compulsory Counterclaims**

FED. R. CIV. P. 13 requires the defendant to plead any counterclaim that

(A) arises out of the transaction or occurrence that is the subject matter of the opposing party's claim; and

(B) does not require adding another party over whom the court cannot acquire jurisdiction.

In determining whether the original claim and counterclaim arise out of the same "transaction or occurrence," courts commonly consider four factors:

- (1) Are the issues of fact and law raised by both claims largely the same?
- (2) Would *res judicata* bar a subsequent suit on the defendant's claim absent the compulsory counterclaim rule?
- (3) Will substantially the same evidence be involved in the adjudication of both claims?
- (4) Is there a logical relation between the original claim and the counterclaim?

20 AM.JUR.2D Counterclaim, Recoupment, and Setoff § 28 (2005).

Common compulsory counterclaims include “mirror images” of plaintiff's claims. The defendant may seek a declaration, for example, that particular information is not a trade secret, that a noncompete or non-disclosure agreement asserted by plaintiff is inapplicable or unenforceable or that defendant, and not the plaintiff, owns the trade secret or owns a patent covering the claimed information. Employee defendants may assert counterclaims for plaintiff's alleged failure to make proper payments to them, for wrongful discharge, or for plaintiff's termination or recapture of certain benefits allegedly promised in contracts or the relationship at issue in the trade secret case.

### 3.5.3.2 Anti-SLAPP Counterclaims

Currently, at least thirty-two states and the District of Columbia have enacted “anti-SLAPP” legislation, intended generally to discourage the filing of “Strategic Lawsuits Against Public Participation” against individuals for exercising constitutionally protected speech, press, assembly, petition or association rights relating to matters of public concern. Like whistleblower immunity, these statutes are designed to enable successful defendants to obtain dismissal of improper “SLAPP” claims before incurring substantial litigation expense. Many automatically stay discovery once the defendant makes an anti-SLAPP motion. Such statutes place the initial burden on defendant to show that plaintiff's claims arise from defendant's constitutionally protected free speech or petition rights in connection with a public issue. Plaintiff in the underlying action must typically then, depending on the statutory terms, present “substantial support” for each element of the claim or face dismissal. Statutes may provide for an immediate appeal of denial of an anti-SLAPP motion, and permit a defendant making a successful anti-SLAPP motion to recover attorney's fees and costs.

Some defendants in trade secret cases have attempted to invoke anti-SLAPP statutes as a defense to claims brought to enjoin them from disclosing trade secrets or from joining new organizations in violation of noncompete or nonrecruitment obligations. Some anti-SLAPP statutes expressly exclude from their reach lawsuits involving “commercial speech,” generally defined narrowly, or involving the protection of trade secrets. *See, e.g.,* TEX. CIV. PRAC. & REM. CODE § 27.010(a)(5)(A) and (B) (2019) (exempting actions seeking recovery for misappropriation of trade secrets or a corporate opportunity or seeking to enforce a non-disparagement agreement or covenant not to compete) while others do not include such an express carve-out from their reach. This is a rapidly developing area of law with considerable variation in the scope and requirements of state statutes as construed under state law. It is also an area of increased legislative activity.

As with a claim for whistleblower immunity, a defendant's invocation of anti-SLAPP legislation in response to a trade secret dispute should be addressed at an early stage. Different circuits have reached different conclusions over whether state anti-SLAPP laws apply to cases in federal court, with some concluding that the anti-SLAPP burden-shifting provisions and requirement that plaintiff produce evidence at an early stage are procedural requirements conflicting with federal procedural rules. *Compare Klocke v. Watson*, 936 F.3d 240 (5th Cir. 2019)

(holding in a non-trade secret case that the Texas anti-SLAPP statute then in effect was a procedural mechanism for speedy dismissal of a meritless lawsuit that does not apply in federal courts as it conflicts with FED. R. CIV. P. 12 and 56), followed in *Star Sys. Int'l Ltd. v. Neology, Inc.*, 780 F. Appx. 172 (5th Cir. 2019) (unpublished) (affirming dismissal of anti-SLAPP counterclaim in trade secret dispute); *La Liberte v. Reid*, 966 F.3d 79, 88 (2d Cir. 2020) (holding that California's anti-SLAPP statute conflicts with federal procedural law and does not apply in federal court to a defamation claim); *Carbone v. Cable News Network, Inc.*, 910 F.3d 1345 (11th Cir. 2018) (affirming decision holding that state anti-SLAPP statute did not apply in federal court to defamation claim because it was in conflict with FED. R. CIV. P. 8, 12, and 56) and *Abbas v. Foreign Policy Grp. LLC*, 783 F.3d 1328 (D.C. Cir. 2015) (affirming decision that D.C. anti-SLAPP statute did not apply to defamation claim filed in federal court because of conflict with federal rules) with *CoreCivic, Inc. v. Candide Grp. LLC*, 46 F.4th 1136 (9th Cir. 2022) (holding, in non-trade secret case, that California anti-SLAPP statute does not present a "direct collision" with federal law and thus properly applied in federal court). Whether or not a particular anti-SLAPP claim can be asserted in federal court in response to a claim of trade secret misappropriation or other state law claim may also depend on the wording of the particular statute and the specific acts alleged.

If the Court determines that the anti-SLAPP statute applies, it will need to phase the case accordingly.

### **3.5.3.3 Noncompulsory Counterclaims**

The defendant may also assert counterclaims that do not arise or do not arise fully out of the same transaction. Such counterclaims need not necessarily proceed on the same timetable as the original claim. At the case management conference, the parties and the Court should begin to focus on whether discovery and ultimately trial should proceed on the same timetable for noncompulsory counterclaims. Under FED. R. CIV. P. 42(b), for convenience, to avoid prejudice, or to expedite and economize, the Court may order a separate trial of one or more separate issues, claims, crossclaims, counterclaims, or third-party claims. *See, e.g., Kolon Indus. v. E.I. DuPont de Nemours & Co.*, 637 F.3d 435 (4th Cir. 2011) (reversing and remanding order dismissing antitrust claim brought as a counterclaim to trade secret case; on remand the trial Court bifurcated the antitrust claim from the trade secret claim, which had been separately proceeding during the appeal).

## **3.6 Jurisdiction**

### **3.6.1 Personal Jurisdiction**

While the DTSA provides for non-exclusive jurisdiction in the federal courts, it does not provide for nationwide service of process. *Mission Measurement Corp. v. Blackbaud, Inc.*, 287 F.Supp. 3d 691, 706 (N.D. Ill. 2017) ("The [DTSA] does not have nationwide service of process that would confer personal jurisdiction over all Defendants, therefore, the Court may exercise personal jurisdiction over Defendants only if personal jurisdiction would be proper in an Illinois court."); *Optimas OE Sols. v. Grimes*, 20 C 251, at \*12 (N.D. Ill. July 30, 2020); *Spigot, Inc. v. Hoggatt*, 2020 WL 1955360, at \*8 (M.D. Fla. Apr. 23, 2020); *Sears Authorized Hometown Stores v. Nationwide Mktg. Grp.*, No. 19-cv-3403, at \*2 (N.D. Ill. Oct. 9, 2019). *Cf.* the civil RICO statute, 18 U.S.C. § 1965(d), which provides that service may be made "on any person in any judicial district in which such person resides, is found, has an agent, or transacts his affairs."

Under FED. R. CIV. P. 4 (k)(1)(A), serving a summons or filing a waiver of service establishes personal jurisdiction over a defendant who is subject to the jurisdiction of a court of general

jurisdiction in the state where the District Court is located. The Court's exercise of personal jurisdiction must be authorized by the long-arm statute of the forum state and must be in accordance with the Due Process Clause of the Fourteenth Amendment. "General" personal jurisdiction over a party exists where the defendant has "continuous and systematic" contacts with the forum so as to render the defendant "essentially at home there." *Goodyear Dunlop Tires Operations, S.A. v. Brown*, 564 U.S. 915, 919 (2011) (quoting *Int'l Shoe v. Washington*, 326 U.S. 310 (1945)). "Specific" personal jurisdiction applies where defendant's contacts are fewer or less intimate, but where the legal action "arise[s] out of or relate[s] to those contacts. See *Ford Motor Co. v. Mont. Eighth Jud. Dist. Ct.*, 141 S.Ct. 1017, 1025 (2017).

Under FED. R. CIV. P. 4(k)(2), for a claim that arises under federal law, serving a summons or filing a waiver of service establishes personal jurisdiction over a defendant if (A) the defendant is not subject to jurisdiction in any state's courts of general jurisdiction, and (B) exercising jurisdiction is consistent with the United States Constitution and laws. This rule has been held to function as a "federal long-arm statute, which allows a district court to exercise personal jurisdiction over a foreign defendant whose contacts with the United States, but not with the forum state, satisfy due process." *Archangel Diamond Corp. Liquidating Tr. v. OAO Lukoil*, 75 F. Supp. 3d 1343, 1360–61 (D. Colo. 2014), *aff'd sub nom. Archangel Diamond Corp. Liquidating Tr. v. Lukoil*, 812 F.3d 799 (10th Cir. 2016) (quoting *Synthes (U.S.A.) v. G.M. Dos Reis Jr. Ind. Com De Equip. Medico*, 563 F.3d 1285, 1296 (Fed. Cir. 2009)). "[I]n determining whether jurisdiction does not offend the Constitution under Rule 4(k)(2), the Court first analyzes Defendant's contacts with the United States as a whole, not just the forum state and then looks to the Fifth Amendment fairness factors," *Ivanti, Inc. v. Shea*, 2018 WL 1033205, at 16 (D. Utah Feb. 21, 2018) (finding that Court could exercise jurisdiction over Singapore defendant for violation of the DTSA where defendant affirmatively stated that he was not subject to jurisdiction in any state and plaintiff alleged that the alleged injuries arose out of Defendant's forum-related activities and contacts with Utah).

Under either prong of Rule 4(k), the plaintiff bears the burden of establishing that the Court can exercise personal jurisdiction over each defendant. See *Intera Corp. v. Henderson*, 428 F.3d 605, 615 (6th Cir. 2005) (dismissing complaint against corporate officers for misappropriation where officers had not had personal or corporate contact with Tennessee); *Stolle Mach. Co., LLC v. RAM Precision Indus.*, 605 F. App'x. 473, 479-80 (6th Cir. 2015) (holding that plaintiff in case asserting claims under Ohio state trade secret law met its burden by alleging that its former employee, the individual defendant, acquired trade secrets in Ohio which he used for a company he started in China). The Court may exercise its discretion to hold an evidentiary hearing on the jurisdiction issue, at which plaintiff must establish jurisdiction by a preponderance of the evidence.

Importantly, while plaintiffs asserting trade secret claims often contend that personal jurisdiction is proper in the forum where the "effects" of misappropriation are felt, relying on *Calder v. Jones*, 465 U.S. 783, 790 (1984) (holding that the defendant's conduct outside the forum state can be sufficient to confer personal jurisdiction if the defendant "purposefully directs activities towards the forum state with the intent to cause harm there"), the Supreme Court has clarified that where the complaint does not allege that defendants had "anything to do with" the forum state other than knowing that plaintiffs were there and might sustain a financial loss from the alleged wrongful acts, the exercise of personal jurisdiction is improper. *Walden v. Fiore*, 571 U.S. 277 (2014).

Courts considering personal jurisdiction over out-of-state defendants in trade secret cases have focused on whether the alleged misappropriation—the actual acts from which the claim arose—

was sufficiently connected to the forum jurisdiction. In *JST Corp. v. Foxconn Interconnect Technology, Ltd.*, 965 F.3d 571 (7th Cir. 2020), for example, the Court affirmed the dismissal of a suit brought under the Illinois Trade Secrets Act for lack of personal jurisdiction over out-of-state defendants accused of misappropriation since none were headquartered in Illinois, the alleged misappropriation took place outside Illinois, and defendants were not alleged to have sold any of the products they had manufactured in Illinois. The Court concluded that “if the defendants knowingly acquired, disclosed, or used [plaintiff’s] trade secrets anywhere it was not in Illinois” and rejected plaintiff’s argument that jurisdiction was appropriate simply because plaintiff “felt harm” in Illinois. *See also Celgard, LLC v. Shenzhen Senior Technology Material Co. Ltd.*, 2020 WL 1548513 (N.D. Cal. Mar. 5, 2020) (finding that Court lacked personal jurisdiction over DTSA and state trade secret law claim under a “purposeful direction theory” where plaintiff had failed to make a *prima facie* case of any intentional act expressly aimed at California.); *Gold Medal Products Co. v. Bell Flavors & Fragrances, Inc.*, 2017 WL 1365798, at \*10 (S.D. Ohio Apr. 14, 2017) (dismissing trade secret claim brought under DTSA and Ohio law for lack of personal jurisdiction despite the fact that the plaintiff felt the effects of the allegedly tortious activity in Ohio since defendants were not alleged to have engaged in any acts of misappropriation in Ohio and the individual defendant was alleged to have acquired the trade secret in Ohio by legitimate means).

These cases should be contrasted with cases finding personal jurisdiction over out-of-state defendants that had allegedly “reached in” to the forum state to commit or advance misappropriation. *See Mesa Industries, Inc. v. Charter Industrial Supply, Inc.*, 2022 WL 3082031 (S.D. Ohio Aug. 3, 2022) (finding that exercising personal jurisdiction over defendants on plaintiff’s DTSA claim and supplemental state law trade secret claim was proper where corporate defendant had allegedly aimed its conduct at plaintiff in Ohio and all defendants had engaged in acts in Ohio furthering misappropriation); *Genentech, Inc. v. JHL Biotech, Inc.*, 2019 WL 1045911 (N.D. Cal. Mar. 5, 2019) (finding jurisdiction over non-US defendants including a non-U.S. organization for violations of DTSA and California’s UTSA where allegations plausibly stated that the entity “reached into” California to further the purported conspiracy by successfully recruiting California residents to specifically steal and use California trade secrets); *Allstate Ins. Co. v. Ameriprise Financial Svcs. Inc.*, 317 F.Supp.3d 1006 (N.D. Ill. 2018) (finding personal jurisdiction over defendants where DTSA claim alleged that defendants directed recruitment efforts at Illinois employees and solicited confidential information from them).

Where the complaint alleges multiple causes of action, the Court must consider the question of personal jurisdiction separately for each one. *Pictometry Int’l Corp. v. Air America Flight Center*, 394 F.3d 320 (W.D.N.Y. 2019) (citation omitted) (separately finding specific personal jurisdiction over defendants on DTSA, breach of fiduciary duty and breach of the duty of loyalty claims). Similarly, where there are multiple defendants, plaintiff bears the burden of proving that jurisdiction “exists over each defendant independently.” *Beydoun v. Wataniya Rest. Holdings, Q.S.C.*, 768 F.3d 499, 504 (6th Cir. 2014).

### **3.6.2 Subject Matter Jurisdiction**

A federal court must have subject matter jurisdiction over each claim brought before it. Where all claims are brought under a federal statute, including the DTSA, the Court has jurisdiction over the claims; where multiple claims are asserted, however, subject matter jurisdiction must be analyzed as to each claim.

#### **3.6.2.1 DTSA Claims**

The district courts of the United States have original jurisdiction of civil actions brought under the DTSA. *See* 18 U.S.C. § 1836(c). Thus, a DTSA claim can be maintained in federal court even if there are no other bases for subject matter jurisdiction, such as diversity. On occasion defendants attempt to dismiss a DTSA claim for lack of subject matter jurisdiction, claiming that plaintiff has not adequately alleged the existence of trade secrets. However, usually when a statute provides both the basis for subject matter jurisdiction and the substantive claim for relief, “entwinement” exists which makes it improper to dismiss an action for lack of jurisdiction instead of for failure to state a claim, unless the allegations are frivolous. *See Berkadia Real Estate Advisors LLC v. Wadlund*, No. CV-22-00049-TUC-CKJ, at \*9 (D. Ariz. Aug. 9, 2022) (denying motion to dismiss DTSA claim for lack of subject matter jurisdiction, holding that the question of whether Plaintiff’s alleged trade secret claim comes within the reach of the DTSA goes to the merits of Plaintiff’s action rather than to the question of jurisdiction).

### **3.6.2.2 Supplemental Jurisdiction Over State Trade Secret Claims**

Under 28 U.S.C. §1367, the Court has discretion to exercise supplemental jurisdiction over all other claims that are “so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United State Constitution. Such supplemental jurisdiction shall include claims that involve the joinder or intervention of additional parties.” Many trade secret claimants asserting claims under the DTSA also assert claims under the applicable state trade secret statute or common law. They may choose to do so both to avail themselves of the wealth of decisional law under state law and because state law claims may carry with them different requirements, both from each other and from the DTSA, regarding, among other things, standing to sue, statutes of limitation, pre-emption, and the availability of various monetary and equitable remedies. District courts routinely exercise supplemental jurisdiction in DTSA cases over state law trade secret claims, which typically incorporate by reference many of the operative factual allegations underlying the DTSA claim.

The Court may decline to exercise supplemental jurisdiction, however, where the Court has dismissed the DTSA claim and there is no remaining independent basis for federal jurisdiction, particularly where the remaining claim raises a novel or complex issue of state law, 28 U.S.C. § 1367 (c)(3). *see, e.g., Active Design Polymer, LLC v. Walsh*, 2022 WL 3139085, at \*6 (N.D.N.Y. Aug. 5, 2022) (dismissing supplemental state law claim for trade secret misappropriation since Court dismissed DTSA claim as time barred as to one defendant and for lack of personal jurisdiction over other defendants); *IDEXX Laboratories, Inc. v. Bilbrough*, 2022 WL 3042966, at \*6. (D. Me. Aug. 2, 2022) (dismissing state law trade secret claim where Court dismissed DTSA claim and found remaining issues under Maine’s trade secret statute including applicability of the “inevitable disclosure” doctrine to be complex); *Zabit v. Brandometry, LLC*, 540 F.Supp.3d 412, 428 (S.D.N.Y. 2021) (dismissing supplemental state law claim for trade secret misappropriation since Court dismissed DTSA claim for failure to plausibly allege that plaintiff had taken reasonable measures to protect the information at issue); *CGB Diversified Servs. Inc. v. Adams*, 2020 WL 1847733, at \*3-4 (D. Kan. Apr. 13, 2020) (dismissing supplemental state law claim for misappropriation after dismissing DTSA claim for failure to plausibly allege misappropriation).

Assertion of a DTSA claim is not the only potential basis for a claim that the Court should exercise supplemental jurisdiction over a state trade secret claim, as many pre-DTSA cases illustrate. If the Court has federal question jurisdiction over another claim, such as a claim for patent infringement and the Court determines in its discretion that the state trade secret law claims are sufficiently related to be part of the same case and controversy, it may exercise supplemental

jurisdiction over the state law claim. *See, e.g., VIA Technologies, Inc. v. ASUS Computer Int'l*, 2015 WL 3809382, at \*6 (N.D. Cal. June 18, 2015) (exercising supplemental jurisdiction over state trade secret claim alleging that defendant had misappropriated trade secrets to make product alleged to infringe plaintiff's patent); *cf. Taiwan Semiconductor Mfg. Co. v. Semiconductor Mfg., Int'l Corp.*, 2004 WL 5212448 (N.D. Cal. April 21, 2004) (declining to exercise supplemental jurisdiction over and dismissing state trade secret claim upon finding that the "wide-ranging" trade secret claims would overwhelm the "relatively unexceptional" patent claims).

### **3.6.2.3 Supplemental Jurisdiction Over Other State Law Claims**

A plaintiff in a DTSA case often asserts additional related state claims, such as contractual or equitable claims seeking an assignment of a patent allegedly incorporating plaintiff's trade secret, claims for fraudulently inducing plaintiff to share its trade secrets, claims for fraudulent concealment of misappropriation, claims for breach of a noncompetition agreement or violations of fiduciary duty, or claims relating to the breakdown of a contractual relationship which allegedly resulted in the misappropriation of trade secrets. *See* § 2.8.

The Court may exercise supplemental jurisdiction over those claims under 28 U.S.C. § 1367 if the Court in its discretion determines that they are so related to the claims at issue that they are part of the same case or controversy. A court having jurisdiction over a DTSA claim may decline, in its discretion, to exercise jurisdiction over a supplemental state law claim for breach of a noncompetition agreement posing "subtle issues" of state law differing from the trade secret claim. *See Integro USA, Inc. v. Crain*, 2019 WL 6030100, at \*3 (S.D.N.Y. Nov. 14, 2019).

### **3.6.2.4 Diversity Jurisdiction Over Stand-Alone State Trade Secret Law Claims**

Where the trade secret claimant satisfies the requirements for diversity jurisdiction, namely, complete diversity of citizenship and an amount in controversy in excess of \$75,000, exclusive of interest and costs, 28 U.S.C. § 1332, it may choose to assert a stand-alone claim under state law for misappropriation of trade secrets or for other state law claims. A trade secret claimant may choose to rely on diversity jurisdiction if it fails to satisfy the requirements for a DTSA claim as to one or more defendants or if the selected state law is perceived to provide substantive advantages.

If the jurisdictional amount is satisfied, diversity jurisdiction may be asserted if the claim is between:

- (1) citizens of different States;
- (2) citizens of a State and citizens or subjects of a foreign state, except that the district courts shall not have original jurisdiction under this subsection of an action between citizens of a State and citizens or subjects of a foreign state who are lawfully admitted for permanent residence in the United States and are domiciled in the same State;
- (3) citizens of different States and in which citizens or subjects of a foreign state are additional parties; and
- (4) a foreign state, defined in 28 U.S.C. § 1603(a), as plaintiff and citizens of a State or of different States.

28 U.S.C. § 1332(a).

Importantly, diversity jurisdiction requires that there be complete diversity, with few exceptions. One important configuration on which plaintiffs sometimes stumble is alleging citizenship of a partnership or limited partnership or a limited liability company, which requires

assessment of the citizenship of each partner or member of the entity, potentially through several layers (if a partner of an entity is itself a partnership, for example). Often the plaintiff does not have full knowledge of the configuration and citizenship of a partnership or limited liability company, yet if diversity is ultimately found to be lacking and was the sole basis for subject matter jurisdiction, the Court will be found to have had no jurisdiction over the claim. In an effort to avoid the expense and delay of learning belatedly that there was no subject matter jurisdiction, the Checklist requires such parties to state the citizenship of the partners or LLC members or, in the case of a defendant, state whether the citizenship of any accused party or its constituents is the same as that of the complainant. This is consistent with the revised FED. R. CIV. P. 7.1(b), which took effect on December 1, 2022 and requires that in an action in which jurisdiction is based on diversity under 28 U.S.C. § 1332(a), a party or intervenor must, unless the court orders otherwise, file a disclosure statement naming and identifying the citizenship of every individual or entity whose citizenship is attributed to that party or intervenor:

- (A) when the action is filed in or removed to federal court, and
- (B) when any later event occurs that could affect the court's jurisdiction under § 1332(a).

Another frequently overlooked block to establishing diversity jurisdiction is when a party plaintiff and a party defendant are both non-U.S. citizens but are citizens of different countries (e.g., a Canadian organization on the plaintiff's side and a French organization on the defendant side, perhaps along with other entities on each side that are diverse from each other). For purposes of diversity jurisdiction, both non-U.S. parties are treated as citizens of a foreign state and there is no diversity as to those parties. Again, the Checklist should assist in discovering such issues early in the course of the case and can assist the parties in determining whether particular entities need to be parties or not or whether alternative claims with alternative bases for jurisdiction may be appropriate.

### **3.7 Venue**

#### **3.7.1 DTSA Claims**

The DTSA, unlike the Patent Act, does not include a venue provision. Thus, the general venue rules apply, 28 U.S.C. § 1391, and, barring other considerations discussed below, venue is proper in

- (1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;
- (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or
- (3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court's personal jurisdiction with respect to such action.

28 U.S.C. § 1391(b).

Although the chosen venue does not have to be the place where the most relevant events took place, the selected District's contacts with events giving rise to the claim must still be substantial. *See Akurate Dynamics, LLC v. Carlisle Fluid Technologies, Inc.*, No. 6:20-CV-00606-ADA, 2021 WL 86006, at \*3 (W.D. Tex. March 8, 2021) (citation omitted) (finding venue improper over DTSA claim where allegations established only "paltry" connections to the forum and the alleged



acts of misappropriation all occurred outside the district). *Cf. Hicklin Eng'g L.C. v. Bartell*, 116 F. Supp. 1107, 1112 (S.D. Iowa 2000) (finding venue improper over state trade secret claim where no events, much less substantial events, other than the potential for economic injury, occurred in the district).

### **3.7.2 Statutory Venue Provisions Relating to Other Claims**

If the complaint also alleges claims arising under Federal statutes containing special venue provisions, such as the Patent Act, 28 U.S.C. § 1400(b), those claims must be brought in a forum permitted under the applicable statute. Under the Patent Act, venue is proper only in the judicial district where the defendant resides or where the defendant has committed acts of infringement and has a regular and established place of business. It has been held that a patent claim may not be brought in an improper venue simply because it is pendant to a DTSA claim brought in that venue. *Akurate Dynamics*, 2021 WL 86006, at \*3.

### **3.7.3 Impact of a Forum Selection Clause; Choice of Law Provisions**

Often parties to a trade secret dispute are or were parties to a contract, such as an employment agreement or license agreement, agreeing that some or all disputes between the parties would be heard in a particular jurisdiction. In evaluating such a provision, the Court will determine whether the forum clause is mandatory or permissive and whether it governs the particular dispute (for example, does the provision apply only to claims of breach of the agreement or does it extend to all claims between the parties). *In re Orange, S.A.*, 818 F. 3d 956 (9th Cir. 2016) (holding that forum selection clause in parties' nondisclosure agreement did not govern software developer's suit against French multinational telecommunications company for theft of trade secrets where plaintiff did not sue company for any breach of NDA or for misappropriation of information disclosed pursuant to the NDA, and resolution of its claims did not require any analysis of NDA). A valid forum selection provision will be set aside only in the most exceptional cases. *Atlantic Marine Const. Co., Inc. v. U.S. Dist. Ct. for Dist. Of Texas*, 571 U.S. 49 (2013), citing *Stewart Organization, Inc. v. Ricoh Corp.*, 487 U.S. 22 (1988).

The fact that the DTSA provides access to federal courts for DTSA claims has been held not to override a contractual forum selection provision calling for litigation in a foreign forum. *Amydas Pharmaceuticals, S.A. v. Zealand Pharma, A/S*, 48 F. 4th 18 (1st Cir. 2022) (holding that the bare fact that a law provides a federal cause of action with some extraterritorial reach does not prevent private parties from contracting either outside it or around it).

Contractual forum selection clauses are often coupled with a specification of what law governs the contract. Whether a contractual choice of law provision applies to a state law trade secret claim will need to be assessed separately. Resolution of this issue will require, among other things, analysis of any choice of law provision and the nature and purpose of the contract containing the provision. *See Stoneyfield Farm, Inc. v. Agro-Farma, Inc.*, 2009 WL 3255218 (D.N.H. Oct. 7, 2009) (concluding that specific contractual choice of law provision in an NDA providing that “the mutual objective of the parties hereto is to provide appropriate protection for Confidential Information” applied to claim for misappropriation of trade secrets as well as to contract claims; holding that “artful pleading” of a claim grounded in contract as a tort claim should not override agreed choice of law); *Facility Wizard Software, Inc. v. Southeastern Technical Svcs., LLC*, 647 F.Supp.2d 938 (N.D. Ill. 2009) (holding that Illinois choice of law provision in distributorship agreement granting defendant, among other things, rights to use confidential information, which provided that “all rights and obligations hereunder, including matters of construction, validity and

performance” extended to state law claim for misappropriation of trade secrets). Resolution of which state’s law governs a state trade secret claim may require extensive factual development as the case progresses. *Cf. Alabama Aircraft Industries, Inc. v. The Boeing Company*, No. 20-1141 (11th Cir. Feb. 14, 2022) (unpublished) (determining after eleven years of litigation and a jury trial that Missouri law, not Alabama law, applied to defendant’s statute of limitations defense based in part on wording of broad contractual choice of law provision).

The applicability of a contractual choice of law often arises in connection to claims concerning the enforceability of a noncompete agreement. In some cases, a state statute may override a contractual choice of law. *See, e.g. CAL. LAB. CODE 925* (providing, subject to certain exceptions, that any provision of contracts required as a condition of employment of employees who primarily reside and work in California that requires the employee to adjudicate outside of California that arises in California or that deprives the employee of the substantive protections of California law with respect to a controversy arising in California is voidable by the employee, and if a provision is rendered void at the request of the employee, the matter shall be adjudicated in California and California law shall govern the dispute). In other cases, the forum state’s choice of law rules may override a contractual choice of law. *See Cabela’s LLC v. Highby*, 801 Fed. App’x 48 (3d Cir. 2020) (holding that although the case would be heard in Delaware due to the contractual choice of forum provision, under Delaware’s choice of law rules, Nebraska had a more significant connection to the dispute and the Delaware court would thus apply Nebraska law to the claims, overriding the Delaware choice of law provision). The issue can raise significant complexities which may be outcome determinative. Early attention to governing law issues can play a useful role in case management.

### **3.8 Impact of an Arbitration Agreement**

Many trade secrets disputes arise in connection with the termination of employment or business relationships. The overall relationship may be subject to an arbitration provision that may sweep within its reach not only contractual claims but “any and all” claims “arising out of or relating to” the subject matter of the agreements or even all claims relating to the relationship governed by the agreement. Other arbitration provisions are narrower, confined to claims for breach of the contract or even to claims of breach of specific provisions of the agreement. Understanding the implications of any arbitration provision early on is essential to permit the Court to determine what aspects, if any, of the dispute will be heard before the Court.

#### **3.8.1 What Claims Are to Be Arbitrated?**

Arbitration is a creature of contract. Under the Federal Arbitration Act (“FAA”), 9 U.S.C. §1, *et seq.*, the Court must stay an action brought “upon any issue referable to arbitration under an agreement in writing for such arbitration” until the trial has been had, providing that the applicant for the stay is not in default in proceeding with the arbitration. This language is mandatory. *Countrywide Home Loans v. Mortg. Guar. Ins. Co.*, 2011 WL 4948538, at \*2 (N.D. Cal. Oct. 18, 2011).

The Checklist and Case Management Order direct the parties and the Court to consider whether the dispute brought in court is subject to arbitration. In reaching this decision, the starting point is the language of the contract itself. Often it will be clear. But sometimes its reach may be uncertain or ambiguous. In *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938 (1995), the Supreme Court held that courts—and not arbitrators—must decide questions of arbitrability unless there is clear and unmistakable evidence of the parties’ intent to submit questions of arbitrability to the

arbitrators. The contract may state that the question of arbitrability is to be decided by the arbitrator, either by expressly stating so, or by incorporating rules of arbitration tribunals that provide that the arbitration panel will decide arbitrability. All of the U.S. federal circuit courts to consider the issue have “agreed that incorporation by reference of arbitral rules into an agreement that expressly empower an arbitrator to resolve questions of arbitrability clearly and unmistakably evidences the parties’ intent to empower an arbitrator to resolve questions of arbitrability.” *Airbnb, Inc. v. Doe*, No. SC20-1167, 2022 WL 969184, at \*4 (Fla. Mar. 31, 2022) (holding that this rule is the law of Florida, as well).

Parties and the Court should note that many contracts containing provisions requiring disputes to be arbitrated expressly carve out claims seeking injunctive relief or claims for violations of intellectual property rights, which, depending on the applicable law and contractual language, may encompass claims for misappropriation, or may expressly carve out from arbitration claims for misappropriation of trade secrets. The scope of any arbitration provision and of the Court’s role in resolving any portion of the dispute should be discussed at an early conference.

### **3.8.2 Who May Be Compelled to Arbitrate? The “Non-Signatory Doctrine”**

A party that has agreed to arbitrate a claim may be compelled to arbitration if it chooses instead to file its claim in court, unless, as described below, it seeks only to seek judicial relief “in aid” of arbitration. Normally only parties to an arbitration agreement may be compelled to arbitrate claims with a signatory party or permitted to compel a signatory party to arbitrate claims against it. This rule is not, however, absolute. The Supreme Court has interpreted Section 3 of the FAA “[t]o permit a litigant who is not a party to the arbitration agreement [to] invoke arbitration under the FAA if the relevant state contract law allows the litigant to enforce the agreement.” *Arthur Andersen LLP v. Carlisle*, 556 U.S. 624, 632 (2009). The Supreme Court has recognized that “traditional principles” of state law allow a contract to be enforced by or against nonparties to the contract through “assumption, piercing the corporate veil, alter ego, incorporation by reference, third-party beneficiary theories, waiver and estoppel.” 21 R. LORD, WILLISTON ON CONTRACTS §57:19, 183 (4th ed. 2001), *Arthur Andersen v. Carlisle*, 556 U.S. at 632.

Each of these theories might be invoked in disputes with multiple parties alleged to have each had a role in trade secret misappropriation. For example, an assumption, agency or alter ego, third-party beneficiary or corporate veil theory might be viably asserted if closely related corporate entities are asserted to have worked together to misappropriate trade secrets. Thus, when addressing the Checklist and the existence of an arbitration provision, the Court will want to understand whether any of the theories for compelling a nonsignatory to arbitrate may apply and whether plaintiff is prepared to make any representations about how it intends to conduct the case in court that may bear on this question.

Under the doctrine of equitable estoppel, a nonsignatory can enforce an arbitration clause:

(1) when a signatory must rely on the terms of the written agreement in asserting its claims against the nonsignatory or the claims are intimately founded in and intertwined with the underlying contract, and (2) when the signatory alleges substantially interdependent and concerted misconduct by the nonsignatory and another signatory and the allegations of interdependent misconduct are founded in or intimately connected with the obligations of the underlying agreement.

*Murphy v. DirecTV, Inc.*, 724 F 3d 1218, 1229 (9th Cir. 2013) (citations omitted).

The doctrine of equitable estoppel has recently been asserted offensively, although ultimately unsuccessfully, by non-signatory defendants in at least two high profile trade secret cases to try to compel arbitration where plaintiff alleged that the defendants had misappropriated trade secrets in connection with their hiring of plaintiff's former employees who were subject to an arbitration agreement. The non-signatory new employers each argued that the misappropriation claims against them in court should be sent to arbitration because the plaintiff, signatory to the agreement containing the arbitration clause, would necessarily rely on the terms of its agreement with the employee in asserting its claims against the new employer.

To resolve the assertion that the claims against the non-signatory should be arbitrated, the courts assessed the evidence the plaintiff would rely on in attempting to prove its case against the non-signatory to determine the extent to which the evidence and issues in the lawsuit are necessarily intertwined with the issues governed by the agreement containing the arbitration provision. Where the plaintiff represented that it would prove all of the elements of its DTSA and state trade secret misappropriation claim against the non-signatory hiring company without reference to any obligations contained in the agreements with its former employees (which agreements required breaches of the obligations to be arbitrated), courts have held that the plaintiff was not equitably estopped from proceeding against the non-signatory in court. *Waymo LLC v. Uber Techs., Inc.*, 870 F.3d 1342, 1346 (Fed. Cir. 2017); *Faraday & Future, Inc. v. Evelozcity, Inc.*, 2018 WL 11346536 (C.D. Cal. Aug. 9, 2018). The cases illustrate the importance of determining at an early stage how the litigation claims and the proof being offered to support them may differ from claims that are governed by an agreement containing an arbitration provision.

### **3.8.3 Injunctive Relief from the Court in Aid of Arbitration; Waiver of Right to Arbitrate**

Recognizing that, as may be especially true in the context of agreements regarding the disclosure or sharing of trade secrets, the acts complained of may cause serious or irreparable injury before an arbitration gets underway, many contracts authorize the complaining party to seek an injunction in court "in aid" of arbitration. Applicable state law may also permit the complainant to seek such relief in court. As further described in Chapter 5, otherwise "[a]rbitration can become a hollow formality if parties are able to alter irreversibly the status quo before the arbitrators are able to render a decision in the dispute." *Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith*, 910 F.2d 1049, 1053 (2d Cir. 1990). Seeking an injunction in aid of arbitration does not waive the right to arbitrate, as both Courts, *see, e.g., Tesla v. Yatskov*, No. 3:22-cv-02725-JD, Dkt., at \*52 (N.D. Cal. Aug. 18, 2022); and the rules of major arbitration centers recognize. *See, e.g.,* AAA Commercial Rules 37, 38, JAMS Comprehensive Arbitration Rules and Procedures Rule 24 (e); ICDR Rule 24; ICC Article 28(2). Courts evaluating a request for an injunction in aid of arbitration will typically apply the traditional requirements for equitable relief applicable to other requests for injunctions. *See S.G. Cowen Sec. Corp. v. Messih*, 224 F3d 79, 82 (2d Cir. 2000); *Tesla, Inc. v. Khatilov*, 2021 WL 624174, at \*2 (N.D. Cal. Jan. 22, 2021).

Many of the leading arbitration organizations permit the movant, alternatively, to seek urgent injunctive relief in the arbitration itself. In commercial arbitrations before the American Arbitration Association, for example, a tribunal is empowered to take "whatever interim measures it deems necessary, including injunctive relief and measures for the protection and conservation of property." AAA Commercial Rule 37. The arbitrator also has the power to require security for the costs of the interim measures. *Id.* If interim relief is required before the presiding arbitrator has been appointed or panel has been convened, the AAA may appoint an emergency arbitrator. AAA

Commercial Rule 38. Similar rules exist at JAMS, the AAA's ICDR, and the ICC. *See* JAMS Comprehensive Arbitration Rules and Procedures Rules 2, 24; ICDR Rules 6, 24; ICC Article 29.

Once an application to the Court for relief in aid of arbitration has been resolved, the Court's role is concluded and the Court action should be dismissed or stayed while the parties proceed to arbitration. *See Tesla v. Yatskov*, No. 3:22-cv-02725-JD, Dkt., at \*52 (N.D. Cal. Aug. 18, 2022) (staying case in favor of arbitration after directing defendant not to "copy, transfer, modify, or edit in any way any electronic file in any format that contains information he obtained during his employment with Tesla" and otherwise denying injunction in aid of arbitration; finding no waiver of right to arbitrate); *In re M.B. Int'l W.W.L.*, 2012 WL 3195761, at \*14 (S.D.N.Y. Aug. 6, 2012); *In re Faiveley Transport Malmo AB*, 2009 WL 3270854 (S.D.N.Y. Oct. 7, 2009) (closing case after denying motion for preliminary injunction in aid of arbitration).

While seeking injunctive relief in aid of arbitration does not, as described above, waive the right to arbitrate, courts will be attentive to whether the parties have engaged in acts before the Court manifesting their intent to proceed solely in court rather than in arbitration. There is no concrete test to determine whether a party has acted inconsistently with its arbitration right. Instead, a holistic approach is taken that considers the totality of the party's actions. "That is, a party acts inconsistently with exercising the right to arbitrate when it (1) makes an intentional decision not to move to compel arbitration and (2) actively litigates the merits of a case for a prolonged period of time in order to take advantage of being in court." *Newirth v. Aegis Senior Communities, LLC*, 931 F.3d 935, 941 (9th Cir. 2019). This standard was applied in *Sequoia Benefits & Ins. Servs. v. Costantini*, 553 F.Supp.3d 752, 762 (N.D. Cal. 2021), denying defendants' motion to dismiss a court action and proceed to arbitration where, the Court found "[i]n this action for trade-secret misappropriation, both sides told the district judge that they saw no occasion to invoke an arbitration clause, and so both sides duly litigated their action in court. Once, however, the former-employee defendants saw which way the wind was blowing in the action, they reversed course and now move to compel arbitration. This gamesmanship will not be rewarded. This order finds the defendants waived their right to invoke the arbitration clause." *Id.* at 755.

### **3.9 Related Proceedings**

Trade secret disputes often arise in the context of other litigation between the parties. Claims may be asserted in multiple jurisdictions, domestic and international, for the same or related alleged acts of misappropriation, for patent infringement pertaining to related technologies, or for a variety of commercial claims relating to possession or ownership of information at issue. Criminal proceedings may be moving ahead in the same or other courts, including internationally, presenting evidentiary and other issues for a trade secret case pending in federal district court. Claims for alleged breaches of restrictive covenants or alleged "raiding" of employees to acquire trade secrets may be proceeding in other forums.

The Court should be made aware of other concurrent proceedings at an early stage to avoid engaging in improper "end runs" around proceedings in other jurisdictions and to explore and manage potential efficiencies.

The parties should also be prepared to discuss the extent to which evidence obtained in other fora may be used in the District Court proceeding and whether protective orders may impact the use of evidence obtained in other proceedings.

#### **3.9.1 Other Civil Proceedings**

Parties to a trade secret dispute may be embroiled in other related litigation. As a matter of case management one party may seek to consolidate these proceedings or to dismiss or stay one of the proceedings in deference to a first filed action on related claims.

### 3.9.1.1 Motions to Consolidate

The parties may be engaged in ongoing litigation concerning other claims. For example, parties to a trade secret dispute may be involved in patent litigation in which some of the information and evidence relates to or overlaps with evidence at issue in the trade secret case. They may be involved in litigation over the demise of business relationships in which trade secrets are alleged to be at risk. Depending on the degree of overlap and the status of the first filed case, either or both parties may prefer for pragmatic or strategic reasons that the claims be pursued together, either as a consolidated or related action. If actions before the Court involve a common question of law or fact, FED. R. CIV. P. 42 authorizes the Court to consolidate the cases or order separate trials:

(a) Consolidation. If actions before the court involve a common question of law or fact, the court may:

- (1) join for hearing or trial any or all matters at issue in the actions;
- (2) consolidate the actions; or
- (3) issue any other orders to avoid unnecessary cost or delay.

(b) Separate Trials. For convenience, to avoid prejudice, or to expedite and economize, the court may order a separate trial of one or more separate issues, claims, crossclaims, counterclaims, or third-party claims. When ordering a separate trial, the court must preserve any federal right to a jury trial.

Consolidation is not granted as of right. The Court has broad discretion to determine whether consolidation is appropriate under the circumstances. *Johnson v. Celotex Corp.*, 899 F.2d 1281, 1284-85 (2d Cir. 1990). Consolidation is warranted where it promotes “judicial economy,” *id.* at 1285, and serves to eliminate the waste associated with duplicative discovery and multiple trials. *See, e.g., JBF Interlude 2009 Ltd. v. Quibi Holdings, LLC*, 2020 WL 4339896, at \*6 (C.D. Cal. July 28, 2020) (granting motion to consolidate cases brought by overlapping parties alleging patent, trade secret, breach of NDA claims and a variety of claims relating to inventorship and ownership of patents, finding that the actions involve closely related questions of law and fact and that consolidation would promote the interests of judicial and litigant economy without prejudicing either party or action); *Shapiro v. Hasbro, Inc.*, No. CV-02964-BRO, 2016 WL 9113993, at \*8 (C.D. Cal. Oct. 13, 2016) (granting motion for consolidation of later filed DTSA claim with earlier misappropriation claim under state law arising out of the same nucleus of common facts even though different doll designs were allegedly misappropriated in the two actions, finding that nearly identical facts will support both claims, the same legal inquiries will occur in both proceedings and that delay in first action would not significantly prejudice either party).

Before granting consolidation, the Court must determine that the parties will not be prejudiced. The moving party bears the burden to demonstrate that consolidation is appropriate. *Kamdem-Ouaffo v. PepsiCo, Inc.*, 314 F.R.D. 130, 136-137 (S.D.N.Y. 2016) (denying motion to consolidate trade secret suit with earlier filed action between the parties that was at a different stage of litigation, finding that consolidation would interfere with the two proceedings, delay rather than expedite proceedings, and increase expense).

At the early stages of a case, the parties' and the Court's focus may be on consolidation. At a later stage, a party may propose to bifurcate certain claims for trial. This will necessarily be a topic for discussion at later case management conferences.

### **3.9.1.2 “Dueling Courthouses”**

Trade secret lawsuits against former employees are frequently intertwined with an employer's claim that the employee is subject to and is violating a non-compete agreement designed to protect trade secrets and customer relationships. State laws vary substantially concerning the enforceability of non-compete agreements. Where a contract between the parties specifies the exclusive forum for all disputes under the agreement or provides that all disputes between the parties must be brought in a particular jurisdiction, absent a showing that that provision was procured through fraud or other improper means, courts will typically defer to the selected choice of forum (although the chosen forum may not necessarily apply the chosen law and may conduct its own choice of law analysis). *Atlantic Marine Const. Co., Inc. v. U.S. Dist. Ct. for Dist. Of Texas*, 571 U.S. 49 (2013).

Absent a mandatory exclusive venue provision, the parties' differing assessments of which Court may be a more favorable forum may lead each party to choose to file its claims in a different jurisdiction. Courts may then be asked to exercise their discretion to stay or dismiss one suit in preference to the suit in the other forum. Such requests are frequently accompanied by time-sensitive requests for the Court to enforce the non-compete agreement or issue a declaratory judgment that it is unenforceable.

As a matter of case management, this issue will generally be brought to a head early in the life of the suits. The issue is often multidimensional, requiring attention not only to the question of which forum will adjudicate the dispute but also to the separate issue of what law will apply to the dispute wherever it is decided. *See* § 3.7.3. There is a wealth of caselaw addressing these sometimes complex “dueling courthouse” situations and jurisdiction-specific law will always need to be consulted in evaluating which case should proceed or whether both should continue. Some general principles follow.

#### **3.9.1.2.1 Both Actions in Federal Court**

Federal courts maintain a system of comity among themselves. As between two suits between the same (or in some cases, substantially the same) parties involving substantially the same issues filed in two different federal courts, a general principle of case management is the “first filed” rule, which was first applied, although without a label, by the United States Supreme Court in *Smith v. M'Iver*, 22 U.S. (9 Wheat) 532, 535 (1824). This “rule” is a discretionary rule of case management not codified in caselaw. *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180 (1952) (holding that in questions of priority between similar proceedings, “[a]n ample degree of discretion, appropriate for disciplined and experienced judges, must be left to the lower courts”); *Alltrade, Inc. v. Uniweld Prods., Inc.*, 946 F.2d 622, 628 (9th Cir. 1991). Individual courts have exercised considerable latitude in determining whether and under what circumstances to apply this management tool. Some courts have modified the general rule of priority by imposing qualifications, such as balance of convenience, balance of hardships, and similar considerations, observing that an absolute “first-to-file” rule might “encourage an unseemly race to the courthouse in certain instances.” *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746, 749-750 (7th Cir. 1987) (describing the rule as the product of “discretion hardened by experience.”) Other courts tend to adhere more frequently to the “first-to-file” rule, with the Eighth Circuit, for

example, following the “first-to-file” rule barring “extraordinary circumstances.” *Minnesota Mining & Mfg. Co. v. Rynne*, 661 F.2d 722, 723 (8th Cir. 1981) (finding no extraordinary circumstances and affirming injunction preventing former employee from proceeding with a later filed action against the former employer in Georgia arising out of the same operative facts as employer’s first filed suit).

Litigants may seek orders from the “first filed” Court enjoining the other party from pursuing litigation in the second forum or may ask the Court presiding over the “second filed” action to stay its proceeding in deference to the first filed action. It has been held to be an abuse of discretion for the Court presiding over the second filed proceeding to issue a temporary restraining order after the first filed Court has accepted jurisdiction to decide the matter. *West Gulf Maritime Assoc. v. ILA Deep Sea Local 24*, 751 F.2d 721, 728-31 (5th Cir. 1985).

Courts have held that the two suits need not be between identical parties and identical issues for the “first filed” rule to come into play where there is a substantial overlap of the subject matter. *See Synthes, Inc., v. Knapp*, 978 F.Supp.2d 450 (E.D. Pa. 2013) (granting motion to transfer second-filed suit to enforce non-compete agreement to forum in which employee had first filed suit seeking declaration that his non-compete agreement was unenforceable given the substantial overlap in the cases, which arose out of the same employment relationship and conduct). *But see Owens v. Blue Tee Corp.*, 177 F.R.D. 673, 679 (M.D. Ala. 1998) (finding first filed rule inapplicable where the prior suit involved some identical claims but two of the three plaintiffs in the second suit were not parties to the first suit).

Federal courts have developed equitable exceptions to the first-to-file rule, including where there are rare or extraordinary circumstances; the first filer engaged in inequitable conduct, acted in bad faith, or engaged in improper forum shopping; the later filed action has developed further than the first filed action; or the first filing party instituted suit in one forum in anticipation of the opposing party’s suit. *E.E.O.C. v. University of Pennsylvania*, 850 F.2d 969, 972, 976 (3d Cir. 1988).

The “second filed” party seeking to invoke the “anticipatory suit” exception bears the burden of producing evidence that the first filed suit is anticipatory. While the fact that the first filed suit is a declaratory judgment action may be a factor to consider, not all first filed declaratory judgment suits are found to warrant a stay. *See, e.g., Manuel v. Convergys Corp.*, 430 F.3d 1132, 1135-1136 (11th Cir. 2005) (finding in noncompete dispute that even if a filing is anticipatory, “this consideration does not transmogrify into an obligatory rule mandating dismissal” but is just one equitable factor), citing *800-Flowers, Inc. v. Intercontinental Florist, Inc.*, 860 F.Supp. 128, 132 (S.D.N.Y. 1994)); *Synthes, Inc. v. Knapp*, 978 F.Supp.2d at 455-56 (finding that employee’s filing of declaratory judgment action in California on the same day he resigned was not inequitable and anticipatory where he had lived and worked in California).

In ruling on a request to dismiss or stay a parallel suit, the first filed Court will assess the pre-filing history of the dispute, focusing particularly on pre-filing communications between the parties and the circumstances surrounding the communications to assess whether the party accused of making an anticipatory filing “jumped the gun.” The amount of time that elapsed between the pre-filing events and the filing of suit or between the filing of the two suits can be an important consideration, with a Court often discounting the time stamp of suits filed on the same day but paying particular attention to a second filing that occurred only after the initial suit had progressed.

### **3.9.1.2.2 Parallel Actions in Federal and State Court**



Due to general rules of federal-state comity, the first filed rule is not often invoked in contests between suits filed in federal court and state court. Generally the two cases will proceed on their own timetable. The Eleventh Circuit has found, however, that the rule can be equally applicable where one of two competing courts is a state court. *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Haydu*, 675 F.2d 1169, 1174 (11th Cir. 1982).

Where the first filed action was a state suit later removed to federal court, the federal proceeding retains the state court filing date for purposes of the rule. *Unlimited Technology, Inc., v. Leighton*, 266 F.Supp.3d 787, 789 (E.D. Pa. 2017) (but finding that first filed declaratory judgment action brought in Georgia state court was an anticipatory suit brought in bad faith and denying motion to dismiss, stay or transfer employer's second filed action); *Manufacturers Hanover Trust Co. v. Palmer Corp.*, 798 F.Supp. 161, 166 (S.D.N.Y. 1992).

### 3.10 Criminal Proceedings

Criminal trade secret investigations or suits are often known or anticipated to be underway during the pendency of a civil proceeding. *See* § 11.10. How such actions should be coordinated is often a question that needs to be addressed early.

Both the government and the defendant in a civil case may have reasons for seeking a stay of the civil proceedings pending resolution of the criminal case. The government may seek a stay of the civil action or of discovery so as to prevent potential interference with its investigation. The defendant may seek a stay to avoid having to invoke the Fifth Amendment during an active criminal investigation. On the other hand, the plaintiff in a civil case may want to pursue its claim expeditiously. The Court's interest in efficiently managing its caseload may also come into play. The mere presence of a criminal investigation that is related to an ongoing civil case is without more insufficient to warrant a stay of the civil case, *see, e.g., Horn v. D.C.*, 210 F.R.D. 13, 15 (D.D.C. 2002) in a non-trade secret case, denying government's pre-indictment request for a 90-day stay in a non-trade secret case, finding that the government's claim that the case was "likely to cause interference with an ongoing investigation of interest to the United States" falls "far short of the showing of 'hardship or inequality'" and is "entirely conclusory". In fact, a stay has been held to be an "extraordinary remedy." *F.T.C. v. E.M.A. Nationwide, Inc.*, 767 F.3d 611, 627 (6th Cir. 2014). The District Court has discretion, however, to stay a civil case if the interests of justice require, *United States v. Kordel*, 397 U.S. 1, 12, n. 27 (1970), and typically will consider factors including:

1. the extent to which the issues in the civil and criminal cases overlap;
2. the status of the criminal proceedings, including whether any defends have been indicted;
3. the plaintiff's interests in expeditious civil proceedings weighed against the prejudice to the plaintiff caused by the delay;
4. the burden on the defendants;
5. the interests of the court; and
6. the public interest.

*See E.I. DuPont de Nemours and Company v. Hou*, No. 17-224-RGA, 2017 WL 2531940 (D. Del. June 9, 2017) (granting motion to stay discovery in civil trade secrets case in light of criminal proceeding); *Keating v. Office of Thrift Supervision*, 45 F.3d 322, 324 (9th Cir. 1989) (citations omitted) (non-trade secret case), discussed at length in *Genentech, Inc. v. JHL Biotech, Inc.*, 2019 WL 1045911, at \*24-25 (N.D. Cal. March 1, 2019) (granting partial stay as to indicted individual

defendants in trade secret case and holding that no stay would be imposed as to the corporate defendant, which did not have Fifth Amendment rights). In *Genentech* the Court reserved the right to revisit the issue and continued to issue additional orders as discovery continued. *See Genentech, Inc. v. JHL Biotech, Inc.*, No. C 18-06582 WHA, Dkt. 212 (May 30, 2019).

### **3.11 Proceedings before the International Trade Commission**

Under the Tariff Act of 1930, 19 U.S.C. §1337, the International Trade Commission (“ITC”) provides a forum for domestic industries to seek exclusion of goods violating U.S. intellectual property rights or that constitute other acts of unfair competition. The Federal Circuit has held that the ITC is entitled to investigate acts of trade secret misappropriation occurring in whole or in part outside the United States where the trade secrets were either incorporated into or used to manufacture goods being imported into the United States under circumstances threatening a domestic industry. *Tian Rui Group Co. Ltd. v. Int’l Trade Comm’n*, 661 F.3d 1322 (Fed. Cir. 2011), *reh. and reh. en banc denied*, 2012 U.S. App. LEXIS 4790 (Fed. Cir. Feb. 1, 2012). ITC proceedings are *in rem* proceedings. The Trade Act directs the ITC to resolve cases “at the earliest practicable time,” which generally translates into an eighteen-month process. *See* Uruguay Round Amendments Act of 1994, Pub. L. 103-465, § 321, 103d Cong., 2d Sess., 108 Stat. 4809 (1994); Trade Act of 1974, Pub. L. No. 93-618, § 341, 88 Stat. 1978, 2053 (1975) (amending § 337(b) of the Tariff Act of 1930).

While most ITC investigations have been patent cases, the number of investigations involving trade secrets issues, alone or in combination with other claims, appears to be on the increase since the decision in *Tian Rui*.

If an ITC investigation regarding the trade secrets at issue in a District Court proceeding is underway or has been concluded, at the Initial Case Management Conference, the parties and Court will want to consider whether the district court action will be stayed and what evidence or rulings from the ITC proceeding may be used or applicable in the district court action.

#### **3.11.1 Stays of District Court Actions Relating to Parallel ITC Proceedings**

Under 28 U.S.C. § 1659(a), parties to a civil action that are also respondents in a parallel proceeding before the ITC can timely move for a stay of the District Court proceedings as a matter of right:

**Stay.** In a civil action involving parties that are also parties to a proceeding before the United States International Trade Commission under section 337 of the Tariff Act of 1930, at the request of a party to the civil action that is also a respondent in the proceeding before the Commission, the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission, but only if such request is made within (1) 30 days after the party is named as a respondent in the proceeding before the Commission, or (2) 30 days after the district court action is filed, whichever is later.

*See Manitowoc Cranes LLC v. Sany America Inc.*, No. 13-CV-677, ECF No. 20 (E.D. Wisc. July 17, 2013) (granting unopposed motion to stay civil trade secret misappropriation proceeding pending conclusion of ITC patent and trade secret investigation). *Cf. In re Princo Corp.*, 478 F.3d 1345, 1355 (Fed. Cir. 2007) (granting writ of mandamus against District Court that had refused to stay patent case between parties involved in ITC proceeding on same patent).

Although the stay provided for in § 1659(a) is mandatory if timely requested, it only applies to “any claim that involves the same issues involved in the proceeding before the Commission.”

Thus, for example, if an ITC proceeding has been commenced with respect to a claim of patent infringement, §1659(a), it does not mandate a stay of a district court proceeding addressing trade secret claims even relating to similar technologies. Rather, the District Court will need to consider and balance such factors, in an exercise of its sound discretion, as

1. Possible damage that may result from the granting of a stay
2. The hardship or inequity which a party may suffer in being required to go forward; and
3. The orderly course of justice measured in terms of the simplifying or complicating of issues, proof, and questions of law which could be expected to result from a stay.

As an alternative to granting a stay, the Court may apply other case management techniques. *Cf. Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd.*, 726 F.3d 1359, 1363 (Fed. Cir. 2013) (noting that District Court had declined to stay proceedings before it for patent infringement and trade secret misappropriation pending resolution of the ITC investigation directed to related patents, instead ordering that to avoid duplication and a waste of resources all discovery in the ITC proceeding would apply in the district court action. *Exceptional Case Order*, 2011 U.S. Dist. LEXIS 154454 (N.D.Cal. Mar. 3, 2011) (“*Exceptional Case Order*”) at \*8. All parties assented to this procedure).

28 U.S.C. § 1659 prevents the District Court from lifting a stay while the ITC determination is on appeal. *Manitowoc Cranes LLC v. Sany America Inc.*, No. 13-CV-677, 2015 WL 13001543 (E.D. Wisc. Nov. 9, 2015) (denying motion to lift stay in patent and trade secret case filed in District Court while the ITC’s determination that defendant had infringed one of plaintiff’s patents and misappropriated some of plaintiff’s trade secrets was on appeal).

### **3.11.2 Use of Evidence from a Terminated ITC Proceeding**

After the dissolution of a stay, 28 U.S.C. § 1659(b) allows the parties to use the ITC investigation record in the district court proceeding:

Notwithstanding section 337(n)(1) of the Tariff Act of 1930, after dissolution of a stay under subsection (a), the record of the proceeding before the United States International Trade Commission shall be transmitted to the district court and shall be admissible in the civil action, subject to such protective order as the district court determines necessary, to the extent permitted under the Federal Rules of Evidence and the Federal Rules of Civil Procedure.

Once a stay is lifted, it will generally be appropriate to conduct a further Case Management Conference at which the parties and the Court will assess what information from the ITC proceeding is available for use in the District Court proceeding.

### **3.11.3 Potential Preclusive Effect of Rulings in ITC Proceeding**

If an ITC proceeding has been concluded addressed to trade secret claims under the DTSA or state law, the parties and the Court will want to address at an early stage or after the ITC proceeding has been concluded whether particular determinations at the ITC give rise to estoppels in the District Court proceeding. In a case of first impression it has been held that, unlike ITC determinations in patent cases, the ITC’s determinations that plaintiff’s trade secrets were protectable and that defendant had misappropriated them would be given preclusive effect in the subsequent civil litigation under principles of collateral estoppel. *Manitowoc Cranes LLC v. Sany Am., Inc.*, No. 15-C-647, 2017 WL 6327551 (E.D. Wis. Dec. 11, 2017), *cert. of interlocutory app. denied* 2018 WL 582334 (E.D. Wis. Jan. 1, 2018); further proceedings at *Grove US LLC v. Sany America Inc.*, 2019 WL 969814, at \*9 (E.D. Wis. Jan. 29, 2019)(holding that at trial defendant’s

damages expert could not offer opinions that contradict the ITC's findings on defendant's misappropriation).

### **3.12 Protective Orders; Right of Public Access**

Where information is plausibly alleged to be a trade secret, information revealing the trade secret will need to be produced in discovery, subject to an appropriate protective order and to general rules regarding proportionality of discovery. *See, e.g., Coca-Cola Bottling Company of Shreveport, Inc. v. The Coca-Cola Co.*, 107 F.R.D. 288 (D. Del. 1985) (directing production of formula for Coke, New Coke, and Diet Coke in a bottler dispute because, while the formulas were trade secrets, plaintiffs had met their burden of demonstrating a need for the formula greater than the company's need for protection of its secrets). Chapter 6 discusses a variety of provisions that may be appropriate to protect trade secrets

As directed in the Checklist, the parties should consider at an early stage the nature of the information they expect to exchange and what restrictions are necessary on who will be given access to trade secrets and confidential information. If other proceedings are ongoing between the parties or their affiliates, the applicability and impact of protective orders that may have been entered in other proceedings and the use of evidence in multiple proceedings will need to be addressed as well.

As the case progresses, the parties will need to work with each other and ultimately the Court to establish procedures to follow when the parties seek to file in court documents that either party contends contain trade secrets. A private agreement between the parties to file such documents under seal does not resolve the issue. Managing information presented in public filings or in testimony in court requires judicial intervention to properly balance the right of public access to the courts and judicial records against the private right to protect trade secrets from public view in litigation about them. Discussion of these interests and ways to manage requests to seal information appear in §§ 6.5.8, 6.5.9.

#### **3.12.1 Default Protective Orders**

Many district courts have developed default protective orders governing the exchange of confidential information between the parties in litigation. *See, e.g.,* Appendices 6.1, 6.2, and 6.3. These default orders are sometimes designated as applying to patent or other complex technical cases. The parties should familiarize themselves with any applicable default protective orders and, as specified in the Checklist, discuss with each other and be prepared to discuss any proposed deviations at the Initial Rule 16 Case Management Conference.

### **3.13 Stipulation to an Early Protocol to Quarantine Evidence and Conduct Forensic Review of Particular Electronic Devices**

Many trade secrets cases are launched with an assertion by the plaintiff that it has developed evidence that the defendant has downloaded or otherwise removed computer files allegedly containing the claimant's property or trade secrets or has e-mailed or otherwise transferred them to others. Even absent an affirmative request or court order, parties to a dispute have an obligation to preserve relevant evidence. Federal law holds that the parties have a duty to preserve evidence at least at the point at which it "reasonably anticipates litigation." *See* FED. R. CIV. P. 37(e) (addressing electronically stored information).

While plaintiff's concerns over the location of its documents and digital information may result in an application to the Court for a temporary restraining order or preliminary injunction as discussed in detail in Chapter 5, many parties can productively negotiate and begin to implement quarantine or inspection procedures without court intervention in advance of the Initial Case Management Conference. Examples of such negotiated protocols which have been entered by the Court on consent appear at Appendix 3.1

### **3.14 Identification of Trade Secrets**

The threshold issue in every trade secret case is “what is the secret” alleged to be at issue. As described in other sections of this Guide, *see* Chapter 4, the Court may want to develop and announce as part of its chambers rules its own default procedures for identification of trade secrets, emphasizing that this effort will not result in an early adjudication that particular information is or is not in fact a trade secret but rather will place the parties and the Court on notice of what is being claimed to be a trade secret. Absent such a default procedure, a variety of tools exist for identifying trade secrets and the Checklist contemplates that the parties will discuss with the Court at the Initial Case Management Conference the particular needs of the case. Similarly, in the absence of a local or statutory rule on the subject, the parties should be prepared to discuss at the initial case management conference whether discovery on the trade secret claim will proceed prior to the plaintiff's initial identification of the trade secrets at issue. A variety of potential approaches are discussed in Chapter 4.

As discussed in detail in Chapter 4, “identification” is typically not best resolved on a motion to dismiss. The Checklist contemplates that before making a motion to dismiss regarding the identification of trade secrets the parties will discuss the contemplated motion with each other and with the Court and consider whether identification protocols can address the concern. This issue can frequently be addressed in the Initial Case Management Conference.

### **3.15 Jury Trial Demand**

Whether a party has demanded a jury trial may have important ramifications for case management and the scheduling of trial.

#### **3.15.1 Demanding a Jury; Advisory Jury**

Federal Rule of Civil Procedure 38 preserves the right of trial by jury inviolate as declared by the Seventh Amendment or applicable statute. A party demands a jury trial on any issue triable by a jury by serving the other parties with a written demand—which may be included in a pleading—no later than 14 days after the last pleading directed to the issue is served.

While it may be tempting to view the determination of all monetary remedies as being an issue for the jury, the issue can be complex. The Federal Circuit, for example, has concluded that some requests that the defendant disgorge amounts unjustly gained through misappropriation are effectively a proxy for plaintiff's loss to be awarded by the jury, while other amounts awarded for unjust enrichment are an equitable remedy to be determined by the Court. *See Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, 895 F.3d 1304 (Fed. Cir. 2018); *accord, GSI Technology, Inc. v. United Memories, Inc.*, 721 F. App'x 591, 594 (9th Cir. 2017). Determining the “fine line” between legal and equitable restitution can be challenging. *See, e.g., Motorola Solutions, Inc. v. Hytera Communc's Corp., Ltd.*, 495 F.Supp.3d 687, 708 (N.D. Ill. 2020) (finding that an award of defendant's profits was a case-specific proxy for plaintiff's loss, to be determined by the jury, and that an award of defendant's avoided development costs was an

equitable remedy not tied to plaintiff's loss and treating the jury's decision as advisory). The matter is unlikely to be resolved at an Initial Case Management Conference but should be kept in mind as the case moves to trial. The Court may ultimately decide to submit certain monetary issues to the jury and treat the jury's decision as advisory.

### **3.15.2 Waiving a Jury**

Many trade secret claims arise from the breach of a license, employment, confidentiality or other agreement under which the defendant has been provided access to trade secrets. The contract may contain a provision waiving a right to a jury trial. The scope of any waiver must be determined. Does it extend only to claims arising under the contract (and thus, potentially, not to any related tort or statutory claims)? Is the waiver broader, extending to all claims "relating to the contract" or "arising out of the relationship between the parties"? Will the scope of any jury trial waiver need to be construed? Is the jury trial waiver valid under applicable law? Disputes about these issues can be discussed at the Initial Case Management Conference but may not need to be resolved until the case is ready for trial. "[A] court has the discretion to permit a motion to strike a jury demand at any time, even on the eve of trial." *Bear, Stearns Funding, Inc. v. Interface Group-Nevada, Inc.*, 2007 WL 3286645, at \*3 (S.D.N.Y. Nov. 7, 2007) (internal quotation marks omitted) (*quoting* 8 James Wm. Moore et al., *Moore's Federal Practice* § 39.13[2][c] (3d ed. 2007)), cited in *Town & Country Linen Corp. v. Ingenious Designs*, 18-cv-5075 (LJL), 2022 WL 1515120, at \*4 (S.D.N.Y. May 13, 2022) (holding that counterclaim plaintiff had not waived its contractual jury trial waiver by filing a demand for a jury trial on "all issues triable to a jury" when asserting claims for breach of an NDA, misappropriation of trade secrets and patent infringement since the underlying contract included a waiver of jury trial on "ANY CLAIM OR CAUSE OF ACTION IN ANY COURT IN ANY JURISDICTION BASED UPON OR ARISING OUT OF OR RELATING TO THIS AGREEMENT" and provided that any amendments to the contract must be signed by both parties.).

### **3.16 Alternative Dispute Resolution**

Like other disputes, most trade secret disputes settle before trial, often late in the case. But arriving at settlement earlier can be particularly challenging in these cases. The extent to which the Court will want to require parties to consider settlement at an early stage varies depending on factors including: the individual preferences and caseload of the Court; the projected scope and pacing of the case; and the interest of counsel for the parties and the parties themselves in focusing on dispute resolution early on.

One of the biggest impediments to early dispute resolution in trade secret cases is an information asymmetry. At the outset of the case, each party typically lacks critical information about the strength of their own and each other's claims. Discovery may reveal the situation to be far worse than the trade secret plaintiff suspects or defendant was willing to admit. Or it may show that plaintiff's concerns were overblown and that defendant engaged in independent development of competing products or services without using plaintiff's trade secrets. This early knowledge gap is compounded by the fact that trade secret disputes tend to be particularly emotional. The trade secret owner typically had a relationship with the accused misappropriator prior to the dispute. Trade secret complaints tend to feature plaintiff's claims of "betrayal." Defendants, on the other hand, frequently contend that the suit itself is an anticompetitive ploy designed to hobble their legitimate activities and cripple their business. Absent access to evidence, both sides may be inclined to suspect or believe the worst. It can be easy for the parties to decide that early settlement discussions will be pointless.

Some courts respond to these concerns by stepping aside, directing the parties simply to go ahead with full discovery, on the assumption that when the parties decide they have acquired the information they need to evaluate the case, they will initiate settlement talks themselves. Other courts find it productive, resources permitting, to require the parties to engage in an early settlement conference with a Magistrate Judge at which they explore together, sometimes with party representatives and not simply lawyers, *what* information they anticipate being most valuable in assessing the case and sequence discovery to obtain that information at an early stage. Following this approach can lead to an efficient path to earlier informed case evaluation, especially where an early claim focuses on evidence that identifiable documents or computer files have been retained by a defendant but there is uncertainty about whether the files have been used or shared. It can also, however, run the risk that the parties will delay in “doling out” evidence that may undermine either side’s position. For that reason, many courts direct that the principal litigation deadlines will not be suspended during early settlement exploration. Still other courts have observed that the parties can engage in productive settlement discussions once the trade secrets at issue have been identified with greater particularity than was the case in the complaint and suggest or direct settlement talks at that stage or upon completion of a motion for expedited relief. There is no universally “right” approach and the appropriate course for a particular case may alter as the case unfolds.

The Case Management Checklist can help parties begin the process, separately and together, of prioritizing information or relief (such as quarantining or remediating particular information) they need to resolve the dispute and consider whether third party assistance could be useful. It also asks parties to consider what kind of settlement vehicle may be most appropriate, such as a settlement conference before a Magistrate Judge, private mediation, or some other approach.

Where each party has its own trade secrets to protect and the parties are prepared to explore settlement, some parties have found it useful rather than pursuing full bore discovery directly, which will necessarily further expose the trade secrets to attorneys or party representatives who may not previously have known them in detail, to engage a trusted third party having requisite technical expertise and familiarity with the industry to assist. The third-party expert can investigate and report back to the parties a conclusion on whether trade secrets in fact appear to be at risk or whether suspicions in fact appear to be unfounded. This conclusion can be rendered without fully disclosing either side’s information to the other.

Negotiating a “black box” fact finding and evaluation protocol requires the parties to have trust in the expert’s qualifications and integrity. It also requires agreement on what information is to be assessed and how, discussion of what “clues” should be treated as probative, and often agreement on the implications of a “clean report” or “bad report” for future litigation. The precise structure of any approach will need to be tailored to the dispute, information, and parties, and will be possible or appropriate in most instances. The exercise of selecting the third-party expert and designing such a protocol may help the parties narrow their litigation focus and claims; the information provided by the black box evaluator may help the parties resolve significant portions of the overall dispute. Typically, parties wishing to pursue such an approach design it themselves, although the assistance of a magistrate judge or third-party facilitator can be helpful in some cases. The parties should bear in mind that if settlement is not reached, the neutral expert will not be available to act for either party without consent. *See Calendar Research LLC v. StubHub, Inc.*, et al, 2017 WL 10378337 (C.D. Cal. Sep’t 22, 2017).

If the case does not settle at an early stage, there may be both impediments and reasons to considering settlement as the case unfolds, whether with the assistance of a third party or

otherwise. Where the plaintiff seeks early injunctive relief, expenses can be heavily front-loaded, potentially making settlement more difficult as parties become focused on their substantial “sunk costs.” Going through a preliminary injunction hearing will likely, however, give both parties of a better view of whether and how to continue to pursue the dispute through trial.

The trade secret litigation process itself can pose the risk to both sides that each party’s valuable trade secrets will be exposed in litigation to the very competitors, or their proxies, who can most benefit from the knowledge and who are best able to exploit it. Public hearings, particular in high profile cases, will necessarily educate interested members of the public on development activity both sides claim as their own trade secrets even when the full details are kept secret. These factors may lead the parties to consider resolution more seriously as time goes on.

As is true in patent and other complex cases, the settlement dynamic in trade secret cases can tend to fall into predictable patterns. The following chart summarizes some of the recurring patterns that can be associated with many of the most common types of trade secret disputes and provides some insights into how and when settlement can be most effectively fostered. Where the case also includes patent claims, guidance from the PATENT CASE MANAGEMENT JUDICIAL GUIDE (3d ed. 2016) (Table 2.10) may also be useful.

In some cases, the trade secret owner may be contemplating approaching prosecutors to explore whether the known acts would support the filing of a criminal claim; in such cases, lawyers should fully inform themselves of the applicable ethical rules concerning communications regarding any criminal implications of defendant’s conduct. The existence of an ongoing criminal prosecution will likely have an impact on private settlement communications; the private litigants will not, however, be able to reach a settlement that binds the government.

**Table 3.1 Settlement Considerations**

<b>Case Category</b>	<b>Settlement Issues</b>
Former Employer vs. Employee	Personal animus, on either or both sides; disparate bargaining power; and potentially limited agency to resolve the dispute. The employee will likely need to be instructed by or coordinate with the new employer as to what resolution is acceptable before settlement can be finalized, even when the new employer is not a party. Business executives from both organizations will likely need to be involved in any discussion that involves restructuring the employee’s activities. If the employee has engaged in misappropriation before joining a new employer, such as by obtaining or downloading documents for use in a new position, settlement discussions can address whether information flowed to the new employer and how “remediation” of information can be accomplished, and at whose expense. Cooperation of the new employer will generally be necessary to investigate and finalize any remediation. The individual employee may have related compensation or wrongful discharge claims to be addressed to finalize resolution.
Former Employer vs. Employee and New Employer	The two organizations should share the common goal of preventing misappropriation. They may differ on whether particular information is a trade secret and if so, how best to protect it and prevent misappropriation. Both parties will likely be highly concerned about revealing their own trade secrets



Case Category	Settlement Issues
	<p>to the other side. The case may become “symbolic” for both organizations, particularly if there is a history of movement of employees between the organizations, which is a subject the facilitator may want to explore even if the parties do not raise it. The parties are likely better able to fashion appropriate contours of any job or activity restructuring than a court may be if business executives are involved and amenable to reasonable compromises agreeable to the employee. Costs of “remediating” any misappropriation or of investigating misappropriation will likely become a subject for discussion along with scope and timing of job duties.</p> <p>Potential antitrust considerations may arise if negotiated restrictions go beyond what is necessary to protect trade secrets.</p> <p>If the hiring organization believes that the employee has violated its instructions or has misappropriated trade secrets, there may be a conflict between the defendants. The facilitator will want to ensure that the defendants are aware of any potential conflict and that where appropriate the defendants have separate legal representation.</p> <p>The employee may have separate claims, such as for compensation allegedly owed by the prior employer, which do not involve the new employer and which may impede overall progress toward resolution.</p>
Competitor vs. Competitor—Core Technology or Information	<p>These disputes can be particularly difficult to settle early on absent access to critical information or reasons outside the lawsuit for strategic cooperation (such as the fact that some organizations compete in one space but other parts of the organizations engage in collaborative relationships or one organization may purchase certain products from the other organization).</p> <p>After some initial information sharing, evaluative “black box” investigation by a mutually trusted or other neutral third-party expert can be useful in some disputes in providing necessary technical expertise and insight without full disclosure of trade secrets to the opposing party. This approach generally requires a reasonable working relationship that may not be possible, at least initially, between skeptical competitors. Some industries, such as quantitative trading and software development, as well as industries in which there is general agreement on who the leading experts are, may be more amenable to this approach.</p> <p>Once information has been shared relating to liability, both sides will likely want to focus with their own technical and economic experts on the economic impact of the alleged misappropriation (e.g., lost sales, head start, market advantages, avoided r&amp;d costs) and requested remedies (such as the economic impact of any injunctive relief and the feasibility and projected expense of early design-arounds) before engaging in significant negotiations. In large disputes, some organizations will work with consulting experts in evaluating settlement who will not testify at trial; where this is not feasible parties need to reach agreement that the expert’s work for settlement and participation in</p>

Case Category	Settlement Issues
	<p>joint settlement discussions will not be the subject of discovery or comment at trial if the case does not settle.</p> <p>Meaningful mediation will likely require participation from senior officers of the parties. The operative protective order may need to be modified to give decisionmakers direct access to particular technical or economic information for the purpose of advising on potential resolution.</p> <p>Transactional solutions—one company acquires the other or technology from the other or a particular division is spun off—or overall cross-licensing arrangements may be viable in some cases and will generally require involvement from legal and business teams that are not involved in the litigation.</p>
Competitor vs. Competitor—Noncore Technology or Information	<p>These disputes may be more likely to settle through mediation, potentially early in the litigation since the information at issue may be of limited or only relatively short-term value. Design-arounds may be particularly feasible. Non-economic remedies such as forensic investigation and return of specific documents may be particularly useful; parties will want to consider allocation of costs attendant to such solutions.</p>
Trade secret owner vs. supplier or vendor	<p>Particularly if the trade secret owner wishes or needs to continue a relationship with the supplier or vendor (or vice versa), both parties may have a business incentive to resolve the matter. Direct communication with the supplier or vendor and involvement by the personnel at both organizations who already have business connections will typically be essential. In some cases, the trade secret owner will be focused on recovering money from the supplier or vendor; in others, where the trade secret owner contends that the supplier or vendor is improperly disclosing a trade secret to assist a competitor, the trade secret owner's focus may be on stopping the flow of information to a competitor and ensuring that the supplier or vendor cooperates fully in providing the trade secret owner with admissible evidence concerning acts by the competitor.</p>

### Appendix 3.1: Trade Secret Case Management Checklist

**This Checklist, whether or not part of the Court's standard procedures, can be useful to parties embarking on a trade secret litigation in planning the initial conference with the court and the course of the dispute and in identifying at an early stage issues that may require special management.**

Absent exceptional circumstances requiring early court intervention, the Court will notify the parties of an Initial Case Management Conference. Any request for earlier court intervention shall be filed with the Court and served on the other side with an explanation of the reasons for the request unless the movant is proceeding *ex parte* under the Defend Trade Secrets Act's *ex parte* seizure provision, 18 U.S.C. §1836(b)(2), *et seq.* or FED. R. CIV. P. 65 (b)(1)-(3), in which case movant must strictly comply with the requirements of the applicable statute.

At least \_\_\_\_ business days prior to the scheduled Initial Case Management Conference, the parties should discuss the questions on this Checklist with each other, in person or via videoconference (with cameras on) and should use the information developed and shared in this discussion in preparing the proposed separate Case Management Order. The purpose of this Checklist is to guide the parties in thinking through core management issues likely to be presented by this case so that they can properly inform the Court in arriving at an overall Case Management Plan and Scheduling Order. The points discussed in this Case Management Checklist are discussed in detail in throughout the Federal Judicial Conference Case Management Guide.

At least \_\_\_\_ business days prior to the Initial Case Management Conference, the parties shall jointly serve and file with the Court via ECF a copy of this completed Checklist and the Proposed Case Management Plan and Scheduling Order, which is separately attached. If the parties cannot agree on any item after meeting and conferring, they shall succinctly present an addendum setting forth their position on the disputed items, issue by issue. In addition to the matters set forth in Federal Rule of Civil Procedure 16, counsel for all parties should be prepared at the Initial Case Management Conference to describe the case including the claims and anticipated defenses, any contemplated motions, and the prospect for settlement as well as the other matters set forth in this Trade Secret Case Management Checklist. The Court further encourages parties to discuss any contemplated motions with one another prior to the Initial Case Management Conference.

1. Plaintiff on the trade secret claim should be prepared to describe each claim asserted by reference to the complaint and identify the party or parties against whom each claim is asserted:
  - a. Claim under the Defend Trade Secrets Act, 18 U.S.C. §1836, *et. seq.* ☐
  - b. Claim under state laws concerning trade secrets. ☐ Specify which state(s)\_\_\_\_\_.
  - c. Contract claim(s) ☐ (describe)\_\_\_\_\_
  - d. Patent claim(s) ☐ (specify patent number(s) \_\_\_\_\_)
  - e. Other statutory claims ☐ (specify)\_\_\_\_\_

f. Other claims ☐ (specify) \_\_\_\_\_

If an answer has not yet been filed, counsel for defendant should be prepared to discuss likely defenses and any anticipated counterclaims. If an answer and any counterclaims have been filed, counsel for defendant should prepare an addendum discussing the same issues set forth in this Paragraph 1. If the counterclaims include claims for misappropriation of trade secrets, the counterclaim plaintiff should file an addendum on a schedule directed by the Court to ensure that the issues pertaining to trade secret claims are properly managed.

2. What is the basis for jurisdiction of this Court over each defendant for each claim asserted? \_\_\_\_\_  
\_\_\_\_\_

3. Is there an objection to this Court's jurisdiction or venue over the dispute?

Yes ☐ No ☐

If yes, explain \_\_\_\_\_

4. Does a contract between the parties or their privies apply to this dispute?

Yes ☐ No ☐

If so, does the contract contain an arbitration provision? Yes ☐ No ☐

If there is an applicable contract between the parties, does the contract contain a choice of law or choice of forum provision?

Yes ☐ No ☐

If so, what law or forum is specified to apply and does it apply to all of the claims?  
\_\_\_\_\_

5. Does any employee or independent contractor who is a defendant on a trade secret claim assert whistleblower immunity under 18 U.S.C. §1833(b)(1) or (2)?

Yes ☐ No ☐

If so, the parties should be prepared to address this assertion and its consequences at the initial conference.

6. Are other lawsuits or legal proceedings, including other federal proceedings, state proceedings, proceedings before the International Trade Commission, criminal proceedings, or foreign proceedings ongoing or contemplated relating to the subject matter of this dispute?

If so, state the name, jurisdiction, current status, parties and a brief summary of the nature of the other proceeding(s) including any dispositive rulings

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Will a stay, motion to consolidate or motion to transfer automatically apply to or be requested of this or any related proceeding? Yes ☐ No ☐

Are there any restrictions on the use of discovery from any related proceedings in this action? Yes ☐ No ☐ The parties should be prepared to discuss.

Can discovery in this action be coordinated with discovery in any related proceedings? Yes ☐ No ☐

7. Is there any need for a specific order directing preservation of evidence in this dispute? Yes ☐ No ☐

Counsel for the parties are reminded to carefully review the parties' obligations to preserve evidence even without a specific request by the opposing party. Any request for an additional preservation order must be supported by a sworn affidavit detailing the reasons for such request.

8. The parties should discuss how and when the plaintiff on any trade secret claim (including counterclaims) will identify the trade secrets at issue.

Potential tools may include:

- Ordering the trade secrets at issue to be disclosed as part of the initial disclosures or in a separate document served on the alleged misappropriator
- Directing the trade secret plaintiff to respond by an early date to be set by the Court to an interrogatory asking for identification of the trade secret(s) asserted to be at issue
- Other approaches that may be pertinent to the specific dispute.

Generally the Court does not find it efficient to address the identification issue through the vehicle of a motion to dismiss a complaint for failure to identify the trade secrets at issue with specificity since the frequent response to such a motion is that further information identifying the trade secret will be produced in response to other procedural tools such as those discussed in this item 8. However, in the event that defendant on a trade secret claim contends that the most appropriate vehicle for addressing the identification issue is through a motion to dismiss, counsel should be prepared to discuss the reasons at a conference before filing any such motion.

The parties should be prepared to discuss with each other and the Court how the process of identifying the trade secrets at issue will relate to the sequence of discovery, taking into account local practices and decisional law and any substantive requirements imposed in connection with any specific claims. *See, e.g.,* MASS. G.L. 42(d), providing that "Before commencing discovery relating to an alleged trade secret, the party alleging misappropriation shall identify the trade secret with sufficient particularity under the

circumstances of the case to allow the Court to determine the appropriate parameters of discovery and to enable reasonably other parties to prepare their defense”; CAL. CIV. C.C.P. 2019.210, providing that “in any action alleging the misappropriation of a trade secret under the UNIFORM TRADE SECRETS ACT (Title 5 (commencing with SECTION 3426) of Part 1 of Division 4 of the CIVIL CODE), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.”

9. Do the parties contemplate making or have either of the parties made a request for temporary or preliminary injunctive relief? Yes ☐ No ☐

If yes, the parties should be prepared to discuss the request or anticipated request and responses with each other as well as proposed timing.

10. Do the parties anticipate a need for expedited discovery in connection with a request for temporary or preliminary injunctive relief? Yes ☐ No ☐

If so, the parties are reminded that expedited discovery is not available as a matter of right and if granted is not designed to compress full case discovery into an abbreviated period of time. Any party seeking expedited discovery should be prepared to discuss at an early court conference the tailored discovery it will request on an expedited basis and the reasons for the request.

11. Do the parties anticipate a need to conduct discovery against entities or persons located outside the United States? Yes ☐ No ☐

If so, the parties should be prepared to discuss what evidence may be at issue and how do they propose to secure such evidence? Do the parties themselves control evidence that is located outside the United States?

The parties are cautioned that discovery against non-U.S. residents may take additional time and require compliance with treaties and legal requirements imposed by other countries. Counsel is instructed to investigate these procedural requirements promptly. Such measures should not be delayed until the eve of trial or any dispositive motion if the need for foreign discovery is reasonably foreseeable at an earlier date. Inexcusable delay in commencing any foreign discovery process will not be a basis for delaying other dates established by this Order.

12. Orders to allow forensic examination.

Forensic investigation has become a common feature of much trade secret litigation. Absent compelling circumstances justifying *ex parte* relief, a party moving for an order to conduct a forensic inspection of electronic devices and storage media (including cloud storage) must first meet and confer with the other party’s counsel to discuss the scope of any such investigation; procedures for segregating, preserving and protecting confidential information

of the responding party; procedures for filtering and segregating personal or irrelevant data; and the mitigation of harm, expense and inconvenience to the other party. The parties are directed to confer in good faith on these issues.

Have the parties agreed to an early forensic protocol? Yes ☐ No ☐

Is Court intervention required in directing a forensic protocol? Yes ☐ No ☐

If the parties are unable to agree or if the dispute poses special issues, the parties should be prepared to discuss their proposals for handling any forensic examination with the Court.

13. Protective order for confidential information.

The parties should discuss with each other whether deviation from the Court's standard protective order for use in complex or technology cases is appropriate in this case.

Do the parties request deviations from the Court's standard protective order for complex cases? Yes ☐ No ☐

If so, they should discuss with each other and be prepared to provide any proposed deviations in writing and to discuss them with the Court.

Do the parties request deviations from the Court's standard protocols for filing documents or evidence under seal? Yes ☐ No ☐

If so, they should be prepared to provide any proposed deviations consistent with the DTSA in writing and to discuss them with the Court.

14. Narrowing the Case; Sequencing of Discovery.

The Court will be highly receptive to reasonable proposals to sequence discovery in a manner calculated to give the parties information at an early stage that may enable them to resolve their dispute efficiently. Parties should discuss with each other what discovery sequence may be most likely to resolve core issues.

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15. Have the parties engaged in settlement discussions? Yes ☐ No ☐

16. Will the early production of specific information be likely to facilitate early resolution or settlement or narrowing the issues? Yes ☐ No ☐

If yes, what information? \_\_\_\_\_

17. Does either party believe that the assistance of a Magistrate Judge or private third party neutral or expert would be useful in considering settlement?

Yes ☐ No ☐

18. The parties shall have an initial good faith conference to discuss prospects for settlement no later than \_\_\_\_\_.

19. Have any of the parties filed, or do any of the parties anticipate filing, a motion before the Rule 16 Conference. Yes ☐ No ☐

If yes, identify each such motion? \_\_\_\_\_

A party wishing to make a motion for temporary restraining order or preliminary injunction shall, absent exceptional circumstances as provided in Federal Rule of Civil Procedure 65(b)(1), move only on notice to all parties. Counsel shall contact Chambers to discuss the motion.



## **Appendix 3.2: Trade Secret Case Management Plan and Scheduling Order**

### **Applicability**

Trade secret disputes frequently present unique needs that can benefit from early and close management by the parties and the Court. It is the intention of the Court that foreseeable issues between the parties that are likely to affect the progress and timely resolution of this dispute be identified and managed early in the case. The Court will schedule an Initial Case Management Conference. No later than \_\_\_ days before that conference, the parties to a dispute containing trade secret claims should review, discuss in detail with each other, in person or via video conference (with cameras on) and be prepared to discuss with the Court the answers to the questions raised in the accompanying Trade Secret Case Management Checklist as well as any special considerations pertaining to their case. No later than \_\_\_ days before the Initial Case Management Conference, the parties should serve their responses to the Checklist and proposed Case Management Plan and Scheduling Order, using the attached form.

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CASE CAPTION

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This Case Management Plan and Scheduling Order will govern all suits in which either or both parties assert a claim (including counterclaims) for misappropriation of trade secrets.

If a trade secret claim is added by any party after the Initial Case Management Conference, the party adding the trade secret claim shall (1) promptly notify the Court and contact the other parties to discuss and complete the Trade Secret Checklist and (2) and within \_\_\_\_ business days file with the Court, a joint submission advising the Court of any request to hold a further conference to discuss whether any proposed amendments to any Case Management Plan in effect is necessary.

This Case Management Plan and Scheduling Order does not supersede any other subject matter specific requirements that this Court may follow with respect to other claims (e.g., patent claims, RICO claims, or other Federal statutory claims) but shall be integrated as appropriate with such other requirements. It may be modified as specified in other applicable Court rules.

1. List all parties known or contemplated to be added as parties and their principal place of business

\_\_\_\_ Plaintiff(s)

\_\_\_\_ Defendant(s)

If any party is an LLC and jurisdiction for any claim as to that party is predicated on diversity jurisdiction, 28 U.S.C. §1332, specify the citizenship of each member of the LLC or each partner or limited partner of a partnership if known or, for defendants, state whether any member, partner or limited partner is of the same citizenship as plaintiff:

\_\_\_\_\_

2. Does any employee or independent contractor who is a defendant on a trade secret claim assert an immunity under 18 U.S.C. §1833(b)(1) or (2)?

Yes ☐ No ☐

If so the parties should be prepared to discuss early resolution of an assertion of immunity.

3. Consistent with local rules, initial disclosures pursuant to Rule 26(a)(1) of the Federal Rules of Civil Procedure shall be completed no later than \_\_\_\_\_. [Absent exceptional circumstances, a date not more than fourteen (14) days following the Initial Case Management Conference].

Initial disclosures shall \_\_\_\_ shall not \_\_\_\_ include an initial identification by the plaintiff on a trade secret claim of trade secrets alleged to be at issue in the case.

**NOTE:** *In some jurisdictions the Rule 26(f) conference and the requirements of Rule 26(a)(1) operate on a different schedule. The parties should consider whether a deviation from the general schedule is appropriate.*

4. Initial trade secret identification shall be made no later than \_\_\_\_\_.
5. All fact discovery is to be completed no later than \_\_\_\_\_.
6. The following interim deadlines may be extended by stipulation of the parties without application to the Court, provided that the parties meet the deadline for completing fact discovery set forth in paragraph 5:
- a) Initial requests for production of documents shall be served by \_\_\_\_\_.
  - b) Trade secrets which plaintiff on any trade secret claim asserts are at issue shall be identified to the opposing party by \_\_\_\_\_.
  - c) The first set of fact interrogatories shall be served by \_\_\_\_\_.
  - d) Contention interrogatories may be served no earlier than \_\_\_\_\_ days before completion of fact discovery
  - e) Depositions shall be completed by \_\_\_\_\_.
  - f) Special considerations (e.g. sequencing, foreign discovery, need for translation) \_\_\_\_\_.
7. All expert discovery, including disclosures, reports, production of underlying documents and depositions shall be completed by \_\_\_\_\_ [Absent exceptional circumstances, a date forty-five (45) days from the completion of fact discovery *unless* a separate schedule has been ordered with respect to any motion for temporary or preliminary injunctive relief.]
8. All discovery shall be completed no later than \_\_\_\_\_.
9. Any *Daubert* motions must be filed no later than \_\_\_\_\_.
10. Any motion for summary judgment must be filed no later than \_\_\_\_\_.
11. This case is \_\_\_\_ is not \_\_\_\_ to be tried to a jury.

Is there an applicable jury trial waiver? Yes ☐ No ☐

If the case is to be tried to a jury, are any claims to be tried to the Court?

\_\_\_\_\_.

12. Counsel for the parties propose the following alternative dispute resolution mechanism for this case:

- a) Referral to a Magistrate Judge for settlement discussions
- b) Retention of a private mediator
- c) Other

13. Do the parties believe that the case is ripe for alternative dispute resolution?

Yes ☐ No ☐

14. Do the parties believe that the early exchange of specific information will be likely to resolve key issues or position the case for alternative dispute resolution?

Yes ☐ No ☐

If so, please be prepared to discuss at the Initial Case Management Conference

The use of any alternative dispute resolution mechanism does not stay or modify any date in this Order except upon Order of the Court.

15. Other issues to be addressed at the Initial Case Management Conference, including those set forth in Federal rule of Civil Procedure 26(f) (3), are set forth below.

\_\_\_\_\_

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## Chapter 4: Identification of Trade Secrets

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## Chapter 4: Identification of Trade Secrets

### 4.1 Introduction

Trade secrets are, by definition, secret—a fact that sets them apart from other subjects of intellectual property litigation. In patent, copyright, and trademark cases, the property has already been defined and registered with a regulatory body, so the plaintiff can easily identify in pleadings and other public court documents what has allegedly been infringed. Not with trade secrets. Because they are secret, they cannot be identified in public filings without destroying the very subject matter of the plaintiff's legal claim—and yet defendants still need to know what the secrets are that they've allegedly misappropriated; and the Court needs to know what the case is all about to be able manage and decide it. That quandary is the basis for this chapter, which surveys the rules for identifying trade secrets in litigation.

The burden is on the party alleging misappropriation to identify the trade secrets that it alleges have been misappropriated. While this identification requirement is ubiquitous, the rules for doing so are not. At the federal level, neither the criminal statute (Economic Espionage Act) nor the civil statute (Defend Trade Secrets Act) explicitly addresses identification. At the state level, only California and Massachusetts have statutes that define certain, but not all, aspects of identification. All other state statutes are silent on this issue, leaving it to the courts to set out the rules in case law.

Identification of trade secrets poses special challenges in litigation because what a plaintiff alleges as its trade secrets is typically not the entirety of the plaintiff's technology and business information. All businesses employ a mix of secret and non-secret information, with different types of information covered by one or more types of protection (e.g., patent, copyright, and trade secret). Especially in technology cases, a body of engineering work (whether for a product or in research) may contain trade secrets, public information, information licensed to the defendant, patentable subject matter, and copyrighted expression all at the same time.

To make matters more complicated, most companies don't maintain a record that lists all their trade secrets. The reasons for not doing so may be both logistical and strategic. As a result, it is common for many trade secrets not to be expressly identified in writing until the commencement of a litigation in which they're first alleged.

While the issue of identification is not easy, it is necessary. "Plaintiff's failure to meet its duty to identify what it claims is a trade secret that was misappropriated precludes Defendant and the Court from evaluating whether a 'trade secret' exists and, if so, whether it was misappropriated." *Purchasing Power, LLC v. Bluestem Brands, Inc.*, 22 F.Supp.3d 1305, 1314 (N.D. Ga. 2014), *judgment vacated on other grounds*, No. 14-12502 (11th Cir. Feb. 2, 2015).

Identification of the alleged trade secrets, especially early in the litigation, is important for several reasons. It reduces the risk that the alleged trade secrets become a moving target, leading to inefficiencies for the parties and for the Court. It helps to define the contours of discovery and preservation obligations, leading to a more streamlined process and enabling the Court to issue appropriate discovery orders. It allows the Court to focus on the relevant issues early on, facilitating more effective judicial oversight of the litigation. And it enables courts to fashion the equitable remedies, where appropriate, that are tied to the contours of the information claimed to

be at issue. Courts have articulated these and other reasons.<sup>1</sup> See *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 680–81 (N.D. Ga. 2007); *Computer Econ., Inc. v. Gartner Grp., Inc.*, 50 F.Supp.2d 980, 985 (S.D. Cal. 1999).

At the same time, the need for identification should not be weaponized or otherwise used to deny justice to the trade secret plaintiff. It is thus important to balance identification with a plaintiff's broad right to discovery under FED. R. CIV. P. 26. Nor should identification be disproportionately burdensome and strict when compared with the efficiencies and other benefits it provides. This burden can be particularly taxing on plaintiffs that may have a large number of trade secrets and no way of determining without discovery which of these trade secrets the defendant is using. See *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007).

The recognition that identification is necessary raises a host of other questions. When must identification take place? What format is required? Are identifications static, or can they change throughout litigation and, if so, under what conditions? How do courts evaluate the sufficiency of the identification? This chapter discusses these and other questions inherent in trade secret identification.

As a final introductory note, while trade secrets are often identified in other contexts—when companies ask employees to enter into confidentiality agreements, when parties jointly develop technology, and when parties license or sell trade secrets, and countless others—this chapter focuses on “identification” of trade secrets as part of federal trade secret misappropriation litigation.<sup>2</sup>

## **4.2 Identification Is a Procedural Rule, Not a Merits Decision or a Substitute for Discovery**

Before getting to the logistics, a word of caution—identification is solely a procedural tool to help manage trade secret cases. It is not an adjudication of the merits. Courts consistently hold that the identification requirement “does not create a procedural device to litigate the ultimate merits of the case—that is, to determine as a matter of law on the basis of evidence presented whether the trade secret actually exists.” *Uni-Systems, LLC v. U.S. Tennis Assn.*, 2017 WL 4081904, at \*4 (E.D.N.Y. Sept. 13, 2017). Any ruling on the sufficiency of a trade secret identification is thus not a determination of whether the information is a valid trade secret or has been misappropriated. When courts address whether an alleged trade secret has been sufficiently identified—a standard discussed in § 4.5—they should limit their conclusion to that procedure and avoid any implication about whether the information qualifies as a trade secret. See *Prolifiq Software Inc. v. Veeva Sys. Inc.*, 2014 WL 2527148, at \*3 & n.4 (N.D. Cal. June 4, 2014).

Nor is identification a replacement for the parties' right to engage in discovery about the identified information. An identification merely lists the alleged trade secrets the parties will

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<sup>1</sup> Some courts have hypothesized that a requirement for identification prevents the risks that a plaintiff would use a trade secret case as a fishing expedition to discover a competitor's unrelated sensitive information. But this hypothetical risk rarely arises and is better addressed through other tools, such as protective orders and discovery rulings.

<sup>2</sup> Of course, when plaintiff and defendant in a trade secret case have entered into agreements authorizing access or use of information, how trade secrets are defined in the governing document will be highly relevant to plaintiff's definition of trade secrets in litigation.

litigate. It does not, for example, say anything about whether the trade secret is actually secret, whether it possesses independent economic value, whether it was subject to reasonable measures to protect its secrecy, whether it has been misappropriated, or any of the many other topics that are the subject of proper discovery in trade secret cases. *See Yoe v. Crescent Sock Co.*, 2017 WL 11479991, at \*3 (E.D. Tenn. May 25, 2017).

### **4.3 Timing of Identification**

Identification of trade secrets must take place early in trade secret litigation, but not in the complaint itself. The decision on timing depends on the needs of the case, as discussed in § 4.3.2.

The timing of the identification also implicates discovery. As detailed in § 4.3.3, there is a split of authority on whether discovery should be stayed until the Court has ruled that the plaintiff's identification is sufficient. The better view is that all discovery should not be automatically stayed, though the Court should entertain discussion at a Rule 16 or similar conference or motion practice on the question of the extent to which trade secrets must be identified before full discovery shall proceed.

#### **4.3.1 Trade Secrets Should Not Be Identified in Detail in the Pleadings**

Plaintiffs alleging trade secret misappropriation are not, and should not be, required to identify their alleged trade secrets in a public filing such as a complaint. To do so would destroy the trade secret itself. "Courts are in general agreement that trade secrets need not be disclosed in detail in a complaint alleging misappropriation for the simple reason that such a requirement would result in public disclosure of the purported trade secrets." *Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 755 F.Supp. 635, 636 (D. Del. 1991). As a result, trade secret lawsuits begin without an identification of the very property in dispute—unless the plaintiff attempts to file its complaint under seal, or identifies the alleged trade secrets in a separate document available to opposing counsel pursuant to a protective order or confidentiality agreement.

While plaintiffs are not required to identify their trade secrets in complaints, they still must satisfy the federal notice-pleading standard in FED. R. CIV. P. 8(a), as well as the rules set forth in *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). Courts in trade secret cases have therefore held that the plaintiff must allege something more than that the defendant has misappropriated "trade secrets" or simply enumerating "general categories of information." *Elsevier Inc. v. Doctor Evidence, LLC*, 2018 WL 557906 (S.D.N.Y. Jan. 23, 2018).

While something more than alleging "trade secrets" is required, courts generally rule that trade secret misappropriation claims are not subject to a heightened pleading standard. *See Magnesita Refractories Co. v. Tianjin New Century Refractories Co.*, 2019 WL 1003623, at \*9 (M.D. Pa. Feb. 28, 2019) (citing cases from throughout the country); *AptarGroup v. Chamulak*, 2019 WL 2425175 (N.D. Ill. June 10, 2019); *Cedars Sinai Med. Ctr. v. Quest Diagnostic Inc.*, 2018 WL 2558388, at \*4 (C.D. Cal. Feb. 27, 2018).

Courts are split on how much more is necessary to satisfy applicable pleading standards. *See Kelly Servs. v. Eidnes*, 530 F.Supp.2d 940, 948 (E.D. Mich. 2008); *OROS, Inc. v. Dajani*, 2019 WL 2361047, at \*3 (E.D. Va. June 4, 2019). The majority rule is that complaints need only allege the trade secret in general terms or in general contours. *See AptarGroup, Inc. v. Chamulak*, 2019 WL 2425175, at \*5 (N.D. Ill. June 10, 2019); *Wells Lamont Indus. Grp. LLC v. Richard Mendoza & Radians, Inc.*, 2017 WL 3235682, at \*3 (N.D. Ill. July 31, 2017); *Luvata Electrofin, Inc. v. Metal*



*Processing Int'l, L.P.*, 2012 WL 3961226, at \*11 (W.D. Ky. Sept. 10, 2012); *Poynt Corp. v. Innowi, Inc.*, 2019 WL 935499, at \*3 (N.D. Cal. Feb. 26, 2019); *Pauwels v. Deloitte LLP*, 2020 WL 818742, at \*4 (S.D.N.Y. Feb. 19, 2020). Other courts have required more, such as additional details about the types of information or categories of information allegedly misappropriated. See *Plastronics Socket Partners, Ltd. v. Highrel Inc.*, 2019 WL 2054362, \*3 (D. Az. 2019) (granting motion to dismiss without prejudice where complaint alleged only “vague and broad categories of information”); *Select Energy Servs., Inc. v. Mammoth Energy Servs., Inc.*, 2019 WL 1434586, at \*5 (W.D. Okla. Mar. 29, 2019); *AutoTrakk, LLC v. Auto. Leasing Specialists, Inc.*, 2017 WL 2936730, at \*5 (M.D. Pa. July 10, 2017); *Elsevier Inc. v. Doctor Evidence, LLC*, 2018 WL 557906, at \*6 (S.D.N.Y. Jan. 23, 2018); *AlterG, Inc. v. Boost Treadmills LLC*, 2019 WL 4221599, at \*5 (N.D. Cal. Sept. 5, 2019).

As for the applicable standards, courts hold that when “deciding whether a plaintiff has sufficiently disclosed its trade secrets is a fact-specific question to be decided on a case-by-case basis.” *Oakwood Lab ’ys LLC v. Thanoo*, 999 F.3d 892, 906 (3d Cir. 2021) (citations and quotation marks omitted).

In the end, the best approach is to require a plaintiff to allege its trade secrets in general, non-confidential terms that fairly identify the specific categories of information alleged to be at issue. The specific alleged trade secrets should be disclosed as part of the formal identification process.

#### **4.3.2 Trade Secrets Should Be Identified Early in the Case**

While trade secrets need not be spelled out in complaints, they should be identified early in the case—well before any adjudication on the merits. The pre-adjudication requirement is obvious, as a court cannot decide whether there has been an act of misappropriation if it doesn’t know what trade secrets are at issue. Because a court’s decision on the merits usually happens toward the end of a case, long after any identification, the sequence usually is not an issue. But when a party alleging trade secret misappropriation is also seeking preliminary relief in the form of a temporary restraining order or a preliminary injunction, that party should identify its trade secrets so that the Court can rule on whether relief is appropriate. See *Mallet & Co. Inc. v. Lacayo*, 16 F.4th 364, 381 (3d Cir. 2021) (“It follows that a district court’s injunction order must first adequately identify the information to which it accords trade secret status. Otherwise, the injunction order lacks the foundation necessary for holding a plaintiff likely to prevail on its misappropriation claim.”). In such instances, identification usually takes place either before a plaintiff moves for relief or as part of its moving papers. Failing to identify information at issue in the application may not only leave the defendant uncertain of the claims but also leave the Court unable to assess the need for relief or to fashion enforceable relief. See *Digital Mentor, Inc. v. Ovivo USA, LLC*, 2018 WL 993944, \*4 (W.D. Wash. Feb. 21, 2018).

Even if there is no request for pre-trial relief, the identification should be early. How early depends on the needs of the case. Absent extenuating circumstances, the identification should come either before discovery commences (in the form of a standalone document that contains the identification) or as part of initial discovery (often in the form of a response to an interrogatory that asks the plaintiff to identify the alleged trade secrets). See *United Servs. Auto. Ass’n v. Mitek Sys., Inc.*, 289 F.R.D. 244, 247 (W.D. Tex. 2013); *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at \*3 (S.D. Ohio Dec. 27, 2017).

Only two states explicitly address the identification issue by statute, California and Massachusetts, and both require identification before discovery commences:

- California: “[B]efore commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity.” CAL. CIV. PROC. CODE § 2019.210 (emphasis added).
- Massachusetts: “Before commencing discovery relating to an alleged trade secret, the party alleging misappropriation shall identify the trade secret with sufficient particularity under the circumstances of the case to allow the Court to determine the appropriate parameters of discovery and to enable reasonably other parties to prepare their defense.” MASS. GEN. LAWS Ch. 93 § 42D(b) (emphasis added).

Some California District Courts have exercised their discretion to require parties to follow state sequencing rules in identifying trade secrets as a case management tool. *See, e.g., Masimo Corp. v. Apple, Inc.*, No. 2020 WL 5223558 (C.D. Cal. June 15, 2020) (collecting cases); *Quintara Biosciences, Inc. v. Ruifeng Biztech Inc.*, No. C-20-04808 (WHA), Response by District Court to Mandamus Petition (N.D. Cal. May 27, 2021).

As for other states and the DTSA, although there are disparities among courts about the timing of identification, the predominant pattern and “growing consensus” is for courts to require pre-discovery (or at least early-in-discovery) identification of trade secrets. *See Le Tote, Inc. v. Urban Outfitters, Inc.*, 2021 WL 2588958, at \* 2 (E.D. Pa. June 24, 2021); *Magnesita Refractories Co. v. Tianjin New Century Refractories Co.*, 2019 WL 1003623, at \*9 (M.D. Pa. Feb. 28, 2019); *accord Select Energy Svcs., Inc. v. Mammoth Energy Svcs., Inc.*, 2019 WL 1434586 (W.D. Okla. March 29, 2019); *Aptargroup, Inc. v. Chamulak*, 2019 WL 2425175 (N.D. Ill. June 10, 2019) (citing cases); *StoneEagle Servs., Inc. v. Valentine*, 2013 WL 9554563, at \*2 (N.D. Tex. June 5, 2013); *Switch Commun. Group v. Ballard*, 2012 WL 2342929, at \*4 (D. Nev. June 19, 2012) (summarizing national caselaw). There are, however, decisions that do not require pre-discovery identification. *See Nike, Inc. v. Enter Play Sports, Inc.*, 305 F.R.D. 642, 645–46 (D. Or. 2015); *BioD, LLC v. Amnio Tech., LLC*, 2014 WL 3864658, at \*5 (D. Ariz. Aug. 6, 2014). The better approach, however, is to require identification before discovery commences or early in discovery.

#### 4.3.3 Whether to Stay Discovery Pending a Sufficient Identification

To say that a plaintiff must identify its trade secrets before or early in discovery raises the question of what happens if that identification does not comply with the applicable identification standard—a test, as discussed in § 4.5, that usually turns on “reasonable particularity.”

The answer has far-reaching ramifications. If discovery cannot commence until the identification is deemed sufficient, certain defendants may be motivated to argue disingenuously that the identification is insufficient, thereby helping itself to an indefinite de facto stay of discovery until the Court issues an order finding the identification sufficient. In California, for example, which by statute stays discovery prior to the identification of trade secrets at issue, the identification process has at times resulted in some years-long discovery delays while the parties brief and re-brief every conceivable identification issue until the Court resolves sufficiency. This briefing is not only costly for the parties, in both monetary terms and delay, but also burdensome for the courts, which must pass judgment on the sufficiency of trade secret identifications that are often detailed, technical, and numbered in the dozens or even hundreds.

On the other hand, if discovery can proceed with only a cursory identification, then some plaintiffs might be encouraged to identify trade secrets in the most superficial of terms. Unless the

plaintiff provides a sufficient identification, the defendant and the Court will not gain the benefits that identification aims to confer.

The appropriate balance in most cases is for there to be no general stay of discovery while the parties argue the sufficiency of the identification. The defendant should, however, be permitted raise the question of the proper scope of identification at the Rule 16 or other conferences or to file a motion for a protective order if particular circumstances justify a stay, such as instances in which the plaintiff seeks broad, invasive discovery that is untethered to the allegations made in the complaint. While there are cases on all sides of this issue, this approach aligns with the case-by-case analysis most courts have undertaken.

#### **4.4 Format for Trade Secret Identification**

The format for identifying trade secrets must be flexible enough to encompass the universe of trade secrets—from customer lists to source code to formulas to marketing data to the infinite types of other confidential business information. Courts therefore do not prescribe a single format for identifying trade secrets. They rarely even discuss the format of the identification, focusing instead on whether the content is sufficient to permit a thoughtful comparison to information that is generally known to the relevant public. This section presents a format that works well in most cases. It also addresses specific issues that arise with particular types of trade secrets, including combination trade secrets and so-called “negative” trade secrets. Further guidance may be found in *The Sedona Conference Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases*, 22 SEDONA CONF. JOURNAL J. 223 (2021).

##### **4.4.1 The Identification Must Be Protected by Protective Order or Agreement**

The rules for requiring an identification of alleged trade secrets must ensure the confidentiality of that identification. *See* 18 U.S.C. § 1835; UTSA § 5. A plaintiff should not be forced to provide its identifications to the defendant, or to anyone else, until the Court enters a protective order, the parties enter into a sufficient written confidentiality agreement that covers the identification, or the plaintiff is afforded some other form of protection.

In most trade secret litigation, the Court will enter a protective order regarding exchange of confidential information early in the case, which would apply to a plaintiff’s identification of its alleged trade secrets. Courts often allow parties wide discretion to tailor the protective order to fit the particular needs of the case and the types of trade secrets involved. For example, protective orders will often allow the parties to designate documents, filings, or disclosures with varying degrees of confidentiality, including tiers of confidentiality that apply greater protection the more sensitive the information. Sections 3.9 and 6.5 address protective orders.

##### **4.4.2 The Identification Must Be in Writing, Ideally as a Numbered List**

A party alleging trade secret misappropriation must identify its trade secrets in writing. It is not appropriate for a trade secret plaintiff to forgo this requirement by stating, “the defendant knew what they stole.” Nor can a plaintiff say that it must have access to the defendant’s documents and information before it can identify what trade secrets were allegedly misappropriated.

In many cases, the best way to identify the alleged trade secret is to provide a numbered list of the trade secrets, with each number constituting a separate trade secret alleged to have been misappropriated. Numbering trade secrets serves many purposes. It defines the boundary of a trade secret and thereby demarcates one trade secret from the next. It helps ensure that trade secrets are

litigated and adjudged separately and not conflated. And it provides an easy signifier (e.g., Trade Secret No. 16) instead of having to quote the trade secret in full each time it's discussed.

#### 4.4.3 Reference to Documents

A trade secret should not be identified exclusively by reference to a document or other item unless the entirety of the information in that document or item is claimed as a trade secret. *See Loop AI Labs Inc. v. Gatti*, 195 F.Supp.3d 1107, 1116 (N.D. Cal. 2016); *Dura Glob. Techs., Inc. v. Magna Donnelly Corp.*, 2007 WL 4303294 at \*4 (E.D. Mich. Dec. 6, 2007). If the plaintiff references a document or other item as setting forth more than one trade secret, then it should specify which portion(s) of the document or other item identifies each such trade secret.

At the same time, the plaintiff may choose to add documents or items as references in its identification. Such references often improve the identification by providing context, showing the origin of the trade secret, presenting examples of the trade secret in use, and in countless other ways. But such references do not relieve the plaintiff of its obligation to provide a narrative identification that meets the reasonable particularity standard. *See InteliClear, LLC v. ETC Glob. Holdings, Inc.*, 978 F.3d 653, 658 (9th Cir. 2020) (stating that “[i]t is inadequate for plaintiffs to ‘cite and incorporate by reference hundreds of documents that purportedly reference or reflect the trade secret information’” (citation omitted)).

#### 4.4.4 Identifying Combination Trade Secrets

It is well established that a “trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secret.” *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990); *see Syntex Ophthalmics Inc. v. Tsuetaki*, 701 F.2d 677, 683 (7th Cir. 1983); *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 147 F.Supp.3d 1147, 1155–56 (D. Or. 2015). These types of trade secrets often create identification issues “because the information by itself is not confidential, thus determining what about the compilation is protected requires more of an explanation to make clear the claim and allow the opposing party to conduct meaningful discovery.” *Aortech Int’l PLC v. Maguire*, 2016 WL 6459582, at \*1 (D. Utah Oct. 31, 2016).

Courts generally agree that the identification must describe how the combination of information is uniquely assembled so as to constitute a protectable trade secret. One Court has outlined the necessary steps this way: “specifically describe the particular combinations of components [the plaintiff] has in mind, the manner in which these components are combined and how they operate in unique combination.” *Struthers Sci. & Int’l Corp. v. Gen. Foods Corp.*, 51 F.R.D. 149, 153 (D. Del. 1970). Another Court has explained that “[i]n order to meet its burden of describing its alleged trade secrets with reasonable particularity, [the plaintiff] must specifically describe what particular combination of components renders each of its designs novel or unique, how the components are combined, and how they operate in unique combination.” *Switch Commc’ns Grp. v. Ballard*, 2012 WL 2342929, at \*5 (D. Nev. June 19, 2012).

Thus, if the plaintiff contends that its trade secret is a combination of information, then it should identify the entire combination. If the plaintiff contends that its trade secret consists of only one or several elements of the claimed combination, then it should identify that element(s) or subset(s).

Similar considerations apply to “compilations” of information—that is, aggregations of information that collectively are claimed to constitute a trade secret. When a compilation trade

secret is claimed, the plaintiff should identify the specific list, files, or data claimed to constitute the compilation trade secret. *See, LivePerson, Inc. v. [24]7.ai, Inc.*, 2018 WL 5849025, at \*14 (N.D. Cal. Oct. 26, 2018) (applying New York law).

#### **4.4.5 Identifying Negative Trade Secrets**

A “negative” trade secret is information about what not to do, such as technical experiments that uncover what does not work or what works less well. Negative trade secrets are valuable because knowing what does not work can save time and money in pursuit of what does work. As described by one Court, the “defendant might use a negative know-how trade secret by taking its lesson to avoid developing apparently fruitless technology.” *Waymo LLC v. Uber Techs., Inc.*, 2018 WL 466510, at \*2 (N.D. Cal. Jan. 18, 2018).

Negative trade secrets can be identified several ways. One is to simply identify the trade secret as the fact that X or Y information did not work. For example, a “positive” trade secret may be a particular formula that achieves some result; a “negative” trade secret may be the fact that certain ingredients or proportions, or other experiments did not yield the optimum result. Another way is to reference documentation about the trade secret plaintiff’s research and development efforts, following the rules stated above for referencing documents in identifications.

#### **4.4.6 Trade Secret Identifications Should Not Be Conflated with Patent Drafting**

Patent claims are drafted in accordance with specific requirements set forth in statutes and case law. *See* 35 U.S.C. § 112. Courts should not import those requirements into trade secret litigation and require trade secret plaintiffs to identify their trade secrets as though they were patent claims. The patent system grants a publicly enforceable exclusive right based on a high standard of disclosure intended to enable the Patent Office to assess the claimed invention’s novelty and non-obviousness as well as inform skilled artisans how to make and use the invention. Trade secrets, by contrast, operate as a means to protect information against misappropriation. *See* § 2.7.1. They do not confer exclusive protection. Imposing the patent law’s high disclosure requirements upon trade secret owners would substantially limit trade protection, raise the costs of trade secret protection, and complicate the litigation process.

#### **4.5 A Two-Part Test for Judging Particularity**

There is no easy answer to what constitutes a sufficient identification. As one Court observed, “the case law does not provide clear guidance as to how detailed a plaintiff’s trade secret disclosures must be.” *L-3 Commc’ns Corp. v. Jaxon Engg & Maint., Inc.*, 2011 WL 10858409, at \*2 (D. Colo. Oct. 12, 2011). Even the two states that require identification by statute do not answer this question with precision or clear guidance. California requires identification with “reasonable particularity” and Massachusetts requires “sufficient particularity,” thereby leaving it to the courts to determine what is reasonable and sufficient.

There is a growing consensus that a sufficient identification is one that achieves two goals: “(a) put the defendant on notice of the nature of plaintiff’s claims and (b) enable the defendant to determine the relevancy of any requested discovery concerning its trade secrets.” *Givaudan Fragrances Corp. v. Krivda*, 2013 WL 5781183, at \*4 (D.N.J. Oct. 25, 2013). The phrase most often used as shorthand for a sufficient identification is “reasonable particularity.” As another Court similarly notes, “[r]easonable particularity” is a fact specific inquiry that requires, at minimum, a trade secret plaintiff disclose sufficient information to: (1) put a defendant on notice of the nature of the plaintiff’s claims and (2) allow the defendant to discern the relevancy of any

requested discovery to its trade secrets.” *Arconic Inc. v. Novelis, Inc.*, 2018 AWL 4944373 (W.D. Pa. March 14, 2018) (citing cases); see *Structural Pres. Sys., LLC v. Andrews*, 2014 WL 12738910, at \*2 (D. Md. Mar. 26, 2014); *Babcock Power, Inc. v. Kapsalis*, 2015 WL 9244487, at \*5 (W.D. Ky. Dec. 17, 2015) (same); *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 681 (N.D. Ga. 2007) (same); *Gentex Corp. v. Sutter*, 2008 WL 5068825, at \*1 (M.D. Pa. Nov. 25, 2008) (same). To be sure, some courts require more and some require less. But this two-part test is the majority view.

Courts should apply this two-part test with a focus on the specific facts of the case, as some trade secrets may require more robust identification than others to achieve these two aims. For example, some trade secrets related to technology in a field rich in patents or printed materials may require more particularity than some trade secrets related to business information. In all instances, however, the trade secret plaintiff must identify the specific alleged trade secrets, not merely general categories. See *Knights Armament Co. v. Optical Sys. Tech., Inc.*, 254 F.R.D. 463, 467 (M.D. Fla. 2008); *L-3 Commc’ns Corp. v. Jaxon Eng’g & Maint., Inc.*, 2011 WL 10858409, at \*2 (D. Colo. Oct. 12, 2011); *Loop AI Labs Inc. v. Gatti*, 195 F.Supp.3d 1107, 1114 (N.D. Cal. 2016).

#### **4.5.1 Reliance on Experts**

It is neither common nor advisable to submit expert materials, such as a declaration, with an identification. The identification is just that—it identifies the alleged trade secrets—and should therefore stand alone.

It is, however, common to submit expert declarations if the parties dispute the sufficiency of the identification and submit that dispute to the Court for resolution. This is especially true in cases involving technically complex trade secrets. Indeed, parties often provide expert declarations to help the Court evaluate the sufficiency of an identification. See *Phoenix Techs., Ltd. v. DeviceVM, Inc.*, 2010 WL 8590525, at \*1 (N.D. Cal. Mar. 17, 2010). This is a sound practice, for experts qualified in the field are well positioned to opine on the two-part test for identification. In cases where well-qualified experts are able to ascertain what information is being claimed as a trade secret, even if they disagree about the merits of whether the claimed information qualifies as a trade secret, the default rule should be to proceed with discovery. In cases where they are not, the Court can decide between the two.

#### **4.6 Access to the Identification**

An identification demands the utmost confidentiality protection. By definition, it contains alleged trade secrets. Access to an identification should therefore be expressly and narrowly defined by a protective order or confidentiality agreement. Sections 3.9.2, 6.5.4, 6.5.6, and 6.5.7 address who should get access to the confidential information in a trade secret case, including the critical question of whether the accused misappropriator should have access to that information.

#### **4.7 Amending an Identification**

When a plaintiff wishes to add trade secrets that were not previously identified or to modify or remove trade secrets that were previously identified, the plaintiff may amend the identification. In fact, cases commonly have several amendments. Ideally, parties will handle amendments through a meet-and-confer process instead of requiring court intervention. They should be able to agree on any amendments and then proceed to litigate the trade secrets in the amended identification.

If the parties are unable to agree, motion practice often follows. Motions come in several forms. The defendant might move for a protective order against the plaintiff’s amended identification. Or

the defendant might move to compel, arguing that the plaintiff's earlier identification was insufficient and should be amended to comply with the identification standard. The plaintiff might also move for leave to serve an amended identification.

Regardless of the motion's form, courts usually evaluate it under the good cause standard, asking whether the trade secret plaintiff has demonstrated good cause to amend the list. *See StoneEagle Services, Inc. v. Valentine*, 2013 WL 9554563, at \*5 (N.D. Tex. Jun. 5, 2013); *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at \*9 (S.D. Ohio Dec. 27, 2017); *Powerweb Energy, Inc. v. Hubble Lighting, Inc.*, 2012 WL 3113162, at \*2 (D. Conn. July 31, 2012); *Par Pharm., Inc. v. QuVa Pharma, Inc.*, 2019 WL 959700, at \*3 (D.N.J. Feb. 27, 2019); *Loop AI Labs Inc. v. Gatti* 2015 WL 9269758 at \*4 (N.D. Cal., Dec. 21, 2015); *Neothermia Corp. v. Rubicor Medical, Inc.*, 345 F.Supp.2d 1042, 1044 (N.D. Cal. 2004).

While there are some similarities between amending a trade secret identification, on the one hand, and amending a complaint under FED. R. CIV. P. 15(a) or supplementing discovery under FED. R. CIV. P. 26(e), on the other hand, the unique considerations at issue in trade secret identification counsel against the wholesale use of either Rule 15(a) or Rule 26(e). Instead, when deciding whether a plaintiff has good cause to amend a trade secret identification, courts often consider the relevant circumstances, including the following:

- Was the moving party diligent in discovering the issue and seeking the amendment? If so, amendment is more likely to be permitted. *See AgroFresh Inc. v. Essentiv LLC*, 2019 WL 563900, at \*3 (D. Del. Feb. 4, 2019).
- Will the opposing party be unduly prejudiced by amendment? If not, amendment is more likely to be permitted. *See Swarmify, Inc. v. Cloudflare, Inc.*, 2018 U.S. Dist. LEXIS 91333, at \*7 (N.D. Cal. May 31, 2018); *Source Prod. & Equip. Co. v. Schehr*, 2019 WL 4752058, at \*6 (E.D. La. Sept. 30, 2019).
- Is the proposed amendment based on facts newly learned, such as discovery showing that the defendant misappropriated trade secrets the plaintiff previously did not have reason to believe were misappropriated? If so, amendment is more likely to be allowed. *See Morgardshammar, Inc. v. Dynamic Mill Servs. Corp.*, 2009 WL 10685154, at \*3 (W.D.N.C. Nov. 19, 2009); *Dura Glob. Techs., Inc. v. Magna Donnelly Corp.*, 2011 WL 4527576, at \*9 (E.D. Mich. Sept. 29, 2011); *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at \*9 (S.D. Ohio Dec. 27, 2017).
- During what stage of the litigation is amendment being sought? Courts are more likely to allow amendments if they occur at an earlier stage and less likely if they would require moving the trial date. *See Source Prod. & Equip. Co. v. Schehr*, 2019 WL 4752058, at \*6 (E.D. La. Sept. 30, 2019).

The considerations described above apply primarily to plaintiffs seeking to add or modify trade secrets. When a plaintiff removes trade secrets from the identification and thus no longer alleges them in the case, such removals will almost always be permitted. While winnowing is usually laudable and a natural consequence of the case narrowing as it proceeds to trial, it could in some instances reflect litigation misconduct designed, for example, to drive up litigation costs. But any misconduct should be addressed separately, not used as a basis for denying the removal.

As a final, logistical point, when trade secrets are removed, the numbering in the identification should not change. For example, if Trade Secret Nos. 3 and 6 are no longer alleged from a previous list of 10, the removal should not change the numbers of the remaining trade secrets, as doing so may create problems with previous discovery, orders, or other litigation documents that use the

numbering scheme. The better practice is to keep the number in the amended identification but to insert something like “This trade secret is no longer being asserted” in place of the previously identified trade secret. For similar reasons, when new trade secrets are added via amendment, they should be added as consecutive numbers to the last number in the previous identification. For example, if three trade secrets are added to an existing list of 10, the new trade secrets would be Nos. 11-13.

#### **4.8 Identification at Summary Judgment and Trial**

Chapters 7 and 10 address issues regarding summary judgment and trial, respectively. This section addresses how those two stages interact with the issue of identification.

As explained in § 4.2, the sufficiency of a trade secret identification does not implicate the merits. Whether a trade secret is adequately identified is a question that must be resolved, if at all, early in the case or during discovery so that the parties can know what they are litigating. In some cases, where the identification is not in dispute, the parties continue litigating without any dispute regarding identification.

Conversely, the merits of a trade secret—e.g., whether the information is secret, derives independent economic value from not being known, was subject to reasonable security measures, was misappropriated—does not implicate the adequacy of the identification. Once a case reaches the merits phase, the question is no longer whether the identification is adequate, but whether the trade secret as identified meets the statutory or common law definitions for a trade secret. That question should not turn on the traditional identification disputes, such as vagueness, generalized information, and other issues. For example, if a trade secret identification is in fact generic, then the defendant should be able to prove that such information is not secret, therefore entitling it to summary judgment. *See Next Payment Solutions, Inc. v. CLEAResult Consulting, Inc.*, 2019 WL 955354, \*23 (N.D. Ill. Feb. 27, 2019) (granting defendant’s motion for summary judgment on all but one trade secret because the other identifications were “too broad and generalized” and do not allow the Court or a fact finder to assess whether the information is a trade secret).

While identification issues should be resolved before summary judgment or trial, there are examples in which courts have addressed the issue of identification at those later stages. *See Givaudan Fragrances Corp. v. Krivda*, 639 F. App’x 840, 843 (3d Cir. 2016); *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 583-84 (7th Cir. 2002); *Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F.Supp.3d 789, 798-800 (W.D. Wis. 2017) *Sit-Up Ltd. v. IAC/InterActiveCorp.*, 2008 WL 463884, at \*11 (S.D.N.Y. Feb. 20, 2008). Some of these examples involve situations where the identification issue could (and perhaps should) have been raised earlier. Others involve situations where the identification issue comes to the fore throughout discovery.

A final point is that the trade secrets a plaintiff identifies early in the case, and perhaps amends as the case proceeds, should be the same trade secrets the parties litigate on the merits at summary judgment or trial. In other words, the plaintiff should not be permitted to change the text of the alleged trade secrets (except through the amendment process) once the trade secrets get to the stage of merits resolution. This does not mean that a plaintiff is required to present all of its identified trade secrets at summary judgment or trial, as alleging only a subset is common when, for example, only partial summary judgment is sought. The point is that for those trade secrets the plaintiff does identify, the text of the trade secret should not normally change at this late stage.

#### **4.9 Exceptions to the Identification Requirement**



The exigencies of trade secret litigation occasionally demand exceptions to the identification requirement. The primary exception is when a plaintiff has evidence that a defendant downloaded or otherwise took documents or information from the plaintiff and seeks an early court order (i.e., temporary restraining order or preliminary injunction) requiring only that the defendant preserve evidence or return what was allegedly taken. A purloined thumb drive, for example, may contain trade secrets, public information, and personal information of the defendant. In these time-sensitive instances, it may not be possible or feasible to prepare formal and full identifications of the alleged trade secrets at issue. It may instead be sufficient to identify the categories of documents or things or even the specific drive to be preserved or returned.

This exception is narrow and relates to preservation and return orders, not others, such as those prohibiting disclosure or use of information. In all other cases, a trade secret plaintiff should be required to provide the identifications described throughout this chapter.

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## Chapter 5: Pre-Trial Equitable Relief

### 5.1 Introduction

Trade secret disputes often begin with an urgent request for immediate equitable relief. The plaintiff seeks to prevent defendant from using or disclosing a trade secret that is allegedly galloping away from the legal “barn” the trade secret owner has built to protect it. The movant may contend that absent immediate judicial intervention to stop it, defendant’s unauthorized disclosure or use of a trade secret will effectively and permanently divest its owner of control over the information—the *sine qua non* of a trade secret. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011 (1984).

Importantly, however, requests for relief in trade secret disputes are often made before either party has had the opportunity to conduct a full investigation. Initial assertions advanced by both parties, may, with further factual development, prove to be inaccurate or incomplete, based more on speculation than on facts and reasonable inferences. Purported “trade secrets” may prove not to be trade secrets at all, may not actually be at risk, or, conversely, may be at even greater risk than the trade secret owner initially perceived. Defendants’ initial denials may prove to be well-founded, naïve, or part of a calculated cover-up leaving the trade secret in jeopardy.

Resolving early requests for equitable relief calls for early and often continuing management by the Court. Courts are often called upon to develop procedures to address the claimed need for speed and the special evidentiary challenges of requests for pre-trial equitable relief (most often, temporary restraining orders or preliminary injunctions), manage discovery, evaluate evidence, make initial judgments on an incomplete record, and, if required, develop and enforce appropriately tailored orders.

This Chapter discusses the legal standards for evaluating requests for pre-trial equitable relief and expedited discovery to inform the process, provides examples of evidence that has been found to weigh in favor of or against pre-trial equitable relief, and offers guidance in framing orders and in managing the entire process. It includes templates, tables illustrating relevant evidence, and illustrative orders.

### 5.2 Legal Standard: To Prevent Imminent Actual or “Threatened” Misappropriation

Assessing requests for pre-trial equitable relief in trade secret cases involves balancing two major considerations. On the one hand, the value of trade secrets, which can be considerable, can be easily lost as a result of leaks. The harm might not be compensable or able to be undone. On the other hand, the factual record is often inchoate at this early stage, before parties have developed a full evidentiary record and often before they have conducted any discovery at all. Yet ruling on a request for early equitable relief requires the Court to assess the facts that each party has been able to marshal outside of court, evaluate their significance, and, where appropriate, deny or grant relief that may have a profound impact on the case and on the parties. It is for this reason that relief is limited to circumstances in which imminent actual or “threatened” misappropriation can be reasonably established.

#### 5.2.1 Imminent Actual Misappropriation

Pre-trial equitable relief is granted by the Court, not the trier of fact, before the completion of discovery. It is a departure from the ordinary course of adjudication, and is thus an “extraordinary” remedy. It is not intended to be a substitute for or shortcut to trial and is available only when the harm to be prevented absent relief is likely to occur before trial. An assertion that a trade secret

may be at risk at some point in the future does not necessarily justify pre-trial equitable relief; the risk to be avoided must be “imminent,” not “remote and uncertain.” Courts have held that “irreparable harm that may occur, if at all, years in the future, and certainly not before a trial on the merits, does not warrant pre-trial injunctive relief.” *See, e.g., Loxo Oncology, Inc. v. Array Biopharma Inc.*, 2019 WL 10270263, at \*6 (D. Colo. June 26, 2019) (denying injunctive relief where potential irreparable harm was “remote and uncertain” and would not occur before a trial on the merits); *MEMC Elec. Materials v. Balakrishnan*, 2012 WL 3962905 (S.D. Ohio Sept. 11, 2012) (denying preliminary injunctive relief since, among other reasons, while the two organizations might someday compete, they did not do so now); *Synergy Advanced Pharm., Inc. v. CapeBio, LLC*, 2010 WL 2194809 (S.D.N.Y. June 1, 2010) (denying preliminary injunction where there was no evidence that defendants threatened to disclose the allegedly confidential information and it was uncertain whether any product allegedly made through the use of the information would ever be released).

### **5.2.2 “Threatened” Misappropriation**

Other intellectual property regimes permit courts to enter equitable relief before trial primarily to halt ongoing *actual* infringement. Given the potentially evanescent nature of the trade secret right—namely that unauthorized exposure to others before trial may make it public and forever destroy the trade secret owner’s ability to regain control over the information—trade secret law permits equitable relief *before* actual misappropriation has occurred, if it is highly likely, or “threatened” to occur before trial. Both the Defend Trade Secrets Act (“DTSA”), 18 U.S.C. § 1836 (b)(3)(A)(i), and the Uniform Trade Secrets Act (“UTSA”), §§ 2 (a), 2(c), provide that equitable relief may be available to prevent not only “actual” but also “threatened” misappropriation of trade secrets.

A “threat” to information need not be explicit; it may be inferred from credible evidence. For example, “[t]hreatened misappropriation may be demonstrated by showing either that the defendant possesses trade secrets and has misused or disclosed those secrets in the past, that the defendant intends to misuse or disclose those secrets, or that the defendant possesses trade secrets and wrongfully refuses to return them after a demand for return is made.” *Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F.Supp.2d 954, 968-69 (E.D. Wis. 2009). *Cf. Lasen, Inc. v. Tadjikov*, 2018 WL 6839454, at \*6 (N.M. Ct. App. Dec. 21, 2018) (concluding that the term “threatened” as used in the UTSA includes the communication of an explicit intent to harm, but it is also defined as “[a]n indication of approaching menace; the suggestion of an impending detriment,” and as “[a] person or thing that might well cause harm.”) (alterations in original, citation omitted).

In determining whether misappropriation is “threatened” the Court, the parties and at times experts will often be asked to consider both “historical” facts about the conduct of the parties and “technical” facts comparing the claimed secret information with, on the one hand, information alleged to be known or readily ascertainable by the relevant public and, on the other, information allegedly being used by the defendant. Marshalling both kinds of information on an urgent basis can present challenges both for the parties and for the Court.

### **5.2.3 General Equitable Principles**

Requests for injunctive relief under the UTSA and DTSA as well as under New York common law are subject to the general rules of equity. *See Mallet & Co., Inc. v. Lacayo*, 16 F.4th 364, 380 (3d Cir. 2021); *JTH Tax, Inc. v. Freedom Tax, Inc.*, 2019 WL 2062519, at \*13 (W.D. Ky. May 9, 2019) (collecting cases); *Capstone Logistics Holdings, Inc. v. Navarrete*, 2018 WL 6786338, at

\*33–34 (S.D.N.Y. Oct. 25, 2018), *aff’d in part and remanded for entry of revised order*, 796 F. App’x 55 (2d Cir. 2020) (summary order).

Cases throughout the country emphasize that preliminary injunctive relief is an extraordinary remedy, never awarded as of right. *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008), *cited in JTH Tax*, 2019 WL 2062519, at \*4 (trade secret case); *Nichols v. Alcatel, Inc.*, 532 F.3d 364, 372 (5th Cir. 2008) (“A preliminary injunction is an ‘extraordinary remedy’ and should only be granted if the plaintiffs have clearly carried the burden of persuasion in all four requirements”), *cited in, inter alia, McAfee LLC v. Kinney*, 2019 WL 4101199 (E.D. Tex. Aug. 29, 2019) (trade secret case); *Radiant Global Logistics, Inc. v. Furstenuau*, 368 F.Supp.3d 1112, 1123–24 (E.D. Mich. 2019) (trade secret case); *Brightview Grp., LP v. Teeters*, 441 F.Supp.3d 115 (D. Md. 2020) (trade secret case); *Packag. Corp. of Am., Inc. v. Croner*, 419 F.Supp.3d 1059, 1072 (N.D. Ill. 2020) (trade secret case); *Admor HVAC Prods., Inc. v. Lessary*, 2019 WL 2518105 (D. Haw. June 18, 2019) (trade secret case); *In re Document Techs. Litig.*, 275 F.Supp.3d 454, 460–61 (S.D.N.Y. 2017) (trade secret case). Courts generally focus on the following four factors:

- Whether the moving party has established a likelihood of success on the merits.
- Whether the moving party has established that absent relief, it will suffer immediate (or imminent) and irreparable harm. This factor is sometimes phrased as whether the movant has “an adequate remedy at law.”
- Whether the balance of the hardships favors (some jurisdictions say “strongly” favors) the moving party and the impact of particular proposed relief on the nonmoving party.
- Whether the public interest will “not be disserved.” Some jurisdictions phrase this factor as whether the public interest will be harmed by reason of the grant or denial of the injunction.

The same standards apply to requests for temporary restraining orders, *see Maxlite, Inc. v. ATG Elecs.*, 2020 WL 6260007, at \*1 (C.D. Cal. July 13, 2020); *Earthbound Corp. v. MiTek USA, Inc.*, 2016 WL 4418013, at \*7 (W.D. Wash. Aug. 19, 2016), recognizing, however, that narrow relief to preserve the status quo may require less demanding review than more intrusive relief.

Some jurisdictions weigh the importance of these factors differently, with some finding, for example, that “the single most important factor is irreparable harm,” *see, e.g., First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1143 (10th Cir. 2017) (stating, in a trade secret case: “No Showing of Irreparable Harm, No Preliminary Injunction”) and others applying “sliding scales” in weighing the various factors. *See, e.g., Citigroup Glob. Mkts, Inc. v. VCG Special Opportunities. Master Fund Ltd.*, 598 F. 3d 30, 35 (2d Cir. 2010) (discussing the Second Circuit’s “sliding scale” approach requiring movant to establish irreparable harm and either (1) a likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief”); *Abrasic 90 Inc. v. Weldcote Metals, Inc.*, 364 F.Supp.3d 888, 896 (7th Cir. 2019) (trade secret case citing cases discussing a “sliding scale” approach”); *Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531, 539-40 (7th Cir. 2021) (approving sliding scale approach in trade secret case but holding that “a plaintiff must demonstrate that its claim has some likelihood of success on the merits, not merely a better than negligible chance” (citing *Mays v. Dart*, 974 F.3d 810, 822 (7th Cir. 2020))). The requirement that plaintiff establish a likelihood of success does not require that plaintiff establish that it “will” win at trial; rather, that it must provide evidence that it “can” win. The specific current formulations followed in the relevant Circuit should be assessed.

The fact that a request for equitable relief is made in a trade secret case does not override these general equitable principles. The special nature of the trade secret right may affect how these principles are applied and weighed in particular cases, however, where the evidence shows that absent early relief the secret is likely to be destroyed.

### **5.2.3.1 Affirmative and Prohibitory Equitable Relief**

Pre-trial equitable relief in trade secret disputes can come in many varieties. It may include “affirmative” measures to protect trade secrets, DTSA 18 U.S.C. § 1836(b)(3)(A)(ii); UTSA §2(c), such as orders directing the return or quarantine of specific documents or digital files, auditing and monitoring procedures or directions to participate in forensic inspections. *See* UTSA, Official Commentary. It most often includes prohibitory injunctions preventing the enjoined party from engaging in activities that may jeopardize the trade secret. DTSA 18 U.S.C. § 1836(b) (3)(A)(i); UTSA § 2(a). In some cases, it can also include mandatory verification procedures to confirm that court-ordered prohibitions are being honored. *See Cool Runnings Int’l v. Gonzalez*, 2021 WL 5331453 (E.D. Cal. Nov. 16, 2021); *Cook Med., Inc. v. Griffin*, 2008 WL 858996 (S.D. Ind. Mar. 25, 2008).

While the party seeking equitable relief always bears the burden of showing that it is warranted, the weight of that burden and the need for both parties to develop a robust evidentiary record in relation to the request may vary depending on when the request is made and the nature and scope of the relief sought.

General principles of equity have spoken of a heightened burden on parties seeking mandatory injunctions that force a change to the *status quo*, as opposed to prohibitory injunctions that prevent the defendant from taking certain future actions. *See SRS Acquiom Inc. v. PNC Fin. Servs. Grp., Inc.*, 2020 WL 3256883, at \*3 (D. Colo. Mar. 26, 2020) (finding that a mandatory preliminary injunction requires movant to make an especially “strong showing” that the likelihood of success and balance of the harms factors weigh in its favor); *Brightview Grp., LP v. Teeters*, 441 F.Supp.3d 115, 128 (D. Md. 2020) (same). However, not all mandatory relief is equally intrusive. The impact on an ongoing operation of a mandatory order to preserve or segregate particular documents at the start of a dispute may be relatively modest if the documents are narrowly defined, their ownership by movant is clear, and their location can be readily identified. At a later phase, the information in particular documents may have become intertwined with information allegedly independently developed by or rightfully in the possession of defendant. At that point, assessment of the mandatory vs. prohibitory distinction may need to become more nuanced. *See SRS Acquiom Inc.*, 2020 WL 3256883, at \*3 (observing that “[t]he Court admits that in many cases trying to resolve what constitutes a mandatory injunction versus a prohibitory one, or which side is seeking to alter the status quo feels more metaphysical than legal or factual,” but concluding that the party’s request for a preliminary injunction enjoining defendant’s continued possession and use of documents more than one year after defendant’s departure from plaintiff’s employ “undermines whatever argument [plaintiff] might have had that it was on the side of preserving, rather than upsetting, the status quo”; holding, that under the circumstances plaintiff must make a “particularly strong” showing that it is likely to succeed on the merits and that the balance of harms is in its favor).

As for “prohibitory” relief, neophytes often argue that the whole point of trade secret litigation is to obtain an order backed by the power of contempt saying simply “don’t use or disclose trade secrets” and assume that such relief is uncontroversial. In fact, prohibitory injunctive relief is not automatic or statutorily required in trade secret disputes. Courts have cautioned that both the DTSA



and the UTSA authorize, but do not mandate, injunctive relief to prevent or, ultimately, remedy misappropriation. See *First W. Capital Mgm't v. Malamed*, 874 F.3d 1136, 1140 (10th Cir. 2017) (citation omitted), followed in *JTH Tax, Inc. v. Freedom Tax, Inc.*, 2019 WL 2057323 (W.D. Ky. Mar. 15, 2019), subsequent determination, 2019 WL 2062519 (May 9, 2019); *DLMC, Inc. v. Flores*, 2018 WL 6682986 (D. Haw. Dec. 19, 2018). Cf. *Capital Tool & Mfg. Co. v. Maschinenfabrik Herkules*, 837 F.2d 171 (4th Cir. 1998) (holding the text of Virginia's Uniform Trade Secrets Act permits but does not require entry of a preliminary injunction even on a showing that the statute has been violated).

Moreover, not all “prohibitory” injunctive relief is the same. The law gives courts substantial discretion to frame orders granting early injunctions in trade secret disputes that are tailored to the specific needs of the case. In each case the relief ordered should be clearly stated and supported by the available evidence. Some orders may simply prohibit the use or disclosure of particular information. Even these apparently limited orders require drafting care: a “simple” “don’t use or disclose” order may well be unenforceably vague for its failure to specify the trade secrets at issue. Without further detail, it provides little operational guidance to the party to be enjoined or to the Court in evaluating future assertions that its order has been violated. See, e.g., *Mallet & Co., Inc. v. Lacayo*, 16 F.4th 364, 380 (3d Cir. 2021) (vacating and remanding preliminary injunction that failed to adequately identify information defendants were not to use or disclose). Other “prohibitory” relief may prohibit more acts and be more “extraordinary.” Relief that may have the effect of essentially shutting down a party’s business or product line or barring an employee from engaging in particular activities, although potentially available in some cases on a proper showing requires particularly strong justification. *Mallet & Co.*, 16 F.4th at 390 (emphasizing that any preliminary injunction is “extraordinary relief” and that the particularly broad injunction the trial Court had entered prohibiting an individual not bound to a non-compete agreement and new employer from competing or engaging in movant’s field would require “a truly extraordinary showing—one not made here”). Cf. *Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531 (7th Cir. 2021) (after a nine-day hearing, enjoining defendant, its employees, and its business partners through trial from making, marketing, selling, or obtaining intellectual property rights in its competing product which the Court found to have been designed through the use of plaintiff’s trade secrets).

### **5.2.3.2 Equitable Relief in Aid of Arbitration**

Trade secret litigants are often parties to agreements requiring their disputes to be arbitrated. If the arbitration provision encompasses claims for misappropriation of trade secrets as well as for breach of contract, the trade secret owner may be concerned that it needs immediate relief to protect its trade secret before an arbitration can be convened. As described in §3.8, the contract itself or applicable law, state or federal, may permit the trade secret owner to apply to a court for interim relief in aid of arbitration.

Courts asked to review requests for an injunction pending arbitration have observed that “[a]rbitration can become a ‘hollow formality’ if parties are able to alter irreversibly the status quo before the arbitrators are able to render a decision in the dispute.” *Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 910 F.2d 1049, 1053 (2d Cir. 1990). Requests for equitable relief “in aid” of arbitration are typically governed by the same standards governing equitable relief in court proceedings. *Faiveley Transp. Malmö AB v. Wabtec Corp.*, 559 F.3d 110, 117 (2d Cir. 2009) (remanding grant of injunction in aid of arbitration for consideration of whether absent relief movant would suffer irreparable harm); *S.G. Cowen v. Messih*, 224 F.3d 79, 85 (2d Cir. 2000) (affirming denial of injunction in aid of arbitration); *Proofpoint, Inc. v. Boone*, 2021 WL 5194724,

at \*3 (W.D. Tex. Sept. 21, 2021), report and recommendation accepted 2021 WL 7184208 (W.D. Tex. Nov. 4, 2021) (entering injunction in aid of arbitration to protect trade secrets and enforce non-compete agreement); *Tesla, Inc. v. Khatilov*, 2021 WL 624174, \*2 (N.D. Cal. Jan. 22, 2021) (applying traditional factors and entering injunction in aid of arbitration to protect trade secrets). For further discussion of considerations pertaining to a request for injunction relief in aid of arbitration, *see* §3.8.3.

#### **5.2.4 Special DTSA Limitations on Injunctive Relief Affecting Employee Mobility**

Trade secret disputes frequently arise between a trade secret owner and its former employees who are moving to an organization that is, or plans to become, a competitor and can or will allegedly put those trade secrets to use. Recognizing the potential impact of some injunctions on the free movement of labor, the DTSA, unlike the UTSA, includes three important limitations on equitable relief against departing employees. First, an order may not conflict with an applicable law prohibiting restraints on the practice of a lawful trade or business. 18 U.S.C. § 1836(b)(3)(A)(i)(II). Thus, for example, the DTSA does not preempt or alter California’s strong statutory prohibitions on many forms of restrictive covenants embodied in Cal. Bus. & Prof. Code § 16600. In the same vein, the DTSA prohibits injunctions to “prevent a person from entering into an employment relationship.” 18 U.S.C. § 1836(b)(3)(A)(i)(I). And third, the statute specifies that “conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.” *Id.* This last point was intended to emphasize that an injunction limiting an individual’s employment activities must not be based merely on the abstract risk potentially attendant to a very knowledgeable employee’s taking the same job with a direct competitor. Rather, misappropriation may be found to be “threatened” or even “inevitable” only when the defendant’s behavior or other specific evidence has made that conclusion a reasonable inference. *See* §§ 2.5.9, 2.6.1.1.

As discussed in § 5.8, these rules have not prevented the grant of injunctions enforcing non-compete agreements to protect trade secrets or placing conditions on engaging in particular competitive employment where courts are presented with sufficient evidence of threatened misappropriation and imminent irreparable harm. These requirements simply underscore that the assessment of whether to afford equitable relief should be guided by evidence rather than by the invocation of mantras.

#### **5.3 Managing Requests for Early Equitable Relief**

Requests for equitable relief in trade secret disputes typically proceed in phases. Many cases begin with the filing of a complaint accompanied by sworn affidavits and a motion seeking a temporary restraining order on short notice (or even, in rare cases, *ex parte*) and a request to schedule a hearing on a request for a preliminary injunction. Such initial requests are frequently considered by the Court first at a conference with both parties and then at a hearing not long after the case is filed, before the parties have conducted any, or much, discovery. Many courts find it productive at an initial conference concerning a request for immediate relief to engage in the overall case management discussion described in Chapter 3 to plan immediate steps and discovery and to consider the overall needs and direction of the case of the case, as well as the likely time to trial. At such a conference, the Court may be able to obtain the parties’ agreement to some form of “standstill” without prejudice that will enable the parties to prepare for the preliminary injunction hearing and avoid the need for a hearing on a temporary restraining order.

In some jurisdictions, if the judge assigned to preside over the case is not available at the time the suit is filed and the trade secret claimant seeks immediate relief, an “emergency judge” is assigned to address an initial request for relief. The involvement of the emergency judge may be primarily to preserve the status quo and establish a schedule for the parties to follow until the assigned judge becomes available. In other cases, where found to be warranted, the emergency judge may order more robust substantive relief. The assigned judge may upon further application and the receipt of further evidence later determine that a refinement or even *vacature* of an early order is appropriate.

### 5.3.1 Pre-Trial DTSA *ex parte* Seizure Order Requests

While most requests for early equitable relief in trade secret disputes are made on notice pursuant to FED. R. CIV. P. 65, Congress enacted as part of the DTSA a self-contained “civil seizure” provision, patterned on similar language in the Lanham Act, permitting the trade secret owner to seek an *ex parte* seizure order without notice to the other side to prevent the “propagation or dissemination” of the trade secret in “extraordinary circumstances.” 18 U.S.C. § 1836(b)(2)(A). This longest portion of the DTSA was also the issue most heavily debated and redrafted in the years leading up to its enactment. The provision imposes express requirements on the movant and the Court which must be followed precisely. Key aspects are discussed below, with the statute itself providing exacting detail.

Before issuing such an order, the court must find that it *clearly* appears from *specific facts* that—

- (I) *an order issued pursuant to Rule 65 of the FEDERAL RULES OF CIVIL PROCEDURE or another form of equitable relief would be inadequate* to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;
- (II) *an immediate and irreparable injury will occur* if such seizure is not ordered;
- (III) *the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered* of granting the application and substantially outweighs the harm to any third parties who may be harmed by such seizure;
- (IV) *the applicant is likely to succeed in showing that—*
  - (aa) the information is a trade secret; and
  - (bb) the person against whom seizure would be ordered—
    - (AA) misappropriated the trade secret of the applicant by improper means; or
    - (BB) conspired to use improper means to misappropriate the trade secrets of the applicant;
- (V) the person against whom seizure would be ordered has *actual possession* of—
  - (aa) the trade secret; and
  - (bb) any property to be seized;
- (VI) the application describes with *reasonable particularity* the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;

(VII) the person against whom seizure would be ordered, or persons acting in concert with such person, *would destroy, move, hide, or otherwise make such matter inaccessible to the court*, if the applicant were to proceed on notice to such person; and

(VIII) the applicant has not publicized the requested seizure.

18 U.S.C. § 1836(b)(2)(A)(ii) (emphasis added).

If seizure is granted, the seizure order must “provide for the narrowest seizure of property necessary” to achieve the purposes of the order and to minimize any interruption of the business operations of third parties and, to the extent possible, the legitimate business operations of the person accused of misappropriation of the trade secret. The party seeking the *ex parte* seizure order “shall” be required to post security to pay damages that any person may be entitled to recover as a result of a wrongful or excess seizure or attempted seizure. After a seizure hearing, to be held at the earliest possible time and no later than seven days after the order has been issued (absent consent to a later date), the party who obtained the order shall have the burden to prove all facts supporting the findings of fact and conclusions of law necessary to support the order. If the party fails to meet the burden, the seizure order shall be dissolved or modified. Any person who suffers damages by reason of a wrongful or excessive seizure may recover damages that shall not be limited by the security posted as a condition to receiving the order. 18 U.S.C. § 1836(b)(2)(B).

The statute includes additional detailed safeguards, including protecting the party against whom an order is directed from publicity about the order and seizure at the behest of the person obtaining the order, protecting the seized storage medium, protecting the confidentiality of seized materials that are unrelated to the seized trade secret information and, where appropriate, appointing a special master and technical experts not controlled by or associated with the moving party or its counsel to assist in taking control of the seized material. *See* 18 U.S.C. § 1836(b)(2)(C)–(D).

#### **5.3.1.1 Technical Guidance on Crafting *ex parte* Seizure Orders**

Recognizing the potential need for courts to have technical guidance in responding to some requests for *ex parte* seizures, the uncodified provisions of the DTSA required the Federal Judicial Center to recommend best practices for (1) the seizure of information and media storing the information and (2) the securing of the information and media once seized. Pub. L. No. 114-153 § 6 (May 11, 2016). Less than a year after the DTSA was enacted, the Federal Judicial Center released a 53-page assessment of “Trade Secret Seizure Best Practices Under the Defend Trade Secrets Act of 2016,” available at <https://www.fjc.gov/content/323518/dtsa-best-practices-june-2017>. The report, which, given its timing, was not yet informed by material practical experience with the *ex parte* seizure order remedy, does not have the force of law. It addresses potential ways to manage certain practical issues that may arise in response to some requests for a seizure order, such as choosing a Federal law enforcement officer for the service and execution of the seizure order; nominating technical experts to assist in execution of the order and establishing expert disclosure obligations; obtaining “locksmith” and “transportation” expertise; nominating custodians and substitute custodians; appointing technical experts; crafting seizure instructions; framing steps for investigation and search; using electronic storage media and tools such as Faraday enclosures to prevent seized devices from being connected to computer networks; documenting seizure activities; conducting pre-seizure briefings; using special masters; and calculating security. The report includes a variety of sample forms and orders for consideration by the moving party and courts.

If followed, many of the techniques addressed in the report would prolong the process of ordering and implementing *ex parte* relief. In that sense, the report itself may discourage movants from seeking and courts from granting such relief *ex parte* rather than proceeding in another fashion. Notably, the specific requirements for *ex parte* seizures apply only to that procedure, and not to traditional noticed injunctive relief pursuant to FED. R. CIV. P. 65.

#### **5.3.1.2 Facts that Have Been Found to Warrant the Grant of DTSA *ex parte* Seizure Orders**

Despite the substantial focus on the *ex parte* seizure remedy during discussion of the DTSA prior to enactment, very few such *ex parte* seizure orders have been reported or even appear to have been sought.

Courts have granted *ex parte* seizure orders under the DTSA only based on a clear showing that the defendants were unlikely to comply with a noticed request for a temporary restraining order, such as evidenced by prior lies, evasions, exportation of data to the cloud or other devices, and efforts to conceal prior bad acts. In *Solar Connect, LLC v. Endicott, et al.*, 2017 WL 11309521 (D. Utah Dec. 4, 2017), *amended and superseded by* 2018 WL 8786166 (D. Utah Feb. 16, 2018), and *Axis Steel Detailing, Inc. v. Prilex Detailing LLC*, 2017 WL 11309520 (D. Utah May 23, 2017), *amended and superseded by* 2017 WL 8947964 (D. Utah June 29, 2017), for example, the defendants had previously provided false and misleading information, hid information and moved computer files, and were shown to have sophisticated computer technology skills they could use to thwart a Rule 65 order or other equitable remedy. *See also Shumway v. Wright*, 2019 WL 8137119, at \*6-\*10, *amended*, 2019 WL 8135311 (D. Utah Aug. 26, 2019) (granting *ex parte* seizure order as supplemented in light of similar facts). In *Blue Star Land Services v. Coleman*, 2017 WL 11309528 (W.D. Okla. Aug. 31, 2017), *amended and superseded by* 2017 WL 11316598 (D.S.C. Mar. 13, 2017), defendants had previously downloaded thousands of company files to their Dropbox, deleted emails and other files to cover their tracks, and lied about their actions to solicit other employees. In *AVX v. Kim*, 2017 WL 11307180 (D.S.C. Mar. 8, 2017), the defendant was shown to have downloaded trade secret information, accessed a co-worker's computer, and lied in the company's investigation. In *Mission Capital Advisors v. Romaka*, 2016 WL 11517104 (S.D.N.Y. July 29, 2016), defendant had previously failed to appear at a court hearing to show cause why he should not be restrained from accessing, disclosing or copying his prior employer's client and contact lists.

Courts granting seizure orders have exercised restraint in fashioning their scope. *See, e.g., Solar Connect*, limiting the seizure to the imaging of the computer files under controlled circumstances stating that “[n]o physical property, such as computers, computers, smartphones or documents, will be seized, other than for the period required to image the computers and computer devices, including copying of files from any associated networks . . . Law enforcement officials will proceed with the seizure . . . [at the specified time and place] in the most efficient manner possible to minimize disruptions to Defendants’ legitimate business operations and to any third parties.” 2018 WL 2386066, at \*3; *Ruby Slipper Café, LLC v. Belou*, 2020 WL 1674157, at \*5 n.2 (E.D. La. Apr. 6, 2020) (limiting seizure to alleged secret recipes bearing plaintiff’s identifying marks located in a specific container and interleaved among pages in specified cookbooks and permitting the U.S. Marshall to copy specified data from two computers but denying a request to seize the computers. *Id.* When the Marshalls executed the order, they in seized no items).

#### **5.3.1.3 Facts that Have Been Found to Warrant Denial of DTSA *ex parte* Seizure Order**

Courts have denied requests to enter an *ex parte* seizure order where movant failed to show why a Rule 65 injunction on notice would not be adequate to protect trade secrets or how an *ex parte* seizure order would help avoid the threatened harm. *See, e.g., DermSource, Inc. v. CityMedRx, LLC*, 23-CV-281(JS)(JMW), at \*13-15 (E.D.N.Y. Jan. 18, 2023) (finding an absence of specific facts warranting issuance of an *ex parte* seizure order in light of court’s issuance of a temporary restraining order barring use, disclosure, or destruction of information and defendant’s obligation under the Federal Rules to preserve evidence); *Hundred Acre Wine Grp. v. Lerner*, 22-cv-07305-JD, \*1 (N.D. Cal. Dec. 9, 2022) (finding no evidence-based risks warranting entry of an *ex parte* seizure order where there was no evidence to indicate that defendants would ignore a Rule 65 order; the fact that defendants ran their business from a personal laptop computer did not itself heighten the risk of “untoward conduct”; and complaint asserting misappropriation had been publicly on file prior to application and plaintiff proffered no evidence that defendants would “misbehave” upon learning of the allegations); *ARB Labs, Inc. v. Woodard*, 2019 WL 332404 (D. Nev. Jan. 25, 2019); *Dazzle Software II, LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM, Dkt. No. 3 (E.D. Mich. June 15, 2016).

Courts have emphasized that that even absent a court order, litigants are obligated to maintain and preserve evidence and that absent a showing of irreparable harm early court intervention is not warranted to protect alleged computer files in the custody of defendant, *see, e.g., Henry Schein, Inc. v. Cook*, 191 F.Supp.3d 1072 (N.D. Cal. 2016) (denying request for *ex parte* temporary restraining order directing defendant to preserve evidence and permit plaintiff to obtain mirrors of data on defendant’s personal devices); *DermSource, supra*, n. 3. Courts have denied relief where the applicant’s allegations are simply conclusory. *See, e.g., Jones Printing LLC v. Adams Lithographing Co.*, No. 1:16-cv-442, Dkt. No. 8 (E.D. Tenn. Nov. 3, 2016) (denying relief where plaintiff could not demonstrate why Rule 65 is inadequate and where alleged facts were largely conclusory). At least one Court has imposed sanctions on a movant and counsel upon a finding that an *ex parte* seizure order had been sought in bad faith on a meritless claim as part of a pattern of “litigation shenanigans.” *Magnesium Mach., LLC v. Terves, LLC*, 2021 WL 5772533, at \*5–6 (6th Cir. Dec. 6, 2021) (affirming sanctions and dismissal of misappropriation claim).

#### **5.3.1.4 Court-Ordered Alternatives to Requested *ex parte* Seizure Orders**

Courts denying requests for *ex parte* seizure orders have at times ordered alternatives including (1) directing the movant to serve a noticed application and order directing defendant to preserve specific evidence, *see, e.g., OOO Brunswick Rail Mgmt. v. Sultanov*, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017) (directing corporate defendants to preserve evidence); (2) convening a hearing with all parties present and granting a temporary restraining order directing defendants not to destroy evidence or to access movant’s proprietary software or information but denying broader requests, *see Broker Genius, Inc. v. Zalta*, 280 F.Supp.3d 495 (S.D.N.Y. 2017); or (3) directing the trade secret defendant to turn electronic devices over to a special master or the Court, a third party expert, or counsel for safekeeping pending further discovery or order of the Court, *see, e.g., Balearia Caribbean Ltd v. Calvo*, No. 1:16-cv-23300, Dkt. No. 10 (S.D. Fla. Aug. 5, 2016); *OOO Brunswick Rail Mgmt.*, 2017 WL 67119 (directing individual defendant to produce devices in court); *Magnesita Refractories Co. v. Mishra*, 2017 WL 655860 (N.D. Ind. Feb. 17, 2017); *Earthbound Corp. v. MiTek USA, Inc.*, 2016 WL 4418013 (W.D. Wash. Aug. 19, 2016). Courts and parties contemplating requests for *ex parte* seizures may want to consider whether expedited noticed discovery is appropriate. *See* §5.4.

#### **5.3.2 Managing Temporary Equitable Relief Requests Absent Notice**

FED. R. CIV. P. 65 (b) establishes detailed procedures for obtaining injunctions and restraining orders without notice. Grants of temporary relief without notice are the exception, including in trade secret cases. *See, e.g., Globalization Partners, Inc. v. Layton*, 2019 WL 5268657 (S.D. Cal. Oct. 16, 2019) (denying request for temporary restraining order under Rule 65 without notice to enjoin use or disclosure of alleged trade secrets, order return of documents, and direct review by forensic examiner where plaintiff had not shown that providing notice would undermine prosecution of the action); *Mallet & Co. v. Lacayo*, No. 2:19-CV-01409-CB, Dkt. No. 8 (W.D. Pa. Oct. 31, 2019) (denying request for preliminary injunction with temporary restraining order where plaintiff had not certified in writing any attempts to give notice and the reasons it should not be required). *But see Pfizer, Inc. v. Amann*, No. 2:17-cv-00911-ER, Dkt. No. 4 (E.D. Pa. Mar. 1, 2017) (finding that movant's papers showed that "there is a real danger that, if given advance notice, Defendant will either use or disclose or destroy the confidential information and trade secrets at issue," and granting temporary restraining order without notice enjoining former employee from accessing, transferring, downloading, copying, using, or disclosing documents taken from movant or deleting or modifying any documents or emails until further notice, and setting the matter down for a hearing one week later<sup>1</sup>).

### **5.3.3 Managing Early Requests for Record Preservation and Forensic Inspection and Injunctions Against Document Destruction**

Even when a request for a temporary restraining order is not made on an *ex parte* basis, it is not uncommon for the moving party to request that the opposing party be given only a brief time to submit responsive opposition papers. The timing of such a response is often arrived at through a conference with the Court after a brief discussion by both sides of their likely arguments and any need for evidence.

Where a narrow early request is made to preserve, quarantine, or inspect documents or other materials, the Court is often asked to consider whether the requested relief should be granted under the UTSA or the DTSA on an expedited basis, *see, e.g., H&E Equip. Servs., Inc. v. Comeaux*, 2020 WL 4364222 (M.D. La. July 30, 2020) (finding threat of irreparable harm based on plaintiff's pre-suit forensic review and entering temporary restraining order directing the preservation of documents and devices). Where movant shows a risk that a party will destroy or alter evidence, courts have not hesitated to grant such relief, which protects the litigants and preserves the integrity of the action. *Cf. Spin Master Ltd. v. Alan Yuan's Store*, No. 17-cv-7422, Dkt. Nos. 19, 24 (S.D.N.Y. 2018); *Spin Master Ltd. v. 158*, 463 F.Supp.3d 348, 378 (S.D.N.Y. 2020) (Court granted a temporary restraining order to preserve evidence in trademark dispute but denied request to order permanent preservation of evidence following termination of lawsuit). However, the Court should consider whether the movant's concerns can be addressed simply by verifying that appropriate litigation hold notices are in place, *see, e.g., First Option Mortg., LLC v. Tabbert*, 2012 WL 1669430, at \*4 (D. Nev. May 11, 2012) (denying request for preservation order in UTSA action as being duplicative of the preservation obligations already imposed by the FEDERAL RULES OF CIVIL PROCEDURE).

An early order directing an accused party to submit digital devices or accounts for *preservation* by a forensic expert can prevent the unauthorized transfer of information as the parties and the Court come to learn more about the dispute. A request for unguided *inspection* of the preserved materials by opposing counsel or experts may be found to be an unwarranted and expensive

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<sup>1</sup> The parties thereafter agreed to a stipulated forensic protocol and resolved the dispute.

intrusion, especially at the early stages of a dispute. *See, e.g., H&E Equip. Servs.*, 2020 WL 436422 (directing that absent agreement of the parties, forensic review of the defendant's devices should not take place until the discovery phase of the case); *First Option Mortg.*, 2012 WL 1669430, at \*4. *Cf. Lee v. Stonebridge Life Ins. Co.*, 2013 WL 3889209, at \*2 (N.D. Cal. July 30, 2013) (denying order requiring plaintiff to turn over her computer to forensic expert and ordering an alternative process for avoiding a "fishing expedition"). Before ordering early forensic review, courts typically seek some credible evidence that plaintiff has established a likelihood that the defendant possesses some information or files that are likely to include the movant's property, which may include trade secrets, and that absent early relief, the movant's information or property is subject to potential risk. This need is often satisfied by the submission of sworn statements, often by a forensic investigator, explaining why documents or files to which the movant has a colorable claim are believed to be in the defendant's possession. Such a request often focuses primarily on specific documents or files rather than on the more difficult issue of whether all or even any of the information contained within these materials constitutes trade secrets, a more complex issue which will generally be resolved at a later time.

An order simply directing the quarantine, return, or inspection of "files containing the plaintiff's trade secrets" or even "plaintiff's property" gives the parties insufficient guidance of what to do. Arriving at a detailed forensic protocol, however, generally requires familiarity with the relevant documents. Consistent with the nature and urgency of the dispute and any time constraints, the Court may prefer to direct the parties to meet and confer to reach agreement by a fixed deadline at which time the Court will enter an order on points that may include:

- appointing a forensic specialist, or directing how the forensic specialist will be appointed, by a date certain;
- directing to whom the specialist will be accountable, including, in some cases, directly to the Court;
- identifying the information, accounts (such as cloud accounts or email accounts), or devices that will be the object of the inspection and providing guidance to the expert to facilitate finding digital information pertinent to the dispute (such as file names, hash values, or relevant authors, key words, or dates);
- specifying the objective of the exercise (such as, to locate and quarantine or remove exact duplicates of particular documents; to search for variants of particular aspects of specific documents; or to search more broadly according to specific parameters such as document source, subject matter, creation date, or otherwise);
- specifying a work plan or provisions for having the work plan reviewed, including a focus on methodologies and tools to be used;
- specifying the scope of forensic review;
- specifying a timetable for conducting and reporting on the forensic review;
- specifying the nature of any reports to be rendered, on what schedule, and to whom;
- specifying provisions for protecting personal information and other information of the defendant or third parties that are not at issue in the suit;
- specifying who is to be given access to materials located by and any reports rendered by the forensic examiner;
- specifying an end point for the forensic work;
- allocating or imposing limitations on financial costs, including who is responsible for paying the forensic specialist, when and how; and
- considering whether costs incurred will be awarded as recoverable costs after trial.



Examples of early forensic orders and stipulations for early forensic quarantine or inspection in trade secrets disputes that have been entered, sometimes on stipulation, in connection with temporary restraining orders and requests for preliminary injunction appear at Appendix 5.1. Further discussion of ways to manage early forensic preservation and review are described in Chapter 6 (Discovery). *See* §§ 6.7.1, 6.11.5

Once this initial review is complete, the Court may determine after notice and argument that additional forensic segregation and protection techniques, such as requiring the erection of firewalls within a defendant organization to prevent access and dissemination of information that may have emanated from the plaintiff, is appropriate. *See, e.g., Amphenol Corp. v. Paul*, 2012 WL 5471857 (D. Conn. Nov. 9, 2012), *amended and superseded by* 2013 WL 12250880 (D. Conn. Jan. 8, 2013) (appointing an information technology professional to search corporate defendant's computer system for evidence of improper transfers of the former employer's data, establishing a word filter to "fire wall[]" the employee from certain communications, restricting the physical locations in which the employee would perform services, and requiring periodic certifications of compliance).

#### **5.3.4 Managing Other Requests for Temporary Restraining Orders**

Plaintiffs may also seek temporary restraining orders restricting certain action by the other party. In disputes involving the departure of employees who are alleged to know or possess trade secrets, requests to limit future employment activities are frequently intertwined with claims that the employee is subject to an enforceable non-competition agreement or other restrictive covenant. Requests for such relief will need to be assessed not only against trade secret law, including, on DTSA claims, the DTSA's limitations on certain kinds of injunctions pertaining to employees, but also against the terms of the contract itself and applicable state law governing the contract.

Courts frequently focus primarily on preserving the *status quo ante*, before the suit was filed, absent compelling evidence-based reasons to consider other relief. This reflects the fact that absent consent of the parties, temporary restraining orders under the FEDERAL RULES OF CIVIL PROCEDURE are limited in time, and neither party typically has material access to pertinent evidence as the case begins. In considering requests for a temporary restraining order, courts may also find it constructive to probe whether the parties are willing to enter into a "standstill" agreement without prejudice to allow additional time to gather and assess the relevant evidence.

#### **5.4 Managing Preliminary Injunction Requests**

Requests for pre-trial equitable relief in trade secret cases often arise before either party is fully versed in the material facts. The case has usually just commenced, counsel for the parties may not even have yet spoken to one another, a Rule 16 Conference (preliminary conference) and Rule 26(f) (discovery conference) have not yet occurred, and discovery has typically not commenced according to normal scheduling rules. In other cases, the request for a preliminary injunction may be asserted later in the case in connection with a counterclaim, or as part of an ongoing case in which the predicates for preliminary relief emerge only at after some discovery at a later stage.

Once an application for preliminary injunction is made, the Court may choose to hold a full case management conference if one has not yet occurred, working through the issues discussed in Chapter 3 and completing a Trade Secret Checklist and Case Management Order to plan the needs and course of the entire case. In any event, the Court will generally convene a status conference with counsel for all parties to plan and guide the steps for resolving the request.

At the conference, the Court will want to get a preliminary sense of the nature of the claimed trade secrets, the likely scope of the requested relief, the likely defenses, and the evidence each party has and needs in order to address the request. The parties and the Court will be mindful of the fact that greater specificity in identifying the alleged trade secrets at issue will typically be required in connection with a request for injunctive relief than at the pleading stage. *See* § 4.3.

The parties will need to discuss the claimed urgency of any harm. A claim that trade secrets are likely to be disclosed at an impending trade show, for example, or in connection with an alleged breach of a short term non-compete agreement, may lead the Court to establish a faster process than may be true of a more complex case in which the alleged harm, though potentially even more significant, may appear somewhat less time-sensitive.

The Court may want to explore whether the parties can reach a standstill agreement on some issues that gives the parties more time to conduct discovery in advance of a preliminary injunction hearing, without prejudice to legal positions the parties may take (on issues such as whether information is a trade secret or whether misappropriation is threatened) on a more developed record. If defendant intends to make a motion to dismiss, the Court will want to gain an understanding of the likely basis and factor the proposed motion into the scheduling and consideration of the request for preliminary injunction. *Cf., e.g., Wisk Aero LLC v. Archer Aviation, Inc.*, No. 5:21-cv-02450 (N.D. Cal. Aug. 24, 2021) (conducting briefing and consideration of the two motions in parallel and reaching decision not to dismiss the case and denying request for preliminary injunction on the same day).

Depending on the urgency of the alleged harm, courts have set applications for preliminary injunction for hearing in a matter of days, *Interbake Foods, LLC v. Tomasiello*, 461 F.Supp.2d 943 (holding preliminary injunction hearing roughly three weeks after plaintiff filed its complaint and motion for preliminary injunction), or months, during which the parties have taken some discovery. *See, e.g., Waymo LLC v. Uber Techs., Inc.*, No. C-17-00939 WHA, Dkt. No. 61 (N.D. Cal. Mar. 16, 2017) (conducting status conference six days after filing of preliminary injunction motion and establishing a plan for expedited discovery and scheduling evidentiary hearing, if required after discovery, for two months later); *Mallet & Co. v. Lacayo*, No. 2:19-CV-01409-CB, Dkt. No. 32, 44, and 88 (W.D. Pa. Dec. 23, 2019, Feb. 4, 2020, and Aug. 21, 2020) (scheduling preliminary injunction hearing to take place via Zoom roughly 10 months after completion of expedited discovery, motion practice, and mediation; timing was delayed due to COVID-19); and *Wisk Aero LLC v. Archer Aviation Inc.*, No. 3:21-CV-02450, Dkt. No. 105 (N.D. Cal. July 21, 2021) (scheduling argument on tentative ruling on request for preliminary injunction roughly 15 weeks after complaint filed following limited forensic discovery). In unusual situations, the hearing may take place even later after discovery proceeds on a regular track. *See, e.g., Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531 (7th Cir. 2021) (preliminary injunction hearing on case involving technical trade secrets in a field in which plaintiff owned patents was held nearly 11 months after request for preliminary injunction was filed, in part due to delays caused by COVID-19).

If a protective order has not yet been entered, one should be put into place, *see* § 6.5, since the motion will necessarily implicate discovery and presentation of sensitive information.

#### **5.4.1 Expedited Discovery Requests**

A frequent topic of discussion at an initial conference on a request for pre-trial equitable relief is whether some expedited discovery is necessary to fully inform the Court and the parties. The purpose of discovery in advance of the resolution of a motion for interim relief is to further develop

the record on the issues to be decided in the request for interim relief. It is not intended to permit full discovery into all the relevant facts in the case or to compress full case discovery into a truncated period.

#### **5.4.1.1 Standards for Authorizing Expedited Discovery**

The Advisory Committee Note to the 1993 amendments to FED. R. CIV. P. 26(d) expressly states that expedited discovery may be appropriate in cases “involving requests for a preliminary injunction.” However, parties should not presume that there will be such discovery or expect it to be unbounded. The moving party “must make some *prima facie* showing of the *need* for the expedited discovery.” *See, e.g., Merrill Lynch, Pierce, Fenner & Smith, Inc. v. O’Connor*, 194 F.R.D. 618, 623 (N.D. Ill. 2000) (emphasis in original). Under the FEDERAL RULES OF CIVIL PROCEDURE, courts may apply a “good cause” standard in determining whether to allow expedited discovery. *See* FED. R. CIV. P. 26(d), 33(a), 34(b); *Dimensions Data North Am. v. Netsar-I, Inc.*, 226 F.R.D. 528 (E.D.N.C. 2005) (collecting cases). “Good cause exists when the need for expedited discovery . . . outweighs the prejudice to the responding party.” *Am. LegalNet, Inc. v. Davis*, 673 F.Supp.2d 1063, 1066 (C.D. Cal. 2009) (internal quotations and citations omitted).

While some courts have required applicants to show that the specific expedited discovery itself is necessary to avoid irreparable harm, *see, e.g., Notaro v. Koch*, 95 F.R.D. 403, 405 (S.D.N.Y. 1982), federal courts generally follow the more flexible standard of reasonableness and good cause. *See, e.g., Ciena Corp. v. Jarrard*, 203 F.3d 312, 320 (4th Cir. 2000); *R.R. Donnelley & Sons Co. v. Marino*, 2020 WL 7213762, at \*10 (W.D.N.Y. Dec. 8, 2020) (noting that the latter standard is widely followed in courts within the Second Circuit); *Intel Corp. v. Rais*, 2019 WL 164958, at \*7 (W.D. Tex. Jan. 10, 2019) (citing cases); *Sheridan v. Oak Street Mortg., LLC*, 244 F.R.D. 520, 521 (E.D. Wis. 2007) (citing cases).

Factors to be considered in evaluating requests for expedited discovery include the purpose of the specific discovery; the requesting party’s need for information it does not control to establish an element of its well-pled case, *see, e.g., Centrifugal Acquisition Corp. v. Moon*, No. 09-C-327, 2009 WL 1249294 (E.D. Wis. May 6, 2009) (granting limited discovery to test defendant’s denials upon finding that plaintiff’s undisputed allegations demonstrated that it had some probability of success on the merits); the breadth of the discovery requests; the burden on the responding party; and how far in advance of typical discovery the request is made. *See Apple Inc. v. Samsung Elecs. Co.*, 2011 WL 1938154, at \*1 (N.D. Cal. May 18, 2011).

Courts may conclude, especially when a temporary restraining order to preserve the status quo is in place, that discovery on a regular timetable combined with a preliminary injunction hearing to be held in the future is more appropriate than expedited discovery in a particular case. *See, e.g., Cambria Co. v. Schumann*, No. 19-CV-3145 (NEB/TNL), 2020 WL 373599, at \*9 (D. Minn. Jan. 23, 2020); *Midwest Sign & Screen Printing Supply Co. v. Dalpe*, 386 F.Supp.3d 1037, 1057–58 (D. Minn. 2019). Expedited discovery has also been denied when the Court has found that evidence does not warrant entry of a temporary restraining order, *Corelogic Sols., LLC v. Geospan Corp.*, 2020 WL 7786537, at \*4 (C.D. Cal. Aug. 21, 2020), or that the movant has failed in its initial papers to establish irreparable harm, *see X-Ray, Inc. v. Spears*, 929 F.Supp.2d 867, 878 (W.D. Ark. 2013).

#### **5.4.1.2 Managing Expedited Discovery**

Expedited discovery, where granted, should be proportional to the needs of the case at the preliminary stage. *Apple Inc. v. Rivos, Inc.*, No. 22-CV-02637 (EJD), Dkt. No. 73 (N.D. Cal. July

8, 2022) (limiting request to examine all devices and accounts referenced in opposition declaration where evidence did not show defendant controlled or had access to them). Courts granting expedited discovery may constrain it by techniques such as requiring the requesting party to submit discovery requests to the court in advance for approval, limiting the number of narrowly drawn requests for documents or interrogatories, or permitting only a limited number of depositions to be conducted not to last longer than a specified period of time. *See, e.g., Philips North Am. LLC v. Advanced Imaging Servs.*, 2021 WL 2593291 (E.D. Cal. June 24, 2021); *Citizens Bank, N.A. v. Margolis*, 2020 WL 5505383, at \*3–4 (E.D. Mich. Sept. 11, 2020) (rejecting proposed expedited discovery requests that were not narrowly tailored to the issues for the preliminary injunction hearing and permitting only limited expedited discovery); *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (holding that expedited discovery should be targeted to matters that will be addressed in a preliminary injunction hearing and not duplicative of investigations that already have been made; directing forensic review of particular devices as a logical starting point for the particular dispute).

While some expedited forensic examination is often determined to be necessary on requests for preliminary injunctive relief, extensive forensic discovery that is likely to be time-consuming, wide-ranging and intrusive, particularly into devices controlled by third parties, may be inappropriate on an expedited basis. *See, e.g., Intel Corp. v. Rais*, 2019 WL 164958, at \*7 (W.D. Tex. Jan. 10, 2019). It may be preferable to employ the techniques described above and in Chapters 3 and 6 for entering early orders directing a party to turn over digital devices to a neutral or agreed forensic expert for inspection directed to particular issues in accordance with agreed or court-mandated protocols. *See, e.g., Earthbound Corp. v. MiTek, USA, Inc.*, 2016 WL 4418013, at \*11 (W.D. Wash. Aug. 19, 2016); *Free Country Ltd. v. Drennen*, 235 F.Supp.3d 559, 569–70 (S.D.N.Y. Dec. 30, 2016); *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, No. 20-CV-3375, Dkt. No. 97, 99 (N.D. Ill. Nov. 9, 2020).

Properly tailored expedited discovery may also be sought by the defendant where it is warranted in light of the needs of the proceeding and the issues that will need to be resolved. *See, e.g., Ciena Corp. v. Jarrard*, 203 F.3d 312, 320 (4th Cir. 2000); *Inventus Power*, 2020 WL 3960451, at \*14.

In managing requests for expedited discovery, courts frequently direct the parties to meet and confer to propose a joint discovery order addressing the issues that will be explored, the number and duration of depositions, the number of requests for production, interrogatories or requests for admission that may be propounded and their subject matter, whether discovery of third parties will be permitted and on what terms, and other case-specific matters, such as the need for inspection of software or facilities. The parties will also arrive at a proposed briefing schedule in accordance with the Court’s schedule. A sample joint discovery proposal is attached as Appendix 5.2. Sample orders authorizing expedited discovery are attached as Appendix 5.3. In arriving at a proposed schedule and the scope of any expedited discovery, the parties will have to balance their own perception of the urgency of judicial resolution with their perceived need for discovery. *See, e.g., Waymo LLC v. Uber Techs., Inc.*, 2017 WL 2123560, at \*5 (observing that by requesting expedited discovery and insisting that the motion be heard and decided quickly, “Waymo itself embraced early on the foreseeable disadvantage of an incomplete evidentiary record”).

A recurring issue when expedited discovery is granted is whether depositions, document requests or interrogatories propounded as part of the expedited discovery process will “count” against any caps imposed by the FEDERAL RULES OF CIVIL PROCEDURE or the case management order for the case as a whole. Recognizing both that expedited discovery is by design not intended

to be full discovery and working to avoid wasteful repetition of discovery, courts often conclude that depositions and requests made in expedited discovery, at least as to parties, will not count fully against overall case limits. Document requests made in expedited discovery will, absent court order, typically be held under FED. R. CIV. P. 26(e) to be “continuing” requests subject to further production as the case proceeds. The specific impact on future discovery of any expedited discovery will likely be a topic for discussion in a post-hearing conference.

#### 5.4.2 Managing the Preliminary Injunction Hearing

A request for preliminary injunctive relief can impose substantial burdens on the Court as well as on the litigants, resulting in a flurry of document exchanges, depositions, and interim motions, all on a compressed schedule. In many cases, expedited discovery will achieve its purpose of effectively and efficiently informing the Court’s consideration of the injunction request based on filings that excerpt or summarize the additional facts that have emerged. In other cases, however, there may remain credibility disputes on material factual issues that the Court concludes require an evidentiary hearing.

Depending on the Court’s general operating procedures and caseload, a hearing on a preliminary injunction may be: (1) a full live evidentiary hearing, consuming hours or even days in which all witnesses will testify before the Court (in person or, according to court rules, virtually);<sup>2</sup> (2) a targeted evidentiary hearing in which select witnesses will testify or portions of their videotaped depositions will be presented to the Court but only with respect to certain issues; (3) a “cross-examination hearing” at which direct testimony will be submitted in affidavits or sworn declarations with witnesses made available before the Court for cross-examination (on some or all issues, often subject to pre-established time constraints); or (4) an oral argument in which counsel for the parties present and argue the evidence that has been developed through expedited discovery.

Whether to conduct an evidentiary hearing should be addressed in a pre-hearing status conference with the parties, often both prior to and following any discovery. It is generally not an “all or nothing” question. By the time of the final pre-hearing conference, it should be more apparent to the parties and to the Court whether material credibility disputes exist. It has been held that “a trial Court should conduct an evidentiary hearing when ‘consideration of the injunction motion [will be] influenced in some significant degree by credibility issues and factual disputes,’” *Fres-Co Systems, USA, Inc. v. Hawkins*, 690 F. App’x 72 (3d Cir. 2017) (citing cases) (trade secret dispute); *Moon v. Medical Tech. Assocs., Inc.*, No. 14-11156 (11th Cir. Aug. 18, 2014) (unpublished decision) (remanding order granting preliminary injunction to enforce noncompete

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<sup>2</sup> See, e.g. *Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F. 4th 531 (7th Cir. 2021) (nine-day evidentiary hearing); *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1265 (7th Cir. 1995) (evidentiary hearing conducted over a ten-day period); *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 117–18 (3d Cir. 2010) (referencing the defendant’s failure to testify at the evidentiary hearing); *WHIC LLC v. NextGen Labs., Inc.*, 341 F.Supp.3d 1147 (D. Haw. 2018) (holding a multi-hour evidentiary hearing on merits and on the likelihood of irreparable harm in a trade secret dispute); *AirFacts, Inc. v. de Amezaga*, 2017 WL 3592440, at \*12 (D. Md. Aug. 21, 2017) (five-day evidentiary hearing), *aff’d in part, vacated in part*, 909 F.3d 84 (4th Cir. 2018); *In re Document Techs. Litig.*, 275 F.Supp.3d 454, 461 (S.D.N.Y. 2017) (3-day evidentiary hearing); *International Bus. Machs. Corp. v. Visentin*, 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011), *aff’d*, 437 F. App’x 53 (2d Cir. 2011) (4-day evidentiary hearing); *but see Wisk Aero LLC v. Archer Aviation, Inc.*, No. 5:21-cv-02450, Dkt No. 105 (N.D. Cal. July 21, 2021) (issuing tentative ruling denying preliminary injunction and giving each side thirty minutes to argue the tentative ruling at a hearing); *Waymo LLC v. Uber Technologies, Inc.*, 2017 WL 2123560, (N.D. Cal. May 11, 2017) (deciding preliminary injunction motion based on extensive briefing, documentary evidence and declarations without evidentiary hearing).

and confidentiality agreement for an evidentiary hearing, holding that the Court is not “at liberty to accept one construction of the evidence and reject the other without the benefit of an evidentiary hearing”; the District Court had entered extensive factual findings, drafted by movant, which were contested by defendants in conflicting affidavits and had denied an evidentiary hearing “to resolve these hotly contested issues”); *Cobell v. Norton*, 391 F.3d 251, 261 (D.C. Cir. 2004) (holding in a trade secret/breach of contract case that “when a court must make credibility determinations to resolve key factual disputes in favor of the moving party, it is an abuse of discretion for the Court to settle the question on the basis of documents alone, without an evidentiary hearing”); *see also Heil Trailer Int’l Co. v. Kula*, 542 F. App’x 329, 334 (5th Cir. 2013) (citations omitted) (trade secret case); 11A CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FED. PRAC. & PROC. CIV. § 2949 (2d ed.) (cited in *Heil Trailer*, stating that “[i]f there is a factual controversy, . . . oral testimony is preferable to affidavits because of the opportunity it provides to observe the demeanor of the witnesses”). However, an evidentiary hearing is not required where a material factual dispute does not exist and the issues are legal. *See Certified Restoration Dry Cleaning v. Tenke*, 511 F.3d 535, 553 (6th Cir. 2007) (explaining that “where facts are bitterly contested and credibility determinations must be made to decide whether injunctive relief should issue, an evidentiary hearing must be held. [However,] where material facts are not in dispute, or where facts in dispute are not material to the preliminary injunction sought, district courts generally need not hold an evidentiary hearing.” *quoting and adopting McDonald’s Corp. v. Robertson*, 147 F.3d 1301, 1312-12 (11th Cir. 1998), in denying evidentiary hearing on request for preliminary injunction to enforce noncompete agreement where questions of fact were not in dispute). *Cf. United Healthcare Ins. Co. v. AdvancePCS*, 316 F.3d 737, 744 (8th Cir. 2002) (denying evidentiary hearing on request for preliminary injunction in trademark dispute where factual disputes were not material to resolution of request).

#### **5.4.3 Consolidating the Preliminary Injunction Hearing with Trial on the Merits**

Federal Rule 65(a)(2) provides that “before or after beginning the hearing on a motion for a preliminary injunction,” the court may advance the trial on the merits and consolidate it with the hearing. Even when consolidation is not ordered, evidence that is received on the motion and that would be admissible at trial becomes part of the trial record. However, the Court must preserve the parties’ right to a jury trial on issues triable to a jury.

As a case management tool, some courts require the parties to advise the Court of their decision to request consolidation before the preliminary injunction hearing, when they do not yet know the outcome of the request for relief. This approach should be discussed at an early conference. *See D.P. Dough Franchising, LLC v. Southworth*, 2017 WL 4315013 (S.D. Ohio Sept. 26, 2017) (consolidating preliminary injunction hearing with trial on the merits on consent of the parties).

After considering the issues and the evidence to be presented, the Court may conclude on its own that it is appropriate in the interest of efficiency to consolidate the preliminary injunction hearing with trial on the merits. This may be the case if the issues to be resolved in the application for preliminary relief are relatively narrow and the parties have the evidence necessary to make or defend their claims or have acquired such evidence through pre-hearing discovery, *Cf. Maxum Petroleum, Inc. v. Hiatt*, 2016 WL 5496283 (D. Conn. Sept. 28, 2016) (denying temporary restraining order where plaintiff had not established irreparable harm but, in light of showing of urgency, granting expedited discovery and ordering expedited trial on the merits to be consolidated with a hearing on a motion for preliminary injunction).

The Court must provide clear and unambiguous notice of its intention to consolidate the request for preliminary relief with trial in time for the parties to fully present evidence at the hearing. *See, e.g., Attorneyfirst, LLC v. Ascension Entm't, Inc.*, 144 F. App'x 283, 287 (4th Cir. 2005). *AttorneyFirst* explained, following *Pughsley v. 3750 Lake Shore Drive Coop. Bldg.*, 463 F.2d 1055, 1057 (7th Cir. 1972), that “a litigant should seldom be required either to forego discovery in order to seek emergency relief or to forego a prompt application for an injunction in order to prepare adequately for trial. Different standards of proof and of preparation may apply to the emergency hearing as opposed to the full trial.”

### **5.5 Evidence the Court May Consider on a Pre-Trial Equitable Relief Request**

Given the fact that pre-trial injunction hearings are only preliminary and are generally conducted before full discovery and case development, the Supreme Court has explained that a party “is not required to prove his case in full at a preliminary injunction hearing.” *University of Texas v. Camenisch*, 451 U.S. 390, 395 (1981) (citations omitted), cited in *Brake Parts, Inc. v. Lewis*, 443 F. App'x 27 (6th Cir. 2011) (affirming preliminary injunction in trade secret case). In keeping with this limited purpose, procedures at the hearing “are less formal and [the] evidence . . . less complete than in a trial on the merits.” *Camenisch*, 451 U.S. at 395. For similar reasons, “the findings of fact and conclusions of law made by a court granting a preliminary injunction are not binding at trial on the merits,” *id.* or, in light of potential prejudice to the ultimate fact finder, generally admissible at trial.

Recognizing the necessity for the parties and the Court to act quickly to assess timely provisional relief, where warranted the court may consider hearsay and affidavits, *G.G. ex rel. Grimm v. Gloucester Cty. Sch. Bd.*, 822 F.3d 709, 725 (4th Cir. 2016), *vacated on other grounds*, 137 S. Ct. 1239 (2017); *Mullins v. City of New York*, 626 F.3d 47, 52 (2d Cir. 2010); *Levi Strauss & Co. v. Sunrise Int'l Trading, Inc.*, 51 F.3d 982 (11th Cir. 1995); *Ty, Inc. v. GMA Accessories, Inc.*, 132 F. 3d 1167 (7th Cir. 1997); *Sierra Club, Lone Star Chapter v. FDIC*, 992 F.2d 545, 551 (5th Cir. 1993). “The admissibility of hearsay under the FEDERAL RULES OF EVIDENCE goes to weight, not preclusion, at the preliminary injunction stage,” *Mullins*, 626 F.3d at 52; *Gluco Perfect, LLC v. Perfect Gluco Prods., Inc.*, 2014 WL 4966102 (E.D.N.Y. Oct. 3, 2014). Relaxation of some evidentiary formalities does not, however, relieve parties of their legal burdens to support their claims. *See, e.g., Waymo v. Uber*, 2017 WL 2123560, at \*5, concluding that by requesting expedited discovery and insisting that its motion for preliminary injunction be heard and decided quickly, “[Movant] cannot now complain that it should be excused from [its] burden simply because it failed, in the limited time available, to drum up sufficient evidence to support all its requests for the extraordinary relief” (denying request that the Court grant certain adverse inferences to support a broad injunction).

### **5.6 Movant's Burden**

Equitable relief, particularly injunctive relief, is consistently described by courts as an “extraordinary remedy” because it is decided by the Court, not the jury and, when sought before trial is argued on an incomplete evidentiary record. The movant bears the burden of showing that it is warranted. Courts have noted that, depending on the scope of relief sought, that burden may be “substantial.” *Radiant Global Logistics, Inc. v. Furstenau*, 368 F.Supp.3d 1112, 1123 (E.D. Mich. 2019) (citations omitted) (granting preliminary injunction).

To succeed on its request, the moving party need not show that it will succeed at trial but must establish a *prima facie* case that the specifically identified information can be a trade secret

(namely, that it is not generally known to (or, depending on the burdens allocated under applicable law, readily ascertainable by) the relevant public; that it has actual or potential economic value because of secrecy; and that it has been the subject of reasonable measures to protect its secrecy) and that absent the requested relief, there is reason to believe that the information is at imminent risk of irreparable harm through actual or plausibly threatened misappropriation.<sup>3</sup>

### **5.6.1 Identifying the Alleged Trade Secret at Issue**

To carry this burden, the movant must first identify the specific information it claims as its trade secret(s) at risk. A Court cannot begin to evaluate a request for relief “without any idea of what a movant is talking about when it declares something to be a trade secret.” *Titan Mfg. Sols., Inc. v. National Coast, Inc.*, 2019 WL 3205955 at \*2 (D. Colo. July 16, 2019). As the Third Circuit summarized, “[t]he bottom line is this: without knowing what particular information [movant] claims as trade secrets, we cannot assess its likelihood of success in establishing that the information the Defendants acquired, disclosed, or used is trade secret information or that misappropriation of a trade secret has occurred.” *Mallet & Co. v. Lacayo*, 16 F.4th 364, 387 (3d Cir. 2021). “A plaintiff need not have direct evidence tying each trade secret to a defendant’s acquisitive conduct.” *Id.* at 388. But it must be able to identify what information it claims to be at risk. Identification of trade secrets is more fully discussed in Chapter 4.

### **5.6.2 “Fears” Alone Do Not Typically Justify Equitable Relief**

When it makes its motion, the movant may not have full access to evidence bearing on misappropriation, particularly since most trade secret misappropriation occurs in secret. Mere speculation that a defendant possesses or knows movant’s trade secrets and may use or disclose them, however, is insufficient. Courts have cautioned that “[a]n injunction should not issue merely to allay fears and apprehensions or to soothe the anxieties of a party.” *see, e.g., E.R. Squibb & Sons, Inc. v. Hollister, Inc.*, 1991 WL 15296, at \*9 (D.N.J. Feb. 5, 1991), *aff’d*, 941 F.2d 1201 (3d Cir. 1991) (frequently quoted nationally thereafter); *Continental Grp., Inc. v. Amoco Chem. Corp.*, 614 F.2d 351, 359 (3d Cir. 1980) (vacating injunction order); *Premier Rides, Inc. v. Stepanian*, 2018 WL 1035771, at \*10 (D. Md. Feb. 23, 2018) (denying injunction, holding that “[m]ere speculation is insufficient for the Court to find irreparable harm”). *Cf. Cortez, Inc. v. Doheny Enters., Inc.*, 2017 WL 2958071, at \*12 (N.D. Ill. July 11, 2017) (“an ‘employer’s fear that its former employee will use the trade secrets in his new position is insufficient to justify application of the inevitable disclosure doctrine.”). Where “[a]ll that is alleged, at bottom, is that defendants could misuse plaintiff’s secrets, and plaintiffs fear they will,” courts have found that the party seeking relief has not made an adequate showing. *Teradyne, Inc. v. Clear Commc’ns. Corp.*, 707 F.Supp. 353, 357 (N.D. Ill. 1989).

### **5.6.3 Reliable Circumstantial Evidence Can Be Probative**

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<sup>3</sup> The plaintiff normally bears the burden of establishing that the information at issue is not “readily ascertainable” by proper means, because it is part of the “secrecy” element, paired with “not generally known.” *Cf. TLS Mgmt & Mktng Serv. v. Rodriguez-Toledo*, 966 F.3d 46, 51-52 (1st Cir. 2020) (court granted defendant’s motion for summary judgment dismissing complaint where plaintiff had failed to identify the alleged trade secret process with specificity, “let alone established what aspects were not readily ascertainable”). However, California’s version of the UTSA, which does not include the phrase as part of the definition of a trade secret, characterizes the issue as an affirmative defense. *See* § 2.5.3; California Judicial Council, California Civil Instruction 4420, available at [https://www.courts.ca.gov/partners/documents/Judicial\\_Council\\_of\\_California\\_Civil\\_Jury\\_Instructions.pdf](https://www.courts.ca.gov/partners/documents/Judicial_Council_of_California_Civil_Jury_Instructions.pdf).



Courts have observed, however, as in the widely-cited decision in *Greenberg v. Croydon Plastics Co., Inc.* 378 F.Supp. 806 (E.D. Pa. 1974), that

Plaintiffs in trade secret cases, who must prove by a fair preponderance of the evidence disclosure to third parties and use of the trade secret by the third parties, are confronted with an extraordinarily difficult task. Misappropriation and misuse can rarely be proved by convincing direct evidence. In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.

*Id.* at 814; *cf. Mallet & Co.. v. Lacayo*, 16 F.4th at 388 (finding that “defendants’ actions here, plus their access to what may be trade secret information, plus the accelerated launch of their products may easily be sufficient circumstantial evidence to support a likelihood of success on the merits of Mallet’s misappropriation claim—but only if the relevant information is identified with sufficient specificity”). Discovery or an evidentiary hearing will help the parties and the Court to evaluate the evidence supporting the parties’ respective positions and draw inferences grounded in evidence.

The movant will generally rely on evidence from its own witnesses with knowledge of the information, how it was developed, how it differs from other information known to the public, its competitive value, how it has been protected, as well as evidence leading the movant to believe that the information is at imminent risk. Movant may also choose to offer expert testimony bearing on secrecy, value and reasonable efforts, as well as on whether the information at issue is generally known in the industry and whether damages from the alleged misappropriation can be reliably calculated without speculation.

### **5.7 Defendant’s Burden**

Once plaintiff has made out a *prima facie* case, the parties and Court should focus particularly on the material evidence the movant does not have and that the accused party likely knows or controls.

Defendants will likely rely not only on criticism of plaintiff’s witnesses and evidence but also on their own testimony (including experts) and documents attacking the status of the information as a trade secret and offering a counter-narrative of fair competition and independent development of their own information. They may address irreparable harm by arguing that any damage, if it does occur, can be calculated in a non-speculative way. Defendants may also raise legal defenses such as the statute of limitations (or more frequently laches, pointing to plaintiff’s delay in bringing the motion) or that the Court lacks personal jurisdiction over the defendant.

If the party opposing relief does not come forward with credible evidence refuting movant’s claims or evidence that it would be expected to control, the Court may conclude that misappropriation has been established for purposes of deciding the request for interim relief. *See, e.g., AtriCure, Inc. v. Meng*, 842 F. App’x 974 (6th Cir. 2021) (plaintiff presented multiple witnesses regarding trade secrets developed at a cost of \$50 million, the individual defendants’ access to them, and the corporate defendant’s release of a substantially similar product shortly after hiring away plaintiff’s employees; but defendants presented no witnesses or documents to support their contention of independent development); *Reco Equip., Inc. v. Wilson*, 2020 WL

6823119 (S.D. Ohio Nov. 20, 2020) (defendant's bare denials and failure to testify at hearing insufficient to overcome plaintiff's initial showing of likelihood of success on the merits and irreparable harm), *aff'd in part, vacated in part as to non-compete claim and remanded for determination of security*, 2021 WL 5013816 (6th Cir. Oct. 28, 2021); *Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (defendants' "bare and incomplete denials" that employees had taken trade secrets did not overcome plaintiffs' showing of extensive pre-departure downloading of confidential documents).

Conversely, defendant may rebut the movant's *prima facie* case with direct or plausible circumstantial evidence, shifting the burden back to movant to come forward with further evidence in traverse. *See, e.g., Wisk Aero LLC v. Archer Aviation Inc.*, 2021 WL 4073760 at \*19 (N.D. Cal. Aug. 24, 2021) (following discovery, plaintiff was unable to rebut defendants' proffered direct evidence of independent invention).

### **5.8 Evaluating Movant's Showing of Likelihood of Success on the Merits**

While a likelihood of success does not require a showing that the movant will ultimately succeed at trial, *see, e.g., Reilly v. City of Harrisburg*, 858 F.3d 173, 179 and n.3 (3d Cir. 2017), movant must present evidence to demonstrate that it "can win on the merits" and that its chance of establishing each of the elements of the claim are "significantly better than negligible," *Id.*, cited in *Mallet & Co.*, 16 F.4th at 381. If the movant cannot present plausible evidence that its trade secrets are at "some likelihood" of risk absent relief, its application will fail. *See Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531, 539-540 (7th Cir. 2021); *Gonzales v. Nat'l Bd. Of Medical Examiners*, 225 F.3d 620, 625 (6th Cir. 2000), cited in *Radiant Global Logistics, Inc. v. Furstenau*, 368 F.Supp.3d 1112, 1124 (E.D. Mich. 2019) (holding that "[a]lthough no one factor is controlling, a finding that there is simply no likelihood of success on the merits is usually fatal"). Movant's showing of a likelihood of success is usually considered in tandem with evaluating evidence of irreparable harm, according to the specific formulation established by the relevant circuit.

Determining whether the movant has made a sufficient showing of a likelihood of success is necessarily fact-intensive. "[R]eviewing courts look to the particular facts of the case for circumstantial evidence of misappropriation, intent to misappropriate, nefarious activities or attempts to circumvent any of the parties' agreements, demonstrated acts of dishonesty, evidence of deleting or copying files, improper solicitation, or other such evidence to weigh the need for injunctive relief." *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at \*5 (S.D. Ohio Dec. 27, 2017).

A non-exhaustive summary of facts that may be probative in supporting or pointing away from a likelihood of success appears as Appendix 5.4. Many are discussed below. *See also* the detailed analysis in *The Sedona Conference Commentary on Equitable Remedies in Trade Secret Litigation*, 23 SEDONA CONFERENCE J. 591 (2022). The following factors can merit particular focus in supporting or negating a showing of likelihood of success:

- whether the trade secret plaintiff has offered evidence that defendant had access to specifically identified, non-public information that has been the subject of reasonable measures to protect it
- the defendant's prior wrongdoing and lack of credibility
- the defendant's refusal to cooperate in returning information or to provide assurances regarding the protection of trade secrets
- the defendant's need for and ability to use the trade secrets

- unexplained evidence of sudden or impending breakthroughs by the defendant in its own product development
- the defendant's timely attention to developing and executing voluntary measures to reduce the risk of misappropriation
- whether circumstantial evidence indicates that misappropriation of trade secrets is "threatened"

### **5.8.1 The Nature of the Claimed Trade Secrets**

At the pre-trial equitable relief stage, courts will often face a bewildering evidentiary challenge. The plaintiff might assert that nearly every aspect of its operations and technology is protected as part of an overall business strategy, and that if the Court does not grant ample relief, the plaintiff's business will be irreparably harmed. The defendant, however, will insist that before any rational analysis of those issues is possible, the plaintiff must identify the trade secrets with specificity and may inundate plaintiff and the Court with evidence purporting to show that much of what is claimed to be a trade secret is public. The plaintiff may counter that even if individual elements of its business or technology are publicly available, its combination of elements constitute trade secrets. Experienced judges have developed ways of breaking the rhetorical logjam.

#### **5.8.1.1 Information that Is Described Only Broadly**

Where the movant seeks to enjoin activities to prevent the use or disclosure of broad, generalized categories of information, the Court may, depending on the other evidence presented, choose to deny relief or fashion relief that addresses only well-defined secrets. *See, e.g., Mallet & Co. v. Lacayo*, 16 F.4th 364, 384 and n. 24 (vacating and remanding preliminary injunction order that failed to distinguish trade secrets from unprotectable know-how); *Waymo v. Uber*, 2017 WL 2123560\*7 (finding that "it would be wrong to allow any company to leverage a single solution to a technical problem into a monopoly over broad swaths of other solutions," and crafting a narrow order directing the defendant to remove plaintiff's former engineer from any responsibility pertaining to development of one specific area of technology).

#### **5.8.1.2 Information Revealed in a Published Patent Application, Patent, or Other Public Source**

Information fully disclosed in a patent is not a trade secret and an injunction prohibiting its use should be denied, *see, e.g., Hickory Specialties, Inc. v. Forest Flavors Int'l, Inc.*, 12 F.Supp.2d 760, 767 (M.D. Tenn. 1998), unless necessary to account for a head start period due to misappropriation before the patent issued. In general, an injunction should not be entered to prevent the use or disclosure of information that has been widely disclosed to the public without restriction, whether in a patent or otherwise. *See B. Braun Med., Inc. v. Rogers*, 163 F. App'x 500, 509 (9th Cir. 2006) (holding that "injunctive relief is only available to protect a trade secret. Once a trade secret has been widely disclosed, it is no longer secret and does not merit injunctive relief."). *Cf. DVD Copy Control Ass'n Inc. v. Bunner*, 10 Cal.Rptr.3d 185, 194–95 (Cal. Ct. App. 2004) (finding that permanent injunctive relief barring use or disclosure of trade secret was unwarranted where the trade secret had become so widely known that it was even available on t-shirts; an injunction would remove from the general public information that was no longer a trade secret).

Information that is merely "related to" information disclosed in a patent may still be a trade secret, however, and may be the subject of pre-trial injunctive relief as long as it meets the requirements of a trade secret. "[A] patent destroys the secrecy necessary to maintain a trade secret

only when the patent and the trade secret both cover the same subject matter,” *Wellogix, Inc. v. Accenture, L.L.P.*, 715 F.3d 867, 875 (5th Cir. 2013) (internal quotation and citation omitted). *See Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531 (7th Cir. 2021) (affirming preliminary injunction barring use and disclosure of tolerance and measurement information for medical device that was not fully revealed in plaintiff’s issued patent or marketed product). A well-crafted description of the claimed trade secrets will of course assist the Court in determining whether or not they have been revealed by public disclosures.

### **5.8.1.3 Specifically Identified Documents or Files**

The trade secret may consist of specific documents that can be readily described, quarantined and returned or forensically remediated. Upon a showing that the documents or files in defendants’ hands belong to or originated from the plaintiff, the threat of misappropriation may be mitigated or even eliminated efficiently in a narrow order separating defendants from the documents. *See, e.g., Free Country Ltd. v. Drennen*, 235 F.Supp.3d 559, 569–70 (S.D.N.Y. Dec. 30, 2016) (ordering defendant to cooperate in early forensic review and remediation process but denying broader activity restraints; Court “was not persuaded that [defendant] could have memorized gigabytes of data concerning Free Country’s past, present and future business” in the nine days he was in possession of the documents)); *Henry Schein, Inc. v. Cook*, 2016 WL 3418537 (N.D. Cal. June 22, 2016) (denying an activity restriction, in light of entry of earlier order prohibiting use of plaintiff’s downloaded documents); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 109 F.Supp.3d 1009, 1023–24 (W.D. Tenn. 2015); *Intertek USA Inc. v. AmSpec, LLC*, 2014 WL 4477933, at \*8 (N.D. Ill. Sept. 11, 2014) (same).

The taking of large numbers of files containing plaintiff’s information may, however, be probative of defendant’s intent. If there is reason to believe that improper use or disclosure of movant’s trade secrets is ongoing, that the relevant documents have not been remediated or that claimed secret information (and not simply specific documents) is likely to be misused absent further intervention, injunctive relief may be warranted. *See Waymo v. Uber*, 2017 WL 2123560, at \*10-11.

### **5.8.2 The Accused Party’s Prior Wrongdoing and Lack of Credibility**

Evidence of dishonesty or dissembling by defendants relating to the trade secrets can be critical in establishing that misappropriation is “threatened.” In the much-discussed *PepsiCo v. Redmond* “inevitable disclosure” case, for example, 54 F.3d 1262 (7th Cir. 1995), plaintiff’s former executive shown to have extensive knowledge of its future product plans was recruited by a competitor to assume responsibility for the same sports drink product line. Redmond testified at a hearing to dissolve a temporary restraining order that he had been hired simply to implement “pre-existing” plans. Discovery revealed, however, that the “pre-existing plan” consisted only of a single distributorship agreement and a two-page “contract terms summary.” Redmond’s supervisors testified that the plans were open to re-evaluation; and the Court found that Redmond would likely have input in remaking those plans, particularly since he testified that he understood his role to be akin to that of a “Chief Operating Officer.” The Seventh Circuit affirmed the trial Court’s grant of a preliminary injunction barring Redmond for five months from assuming his position to integrate defendant’s sports drink business based on finding that Redmond’s “lack of forthrightness on some occasions, and out and out lies on others . . . leads the court to conclude that [the defendant] could not be trusted to act with the necessary sensitivity and good faith,” 54 F.3d at 1270.

Future misappropriation has also been found to be “threatened” where the defendant has engaged in prior misappropriation or evidences a lack of credibility and remains in a position to continue to use the misappropriated information. *See, e.g., Smithfield Pkg’d Meats Sales Corp. v. Dietz & Watson, Inc.*, 452 F.Supp.3d 843, 862–63 (S.D. Iowa 2020) (defendant had secretly removed substantial business information of his former employer on a USB drive, gave inconsistent testimony on key points related to the USB drive, and offered explanations the Court found were not credible regarding solicitation of plaintiff’s customers); *Mickey’s Linen v. Fischer*, 2017 WL 3970593, at \*12–13 (N.D. Ill. Sept. 8, 2017) (defendant’s pre-suit lies and destruction of evidence found to compel the conclusion that he would inevitably use or disclose plaintiff’s trade secrets during his employment with a direct competitor, finding that the employee’s “bare assurances that he will not misappropriate his former employer’s trade secrets may be discounted when he has such a ‘history of deceit’”); *Barilla America v. Wright*, 2002 WL 31165069 (S.D. Iowa July 5, 2002) (entering preliminary injunction prohibiting employment in light of evidence that defendant had taken trade secrets and provided contradictory and incredible explanations). Similarly, courts have granted injunctive relief limiting an employee’s future activities based on unusual pre-departure activity probative of malicious intent, such as soliciting or “harvesting” plaintiff documents that were not necessary to the employee’s ongoing work and offering incredible explanations for such conduct.

### **5.8.3 The Accused Party’s Refusal to Cooperate in Returning Information or to Provide Assurances Regarding the Protection of Trade Secrets**

A former employee or business partner’s refusal to return information containing trade secrets, particularly when a contract requires such return, or to provide meaningful assurances regarding the information can support some pre-trial injunctive relief under a threatened misappropriation theory, even if the information had initially been acquired properly. *See e.g., Jazz Pharm., Inc. v. Synchrony Grp., LLC*, 343 F.Supp.3d 434, 446 (E.D. Pa. 2018). That said, where the defendant’s original acquisition of the trade secrets was authorized, mere possession of the trade secrets, without more, does not necessarily establish a likelihood of success on a claim that future misappropriation is threatened. The context of the retention will need to be considered. *See e.g., Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F.Supp.2d 954, 969 (E.D. Wis. 2009) (stating that “a plaintiff must do more than show the defendant possesses trade secrets to prove a claim of threatened misappropriation of trade secrets”); *StrikePoint Trading, LLC v. Sabolyk*, 2009 WL 10659684, at \*8 (C.D. Cal. Aug. 18, 2009) (explaining that “the issuance of an injunction based on a claim of threatened misappropriation requires a greater showing than mere possession by a defendant of trade secrets where the defendant acquired the trade secrets by proper means” (citation omitted)).

### **5.8.4 The Accused Party’s Need for and Ability to Use the Trade Secrets**

Not every defendant is in a position to misuse identified trade secrets, at least before trial. A company that recruits a high level employee may have a pressing need for the trade secrets and may have previously failed to achieve the breakthrough the information could facilitate. In the *Waymo v. Uber* dispute, for example, plaintiff alleged that defendant’s prior efforts in the autonomous vehicle field had been unsuccessful and offered evidence that Uber had hired its former engineer with an earnout package of \$680 million to head its renewed efforts. *See Waymo v. Uber*, 2017 WL 2123560, at \*11. The movant may develop evidence that the competitor organization sought out an employee or group of employees for the apparent or even avowed purpose of acquiring trade secrets. An individual at the center of a departing-employee suit may

be transitioning to a position in which he or she is able to direct or implement the use of the trade secrets, or the movant may be able to present evidence (rather than simply conjecture) that given the nature of the position and the competitor's need for the trade secrets at issue, the former employee cannot help but consider them while performing duties for the new employer. *Cf. PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1264–66 (7th Cir. 1995) (affirming preliminary injunction prohibiting defendant who had been hired to head the “integration” team for merging two direct competitors of his former employer’s sports drink group and lead the “attack plans” against his former employer’s product from assuming duties for five months given depth of his knowledge of plaintiff’s plans, his ability to direct new employer’s strategies and his prior lies).

However, proof that the defendant knows plaintiff’s trade secrets and that the parties are competitors does not necessarily demonstrate a likelihood of success on a claim for actual or threatened misappropriation. The defendant may have no need for or ability to implement the trade secrets, as evidenced by its pursuit of fundamentally different technological solutions, *see, e.g., MEMC Elec. Materials v. Balakrishnan*, 2012 WL 3962905, at \*9 (S.D. Ohio Sept. 11, 2012); *Katch, LLC v. Sweetser*, 143 F.Supp.3d 854, 871 (D. Minn. 2015) (the existence of differing computer platforms “significantly reduces the risk of inevitable disclosure and thus [plaintiff’s] likelihood of success on the merits”); *Interbake Foods, L.L.C. v. Tomasiello*, 461 F.Supp.2d 943, 973–74 (N.D. Iowa 2006) (equipment, processes, and recipes independently developed by the two employers were significantly different and the trade secrets would be of little value to the new employer without substantial modification); where the organizations sell to different markets, *Spark Connected, LLC v. Semtech Corp.*, 2019 WL 4305735 (E.D. Tex. Sept. 10, 2019); or where the accused organization does not have the financial ability to pursue implementation of the trade secret, *e.g., Standard Brands, Inc. v. Zumpe*, 264 F.Supp. 254, 261 (E.D. La. 1967) (new employer had no interest in and no financial ability to pursue new product lines for which the trade secrets could be helpful).

Similarly, a former employee may have little or no ability to influence the use of the trade secrets and hence present little likelihood of threatened misappropriation. *See International Bus. Machs. Corp. v. Visentin*, 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011), *aff’d*, 437 F. App’x 53 (2d Cir. 2011) (crediting testimony by the employee’s new supervisor that defendant would not be involved in any new business opportunity which might require or involve the use of plaintiff’s trade secrets); *Patio Enclosures, Inc. v. Herbst*, 39 F. App’x 964 (6th Cir. 2002) (affirming denial of preliminary injunction where defendant had returned all of his former employer’s materials, the only trade secret was short-lived pricing information and there was no evidence that defendant would have authority to alter prices to underbid plaintiff).

#### **5.8.5 Unexplained Evidence of Sudden or Impending Breakthroughs by Defendant Relating to the Trade Secrets**

Trade secret owners often assert that misappropriation is “threatened” based on the defendant’s having apparently achieved a sudden breakthrough in development of a competing product. Because the accused party controls much if not all of the relevant evidence, its failure to come forward with evidence rebutting this claim may bolster the moving party’s *prima facie* case and merit early equitable relief. *See, e.g., Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531, 545 (7th Cir. 2021) (defendant developed its own virtually identical product in a small fraction of the time expert testified it should have taken, and provided no records justifying its rapid development); *WeRide Corp. v. Huang*, 2019 WL 1439394 (N.D. Cal. Apr. 1, 2019) (in response to *prima facie* case of misappropriation, defendants offered only vague or incomplete denials of wrongdoing and no

evidence concerning how they had achieved their advanced capabilities), *modified in part*, 2019 WL 5722620 (N.D. Cal. Nov. 5, 2019), terminating sanctions entered against defendants at 2020 WL 1967209 (N.D. Cal. Apr. 16, 2020)); *see also AtriCure, Inc. v. Meng*, 842 F. App'x 974 (6th Cir. 2021) (not for publication) (in response to plaintiff's *prima facie* case defendants presented no witnesses or other evidence supporting their claim of independent development); *American Can Co. v. Mansukhani*, 814 F.2d 421 (7th Cir. 1987) (evidence that defendant had created its new ink formula within hours of leaving plaintiff's employ supported finding of misappropriation).

While evidence of apparently rapid breakthroughs may make a misappropriation claim "plausible," discovery may reveal benign explanations or may show that the development is not connected to the claimed trade secrets. *See, e.g., Wisk Aero*, 2021 WL 4073760 at \*20 (denying preliminary injunction, finding that "just because development is fast does not mean it is implausibly so; a quick timeline can have explanations other than trade secrets theft"). *Cf. Mallet & Co. Inc. v. Lacayo*, 16 F.4th 364 (3d Cir. 2021) (on remand Court would need to consider defendants' extensive long-term development activities).

#### **5.8.6 The Accused Party's Timely Attention to Developing and Executing Voluntary Measures to Reduce the Risk of Misappropriation**

Where defendant has taken pre-litigation measures to quarantine, appropriately destroy, or return the trade secret information, the Court may conclude that the movant is unable to establish the requisite likelihood of success or a threat of imminent irreparable harm. *See, e.g., Packaging Corp. of Am., Inc. v. Croner*, 419 F.Supp.3d 1059 (N.D. Ill. 2020) (defendant at most was shown to have retained certain documents after resignation which he had subsequently deleted prior to suit and litigation hold obligations and there was no evidence that the documents had been shared with or forwarded to others); *AirFacts, Inc. v. de Amezaga*, 2017 WL 3592440, at \*12 (D. Md. Aug. 21, 2017) (crediting defendant's explanations during evidentiary hearing regarding why he had retained company documents at departure), *aff'd in part, vacated in part*, 909 F.3d 84 (4th Cir. 2018); *American Airlines, Inc. v. Imhof*, 620 F.Supp.2d 574, 582 (S.D.N.Y. 2009) (defendant had returned plaintiff's documents and demonstrated that he would have no need or intention to use any trade secrets for his new employer).

Evidence of a defendant's voluntarily implementation of measures to avoid receiving trade secrets can reduce the likelihood of success on the merits as well as the risk of irreparable harm. *See e.g., International Bus. Machs. Corp. v. Visentin*, 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011), *aff'd*, 437 F. App'x 53 (2d Cir. 2011) (thoughtful job structuring by the new employer had counseled the employee and voluntarily removed him from the areas of greatest risk).

A court is not obliged to deny injunctive relief, however, simply because the defendant asserts that it has taken some steps to avoid future harm. *See, e.g., Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (evidence that defendant had required all new employees to sign an agreement not to use any confidential information or trade secrets of others was insufficient to overcome plaintiff's evidence of misappropriation). Moreover, the failure of any prior preventive measures by the defendant may support a finding that without court-ordered measures, further disclosures would likely occur. *Vendavo, Inc. v. Long*, 2019 WL 4139000, at \*15 (N.D. Ill. Aug. 30, 2019).

#### **5.8.7 Unsupported Assertion that Misappropriation of Trade Secrets Is "Inevitable"**

The term "inevitable disclosure" (more accurately inevitable "misappropriation" or inevitable "use") has been used in some cases as a shorthand way of expressing the conclusion that without

court intervention there is a serious threat that particular information will be used or disclosed without the owner's authorization. *See, e.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), discussed in § 5.8.2. *See Barilla America v. Wright*, 2002 WL 31165069 (S.D. Iowa July 5, 2002) (observing that the “inevitable disclosure” doctrine is one way of showing threatened misappropriation that focuses on the employee’s intent; entering injunction barring employee from accepting employment where plaintiff had taken documents containing trade secrets, provided contradictory and incredible explanations and evidence showed “simply too many indications” that he may use this information to further his career at new employer).

The term has most commonly been used when addressing a request for a court-imposed activity restriction limiting the activities of an employee who is not subject to a noncompete agreement but who knows trade secrets of a former employer and is alleged to have taken a substantially similar position, *see Earthweb, Inc. v. Schlack*, 71 F.Supp.2d 299, 310 (S.D.N.Y. 1999), *aff’d*, 2000 WL 1093320 (2d Cir. May 18, 2000) (referring to “inevitable disclosure” arguments in the absence of a pre-dispute noncompete agreement as the “purest” application of the argument); *Kinship Partners, Inc. v. Embark Veterinary, Inc.*, 2022 WL 72123, at \*6-7 (D. Or. Jan. 3, 2022) (same)). Imposing an activity restriction in this context effectively imposes a noncompete agreement that the parties did not bargain for in advance.

Illustrating that the “doctrine” does not have agreed contours or even always an agreed starting point for its application, some cases, however, have used the term “inevitable disclosure” when determining whether to enforce noncompete agreements. *See, e.g., Polymet Corp. v. Newman*, 2016 WL 4449641, at \*4 (S.D. Ohio 2016) (noting that Ohio’s appellate courts have not granted injunctive relief under the “inevitable disclosure” doctrine in the absence of a restrictive covenant); *Payment Alliance v. Ferreira*, 530 F.Supp.2d 477, 481 (S.D.N.Y. 2007); *International Bus. Machs. Corp. v. Papermaster*, 2008 WL 4974508 (S.D.N.Y. Nov. 21, 2008); *Lumex, Inc. v. Highsmith*, 919 F.Supp. 624, 631 (E.D.N.Y. 1996); *Marcam Corp. v. Orchard*, 885 F.Supp. 294, 297–98 (D. Mass. 1995) (all considering what parties have styled as “inevitable disclosure” arguments in determining whether to enforce restrictive covenants).

This distinction between calling upon the Court to enforce pre-dispute noncompete agreements and asking the Court to enter injunctions to prevent “threatened” misappropriation may help explain why California, which does not enforce most employee noncompete agreements expressly rejected the so-called “inevitable disclosure” theory as an alternative to threatened misappropriation, *Whyte v. Schlage Lock Co.*, 125 Cal.Rptr.2d 277, 101 Cal. App. 4<sup>th</sup> 1443 (2002), but has nevertheless entered activity injunctions under the UTSA and DTSA where the evidence shows that they are necessary to prevent plausibly “threatened” misappropriation. *See, e.g., Waymo v. Uber*, 2017 WL 2123560, at \*10.

As noted above in § 5.2.4, the DTSA has reinforced the need to provide specific evidence to establish a claim “threatened misappropriation” by a departing employee rather than simply asserting that misappropriation is “inevitable” because the employee knows trade secrets. *See, e.g. Idexx Laboratories, Inc. v. Bilbrough*, 2022 WL 3042966, at \*5 (D. Me. Aug. 2, 2022); *ELT Sight, Inc. v. EyeLight, Inc.*, 2020 WL 7862134 (C.D. Cal. Aug. 28, 2020) and *Kinship Partners*, 2022 WL 72123, at \*7 (each holding that the plain language of the DTSA forecloses application of the “inevitable disclosure” doctrine). Although other courts continue occasionally to use the term “inevitable disclosure,” they have been “[c]autious in their application of the doctrine,” requiring that a movant present the required evidence of threatened misappropriation in support of an injunction against a former employee. *See, e.g., Adams v. Stealthbits Techs, Inc.*, 2022 WL 19238 (S.D. Ohio Jan. 3, 2022); *Sunbelt Rentals, Inc. v. Love*, 2021 WL 82370 at \*26 (D. N.J. Jan. 1,



2021) (focusing on the employee's having destroyed documents in response to a temporary restraining order); *Sunbelt Rentals v. McAndrews*, 552 F.Supp.3d 319, 330-31 (D. Conn. 2021) (observing that "the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory" (citations omitted)).

Some courts have avoided the question of whether there are differences between "inevitable" disclosure" and "threatened" misappropriation by finding that the movant has presented evidence establishing both theories, see, e.g., *Mickey's Linen v. Fischer*, 2017 WL 3970593, at \*12–13 (N.D. Ill. Nov. 8, 2017) or that the movant need not rely on the "inevitable disclosure" doctrine because it had presented compelling evidence of threatened misappropriation. Cf. *Smithfield Pkg'd Meats Sales Corp. v. Dietz & Watson, Inc.*, 452 F.Supp.3d 843, 362 (S.D. Iowa 2020).

*Molon Motor and Coil Corporation v. Nidec Motor Corp.* 2017 WL 1954531, at \*5 n.13 (N.D. Ill. May 11, 2017) aptly concluded, when discussing the so-called "inevitable disclosure" doctrine, that "calling a line of reasoning a 'doctrine' poses the risk of ossifying the 'factors' into a rigid test. At bottom, whether a trade secret would be inevitably disclosed is really a question of circumstantial evidence, and those types of questions defy straitjacket formulas." What is evident is that "[s]imply stating that inappropriate use of information is inevitable is not sufficient." *Premier Dealer Svc., Inc. v. Allegiance Administrators, LLC*, 2018 WL 5801283, at \*5 (S.D. Ohio Nov. 6, 2018). Neither is making a bare assertion that future use or disclosure is "threatened." Regardless of the terminology used, what matters, as with all claims seeking equitable relief, is the quality of evidence and reasonable inferences to be drawn therefrom pointing to irreparable harm absent court intervention.

## **5.9 Evaluating Movant's Showing of Irreparable Harm**

Merely establishing a factual basis for a finding that movant is likely to succeed on the merits of its case does not automatically justify injunctive relief. See *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008) (when a plaintiff who demonstrates a strong likelihood of prevailing on the merits shows only a possibility of irreparable harm, a preliminary injunction may not issue). The Court must also evaluate whether absent injunctive relief the movant will likely suffer irreparable harm.

### **5.9.1 Any Asserted Presumption of Irreparable Harm Must Be Supported By (and Can Be Rebutted By) Evidence**

Many litigants argue that once a trade secret claimant establishes a likelihood of success, irreparable harm is "presumed." This relies on the tautology that "a trade secret once lost is gone forever," a phrase often repeated in cases nationally that finds its genesis in *FMC Corp. v. Taiwan Tainan Giant Industrial Col. Ltd.*, 730 F.2d 61, 63 (2d Cir. 1984).

However, *eBay v. MercExchange, LLC*, 547 U.S. 388 (2006) has brought greater attention to whether "presumptions" are ever appropriate when considering requests for injunctive relief. In *eBay*, the United States Supreme Court clarified that, despite a long history to the contrary, entry of a permanent injunction may not be "presumed" in patent and copyright cases and that the party seeking the injunction must satisfy the requirements of Federal Rule of Civil Procedure 65.

After *eBay*, courts have moved away from automatically presuming irreparable harm upon a showing of likely success on a trade secret claim. See, e.g. *Life Spine, Inc. v. Aegis Spine, Inc.*, 8 F.4th 531, 545 (7th Cir. 2021); *First W. Cap. Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1143 (10th Cir. 2017) (noting that the statute does not require injunctive relief on a showing of misappropriation). Although not citing the Supreme Court's decision in *eBay*, the Second Circuit

subsequently revisited its decision in *Taiwan Tainan Giant* and clarified that while some courts within the Circuit had read its “passing observation” in *Taiwan Tainan Giant* to mean that a *presumption* of irreparable harm automatically arises upon a finding of likely misappropriation,

That reading is not correct. A rebuttable presumption of irreparable harm might be warranted in cases where there is a danger that, unless enjoined, a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets. Where a misappropriator seeks only to use those secrets—without further dissemination or irreparable impairment of value—in pursuit of profit, no such presumption is warranted because an award of damages will often provide a complete remedy for such an injury.

*Faiveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 118-119 (2d Cir. 2009).

Thus, while a trade secret once “lost” is, by definition, gone forever, decisions increasingly expressly focus on whether in a given dispute the evidence and reasonable inferences therefrom establishes that a trade secret is actually at imminent risk of being lost absent injunctive relief, rather than simply relying on a “presumption” of irreparable harm. *See, e.g., All Star Recruiting Locums, LLC v. Ivy Staffing Sols., LLC*, 2022 WL 2340997 (S.D. Fla. Apr. 8, 2022) (holding that there is no “presumption” of irreparable harm under DTSA, but finding factual basis for granting limited preliminary injunctive relief); *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F.Supp.3d 1198, 1208 (E.D. Cal. 2020) (stating that “this court joins those district courts who have declined to rely on a presumption in determining irreparable harm in the intellectual property context” but finding that evidence presented established a likelihood of irreparable harm); *Titan Mfg. Sols., Inc. v. National Cost, Inc.*, 2019 WL 3205955, at \*2 (D. Colo. July 16, 2019) (holding that generic claims and “mantra-like” invocations that particular information is a trade secret at risk and that once the details have been disclosed “it is difficult—if not impossible—to control [their] dissemination” is not sufficient to carry plaintiff’s burden of establishing irreparable harm) (alteration in original); *Brightview Grp., LP v. Teeters*, 441 F.Supp.3d 115, 138 (D. Md. 2020) (observing that the Fourth Circuit appears to require “an individualized analysis of irreparable harm on a case-by-case basis” (citation omitted)); *TomGal LLC v. Castano*, 2022 WL 17822717 at \*4 (S.D.N.Y. Dec. 19, 2022) (following *Faiveley* in not applying a presumption and concluding that evidence did not support a finding of irreparable harm in trade secret action). *Cf. Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451, at \*12 (N.D. Ill. July 13, 2020) (holding that while within the Northern District of Illinois there appears to be a presumption of irreparable harm in cases of trade secret misappropriation, the presumption “can be rebutted by the defendant by ‘demonstrating that [the] plaintiff will not suffer any harm if the injunction is not granted’” (citations omitted)); *but see Gatti v. Granger Medical Clinic, P.C.*, 529 F.Supp.3d 1242 (D. Utah 2021) (finding that under the Utah Supreme Court’s interpretation of the UTSA, a plaintiff is entitled to a presumption of irreparable harm based on past misappropriation without showing ongoing or threatened use of trade secrets).

*Faiveley* should not be read to create its own “mantra” that ongoing or threatened “use” of a trade secret cannot constitute irreparable harm. Evidence may support the conclusion that such use will lead to injury that cannot be repaired or quantified, making it “irreparable” and that injunctive relief is appropriate. *See* §§ 5.9.3.2, 5.9.3.3.

### **5.9.2 Contractual Presumptions of Irreparable Harm Are Usually Not Dispositive**

Many contracts for sharing trade secrets, whether with employees or other organizations, contain an “acknowledgment” that any breach of contractual confidentiality obligations “will result in irreparable injury” that cannot be quantified. Some courts take such acknowledgments into account, particularly on motions for early injunctive relief, concluding that such contractual recitals reflect an advance and agreed-upon assessment by the parties that the Court will not disturb absent good cause. *See CPI Card Grp. Inc. v. Dwyer*, 294 F.Supp.3d 791, 817 (D. Minn. 2018) (applying Delaware law and collecting Delaware precedent); *Cintas Corp. v. Perry*, 2004 WL 2032124 (N.D. Ill. Aug. 20 2004). This conclusion may be particularly appropriate where the contract is between organizations with presumptively commensurate bargaining power.

The increasingly common approach, however, is to hold that the force of any “presumption” is a matter of law to be determined by the Court, not by the parties as a stipulation of fact. *See Cabela’s LLC v. Highby*, 362 F.Supp.3d 208, 224 (D. Del. 2019), *aff’d*, 801 F. App’x 48 (3d Cir. 2020); *York Risk Servs. Grp. Inc. v. Couture*, 787 F. App’x 301, 308 (6th Cir. 2019) (unpublished) (“At most, the court cited the contractual provision as one piece of evidence in support of a finding of irreparable harm, which is permissible.”); *Dominion Video Satellite, Inc. v. Echostar Satellite Corp.*, 356 F.3d 1256, 1266 (10th Cir. 2004) (“[w]hile courts have given weight to parties’ contractual statements regarding the nature of harm and attendant remedies that will arise as a result of a breach of a contract, they nonetheless characteristically hold that such statements alone are insufficient to support a finding of irreparable harm and an award of injunctive relief” (collecting cases)); *Dragon Jade Intl., Ltd. v. Ultroid, LLC*, 2018 WL 1833160, at \*4 (M.D. Fla. Jan. 30, 2018) (such an acknowledgement “is not dispositive of the issue of irreparable harm, does not in and of itself create a presumption of irreparable harm, nor is it binding upon the Court”); *Spark Connected, LLC v. Semtech Corp.*, 2019 WL 4305735, at \*6 (E.D. Tex. Sept. 10, 2019) (notwithstanding the contractual acknowledgement, movant “must demonstrate the threat of irreparable harm by independent proof or no injunction may issue” (citations omitted)); *Mercer Health & Benefits LLC v. DiGregorio*, 307 F.Supp.3d 326 (S.D.N.Y. 2018) (finding that contractual provisions can support a finding of irreparable harm but are not dispositive); *Versata Software, Inc. v. Internet Brands, Inc.*, 2012 WL 3075167 (E.D. Tex. July 30, 2012) (relying on *eBay*, 547 U.S. 38, in concluding that “the parties cannot invoke the equity powers of this Court by consent.”). Similarly, it has been held that a contract provision that “entitles the plaintiff to a *per se* finding of irreparable harm . . . runs contrary to the sort of case-by-case analysis courts engage in” and could lead to absurd results. *Int’l Creative Mgmt., Inc. v. Abate*, 2007 WL 950092, at \*6–7 (S.D.N.Y. Mar. 28, 2007).

### **5.9.3 Facts Supporting or Negating a Finding of Irreparable Harm**

Courts have held that irreparable harm may be found or even “presumed” in specific trade secret cases where plaintiff has presented evidence plausibly showing misappropriation that is likely to be difficult to undo or quantify—that is, when the movant has established a factual basis for a finding that irreparable harm will occur absent the requested relief.

#### **5.9.3.1 Evidence that Accused Party Retains Trade Secrets and Has Not Returned Them Despite Request**

Where the evidence shows that unless restrained, the defendant has the ability and will continue to misappropriate trade secrets, preliminary injunctive relief may be warranted. Thus, in *Waymo v. Uber*, where the record at the time of the preliminary injunction hearing was that a former employee remained in possession of confidential files at least some of which likely contained Waymo’s trade secrets, the Court found that “[m]isuse of that treasure trove remains an ever-

present danger wholly at his whim” absent relief. 2017 WL 2123560, at \*10. The Court also found that plaintiff had established a risk of irreparable harm and ordered preliminary injunctive relief in *Brightview Group, LP v. Teeters*, 441 F.Supp.3d 115 (D. Md. 2020), where evidence showed that the employee defendants had downloaded files containing trade secrets and transferred them to a new employer’s computer system and one defendant testified that “maybe” he would use the information if it were available. Other cases finding irreparable harm based on employee’s retention of trade secret documents include *Genentech, Inc. v. JHL Biotech, Inc.*, 2019 WL 1045911, at \*19 (N.D. Cal. Mar. 1, 2019); *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F.Supp.3d 1198 (E.D. Cal. 2020); *OmniGen Research, LLC v. Wang*, 2017 WL 5505041, at \*22 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018).

The Court is not required to accept defendant’s assertions that it has stopped using plaintiff’s trade secrets. *See, e.g., ClearOne Commc’ns, Inc. v. Chiang*, 608 F.Supp.2d 1270, 1279–81 (D. Utah 2009) (given defendants’ extensive prior bad acts, their assurances did not eliminate the imminent threat of irreparable harm), *aff’d in part*, 643 F.3d 735 (10th Cir. 2011).

However, not every past misappropriation is irreparable or evidences a risk of ongoing harm. *See DTC Energy Grp., Inc. v. Hirschfeld*, 912 F.3d 1263, 1271 (10th Cir. Dec. 28, 2018) (preliminary injunction denied in spite of misappropriation of documents on thumb drive, because the device had been sequestered with a forensics analyst.); *Synergy Advanced Pharmaceuticals, Inc. v. CapeBio, LLC*, 2010 WL 2194809 (S.D.N.Y. June 1, 2010) (denying preliminary injunction where evidence made it uncertain that any product made through the use of plaintiff’s trade secrets would be released soon, or ever).

#### **5.9.3.2 Evidence of the Difficulty of Reversing the Effects of Any Ongoing Misappropriation**

Once the plaintiff has established a *prima facie* case of misappropriation, “undoing” the misappropriation after trial, such as by directing that misappropriated information be disentangled from the accused party’s operations, may not be feasible. This can point to the need for preliminary relief to prevent the entanglement. For example, see *Waymo v. Uber*, 2017 WL 2123560, at \*10: trying to separate the tainted from the untainted after trial “will be a bone crushing endeavor. And even then, it may prove impossible to fully restore the parties to their respective competitive positions as if no misappropriation had occurred.” To the same effect, citing *Faiveley*, *see Genentech v. JHL Biotech*, 2019 WL 1045911, at \*19; *Esquire Deposition Services LLC v. Boutout*, 2009 WL 1812411 (D.N.J. June 29, 2009) (citing *Faiveley* and granting injunction where movant presented evidence that defendant had removed and accessed over 600 computer files and was using them to divert customers).

#### **5.9.3.3 Evidence of the Difficulty of Quantifying Damages Caused by Misappropriation**

If the movant has an adequate remedy at law, i.e., damages, the harm is not “irreparable” and ordinarily preliminary injunctive relief should not be granted. As with other aspects of equitable relief, the movant bears the burden of submitting evidence of a credible risk of irreparable harm rather than simply relying upon generalized invocations of the phrase. Economic experts may be enlisted to provide opinions regarding the issue, although tactical concerns over their ability at trial to provide credible reports in support of a claim for damages may limit the scope and utility of their inputs at the preliminary injunction stage.

Courts have found that irreparable harm is especially likely where the evidence shows that customers, once lost to a competitor through misappropriation, will be difficult to win back, making actual loss difficult to identify and quantify. *See Life Spine, Inc. v. Aegis Spine, Inc.*, 2021 WL 963811, at \*22 (N.D. Ill. Mar. 15, 2021), *aff'd* 8 F.4th 531 (7th Cir. 2021); *Variable Annuity Life Ins. Co. v. Coreth*, 535 F.Supp.3d 488, 518 (E.D. Va. 2021); *Peoplestrategy, Inc. v. Lively Employer Svcs., Inc.*, 2020 WL 7930 at \*5 (D. N.J. Dec. 9, 2020). *See also ExpertConnect, LLC v. Fowler*, 2018 WL 11264885 (S.D.N.Y. July 25, 2018) (affirming grant of preliminary injunction where defendants had not only used movant's trade secrets but also disclosed them, threatening to permanently impair their value); *Waymo v. Uber*, 2017 WL 2123560, at \*11 (emphasizing difficulty of estimating loss of competitive position in "nascent industry").

As in other aspects of trade secret disputes courts have insisted on evidence and rejected conclusory assertions that the misappropriation will impair plaintiff's goodwill "in an amount that is impossible to calculate." *See, e.g., ABC Phones of North Carolina, Inc. v. Yahyavi*, 2020 WL 1668046, at \*4 (E.D.N.C. Apr. 3, 2020); *Katch, LLC v. Sweetser*, 143 F.Supp.3d 854, 875 (D. Minn. 2015) (plaintiff had offered no explanation as to why damages would be impossible to measure or any more difficult than in any other situation in which a party claims damages based on lost profits); *Sky Capital Grp., LLC v. Rojas*, 2009 WL 1370938, at \*12–13 (D. Idaho May 14, 2009) (damages and harms movant alleged were simply generalized threats of lost revenue and profits which could be adequately addressed by monetary relief); *Rapco Foam, Inc. v. Scientific Applications, Inc.*, 479 F.Supp. 1027, 1031 (S.D.N.Y. 1979) (claim of "loss of competitive advantage" insufficient without evidence concerning plaintiff's position in the marketplace and the nature of competition within that market).

#### **5.9.4 Impact of Plaintiff's Delay on Claim of Irreparable Harm**

Delay in seeking equitable relief may be a factor weighing against a finding of irreparable harm. Even when delay is insufficient to establish laches, courts have found that "failure to act sooner undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury." *Southtech Orthopedics, Inc. v. Dingus*, 428 F.Supp.2d 410, 420 (E.D.N.C. 2006) (six to nine week delay in seeking injunction to enforce noncompete agreement to protect, among other things, trade secrets, weighed against claim of irreparable harm); *see TomGal LLC v. Castano*, 2022 WL 17822717 at \*4 (S.D.N.Y. Dec. 19, 2022) (finding that "[t]he plaintiffs' deficient showing of irreparable harm is further supported by their significant delay [seven months from learning of the alleged misappropriation and five months after negotiations had broken down] in filing the current action; and noting that a significant delay in moving for a preliminary injunction 'may, standing alone, . . . preclude the granting of preliminary injunctive relief, because the failure to act sooner undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury'" (citation omitted)); *Applied Materials, Inc. v. LTD Ceramics, Inc.*, 2002 WL 971721 (N.D. Cal. Mar. 22, 2002) (finding a one-year delay for pre-filing investigation, plus seven months after filing, inconsistent with claim of irreparable harm). *Cf. SRS Acquiom Inc. v. PNC Fin. Svcs. Grp., Inc.*, 2020 WL 3256883, at \*3 (D. Colo. Mar. 26, 2020) (holding that a delay of over a year in bringing suit requires a "particularly strong" showing of likelihood of success on the merits and balance of hardships). However, courts have also recognized that the need to complete a specific investigation or to engage in settlement discussions can adequately explain a delay. *See BP Chemicals Ltd. v. Formosa Chem. & Fibre Corp.*, 229 F.3d 254 (3d Cir.

2000) (good faith efforts to investigate and determine the seriousness of suspected misappropriation).

### **5.10 Assessing and Balancing the Comparative Hardships on the Parties**

Equitable principles require the Court to consider the impact of proposed relief not only on the movant but also on the party to be enjoined. This analysis may lead the Court to determine that the requested injunctive relief is not warranted. *MPay Inc. v. Erie Custom Computer Applications, Inc.*, 970 F.3d 1010, 1020–21 (8th Cir. 2020) (denying preliminary injunction in light of the “significant harm” to non-movants of preventing use of software that is core to their business); *Katch, LLC v. Sweetser*, 143 F.Supp.3d 854, 876 (D. Minn. 2015) (requested relief would prevent an individual from engaging in any work in a field to which he or she has devoted significant training and experience).

In other cases, where the Court determines that some relief is appropriate but is likely to lead to material hardships or impose undue costs on the nonmoving party, it may be possible to incorporate counterbalancing measures to mitigate the harm.

#### **5.10.1 Establishing a Fixed Commencement Date or Termination Date for Interim Equitable Relief or Advancing the Trial Date**

In particular cases, the Court may balance the hardships by exercising its discretion to establish the commencement or termination date of the order. For example, where an employee defendant may require time to disentangle from activities the Court finds could put trade secrets at risk or to seek other employment, the Court may give the employee a “grace period” before the full restrictions come into effect. *See Uncle B’s Bakery, Inc. v. O’Rourke*, 920 F.Supp. 1405, 1438–39 (N.D. Iowa 1996) (emphasizing that any violation of nondisclosure restrictions “either during this thirty-day grace period or afterwards, during the pendency of the preliminary injunction, will be punished as contempt by the severest sanctions of which this Court can avail itself”); *Peoplestrategy, Inc. v. Lively Employer Svcs., Inc.*, 2020 WL 7237930 (D. N.J. Dec. 9, 2020) (on motion for reconsideration, granting defendants more time to comply with preliminary injunction to enable customers to transition to new service providers subject to measures designed to protect the trade secret during this period).

Authorizing a “design around” period in trade secret disputes giving the defendant time to implement an alternative approach that does not rely upon the information alleged to have been misappropriated is not as common in trade secret disputes as in some patent disputes, in part because of the potential evidentiary difficulty in determining whether the proposed alternative has been “derived from” the misappropriated secret or developed in a truly “clean” environment. Resolving that issue will require not simply scrutiny of the “new” product or process but also assessment of how it was developed since misappropriation of trade secrets does not require “replication” of the secret. *Cf. Oakwood Laboratories, LLC v. Thanoo*, 999 F.3d 892, 908-10 (3d Cir. 2021). Evidence of a post-hearing “design around” during the time the preliminary injunction is in effect may be better presented by the defendant on a request to modify the injunction.

While preliminary injunctive relief often remains in effect until trial, this need not be the case, particularly if the Court’s schedule does not permit the trial to be scheduled promptly. The Uniform Trade Secrets Act provides that “an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.” UTSA §2(a). While the DTSA does not contain this language, in its exercise of its equitable

discretion the Court may determine the duration of a preliminary injunction taking into account such factors as evidence of whether and when the trade secret will become generally known by reason of the claimant's own acts (such as by releasing a product to market that reveals the trade secret or through the publication of a patent application disclosing the trade secret) and the likely lead time advantage defendant obtained by means of the misappropriation.

Crafting preliminary injunctive relief to be in effect only for a specific duration rather than through trial on the merits can both reflect the projected "life" of the trade secret (and of the unfair advantage gained through its misappropriation) and help to balance the hardships that may arise from a grant of interim equitable relief. *See Peoplestrategy*, 2020 WL 7869214, at \*8, \*11 (unpublished) (entering preliminary "head start" injunction restricting defendant from soliciting the business particular clients where plaintiff had established misappropriation but limiting duration of preliminary injunction to one year in light of defendants' prior relevant experience in the industry), *reconsideration denied*, 2020 WL 7237930 (D.N.J. Dec. 9, 2020); *Executive Consulting Grp., LLC v. Baggot*, 2018 WL 1942762, at \*10 (D. Col. Apr. 25, 2018) (period of nine months or "through the trial of this matter," whichever is earlier); *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995) (five months from entry of the order, finding that "the injunction against [defendant's new employment at plaintiff's subsidiary] extends no further than necessary").

The Court can alternatively limit the duration of a preliminary injunction by expediting trial on the merits. *See, e.g., Netlist, Inc. v. Diablo Tech., Inc.*, 2015 WL 153724 (N.D. Cal. Jan. 12, 2015) (advancing trial date to less than three months after entry of the preliminary injunction preventing defendant from manufacturing, using, distributing and/or selling certain integrated circuits); *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 64 (2d Cir. 1984) (given impact on individual's ability to make a living, remanding for expedited discovery and trial to be set as early as possible). *Cf. Maxum Petroleum, Inc. v. Hiatt*, 2016 WL 5496283 (D. Conn. Sept. 28, 2016) (denying temporary restraining order for failure to establish irreparable harm, but in light of alleged urgency, setting case down for expedited discovery and early trial to be consolidated with preliminary injunction hearing). In *Bimbo Bakeries USA, Inc. v. Botticella*, 2010 WL 571774, at \*17 (E.D. Pa. Feb. 9, 2010), recognizing the potential adverse impact of an order prohibiting defendant from taking a job until after trial, the District Court scheduled a trial for two months after entry of the preliminary injunction award. Defendant chose instead to file an appeal, which had the practical effect of extending the period of the injunction. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 104 (3d Cir. 2010).

#### **5.10.2 Ordering Compensation to an Employee Whose Activities Are Enjoined During the Period of the Injunction**

When an order will impose activity restrictions on a former employee, an agreement between the parties may already require that the former employer compensate the employee for the period of the restriction to mitigate the hardship caused by an injunction. *See, e.g., Estée Lauder Cos., Inc. v. Batra*, 430 F.Supp.2d 158, 182 (S.D.N.Y. 2006) ("Here the risk of Batra's loss of livelihood is entirely mitigated by the fact that Estée Lauder will continue to pay Batra his salary of \$375,000 per year for the duration of the 'sitting out' period"); *Lumex, Inc. v. Highsmith*, 919 F.Supp. 624, 628 (E.D.N.Y. 1996) (potential harm to employee from injunction enforcing a restrictive covenant was mitigated because the contract required former employer to make payments equal to his monthly base pay together with insurance premiums); *Marcam Corp. v. Orchard*, 885 F.Supp.

294, 298 (D. Mass. 1995) (no imbalance of harm since former employer had agreed to pay employee 110% of the salary offered by the new employer).

Where a preexisting contractual payment obligation is not in place, the Court may conclude that any potential hardship to the defendant is most appropriately addressed by means of the bond. *See, e.g., Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 68–69 (2d Cir. 1999) (finding that payment during the period of the injunction was not warranted where the contract did not require it and defendant had been highly compensated during employment). However, the Court has discretion to order the movant to pay a portion of the employee’s compensation during the injunction period to balance hardships and address the potential economic harm to defendant from the loss of compensation during an injunction. *See, e.g., Ayco Co., L.P. v. Feldman*, 2010 WL 4286154 (N.D.N.Y. Oct. 22, 2010) (enforcing 90-day noncompete agreement where former employer stipulated in Court that it would pay employee his base salary if an injunction issued); *Emery Indus., Inc. v. Cottier*, 1978 WL 21419, at \*10 (S.D. Ohio Aug. 18, 1978) (requiring plaintiff to compensate the employee during the period of the injunction). *Cf. Katch, LLC v. Sweetser*, 143 F.Supp.3d 854, 871 (D. Minn. 2015) (recognizing plaintiff’s effort to reduce harm to defendant by offering to pay normal salary during pendency of injunction, but nonetheless denying request for injunction imposing activity restraint as not warranted by the evidence). Courts may also consider balancing harms by ordering the *new employer* to pay the employees’ salaries during the injunction period, where the new employer’s actions contributed to the basis for relief. *See Intertek USA Inc. v. AmSpec LLC*, at \*8 (N.D. Ill. Sept. 11, 2014).

### **5.11 Evaluating the Public Interest**

Virtually all trade secret disputes present an interplay of high level competing public policies. On one hand, as the Supreme Court has recognized, trade secret law reflects a strong policy in favor of protecting commercial secrets as a way of encouraging innovation and enforcing standards of commercial morality. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482 (1974). On the other hand, the law recognizes compelling interests in encouraging competition through the liberal exchange of ideas and information without imposing unwarranted restrictions on the right of persons to engage in businesses and occupations of their choosing. *See Bimbo Bakeries USA*, 613 F.3d at 119 (observing that “there is a public interest in employers being free to hire whom they please and in employees being free to work for whom they please,” and that Pennsylvania courts “consider the right of the employee to be the more significant” (citing cases)).

In many trade secret cases, the public interest factor is neutral. Applications for injunctive relief that simply broadly assert without substantiation either that “the public is served in protecting the standards of commercial morality” or that “the public is served by fostering employee mobility” do not help judges decide cases. Any claim of adverse consequences to third parties must be supported, as is true of all the other equitable relief factors, by evidence, not simply generalized assertions. *See Life Spine, Inc. v. Aegis Spine, Inc.*, 2021 WL 1750173, at \*2 (N.D. Ill. May 4, 2021) (rejecting unsupported argument that “the public interest in accessibility to and lower prices for medical devices weighs toward a stay” since evidence presented at preliminary injunction hearing suggested that the relevant market was already extremely competitive). In other cases, evidence may establish that one of these policies looms large, meriting special consideration by the Court. The key for the parties and the Court is to focus on evidence rather than clichés in evaluating the public interest factor.

### **5.12 Determining the Proper Scope of Injunctive Relief**



Preliminary injunctive relief should be no broader than necessary. A broad order requires greater evidentiary support than a narrow order. *See, Mallet & Co. v. Lacayo*, 16 F.4th 364, 389 (3d Cir. 2021) (“[t]he description of the conduct enjoined should be narrowly tailored to reach only those acts that closely relate to the unlawful conduct giving rise to an entitlement to injunctive relief.”); *Faiveley Transport Malmö AB v. Wabtec Corp.*, 559 F.3d 110, 119 (2d Cir. 2009) (“[i]n cases where the presumption applies (and has not been rebutted) or where irreparable injury has been demonstrated,” “a ‘narrowly drawn’ preliminary injunction that protects the trade secret from further disclosure or use may be appropriate. In all cases, the relief should be ‘narrowly tailored to fit specific legal violations’ and to avoid ‘unnecessary burdens on lawful commercial activity’” (citing *Waldman Publ’g Corp. v. Landoll, Inc.*, 43 F.3d 775, 785 (2d Cir. 1994))). Thus, for example, restrictions on using trade secrets to acquire the patronage of customers may, depending on the evidence presented, appropriately be limited to particular customers. Preliminary restraints before trial on using trade secrets to engage in a particular technical field only rarely require the enjoined party or its privies to exit a broad field altogether. *See, e.g. Waymo LLC v. Uber Technologies, Inc.*, 2017 WL 2123560, at \*13-14 (N.D. Cal. May 15, 2017) (enjoining individual former employee from having any responsibility in one aspect of autonomous vehicle technology but not enjoining defendant organization from engaging in such work so long as it had no relevant input from the individual).

In arriving at the appropriate scope of relief, factors the courts have considered include, among other things, evidence concerning:

- the nature and scope of the trade secret(s) at issue—trade secrets in fields in which there is much public information typically merit narrower injunctive relief. *See, e.g., American Can Co. v. Mansukhani*, 742 F.2d 314, 326 (7th Cir. 1984), *subsequent decision on contempt*, 814 F.2d 421 (7th Cir. 1987)
- the extent to which defendant has been shown to be likely to need and use the information at issue
- the egregiousness of established violations, the likelihood of a future threat to the trade secrets, and the extent to which defendants have previously engaged in concealment, with broader relief potentially being granted in the face of significant wrongdoing or where the information at issue remains in the defendant’s possession
- the extent to which defendant has engaged in independent development
- the extent to which injunctive relief may impinge upon an individual’s right to use information that is part of her “general skill, knowledge and experience” rather than movant’s trade secrets, *see Mallet & Co. v. Lacayo*, 16 F.4th at 387

Where a plaintiff seeks an injunction to limit particular employment activities by a former employee and the defendant is subject to a noncompete or similar agreement, the Court will need to consider whether the contractual restrictions are enforceable under applicable state law and whether injunctive relief is available to enforce the contract even if unavailable under trade secret law.

If the Court concludes that equitable relief is necessary, the Court has discretion to frame the order to prevent circumvention, including through the use of terms explicitly preventing the enjoined party from using, disclosing, licensing, transferring, selling, or offering to sell the trade secret and, as appropriate, products or processes incorporating the trade secret, or assisting others to do the prohibited acts. It has been observed that “[a]n injunction should be ‘tailored to eliminate only the specific harm alleged,’ but it should not be ‘so narrow as to invite easy evasion.’” *Skydive Arizona, Inc. v. Quattrocchi*, 673 F.3d 1105, 1116 (9th Cir. 2012). *Cf. Minnesota Mining & Mfg.*

*v. Pribyl*, 259 F.3d 587, 598 (7th Cir. 2001) (broad permanent injunction was justified by defendants' prior misconduct; evasive actions suggested that "no opportunity for loopholes should be allowed. . . . 'If narrow literalism is the rule of interpretation, injunctions will spring loopholes, and parties in whose favor injunctions run will be inundating courts with requests for modification in an effort to plug loopholes.'") (citations omitted)); *Arminius Schleifmittel GmbH v. Design Indus., Inc.* 2007 WL 534573, at \*7 (M.D.N.C. Feb. 15, 2007) (given the evidence of defendants' prior unauthorized disclosure and use of trade secrets, broad relief was justified prohibiting defendants from offering a product incorporating the misappropriated trade secret designs and even prohibiting two defendants from entering the corporate defendant's business premises); *see also* § 2.6.1.2.3.

### **5.13 Crafting the Injunction Order: Identifying with Particularity the Trade Secrets as to which Injunctive Relief Is Granted in a Sealed Attachment**

Most injunctions in trade secret disputes contain a requirement that the party to be enjoined not use or disclose trade secrets. Identifying trade secrets is not simply the job of the movant; to place defendant on notice of the obligations and to permit enforcement of the order, the order itself must identify the secrets. *Mallet & Co. Inc. v. Lacayo*, 16 F.4th 364, 388-389 (3d Cir. 2021) (vacating and remanding for further assessment and identification of the trade secrets; if on remand District Court determines preliminary injunctive relief to be appropriate, requiring District Court to sufficiently define them and narrowly tailor scope of injunction since "basic fairness requires that those enjoined receive explicit notice of precisely what conduct is outlawed"); *Corning Inc. v. PicVue Elecs., Ltd.*, 365 F.3d 156, 157-58 (2d Cir. 2004) (vacating and remanding preliminary injunction order that did not specify trade secrets); *E.W. Bliss Co. v. Struthers-Dunn, Inc.*, 408 F.2d 1108, 1113-17 (8th Cir. 1969) (holding that injunction against "using or disclosing trade secrets and confidential technical information" was too vague to give fair notice of what was being enjoined).

To avoid public disclosure of the specified trade secrets, courts frequently give the parties an opportunity to jointly redact confidential information from the public order and include the list of trade secrets in a sealed attachment to be shared only with those to be bound by the injunction order. *See, e.g., Brightview Grp., LP v. Teeters*, 441 F.Supp.3d 115 (D. Md. 2020) (preliminarily enjoining defendants from accessing, using, disclosing or disseminating documents referenced in a sealed appendix to the Order); *preliminary injunction modified in permanent injunction at Brightview Grp., LP v. Teeters*, 2021 WL 1238501 (D. Md. March 29, 2021). *Cf. Henry Hope X-Ray Prods., Inc. v. Marron Carel, Inc.*, 674 F.2d 1336, 1343 (9th Cir. 1982) (approving use of sealed attachment setting forth trade secrets in order for permanent injunction); *Capstone Logistics Holdings*, 838 F. App'x 588, 590 (2d Cir. 2020) (finding that the "better practice" is for the District Court to enter its permanent injunction in a separate document).

### **5.14 Crafting Findings of Fact and Conclusions of Law to Support Pre-Trial Injunctive Relief**

FED. R. CIV. P. 65(d) requires the Court to state the reasons why an order is being entered. Rule 52(a)(1) provides that such findings and conclusions may be stated on the record. Generally, a District Court is required to make specific findings concerning each of the four factors for equitable relief, "unless fewer are dispositive of the issue." *Performance Unlimited, Inc. v. Questar Publishers, Inc.*, 52 F.3d 1373, 1381 (6th Cir. 1995), relied upon in *Brake Parts, Inc. v. Lewis*, 443 F. App'x 27 (6th Cir. 2011) (trade secrets case).

When emergency injunctive relief is sought early in a case, the movant will often present a proposed form of order that provides at least a high-level statement of reasons for the relief in conjunction with the filing of its moving papers. At later phases of a dispute, many courts find it convenient to request that the parties submit proposed written findings of fact and conclusions of law for consideration. Such documents can help ensure that the Court does not omit material findings or slip inadvertently into error, particularly regarding technical evidence. Framing such documents can help the parties focus on the areas on which they may agree and can serve as a “checklist” for the parties and the Court that the necessary proof has been presented.

However, courts will necessarily conduct independent review of such proposed findings and conclusions, as the final decision will become the findings of the Court. While on occasion courts have adopted proposed findings and conclusions of one of the parties nearly verbatim, and this fact does not by itself necessarily constitute reversible error, the reviewing Court may subject such findings to heightened review. *See PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, n.4 (7th Cir. 1995). Further, where an order incorporated movant’s proposed factual findings referring to listed exhibits and transcript pages without explanation of their significance, it has been found to fail to comply with the requirements of FED. R. CIV. P. 65(d)(1) that an injunction must describe in reasonable detail—and not by referring to the complaint or other document—the act or acts restrained or required.” A reviewing Court may be unable to discern the trial Court’s reasoning or the specific evidence on which it has relied. *See Mallet & Co.*, 16 F.4th at 377, 383 n.23.

Appendix 5.5. contains a template outlining elements to be addressed in a preliminary injunction order.

### **5.15 Injunction Bond**

An interim injunction may have dramatic economic consequences for the party enjoined. An enjoined party could suffer lasting injury from an injunction that was granted on an incomplete factual and legal record. To provide security against the damages caused by an improvidently granted pre-trial injunction, the Court “may issue a preliminary injunction or a temporary restraining order only if the movant gives security in an amount that the Court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained.” FED. R. CIV. P. 65(c).

The bond generally serves as a cap on the damages a wrongfully enjoined party can recover. *See* 13 MOORE’S FEDERAL PRACTICE § 65–94.1 (3d. ed. 1997). Accordingly, “the consequences” could be “dire if district courts were to significantly underestimate the economic impact of an injunction it issues,” remanding for further consideration of bond); *Mallet & Co.*, 16 F.4th at 391; *Life Spine, Inc. v. Aegis Spine, Inc.*, 2021 WL 963811, at \*23–24 (N.D. Ill. Mar. 15, 2021), *aff’d* 8 F.4th 531 (7th Cir. 2021). Projected recoverable damages must arise from the operation of the injunction itself, not from the suit independently of the injunction, and must not be remote or speculative. *Brightview Grp., LP v. Teeters*, 441 F.Supp.3d 115, 144–45 (D. Md. 2020) (preliminary injunction decision; summarizing general precedents on injunction bonds).

#### **5.15.1 Need for and Amount of a Bond**

Some circuits have held that a bond must be imposed in every case in connection with a preliminary injunction. *See Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 421 (4th Cir. 1999) (trade secret case) (holding that Rule 65(c) “is mandatory and unambiguous. Although the district court has discretion to set the bond amount ‘in such sum as the court deems proper,’ it is not free to disregard the bond requirement altogether.” (internal citations omitted)); *Zambelli*

*Fireworks Mfg. Co. v. Wood*, 592 F.3d 412, 426 (3d Cir. 2010) (“[w]e have never excused a district court from requiring a bond where an injunction prevents commercial, money-making activities”). Other circuits have interpreted the second half of the FED. R. CIV. P. 65(c) (requiring that the bond be “in an amount that the court considers proper[.]”) as rendering the amount of the bond and, more significantly, whether a bond is required at all, within the discretion of the district court. See *RECO Equip., Inc. v. Wilson*, 2021 WL 5013816 (6th Cir. Oct. 28, 2021) (stating that “[t]hough Rule 65(c)’s language suggests security is mandatory, our circuit has long recognized a district court’s discretion over *whether* to require the posting of security. In other words, a lower court can expressly choose not to require security. But it must affirmatively do so—it can’t ignore the issue altogether.” (citations omitted) (emphasis in original); remanding for consideration of whether security should be ordered and if so the amount); see also 11A CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE & PROCEDURES CIV. § 2954, at 524 (2d ed.) (noting that “[t]he mandatory nature of the security requirement is ameliorated by the remaining portion of the first sentence of Rule 65(c), which states that the security be ‘in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained’”).

The amount of the bond “ordinarily depends on the gravity of the potential harm to the enjoined party.” *Hoechst Diafoil*, 174 F.3d at 421 n.3 (listing factors courts consider in determining the bond amount in trade secret cases). Thus, a bond will typically be larger when an injunction impacts the operation of a business, see, e.g., *Genentech, Inc. v. JHL Biotech, Inc.*, 2019 WL 1045911, at \*22 (N.D. Cal. Mar. 5, 2019) (imposing a bond of \$50 million in connection with order enjoining defendants from using information to develop particular drugs given evidence of the market for those products); *Life Spine, Inc. v. Aegis Spine, Inc.*, 2021 WL 963811, at \*23–24 (N.D. Ill. Mar. 15, 2021), *aff’d* 8 F.4th 531 (7th Cir. 2021) (ordering bond of \$6 million in connection with entry of a preliminary injunction preventing defendant from developing, manufacturing, marketing, distributing, or selling its competing line of surgical devices pending trial; subsequently denying request to increase amount of bond as being unsubstantiated, No. 1:19-CV-07092, Dkt. No. 393 (N.D. Ill. May 23, 2022)); *Waymo LLC v. Uber Techs., Inc.*, 2017 WL 2123560, at \*14 (N.D. Cal. May 15, 2017) (conditioning injunction directing return of documents and limiting one employee’s work on the relevant technology on the posting of a \$5 million bond); *Systems Spray-Cooled, Inc. v. FCH Tech, LLC*, 2017 WL 2124469 (W.D. Ark. May 16, 2017) (conditioning preliminary injunction enjoining defendants from using or disclosing plaintiff’s design drawings and worksheets on posting of a \$5 million bond); *International Bus. Machs. Corp. v. Papermaster*, No. 08-CV-9078-KMK, Dkt. No. 22 (S.D.N.Y. Nov. 13, 2008) (setting bond in the amount of \$3 million after post-hearing briefing in connection with an injunction enforcing a highly compensated executive’s noncompete agreement to protect trade secrets).

Courts have imposed no or only a nominal bond in trade secret cases awarding only limited injunctive relief. See *Pyro Spectaculars N., Inc. v. Souza*, 861 F.Supp.2d 1079, 1098 (E.D. Cal. 2012) (no bond); *Tesla, Inc. v. Khatilov*, 2021 WL 624174 (N.D. Cal. Jan. 22, 2021) (requiring no bond in connection with injunction requiring turnover of materials for forensic review); *Neo Gen Screening, Inc. v. TeleChem Int’l, Inc.*, 69 F. App’x 550, 556–57 (3d Cir. 2003) (affirming award of \$10,000 bond in trade secret case because the enjoined party “produced no evidence of any irreparable harm to it from the injunction”); *Prairie Field Servs., LLC v. Welsh*, 2020 WL 6336705, at \*18 (D. Minn. Oct. 29, 2020) (imposing bond of \$10,000 in connection with an injunction order directing the return of documents since compliance would likely cause defendant to incur forensic expense).

Where interim relief is granted on a relatively well-developed record after substantial discovery in which both parties have participated making it less likely that the injunction will be vacated, the Court may find that no or only a nominal bond is appropriate. *See Integra Optics, Inc. v. Nash*, 2018 WL 2244460, at \*16 (N.D.N.Y. Apr. 10, 2018).

In every event, the amount of the bond should be calibrated to the needs of the specific case rather than simply following purported “rules of thumb” based on rulings in other cases. *See Mallet & Co.*, 16 F.4th at 392 (reversing trial Court’s entry of a bond of \$500,000 in connection with entry of a “production injunction” against distributing particular products, where amount of bond had been based on trial Court’s canvassing of decisions throughout the country establishing bonds in similar cases, holding that the determination of the appropriate bond must be tied to analysis of the specific case before the Court).

### **5.15.2 Factual Findings on the Bond**

Regardless of the size of the bond, the Court can be reversed if it does not make factual findings and provide an explanation for setting the bond at a particular amount. *See, e.g., RECO Equip Corp. v. Wilson*, 2021 WL 5013816 at \*5 (6th Cir. Oct. 28, 2021) (remanding for explanation of decision on security); *Lacayo*, 16 F.4th at 392; *Corning Inc. v. PicVue Elecs., Ltd.*, 365 F.3d 156, 158 (2d Cir. 2004) (trade secret and copyright case) (“While it might have been within the discretion of the district court to decide that, under the circumstances, no security was required, . . . the district court was required to make this determination before it entered the preliminary injunction.”) (internal citations omitted); *Hill v. Xyquad, Inc.*, 939 F.2d 627, 632 (8th Cir. 1991) (“Although we allow the district court much discretion in setting bond, we will reverse its order if it abuses that discretion due to some improper purposes, or otherwise fails to require an adequate bond or to make the necessary findings in support of its determinations.”).

To avoid reversal and ensure a reasoned determination of the amount of the bond, it is good case management practice to direct the parties to submit briefing or argument on the amount of the bond once an injunction is granted and its scope has been determined. *See Peoplestrategy*, 2020 WL 7869214, at \*2, n.4 (directing further briefing on the amount of the bond); *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (observing that argument on the amount of the bond can be more focused once the scope of the injunction is established).

### **5.15.3 The Impact of Bond Waivers**

Some courts enforce contractual provisions in which the parties waive the posting of a bond but courts are not required to do so if the facts warrant a bond. *Compare Singas Famous Pizza Brands Corp. v. New York. Advert., LLC*, 2011 WL 497978, at \*12 (S.D.N.Y. Feb. 10, 2011) (enforcing the parties’ contractual waiver of a bond), *aff’d*, 468 F. App’x 43 (2d Cir. 2012), *with Life Spine*, 2021 WL 963811, at \*23–24 (refusing to apply to a trade secret case a bond waiver for claims sounding in contract), and *TP Grp.-CI, Inc. v. Vetecnik*, 2016 WL 5864030, at \*3 (D. Del. Oct. 6, 2016) (refusing to enforce contractual waiver of bond).

### **5.15.4 Coordinating Effective Date of the Injunction and Posting of the Bond**

Bonds can take some time to obtain. Courts may condition the injunction on posting of the bond or may decide in their discretion to enter the injunction subject to automatic vacatur if the bond is not posted within a specified period. In any event, the order should leave no doubt as to the effective date.

## **5.16 Specifying who Should Receive Notice of the Injunction Order**

Fed.R.Civ.P. 65 provides that an injunction shall be binding only on those who receive actual notice of the order by personal service or otherwise, ordinarily: (A) the parties; (B) the parties' officers, agents, servants, employees, and attorneys; and (C) other persons who are in active concert or participation with the foregoing categories of people.

Often by the time an injunction order is entered it is apparent to the Court and to the parties that particular divisions or departments within an organization or specific individuals should be apprised of the terms of any equitable relief. On occasion the party to be enjoined fails to notify its personnel of the injunction order and the successful movant may have concerns about serving notice directly on parties represented by counsel. The parties can request and the Court may on its own motion specify in the order that the order shall be served, for example, on the "head of defendant's research & development team having responsibility for product X" and specify how service shall be made. Including such a requirement can prevent a later dispute that relevant individuals were not apprised of the order. Similarly, the Court may direct the enjoined party to notify specified third parties of the entry of an order granting injunctive relief. *See, e.g., Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, 2020 WL 3960451, at \*16 (N.D. Ill. July 13, 2020) (directing defendant to notify its distributors and resellers of entry of Temporary Restraining Order and their obligation to comply with it as well as directing defendant to certify compliance in writing to the Court within seven days of entry); *WHIC LLC v. NextGen Labs., Inc.*, 341 F.Supp.3d 1147 (D. Haw. 2018) (directing defendants to send copy of order to specific clients and to former plaintiff employees working at defendant company); *Epic Sys. Corp. v. Tata Consultancy Servs., Ltd.*, 2016 WL 6477011, at \*3 (W.D. Wisc. Nov. 2, 2016), at \*3 (requiring defendant to present information about injunction to all employees).

Importantly, however, nonparties having notice of an order are obliged as a matter of law not to assist parties to circumvent or violate the order. Under FED. R. CIV. P. 65(d)(2)(C), such nonparties may be exposed to liability if they are in active concert or participate with the explicitly enjoined party or its agents in violating an injunction. Establishing liability under this theory may require further discovery.

## **5.17 Stays, Appeals, and Requests to Modify Pre-Trial Injunctive Orders**

### **5.17.1 Requests to Stay a Pre-Trial Injunction**

A party that is the subject of a pre-trial injunction may contest the injunction on appeal and seek to stay its operation while it does so. Under FED.R.APP. P. 8, the aggrieved party must normally first move the trial Court for the following relief:

- (A) a stay of the judgment or order of a district court pending appeal;
- (B) approval of a bond or other security provided to obtain a stay of judgment; or
- (C) an order suspending, modifying, restoring, or granting an injunction while an appeal is pending.

If the trial court denies the request for a stay or if moving in the district court is impractical, the enjoined party may apply to the reviewing Court for relief. *Id.*

The standards for a stay are akin to the standards for a preliminary injunction itself. *See Nken v. Holder*, 556 U.S. 418, 433 (2009) (stating that "[a] stay is not a matter of right, even if irreparable injury might otherwise result. It is instead an exercise of judicial discretion, and the propriety of its issue is dependent upon the circumstances of the particular case." (internal quotation marks and

citations omitted)). In deciding whether to issue a stay pending appeal, a Court considers: “(1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies.” *Id.* at 434 (internal quotation marks and citations omitted). See *Mallet & Co. v. Lacayo*, No. 20-3584 (3d Cir. Jan. 20, 2021) (immediately staying portions of preliminary injunction (1) prohibiting defendants from using broadly described general categories of information; (2) enjoining individuals not subject to noncompete agreements from working for the corporate defendants or any other entity competitive with plaintiff; (3) prohibiting defendants from manufacturing or marketing “release agent” products for use in any industry for an indeterminate period of time, and (4) comparing defendants’ products with those of plaintiff where defendants proffered evidence in their application for a stay that complying with the order would effectively require them to shut down operations).

### **5.17.2 Appeals**

A reviewing Court examines a District Court’s “decision to deny or issue a preliminary injunction for abuse of discretion.” *JLM Couture, Inc. v. Gutman*, 24 F.4th 785, 794 (2d Cir. 2022). A District Court has abused its discretion if it “(1) based its ruling on an erroneous view of the law, (2) made a clearly erroneous assessment of the evidence, or (3) rendered a decision that cannot be located within the range of permissible decisions.” *Id.* Appellate courts review factual findings for clear error and conclusions of law de novo. See *id.*

Where the trial Court’s order fails to articulate with particularity the information it has found to be a trade secret and whose use or disclosure it purports to enjoin, the reviewing Court will be unable to conduct an informed review. “In other words, meaningful review requires enough factual detail to permit us to draw a connection between the alleged trade secret and its value as a ‘particular secret [] of the complaining employer’ and not general know-how of the trade,” *Mallet & Co.*, 16 F. 4th at 385. If an injunction order does not permit this review, the reviewing Court may conclude that the order must be vacated and remanded for specification of what the trade secrets are. *Id.* at 386.

### **5.17.3 Applications to Modify Pre-Trial Equitable Orders**

FEDERAL RULE OF CIVIL PROCEDURE 60(b)(5) authorizes the Court to relieve a party from the order where “applying it prospectively is no longer equitable.” See *Crutchfield v. United States Army Corps of Eng’rs*, 175 F.Supp.2d 835 (E.D. Va. 2001), outlining six factors courts have considered in determining whether to dissolve any injunction: (1) the circumstances leading to entry of the injunction and the nature of the conduct sought to be prevented; (2) the length of time since entry of the injunction; (3) whether the party subject to its terms has complied or attempted to comply in good faith with the injunction; (4) the likelihood that the conduct or conditions sought to be prevented will recur absent the injunction; (5) whether the moving party can demonstrate a significant, unforeseen change in the facts or law and whether such changed circumstances have made compliance substantially more onerous or have made the decree unworkable; and (6) whether the objective of the decree has been achieved and whether continued enforcement would be detrimental to the public interest. This six-factor test has been applied in the trade secret context to permit dissolving a permanent injunction. See *MicroStrategy, Inc. v. Business Objects, S.A.*, 661 F.Supp.2d 548 (E.D. Va. 2009) (granting defendants’ motion to dissolve injunction based on showing that the nine-year old documents subject to the injunction no longer constituted trade secrets and that time had erased any competitive advantage from the misappropriation).

Where evidence is developed after an initial hearing showing that additional information is at risk beyond that previously identified, the Court may entertain a request for an amendment to the original order, altering the relief. *See, e.g., Invacare Corp. v. Nordquist*, 2018 WL 3768278 (N.D. Ohio Aug. 9, 2018) (modifying preliminary injunction in light of newly-produced evidence that defendant had misappropriated additional information beyond that known to plaintiff at the time of the original injunction hearing). Evidence that an order has been breached may be found to justify a broadening of the order to prevent efforts to evade it.

### **5.18 Conducting a Case Management Conference after the Preliminary Injunction Decision**

A preliminary injunction hearing may resolve or narrow many disputes or may point the way to future discovery and case development. While a hearing and decision will not necessarily require a change to the existing case management plan, it is often useful to conduct a post-decision conference with the parties shortly following the preliminary injunction decision to assess the status of the case and whether the initial case management plan should be changed. Typical topics for discussion at such a conference include:

- whether there will be an appeal seeking entry of an injunction or seeking to stay the operation of an injunction that has been entered and if so, determining whether the appeal divests the trial Court of jurisdiction over any aspect of the dispute. *Cf. FED. R. APP. P. 2, 3(d), 4(a)(4)* as construed by *Griggs v. Provident Consumer Disc. Co.*, 459 U.S. 56, 58-59 (1982) (holding that the filing of a notice of an appeal “divests the district court of its control over those aspects of the case involved in the appeal”)
- whether the decision on pre-trial equitable relief has resolved or narrowed key issues
- what issues remain in the case and how the parties plan to address them
- whether either party contemplates a motion for partial or full summary judgment and whether such motion can be made without further discovery directed to particular evidence and issues
- the likely scope of any anticipated additional discovery.
- the impact of any expedited discovery that has been taken on the overall discovery plan
- if not previously addressed in court orders, to what extent should the number of depositions and document requests served in connection with the pre-trial injunction “count” against any limits on discovery
- whether any spoliation concerns have arisen that will need to be the subject of further discovery
- whether the evidence supports the need to add or amend parties to the suit
- whether the evidence supports the need for foreign discovery and the plan to obtain any such discovery
- whether defendant contemplates moving to modify any injunction and if so, determining what discovery and expert testimony will likely be relevant to the request and when the request will be made
- when the case will be ready for trial and whether the remaining issues will be tried to a jury or to the Court
- whether it is an appropriate time to explore settlement of the case and if so, by what means (*e.g.*, through direct negotiations, through private mediation, through court-annexed mediation, through use of a United States Magistrate Judge, or through some other means)





## **Appendix 5.1: Early Orders and Stipulations Directing Forensic Preservation of Evidence or Investigation: Examples**

**(based on Apple Inc., Plaintiff, vs. Rivos Inc., Wen Shih-Chieh A/K/A Ricky Wen and Bhasi Kaithamana, Defendants, Case 5:22-cv-02637-EJD Document 55 (N.D. Cal.) (Judge Edward J. Davila) (filed 06/21/22))**

### **STIPULATED ORDER REGARDING DOCUMENT PRESERVATION AND FORENSICS INSPECTION**

WHEREAS, this Agreed Order, and the third-party forensics inspection protocol, render unnecessary the pending request for a temporary restraining order and order to show cause;

IT IS HEREBY STIPULATED AND ORDERED THAT:

1. Former Employee shall immediately return to Former Employer, through Former Employer's undersigned counsel, any Former Employer confidential information of which he is aware or becomes aware as being in his possession, including but not limited to Former Employer confidential information stored on any devices, drives, computers, tablets, phones, electronic media, emails and email accounts, and cloud storage.
2. Former Employee shall not access, use, or disclose, for any purposes, Former Employer confidential information including but not limited to any of Former Employer's confidential information that may be stored on any devices, drives, computers, tablets, phones, electronic media, emails and email accounts, and cloud storage – other than for purposes of identification and return to Former Employer.
3. Former Employee shall not alter, destroy, erase, or otherwise dispose of any evidence or other material, in any form, relating to this action, that may be in Former Employee's possession including but not limited to: (a) Former Employer's confidential information, including but not limited to information regarding Former Employer's past, current, and future \_\_\_\_\_[Products at Issue]; and (b) any devices, drives, computers, tablets, phones, electronic media, emails and email accounts, and cloud storage that currently contain, or previously contained, Former Employer's confidential information.
4. Counsel for Former Employer and Former Employee shall meet and confer to select a neutral third party to be appointed no later than \_\_\_\_\_ to conduct a forensics investigation of the Accounts and the Devices pursuant to a further stipulation of such parties and joint instructions to be provided by such parties. The forensics investigation, and any reports or communications regarding the forensics investigation, will be treated as "Highly Confidential – Attorneys' Eyes Only" under the N.D. California Model Protective Order.
5. Former Employee shall provide to the neutral third-party forensics investigator access to the Accounts and will otherwise cooperate in enabling the neutral third-party forensics investigator to perform an analysis of those accounts and the Devices to identify Former Employer's information stored in them.
6. By stipulating to entry of this Order, Former Employee does not make any admission of liability or wrongdoing, or an admission that he does in fact have Former Employer confidential information in his possession.
7. Former Employer reserves the right to move for interim relief if necessary after meeting and conferring in good faith with counsel for Former Employee.

**(Based on FREE COUNTRY LTD, Plaintiff, -against- BRIAN DRENNEN, MATTHEW VANDER WYDEN, ROUSSO APPAREL GROUP, INC. and SANT AFE APPAREL, LLC, Defendants, Case 1:16-cv-08746-JSR Document 19 (S.D.N.Y) (Judge Jed Rakoff) (filed 11/22/16))**

**ORDER ESTABLISHING PROTOCOL FOR COURT APPOINTED NEUTRAL  
FORENSIC ANALYST**

This Court having appointed \_\_\_\_\_ as a neutral forensic analyst in this matter by Order dated November 20, 2016, and having instructed the parties to confer and submit by email a proposed protocol for the Court Neutral Forensic Analyst to conduct his examination, the parties having so conferred, they hereby submit the following proposed protocol:

1. By 12:00 p.m. on the day this Court executes this Order (or by 5:00 p.m. of the same day if the Order is executed after 12:00 p.m.), Defendant X will provide a username and password to the Court Neutral Forensic Analyst for access to the subject Dropbox Account. The Court Neutral Forensic Analysts contact information is \_\_\_\_\_
2. X will set up a new password for use during the collection by the Court Neutral Forensic Analyst.
3. If two-factor authentication is enabled, X will either disable two-factor authentication or be available by phone to assist with the Court Neutral Forensic Analyst's log in (two factor authentications sends a separate code also required to log in).
4. The depth of the analysis is dependent on the level of Drop box service to which X subscribes (i.e. Basic/Free service vs. Business/Premium paid subscription)
5. To the extent possible The Court Neutral Forensic Analyst will document account information including
  - a. Profile Settings
  - b. Account Settings
  - c. Security Settings
  - d. Linked I connected Devices and IP addresses
  - e. Paper Mobile Devices
  - f. Linked Applications
  - g. Used space
  - h. Connected Services
  - i. Preferences
6. Document Sharing Settings
  - a. Recent
  - b. Files
  - c. Team
  - d. Paper
  - e. Photos
  - f. Links
  - g. File Requests
  - h. Deleted Files
7. Dropbox Storage and Dropbox Paper documents will be downloaded
8. Documents will be hashed using md5 / sha1
9. Document metadata will be analyzed and produced
10. X will be notified upon completion so that he may reset his password.

11. Depending on the results of the information obtained in Part 5 and 6 above, The Court Neutral Forensic Analyst will report to Chambers his findings and detail what if any additional steps are necessary to determine the location and status of Free Country's Confidential Information.

IT IS ORDERED that the above protocol is adopted and that Defendant X shall provide the Court Neutral Forensic Analyst with login credentials for his Dropbox account in accordance with said protocol; and it is further

ORDERED that all parties shall appear for a telephonic conference with the Court on \_\_\_\_\_, before 5p.m., to discuss The Court Neutral Forensic Analyst's findings, and it is further

ORDERED that except by order of this Court, no electronic material in X's Dropbox account belonging to Defendants \_\_\_\_\_ and/or \_\_\_\_\_ shall be distributed to any third-party, including counsel; and it is further

ORDERED that the temporary restraining order dated \_\_\_\_\_ remains in effect pending the hearing presently scheduled for \_\_\_\_\_, including without limitation Paragraph 1 b thereof, enjoining Defendants, and all persons in active concert or participation with them, from accessing or using Plaintiff's Confidential Information; and it is further

ORDERED that in the event the Court Neutral Forensic Analyst requires further direction regarding the above he shall contact the Court regarding same.

**(Based on Pfizer, Inc., v. Chun Xiao Li and DOES 1-5 (S.D. Cal), Case 3:21-cv-01980-CAB-JLB Document 17 (S.D. Cal.) (Filed 12/06/21))**

**STIPULATION REGARDING PRELIMINARY INJUNCTION AND STAY OF PROCEEDINGS**

WHEREAS, the parties have met and conferred;

IT IS HEREBY STIPULATED, SUBJECT TO THE APPROVAL OF THE COURT, that:

1. Defendant Y agrees to abide by the Temporary Restraints imposed by the Court's Order to Show Cause until the conclusion of this action, including the resolution of any appeals.

2. By \_\_\_\_\_, Defendant Y will provide Plaintiff Z's outside counsel with attorneys-eyes-only access to (i) her personal email account(s) and Google Drive account(s), (ii) any and all computing devices or accounts in Y's possession, custody, and control on which Y stored or has reason to believe Y may have stored Plaintiff's confidential information or trade secrets (including the laptop that Y uses in Y's consulting work for New Employer A, as well as any external hard drives or USB thumb drives), (iii) Y's personal mobile phone(s).

3. To the extent Plaintiff's outside counsel or its forensic vendor is provided access to any of Y's information protected by the attorney-client privilege or the attorney work-product doctrine, such access will not result in a waiver of the privilege or work-product protection.

4. By \_\_\_\_\_, Plaintiff will use best efforts to (i) search for, identify, and/or remediate any Plaintiff confidential information or trade secrets on the devices and accounts provided by Y, and (ii) return all devices and accounts to Y;

5. By \_\_\_\_\_, Y will submit to Plaintiff a sworn declaration attesting (i) that she has exercised best efforts to cooperate with Plaintiff's forensic investigation, including a summary of the facts regarding her cooperation, (ii) that Y no longer possesses any Plaintiff confidential

information or trade secrets, (iii) that Y has disclosed to Plaintiff all accounts and devices that may have been used to transfer or store any of Z's confidential information or trade secrets, including a summary of the facts regarding Y's use of each account or device to transfer and/or store Z's confidential information or trade secrets, and (iv) that Y has disclosed all persons, if any, to whom Y disclosed any of Z's confidential information or trade secrets.

6. By \_\_\_\_\_, the parties will advise the Court of the status of their negotiations and any need for further proceedings in this action. If any party believes that further proceedings in this action are required, the party shall so advise the Court and submit a proposed amended schedule governing such proceedings.

7. All proceedings and deadlines in this action are stayed until the parties advise the Court of the status of their negotiations and any need for further proceedings. Nothing herein is intended to preclude either party from seeking emergency relief from the Court while proceedings are stayed to the extent such relief becomes necessary to protect either party's rights.

8. The parties agree and stipulate that all dates, scheduling, timing, and terms established by this Stipulation shall be without prejudice to any party's claims or defenses and that the parties reserve their respective rights.

9. The terms of this Stipulation shall remain in effect from the date of its issuance until the Court issues an order on Plaintiff's Motion, the Stipulation is amended or superseded by a further order of this Court, or the action concludes, including the resolution of any appeals.

**(Based on Pfizer, Inc., v. Aimee De Blasis Amann, 2:17-cv-00911-ER Document 4 Filed 03/01/17 (E.D. Pa.) (Filed 03/01/17))**

### **Order**

AND NOW, this 1st day of March, 2017, upon consideration of Plaintiff's Verified Complaint and Emergency Motion for Ex Parte Temporary Restraining Order ("TRO Motion"), the Court enters the following Order:

#### Findings

1. It appears that Plaintiff has a reasonable likelihood of success on the merits of its claims that Defendant breached the Employment Agreement ("the Agreement") by misappropriating confidential information and trade secrets from Plaintiff, and by failing to return such information to Plaintiff after Defendant's employment ended.

2. It appears that, absent the relief provided herein, Plaintiff will suffer irreparable harm and injury to its operations and reputation, for which it has no adequate remedy at law. Upon consideration of these factors, the harm Defendant may suffer if injunctive relief is granted, the public interest, and all of the other legally required considerations, the Court determines that a temporary restraining order should be entered and this equitable relief should be granted.

3. This Order is being issued without prior notice to Defendant because there is a real danger that, if given advance notice, Defendant will either disclose or destroy the confidential information and trade secrets at issue.

#### Orders

It is therefore ORDERED and ADJUDGED that Plaintiff's TRO Motion (ECF No. 2) is GRANTED as follows:

1. Defendant is enjoined from disclosing to any person or entity any confidential information about Plaintiff learned as a result of Defendant's employment with Plaintiff;

2. Defendant is required to cease the use, if any, of any documents or information derived from Plaintiff's confidential information and trade secrets, whether in paper form or contained on any external electronic storage devices, including but not limited to personal computers, tablets, USB devices, or any other electronic storage devices and/or media;

3. Defendant is prohibited from accessing, transferring, downloading, using, copying, disclosing, altering, destroying, or deleting any confidential information, trade secrets, or property of Plaintiff, including information taken without authorization from Plaintiff's premises and computer systems;

4. Defendant is prohibited from destroying any documents or evidence in physical form and from deleting from computer systems or any electronic devices or media in her possession, custody, or control any information or documents that pertain, directly or indirectly, to the claims set forth in the Complaint filed by Plaintiff in this matter, until further order of the Court or agreement by the parties;

5. Defendant is prohibited from deleting or altering any email from any email account used by Defendant until further order of the Court or agreement by the parties;

6. Defendant is prohibited from deleting or altering any documents stored in any Internet-based or cloud-based storage accounts utilized or maintained by Defendant until further order of the Court or agreement by the parties;

7. Plaintiff shall post a bond or other security in the amount of \$50,000 as a condition of the present Order.

8. This Order shall be binding upon Defendant and all persons and/or entities who act in concert or participation with her who receive actual notice of this Order.

It is further ORDERED that the Court will hold a hearing on extending this Temporary Restraining Order on \_\_\_\_\_, at 2:30 p.m., in Courtroom 15A, U.S. Courthouse, 601 Market Street, Philadelphia, Pennsylvania.

Plaintiff is directed to serve a copy of this Order upon Defendant at her last known address, by overnight mail, by regular mail, and by email (if known) within 24 hours of the entry of this Order.

AND IT IS SO ORDERED.

**(Based on Inventus Power, et al. (Plaintiffs) v. Shenzhen Ace Battery (Defendant), Case No. 20-CV-3375 Document 99 (N.D. Ill.) (Judge Robert M. Dow, Jr.; Magistrate Judge Jeffrey I. Cummings) (filed 11/09/20))**

#### **FORENSIC EXAMINATION PROTOCOL ORDER**

The Court has reviewed the terms of this Forensic Examination Production Protocol Order for the conducting of forensic inspections of the parties' computers and file systems; accordingly, it is ORDERED:

1. Examiner Selection. The parties shall use a neutral forensic examiner ("Examiner") to conduct forensic examination of the parties' devices. The parties shall each nominate two Examiners who have not already been retained by either party in this action, and submit their respective proposals in a Joint Status Report to the Court by \_\_\_\_\_. The Court will

select a neutral Examiner from the nominated Examiners or shall appoint a neutral Examiner of its own choosing. The Examiner shall process the forensic data and conduct a search for potentially relevant files, including documents, source code, data, emails, or information using search criteria to be negotiated between the parties in good faith. The Examiner shall be an adviser to the Court pursuant to Federal Rule of Evidence 706. Neither party may communicate with the Examiner *ex parte* without prior Court approval. The parties' use of an Examiner does not preclude or excuse either party from retaining its own forensic expert to review materials produced in this case.

2. Cooperation. The parties, and their counsel, as well as third-party vendors, will cooperate with the Examiner in the tasks set forth in this Order to allow the Examination to be completed without unreasonable delay. Any raw data collected by the Examiner, including any metadata relating to the forensic collection of media as well as the contents of the media, shall within three (3) days of collection be made available to both sides for inspection, including their own forensic examination.

3. Scope of Examination. The full scope of examination will be negotiated between the parties, but will include at least (1) the laptops of [identified individuals], as well as any other media they utilized, including external storage devices, shared servers, cloud storage, emails, instant messages, or any other devices used by the specified Employees during their employment at Corporate Defendant; (2) the creation of duplicate forensic copies of the same (the collected ESI and forensic images are collectively referred to herein as the "Forensic Images"); (3) forensic analysis of the Forensic Images for the purposes of determining:

(a) The actual and probable deletion, destruction, or withholding of Inventus confidential information and other relevant documents, source code, data, emails, or information, and the extent to which some or all of these documents may be recovered;

(b) The Plaintiff confidential information or other relevant documents, source code, data, emails, drawings, schematics, or other information that is or was present on the specified Employees' equipment, shared server, cloud storage, or any devices described in paragraph 3 above and subject file systems;

(c) The disposition of Inventus confidential information and other relevant documents, source code, data, emails, or information that are or were in the possession of Corporate Defendant or the specified Defendant Employees, including how the materials were sent and/or received among Corporate personnel or the specified Employees, who had possession of them and during what timeframes, and whether such files were deleted and by whom.

4. Creation and Secure Maintenance of Forensic Images. Corporate Defendant will make available to the Examiner Forensic Images already created from the laptop computers, devices, shared servers, cloud storages, and any other media described in paragraph 3 above of at least the specified Employees at \_\_\_\_\_'s place(s) of business at mutually agreeable times. The Examiner shall investigate the methods used by Corporate Defendant to collect those Forensic Images so that such information can be included in the Examiner's report. To the extent the Examiner is not satisfied with the methods used by Corporate Defendant to collect those images, or otherwise wishes to re-image the laptops or devices, the Examiner can direct members of his or her staff to create the Forensic Images. The Examiner will direct members of his or her staff to create the other Forensic Images authorized by this Order, including those with respect to the specified Employees. The Examiner shall also determine how data is stored and structured on the server(s) and how the server(s) operate, including its software versioning and revision-control capability, and discuss the same with Corporate Defendant information-technology personnel for

the purpose of determining whether a Forensic Image of all or part of Corporate Defendant's server(s) can be made. If the Examiner finds that it is possible to make such a Forensic Image, then the Examiner shall direct members of his or her staff to create it. If the Examiner determines that it is not possible to make a Forensic Image of the server(s), within seven days of the inspection, the Examiner shall propose to the parties a procedure for directly accessing the server(s). The parties may meet and confer with the Examiner regarding the imaging of the server(s) and/or the proposed procedure for directly accessing it. If no agreement can be reached after a reasonable meet and confer, the parties may seek resolution of any disputes by the Court. Within seven days of the inspection, copying, and imaging of each item of computer equipment produced by Corporate Defendant, the Examiner shall provide the parties with a report describing the computer equipment or media produced and the Examiner's actions with respect to each piece of the equipment or media. This report shall include a detailed description of each piece of computer equipment or media inspected, copied, or imaged, including the name of the manufacturer of the equipment and its model number and serial number, the name of the hard drive, external storage device, or media's manufacturer and its model number and serial number, and the name of any network card manufacturer and its model number, serial number, and the media access control address wherever possible. The Examiner will use its best efforts to avoid unnecessarily disrupting the normal activities or business operations of Corporate Defendant or its employees while inspecting, copying, and imaging the computer equipment.

5. Location of Inspection. Corporate Defendant shall provide a secure room (the Examiner's "Lab") at Corporate Defendant's facilities for the Examiner and the Examiner's staff to perform their forensic inspection of the Forensic Images. Corporate Defendant shall provide sufficient space and resources to permit the Examiner to set up any equipment for the Examiner's work, including servers or other forensic lab equipment. The Examiner and the Examiner's staff will have open access to the Lab, Monday through Friday, from 9 a.m. to 6 p.m. Corporate Defendant will grant reasonable requests for overtime access after 6 p.m. on weekdays, and on weekends. Neither party shall be permitted to monitor the Examiner's work. No party shall have *ex parte* communications with the Examiner without the other party's permission.

6. Examiner's Disclosure of Potentially Relevant Documents. The Examiner shall process the Forensic Images and conduct a search for potentially relevant files, including documents, source code, data, emails, or information using search criteria to be negotiated in good faith between the parties. This search shall include all existing, deleted, or recovered files, and other data types identified herein. The Examiner may use any reasonable means to implement the parties' search criteria, and may also use any other reasonable methods to identify Plaintiff confidential information or information that derives from Inventus's confidential information on the Forensic Images. The Examiner shall produce the documents and information meeting the parties' agreed search criteria, in native format, with all metadata preserved. The Examiner shall provide the files in a reasonably convenient and searchable form, along with, to the extent possible, the information showing when any of the files were saved, accessed, copied, shared, or deleted, and whatever information is available about any deletion and the contents of deleted files that could not be recovered. The Examiner's actions described herein shall not effect a waiver of any claim of attorney-client privilege or work product protection with respect to the contents of the Forensic Images. The parties further agree that inadvertent production of documents or information subject to any applicable privilege, does not waive such applicable privilege or protection, provided a request for return of such documents or information is made promptly upon learning of such inadvertent production.



7. Independent Examination. The Examiner shall be permitted to search, review, and analyze data or information on the Forensic Images in their entirety, including active files, data fragments, log files, application data, and unallocated or deleted space, and other artifacts that can lead to an understanding of content and historical use, as related to the claims and defenses in this litigation. Ace shall have no control over the analysis performed. The parties and their counsel shall not have the right to be present during such analysis.

8. Safeguards for Examiner's Production of Information to Counsel. Any information or materials derived by the Examiner from its analysis of the Forensic Images that it wishes to produce to counsel for shall be subject to the following procedures:

(a) As used herein, "Findings" shall mean any information or materials derived by Examiner from its analysis of the Forensic Images that Examiner wishes to produce to counsel for purposes of review. Production shall be limited to information concerning the potentially relevant documents found using the parties' agreed upon search criteria. Findings shall be further defined as "Content Findings" or "Non-Content Findings." Content Findings shall consist of documents or files derived from the Forensic Images, including but not limited to electronic documents and emails, whether in active or deleted recoverable form. Non-Content Findings shall consist of non-content information from the Forensic Images, including but not limited to technical or system usage information, configuration settings, metadata, directory listings of files, programs contained on the Forensic Images, and associated metadata. Non-Content Findings are derived from files and information created and maintained programmatically by the computer's operating system or applications. Non-Content Findings can contain information about user-created files, but will not contain the content of user-created files.

(b) The Examiner's actions described herein shall not effect a waiver of any claim of attorney-client privilege or work product protection with respect to the contents of the Forensic Images or the Findings. The Parties further agree that inadvertent production of documents or information subject to any applicable privilege, does not waive such applicable privilege or protection, provided a request for return of such documents or information is made promptly upon learning of such inadvertent production.

(c) So that Corporate Defendant may identify privileged documents, if any, and prepare appropriate logs and/or appropriately designate documents pursuant to the Protective Order in this case, Content Findings derived from Examiner's analysis of the Forensic Images shall be produced to counsel for Corporate Defendant for review. Within five (5) business days of receiving any Content Findings from the Examiner, counsel for Corporate Defendant shall produce to Examiner and counsel for Inventus, a privilege log which complies fully with the requirements of FED. R. CIV. P. 26 (b)(5)(A), identifying those Content Findings that Corporate Defendant maintain are subject to the attorney-client privilege or work product doctrine, including the claimed privilege and a complete description of the basis for the privileged claim, the date and subject matter of the documents in question and where applicable, the senders and recipients of such documents.

(d) Examiner shall promptly produce to counsel for Plaintiff all Content Findings which are not designated as privileged, including materials with redactions. After receiving the privilege log, Plaintiff shall promptly notify Corporate Defendant of any challenges to the logs, after which the parties shall jointly and immediately request an appropriate hearing with the Court to resolve any disputes. Corporate Defendant shall make available to the Court, on an *in camera* basis, any documents subject to a disputed privileged claim. In connection with the hearing, each party shall have the right to submit a position paper of no more than three (3) pages per document or category

of documents to the Court with Corporate Defendant having the opening position paper and Plaintiff providing their response within five (5) days of their receipt of Corporate Defendant's opening position paper.

(e) Non-Content Findings derived from the Examiner's analysis of the Forensic Images may be produced directly to counsel for Plaintiff and Corporate Defendant without prior review by Corporate Defendant or their counsel.

9. Forensic Report. The Examiner shall provide the parties and the Court with a forensic report as to the actions taken by the Examiner, including a detailed description any personnel interviewed, each piece of digital media inspected, copied or imaged, as well as documentation of the chain of custody of the media collected (the "Forensic Report"). The Forensic Report shall provide a summary of the Examiner's findings regarding the topics identified herein.

10. Fees and Costs. The parties shall share the Examiner's costs and fees in carrying out this Forensic Examination Protocol and shall remit payment in accordance with the Examiner's standard billing practices. This paragraph is without prejudice to the parties' right to seek reimbursement in any requests for a fee-shifting order at a later time.

11. Confidentiality of Examiner's Deliverables. The Examiner's deliverables from this investigation (e.g., documents, data, or reports) shall be treated, and, to the extent possible, marked with the appropriate designation of confidentiality pursuant to the Protective Order in this case.

SO ORDERED.

## Appendix 5.2: Joint Proposed Expedited Discovery Order Template

Event	Date
<b>Requests for Production (limited to x per side) to be served directed to the following issues:</b>	<b>X days following conference</b>
Request for inspection and designation of expert to perform inspection (forensic or otherwise). Will forensic expert be appointed by the court?	
Document productions to be substantially complete; rolling productions possible if necessary	
Interrogatories and Requests for Admission to be served (limited to x per side) directed to the following issues that are anticipated to be critical to the prosecution and defense of the case	
Interrogatory responses to be complete	
Depositions of X Representatives of each party to be complete (no more than X hours in total)	Parties may wish to agree to sequence depositions by issue, by alternating depositions between each of the parties, or by other means appropriate to the specific case. In some cases the parties may agree to restrict total time to be spent on depositions but not the number of deponents where appropriate.
Third-Party Depositions or Production of Evidence Only on Consent of Parties or Court Order	Parties should be prepared to justify any request for Third-Party depositions or production of evidence on an expedited basis; request for production of specific evidence by Third-Party closely aligned with one of the parties should be explained to the court if parties are unable to reach agreement, focusing on the significance of the evidence at early stage of the proceeding and potential hardship to Third-Party as well as relationship of Third-Party to any party and availability of evidence from a party.
Briefing schedule (moving and answering declarations and briefs; reply brief)	

Conference to Determine Form of Preliminary Injunction Hearing and Designation of any witnesses who will testify	
Preliminary Injunction Hearing	

### Appendix 5.3: Redacted Orders Granting Expedited Discovery: Examples

**Apple, Inc., Plaintiff, v. Rivos, Inc., and others, Defendants, Case 5:22-cv-02637-EJD Document 73 (Magistrate Judge Nathanael M. Cousins) (filed 07/08/22)**

#### **ORDER GRANTING IN PART AND DENYING IN PART APPLE'S REQUEST FOR EXPEDITED DISCOVERY**

As part of its motion for a temporary restraining order in this trade secret misappropriation case, Apple sought expedited discovery from defendants. . . .

Expedited discovery is appropriate upon a showing of “good cause,” which is found where “the need for expedited discovery, in consideration of the administration of justice, outweighs the prejudice to the responding party.” *Semtool, Inc. v. Tokyo Electron Am., Inc.*, 208 F.R.D. 273, 276 (N.D. Cal. 2002).

Here, I find that Apple has established good cause to expedite discovery, but I am not persuaded that all the early discovery it seeks is proportional to the needs of the case at this stage. Consequently, I grant Apple's requested early discovery only in part. Disputed requests are resolved as follows:

- ***Early deposition of Defendant's CEO.*** Apple's request for an early deposition of Defendant's CEO is granted. He is the co-founder and CEO of Rivos and submitted a declaration on June 3, 2022, in opposition to Apple's TRO motion. ECF 40-1. The early deposition will be limited to 3 hours total and limited to examination on the topics in the declaration. This Order finds this examination to be relevant, proportional to the needs of the case, and helpful to framing further discovery. The deposition must be completed by August 5, 2022. The parties must cooperate on scheduling.
- ***Search of all devices and accounts identified by Plaintiff declaration in Paragraphs 27-36.*** Apple's request is denied as overly broad and intrusive. Apple has not established that Rivos has possession, custody, or control over all these devices and accounts, or that they are reasonably likely to house relevant information.
- ***Forensic image of employee X's time machine backup.*** [the parties have met and conferred about this material and should understand which employee this paragraph references]. Apple's request is granted. Rivos must produce to FTI a forensic image of the time machine backup by July 15, 2022. By July 22, the parties must agree to a search protocol. The search is not limited to confirming whether or not it has been accessed since the employee left Apple.
- ***Rivos' request for forensic information from Apple.*** Rivos' request to discover from Apple forensic information related to former Apple employees now working at Rivos is granted. Apple must produce this information, as it will fairly and efficiently advance the discovery process. Once Apple produces this information, Rivos must search for and sequester information within its possession, custody, and control.

Except as set forth in this Order, Apple's request for expedited discovery is denied. Discovery may proceed forward pursuant to the applicable Rules of Civil Procedure. No fees or costs are awarded.

**ORDER RE EXPEDITED DISCOVERY AND RELATED MATTERS**

After a conference with both sides to critique a tentative order, this order sets forth a plan for expedited discovery for both sides leading up to a hearing on plaintiff's motion for provisional relief:

1. Defendants may depose the declarants who submitted declarations in support of plaintiff's motion for preliminary injunction. In addition, defendants may depose up to three additional plaintiff officers, directors, or employees. Plaintiff must make said deponents available upon 120 hours notice. Defendants may have a total of 18 hours of deposition time (not counting breaks), to be allocated among deponents as they wish. These depositions may begin as soon as the required notice is given.
2. Upon the same 120 hours notice, plaintiff must produce specific documents 24 hours before that deposition. The document requests, however, must be very narrowly drawn and limited to six requests per deponent.
3. By \_\_\_\_\_, defendants shall produce for inspection all files and documents downloaded by \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_ before leaving plaintiff's payroll and thereafter taken by them. Defendants shall also produce for copying the card reader, thumb drive, or other media used for the downloads, as well as all subsequent emails, memoranda, PowerPoints, text messages, or notes that have forwarded, used, or referred to any part of said downloaded material. If any part of said downloaded material has been deleted, destroyed, or modified, then defendants shall state the extent thereof and produce all documents bearing on said deletion, destruction, or modification.
4. Plaintiff may depose the declarants who submit declarations in opposition to the motion for preliminary injunction. In addition, plaintiff may depose three additional officers, directors or employees of defendants. Defendants must make the deponents available upon 120 hours notice. Plaintiff may have a total of 18 hours of deposition time (not counting breaks) to be allocated as it wishes. All depositions to be taken by plaintiff shall occur after defendants' opposition.
5. Upon the same 120 hours notice, defendants must produce specific documents 24 hours before that deposition of defendant personnel. The document requests, however, must be very narrowly drawn and limited to six requests per deponent. This is in addition to the documents ordered to be produced in paragraph 4 above.
6. The deadline for plaintiff to reply is continued from \_\_\_\_\_ to \_\_\_\_\_. Plaintiff may base its reply upon the foregoing discovery, but it may not rely on fresh reply declarations on any point that could and should have been raised up front.
7. By \_\_\_\_\_, defendants may file a sur-reply up to **TEN PAGES** in length, limited strictly to addressing material in plaintiff's reply. It may not rely on fresh sur-reply declarations on any point that could and should have been raised in the opposition.
8. The hearing is continued from \_\_\_\_\_ to \_\_\_\_\_. If an evidentiary hearing is required (which will be determined after all of the foregoing submissions are reviewed), the evidentiary hearing will be on \_\_\_\_\_ starting at 7:30 a.m., subject to time limits to be determined with declarations being treated as direct testimony.
9. The foregoing depositions shall be in addition to the normal deposition limits and all deponents questioned via the above shall be liable to sit for another deposition later in the

case. If the other side cross-examines at a deposition, the cross-examination time shall count against the crossexaminer's 18 hours.

10. The foregoing schedule presupposes that both sides shall cooperate in discovery and all sealed information shall be supplied to defense counsel and one in-house counsel immediately. Beyond the foregoing, expedited discovery is **DENIED** until after a ruling on the motion for provisional relief. Counsel shall meet and confer and propose a written joint plan for further expedited discovery (for both sides) to follow the ruling on a preliminary injunction, leading up to a trial on \_\_\_\_\_, and shall file said written plan before the hearing on defendants' expected motion to compel arbitration. All filings shall be made by noon on the day indicated.

**Appendix 5.4: Non-Exclusive Illustrative Factors Potentially Supporting or Weighing Against a Finding of Likelihood of Success on the Merits**

<b>Facts That May Support a Finding That Plaintiff has a Likelihood of Success; Not all Need be Present</b>	<b>Facts That May Weigh Against a Finding That Plaintiff has a Likelihood of Success; Not all Need Be Present</b>
	Plaintiff has failed to identify specific information at issue and to show a likelihood that it is a trade secret
Information at issue, even if relating to or incorporating some published information, is not fully revealed in public literature or disclosures	Information at issue has been fully disclosed without restriction in patents or other public disclosures that are generally accessible to the relevant industry  Defendant has lawfully obtained information at issue from third party under no non-disclosure obligation  Marketed products or services reveal the trade secret without restriction
Defendant had no significant experience in the field to which trade secret is directed before obtaining access to plaintiff's trade secret	Defendant (particularly an individual) had extensive prior experience in and knowledge of the field; alleged trade secrets will likely need to be identified with greater specificity before relief will be granted
Defendant had substantial knowledge of trade secret or even developed it	Defendant had only cursory or high-level knowledge of trade secret
Defendant has possession of and has retained documents containing trade secrets after being requested to return them  Defendant has acquired additional documents containing trade secrets after ceasing to be authorized to obtain them.	Defendant has cooperated in returning documents containing trade secrets, did not share them with others, and no longer has access to them  Plaintiff did not previously require or request return of documents  Defendant retained documents for legitimate purposes authorized by plaintiff
Where defendant has not retained documents containing trade secrets, trade secret can be readily recalled and communicated without documents	Trade secret is useable only through extensive documents which defendant does not possess



<p>Defendant has current need for trade secret</p> <ul style="list-style-type: none"> <li>• Trade secret provides substantial value, including by providing efficiencies and lower overhead; plaintiff developed it only after substantial time and expense</li> <li>• Defendant is or plans to become a direct competitor of plaintiff</li> <li>• Defendant has tried and failed to develop similar information</li> <li>• Others have been unable to develop similar information</li> <li>• Defendant has sought or gained access to trade secret through deception</li> <li>• Defendant has sought out and hired individuals who know trade secret and assigned them to roles in which they can use the trade secret without adequate precautions</li> </ul>	<p>Defendant is unable or does not need to use trade secret before trial</p> <ul style="list-style-type: none"> <li>• Defendant's technology or strategy is incompatible with plaintiff's trade secret</li> <li>• Defendant does not have resources or ability to implement plaintiff's trade secret</li> <li>• Defendant has independently developed similar or superior information</li> <li>• Defendant serves different customers from plaintiff</li> <li>• Any product release by defendant will not occur before trial</li> <li>• Defendant has developed reliable procedures to prevent acquisition or use of trade secrets</li> </ul>
<p>Defendant has announced development of competing product or service on unexpectedly short timetable or at minimal expense after alleged misappropriation</p>	<p>Defendant independently developed competing product without use of trade secret</p>
<p>Defendant lacks evidence to support claim of independent development</p> <p>"Independent" development was led by those who knew trade secret</p> <p>Defendant's internal development documents or testimony reveal "taint" by plaintiff's trade secrets</p>	<p>Defendant provides evidence and pre-suit documents credibly showing independent development untainted by trade secret</p>
<p>Individual defendant has assumed a role with a new organization that is substantially similar to role he enjoyed with trade secret owner</p>	<p>Defendant will be implementing pre-determined plans and will not be able to materially influence them</p>
<p>Defendant has engaged in lies or deception concerning trade secret, possession of trade secret, or future plans</p>	<p>Defendant has been forthright, admitted and worked to correct any errors, and cooperated in returning information or in structuring future activities to avoid misappropriation</p>
<p>Trade secret has current value</p>	<p>Injunction is being sought when information has ceased to have value or trade secret has only short useful life</p>

## **Appendix 5.5: Preliminary Injunction Order Template**

### **A. Introduction and Background**

Describe the parties, including who owns the alleged trade secret, the parties' businesses, and the nature of the information and the statutes or other theories under which relief is sought.

### **B. Specification of the Trade Secrets at Issue**

Absent clarity on this issue, the injunction itself may be either infirm, as not grounded in fact, or may spawn disagreement over its terms. The secrets themselves may be separately identified in a sealed attachment but should not be described vaguely or simply by reference to other documents, such as "information described in the pleadings"

### **C. Likelihood of Success on the Merits**

1. The information at issue is a trade secret—namely, plaintiff has established or offered evidence from which it can reasonably be inferred that
  - i. The information is likely not generally known to or readily ascertainable by the relevant public (others who can obtain value from the information)
  - ii. The information provides its owner with actual or potential economic value because of secrecy.
  - iii. The information has been the subject of reasonable measures to protect its secrecy.
2. Defendant has likely misappropriated or threatens to misappropriate a trade secret at issue, through
  - i. Wrongful acquisition
  - ii. Wrongfully use or
  - iii. Wrongfully disclosure
3. Defendant has not come forward with plausible evidence that it independently developed the information at issue or that it has acquired the right to use the information from authorized third parties
4. Defendant knew or should have known that its acquisition, use, or disclosure of the information was not authorized.
5. No immunity applies (*e.g.* DTSA's whistleblower immunity) to the acts alleged
6. Conclusion

Summarize the basis for the conclusion that plaintiff has or has not established a basis for finding a likelihood of misappropriation, with record citations as available given exigencies

### **D. Irreparable Harm**

The Order should state facts and the record evidence supporting or establishing (or undermining/ disproving) irreparable harm and not rely solely on alleged presumptions, legal or contractual. Factors may include the magnitude of the reasonably anticipated harm, the difficulty of detecting further misappropriation, the difficulty of separating misappropriated from legitimately developed information in the future, and the difficulty of calculating the monetary impact of the misappropriation.

### **E. Balance of the Harms**

The Order should make a comparison of the harm imposed by the Order versus the harm to the applicant if the Order is denied

Where feasible, the Order may incorporate counterbalancing measures (such as specifying the start and termination dates of the relief; setting the case down for early trial; or allocating costs that the injunction may cause).

**F. Specific Public Interest Factors, if Any, Applicable to this Dispute**

**G. Scope of Injunction**

1. Mandatory relief (*e.g.* return particular documents; cooperate with forensic inspection; provide affidavits of compliance; submit to described monitoring)
2. Prohibitory relief (clearly describing prohibited activities tied to trade secrets at issue)
3. Allocation of any related expenses (*e.g.* fees for forensic review)
4. Duration of injunction (*e.g.*, fixed duration, through trial, or through some other court-ordered event)

**H. Amount of Bond**

1. Findings of fact as to the reason for establishing the bond at a particular amount or for determining that a bond is not necessary
2. Specification of when the Order becomes effective (*e.g.*, immediately, subject to vacatur if bond is not posted by specified date; only upon posting of bond)
3. Any details specific to this dispute and court (*e.g.*, will a cash bond be permitted)

**I. Any Special Notice Provisions**

1. Notice to be provided to specific individuals or entities and how
2. Who is to provide notice
3. How will notice be documented to the court

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## **Chapter 6: Discovery**

### **6.1 Introduction**

Discovery in trade secret cases mirrors the same rules and procedures for discovery in most civil cases. But because of the highly confidential nature of the information being sought or protected, discovery in trade secret cases often presents distinctive and, at times, especially thorny issues. This chapter addresses these issues against the backdrop of discovery case management. It is not a primer on civil discovery generally, but on the discovery issues that matter in trade secret cases.

Discovery in trade secret cases generally divides into two phases: expedited and regular. Expedited discovery, which is addressed in § 5.4.1, takes place, if at all, before regular discovery begins, such as part of a request for preliminary injunction. Regular discovery, which is the focus of this chapter, refers to the routine discovery that takes place in accordance with the timeline set forth in FED. R. CIV. P. 26(d)(1). The overlap between expedited and regular discovery, such as whether the discovery served and obtained in the expedited stage applies to limits on discovery in the regular stage, should be a subject for discussion with the Court as addressed in § 5.4.1.

### **6.2 Controlling Law and Standard of Review**

While substantive law for trade secret cases can be either federal, state, or both, federal courts addressing discovery matters in trade secret cases should rely on the decisions of their regional circuit interpreting the FEDERAL RULES OF CIVIL PROCEDURE. And as in other types of federal civil litigation, discovery rulings are reviewed under an abuse-of-discretion standard.

Unlike patent disputes, for which many districts have enacted local rules that govern various aspects of those cases, trade secret cases to date have no such rules. Instead, the usual default rules of civil discovery apply to trade secret discovery.

### **6.3 Scope of Trade Secret Discovery**

Issues specific to trade secrets drive much of the discovery effort in trade secret cases. These include the origin and development of the alleged trade secret, the value of the trade secret and the trade secret owner's efforts to protect it, the alleged misappropriation, the harm to the trade secret owner, and many others.

By definition, these categories include allegedly confidential information. Given the prevalence of requests for pre-trial injunctive relief in trade secret cases, discovery in trade secret cases thus tends to be fast-paced and demanding while implicating a company's most sensitive and closely guarded information. Consequently, discovery in trade secret cases is often expensive and contentious.

### **6.4 Common Discovery Mechanisms and Their Application to Trade Secret Cases and to Cases in Which Trade Secrets May Be the Subject of Discovery**

#### **6.4.1 Initial Disclosures**

The initial disclosures required by Rule 26 typically present few issues unique to trade secret cases, though special attention should still be paid given the breadth and sensitivity of discovery in trade secret cases. In some cases the Court may direct that initial disclosure include an identification of trade secrets. *See* Chapter 4.

One issue that requires early attention is when and how the asserted trade secrets should be identified. This issue is discussed in detail in Chapter 3 (early case management) and Chapter 4 (identification).

FED. R. CIV. P. 26(a)(1)(C) requires a party to disclose a computation of damages claimed, the documents or other evidence supporting the computation, and materials about the nature and extent of injuries suffered. As discussed in § 2.6.2, damages in trade secret cases can include actual losses, unjust enrichment, and a reasonable royalty, most of which require at least some information from the alleged misappropriator. A plaintiff will rarely have access to all this information in advance of discovery. Initial damages disclosures therefore typically describe only the types of damages sought (rather than a rough computation of the amount) and defer disclosure of documents, explanation of theories and amounts, and other evidence to a later date.

#### **6.4.2 Requests for Production of Documents**

Reflecting the broad scope of activities relevant to trade secret cases, litigants commonly propound a large number of document requests. Depending on the types of trade secrets at issue, document requests can reach into nearly every facet of a party's business, including research and development, sales, marketing, accounting, and legal affairs. One unique aspect to trade secret litigation is that the production of responsive documents will virtually always require protective orders which are covered in § 6.5.

In addition to documents, trade secret cases often involve the collection of metadata, forensic information (such as the forensic imaging of a computer), and devices that were used to access or transfer data. Given that trade secret cases often involve the improper acquisition of information, forensic artifacts and metadata are critical to determining when and how that alleged acquisition took place and what use was made of the improperly acquired information. Forensic discovery is discussed in § 6.7.1, and sample forensic orders are included in Appendix 3.1.

Trade secret cases often require the production of technical information that is highly sensitive and difficult to reproduce. Some technical information, such as semiconductor schematics, can be reviewed only in native format using proprietary software that is itself valuable and sensitive. Such information may need to be reviewed on-site on the producing party's computers. Computer source code is also highly sensitive and may need to be reviewed in native format. Often it is produced on a standalone computer, disconnected from the internet and in a secure location, with limits on the number of pages that may be printed. These and other confidentiality issues are usually addressed in protective orders and are covered in § 6.7.2.

Financial information related to damages can also be highly sensitive and difficult to produce. Often in lieu of the underlying financial documents (such as invoices), companies produce reports from their financial databases. Parties should agree on which categories of information will be produced from these databases.

The parties may also seek production of "things" in particular cases—such as prototypes, models, and biological material (such as bacterial strains)—claimed to embody trade secrets or evidence their use.

The confidential documents of third parties, such as third-party technical documents, can be relevant in various ways. One key issue in trade secret cases is whether the alleged trade secret is known by others in the industry, a question that often necessitates subpoenas to industry participants. Another example involves damages, as lost sales to third parties is one type of

recoverable damages. The production of these and other financial information requires permission from third parties, the negotiation of protective orders, or even compulsory process and motions practice. Third-party discovery is easily abused in trade secret cases, and thus motion practice on such discovery is common; that practice is discussed in § 6.14.4.

### **6.4.3 Interrogatories**

The FEDERAL RULES OF CIVIL PROCEDURE have a default limit of 25 interrogatories per party.

Some jurisdictions further limit the subject matter of such interrogatories. For example, the Southern District of New York limits interrogatories in Local Rule 33.3 to those seeking names of witnesses with knowledge of information relevant to the subject matter of the action, the computation of each category of damage alleged, and the existence, custodian, location and general description of relevant documents, including pertinent insurance agreements, and other physical evidence, or information of a similar nature. *See* LOCAL RULES OF THE UNITED STATES DISTRICT COURTS FOR THE SOUTHERN AND EASTERN DISTRICTS OF NEW YORK, (effective Oct. 29, 2018), [https://www.nysd.uscourts.gov/sites/default/files/local\\_rules/rules-2018-10-29.pdf](https://www.nysd.uscourts.gov/sites/default/files/local_rules/rules-2018-10-29.pdf). Additional interrogatories may be served only if they are a more practical method of obtaining the information sought than a request for production or deposition or when ordered by the Court. Contention interrogatories may be served at the conclusion of discovery.

In their joint case management statement, parties often make a joint request for additional interrogatories. The party seeking additional interrogatories should be prepared to explain why additional interrogatories are appropriate in preference to other forms of discovery. Where properly supported, and depending on the practices of the individual jurisdiction, these requests tend to be granted, given the broad scope of subject matter in trade secret litigation.

The case-focusing benefit of interrogatories can often be swamped by premature use of contention interrogatories that waste the parties' efforts before meaningful responses can be developed from fact and expert discovery. Conversely, appropriately timed contention interrogatories (i.e., after a meaningful opportunity for discovery) can help streamline discovery and flag disputes early enough to seek judicial resolution well before trial. In addition, contention interrogatories provide another vehicle for courts to require parties to disclose their damages theories early enough that fundamental disputes about the viability or legality of damages theories are not relegated to the eve of trial. That depends, of course, on courts not requiring responses so early that the answering party has not yet obtained damages-related fact discovery from the opposing party.

Requiring complete answers to contention interrogatories should typically be postponed until the late stages of fact discovery. Courts should also be mindful that some "contentions" are a matter of expert opinion, and should consider giving the parties leave to supplement their contention interrogatory responses until after the completion of expert discovery.

### **6.4.4 Depositions**

FED. R. CIV. P. 30(a)(2)(A) limits to 10 the number of depositions that may be taken by a party without leave of court. This is sufficient in most cases, but might not be enough in trade secret cases involving multiple parties or particularly complex issues.

The Court should encourage the parties to reach mutual agreement in their Rule 26(f) proposed discovery plan on the number of depositions or cumulative hours that will be allowed without court



order. Absent agreement, a limit should be set to promote the parties' efficient use of the depositions.

Rule 30(d)(1)'s one-person/one-day limitation should presumptively apply in the absence of a showing of real need for more time. One type of deponent in trade secret cases often requiring more time is the alleged misappropriator. Another is the 30(b)(6) designee of the trade secret owner, as these depositions can encompass highly technical and detailed information. To prevent runaway 30(b)(6) depositions, the Court can also require that each day of 30(b)(6) deposition counts as a separate deposition for purposes of the per-side limit. Alternatively, a limit on the total number of deposition hours also helps avoid disputes over how many "depositions" a 30(b)(6) deposition counts as when encompassing more than one topic.

In noticing a 30(b)(6) deposition, a party will often seek testimony on its opponent's contentions on issues such as trade secret validity and misappropriation. Given that a party's contentions often implicate legal and expert issues, the better course of action is to address a party's contentions through interrogatory responses while limiting deposition testimony to underlying factual matters.

## **6.5 Protective Orders**

Protective orders go hand in glove with trade secret cases, which by definition involve allegedly secret information. Not only are the alleged trade secrets themselves confidential, but discovery into them and their alleged misappropriation also involves confidential information on both sides. Trade secret cases thus require protective orders, and those orders often involve unique issues.

After all, trade secrets are a property interest that can be destroyed by disclosure. Without the ability to protect the secrecy of trade secrets in litigation, the law of trade secrets would disappear—it would be impossible to enforce trade secret rights in the face of misappropriation. This further demonstrates the necessity of a robust protective order before discovery of confidential information commences.

This section addresses various issues that arise with protective orders generally, while focusing on those that arise most often in trade secret cases.

### **6.5.1 Default vs. Bespoke Orders**

Many districts have developed default protective orders that go into effect immediately upon the filing of a patent case or soon thereafter upon a party's motion. These default protective orders provide a range of balanced alternatives for protecting trade secrets while enabling discovery to proceed promptly. For example, the Northern District of California issued a MODEL PROTECTIVE ORDER FOR LITIGATION INVOLVING PATENTS, HIGHLY SENSITIVE CONFIDENTIAL INFORMATION AND/OR TRADE SECRETS, <https://www.cand.uscourts.gov/forms/model-protective-orders/>, that provides thorough definitions, restrictions, and other guidelines crucial to the protection of information, and applies them equally to both plaintiff and defendant in such cases. *See* Appendix 6.1. Other districts have similar model protective orders containing provisions that define the types of information that warrant the "confidential" or "attorneys' eyes only" classifications. In the District of New Jersey, for example, the "Discovery Confidentiality Order," available at <https://www.njd.uscourts.gov/sites/njd/files/APPS.pdf>, reserves "attorneys' eyes only" for "highly sensitive business or personal information, the disclosure of which is highly likely to cause

significant harm to an individual or to the business or competitive position of the designating party.” *See* Appendix 6.2.

Parties can use these model protective orders in their entirety or with minor revisions should the circumstances of the case necessitate deviation from the template. A standing order by the Court that sets forth its expectations of the parties, as well as an accepted form of protective order, can provide parties with a common, reasonable starting place while minimizing the Court’s burden in reviewing often lengthy and dense proposed protective orders.

In jurisdictions without a model protective order, parties should develop protective orders with confidentiality designations specifically defined to address the types of information likely to be discovered in that particular case. The parties should not agree to or propose a form protective order without tailoring it to their specific circumstances. It may be helpful, as a starting point, to use a confidentiality order that has been approved by another jurisdiction. The protective order should provide objective guidelines categorizing the types of information or documents likely to be discovered in each particular case and codifying them into confidentiality designations, to the extent knowable at the time.

Some parties may find it appropriate to customize the protective order to address specific needs posed by the particular dispute and will often agree quickly on an order best tailored to their particular circumstances. The expectation that the Court will enter a default protective order often facilitates consensus among the parties. If the parties are unable to agree, however, their outstanding disputes regarding the terms of the protective order should be presented to the Court for resolution.

### **6.5.2 Over-Designation of Confidential Documents**

Parties often over-designate confidential information—erring on the side of protection even if the documents do not rise to the level of confidential or highly confidential. This sometimes occurs because the producing party faces a significant challenge in reviewing hundreds of thousands of pages, not just for privilege but also for the appropriate level of access. In an effort to be cost-effective and efficient, parties often “block designate” files from a particular source as highly confidential.

Where designation disputes arise, parties should be strongly encouraged to resolve them without court intervention. One way to prompt parties to reach their own solution is to require the parties to meet and confer and attempt to address “block designations” once production has been made, failing which, requiring a motion to address each disputed document at issue. If parties have to justify their positions on a document-by-document basis, one side or the other will often see that the dispute does not warrant court intervention or that broader subject matter resolutions of disputes are warranted. If the parties persist, referral to a Magistrate Judge, or, ultimately, if the disputes and documents are voluminous, a paid special master, depending on local practice, may be appropriate. And if a dispute does require court intervention, one approach is for the parties to designate a smaller subset of disputed documents that the Court can review in camera and rule on; the parties can then apply that ruling to the remaining documents.

### **6.5.3 Claw-Back Provisions for Privileged Documents**

Another common byproduct of the voluminous document discovery in trade secret litigation is the inadvertent production of documents protected by attorney-client privilege or work-product doctrine. Such inadvertent production sometimes occurs despite the producing party’s diligent

efforts to prevent it. For example, large teams of attorneys, including contract attorneys unfamiliar with the actors in a case, may be assembled to accelerate document processing. In such cases, a document could be inadvertently produced because the attorney reviewing it did not understand that it was generated by or at the direction of a party's counsel.

FED. R. CIV. P. 26(b)(5)(B) addresses this situation. A party that believes it has unintentionally produced privileged information may give notice to the receiving party, which must then "promptly return, sequester, or destroy the specified information and any copies it has" and "take reasonable steps to retrieve" any information it has already distributed or disclosed to others. FED. R. CIV. P. 26(b)(5)(B). Until the claim of inadvertent production is resolved, the producing party is required to preserve the information, and the receiving party must not use or disclose it.

Courts should consider including in their protective orders a so-called claw-back provision, which lends some procedural structure to the substantive command of Rule 26. Such provisions often require that a receiving party promptly return or destroy, rather than sequester, inadvertently produced privileged documents. If a receiving party disputes the privileged nature of the document, it may then make a motion to compel its production.

Of course, Rule 26(b)(5)(B) does not change the substantive law that determines whether privilege was waived by the production. *See* FED. R. CIV. P. 26(b)(5) (2006 advisory committee notes). But the Advisory Committee reminds courts that they may include parties' agreements on privilege and waiver issues in an order under Rule 16(b)(6), and that such agreements and orders may be considered when deciding whether a waiver has occurred in a particular instance. FED. R. CIV. P. 26(b)(5) (2006 advisory committee notes).

Another less utilized mechanism, FED. R. EVID. 502(d), protects against the waiver of privilege for inadvertently disclosed documents. Although FED. R. EVID. 502(b) provides some protection by considering whether the conduct that resulted in disclosure was "reasonable," a Rule 502(d) claw-back agreement entered as an order of the court can replace the Rule 502(b) "reasonableness" standard and protect from waiver of privilege.

#### **6.5.4 Prosecution Bars**

Situations may arise in which a party's litigation counsel in a trade secret case is also preparing and prosecuting patent applications in the U.S. Patent and Trademark Office. In such cases, a protective order that restricts access to sensitive documents to "litigation counsel" offers faint protection to the other party, whose sensitive information might be used—even unintentionally—to the competitor's advantage in prosecuting ongoing patent applications. To address this concern, courts often include in the protective order a "prosecution bar" that prohibits any attorney who has viewed a party's confidential information from preparing or prosecuting patent applications that use or otherwise benefit from the attorney's having viewed the information. Moreover, courts frequently bar any attorney who has viewed a party's confidential information from prosecuting applications related to the same technological subject matter of the patent dispute for a period of years. Many courts often extend prosecution bars to cover any person, including experts, to whom highly confidential information is disclosed.

#### **6.5.5 Access by In-House Attorneys**

Whether and to what extent in-house attorneys of the receiving party can access the producing party's asserted trade secret information is an issue that arises often in trade secret litigation. To be clear, who qualifies as an "in-house" attorney and what role they play within a party can vary

widely, particularly in relation to litigation with international organizations operating in countries that may have different rules regarding the role, authority, and disciplinary oversight of in-house counsel. But typically, a producing party will want to limit, as much as possible, the people who have access to its trade secrets, particularly those employed to make business decisions for the opposing party, which is often a competitor. On the other hand, a receiving party may believe its ability to prosecute or defend its position in the case could be inhibited if denied access to the information at the heart of the dispute. Some courts have concluded that where outside counsel represents a party, outside counsel can adequately represent the party's interests in the litigation even if in-house counsel is precluded from viewing confidential information. See *Blackbird Tech LLC v. Serv. Lighting & Elec. Supplies, Inc.*, 2016 WL 2904592, at \*5 (D. Del. May 18, 2016). Other courts have held that limiting in-house counsel's ability to access discovery may prevent in-house counsel from appreciating "fully the strengths and weaknesses, such as they are, of their case." *Tanyous v. Banoub, C.A.*, 2010 WL 692615, at \*1 (Del. Ch. Feb 19, 2010).

That both sides will likely be producing information they consider to be a trade secret often leads parties to agree on this issue through a negotiated protective order. In some cases, however, the disagreement cannot be resolved, and guidance from the Court must be obtained.

When evaluating whether the receiving party's in-house counsel should have access to the producing party's trade secret information, courts should consider whether (a) in-house counsel is involved in competitive decision-making and (b) good cause exists for granting the in-house attorneys access. Courts routinely employ the good-cause standard when deciding protective order issues. See *Murata Mfg. Co., Ltd. v. Bel Fuse, Inc.*, 234 F. R. D. 175 (N. D. Ill. 2006). Where a party seeks to enforce a provision under the protective order, a showing of likely competitive harm resulting from the disclosures is required—and is often resolved through a protective order with multiple tiers of confidentiality. See *MGP Ingredients Inc. v. Mars, Inc.*, 245 F.R.D. 497, 500 (D. Kan. 2007).

In the event the parties are unable to agree, courts should consider this information and any other information the parties may submit to determine if in-house counsel's access to trade secrets is warranted. In making that determination, the Court should also consider whether the in-house attorneys who will be provided access to the producing party's trade secrets could end up moving into a competitive decision-making role at some future point while the trade secret information (a) still constitutes trade secrets and (b) might be relevant to the decision-making role.

In these situations, courts generally engage in a two-step analysis to determine whether in-house counsel should be permitted to access materials designated as confidential, highly confidential, or "attorneys' eyes only" in a protective order. See *Sanofi-Aventis U.S. LLC v. Breckenridge Pharm., Inc.*, 2016 WL 308795, at \*3 (D.N.J. Jan. 25, 2016); *In re Deutsche Bank Trust Co. Ams.*, 605 F.3d 1373, 1378–80 (Fed. Cir. 2010). First, courts assess whether an unacceptable risk of inadvertent disclosure exists. Second, courts balance the risk of disclosure against any potential harm to the receiving party from restrictions imposed on its right to have the benefit of its chosen counsel. Some courts have collapsed this two-step test into a single-question inquiry. See *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1470 (9th Cir. 1992).

Whether and to what extent in-house attorneys truly require access to the adverse party's trade secrets to adequately defend the company should also be considered. If the case involves complex scientific formulas or highly technical matters that can be properly understood only with the assistance of uniquely credentialed or experienced in-house counsel, it is more likely that in-house counsel should have access with the protections identified above. But if the case involves less

technical business information—but trade secrets nonetheless—it is more likely that outside counsel will be capable of understanding the information without the assistance of in-house attorneys. In-house counsel's role in litigation may provide other difficult-to-quantify benefits, including a deep company knowledge or cost-saving efficiencies that outside counsel cannot easily replicate. Factors like the size of the company and the nature of the dispute may impact these considerations and ultimately determine to what degree in-house counsel should have access to the producing party's trade secrets. If formal settlement discussions commence, the parties may wish to revisit whether certain information should be made available to certain in-house counsel solely for purposes of advising on potential settlement.

Courts have imposed various limitations on the receiving party's in-house counsel to facilitate access to the information at issue. One prominent limitation included in protective orders and upheld by courts is the requirement that in-house counsel sign an affidavit agreeing to be bound by the terms of the protective order. *See Bailey v. Dart Container Corp.*, 980 F.Supp. 560, 582–83 (D. Mass. 1996). Protective orders can also limit the number of in-house counsel of the receiving party who are permitted to access the confidential information. *See id.* at 583. In addition, many courts have implemented and upheld procedural safeguards to simultaneously minimize the risk of disclosure and allow the receiving party to sufficiently defend itself from claims of misappropriation (including the need for in-house counsel to be involved in implementation of a litigation hold for the litigation). Some of these procedural safeguards include: directing in-house counsel to lock their office doors when away; maintaining locked document storage rooms; maintaining separate servers for in-house counsel's computers that are not accessible by the rest of the company; maintaining an electronic database to store confidential electronic documents available only to in-house attorneys; prohibiting the relevant attorneys from participating in competitive decision making; and physically relocating in-house attorneys in a separate location.

#### **6.5.6 Access by Experts**

Parties may be hesitant to disclose trade secrets to experts unaffiliated with either party for fear that they could have ties to an additional competitor or the industry as a whole. Where there is a disagreement over access to confidential information, courts have required the independent experts to sign a protective order or nondisclosure agreement (NDA).

Courts differ, however, on whether confidential materials should be disclosed to experts who are employed by or consult with competitors. For example, in *Layne Christensen Co. v. Purolite Co.*, experts were required to sign an NDA before viewing any confidential materials, but disclosure of attorneys' eyes-only materials to experts who were employed by or consulted with competitors was expressly prohibited. *See Layne Christensen Co. v. Purolite Co.*, 271 F.R.D. 240, 252 (D. Kan. 2010). By contrast, other courts remain unconcerned with an expert's affiliation with a competitor as long as they agree to sign an NDA before confidential materials are disclosed. *See Streck, Inc. v. Research & Diagnostic Sys.*, 250 F.R.D. 426, 430–33 (D. Neb. 2008). In the event the producing party maintains its objection to the independent expert's access due to the expert's ongoing relationships with others in the field, an examination is warranted into the expert's involvement in the field and the availability of alternative independent experts.

#### **6.5.7 Access by Employees**

When an employee is accused of misappropriating trade secrets, the question of access becomes even more challenging. Should the accused employee be granted access to the trade

secrets they allegedly misappropriated? Is it sufficient to allow access to the trade secrets to the former employee's counsel or expert under an "attorneys' eyes only" or similar designation, but not allow access to the former employee? While few reported cases address these questions, those that do have attempted to balance the ability of the former employee to defend themselves against the harm to the former employer, which has allegedly already been harmed by the misappropriation and now is exposed to harm again by allowing the former employee unfettered access to the trade secret information. In striking this balance and reaching a final determination, most courts have (a) placed the burden of proving "good cause" on the employer by requiring it, consistent with FED. R. CIV. P. 26(c), to demonstrate why the former employee should not be granted access to the trade secrets; and (b) assessed whether "good cause" exists based on the nature of the trade secret and the ability of the former employee to mount a defense without access to the information.

Courts find themselves in a quandary when faced with challenges to multi-tiered confidentiality orders that include designations that can be used to shield documents from disclosure to a former employee accused of misappropriating trade secrets:

In deciding whether to compel disclosure of allegedly confidential or trade secret information, this Court weighs competing policy and practical considerations. A trade secret plaintiff has a legitimate interest in avoiding needless disclosure of confidential information. It seems somewhat unfair to make a plaintiff disclose a trade secret simply to prosecute his or her claims against someone who may have stolen that secret. Yet, that same plaintiff, having chosen to file suit accusing the defendant of misconduct, must identify trade secrets at issue with sufficient specificity for the defendant to prepare his or her defenses. Put simply, a defendant must be provided sufficient information to defend himself or herself. The Court also needs sufficient information to determine the relevancy of discovery and the basis for the claims asserted.

*Mobilitie Management, LLC v. Harkness*, 2018 WL 7858685, at \*1 (N.D. Ga. 2018).

This question should be assessed based on relevant factors such as the nature of the trade secret, the extent of the former employee's access to the information during employment, whether the former employee's access was authorized or unauthorized, and the ability of the former employee to mount a defense to the claims asserted without being given access.

If the former employee is to be provided with access to the information in discovery, additional safeguards may be required to ensure the protection of the trade secret information. These measures include prohibiting the former employee from being provided with copies (electronic or hard copy) of the information and prohibiting them from downloading, copying, or otherwise replicating (i.e., via screenshot) the information.

Few circumstances can justify giving an adversary's employees access to a competitor's trade secret information. Many parties stipulate to limiting disclosure to independent experts to avoid any risk of competitive harm. But there is a general absence of agreement on disclosures made to non-independent, or employee, experts. If a protective order generically authorizes experts to view trade secrets during discovery, it is unclear whether courts should permit or prohibit disclosure to non-independent experts. This issue would necessarily be decided on a case-by-case basis.

### **6.5.8 The Right of Public Access to Court Proceedings and Motions to Seal**

Trade secret actions present challenging issues regarding balancing the public's general right of access to judicial records, *see Nixon v. Warner Commc'ns, Inc.*, 435 U.S. 589, 597-99 (1978),

and the litigants' right to protect the confidentiality and value of their trade secrets. The right of access is firmly entrenched in the law throughout the United States. *See, e.g., IDT Corp. v. eBay*, 709 F.3d 1220, 1222 (8th Cir. 2013); *Mann v. Boatright*, 477 F.3d 1140, 1149 (10th Cir. 2007); *Lugosch v. Pyramid Co. of Onondaga*, 435 F.3d 110, 119-24 (2d Cir. 2006); *SEC v. Van Waeyenberghe*, 990 F.2d 845, 848 (5th Cir. 1993); *Republic of the Philippines v. Westinghouse Elec. Corp.*, 949 F.2d 653, 659-60 (3d Cir. 1991); *EEOC v. Erection Co.*, 900 F.2d 168, 169-170 (9th Cir. 1990); *Rushford v. New Yorker Mag., Inc.*, 846 F.2d 249, 252-54 (4th Cir. 1988); *FTC v. Standard Fin. Mgmt. Corp.*, 830 F.2d 404, 408 & n.4 (1st Cir. 1987); *In re Reporters Comm. for Freedom of the Press*, 773 F.2d 1325, 1332-33 (D.C. Cir. 1985); *Wilson v. Am. Motors Corp.*, 759 F.2d 1568, 1570-72 (11th Cir. 1985); *In re Cont'l Ill. Sec. Litig.*, 732 F.2d 1302, 1308-09 (7th Cir. 1984); *Brown & Williamson Tobacco Corp. v. FTC*, 710 F.2d 1165, 1177-79 (6th Cir. 1983). But this right is not absolute. At the same time, the federal Defend Trade Secrets Act (DTSA) and the Uniform Trade Secrets Act (UTSA) offer protections to safeguard trade secrets from disclosure during litigation. The result is a qualified right of public access, which often exists in tension with the confidentiality rights of the litigants.

A constitutional right to public access arises if the proceedings or documents have historically been open to the general public and "public access plays a significant positive role in the functioning of the particular process in question." *Press-Enterprise Co. v. Superior Court*, 478 U.S. 1, 8 (1986). But this right is not absolute. The qualified right to public access can be overcome "by an overriding interest based on findings that closure is essential to preserve higher values and is narrowly tailored to serve that interest." *Id.*; *Globe Newspaper Co. v. Superior Court*, 457 U.S. 596, 606-607 (1982).

The protection of trade secrets has long been recognized as one of the overriding interests that justify an exception to this public right. Public disclosure of trade secrets in court filings or in open court can destroy them. *See, e.g., E.I. duPont de Nemours & Company v. Kolon Indus., Inc.*, 564 F. App'x 710 (4th Cir. 2014) (remanding case for new trial and determination of whether the unsealing of documents in an earlier patent action had destroyed secrecy of information at issue). The Supreme Court has recognized that "sources of business information that might harm a litigant's competitive standing" are exempted from public disclosure. *See Nixon v. Warner Communications*, 435 U.S. at 598. Courts recognize that "[t]he publication of materials that could result in infringement upon trade secrets has long been considered a factor that would overcome th[e] strong presumption" of public access to court proceedings. *See Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1162 (9th Cir. 2011); *see also Doe v. Public Citizen*, 749 F.3d 246, 269 (4th Cir. 2014) ("A corporation may possess a strong interest in preserving the confidentiality of its proprietary and trade-secret information, which in turn may justify partial sealing of court records."); *Kamakana v. City & County of Honolulu*, 447 F.3d 1172 (9th Cir. 2006) ("In general, 'compelling reasons' sufficient to outweigh the public's interest in disclosure and justify sealing court records exist when such 'court files might have become a vehicle for improper purposes,' such as the use of records to . . . release trade secrets." (quoting *Nixon v. Warner Commc'ns, Inc.*, 435 U.S. at 599); *United States v. Hubbard*, 650 F.2d 293, 315 (D.C. Cir. 1980) ("The public has in the past been excluded, temporarily or permanently, from court proceedings or the records of court proceedings . . . to protect trade secrets.").

On the other hand, unexamined generalized assertions that information is "confidential" and should be filed under seal can improperly shield from public view information that is not a trade secret and that is simply "embarrassing" or "unflattering." *See, e.g., Procter & Gamble Co. v.*

*Bankers Trust Co.*, 78 F.3d 219 (6th Cir. 1996) (reversing temporary restraining orders and preliminary and permanent injunction barring the press from accessing sealed documents, holding that “The private litigants’ interest in protecting their vanity or their commercial self-interest simply does not qualify as grounds for imposing a prior restraint. It is not even grounds for keeping the information under seal, as the District Court ultimately and correctly decided.”).

Both the DTSA and the UTSA direct courts to implement safeguards to protect the litigants’ trade secrets. The DTSA provides that “the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of asserted trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws.” 18 U. S. C. § 1835(a). “[T]he court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.” 18 U.S.C. § 1835(b). The UTSA provides “a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.” UTSA § 5. The official comments to the UTSA recognize that “If reasonable assurances of maintenance of secrecy could not be given, meritorious trade secret litigation would be chilled.” UTSA § 5, Comment. These sensible provisions ensure that victims of trade secret misappropriation can seek redress in the courts without having to suffer further damage to their trade secret property rights from disclosure within the litigation.

It is important that restrictions on the disclosure of trade secrets, whether in court filings or open court, be narrowly tailored to protect the trade secrets at issue. For example, in court filings, parties should redact only those portions containing information that reveals part or all of a trade secret, instead of filing the entire document under seal. Similarly, the courtroom should be closed only for those limited portions of a trial or hearing during which information that reveals part or all of a trade secret is disclosed. By narrowly tailoring restrictions, courts preserve the constitutional right to public access.

When implementing protections, courts and parties should be mindful of the stage of the case. In particular, restrictions on information disclosed between the parties in discovery are far different from (and easier to justify than) restrictions on access to publicly filed materials. *Romero v. Drummond Co., Inc.*, 480 F.3d 1234, 1245 (11th Cir. 2007). As the Fifth Circuit has explained in *Binh Hoa Le v. Exeter Finance Corp.*, 990 F.3d 410, 420 (5th Cir. 2021), “[a]t the *discovery* stage, when parties are exchanging information, a stipulated protective order under Rule 26(c) may well be proper. Party-agreed secrecy has its place—for example, honoring legitimate privacy interests and facilitating the efficient exchange of information. But at the *adjudicative* stage, when materials enter the court record, the standard for shielding records from public view is far more arduous.” (emphasis in original). The Fifth Circuit concluded that protective orders sealing documents produced in discovery requires only a showing of “good cause.” A stricter “balancing test” applies “[o]nce a document is filed on the public record,”—when a document “becomes a judicial record.” . . . The secrecy of judicial records, including stipulated secrecy, must be justified and weighed against the presumption of openness that can be rebutted only by compelling countervailing interests favoring nondisclosure.” *Id.* (citations omitted).



This reasoning has been refined in cases discussing two standards governing motions to seal documents: a “compelling reasons” standard, which applies to documents attached to dispositive motions; and a “good cause” standard, which applies to documents attached to non-dispositive motions. *See Simmons v. Battelle Energy All., LLC*, 2016 WL 3552182, at \*3 (D. Idaho June 23, 2016) (citing *Kamakana v. City of Honolulu*, 447 F.3d 1172, 1180 (9th Cir. 2006); *see also Pintos v. Pac. Creditors Ass’n*, 605 F.3d 665, 677-78 (9th Cir. 2016); *but see Ctr. for Auto Safety v. Chrysler Group, LLC*, 809 F.3d 1092, 1101 (9th Cir. 2016) (holding that motions that are technically non-dispositive may still require the party to meet the “compelling reasons” standard when the motion is more than tangentially related to the merits of the case).

Assessment of whether the sealing of documents filed with the Court is justified may be complicated by the practical reality that often in trade secret disputes, particularly at the early phase of litigation such as in support of or opposition to a request for a preliminary injunction, a significant volume of documents may be filed with the Court by both sides in a highly compressed time frame. To guard against the inadvertent exposure to the public of genuine trade secrets during a fast-moving process, the parties on both sides may tend to err on the side of “over designation” of information to be filed under seal. Court rules frequently require, however, and best practice dictates, that sealing of filed documents be narrowly tailored to protect the trade secrets at issue. Thus, in court filings, parties should redact only those portions containing information that reveals part or all of a trade secret, instead of filing the entire document under seal unless the entire document itself is claimed to constitute a trade secret. Some court rules that permit the initial designation of entire documents as being filed under seal require that narrowly redacted documents be filed contemporaneously or shortly thereafter.

Over-zealous sealings may subsequently be challenged, at times by a court, concerned that a significant portion of the judicial record consist of documents that are filed completely under seal, *see Binh Hoa Le*, raising concern, *sua sponte*, about the fact that 73 percent of the public filings in an employment case had been filed under seal; at times by the opposing party seeking to use a motion to “unseal” particular filings as a strategic vehicle to seek an early ruling that particular information is not a trade secret; and at times by the press or other third parties seeking to intervene to obtain access to the sealed records, *see Uniloc USA, Inc. v. Apple, Inc.*, 508 F.Supp.3d 550, 554 (N.D. Cal. 2020), *vacated and remanded on other grounds*, 25 F. 4th 1018 (Fed. Cir. 2022) (granting motion of non-party Electronic Frontier Foundation to intervene to challenge filings of third-party documents the parties had agreed between themselves could be made under seal).

Depending on the volume of documents or transcripts at issue, requests that the court review filings made under seal can require painstaking review of voluminous filings. The first course in managing and resolving such disputes is generally for the parties to meet and confer to attempt to narrow disputes over what information should be filed under sealed. Often this process can greatly reduce the volume of information sought to be filed under sealed. But the determination by the parties themselves is not controlling as to judicial filings. *See Procter & Gamble Co. v. Bankers Trust Co.*, 78 F.3d 219 (6th Cir. 1996) (reversing temporary restraining orders and preliminary and permanent injunction barring the press from accessing documents parties had agreed should be filed under seal); *Binh Hoa Le*, 990 F.3d at 421 (observing that “[w]hen it comes to protecting the right of access, the judge is the public interest’s principal champion. And when the parties are mutually interested in secrecy, the judge is its *only* champion”).

It is important for attorneys to work collaboratively to narrow any areas of dispute, cognizant of the burdens that the requested protections will have on courts and their administrative staff and

any procedures unique to the jurisdiction. Thereafter, depending on applicable court rules, a party seeking to challenge a filing under seal may move to unseal or a party seeking to maintain the filing under seal may seek to present a more robust submission as permitted by the DTSA to justify the sealing. Whether elaboration on an earlier request will be permitted will generally depend on court rules, the nature of any earlier submissions, and the posture of the case. Where a large volume of documents may be at issue, a document-by-document analysis will likely unduly burden the court. Some courts have found it efficient to hold a conference with the court at which the parties present evidence and argument over whether particular illustrative categories of documents should be filed under seal. The Court's determination of how to handle these "bellwether documents" or categories can then be used by the parties to promptly address the appropriate handling of similar filings. Other courts direct the matter to review by a Magistrate Judge or even a special master.

Importantly, as a practical matter, an early decision on a sealing motion could effectively become a decision on the merits resulting in the destruction of an asserted trade secret before the finder of fact has determined on a full record whether it is a trade secret or not. Thus, "a motion to seal is not the proper vessel to explore [the] issue" of whether that information will ultimately be determined to amount to a trade secret. *United Tactical Sys., LLC v. Real Action Paintball, Inc.*, 2015 WL 3295584, at \*3 (N.D. Cal. Jan. 21, 2015); see *Mitchell Int'l, Inc. v. HealthLift Pharmacy Servs., LLC*, 2020 WL 7125397, at \*3 (D. Utah Dec. 14, 2020) (granting motion to seal; finding that "the fact that the court has not yet ruled on [the] disputed issue [of whether plaintiff's documents contain trade secrets] supports maintaining the documents under seal at this stage"); *Patterson Dental Supply Inc. v. Pace*, 2020 WL 13032907, at \*5 (D. Minn. Sept. 8, 2020) (holding that the court cannot "determine the level of articulable privacy interest" plaintiff has in the documents it requests to seal "because the determination of whether or not the information contained in these documents constitutes . . . trade secrets is potentially dispositive of" plaintiff's trade secret misappropriation claim; allowing documents to remain under seal until the Court makes a determination as to whether the information constitutes trade secrets); *PTP OneClick LLC v. Avalara, Inc.*, 2019 WL 6213167, at \*3 (W.D. Wash. Nov. 21, 2019) (granting motion to seal despite defendants' argument that the information does not amount to trade secrets, because "[a] motion to seal is not the proper context for the court to decide these trade secret issues . . . before both the parties and the court engage in a full analysis of the law and the merits related to [plaintiff's] claims"); *Yoe v. Crescent Sock Co.*, 2017 WL 11479992, at \*2 (E.D. Tenn. Sept. 1, 2017) (granting motion to seal a document because there may be trade secrets at issue, but noting that the Court may revisit whether it is appropriate to seal "[i]f the Court later determines . . . that the alleged trade secret is not at issue"); *360 Mortg. Group, LLC v. Stonegate Mortg. Corp.*, 2015 WL 8773262, at \*4 (E.D.N.C. Dec. 14, 2015) (granting motion to seal until the Court makes a "final conclusion on whether the documents in question are protected trade secrets"); *Bodemer v. Swanel Beverage, Inc.*, 884 F.Supp.2d 717, 739-40 (N.D. Ind. 2012) (denying plaintiff's motion for summary judgment because genuine issues of material fact remained as to whether defendant/counterclaimant possesses trade secrets and granting motion to seal); *ThermoTek, Inc. v. WMI Enters., LLC*, 2011 WL 1485421, at \*9 (N.D. Tex. Apr. 19, 2011) (granting a motion to seal until the Court makes a "final conclusion on whether the documents in question are protected trade secrets"); *GTSI Corp. v. Wildflower Int'l*, 2009 WL 1248114, at \*9 (E.D. Va. Apr. 30, 2009) (granting motion to seal because "the Court was not required to make, and has not made, a final decision on the confidentiality" of the documents at issue, but noting that the document may be unsealed "[i]f a different motion puts the secrecy of the [document] before the Court, and it rules

as a matter of law that the document does not contain trade secrets”); *Jadael Inc. v. Elliott*, 2006 WL 2830872, at \*2 (M.D. Fla. Sept. 29, 2006) (granting motion to seal because the Court had not reached the merits of whether the alleged trade secret was entitled to trade secret protection); *Int’l Ass’n of Machinists and Aerospace Workers v. Werner-Masuda*, 390 F.Supp.2d 479, 485 (D. Md. 2005). Cf. *Heitkoetter v. Domm*, No. 1:22-cv-0368-AWI-BAM, at \*10 (E.D. Cal. Jan. 6, 2023) (entering order prohibiting defendant from posting on the internet trading record materials received from plaintiff in discovery, holding that while the information was relevant and would need to be produced to defendant in the case, ““there has been no disposition of Defendant’s defense and that defense, standing alone, cannot serve as a basis for rejecting a confidentiality claim on materials obtained during discovery); see, e.g., *Williams v. City of Burlington, Iowa*, 2020 WL 11027935, at \*3 (S.D. Iowa Oct. 2020).” See generally, *Seattle Times Co. v. Rhinehart*, 467 U.S. 20, 33-36 (1984) (holding that “restraints placed on discovered, but not yet admitted, information are not a restriction on a traditionally public source of information”).

As the case progresses, if the Court determines on a motion for summary judgment that particular information is not a trade secret, the information should not be unsealed until the right to challenge that determination has been exhausted. Cf. 18 U.S.C. § 1835(a) (authorizing right to immediate appeal). Cf. *Foltz v. State Farm Mut. Auto. Ins. Co.*, 331 F.3d 1122, 1131 (9th Cir. 2003) (acknowledging that specific documents found in connection with summary judgment motion to constitute trade secrets were entitled to be sealed notwithstanding their role in a judicial determination; finding that “good cause” existed for sealing of specific information).

Finally, once the matter reaches trial, the public’s interest is at its apex, requiring courts and parties to carefully consider the need for protections as well as to narrowly tailor any protections deemed necessary.

At trial, the trade secret owner is not the only stakeholder that must be accounted for when implementing restrictions on disclosure. When a jury is involved, conspicuous measures like sealing the courtroom could send a message that the information at issue is a trade secret, even though that may be the very determination in the jury’s hands. For this reason, sealing the courtroom during trial should be a last resort, used only when less restrictive means—such as aliases or code words to describe the trade secret—cannot be used. In these circumstances, courts will almost always need to give a curative instruction to the jury that directs them that the sealing of the courtroom and the use of other protections is not to be considered when making their findings. And when sealing is necessary, the number of times that the courtroom is sealed should be minimized.

For example, in *United States v. Roberts*, a case involving photographs that allegedly disclosed trade secrets, the Court implemented protections at trial to limit the suggestive nature of the restrictions. See *United States v. Roberts*, 2010 WL 1010000, at \*1 (E.D. Tenn. Mar. 17, 2010). This included (a) publishing the photographs to the jury in a way that did not allow others in the courtroom to view them, such as by publishing by hand instead of electronically; (b) to the extent trade secret information needed to be displayed on the electronic monitors, turning off the public monitors without the jury being aware; (c) placing demonstrative aids where only the jury could see them; and (d) giving a special instruction that the jury should attach no significance to the manner in which the photos were displayed or handled. Such measures ensure the adequate protection of trade secrets at trial without prejudicing the jury’s decision.

Once trial has concluded, the Court may order narrow redactions to trial exhibits to protect trade secrets. *See Syntel Sterling Best Shores Mauritius Limited v. Trizetto Grp., Inc.* 2021 WL 2935963 (S.D.N.Y. July 13, 2021).

### **6.5.9 Case Management Guidelines for Implementing Protections at Hearings and Trial**

When exploring protections, parties and courts should look to the full arsenal of protections, selecting the narrowest available restriction that adequately protects the trade secrets at issue. Courts have used a variety of approaches at hearings and trial, including:

- sealing the courtroom for a preliminary injunction hearing that involved alleged trade secrets, *see BP Am. Prod. Co. v. Hamer*, 2019 WL 7049990, at \*1 (D. Colo. Dec.23, 2019);
- ordering that transcript be redacted before becoming publicly available, *see Facebook, Inc. v. ConnectU, Inc.*, 2008 WL 11357787, at \*1 (N.D. Cal. July 2, 2008);
- permitting exhibits to be filed under seal, *see Motorola Sols., Inc. v. Hytera Commc 'ns Corp.*, 367 F.Supp.3d 813 (N.D. Ill. 2019);
- not filing exhibits on the public docket; not publishing exhibits to the gallery; and ordering witnesses who were shown certain exhibits not to disclose the information, *see Sumotext Corp. v. Zoove, Inc.*, 2020 WL 836737, at \*1 (N.D. Cal. Feb. 20, 2020);
- closing the courtroom at trial whenever there was testimony about alleged trade secrets, *see CDA of Am. Inc. v. Midland Life Ins. Co.*, 2006 WL 5349266, at \*1 (S.D. Ohio Mar. 27, 2006); and
- declining to close the courtroom at trial, instead (a) making trial observers subject to the protective order; (b) sealing exhibits admitted into evidence; and (c) redacting court orders, *see LifeNet Health v. LifeCell Corp.*, 2015 WL 12516758, at \*1 (E.D. Va. Jan. 9, 2015).

These decisions show that determining the appropriate protections requires a case-by-case analysis. The court must review the particular trade secrets at issue to determine how to implement protections that will safeguard the information.

When drafting orders or opinions, judges should be careful not to publicly disclose trade secret information that has previously been ordered subject to protections. One way to avoid inadvertent disclosure is to request that the Court, to the extent possible under the local rules, provide the parties with the order before filing it publicly. This would allow the parties to offer proposed redactions for the Court's consideration. After the conclusion of trial and all appeals, information that has been determined not to be a trade secret may be appropriately unsealed in judicial decisions. *See, e.g., Bimbo Bakeries, USA, Inc. v. Sycamore*, 39 F.4th 1250, 1260 (10th Cir. 2022) (unsealing description in court decision of information found not to constitute a trade secret after all rights to rehearing and appeal had been exhausted; nonetheless, the Court provided parties with notice of the decision and an opportunity to present any proposed redactions before ordering unsealing).

For a discussion of managing trade secrets in criminal trials under the EEA, *see* § 11.8.1; CCIPS CRIMINAL DIVISION, PROSECUTING INTELLECTUAL PROPERTY CRIMES 205-14 (4th ed.), available at <https://www.justice.gov/file/442151/download>

### **6.6 Identification of Trade Secrets**

When and how the asserted trade secrets are identified is a critical and threshold issue in trade secret cases. This identification also implicates various discovery issues. We address the discovery and other issues involved in the identification of the asserted trade secrets in Chapter 4.

## **6.7 Particular Types of Records**

This section addresses discovery relating to several complex types of records.

### **6.7.1 Forensic Images of Devices Involved in Alleged Misappropriation**

Trade secret misappropriation is today almost always more technologically advanced than the traditional image of a disgruntled employee swiping paper files. Modern misappropriation includes the use of the internet, portable hard drives, cloud storage, and countless other computer tools to transfer trade secret information. And there are likewise countless computer-based tactics to conceal wrongdoing. Discovery into the computers involved in trade secret misappropriation is common. And the best tool for such discovery is a “bit-by-bit” or “mirror” image of a device.

Bit-by-bit computer forensic imaging (i.e., replicating the digital bits of computer storage) involves the creation of an exact duplicate of a storage device that “does not alter anything on the original device, and is verifiable, meaning it uses hash values to confirm an exact bit-for-bit match.” *List Indus., Inc. v. Umina*, 2019 WL 1933970, at \*1, n. 1 (S.D. Ohio May 1, 2019). It “replicates bit for bit, sector for sector, all allocated and unallocated space, including slack space, on a computer hard drive.” *A.M. Castle & Co. v. Byrne*, 123 F.Supp.3d 895, 901, n. 1 (S.D. Tex. 2015) (quoting *Balboa Threadworks, Inc. v. Stucky*, 2006 WL 763668, at \*3 (D. Kan. Mar. 24, 2006)). A bit-by-bit image preserves forensic artifacts for inspection and could prove to be the critical evidence of misappropriation, especially if the alleged misappropriator used technological means to cover their tracks, such as deleting and overwriting files, destroying hard drives, or using personal devices. *See Genworth-Fin. Wealth Mgmt., Inc. v. McMullan*, 267 F.R.D. 443, 448 (D. Conn. 2010) (finding “forensic imaging by a neutral expert is the only way that the Plaintiff will be able to secure the electronic data to which it is entitled” where the defendant admitted to deleting emails and destroying his computer hard drive).

Applicable rules about preservations apply to devices and thus may require their forensic imaging. As to the discovery of such imaging, courts recognize that trade secret cases may call for bit-by-bit forensic imaging, potentially under the supervision of the Court, more often than other types of litigation. *See Ameriwood Indus., Inc. v. Liberman*, 2006 WL 3825291, at \*2 (E.D. Mo. Dec. 27, 2006), *as amended on clarification*, 2007 WL 685623 (E.D. Mo. Feb. 23, 2007). But generating a bit-by-bit forensic image of an alleged misappropriator’s devices is intrusive, as it will capture even non-relevant and personal data. *See Oce N. Am., Inc. v. MCS Servs., Inc.*, 2011 WL 197976, at \*4 (D. Md. Jan. 20, 2011).

When deciding whether to order the production of a bit-by-bit forensic image of a resistant party’s devices and, as importantly, when deciding whether some or all of the bit-by-bit forensic image will be made available to the opposing party or its counsel, courts must exercise caution and heed confidentiality and privacy concerns. *See Audio Visual Innovations, Inc. v. Burgdolf*, 2014 WL 505565, at \*2 (E.D. Mich. Feb. 3, 2014) (“In compelling forensic imaging, a Court must guard against undue intrusiveness and account properly for the significant privacy and confidentiality concerns that may be present in a case.”); FED. R. CIV. P. 34(a) Advisory Committee Note (2006) (“[c]ourts should guard against undue intrusiveness resulting from inspecting or testing such systems”).

“[M]ere suspicion” that bit-by-bit imaging will yield discoverable information “is not enough to justify a forensic imaging request.” *List Indus., Inc.*, 2019 WL 1933970, at \*4; *accord Audio Visual Innovations, Inc.* 2014 WL 505565, at \*2; *Motorola Sols., Inc. v. Hytera Commc’ns Corp.*, 314 F.Supp.3d 931, 939 (N.D. Ill. 2018). Courts usually require something more. That “something more” depends on the facts of the case but often include one or more of the following:

- Discrepancies or inconsistencies in the responding party’s discovery responses or other impropriety. *See Audio Visual Innovations, Inc.*, 2014 WL 505565, at \*2 (“In situations where a party can show improper conduct on the part of the responding party, a forensic examination may be appropriate.”); *FCA US LLC v. Bullock*, 329 F.R.D. 563, 567 (E.D. Mich. 2019), *reconsideration denied*, 2019 WL 3315275 (E.D. Mich. July 24, 2019); *Balboa Threadworks, Inc.*, 2006 WL 763668, at \*3; and
- Evidence that a computing device was used to download, apply, or transfer the trade secrets at issue. *See Ameriwood*, 2006 WL 3825291, at \*4; *Genworth Fin. Wealth Mgmt., Inc. v. McMullan*, 267 F.R.D. 443, 447–48 (D.Conn. 2010); *M-I L.L.C. v. Stelly*, 2011 WL 12896025, at \*1 (S.D. Tex. Nov. 21, 2011); *Cenveo Corp. v. Slater*, 2007 WL 442387, at \*2 (E.D. Pa. Jan. 31, 2007); *Frees, Inc. v. McMillian*, 2007 WL 184889, at \*2 (W.D. La. Jan. 22, 2007).

If the need for forensic imaging is established, courts are then tasked with defining the procedure for generating the image and disclosing it to the requesting party. They have adopted various procedures and protocols in these situations, too many to address here. One example, however, is the three-step procedure—imaging, recovery, disclosure—set forth in *Ameriwood*. 2006 WL 3825291 at \*5-\*7; *see also, e.g., Genworth Fin. Wealth Mgmt., Inc.*, 267 F.R.D. at 446 (adopting the *Ameriwood* approach); *Cenveo Corp.*, 2007 WL 442387, at \*1 (same). During the first “imaging step,” a computer forensic expert (pursuant to a confidentiality agreement) inspects, copies, and images the defendant’s computer equipment at a mutually agreeable and non-disruptive time, and provides a detailed report of the equipment produced and inspected. During the second “recovery step,” the expert recovers from the mirrored images all available word-processing documents, incoming and outgoing email messages, presentations, and files, including deleted files, and provides the recovered information in a reasonably convenient and searchable form to the resisting party’s counsel, with notice to the requesting party. And during the third “disclosure step,” the resisting party’s counsel examines the records for privilege and responsiveness and provides the requesting party’s counsel all responsive and non-privileged documents and information, in addition to a privilege log and any protocols used to identify and remove any withheld information. The requesting party then decides whether motions to compel or other challenges are necessary.

Courts often oversee the retention of computer forensic experts to conduct the imaging and review the images. For example, courts have tasked a particular party with selecting the expert (*Audio Visual Innovations, Inc.*, 2014 WL 505565, at \*4), ordered a neutral expert of the court’s choosing (*M-I L.L.C. v.*, 2011 WL 12896025, at \*2), allowed each party to retain its own expert to both conduct imaging and review (*List Indus., Inc.*, 2019 WL 1933970, at \*4), and authorized the parties to decide how best to structure the process (*e.g. Cenveo Corp.*, 2007 WL 442387, at \*2 (plaintiff retained the expert, but defendants were given the option to retain additional expert for supervision and further review)). The requesting party ordinarily bears the costs associated with the expert’s retention. *See Audio Visual Innovations, Inc.*, 2014 WL 505565, at \*4; *Ameriwood* 2006 WL 3825291 at \*5. But courts may apportion the costs between the parties in the interest of

fairness or to punish a party's bad-faith discovery practices. See *Genworth Fin. Wealth Mgmt., Inc.*, 267 F.R.D. at 448 (defendant ordered to pay 80% of expert costs after failing to diligently image its electronic devices); *Covad Commc'ns Co. v. Revonet, Inc.*, 258 F.R.D. 5, 16 (D.D.C. 2009) (defendant ordered to pay for the forensic imaging, and plaintiff ordered to pay for analysis).

Appendix 5.1 provides examples of orders directing forensic examination.

### 6.7.2 Source Code

Source code is a particularly sensitive area of discovery, especially for technology companies whose products include source code. Common disputes that arise over source code discovery include the scope and procedures for production.

Because source code is often highly sensitive information, the producing party will be reluctant to produce more than necessary for the case. The party seeking discovery of source code, on the other hand, is operating in the dark, unsure what source code exists and where the necessary information for its claims resides in the other party's source code. These competing interests often ripen into discovery disputes that the Court must resolve.

As a starting point, the party alleging trade secret misappropriation should have identified what alleged trade secret was misappropriated. Any source code underlying the alleged trade secret itself should be discoverable. But the parties will often still dispute exactly what sources of information and code fall within this category. Some ways to define the scope of source code include by time frame, authors or editors of the code, and the product or function the code underlies.

The party seeking source code discovery will frequently argue for broader time frames and for source code beyond that of the alleged trade secret so that it can compare the alleged misappropriated source code to prior versions or to other sections of code to prove that the timing and character of the code show misappropriation. This argument should be weighed against the producing party's interest in maintaining confidentiality of its code and the burden to produce it.

Parties also routinely dispute other information about the source code. For instance, a requesting party may want information about the version history of the code to know when it was edited, how, and by whom. The requesting party may also want documents and information about the architecture of the code, tools used to generate source code, files output by the code, and other documentation about design and execution of the code. The producing party will likely consider these categories of information overbroad and irrelevant to the dispute and argue that the source code itself should be sufficient to prove the trade secret claims.

While these disputes, and their resolution, are best addressed in a case-by-case analysis, the following decisions reflect some of the approaches that courts have taken.

In *Calendar Research, LLC v. StubHub, Inc.*, the District Court stayed all other claims to see if resolution of the trade secret claim would resolve the case. See *Calendar Research, LLC v. StubHub, Inc.*, Case No. 2:17-cv-04062-SVW-SS, Dkt. 116 (N.D. Cal. Nov. 14, 2017). The parties raised a source code dispute to the Magistrate Judge, including disputes over many of the issues above and more. Calendar Research, a startup that alleged former employees of a company it acquired took trade secrets with them when they went to work for ticketing platform StubHub, sought broad discovery on all source code for the app in question, server-side code that related to the app, all code created and consulted on by the individual defendants, version history for all the requested code, and all documents and files related to the creation, outputs, design, and architecture of the code. The requests sought source code from a time period starting before the individual

defendants joined StubHub. StubHub objected and produced only source code for the disputed app and the individual defendants' code. After multiple meet-and-confers and hearings with the Magistrate Judge, the Court granted Calendar Research's broad requests, finding that the source code was the basis for the trade secret dispute and the key to resolving all other claims. Although StubHub would eventually prevail on summary judgment, the Magistrate Judge found that StubHub did not articulate specific harm that the protective order in the case could not address and concluded that production would thus not cause security concerns.

Courts do not always permit such broad discovery into a party's source code. For instance, in the high-profile *Waymo LLC v. Uber Techs., Inc.* case in the Northern District of California, autonomous driving developer Waymo attempted to compel Uber to produce source code late in the litigation from a witness who allegedly may have taken trade secrets. *See Waymo LLC v. Uber Techs., Inc.*, 2017 WL 6883929, at \*2 (N.D. Cal. Oct. 19, 2017). But Waymo did not show the Court why it believed the witness had trade secrets in his source code files. The Court also had concerns that Waymo was trying to use the source code to belatedly expand the scope of its trade secret allegations. Finding that Waymo's request was an overbroad fishing expedition for "unknown and unlitigated claims" not at issue, the Court denied the request.

Courts faced with disputes over the scope of discoverable source code should first establish what source code has and has not been produced and determine the significance of the disputed source code to the case. Courts should then consider whether the information sought can be found in other data or documents that are less confidential and less burdensome to produce. In the end, the Court will have to weigh the need for and relevance of the disputed source code against the producing party's interest in protecting its highly confidential source code from disclosure to outside parties.

Source code can easily be leaked to the wrong parties via a thumb drive or upload to a server. To ensure that source code remains confidential, it is often produced under very controlled circumstances. In many cases, the producing party will upload the source code onto a computer and then disconnect the computer from the internet, i.e., take the computer "offline." The producing party might also require that the source code computer remain at a particular location, that persons who gain access to the source code computer log when they entered and exited the room where it is kept, or that no other electronics be allowed in the same room. The producing party will often allow the claimant to print a hard copy of a portion of the source code. But the hard copy, like the electronic source code itself, is subject to safety measures to ensure that it does not fall into the wrong hands. This may include keeping track of the number of hard copies (or pages or lines of code) printed, storing the hard copies under lock and key, requiring hard copies to be hand-carried by certain custodians, or mailing hard copies with tracking and signature required to ensure that the correct party is in receipt. Many of these measures are included in the model or default protective orders of districts with such orders. If not, parties often enter into a separate agreement that defines the terms by which source code will be produced, reviewed, and used in the litigation.

As with other protective order disputes, courts deciding disputes over source code protections should consider how burdensome the measures are, whether less burdensome or restrictive means exist for protecting the source code, the risk and type of harm that may occur without the requested protections, and the practicalities of implementing and enforcing the proposed source code protections.

Appendix 6.4 contains the District of Delaware's Default Standard for Access to Source Code.



### 6.7.3 Employee Records

Like forensic imaging, the discovery of employee records is another sensitive issue that frequently arises in trade secret cases. Because misappropriation cases most commonly involve a former employee whose position afforded them access to the asserted trade secrets, that employee's (along with other employees') records become relevant.

Some states have laws that specify what type of information should and should not be included in personnel records and under what circumstances such records can be produced. Federal courts have also adopted various rules for the production of these records to address these competing issues, including privacy.

Michigan, for example, has the Bullard–Plawecki Employee Right to Know Act, which prohibits an employer from releasing information to a third party about an employee's disciplinary reports, letters of reprimand, or other disciplinary actions older than four years unless the information has been ordered released in a legal action or arbitration or is part of certain law enforcement activity. *See* MCL 423.506-07.

Another example is California Civil Procedure Code § 1985.6, which establishes notice and procedural requirements for subpoenaing employee records. Specifically, the subpoena must be accompanied by a notice with attention-drawing typeface that states that (1) employee records are being sought, (2) the records may be protected by privacy rights, (3) the employee may object by filing papers with the court, and (4) the employee should consult an attorney about their rights to privacy if the subpoenaing party will not agree to cancel or limit the subpoena. Cal. Civ. P. Code § 1985.6(e).

More generally, FED. R. CIV. P. 26 requires that courts guard against discovery that causes “annoyance, embarrassment, oppression, or undue burden or expense.” Courts have interpreted this language to require that a party requesting employee records make a showing of relevance and need before ordering their production. *See Ford Motor Co. v. Versata Software, Inc.*, 2017 WL 3944392, at \*3 (E.D. Mich. Aug. 7, 2017), report and recommendation adopted, 2017 WL 3913843 (E.D. Mich. Sept. 7, 2017). In *Ford Motor*, the Court rejected the plaintiff's argument that personnel files were relevant to apportioning damages because the plaintiff failed to articulate how and explain why other less intrusive sources were inadequate. *See id.* at 5. In *Via Techs., Inc. v. Asus Computer Int'l*, the Court substantially limited the plaintiff's request for employee records from the competing company to only the records of the nine individuals accused of misappropriating trade secrets and required production only of documents from before the competing company hired them. *See* 2016 WL 1056139, at \*4 (N.D. Cal. Mar. 17, 2016).

### 6.7.4 Personal vs. Work Accounts and Devices

The use of personal electronic devices in the workplace is now so ubiquitous that it has spawned its own acronym—BYOD, or bring your own device. With the consent or encouragement of their employers, many employees bring their smartphones to work every day and even have their phones set up to receive and send both work and personal emails and messages. Many employees also bring their work laptops or tablets home and work outside the office, or vice versa with home laptops and tablets.

When addressing the discoverability of a suspected misappropriator's personal accounts and devices, courts should consider the need to protect both the individual's right to privacy and the current employer's sensitive information that might also be housed on those devices or accounts.

Courts should likewise consider ways to limit the scope of the inspection into the personal devices or accounts or add appropriate protective measures to balance the parties' interests.

Addressing the competing issues involved in discovery of personal devices or personal information in work devices requires a case-by-case analysis with special attention to the facts. It is thus not surprising the courts reach different results when addressing these issues, as the following two cases illustrate.

In *FCA US LLC v. Bullock*, the Court found the defendant's right to privacy outweighed the relevance of the information in her personal account and thus limited the scope of discovery sought. See *FCA US LLC v. Bullock*, 329 F.R.D. 563, 568–69 (E.D. Mich. 2019), *reconsideration denied*, 2019 WL 3315275 (E.D. Mich. July 24, 2019). The plaintiff submitted evidence that the defendant connected external hard drives to her work laptop and transferred data. The defendant resisted producing personal devices, stating that she had produced files from her computer already and admitted some were already deleted. The Court considered the scope of discovery under Rule 26 as well as the Advisory Committee Notes to Rule 34, which state that "courts should guard against undue intrusiveness resulting from inspecting or testing [a party's electronic information system]." Although the Court found that access to the defendant's computing systems was not proportional to the needs of the case, it still ordered the defendant to produce the deleted files and to hire a computing expert at plaintiff's expense to recover those files if needed.

In *Am. Builders & Contractors Supply Co. v. Roofers Mart, Inc.*, the Court came to the opposite conclusion and required the defendant to produce his personal computer for inspection. See *Am. Builders & Contractors Supply Co. v. Roofers Mart, Inc.*, 2011 WL 13248690, at \*2 (E.D. Mo. Nov. 28, 2011). The Court found that the plaintiff had shown that the defendant copied plaintiff's files on a USB flash drive after resigning from the company and accessed those files while employed at his next company. The defendant objected that his family's personal information was stored on his laptop. But the Court found that defendant failed to demonstrate the protective order in the case would not be sufficient to protect his privacy. The Court also limited plaintiff's inspection of the laptop to files and data related to the flash drive in question.

Another question that can arise in trade secret cases is whether an employer must turn over files from its employees' personal accounts and devices as part of discovery. This depends in part on whether the employer has possession, custody, or control over the files under Rule 34. To analyze this question, courts often look to the terms of the employer's agreement with its employees.

In *Matthew Enter., Inc. v. Chrysler Grp. LLC*, the plaintiff moved to compel production of emails from the personal accounts of defendant's employees. See *Matthew Enter., Inc. v. Chrysler Grp. LLC*, 2015 WL 8482256, at \*3 (N.D. Cal. Dec. 10, 2015). Because the defendant did not provide work email accounts to all its employees, many employees used their personal accounts to send and receive work emails. The plaintiff and defendant disputed whether the work emails in those personal accounts were in the defendant's possession, custody, and control. To analyze the issue, the Court considered whether the defendant had a legal right to obtain its employees' work emails. While the Court found that the defendant's employee handbook instructed employees to keep defendant's internal information in the "sole possession" of defendant, it also found that the handbook was not a legal contract and thus the defendant did not have a legal right to obtain those emails from its employees. The Court concluded that ordering the defendant to produce those emails would be futile.

In *Waymo LLC v. Uber Technologies, Inc.*, 2017 WL 2123560, at \* 12 (N.D. Cal. May 15, 2017) the Court ordered a corporate defendant to exercise the full extent of its corporate, employment, contractual, and other authority to direct its non-party employee to return downloaded materials.

### 6.8 Trade Secret Privilege

Certain states grant evidentiary privilege protection to trade secrets, generally providing for ways to insulate them from disclosure unless they are the subject of the cause of action in the case. Thus, this privilege rarely applies in the context of cases alleging misappropriation of trade secrets, as trade secrets are the focus of the case and thus fair game for discovery.

These trade secret privilege protections are either explicitly codified in evidentiary or trade secret laws or created by case law. One example of a codified privilege is California Evidence Code § 1060, which provides: “If he or his agent or employee claims the privilege, the owner of a trade secret has a privilege to refuse to disclose the secret, and to prevent another from disclosing it, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice.” This requires a Court to balance the interests of both the requesting and producing parties based on a three-step burden-shifting procedure. See *Bridgestone/Firestone, Inc. v. Superior Court*, 7 Cal.App.4th 1384, 1393, 9 Cal.Rptr.2d 709, 713 (1992), *reh’g denied and opinion modified* (July 23, 1992). First, the party claiming privilege must establish the existence of a trade secret. Then the party requesting production must make a particularized showing that the information is necessary and relevant to prove or defend against a material element of a cause of action and that it is essential to a fair resolution of the case. Finally, the parties can both propose less-intrusive alternatives to disclosure of the trade secret, but it falls to the party claiming privilege to demonstrate that the alternatives are fair and not unduly burdensome.

Florida defines the trade secret privilege in a similar way. Section 90.506 of the Florida Statutes provides that “a person has the right to refuse to disclose, and to prevent other persons from disclosing, a trade secret owned by that person if the allowance of the privilege will not conceal fraud or otherwise work injustice.” It also states that “[w]hen the court directs disclosure, it shall take the protective measures that the interests of the holder of the privilege, the interests of the parties, and the furtherance of justice require.” This rule has been interpreted to require that courts determine if the materials in question constitute trade secrets by, for instance, conducting an in-camera review. See *Am. Exp. Travel Related Servs., Inc. v. Cruz*, 761 So.2d 1206, 1209 (Fla. Dist. Ct. App. 2000).

In South Carolina, the Supreme Court has held that the state’s Trade Secrets Act is designed to protect trade secrets from disclosure and thus creates an implied trade secret evidentiary privilege. See *Hartsock v. Goodyear Dunlop Tires N. Am. Ltd.*, 422 S.C. 643, 651, *opinion after certified question answered sub nom. Hartsock v. Goodyear Dunlop Tires N. Am. Ltd.*, 723 F. App’x 224 (4th Cir. 2018). Under the South Carolina trade secret privilege, trade secrets do not need to be produced or disclosed in litigation unless the Court finds a substantial need based on a four-part test. See *id.* at 701. There is substantial need for production of an alleged trade secret if

(1) the allegations in the initial pleading setting forth the factual predicate for or against liability have been plead with particularity; (2) the information sought is directly relevant to the allegations plead with particularity in the initial pleading; (3) the information is such that the proponent of the discovery will be substantially prejudiced if not permitted access

to the information; and (4) a good faith basis exists for the belief that testimony based on or evidence deriving from the trade secret information will be admissible at trial.

*Id.*

## **6.9 Management of Disputes, Including Use of Special Masters**

Managing discovery disputes in trade secret cases can quickly consume court resources. Several factors cause this, including the confidentiality of the trade secrets and the scope and invasiveness of relevant information.

To reduce the number of discovery disputes parties raise to the Court, some jurisdictions and courts have enacted procedural rules and limits. These apply to all types of cases, but can be useful in managing trade secret cases. For instance, many jurisdictions require that before filing a discovery or other non-dispositive motion, the parties must meet and confer in person or by phone. In some jurisdictions, the courts require parties to file joint discovery briefs or letters, which may encourage the parties to confer more and narrow their disputes. Courts also commonly restrict discovery motions to a limited number of pages and require each party to propose a compromise position in its submission to the Court. Some courts explicitly discourage discovery motions in their rules or standing orders.

The presiding judge will sometimes also appoint a special master to review or hear the parties' positions and make recommendations and reports for deciding the dispute. In cases in which they are appointed, the special masters make those determinations themselves. The use of a special master or Magistrate Judge to assist with and preside over discovery is occasionally done in complex cases where the Court expects discovery to be contentious. Retired judges and seasoned attorneys, well versed in litigation and discovery issues, often take on the duties of the special master.

Special masters can alleviate the burden on the presiding judge by encouraging the parties to further meet and confer or compromise, forcing the parties to narrow their disputes, clarifying the exact scope of issues in dispute, and making recommendations based on applicable law. If one or more parties do not agree with the special master's recommendation, they can file objections before the presiding judge enters an order. The order in *XPO CNW Inc. v. R&L Carriers, Inc.* is typical of a trade secret case where the Court referred discovery disputes to a special master. *See XPO CNW Inc. v. R&L Carriers, Inc.*, 2019 WL 1274819, at \*1 (E.D. Mich. Mar. 20, 2019). In that case, the special master made five recommendations on the parties' disputes over the scope of discovery. Both parties filed objections. Upon considering the special master's report and the parties' objections, the Court overruled the objections and adopted all of the special master's recommendations.

In federal cases, Magistrate Judges hearing discovery disputes generally have the authority to enter discovery orders. Thus, the presiding judge will not need to ratify every decision and order of the Magistrate Judge. But one or more parties can object to the Magistrate Judge's order and seek reconsideration by the presiding judge. In *United Servs. Auto. Ass'n v. Mitek Sys., Inc.*, the Magistrate Judge ordered the plaintiff to identify each alleged trade secret that the defendant allegedly misappropriated. *See United Servs. Auto. Ass'n v. Mitek Sys., Inc.*, 2013 WL 1867417, at \*1 (W.D. Tex. Apr. 24, 2013). The plaintiff filed objections to the Magistrate Judge's order and appealed to the presiding District Court Judge. The District Judge reviewed the Magistrate Judge's order under Rule 72(a), which states that the district judge should not modify or set aside the

Magistrate Judge's order unless it is "clearly erroneous or contrary to law." Finding that the Magistrate Judge properly exercised his discretionary authority under Rule 16(c)(2)(L) to adopt special procedures to manage complex issues, the District Court Judge affirmed the magistrate judge's discovery order.

Special masters can also be appointed to assist with particular issues as they arise. As one example, in *Waymo LLC v. Uber Techs., Inc.*, the Court learned that Uber had withheld a potentially relevant letter from a former employee that included accusations against Uber. The Court assigned the discovery special master, a senior intellectual property litigator from a local Northern California firm, to determine whether Uber had an obligation to produce the letter as part of the trade secret litigation. *See Waymo LLC v. Uber Techs., Inc.*, 2017 WL 6501798 (N.D. Cal. Dec. 15, 2017). After the special master reported that Uber had failed its obligation to produce the letter, the Court issued an order on evidentiary remedies in light of the special master's finding. *See Waymo LLC v. Uber Techs., Inc.*, 2018 WL 646701, at \*19 (N.D. Cal. Jan. 30, 2018).

## **6.10 Discovery from International Sources**

Regardless of whether the extraterritorial jurisdiction, in some cases a party may need to seek discovery from foreign entities or jurisdictions—a complex and often daunting proposition. Compared to discovery in the U.S., which is unique in its breadth, parties seeking discovery from international sources will frequently face challenges to the scope of information they seek, assuming they are permitted to take any discovery at all. Common procedures and authorities for foreign discovery include the FEDERAL RULES OF CIVIL PROCEDURE and applicable state discovery laws, the Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, and letters rogatory. Depending on the foreign jurisdiction, blocking statutes and data privacy laws could stand in the way.

### **6.10.1 The Importance of Early Planning for International Discovery**

Because the processes for obtaining cross-border discovery are frequently cumbersome and slow, each party should plan ahead and inform the other parties as soon as it believes that cross-border discovery will be necessary. By raising the potential need for reliance on foreign sources of evidence at the outset, the parties can plan for and resolve procedural and timing issues with the other parties and, if necessary, the Court. Importantly, the burdens of discovery, including planning for and resolving issues with cross-border discovery, are shared and not to be borne solely by the party seeking the discovery. As reflected in the Advisory Committee Notes to the 2015 Amendments to Rule 26, "[f]raming intelligent requests for electronically stored information . . . may require detailed information about another party's information systems and other information resources."

After initial planning for cross-border discovery, the parties should reference cross-border discovery issues in Rule 26 initial disclosures and include them in the parties' Rule 26(f) discovery plan. A party seeking foreign sources of discovery should use the Rule 26(f) conference to discuss with the other parties the impact that seeking the foreign evidence could have on discovery and case management. The parties should also use the Rule 26(f) conference to attempt to reach agreements on informal discovery designed to reduce costs and minimize burdens. For instance, the parties may want to consider conducting joint interviews of witnesses located overseas to minimize the financial burden and time required to obtain cross-border discovery. This is particularly true if geopolitical, environmental, or public-health conditions create severe restraints

on foreign travel or access to sources of proof. Courts also expect the parties to use the Rule 26(f) conference to attempt to reach agreements that could minimize the cost of formal discovery, such as agreeing to take depositions over the telephone or by videoconference (such as Zoom or Skype) and obtaining expert affidavits that could be used to support the Court's taking of judicial notice. These cost- and time-saving measures are particularly relevant to cross-border discovery, which often requires the use of translators and is frequently expensive and at times unwieldy.

At the Rule 26(f) conference and at the Rule 16(b) conference, the parties to a patent or trade secret case that implicates foreign evidence should also be prepared to explain to each other and to the Court the extent to which discovery of the evidence comports with Rule 26(b)(1)'s proportionality requirement. That is, the parties should be prepared to address whether the proposed cross-border discovery is "proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties' relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit." FED. R. CIV. P. 26(b)(1).

The parties should also address with the Court how the need for foreign evidence could affect timing and discovery deadlines for depositions and service of written discovery requests, as well as deadlines to amend the pleadings, join parties, conduct expert discovery, and file dispositive motions. For example, if the Court follows presumptive deadlines to amend the pleadings or add parties, these deadlines might be hard for a party to meet if related evidence is needed from a foreign jurisdiction where the procedures for obtaining the discovery take longer to navigate than the timeframe under the presumptive deadline. If foreign evidence relates to a specific issue, claim, or defense in a patent or trade secret case, the Court might stagger the case schedule so that progress is still being made on other issues or claims despite delays in obtaining the cross-border discovery. In addressing timing and case scheduling issues, parties should also consider potential delays caused by foreign travel, different holiday schedules where the evidence is located, local laws that mandate additional procedural steps before taking depositions (or prohibit them altogether), and the time and expense associated with obtaining document translations.

### **6.10.2 Authorities and Procedures for Taking International Discovery**

Discovery from a party located abroad is generally governed by the same discovery rules that govern the rest of the case. That is, the U.S. Court can generally exercise its personal jurisdiction over the parties to compel production of evidence or party witnesses within the party's possession, custody, or control as required by the applicable discovery rules. But courts must be cognizant that a producing (or non-producing) party could face additional restrictions from applicable foreign laws that would limit its ability to comply with the Court's order or its other discovery obligations. The Court may nonetheless impose discovery sanctions on the foreign party. *See Société Nationale Industrielle Aerospatiale v. United States District Court*, 482 U.S. 522, 544 n.29 (1987) ("It is well settled that foreign 'blocking' statutes do not deprive an American court of the power to order a party subject to its jurisdiction to produce evidence even though the act of production may violate that statute."); *Linde v. Arab Bank, PLC*, 269 F.R.D. 186 (E.D.N.Y. 2010) (concluding that an adverse inference instruction can be a proper sanction under FED. R. CIV. P. 37(b) even when the non-producing party did not produce evidence due to foreign blocking law rather than bad faith or willful conduct).

In addressing requests for foreign discovery, courts and litigators must assess the international comity concerns outlined by the U.S. Supreme Court in its landmark decision in *Société Nationale Industrielle Aerospatiale v. United States District Court*, 482 U.S. 522 (1987). There, while the Supreme Court confirmed that American courts generally retain the power to order a party subject to their jurisdiction to produce evidence, it nonetheless emphasized that U.S. courts should always assess international comity issues when evaluating whether to order such discovery. *See id.* at 539–40 & 544 n.29. The Court set forth five factors for consideration based on the RESTATEMENT [THIRD] OF FOREIGN RELATIONS LAW: (1) the importance to the litigation of the documents or other information requested; (2) the degree of specificity of the request; (3) whether the information originated in the United States; (4) the availability of alternative means of securing the information; and (5) the extent to which noncompliance with the request would undermine important interests of the United States, or compliance with the request would undermine the important interests of the state where the information is located. *See id.* at 544 & n.28. Since *Aerospatiale*, courts have identified additional comity considerations that must be addressed in cases involving international intellectual property, including the potential hardship to the party or witness from whom discovery is sought, the good faith of the party resisting discovery, the extent and the nature of the hardship that inconsistent enforcement of the discovery would impose on the foreign state, and the extent to which enforcement by action of either state can reasonably be expected to achieve compliance with the rule prescribed by that state. *See Richmark Corp. v. Timber Falling Consultants*, 959 F.2d 1468, 1475 (9th Cir. 1992); *Wultz v. Bank of China, Ltd.*, 910 F.Supp.2d 548, 553 (S.D.N.Y. 2012).

For international discovery from non-parties, litigants often rely on the Hague Convention for evidence in signatory states and use letters rogatory for evidence in other foreign states. Note that these are common ways to collect evidence from international sources, but are not the only ways to do so.

The Hague Convention is an international treaty that allows the exchange of evidence for civil and commercial cases between signatory states with the assistance of a central authority designated by and in each state. To seek discovery under the Hague Convention, a party to a U.S. litigation first files a motion or application with the U.S. Court presiding over the case to request that the Court issue a letter rogatory to the foreign signatory state. The letter rogatory is sent as a request from the U.S. Court to the foreign Court and should be drafted by the requesting party as such. A letter rogatory should include:

- a request for assistance from the foreign Court, including the nature of assistance requested;
- a summary of the case, including descriptions of the parties and disputed issues;
- a list of interrogatory or written deposition questions to be asked or list of documents requested;
- names and addresses of the foreign person(s) to be served;
- a statement that the requesting Court or party will reimburse the foreign Court for costs incurred; and
- a statement that the requesting Court is willing to provide similar assistance to the foreign Court should a similar situation arise.

*See* U.S. Dept. of State – Bureau of Consular Affairs Travel.State.Gov page on Preparation of Letters Rogatory. <https://travel.state.gov/content/travel/en/legal/travel-legal-considerations/international-judicial-asst/obtaining-evidence/Preparation-Letters-Rogatory.html>. While

courts generally do not weigh the evidence sought in the letters rogatory before issuing them, courts do have the inherent authority to supervise discovery to minimize costs and prevent abuses.

For discovery from foreign states that have not joined the Hague Convention and for discovery in criminal cases, the letters rogatory are transmitted through diplomatic channels. This tends to be a slower process than the Hague Convention procedure. The contents of letters rogatory transmitted via diplomatic channels should include the same information as letters rogatory issued under the Hague Convention.

### **6.10.3 Foreign Law Limitations on International Discovery**

After receiving the letters rogatory, the foreign Court has the authority to determine whether and how to implement the requests for evidence. Here, the differences between U.S. discovery and discovery in foreign jurisdictions become apparent. Because discovery in other countries is generally more restrictive, the foreign courts could limit the scope of the requests in the letters rogatory to those requests and issues they believe to be necessary for the case. The foreign Court's procedures will apply as well. For instance, rather than allowing the seeking party to depose witnesses, the Court will sometimes question witnesses based on a list of questions or topics suggested by the seeking party. And some countries have specific laws—whether privacy laws or blocking statutes—that could prevent discovery altogether.

Lawmakers around the world have responded to data privacy concerns by imposing new restrictions on the transmission of certain types of personal information outside the country. In 2018, the European Union implemented the General Data Protection Regulation (GDPR), which included numerous restrictions on whether, when, and how personal data can be used. These restrictions may inhibit a party's ability to seek discovery of information that constitutes "personal data" under the GDPR. They also restrict how data can be transferred out of the EU. Although the GDPR states that a court order from another country may be recognized and enforceable if a mutual legal assistance treaty (like the Hague Convention) is in place, other GDPR restrictions will likely be applied by the presiding EU Court to substantially limit the scope and type of information that is discoverable pursuant to the order. For instance, discovery will be limited to avoid disclosing personal data of too many subjects, notice must be given to those data subjects, and restrictions will be imposed on the data's use to safeguard it from improper disclosure. GDPR, privacy laws of other foreign entities, and U.S. privacy laws remain a changing landscape, and courts will need to consider the various laws and regulations in play when determining whether and how these new restrictions will apply to U.S. entities seeking foreign discovery. And a Court issuing letters rogatory to foreign courts may need to consider the scope of discovery being sought before issuing the letter—and how to treat parties that will not comply with U.S. discovery obligations due to data privacy restrictions.

Some countries, including the United Kingdom, Canada, and France, have also passed blocking statutes that make it illegal for entities to comply with discovery orders from another country that require transfer or disclosure of documents or information out of the country. The French blocking statute, the subject of *Société Nationale Industrielle Aerospatiale v. United States District Court*, 482 U.S. 522 (1987), is one of the best known. Passed with the specific intent of shielding French nationals from U.S. discovery, the statute criminalizes the exportation of certain documents or information out of France without going through appropriate legal and diplomatic procedures. Because one such permitted procedure for seeking discovery is the Hague Convention, the statute has been interpreted to require the use of the Hague Convention for seeking discovery



of a French national. This conflicts, however, with U.S. law, as the Hague Convention is only one of multiple ways to seek discovery. In *Société Nationale*, when faced with this conflict, the Supreme Court concluded that “American courts should therefore take care to demonstrate due respect for any special problem confronted by the foreign litigant on account of its nationality or the location of its operations, and for any sovereign interest expressed by a foreign state,” but it “[did] not articulate specific rules to guide this delicate task of adjudication.” *Id.* at 546.

U.S. courts faced with managing discovery in cases where U.S. discovery conflicts with foreign laws should be aware of the current status of those laws, including exceptions to those laws and whether and how they are enforced in the foreign jurisdiction. With that understanding, the Court may be better able to fashion appropriate remedies, including narrowing discovery disputes or enforcing appropriate penalties should a party violate U.S. laws or the Court’s orders.

#### **6.10.4 Discovery Pursuant to 18 U.S.C. § 1782**

Federal courts occasionally receive petitions under 28 U.S.C. § 1782, which allows foreign litigants (or entities “interested in” a foreign proceeding) to petition U.S. courts for access to testimony and other evidence “for use” in foreign proceedings and potential proceedings that have not yet commenced. That section does not, however, expressly protect trade secrets or other confidential information produced for use in a foreign proceeding—and that creates a potential problem for the party from which production is sought. While American courts are accustomed to protecting trade secrets via protective orders, sealing orders, and other restrictions, the ultimate recipient of the information under § 1782 is a foreign Court, where trade secret protections can be virtually nonexistent and where protections might not be sufficient to protect confidential or trade secret information adequately. Courts have filled this gap by issuing orders that afford some degree of protection. To be clear, § 1782 is not unique to trade secret litigation. But this section raises specific issues in trade secret litigation, including, among others, how best to ensure that whatever confidential information, particularly potential trade secrets, produced from or generated in the foreign jurisdiction will be kept confidential by the recipients of that information.

Section 1782 dates back 70 years and has been amended three times, most recently in 1996. Act of Feb. 10, 1996, 110 Stat. 486. In 2004, the United States Supreme Court addressed § 1782 in *Intel Corporation v. Advanced Micro Devices, Inc.*, 542 U.S. 241 (2004), setting forth four discretionary factors that courts should consider in deciding foreign discovery requests. These four are:

The *Intel* factors consider: (a) whether aid is sought to obtain discovery from a participant in the foreign proceeding (“First Factor”); (b) “the nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court or agency abroad to U.S. Federal court assistance” (“Second Factor”), (c), whether the applicant is attempting to use § 1782 to circumvent foreign proof-gathering restrictions or other policies of a foreign country or the United States (“Third Factor”); and (d) whether discovery requests are unduly intrusive or burdensome (“Fourth Factor”).

*Sergeeva v. Tripleton Int’l Ltd.*, 834 F. 3d 1194, 1199 (11th Cir. 2016) (citing *Intel*, 542 U.S., at 264–65). The Court instructed that the fourth factor—whether the requested discovery is unduly intrusive or burdensome—provides the occasion for lower courts to analyze the appropriate measures for protecting confidentiality. *See id.* at 265–66.

Since the Court's opinion in *Intel*, litigation over foreign confidentiality protections has followed a familiar pattern. The target of a § 1782 request, who is not always the owner of the information at issue, often opposes, arguing that the request requires the production of confidential material in a foreign forum that does not provide the necessary safeguards (e.g., trade secret laws, protective orders limiting disclosure within representatives of the party serving the subpoena and barring disclosure to third parties and the public, filings under seal) to ensure that the confidential material is protected. The requesting party will often respond that the foreign forum will or should provide adequate protections. It is then up to the U.S. Court to make the call.

Courts have taken different approaches to resolving these confidentiality disputes. For example, in *In re Application of Procter & Gamble Co.*, a District Court recommended that the parties enter into a contract, enforceable under U.S. law, that would prevent the requesting party from submitting § 1782 discovery in the foreign proceeding without first obtaining "rulings from such courts that the information will be kept confidential." *In re Application of Procter & Gamble Co.*, 334 F.Supp.2d 1112, 1117 (E.D. Wis. 2004). In *Siemens AG v. Western Digital Corp.*, the District Court ordered the parties to submit a domestic protective order and to "jointly seek a protective order" in a German Court, but did not expressly condition the production of documents on successfully obtaining the German order. *See Siemens AG v. Western Digital Corp.*, 2013 WL 5947973, at \*6 (C.D. Cal. Nov. 4, 2013). In *In re Ex Parte Apple Inc.*, the District Court rejected the idea that confidentiality concerns pertain to the burdensomeness of § 1782 discovery given the availability of protective orders, but did not in turn enter any such protective order. *See In re Ex Parte Apple Inc.*, 2012 WL 1570043, at \*3 (N.D. Cal. May 2, 2012). In *Andover Healthcare, Inc. v. 3M Co.*, another District Court relied on the declaration of a German lawyer, who explained that German law might not prevent disclosure to third parties and that German courts might not exclude confidential material from opinions. *See Andover Healthcare, Inc. v. 3M Co.*, 2014 WL 4978476, \*8 (D. Minn. Oct. 6, 2014). After considering all the discretionary *Intel* factors, the District Court denied the § 1782 request in full. *See id.* The Eighth Circuit affirmed on appeal. *See Andover Healthcare, Inc. v. 3M Co.*, 817 F.3d 621, 623–24 (8th Cir. 2016). In *In re Management Services, Ltd.*, the District Court agreed that confidential material subject to § 1782 discovery should be protected, but instructed the federal Magistrate Judge to decide "any scope limitations or restrictions to maintain the confidentiality of documents and testimony." *In re Management Services, Ltd.*, 2005 WL 1959702, at \*6 (E.D.N.Y. Aug. 16, 2005).

A party requesting information under §1782 should be prepared to explain to the Court the nature and status of the underlying dispute and the status of any foreign litigation. The party should also be prepared to explain the issues in the dispute and to persuade the Court of the significance of the requested discovery to the party's ability to establish its positions. FED. R. CIV. P. 26(b)(6). The importance of the information is a key consideration for U.S. courts in evaluating the proportionality of the discovery under the FEDERAL RULES OF CIVIL PROCEDURE, which are incorporated by reference into Section 1782. Courts often deny requests under § 1782, in part or whole, if the requested discovery is deemed overbroad or not closely related to the pending or contemplated litigation. Accordingly, it is important for the requester to explain the relevance of the discovery sought to the foreign proceeding. This type of explanation not only addresses whether it is "unduly intrusive or burdensome," but also the second statutory requirement quoted above that the discovery be "for use in a proceeding in a foreign . . . tribunal." The requesting party should also anticipate and be prepared to discuss the need to protect trade secrets and other confidential information sought by the subpoena and be prepared to offer evidence grounded in

statute and applicable case law from the jurisdiction in which the foreign proceeding is proceeding or is anticipated to commence describing the availability of procedures to protect the information. Given the complexity of issues that arise under § 1782, the party requesting information should do so early in the process.

Section 1782 authorizes applications for use in foreign tribunals that can be issued on an *ex parte* basis. But because *ex parte* requests are disfavored, orders granting such applications typically only provide that the discovery may be commenced “and thus the opposing party may still file a motion to quash or raise objections.” *In re Ex Parte Application Varian Med. Sys. Int’l*, 2016 WL 1161568 (N.D. Cal. Mar. 24, 2016). Thus, in many cases a § 1782 application may involve a two-step process by which the Court (1) grants the application and then (2) hears objections or a motion to quash. In other cases where the need for the discovery is more urgent and the target of the discovery has received notice, the Court may conduct a consolidated hearing on the application and any objections. The objecting party should be prepared to offer evidence grounded in statute and case law from the jurisdiction for which the information is being sought about the reliability and availability of adequate protective measures for trade secret or confidential information. Importantly, in many instances, a § 1782 application will be directed to a non-party to the underlying dispute. The Court may want to consider whether intervention by the party that owns the requested information is necessary to protect it.

As a final note on § 1782, the Supreme Court has clarified that the status “reaches only governmental or intergovernmental adjudicative bodies” and does not apply to “private adjudicatory bodies” like arbitrations. *See ZF Auto. US, Inc. v. Luxshare, Ltd.*, 142 S. Ct. 2078, 2083 (2022).

This section has provided only a brief introduction to § 1782 and does not list all of its many complexities. For a more comprehensive discussion of this statute and its application, *see* THE SEDONA CONFERENCE, COMMENTARY ON CROSS-BORDER DISCOVERY IN U.S. PATENT AND TRADE SECRET CASES (‘Stage Two’) (January 2023 Public Comment Version).

## **6.11 Common Discovery Motions**

This section addresses certain types of discovery motions that arise frequently in trade secret cases.

### **6.11.1 Discovery on Plaintiff’s Previous Enforcement of Trade Secret Rights**

A party accused of trade secret misappropriation often demands that the plaintiff identify previous assertions of its trade secret rights and provide information and documents about those assertions. These prior assertions can have been made through litigation or informally, such as through cease-and-desist letters. Defendants seek this information for many reasons. For instance, they might want to see if the trade secrets were asserted or defined before, thus clarifying the plaintiff’s alleged basis for asserting misappropriation. They might want to determine if the trade secrets owner is unfairly targeting them when it did not do so with similarly situated employees. Or they might want to ascertain whether the plaintiff has consistently taken reasonable steps to protect its trade secrets.

A defendant is generally allowed to discover if trade secrets have been previously asserted. But the depth and timing of this discovery depends on the facts of the case, including the apparent strength of the plaintiff’s claims and the stated reason for the discovery.

Courts have not agreed on a one-size-fits-all approach, instead issuing a mixed bag of responses to requests for discovery of asserted trade secrets early in the case. *See DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 679–81 (N.D. Ga. 2007) (explaining the different policy concerns and approaches various courts have developed but finding “no talismanic procedure the Court may apply in order to obtain the best result in any given case”); *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at \*7–8 (S.D. Ohio Dec. 27, 2017). The *Lariviere* Court, for example, was less prone to allow discovery into the asserted trade secrets where there was a lack of circumstantial evidence of misappropriation or any form of deceit on the part of the defendants. *See id.* at \*9.

One frequent complication is the work product doctrine. Work product protection prevents disclosure of documents prepared “in anticipation of litigation,” FED. R. CIV. P. 26(b)(3), and courts evaluate whether to compel an unwilling plaintiff to share work product from its previous actions on a case-by-case basis. 8 FED. PRAC. & PROC. CIV. § 2024—The Work–Product Rule—Matters Protected by the Work–Product Rule (3d ed.) (“[T]he test should be whether, in light of the nature of the document and the factual situation in the particular case, the document can fairly be said to have been prepared or obtained because of the prospect of litigation.”).

In employer–employee misappropriation cases, this situation can arise when a plaintiff sues various former employees, and certain defendants seek information about the plaintiff’s investigations of the other employees. In deciding whether to compel production of documents related to a plaintiff’s investigations of former employees, one Court described the relevant factors to be: (1) whether legal counsel was retained and their involvement in the generation of the documents; and (2) whether it was the company’s routine practice to prepare such documents or whether they were prepared in response to a particular circumstance. *See Navigant Consulting, Inc. v. Wilkinson*, 220 F.R.D. 467, 477 (N.D. Tex. 2004). In that case, even though counsel had been retained in the investigation of the former employees, the Court held that the investigation was routine and for the purpose of protecting the employer’s confidential information generally, not for preparing a particular misappropriation action against them, and it allowed the discovery. *See id.* at 487. Courts should consider, regardless of the involvement of legal counsel, whether internal investigations of non-defendant employees were indeed in preparation for litigation against those employees or for other purposes such as protecting shareholders, assessing losses, or preventing future corporate wrongdoing. *See id. Cf. Mattel, Inc. v. MGA Entm’t, Inc.*, 2010 WL 11464003, at \*3 (C.D. Cal. Apr. 12, 2010) (ordering production of “responsive documents uncovered during or in connection with the purported internal investigations at issue that are not independently privileged”).

Another related issue involves the production of settlement agreements from a plaintiff’s previous trade secret actions against others, which usually come up in the context of damages. *See BladeRoom Grp. Ltd. v. Emerson Elec. Co.*, 2018 WL 6169347 (N.D. Cal. Nov. 26, 2018), *rev’d and remanded on other grounds*, 20 F.4th 1231 (9th Cir. 2021). This too depends on the facts, but courts are hesitant to allow discovery of settlement agreements because of the public policy in favor of settlement. Thus, “while the scope of pretrial discovery is admittedly broad, courts have found it less so when examining the potential disclosure of confidential [settlement] terms because such agreements should not be ‘lightly abrogated.’” 2018 WL 6169347, at \*3 (collecting cases). To that end, some courts require a “particularized showing” that admissible evidence is likely to be generated by the dissemination of a settlement agreement if the plaintiff resists production. *See id.* (collecting cases). For example, when a group of defendants share liability for lost-profits damages for the collective misappropriation of a particular set of trade secrets, the settlement

agreement between the plaintiff and a settling defendant can be discoverable by a non-settling defendant to prevent the plaintiff from collecting damages in excess of its actual lost profits. *See id.* at \*1 (applying Cal. Civ. Code § 877, which provides for equitable sharing of damages). But where there is not a misappropriation of the same trade secrets or where the plaintiff's damages are not shared among the defendants, discovery of previous defendants' confidential settlement agreements may be less appropriate. *See id.* at \*3 (holding that plaintiff "is not overcompensated by receiving two unjust enrichment awards because [a settling defendant] and [the non-settling defendant] separately benefitted from their improper uses of [the plaintiff's] trade secrets, and therefore must make separate disgorgements of profit" and denying discovery of the settlement agreement).

Documents concerning an organization's interviews and investigations of employees it was considering hiring (and as to which it was at that time legally adverse) were held not to be subject to a "joint defense", attorney client or work product privilege and were ordered to be produced in litigation against the new employer. *Waymo LLC v. Uber Techs., Inc.*, No. C 17-00939 WHA, at \*2 (N.D. Cal. June 21, 2017). A subsequent order directed production of drafts of Uber's due diligence reports. *Waymo LLC v. Uber Techs., Inc.*, Civ. 17-00939-WHA, Dkt. No. 2224 (Nov. 15, 2017).

#### **6.11.2 Discovery on Defendant's Independent Development of the Alleged Trade Secrets**

One way for a defendant to defeat a claim for trade secret misappropriation is to prove that it independently developed the alleged trade secrets. That is, if the defendant developed the trade secrets on its own, then it could not have misappropriated them from the plaintiff.

But discovery related to independent development will require the defendant to divulge its research and development efforts, which it may contend are confidential, which triggers issues of confidentiality and protection of the defendant's own trade secrets. After all, "[i]t is axiomatic that Courts should usually resist ordering disclosure of trade secrets absent a clear showing of an immediate need." *Halliburton Co. v. Schlumberger Tech. Corp.*, 1986 WL 84481, at \*2 (S.D. Tex. Mar. 24, 1986). But courts are typically willing to allow discovery into defendants' independent research and development because it is difficult, if not impossible, to determine whether the defendant came up with the disputed trade secrets on its own without examining its research and development. *See Montgomery v. eTrepid Techs., LLC.*, 2008 WL 2277118, at \*6 (D. Nev. May 29, 2008) ("[D]isclosure of trade secrets will be required . . . where such disclosure is relevant and necessary to the prosecution or defense of a particular case.").

When courts require disclosure of a defendant's trade secrets to prove or disprove independent development, they usually allow defendants to withhold information generated in the research and development process unrelated to the derivation of the trade secrets at issue. *See Convolv, Inc. v. Compaq Computer Corp.*, 223 F.R.D. 162, 169 (S.D.N.Y. 2004), *order clarified*, 2005 WL 1514284 (S.D.N.Y. June 24, 2005) (allowing the defendant to withhold its monthly research and development reports because "[w]hile certain research data are plainly relevant, these reports deal generally with budget and headcount and do not relate to specific projects"). But there are circumstances where courts give plaintiffs greater leeway. For example, in *WeRide Corp. v. Kun Huang*, the Court granted the plaintiff leave to take written discovery of "any research and development of products or technology related to autonomous vehicles" and compelled the defendants to make their complete source code repositories available, acknowledging that its order

went “beyond the alleged trade secrets.” *WeRide Corp. v. Kun Huang*, 2019 WL 5722620, at \*6, \*7, \*10 (N.D. Cal. Nov. 5, 2019). It reasoned that the defendants’ “failure to comply with the Preliminary Injunction justifie[d] the order,” and that the parties’ protective order obviated the defendants’ concerns about overbreadth. *Id.* at \*7.

### **6.11.3 Discovery on Plaintiff’s Basis to Assert Misappropriation**

A defendant can challenge a plaintiff’s basis for filing suit in any civil case. Normally this happens in the context of a Rule 11 motion. But trade secret cases provide an alleged misappropriator with additional bases to challenge a plaintiff’s assertion of misappropriation. Both the UTSA and the DTSA permit the Court to award fees if the alleged misappropriator establishes that the plaintiff asserted or maintained the action in bad faith. *See* DTSA, 18 U.S.C. § 1836; UTSA § 4. This could give leverage to alleged misappropriators that wish to argue that the claim for trade secret misappropriation is just an anticompetitive ruse to harm a competitor or punish a departing employee. *See Degussa Admixtures, Inc. v. Burnett*, 277 F. App’x 530, 535–36 (6th Cir. 2008) (“Filing a trade-secret action to restrain legitimate competition and job mobility, needless to say, is not proper.”).

Regardless of the context in which a defendant seeks discovery into a plaintiff’s motives and bases for filing suit, courts have been wary of that discovery, especially early in the case. While some discovery is to be expected, courts should be cautious not to allow a defendant—often the plaintiff’s competitor—free rein into the plaintiff’s highly confidential (and potentially privileged) material as part of its challenge to plaintiff’s basis for filing suit. Courts have been particularly wary of such discovery where: (1) the defendant did not specify what information the requested discovery would reveal beyond what had already been disclosed; (2) the information sought was not relevant or reasonably calculated to lead to the discovery of admissible evidence; (3) the requested discovery was immaterial to the disposition of the motion; and (4) the discovery efforts were made to harass and intimidate rather than for bona fide discovery purposes. *See Smith v. Northside Hosp., Inc.*, 347 Ga.App. 700, 709, 820 S.E.2d 758, 766 n.48 (2018) (collecting cases).

Courts address these issues in various ways. If there is no basis to grant discovery into a plaintiff’s motives, courts routinely deny such requests. Another option is to have staged discovery, where the defendant initially can discover only certain material. Once the defendant has had time to look through the produced material, the defendant would need to show good cause and explain why it needs the other material for its claims. *See ANSYS, Inc. v. Computational Dynamics N. Am., Ltd.*, 2010 WL 1416841, at \*1 (D.N.H. Apr. 2, 2010). Another option is to tightly limit discovery to only matters that can help show bad faith. *See Bradbury Co. v. Teissier-DuCros*, 2005 WL 2972323, at \*3 (D. Kan. Nov. 3, 2005) (denying a motion to compel production of plaintiff’s billing statements under the Kansas Uniform Trade Secrets Act because “the billing statements will not show bad faith as defined in the KUTSA [so] they are not relevant”).

### **6.11.4 Discovery on Plaintiff’s and Defendant’s Customers and Vendors**

It is common in trade secret cases for parties to pursue discovery either from or about their opponent’s customers and vendors. For example, the plaintiff may want to know if the defendant has disclosed the alleged trade secret to its customers and vendors—and whether a sudden uptick in those customers’ or vendors’ revenues reveals an ill-gotten competitive advantage. For its part, the defendant may want information from the plaintiff’s customers and vendors to demonstrate

that its accuser disclosed those trade secrets to others without reasonable efforts to maintain secrecy through NDAs or similar safeguards.

Despite the occasional necessity of discovery into an opponent's customers and vendors, it is not difficult to imagine the nefarious possibilities of such discovery, such as burdening a competitor's customers with subpoenas so that those customers push the plaintiff to drop the suit. Courts recognize that discovery into these third parties opens the door to potential abuse. With that in mind, courts balance the competing interests of the parties, relevant third parties, and the information involved. This analysis ordinarily arises in the context of motions to compel compliance with a subpoena served on a customer or vendor, motions to quash such a subpoena, and motions for entry or modification of a protective order as it pertains to third-party information.

When a party resists a subpoena directed to one of its customers or vendors, the first issue courts examine is standing. The general rule is that a party to the action has no standing to quash a subpoena served on a third party, except for claims of privilege over the documents being sought or upon showing a proprietary interest in the subpoenaed material. *See* FED. R. CIV. P. 45(d)(3)(A)(iv); 45(c)(3)(B); *Crocs, Inc. v. Effervescent, Inc.*, 2016 WL 9584443, at \*1 (D. Colo. Dec. 12, 2016). In other words, unless the resisting party can establish that the information sought is confidential and that its disclosure will result in a "clearly defined and serious injury to the moving party," then standing to move to quash lies solely with the subpoenaed customer or vendor. *Transcor, Inc. v. Furney Charters, Inc.*, 212 F.R.D. 588, 592 (D. Kan. 2003). It is insufficient for the resisting party to argue that its opponent should have sought the subpoenaed information from the resisting party itself before turning to its customers and vendors. As one Court put it, "this is an argument that a subpoenaed non-party with standing must make on its own behalf to avoid being whipsawed when seeking information that can be found in more than one place." *Crocs, Inc.*, 2016 WL 9584443, at \*2. But resisting parties can often establish standing due to the confidential nature of information pertinent to trade secret lawsuits. For example, information sought from a party's customers and vendors about services provided, communications, product or component design, and sales or investment figures implicates a "personal right and privilege" sufficient to confer standing to challenge a subpoena. *See Core Labs. LP v. Spectrum Tracer Servs., L.L.C.*, 2015 WL 5254534, at \*3 (W.D. Okla. Sept. 9, 2015).

Once the Court has decided which entity may challenge discovery of the customer and vendor information, it examines the discoverability of the information sought. Although courts apply their own nuances to this inquiry, they generally follow a three-step analysis: (1) the party resisting discovery must first establish that the information is confidential or proprietary and that its disclosure would be harmful; (2) the burden then shifts to the requesting party to demonstrate the information's relevance and necessity; and (3) if the information is relevant and necessary, the Court must balance the requesting party's need for disclosure against the resisting party's potential for injury. *See Deman Data Sys., LLC v. Schessel*, 2014 WL 204248, at \*2 (M.D. Pa. Jan. 16, 2014); *In re Subpoena of DJO, LLC*, 295 F.R.D. 494, 497 (S.D. Cal. 2014); *Microsoft Corp. v. Big Boy Distribution LLC*, 2008 WL 11333804, at \*3 (S.D. Fla. Mar. 27, 2008).

Finally, if the balancing test is satisfied and the court orders production of third-party customer or vendor information, the parties and Court should handle the production under a protective order. Details of appropriate protective orders are discussed in § 6.5, but for purposes of this chapter, the protective order should include provisions making it applicable to third parties that respond to discovery. If the applicable protective order does not apply to third parties or if the producing third party deems that order insufficient, additional motion practice could result.

### 6.11.5 Discovery About Discovery and Spoliation

As in any other civil proceeding, a trade secret party is obligated to preserve evidence once it knows or should know that the evidence is relevant to future or current litigation. *See* FED. R. CIV. P. 37(e). The party will then have to produce this preserved evidence if it is requested, relevant, and proportional. *See* FED. R. CIV. P. 26(b)(1). Parties do not get to select what evidence they want to produce, or from what sources. Parties instead must produce responsive documents or seek relief from the Court. A failure to preserve or produce evidence can result in sanctions.

Despite these obligations, parties sometimes engage in spoliation. Spoliation is the destruction or material alteration of discoverable evidence or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation. In trade secret cases, claims about spoliation are relatively common as alleged misappropriators often try (frequently with success) to cover their tracks by deleting things. The party that suspects spoliation (usually the trade secret owner) will then move to inquire about whether and how the other party preserved and deleted relevant information.

Parties often fight over whether there was a duty to preserve the deleted information in the first place. This usually turns on two factors: (1) when the duty to preserve began and (2) what the scope of that duty encompasses.

The duty to preserve attaches, at the latest, when the plaintiff informs the defendant of its potential claim. *See Cohn v. Guaranteed Rate, Inc.*, 318 F.R.D. 350, 354 (N.D. Ill. 2016). But the duty can often attach earlier. The standard is as soon as a party knows or should know that the evidence is relevant to future or current litigation. *See* FED. R. CIV. P. 37(e). Courts have therefore held that a cease-and-desist letter can be enough to trigger the duty. *See Hunting Energy Servs., Inc. v. Kavadas*, 2018 WL 4539818, at \*8-\*9 (N.D. Ind. Sept. 20, 2018) (collecting cases where other courts found the duty to preserve attached even earlier).

Next, while a party need not preserve every shred of paper and email, it “must not destroy unique, relevant evidence that might be useful to an adversary.” *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212, 217 (S.D.N.Y. 2003). This means that a party that destroys discoverable evidence, even if it was in line with company policy or from a personal device, can face sanctions. For instance, a Court held that text messages from a personal device were discoverable, and that the owner of the text messages had improperly deleted them, because the movant made a reasonable case that this information was related to the alleged misappropriation. *See Paisley Park Enters., Inc. v. Boxill*, 330 F.R.D. 226, 234 (D. Minn. 2019).

Despite this duty, spoliation claims can be difficult to prosecute because they require the movant to prove a negative—that some material evidence should, but does not, exist. Trade secret cases present a further complication as they almost inherently involve highly secretive information. While this information can come up during the normal course of discovery, a party may find it helpful to conduct spoliation-specific discovery.

A party usually begins to suspect spoliation during regular discovery as it encounters gaps in the other side's production. For instance, it might find that the produced information includes inconsistent messages or time stamps. Maybe the information produced by the other side is less responsive than the information received from third parties. Or a forensic expert—whether retained by one party or appointed in a neutral capacity—found evidence of deletion. *Compare Konica Minolta Bus. Sols., U.S.A. Inc. v. Lowery Corp.*, 2016 WL 4537847, at \*4–5 (E.D. Mich.



Aug. 31, 2016) (plaintiff hired its own forensic expert), *with HCC Ins. Holdings, Inc. v. Flowers*, 2017 WL 393732, at \*2 (N.D. Ga. Jan. 30, 2017) (the Court required a neutral forensic examiner).

But even if a party suspects spoliation early on, it should be cautious about bringing a premature motion. Courts require more than mere suspicion and have deferred ruling when they thought further discovery would help answer these questions. Before bringing a spoliation motion, a movant should be prepared to answer three questions: (1) what evidence does it believe the other side destroyed; (2) why is it prejudiced, as explained in Rule 37, by the destruction; and (3) why would the normal course of discovery not suffice. *See Konica*, 2016 WL 4537847, at \*5–6. If a party does not raise spoliation until discovery has already closed, courts will also want to know why this request was not made before the cutoff.

To help answer these questions, a movant can seek spoliation-specific discovery. This allows a party to explore certain topics in more detail. But courts have varied responses to such requests. Some have allowed parties to move up discovery and some have allowed parties to explore areas again. Yet others have denied these requests as unnecessary or overbroad. These courts have been hesitant to allow unrestricted discovery; the more targeted the request, the likelier a Court will allow it.

A movant should thus explain how the targeted discovery will help explain whether certain evidence was actually and prejudicially destroyed.

**Appendix 6.1 Stipulated Protective Order for Litigation Involving Patents, Highly Sensitive Confidential Information and/or Trade Secrets (Northern District of California)**

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

Plaintiff,

v.

Defendant.

Case No. C

STIPULATED PROTECTIVE ORDER FOR  
LITIGATION INVOLVING PATENTS,  
HIGHLY SENSITIVE CONFIDENTIAL  
INFORMATION AND/OR TRADE  
SECRETS

**1. PURPOSES AND LIMITATIONS**

Disclosure and discovery activity in this action are likely to involve production of confidential, proprietary, or private information for which special protection from public disclosure and from use for any purpose other than prosecuting this litigation may be warranted. Accordingly, the parties hereby stipulate to and petition the court to enter the following Stipulated Protective Order. The parties acknowledge that this Order does not confer blanket protections on all disclosures or responses to discovery and that the protection it affords from public disclosure and use extends only to the limited information or items that are entitled to confidential treatment under the applicable legal principles. The parties further acknowledge, as set forth in Section 14.4, below, that this Stipulated Protective Order does not entitle them to file confidential information under seal; Civil Local Rule 79-5 sets forth the procedures that must be followed and the standards that will be applied when a party seeks permission from the court to file material under seal.

**2. DEFINITIONS**

2.1 Challenging Party: a Party or Non-Party that challenges the designation of information or items under this Order.

2.2 “CONFIDENTIAL” Information or Items: information (regardless of how it is generated, stored or maintained) or tangible things that qualify for protection under Federal Rule of Civil Procedure 26(c).

2.3 Counsel (without qualifier): Outside Counsel of Record and House Counsel (as well as their support staff).

2.4 [*Optional*: Designated House Counsel]: House Counsel who seek access to “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information in this matter.]

2.5 Designating Party: a Party or Non-Party that designates information or items that it produces in disclosures or in responses to discovery as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”].

2.6 Disclosure or Discovery Material: all items or information, regardless of the medium or manner in which it is generated, stored, or maintained (including, among other things, testimony, transcripts, and tangible things), that are produced or generated in disclosures or responses to discovery in this matter.

2.7 Expert: a person with specialized knowledge or experience in a matter pertinent to the litigation who (1) has been retained by a Party or its counsel to serve as an expert witness or as a consultant in this action, (2) is not a past or current employee of a Party or of a Party’s competitor, and (3) at the time of retention, is not anticipated to become an employee of a Party or of a Party’s competitor.

2.8 “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” Information or Items: extremely sensitive “Confidential Information or Items,” disclosure of which to another Party or Non-Party would create a substantial risk of serious harm that could not be avoided by less restrictive means.

2.9 [*Optional*: “HIGHLY CONFIDENTIAL – SOURCE CODE” Information or Items]: extremely sensitive “Confidential Information or Items” representing computer code and

associated comments and revision histories, formulas, engineering specifications, or schematics that define or otherwise describe in detail the algorithms or structure of software or hardware designs, disclosure of which to another Party or Non-Party would create a substantial risk of serious harm that could not be avoided by less restrictive means.]

2.10 House Counsel: attorneys who are employees of a party to this action. House Counsel does not include Outside Counsel of Record or any other outside counsel.

2.11 Non-Party: any natural person, partnership, corporation, association, or other legal entity not named as a Party to this action.

2.12 Outside Counsel of Record: attorneys who are not employees of a party to this action but are retained to represent or advise a party to this action and have appeared in this action on behalf of that party or are affiliated with a law firm which has appeared on behalf of that party.

2.13 Party: any party to this action, including all of its officers, directors, employees, consultants, retained experts, and Outside Counsel of Record (and their support staffs).

2.14 Producing Party: a Party or Non-Party that produces Disclosure or Discovery Material in this action.

2.15 Professional Vendors: persons or entities that provide litigation support services (e.g., photocopying, videotaping, translating, preparing exhibits or demonstrations, and organizing, storing, or retrieving data in any form or medium) and their employees and subcontractors.

2.16 Protected Material: any Disclosure or Discovery Material that is designated as “CONFIDENTIAL,” or as “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY.” [Optional: or as “HIGHLY CONFIDENTIAL – SOURCE CODE.”]

2.17 Receiving Party: a Party that receives Disclosure or Discovery Material from a Producing Party.

### 3. SCOPE

The protections conferred by this Stipulation and Order cover not only Protected Material

(as defined above), but also (1) any information copied or extracted from Protected Material; (2) all copies, excerpts, summaries, or compilations of Protected Material; and (3) any testimony, conversations, or presentations by Parties or their Counsel that might reveal Protected Material. However, the protections conferred by this Stipulation and Order do not cover the following information: (a) any information that is in the public domain at the time of disclosure to a Receiving Party or becomes part of the public domain after its disclosure to a Receiving Party as a result of publication not involving a violation of this Order, including becoming part of the public record through trial or otherwise; and (b) any information known to the Receiving Party prior to the disclosure or obtained by the Receiving Party after the disclosure from a source who obtained the information lawfully and under no obligation of confidentiality to the Designating Party. Any use of Protected Material at trial shall be governed by a separate agreement or order.

#### 4. DURATION

Even after final disposition of this litigation, the confidentiality obligations imposed by this Order shall remain in effect until a Designating Party agrees otherwise in writing or a court order otherwise directs. Final disposition shall be deemed to be the later of (1) dismissal of all claims and defenses in this action, with or without prejudice; and (2) final judgment herein after the completion and exhaustion of all appeals, rehearings, remands, trials, or reviews of this action, including the time limits for filing any motions or applications for extension of time pursuant to applicable law.

#### 5. DESIGNATING PROTECTED MATERIAL

5.1 Exercise of Restraint and Care in Designating Material for Protection. Each Party or Non-Party that designates information or items for protection under this Order must take care to limit any such designation to specific material that qualifies under the appropriate standards. To the extent it is practical to do so, the Designating Party must designate for protection only those parts of material, documents, items, or oral or written communications that qualify – so that other portions of the material, documents, items, or communications for which protection is not

warranted are not swept unjustifiably within the ambit of this Order.

Mass, indiscriminate, or routinized designations are prohibited. Designations that are shown to be clearly unjustified or that have been made for an improper purpose (e.g., to unnecessarily encumber or retard the case development process or to impose unnecessary expenses and burdens on other parties) expose the Designating Party to sanctions.

If it comes to a Designating Party's attention that information or items that it designated for protection do not qualify for protection at all or do not qualify for the level of protection initially asserted, that Designating Party must promptly notify all other parties that it is withdrawing the mistaken designation.

5.2 Manner and Timing of Designations. Except as otherwise provided in this Order (see, e.g., second paragraph of section 5.2(a) below), or as otherwise stipulated or ordered, Disclosure or Discovery

Material that qualifies for protection under this Order must be clearly so designated before the material is disclosed or produced.

Designation in conformity with this Order requires:

(a) for information in documentary form (e.g., paper or electronic documents, but excluding transcripts of depositions or other pretrial or trial proceedings), that the Producing Party affix the legend "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY" [*Optional*: or "HIGHLY CONFIDENTIAL – SOURCE CODE"] to each page that contains protected material. If only a portion or portions of the material on a page qualifies for protection, the Producing Party also must clearly identify the protected portion(s) (e.g., by making appropriate markings in the margins) and must specify, for each portion, the level of protection being asserted.

A Party or Non-Party that makes original documents or materials available for inspection need not designate them for protection until after the inspecting Party has indicated which material it would like copied and produced. During the inspection and before the designation, all of the

material made available for inspection shall be deemed “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY.” After the inspecting Party has identified the documents it wants copied and produced, the Producing Party must determine which documents, or portions thereof, qualify for protection under this Order. Then, before producing the specified documents, the Producing Party must affix the appropriate legend (“CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”]) to each page that contains Protected Material. If only a portion or portions of the material on a page qualifies for protection, the Producing Party also must clearly identify the protected portion(s) (e.g., by making appropriate markings in the margins) and must specify, for each portion, the level of protection being asserted.

(b) for testimony given in deposition or in other pretrial or trial proceedings, that the Designating Party identify on the record, before the close of the deposition, hearing, or other proceeding, all protected testimony and specify the level of protection being asserted. When it is impractical to identify separately each portion of testimony that is entitled to protection and it appears that substantial portions of the testimony may qualify for protection, the Designating Party may invoke on the record (before the deposition, hearing, or other proceeding is concluded) a right to have up to 21 days to identify the specific portions of the testimony as to which protection is sought and to specify the level of protection being asserted. Only those portions of the testimony that are appropriately designated for protection within the 21 days shall be covered by the provisions of this Stipulated Protective Order. Alternatively, a Designating Party may specify, at the deposition or up to 21 days afterwards if that period is properly invoked, that the entire transcript shall be treated as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY.”

Parties shall give the other parties notice if they reasonably expect a deposition, hearing or other proceeding to include Protected Material so that the other parties can ensure that only authorized individuals who have signed the “Acknowledgment and Agreement to Be Bound”

(Exhibit A) are present at those proceedings. The use of a document as an exhibit at a deposition shall not in any way affect its designation as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY.”

Transcripts containing Protected Material shall have an obvious legend on the title page that the transcript contains Protected Material, and the title page shall be followed by a list of all pages (including line numbers as appropriate) that have been designated as Protected Material and the level of protection being asserted by the Designating Party. The Designating Party shall inform the court reporter of these requirements. Any transcript that is prepared before the expiration of a 21-day period for designation shall be treated during that period as if it had been designated “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” in its entirety unless otherwise agreed. After the expiration of that period, the transcript shall be treated only as actually designated.

(c) for information produced in some form other than documentary and for any other tangible items, that the Producing Party affix in a prominent place on the exterior of the container or containers in which the information or item is stored the legend “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”]. If only a portion or portions of the information or item warrant protection, the Producing Party, to the extent practicable, shall identify the protected portion(s) and specify the level of protection being asserted.

5.3 Inadvertent Failures to Designate. If timely corrected, an inadvertent failure to designate qualified information or items does not, standing alone, waive the Designating Party’s right to secure protection under this Order for such material. Upon timely correction of a designation, the Receiving Party must make reasonable efforts to assure that the material is treated in accordance with the provisions of this Order.

## 6. CHALLENGING CONFIDENTIALITY DESIGNATIONS

6.1 Timing of Challenges. Any Party or Non-Party may challenge a designation of



confidentiality at any time. Unless a prompt challenge to a Designating Party's confidentiality designation is necessary to avoid foreseeable, substantial unfairness, unnecessary economic burdens, or a significant disruption or delay of the litigation, a Party does not waive its right to challenge a confidentiality designation by electing not to mount a challenge promptly after the original designation is disclosed.

6.2 Meet and Confer. The Challenging Party shall initiate the dispute resolution process by providing written notice of each designation it is challenging and describing the basis for each challenge. To avoid ambiguity as to whether a challenge has been made, the written notice must recite that the challenge to confidentiality is being made in accordance with this specific paragraph of the Protective Order. The parties shall attempt to resolve each challenge in good faith and must begin the process by conferring directly (in voice to voice dialogue; other forms of communication are not sufficient) within 14 days of the date of service of notice. In conferring, the Challenging Party must explain the basis for its belief that the confidentiality designation was not proper and must give the Designating Party an opportunity to review the designated material, to reconsider the circumstances, and, if no change in designation is offered, to explain the basis for the chosen designation. A Challenging Party may proceed to the next stage of the challenge process only if it has engaged in this meet and confer process first or establishes that the Designating Party is unwilling to participate in the meet and confer process in a timely manner.

6.3 Judicial Intervention. If the Parties cannot resolve a challenge without court intervention, the Designating Party shall file and serve a motion to retain confidentiality under Civil Local Rule 7 (and in compliance with Civil Local Rule 79-5, if applicable) within 21 days of the initial notice of challenge or within 14 days of the parties agreeing that the meet and confer process will not resolve their dispute, whichever is earlier.<sup>1</sup> Each such motion must be

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<sup>1</sup> Alternative: It may be appropriate in certain circumstances for the parties to agree to shift the burden to move on the Challenging Party after a certain number of challenges are made to avoid an abuse of the process. The burden of persuasion would remain on the Designating Party.

accompanied by a competent declaration affirming that the movant has complied with the meet and confer requirements imposed in the preceding paragraph. Failure by the Designating Party to make such a motion including the required declaration within 21 days (or 14 days, if applicable) shall automatically waive the confidentiality designation for each challenged designation. In addition, the Challenging Party may file a motion challenging a confidentiality designation at any time if there is good cause for doing so, including a challenge to the designation of a deposition transcript or any portions thereof. Any motion brought pursuant to this provision must be accompanied by a competent declaration affirming that the movant has complied with the meet and confer requirements imposed by the preceding paragraph.

The burden of persuasion in any such challenge proceeding shall be on the Designating Party. Frivolous challenges and those made for an improper purpose (e.g., to harass or impose unnecessary expenses and burdens on other parties) may expose the Challenging Party to sanctions. Unless the Designating Party has waived the confidentiality designation by failing to file a motion to retain confidentiality as described above, all parties shall continue to afford the material in question the level of protection to which it is entitled under the Producing Party's designation until the court rules on the challenge.

## 7. ACCESS TO AND USE OF PROTECTED MATERIAL

7.1 Basic Principles. A Receiving Party may use Protected Material that is disclosed or produced by another Party or by a Non-Party in connection with this case only for prosecuting, defending, or attempting to settle this litigation. Such Protected Material may be disclosed only to the categories of persons and under the conditions described in this Order. When the litigation has been terminated, a Receiving Party must comply with the provisions of section 15 below (FINAL DISPOSITION).

Protected Material must be stored and maintained by a Receiving Party at a location and in

a secure manner<sup>2</sup> that ensures that access is limited to the persons authorized under this Order.

7.2 Disclosure of “CONFIDENTIAL” Information or Items. Unless otherwise ordered by the court or permitted in writing by the Designating Party, a Receiving Party may disclose any information or item designated “CONFIDENTIAL” only to:

(a) the Receiving Party’s Outside Counsel of Record in this action, as well as employees of said Outside Counsel of Record to whom it is reasonably necessary to disclose the information for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” that is attached hereto as Exhibit A;

(b) the officers, directors, and employees (including House Counsel) of the Receiving Party to whom disclosure is reasonably necessary for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A);

(c) Experts (as defined in this Order) of the Receiving Party to whom disclosure is reasonably necessary for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A);

(d) the court and its personnel;

(e) court reporters and their staff, professional jury or trial consultants, and Professional Vendors to whom disclosure is reasonably necessary for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A);

(f) during their depositions, witnesses in the action to whom disclosure is reasonably necessary and who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A), **unless otherwise agreed by the Designating Party or ordered by the court.** Pages of transcribed deposition testimony or exhibits to depositions that reveal Protected Material must be separately bound by the court reporter and may not be disclosed to anyone except as permitted under this

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<sup>2</sup> It may be appropriate under certain circumstances to require the Receiving Party to store any electronic Protected Material in password-protected form.

Stipulated Protective Order.

(g) the author or recipient of a document containing the information or a custodian or other person who otherwise possessed or knew the information.

Disclosure of “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [Optional: and “HIGHLY CONFIDENTIAL – SOURCE CODE”] Information or Items. Unless otherwise ordered by the court or permitted in writing by the Designating Party, a Receiving Party may disclose any information or item designated “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [Optional: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] only to:

(a) the Receiving Party’s Outside Counsel of Record in this action, as well as employees of said Outside Counsel of Record to whom it is reasonably necessary to disclose the information for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” that is attached hereto as Exhibit A;

[(b) *Optional as deemed appropriate in case-specific circumstances*: Designated House Counsel of the Receiving Party<sup>3</sup> (1) who has no involvement in competitive decision-making, (2) to whom disclosure is reasonably necessary for this litigation, (3) who has signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A), and (4) as to whom the procedures set forth in paragraph 7.4(a)(1), below, have been followed];<sup>4</sup>

(c) Experts of the Receiving Party (1) to whom disclosure is reasonably necessary for this litigation, (2) who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A), and (3) as to whom the procedures set forth in paragraph 7.4(a)(2), below, have been followed];

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<sup>3</sup> It may be appropriate under certain circumstances to limit the number of Designated House Counsel who may access “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information under this provision.

<sup>4</sup> This Order contemplates that Designated House Counsel shall not have access to any information or items designated “HIGHLY CONFIDENTIAL – SOURCE CODE.” It may also be appropriate under certain circumstances to limit how Designated House Counsel may access “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information. For example, Designated House Counsel may be limited to viewing “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information only if it is filed with the court under seal, or in the presence of Outside Counsel of Record at their offices.

(d) the court and its personnel;

(e) court reporters and their staff, professional jury or trial consultants,<sup>5</sup> and Professional Vendors to whom disclosure is reasonably necessary for this litigation and who have signed the “Acknowledgment and Agreement to Be Bound” (Exhibit A); and

(f) the author or recipient of a document containing the information or a custodian or other person who otherwise possessed or knew the information.

7.4 Procedures for Approving or Objecting to Disclosure of “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [Optional: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] Information or Items to Designated House Counsel<sup>6</sup> or Experts.<sup>7</sup>

(a)(1) Unless otherwise ordered by the court or agreed to in writing by the Designating Party, a Party that seeks to disclose to Designated House Counsel any information or item that has been designated “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” pursuant to paragraph 7.3(b) first must make a written request to the Designating Party that (1) sets forth the full name of the Designated House Counsel and the city and state of his or her residence, and (2) describes the Designated House Counsel’s current and reasonably foreseeable future primary job duties and responsibilities in sufficient detail to determine if House Counsel is involved, or may become involved, in any competitive decision-making.<sup>8</sup>

(a)(2) Unless otherwise ordered by the court or agreed to in writing by the Designating

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<sup>5</sup> *Alternative:* The parties may wish to allow disclosure of information not only to professional jury or trial consultants, but also to mock jurors, to further trial preparation. In that situation, the parties may wish to draft a simplified, precisely tailored Undertaking for mock jurors to sign.

<sup>6</sup> *Alternative:* The parties may exchange names of a certain number of Designated House Counsel instead of following this procedure.

<sup>7</sup> *Alternative:* “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information or items may be disclosed to an Expert without disclosure of the identity of the Expert as long as the Expert is not a current officer, director, or employee of a competitor of a Party or anticipated to become one.

<sup>8</sup> It may be appropriate in certain circumstances to require any Designated House Counsel who receives “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information pursuant to this Order to disclose any relevant changes in job duties or responsibilities prior to final disposition of the litigation to allow the Designating Party to evaluate any later-arising competitive decision-making responsibilities.

Party, a Party that seeks to disclose to an Expert (as defined in this Order) any information or item that has been designated “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] pursuant to paragraph 7.3(c) first must make a written request to the Designating Party that (1) identifies the general categories of “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] information that the Receiving Party seeks permission to disclose to the Expert, (2) sets forth the full name of the Expert and the city and state of his or her primary residence, (3) attaches a copy of the Expert’s current resume, (4) identifies the Expert’s current employer(s), (5) identifies each person or entity from whom the Expert has received compensation or funding for work in his or her areas of expertise or to whom the expert has provided professional services, including in connection with a litigation, at any time during the preceding five years,<sup>9</sup> and (6) identifies (by name and number of the case, filing date, and location of court) any litigation in connection with which the Expert has offered expert testimony, including through a declaration, report, or testimony at a deposition or trial, during the preceding five years.<sup>10</sup>

(b) A Party that makes a request and provides the information specified in the preceding respective paragraphs may disclose the subject Protected Material to the identified Designated House Counsel or Expert unless, within 14 days of delivering the request, the Party receives a written objection from the Designating Party. Any such objection must set forth in detail the grounds on which it is based.

(c) A Party that receives a timely written objection must meet and confer with the Designating Party (through direct voice to voice dialogue) to try to resolve the matter by agreement

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<sup>9</sup> If the Expert believes any of this information is subject to a confidentiality obligation to a third-party, then the Expert should provide whatever information the Expert believes can be disclosed without violating any confidentiality agreements, and the Party seeking to disclose to the Expert shall be available to meet and confer with the Designating Party regarding any such engagement.

<sup>10</sup> It may be appropriate in certain circumstances to restrict the Expert from undertaking certain limited work prior to the termination of the litigation that could foreseeably result in an improper use of the Designating Party’s “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information.

within seven days of the written objection. If no agreement is reached, the Party seeking to make the disclosure to Designated House Counsel or the Expert may file a motion as provided in Civil Local Rule 7 (and in compliance with Civil Local Rule 79-5, if applicable) seeking permission from the court to do so. Any such motion must describe the circumstances with specificity, set forth in detail the reasons why the disclosure to Designated House Counsel or the Expert is reasonably necessary, assess the risk of harm that the disclosure would entail, and suggest any additional means that could be used to reduce that risk. In addition, any such motion must be accompanied by a competent declaration describing the parties' efforts to resolve the matter by agreement (i.e., the extent and the content of the meet and confer discussions) and setting forth the reasons advanced by the Designating Party for its refusal to approve the disclosure.

In any such proceeding, the Party opposing disclosure to Designated House Counsel or the Expert shall bear the burden of proving that the risk of harm that the disclosure would entail (under the safeguards proposed) outweighs the Receiving Party's need to disclose the Protected Material to its Designated House Counsel or Expert.

#### 8. PROSECUTION BAR [*Optional*]

Absent written consent from the Producing Party, any individual who receives access to "HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY" [*Optional*: or "HIGHLY CONFIDENTIAL – SOURCE CODE"] information shall not be involved in the prosecution of patents or patent applications relating to [insert subject matter of the invention and of highly confidential technical information to be produced], including without limitation the patents asserted in this action and any patent or application claiming priority to or otherwise related to the patents asserted in this action, before any foreign or domestic agency, including the United States Patent and Trademark Office ("the Patent Office").<sup>11</sup> For purposes of this paragraph, "prosecution"

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<sup>11</sup> It may be appropriate under certain circumstances to require Outside and House Counsel who receive access to "HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY" information to implement an "Ethical Wall."

includes directly or indirectly drafting, amending, advising, or otherwise affecting the scope or maintenance of patent claims.<sup>12</sup> To avoid any doubt, “prosecution” as used in this paragraph does not include representing a party challenging a patent before a domestic or foreign agency (including, but not limited to, a reissue protest, *ex parte* reexamination or *inter partes* reexamination). This Prosecution Bar shall begin when access to “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] information is first received by the affected individual and shall end two (2) years after final termination of this action.<sup>13</sup>

#### 9. SOURCE CODE [*Optional*]

(a) To the extent production of source code becomes necessary in this case, a Producing Party may designate source code as “HIGHLY CONFIDENTIAL - SOURCE CODE” if it comprises or includes confidential, proprietary or trade secret source code.

(b) Protected Material designated as “HIGHLY CONFIDENTIAL – SOURCE CODE” shall be subject to all of the protections afforded to “HIGHLY CONFIDENTIAL – SOURCE CODE” shall be subject to all of the protections afforded to “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information [*Optional*: including the Prosecution Bar set forth in Paragraph 8], and may be disclosed only to the individuals to whom “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information may be disclosed, as set forth in Paragraphs 7.3 and 7.4, with the exception of Designated House Counsel.<sup>14</sup>

(c) Any source code produced in discovery shall be made available for inspection, in a

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<sup>12</sup> Prosecution includes, for example, original prosecution, reissue and reexamination proceedings.

<sup>13</sup> *Alternative*: It may be appropriate for the Prosecution Bar to apply only to individuals who receive access to another party’s “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” technical or source code information pursuant to this Order, such as under circumstances where one or more parties is not expected to produce “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” information that is technical in nature or “HIGHLY CONFIDENTIAL – SOURCE CODE” information,

<sup>14</sup> It may be appropriate under certain circumstances to allow House Counsel access to derivative materials including “HIGHLY CONFIDENTIAL - SOURCE CODE” information, such as exhibits to motions or expert reports,



format allowing it to be reasonably reviewed and searched, during normal business hours or at other mutually agreeable times, at an office of the Producing Party's counsel or another mutually agreed upon location.<sup>15</sup> The source code shall be made available for inspection on a secured computer in a secured room without Internet access or network access to other computers, and the Receiving Party shall not copy, remove, or otherwise transfer any portion of the source code onto any recordable media or recordable device. The Producing Party may visually monitor the activities of the Receiving Party's representatives during any source code review, but only to ensure that there is no unauthorized recording, copying, or transmission of the source code.<sup>16</sup>

(d) The Receiving Party may request paper copies of limited portions of source code that are reasonably necessary for the preparation of court filings, pleadings, expert reports, or other papers, or for deposition or trial, but shall not request paper copies for the purposes of reviewing the source code other than electronically as set forth in paragraph (c) in the first instance. The Producing Party shall provide all such source code in paper form including bates numbers and the label "HIGHLY CONFIDENTIAL - SOURCE CODE." The Producing Party may challenge the amount of source code requested in hard copy form pursuant to the dispute resolution procedure and timeframes set forth in Paragraph 6 whereby the Producing Party is the "Challenging Party" and the Receiving Party is the "Designating Party" for purposes of dispute resolution.

(e) The Receiving Party shall maintain a record of any individual who has inspected any portion of the source code in electronic or paper form. The Receiving Party shall maintain all paper copies of any printed portions of the source code in a secured, locked area. The Receiving

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<sup>15</sup> *Alternative:* Any source code produced in discovery shall be made available for inspection in a format through which it could be reasonably reviewed and searched during normal business hours or other mutually agreeable times at a location that is reasonably convenient for the Receiving Party and any experts to whom the source code may be disclosed. This alternative may be appropriate if the Producing Party and/or its counsel are located in a different jurisdiction than counsel and/or experts for the Receiving Party.

<sup>16</sup> It may be appropriate under certain circumstances to require the Receiving Party to keep a paper log indicating the names of any individuals inspecting the source code and dates and times of inspection, and the names of any individuals to whom paper copies of portions of source code are provided.

Party shall not create any electronic or other images of the paper copies and shall not convert any of the information contained in the paper copies into any electronic format. The Receiving Party shall only make additional paper copies if such additional copies are (1) necessary to prepare court filings, pleadings, or other papers (including a testifying expert's expert report), (2) necessary for deposition, or (3) otherwise necessary for the preparation of its case. Any paper copies used during a deposition shall be retrieved by the Producing Party at the end of each day and must not be given to or left with a court reporter or any other unauthorized individual.<sup>17</sup>

10. PROTECTED MATERIAL SUBPOENAED OR ORDERED PRODUCED IN OTHER LITIGATION

If a Party is served with a subpoena or a court order issued in other litigation that compels disclosure of any information or items designated in this action as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] that Party must:

(a) promptly notify in writing the Designating Party. Such notification shall include a copy of the subpoena or court order;

(b) promptly notify in writing the party who caused the subpoena or order to issue in the other litigation that some or all of the material covered by the subpoena or order is subject to this Protective Order. Such notification shall include a copy of this Stipulated Protective Order; and

(c) cooperate with respect to all reasonable procedures sought to be pursued by the Designating Party whose Protected Material may be affected.<sup>18</sup>

If the Designating Party timely seeks a protective order, the Party served with the subpoena

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<sup>17</sup> The nature of the source code at issue in a particular case may warrant additional protections or restrictions. For example, it may be appropriate under certain circumstances to require the Receiving Party to provide notice to the Producing Party before including “HIGHLY CONFIDENTIAL – SOURCE CODE” information in a court filing, pleading, or expert report.

<sup>18</sup> The purpose of imposing these duties is to alert the interested parties to the existence of this Protective Order and to afford the Designating Party in this case an opportunity to try to protect its confidentiality interests in the court from which the subpoena or order issued.

or court order shall not produce any information designated in this action as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”] before a determination by the court from which the subpoena or order issued, unless the Party has obtained the Designating Party’s permission. The Designating Party shall bear the burden and expense of seeking protection in that court of its confidential material – and nothing in these provisions should be construed as authorizing or encouraging a Receiving Party in this action to disobey a lawful directive from another court.

11. A NON-PARTY’S PROTECTED MATERIAL SOUGHT TO BE PRODUCED IN THIS LITIGATION

(a) The terms of this Order are applicable to information produced by a Non-Party in this action and designated as “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional*: or “HIGHLY CONFIDENTIAL – SOURCE CODE”]. Such information produced by Non-Parties in connection with this litigation is protected by the remedies and relief provided by this Order. Nothing in these provisions should be construed as prohibiting a Non-Party from seeking additional protections.

(b) In the event that a Party is required, by a valid discovery request, to produce a Non-Party’s confidential information in its possession, and the Party is subject to an agreement with the Non-Party not to produce the Non-Party’s confidential information, then the Party shall:

1. promptly notify in writing the Requesting Party and the Non-Party that some or all of the information requested is subject to a confidentiality agreement with a Non-Party;
2. promptly provide the Non-Party with a copy of the Stipulated Protective Order in this litigation, the relevant discovery request(s), and a reasonably specific description of the information requested; and
3. make the information requested available for inspection by the Non-Party.

(c) If the Non-Party fails to object or seek a protective order from this court within 14 days of receiving the notice and accompanying information, the Receiving Party may produce the

Non-Party's confidential information responsive to the discovery request. If the Non-Party timely seeks a protective order, the Receiving Party shall not produce any information in its possession or control that is subject to the confidentiality agreement with the Non-Party before a determination by the court.<sup>19</sup> Absent a court order to the contrary, the Non-Party shall bear the burden and expense of seeking protection in this court of its Protected Material.

## 12. UNAUTHORIZED DISCLOSURE OF PROTECTED MATERIAL

If a Receiving Party learns that, by inadvertence or otherwise, it has disclosed Protected Material to any person or in any circumstance not authorized under this Stipulated Protective Order, the Receiving Party must immediately (a) notify in writing the Designating Party of the unauthorized disclosures, (b) use its best efforts to retrieve all unauthorized copies of the Protected Material, (c) inform the person or persons to whom unauthorized disclosures were made of all the terms of this Order, and (d) request such person or persons to execute the "Acknowledgment and Agreement to Be Bound" that is attached hereto as Exhibit A.

## 13. INADVERTENT PRODUCTION OF PRIVILEGED OR OTHERWISE PROTECTED MATERIAL

When a Producing Party gives notice to Receiving Parties that certain inadvertently produced material is subject to a claim of privilege or other protection, the obligations of the Receiving Parties are those set forth in Federal Rule of Civil Procedure 26(b)(5)(B).<sup>20</sup> This

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<sup>19</sup> The purpose of this provision is to alert the interested parties to the existence of confidentiality rights of a Non-Party and to afford the Non-Party an opportunity to protect its confidentiality interests in this court.

<sup>20</sup> *Alternative:* The parties may agree that the recipient of an inadvertent production may not "sequester" or in any way use the document(s) pending resolution of a challenge to the claim of privilege or other protection to the extent it would be otherwise allowed by Federal Rule of Civil Procedure 26(b)(5)(B) as amended in 2006. This could include a restriction against "presenting" the document(s) to the court to challenge the privilege claim as may otherwise be allowed under Rule 26(b)(5)(B) subject to ethical obligations.

An alternate provision could state: "If information is produced in discovery that is subject to a claim of privilege or of protection as trial-preparation material, the party making the claim may notify any party that received the information of the claim and the basis for it. After being notified, a party must promptly return or destroy the specified information and any copies it has and may not sequester, use or disclose the information until the claim is resolved. This includes a restriction against presenting the information to the court for a determination of the claim."

provision is not intended to modify whatever procedure may be established in an e-discovery order that provides for production without prior privilege review. Pursuant to Federal Rule of Evidence 502(d) and (e), insofar as the parties reach an agreement on the effect of disclosure of a communication or information covered by the attorney-client privilege or work product protection, the parties may incorporate their agreement in the stipulated protective order submitted to the court.

#### 14. MISCELLANEOUS

14.1 Right to Further Relief. Nothing in this Order abridges the right of any person to seek its modification by the court in the future.

14.2 Right to Assert Other Objections. By stipulating to the entry of this Protective Order no Party waives any right it otherwise would have to object to disclosing or producing any information or item on any ground not addressed in this Stipulated Protective Order. Similarly, no Party waives any right to object on any ground to use in evidence of any of the material covered by this Protective Order.

14.3 [Optional: Export Control]. Disclosure of Protected Material shall be subject to all applicable laws and regulations relating to the export of technical data contained in such Protected Material, including the release of such technical data to foreign persons or nationals in the United States or elsewhere. The Producing Party shall be responsible for identifying any such controlled technical data, and the Receiving Party shall take measures necessary to ensure compliance.]

14.4 Filing Protected Material. Without written permission from the Designating Party or a court order secured after appropriate notice to all interested persons, a Party may not file in the public record in this action any Protected Material. A Party that seeks to file under seal any Protected Material must comply with Civil Local Rule 79-5. Protected Material may only be filed under seal pursuant to a court order authorizing the sealing of the specific Protected Material at issue. Pursuant to Civil Local Rule 79-5, a sealing order will issue only upon a request establishing that the Protected Material at issue is privileged, protectable as a trade secret, or otherwise entitled

to protection under the law. If a Receiving Party's request to file Protected Material under seal pursuant to Civil Local Rule 79-5 is denied by the court, then the Receiving Party may file the Protected Material in the public record pursuant to Civil Local Rule 79-5 unless otherwise instructed by the court.

15. FINAL DISPOSITION

Within 60 days after the final disposition of this action, as defined in paragraph 4, each Receiving Party must return all Protected Material to the Producing Party or destroy such material. As used in this subdivision, "all Protected Material" includes all copies, abstracts, compilations, summaries, and any other format reproducing or capturing any of the Protected Material. Whether the Protected Material is returned or destroyed, the Receiving Party must submit a written certification to the Producing Party (and, if not the same person or entity, to the Designating Party) by the 60-day deadline that (1) identifies (by category, where appropriate) all the Protected Material that was returned or destroyed and (2) affirms that the Receiving Party has not retained any copies, abstracts, compilations, summaries or any other format reproducing or capturing any of the Protected Material. Notwithstanding this provision, Counsel are entitled to retain an archival copy of all pleadings, motion papers, trial, deposition, and hearing transcripts, legal memoranda, correspondence, deposition and trial exhibits, expert reports, attorney work product, and consultant and expert work product, even if such materials contain Protected Material. Any such archival copies that contain or constitute Protected Material remain subject to this Protective Order as set forth in Section 4 (DURATION).

IT IS SO STIPULATED, THROUGH COUNSEL OF RECORD.

DATED: \_\_\_\_\_  
Attorneys for Plaintiff

DATED: \_\_\_\_\_  
Attorneys for Defendant

PURSUANT TO STIPULATION, IT IS SO ORDERED.

DATED: \_\_\_\_\_

[Name of Judge]

United States District/Magistrate Judge

EXHIBIT A

ACKNOWLEDGMENT AND AGREEMENT TO BE BOUND

I, \_\_\_\_\_ [print or type full name], of \_\_\_\_\_  
[print or type full address], declare under penalty of perjury that I have read in its entirety and understand the Stipulated Protective Order that was issued by the United States District Court for the Northern District of California on [date] in the case of \_\_\_\_\_ **[insert formal name of the case and the number and initials assigned to it by the court]**. I agree to comply with and to be bound by all the terms of this Stipulated Protective Order and I understand and acknowledge that failure to so comply could expose me to sanctions and punishment in the nature of contempt. I solemnly promise that I will not disclose in any manner any information or item that is subject to this Stipulated Protective Order to any person or entity except in strict compliance with the provisions of this Order.

I further agree to submit to the jurisdiction of the United States District Court for the Northern District of California for the purpose of enforcing the terms of this Stipulated Protective Order, even if such enforcement proceedings occur after termination of this action.

I hereby appoint \_\_\_\_\_ [print or type full name] of \_\_\_\_\_  
[print or type full address and telephone number] as my California agent for service of process in connection with this action or any proceedings related to enforcement of this Stipulated Protective Order.

Date: \_\_\_\_\_

City and State where sworn and signed: \_\_\_\_\_

Printed name: \_\_\_\_\_

[printed name]

Signature: \_\_\_\_\_

[signature]



## Appendix 6.2 Discovery Confidentiality Order (District of New Jersey)

<https://www.njd.uscourts.gov/sites/njd/files/APPS.pdf>

### UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Plaintiff,

vs.

Defendant.

Civil Action No.: \_\_\_\_ Civ. \_\_\_\_ (XXX)

#### **DISCOVERY CONFIDENTIALITY ORDER**

It appearing that discovery in the above-captioned action is likely to involve the disclosure of confidential information, it is ORDERED as follows:

1. Any party to this litigation and any third-party shall have the right to designate as “Confidential” and subject to this Order any information, document, or thing, or portion of any document or thing: (a) that contains trade secrets, competitively sensitive technical, marketing, financial, sales or other confidential business information, or (b) that contains private or confidential personal information, or (c) that contains information received in confidence from third parties, or (d) which the producing party otherwise believes in good faith to be entitled to protection under Rule 26(c)(1)(G) of the Federal Rules of Civil Procedure and Local Civil Rule 5.3. Any party to this litigation or any third party covered by this Order, who produces or discloses any Confidential material, including without limitation any information, document, thing, interrogatory answer, admission, pleading, or testimony, shall mark the same with the foregoing or similar legend: “CONFIDENTIAL” or “CONFIDENTIAL – SUBJECT TO DISCOVERY CONFIDENTIALITY ORDER” (hereinafter “Confidential”).

2. Any party to this litigation and any third-party shall have the right to designate as “Attorneys’ Eyes Only” and subject to this Order any information, document, or thing, or portion of any document or thing that contains highly sensitive business or personal information, the disclosure of which is highly likely to cause significant harm to an individual or to the business or competitive position of the designating party. Any party to this litigation or any third party who is covered by this Order, who produces or discloses any Attorneys’ Eyes Only material, including without limitation any information, document, thing, interrogatory answer, admission, pleading, or testimony, shall mark the same with the foregoing or similar legend: “ATTORNEYS’ EYES ONLY” or “ATTORNEYS’ EYES ONLY – SUBJECT TO DISCOVERY CONFIDENTIALITY ORDER” (hereinafter “Attorneys’ Eyes Only”).

3. All Confidential material shall be used by the receiving party solely for purposes of the prosecution or defense of this action, shall not be used by the receiving party for any business, commercial, competitive, personal or other purpose, and shall not be disclosed by the receiving party to anyone other than those set forth in Paragraph 4, unless and until the

restrictions herein are removed either by written agreement of counsel for the parties, or by Order of the Court. It is, however, understood that counsel for a party may give advice and opinions to his or her client solely relating to the above-captioned action based on his or her evaluation of Confidential material, provided that such advice and opinions shall not reveal the content of such Confidential material except by prior written agreement of counsel for the parties, or by Order of the Court.

4. Confidential material and the contents of Confidential material may be disclosed only to the following individuals under the following conditions:

- a. Outside counsel (herein defined as any attorney at the parties' outside law firms) and relevant in-house counsel for the parties;
- b. Outside experts or consultants retained by outside counsel for purposes of this action, provided they have signed a non-disclosure agreement in the form attached hereto as Exhibit A;
- c. Secretarial, paralegal, clerical, duplicating and data processing personnel of the foregoing;
- d. The Court and court personnel;
- e. Any deponent may be shown or examined on any information, document or thing designated Confidential if it appears that the witness authored or received a copy of it, was involved in the subject matter described therein or is employed by the party who produced the information, document or thing, or if the producing party consents to such disclosure;
- f. Vendors retained by or for the parties to assist in preparing for pretrial discovery, trial and/or hearings including, but not limited to, court reporters, litigation support personnel, jury consultants, individuals to prepare demonstrative and audiovisual aids for use in the courtroom or in depositions or mock jury sessions, as well as their staff, stenographic, and clerical employees whose duties and responsibilities require access to such materials; and
- g. The parties. In the case of parties that are corporations or other business entities, "party" shall mean executives who are required to participate in decisions with reference to this lawsuit.

5. Confidential material shall be used only by individuals permitted access to it under Paragraph 4. Confidential material, copies thereof, and the information contained therein, shall not be disclosed in any manner to any other individual, until and unless (a) outside counsel for the party asserting confidentiality waives the claim of confidentiality, or (b) the Court orders such disclosure.

6. With respect to any depositions that involve a disclosure of Confidential material of a party to this action, such party shall have until thirty (30) days after receipt of the deposition transcript within which to inform all other parties that portions of the transcript are to be designated Confidential, which period may be extended by agreement of the parties. No such deposition transcript shall be disclosed to any individual other than the individuals described in Paragraph 4(a), (b), (c), (d) and (f) above and the deponent during these thirty (30) days, and no individual attending such a deposition shall disclose the contents of the deposition to any individual other than those described in Paragraph 4(a), (b), (c), (d) and (f) above during said

thirty (30) days. Upon being informed that certain portions of a deposition are to be designated as Confidential, all parties shall immediately cause each copy of the transcript in its custody or control to be appropriately marked and limit disclosure of that transcript in accordance with Paragraphs 3 and 4.

7. Material produced and marked as Attorneys' Eyes Only may be disclosed only to outside counsel for the receiving party and to such other persons as counsel for the producing party agrees in advance or as Ordered by the Court.

8. If counsel for a party receiving documents or information designated as Confidential or Attorneys' Eyes Only hereunder objects to such designation of any or all of such items, the following procedure shall apply:

(a) Counsel for the objecting party shall serve on the designating party or third party a written objection to such designation, which shall describe with particularity the documents or information in question and shall state the grounds for objection. Counsel for the designating party or third party shall respond in writing to such objection within 14 days, and shall state with particularity the grounds for asserting that the document or information is Confidential or Attorneys' Eyes Only. If no timely written response is made to the objection, the challenged designation will be deemed to be void. If the designating party or nonparty makes a timely response to such objection asserting the propriety of the designation, counsel shall then confer in good faith in an effort to resolve the dispute.

(b) If a dispute as to a Confidential or Attorneys' Eyes Only designation of a document or item of information cannot be resolved by agreement, the proponent of the designation being challenged shall present the dispute to the Court initially by telephone or letter, in accordance with Local Civil Rule 37.1(a)(1), before filing a formal motion for an order regarding the challenged designation. The document or information that is the subject of the filing shall be treated as originally designated pending resolution of the dispute.

9. Any document designated "Confidential" or "Attorneys' Eyes Only" by a party or non-party and which document is filed with the Court shall be filed under seal, in accordance with Local Civil Rule 5.3.

10. If the need arises during trial or at any Hearing before the Court for any party to disclose Confidential or Attorneys' Eyes Only information, it may do so only after giving notice to the producing party and as directed by the Court.

11. To the extent consistent with applicable law, the inadvertent or unintentional disclosure of Confidential material that should have been designated as such, regardless of whether the information, document or thing was so designated at the time of disclosure, shall not be deemed a waiver in whole or in part of a party's claim of confidentiality, either as to the specific information, document or thing disclosed or as to any other material or information concerning the same or related subject matter. Such inadvertent or unintentional disclosure may be rectified by notifying in writing counsel for all parties to whom the material was disclosed that the material should have been designated Confidential within a reasonable time after disclosure. Such notice shall constitute a designation of the information, document or thing as Confidential under this Discovery Confidentiality Order.

12. When the inadvertent or mistaken disclosure of any information, document or thing protected by privilege or work-product immunity is discovered by the producing party and brought to the attention of the receiving party, the receiving party's treatment of such material shall be in accordance with Federal Rule of Civil Procedure 26(b)(5)(B). Such inadvertent or mistaken disclosure of such information, document or thing shall not by itself constitute a waiver by the producing party of any claims of privilege or work-product immunity. However, nothing herein restricts the right of the receiving party to challenge the producing party's claim of privilege if appropriate within a reasonable time after receiving notice of the inadvertent or mistaken disclosure.

13. No information that is in the public domain or which is already known by the receiving party through proper means or which is or becomes available to a party from a source other than the party asserting confidentiality, rightfully in possession of such information on a non-confidential basis, shall be deemed or considered to be Confidential material under this Discovery Confidentiality Order.

14. This Discovery Confidentiality Order shall not deprive any party of its right to object to discovery by any other party or on any otherwise permitted ground. This Discovery Confidentiality Order is being entered without prejudice to the right of any party to move the Court for modification or for relief from any of its terms.

15. This Discovery Confidentiality Order shall survive the termination of this action and shall remain in full force and effect unless modified by an Order of this Court or by the written stipulation of the parties filed with the Court.

16. Upon final conclusion of this litigation, each party or other individual subject to the terms hereof shall be under an obligation to assemble and to return to the originating source all originals and unmarked copies of documents and things containing Confidential material and to destroy, should such source so request, all copies of Confidential material that contain and/or constitute attorney work product as well as excerpts, summaries and digests revealing Confidential material; provided, however, that counsel may retain complete copies of all transcripts and pleadings including any exhibits attached thereto for archival purposes, subject to the provisions of this Discovery Confidentiality Order. To the extent a party requests the return of Confidential material from the Court after the final conclusion of the litigation, including the exhaustion of all appeals therefrom and all related proceedings, the party shall file a motion seeking such relief.

IT IS SO ORDERED.

Dated: \_\_\_\_\_, U.S.M.J.

## EXHIBIT A

### UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Plaintiff,

vs.

Defendant.

Civil Action No.: \_\_ Civ. \_\_\_\_ (XX)

#### **AGREEMENT TO BE BOUND BY DISCOVERY CONFIDENTIALITY ORDER**

I, \_\_\_\_\_, being duly sworn, state that:

1. My address is \_\_\_\_\_.
2. My present employer is \_\_\_\_\_ and the address of my present employment is \_\_\_\_\_.
3. My present occupation or job description is \_\_\_\_\_.
4. I have carefully read and understood the provisions of the Discovery Confidentiality Order in this case signed by the Court, and I will comply with all provisions of the Discovery Confidentiality Order.
5. I will hold in confidence and not disclose to anyone not qualified under the Discovery Confidentiality Order any Confidential Material or any words, summaries, abstracts, or indices of Confidential Information disclosed to me.
6. I will limit use of Confidential Material disclosed to me solely for purpose of this action.
7. No later than the final conclusion of the case, I will return all Confidential Material and summaries, abstracts, and indices thereof which come into my possession, and documents or things which I have prepared relating thereto, to counsel for the party for whom I was employed or retained.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: \_\_\_\_\_ [Name]

**Appendix 6.3 Model Confidentiality Order (N.D. Illinois)**

[https://www.ilnd.uscourts.gov/\\_assets/\\_news/General%20Order%2012-0018%20-%20Form%20LR26.2%20Model%20Confidentiality%20Order.pdf](https://www.ilnd.uscourts.gov/_assets/_news/General%20Order%2012-0018%20-%20Form%20LR26.2%20Model%20Confidentiality%20Order.pdf)

**Form LR 26.2  
MODEL CONFIDENTIALITY ORDER**

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS

	)	
	)	
Plaintiff	)	
	)	
v.	)	Civil No.
	)	District Judge
	)	Magistrate Judge
	)	
Defendant	)	

**[Agreed]<sup>1</sup> Confidentiality Order**

**[if by agreement]** The parties to this Agreed Confidentiality Order have agreed to the terms of this Order; accordingly, it is ORDERED:

**[if not fully agreed]** A party to this action has moved that the Court enter a confidentiality order. The Court has determined that the terms set forth herein are appropriate to protect the respective interests of the parties, the public, and the Court. Accordingly, it is ORDERED:

**1. Scope.** All materials produced or adduced in the course of discovery, including initial disclosures, responses to discovery requests, deposition testimony and exhibits, and information derived directly therefrom (hereinafter collectively

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<sup>1</sup> Counsel should include or delete language in brackets as necessary to the specific case. **Any other changes to this model order must be shown by redlining that indicates both deletions and additions to the model text.** Counsel may also modify this model order as appropriate for the circumstances of the case. This model order is for the convenience of the parties and the court and not intended to create a presumption in favor of the provisions in this model order and against alternative language proposed by the parties. The court will make the final decision on the terms of any order notwithstanding the agreement of the parties.

“documents”), shall be subject to this Order concerning Confidential Information as defined below. This Order is subject to the Local Rules of this District and the Federal Rules of Civil Procedure on matters of procedure and calculation of time periods.

**2. Confidential Information.** As used in this Order, “Confidential Information” means information designated as “CONFIDENTIAL-SUBJECT TO PROTECTIVE ORDER” by the producing party that falls within one or more of the following categories: (a) information prohibited from disclosure by statute; (b) information that reveals trade secrets; (c) research, technical, commercial or financial information that the party has maintained as confidential; (d) medical information concerning any individual; (e) personal identity information; (f) income tax returns (including attached schedules and forms), W-2 forms and 1099 forms; or (g) personnel or employment records of a person who is not a party to the case<sup>2</sup> Information or documents that are available to the public may not be designated as Confidential Information.

**3. Designation.**

(a) A party may designate a document as Confidential Information for protection under this Order by placing or affixing the words “CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER” on the document and on all copies in a manner that will not interfere with the legibility of the document. As used in this Order, “copies” includes electronic images, duplicates, extracts, summaries or descriptions that contain

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<sup>2</sup> If protection is sought for any other category of information, the additional category shall be described in paragraph 2 with the additional language redlined to show the change in the proposed Order.

the Confidential Information. The marking “CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER” shall be applied prior to or at the time of the documents are produced or disclosed. Applying the marking “CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER” to a document does not mean that the document has any status or protection by statute or otherwise except to the extent and for the purposes of this Order. Any copies that are made of any documents marked “CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER” shall also be so marked, except that indices, electronic databases or lists of documents that do not contain substantial portions or images of the text of marked documents and do not otherwise disclose the substance of the Confidential Information are not required to be marked.

(b) The designation of a document as Confidential Information is a certification by an attorney or a party appearing *pro se* that the document contains Confidential Information as defined in this order.<sup>3</sup>

#### **4. Depositions.<sup>4</sup>**

**Alternative A.** Deposition testimony is protected by this Order only if designated as “CONFIDENTIAL – SUBJECT TO PROTECTIVE ORDER” on the record at the time the testimony is taken. Such designation shall be specific as to the portions that contain

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<sup>3</sup> An attorney who reviews the documents and designates them as CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER must be admitted to the Bar of at least one state but need not be admitted to practice in the Northern District of Illinois unless the lawyer is appearing generally in the case on behalf of a party. By designating documents confidential pursuant to this Order, counsel submits to the jurisdiction and sanctions of this Court on the subject matter of the designation.

<sup>4</sup> The parties or movant seeking the order shall select one alternative for handling deposition testimony and delete by redlining the alternative provision that is not chosen.



Confidential Information. Deposition testimony so designated shall be treated as Confidential Information protected by this Order until fourteen days after delivery of the transcript by the court reporter to any party or the witness. Within fourteen days after delivery of the transcript, a designating party may serve a Notice of Designation to all parties of record identifying the specific portions of the transcript that are designated Confidential Information, and thereafter those portions identified in the Notice of Designation shall be protected under the terms of this Order. The failure to serve a timely Notice of Designation waives any designation of deposition testimony as Confidential Information that was made on the record of the deposition, unless otherwise ordered by the Court.

**Alternative B.** Unless all parties agree on the record at the time the deposition testimony is taken, all deposition testimony taken in this case shall be treated as Confidential Information until the expiration of the following: No later than the fourteenth day after the transcript is delivered to any party or the witness, and in no event later than 60 days after the testimony was given, Within this time period, a party may serve a Notice of Designation to all parties of record as to specific portions of the testimony that are designated Confidential Information, and thereafter only those portions identified in the Notice of Designation shall be protected by the terms of this Order. The failure to serve a timely Notice of Designation shall waive any designation of testimony taken in that deposition as Confidential Information, unless otherwise ordered by the Court.

## 5. Protection of Confidential Material.

(a) **General Protections.** Confidential Information shall not be used or disclosed by the parties, counsel for the parties or any other persons identified in subparagraph (b) for any purpose whatsoever other than in this litigation, including any appeal thereof. **[INCLUDE IN PUTATIVE CLASS ACTION CASE:** In a putative class action, Confidential Information may be disclosed only to the named plaintiff(s) and not to any other member of the putative class unless and until a class including the putative member has been certified.]

(b) **Limited Third-Party Disclosures.** The parties and counsel for the parties shall not disclose or permit the disclosure of any Confidential Information to any third person or entity except as set forth in subparagraphs (1)-(9). Subject to these requirements, the following categories of persons may be allowed to review Confidential Information:

- (1) **Counsel.** Counsel for the parties and employees of counsel who have responsibility for the action;
- (2) **Parties.** Individual parties and employees of a party but only to the extent counsel determines in good faith that the employee's assistance is reasonably necessary to the conduct of the litigation in which the information is disclosed;
- (3) **The Court and its personnel;**
- (4) **Court Reporters and Recorders.** Court reporters and recorders engaged for depositions;
- (5) **Contractors.** Those persons specifically engaged for the limited purpose of making copies of documents or organizing or processing documents, including outside vendors hired to process electronically stored documents;

- (6) **Consultants and Experts.** Consultants, investigators, or experts employed by the parties or counsel for the parties to assist in the preparation and trial of this action but only after such persons have completed the certification contained in Attachment A, Acknowledgment of Understanding and Agreement to Be Bound;
- (7) **Witnesses at depositions.** During their depositions, witnesses in this action to whom disclosure is reasonably necessary. Witnesses shall not retain a copy of documents containing Confidential Information, except witnesses may receive a copy of all exhibits marked at their depositions in connection with review of the transcripts. Pages of transcribed deposition testimony or exhibits to depositions that are designated as Confidential Information pursuant to the process set out in this Order must be separately bound by the court reporter and may not be disclosed to anyone except as permitted under this Order.
- (8) **Author or recipient.** The author or recipient of the document (not including a person who received the document in the course of litigation); and
- (9) **Others by Consent.** Other persons only by written consent of the producing party or upon order of the Court and on such conditions as may be agreed or ordered.

(c) **Control of Documents.** Counsel for the parties shall make reasonable efforts to prevent unauthorized or inadvertent disclosure of Confidential Information. Counsel shall maintain the originals of the forms signed by persons acknowledging their obligations under this Order for a period of three years after the termination of the case.

**6. Inadvertent Failure to Designate.** An inadvertent failure to designate a document as Confidential Information does not, standing alone, waive the right to so designate the document; provided, however, that a failure to serve a timely Notice of Designation of deposition testimony as required by this Order, even if inadvertent, waives any protection for deposition testimony. If a party designates a document as

Confidential Information after it was initially produced, the receiving party, on notification of the designation, must make a reasonable effort to assure that the document is treated in accordance with the provisions of this Order. No party shall be found to have violated this Order for failing to maintain the confidentiality of material during a time when that material has not been designated Confidential Information, even where the failure to so designate was inadvertent and where the material is subsequently designated Confidential Information.

**7. Filing of Confidential Information.** This Order does not, by itself, authorize the filing of any document under seal. Any party wishing to file a document designated as Confidential Information in connection with a motion, brief or other submission to the Court must comply with LR 26.2.

**8. No Greater Protection of Specific Documents.** Except on privilege grounds not addressed by this Order, no party may withhold information from discovery on the ground that it requires protection greater than that afforded by this Order unless the party moves for an order providing such special protection.

**9. Challenges by a Party to Designation as Confidential Information.** The designation of any material or document as Confidential Information is subject to challenge by any party. The following procedure shall apply to any such challenge.

**(a) Meet and Confer.** A party challenging the designation of Confidential Information must do so in good faith and must begin the process by conferring directly with counsel for the designating party. In conferring, the challenging party must explain the basis for its belief that the confidentiality designation was not

proper and must give the designating party an opportunity to review the designated material, to reconsider the designation, and, if no change in designation is offered, to explain the basis for the designation. The designating party must respond to the challenge within five (5) business days.

**(b) Judicial Intervention.** A party that elects to challenge a confidentiality designation may file and serve a motion that identifies the challenged material and sets forth in detail the basis for the challenge. Each such motion must be accompanied by a competent declaration that affirms that the movant has complied with the meet and confer requirements of this procedure. The burden of persuasion in any such challenge proceeding shall be on the designating party. Until the Court rules on the challenge, all parties shall continue to treat the materials as Confidential Information under the terms of this Order.

**10. Action by the Court.** Applications to the Court for an order relating to materials or documents designated Confidential Information shall be by motion. Nothing in this Order or any action or agreement of a party under this Order limits the Court's power to make orders concerning the disclosure of documents produced in discovery or at trial.

**11. Use of Confidential Documents or Information at Trial.** Nothing in this Order shall be construed to affect the use of any document, material, or information at any trial or hearing. A party that intends to present or that anticipates that another party may present Confidential information at a hearing or trial shall bring that issue to the Court's and parties' attention by motion or in a pretrial memorandum without disclosing

the Confidential Information. The Court may thereafter make such orders as are necessary to govern the use of such documents or information at trial.

**12. Confidential Information Subpoenaed or Ordered Produced in Other Litigation.**

(a) If a receiving party is served with a subpoena or an order issued in other litigation that would compel disclosure of any material or document designated in this action as Confidential Information, the receiving party must so notify the designating party, in writing, immediately and in no event more than three court days after receiving the subpoena or order. Such notification must include a copy of the subpoena or court order.

(b) The receiving party also must immediately inform in writing the party who caused the subpoena or order to issue in the other litigation that some or all of the material covered by the subpoena or order is the subject of this Order. In addition, the receiving party must deliver a copy of this Order promptly to the party in the other action that caused the subpoena to issue.

(c) The purpose of imposing these duties is to alert the interested persons to the existence of this Order and to afford the designating party in this case an opportunity to try to protect its Confidential Information in the court from which the subpoena or order issued. The designating party shall bear the burden and the expense of seeking protection in that court of its Confidential Information, and nothing in these provisions should be construed as authorizing or encouraging a receiving party in this action to disobey a lawful directive from another court. The obligations set forth

in this paragraph remain in effect while the party has in its possession, custody or control Confidential Information by the other party to this case.

**13. Challenges by Members of the Public to Sealing Orders.** A party or interested member of the public has a right to challenge the sealing of particular documents that have been filed under seal, and the party asserting confidentiality will have the burden of demonstrating the propriety of filing under seal.

**14. Obligations on Conclusion of Litigation.**

**(a) Order Continues in Force.** Unless otherwise agreed or ordered, this Order shall remain in force after dismissal or entry of final judgment not subject to further appeal.

**(b) Obligations at Conclusion of Litigation.** Within sixty-three days after dismissal or entry of final judgment not subject to further appeal, all Confidential Information and documents marked “CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER” under this Order, including copies as defined in ¶ 3(a), shall be returned to the producing party unless: (1) the document has been offered into evidence or filed without restriction as to disclosure; (2) the parties agree to destruction to the extent practicable in lieu of return;<sup>5</sup> or (3) as to documents bearing the notations, summations, or other mental impressions of the receiving party, that party elects to destroy the documents and certifies to the producing party that it has done so.

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<sup>5</sup> The parties may choose to agree that the receiving party shall destroy documents containing Confidential Information and certify the fact of destruction, and that the receiving party shall not be required to locate, isolate and return e-mails (including attachments to e-mails) that may include Confidential Information, or Confidential Information contained in deposition transcripts or drafts or final expert reports.

**(c) Retention of Work Product and one set of Filed Documents.**

Notwithstanding the above requirements to return or destroy documents, counsel may retain (1) attorney work product, including an index that refers or relates to designated Confidential Information so long as that work product does not duplicate verbatim substantial portions of Confidential Information, and (2) one complete set of all documents filed with the Court including those filed under seal. Any retained Confidential Information shall continue to be protected under this Order. An attorney may use his or her work product in subsequent litigation, provided that its use does not disclose or use Confidential Information.

**(d) Deletion of Documents filed under Seal from Electronic Case Filing (ECF) System.** Filings under seal shall be deleted from the ECF system only upon order of the Court.

**15. Order Subject to Modification.** This Order shall be subject to modification by the Court on its own initiative or on motion of a party or any other person with standing concerning the subject matter.

**16. No Prior Judicial Determination.** This Order is entered based on the representations and agreements of the parties and for the purpose of facilitating discovery. Nothing herein shall be construed or presented as a judicial determination that any document or material designated Confidential Information by counsel or the parties is entitled to protection under Rule 26(c) of the Federal Rules of Civil Procedure or otherwise until such time as the Court may rule on a specific document or issue.



**17. Persons Bound.** This Order shall take effect when entered and shall be binding upon all counsel of record and their law firms, the parties, and persons made subject to this Order by its terms.

***So Ordered.***

Dated:

\_\_\_\_\_  
U.S. District Judge  
U.S. Magistrate Judge

**[Delete signature blocks if not wholly by agreement]**

**WE SO MOVE  
and agree to abide by the  
terms of this Order**

**WE SO MOVE  
and agree to abide by the  
terms of this Order**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Printed Name

Counsel for: \_\_\_\_\_

Counsel for: \_\_\_\_\_

Dated:

Dated:

**ATTACHMENT A**

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS

	)	
	)	Civil No.
Plaintiff	)	
	)	
	)	
	)	
Defendant	)	

**ACKNOWLEDGMENT  
AND  
AGREEMENT TO BE BOUND**

The undersigned hereby acknowledges that he/she has read the Confidentiality Order dated \_\_\_\_\_ in the above-captioned action and attached hereto, understands the terms thereof, and agrees to be bound by its terms. The undersigned submits to the jurisdiction of the United States District Court for the Northern District of Illinois in matters relating to the Confidentiality Order and understands that the terms of the Confidentiality Order obligate him/her to use materials designated as Confidential Information in accordance with the Order solely for the purposes of the above-captioned action, and not to disclose any such Confidential Information to any other person, firm or concern.

The undersigned acknowledges that violation of the Confidentiality Order may result in penalties for contempt of court.

Name: \_\_\_\_\_

Job Title: \_\_\_\_\_

Employer: \_\_\_\_\_

Business Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

Signature

Adopted 06/29/12

#### **Appendix 6.4 Default Standard For Access To Source Code (D. Delaware)**

[https://www.ded.uscourts.gov/sites/ded/files/pages/Default%20Standard%20for%20Access%20to%20Source%20Code\\_0.pdf](https://www.ded.uscourts.gov/sites/ded/files/pages/Default%20Standard%20for%20Access%20to%20Source%20Code_0.pdf)

Absent agreement among the parties, the following procedures shall apply to ensure secure access to source code:

1. A single electronic copy of source code or executable code shall be made available for inspection on a stand-alone computer.

2. The stand-alone computer shall be password protected and supplied by the source code provider.

3. The stand-alone computer shall be located with an independent escrow agent, with the costs of such to be shared by the parties. If the parties cannot agree on such an agent, each party shall submit to the court the name and qualifications of their proposed agents for the court to choose.

4. Access to the stand-alone computer shall be permitted, after notice to the provider and an opportunity to object, to two (2) outside counsel representing the requesting party and two (2) experts retained by the requesting party, all of whom have been approved under the protective order in place. No one from the provider shall have further access to the computer during the remainder of discovery.

5. Source code may not be printed or copied without the agreement of the producing party or further order of the court.

6. The source code provider shall provide a manifest of the contents of the stand-alone computer. This manifest, which will be supplied in both printed and electronic form, will list the name, location, and MD5 checksum of every source and executable file escrowed on the computer.

7. The stand-alone computer shall include software utilities which will allow counsel and experts to view, search, and analyze the source code. At a minimum, these utilities must provide the ability to (a) view, search, and line-number any source file, (b) search for a given pattern of text through a number of files, (c) compare two files and display their differences, and (d) compute the MD5 checksum of a file.

8. If the court determines that the issue of missing files needs to be addressed, the source code provider will include on the stand-alone computer the build scripts, compilers, assemblers, and other utilities necessary to rebuild the application from source code, along with instructions for their use.

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## Chapter 7: Summary Judgment

### 7.1 Introduction

As Judge Richard Posner famously pointed out, summary judgment on the “reasonable efforts” requirement for trade secret validity will be rare except in “extreme” cases because the analysis of what is reasonable turns on nuanced factual determinations that vary from case to case. *See Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179-80 (7th Cir. 1991). This observation extends more broadly. Opportunities for a grant of summary judgment in trade secret disputes are significant but narrow because, as detailed further below, many of the key elements of these disputes are largely factual. *See, e.g., Hulsenbusch v. Davidson Rubber Co.*, 344 F.2d 730, 734 (8th Cir. 1965) (stating that “[t]he issues of possession by plaintiff of trade secrets, confidential disclosure to defendant, and violation by him of that confidence or breach of his contract are largely factual[.]”). Indeed, as illustrated and summarized in the table in the appendix to this chapter (and discussed further below) the primary areas that are likely to present questions amenable to summary judgment relate to the identification of trade secrets, inferences about misappropriation, and the measure of damages.

At the same time, grants of summary judgment do occur and have increased since the 1980s. One study from 2009 found that alleged trade secret misappropriators prevailed on motions for summary judgment in 51% of coded cases. The authors concluded that “courts are very willing to grant summary judgment in favor of an alleged misappropriator[.]” David S. Almeling, *et. al., A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZAGA L. REV. 291, 317 (2019). More recently, a trade secret litigation report similarly concluded that, in cases terminating between 2016 and 2020, defendants were far more likely to win a grant of summary judgment in their favor than were claimants. *See Rachel Bailey, Trade Secret Litigation Report*, Lex Machina 18 (June 2021).

Despite the fact-intensive nature of a trade secret case, then, courts may grant summary judgment on particular issues, and particularly for claim defendants. Granting summary judgment for the defendant on any element will bar the need to adjudicate any of the other elements. In rare cases where there is sufficient, undisputed evidence of misappropriation, a Court could also grant summary judgment for the plaintiff. *See* 4 MILGRIM ON TRADE SECRETS §15.01; *Food Servs. of Am., Inc. v. Carrington*, 2013 U.S. Dist. LEXIS 120194, \*\*19-23 (D. Ariz. Aug. 23, 2013).

Examples of trade secret issues that can be resolved on summary judgment include:

- Whether a claimant has established the existence of a trade secret, *see Ameranth, Inc. v. Genesis Gaming Sols., Inc.*, SACV110189AGRNBX, 2015 WL 10791913 (C.D. Cal. Jan. 2, 2015);
- Whether a claimant has identified the trade secret with sufficient particularity, *see Freeman Inv. Mgt Co., LLC v. Frank Russell Co.*, 13-cv-2856 JLS (RBB), 2016 WL 5719819 (S.D. Cal. Sept. 30, 2016), *aff’d*, 729 F. App’x. 590 (9th Cir. 2018) (unpublished);
- Whether a claimant has used reasonable efforts to protect the secrecy of the alleged trade secret at issue, *see Manchester v. Sivantos GmbH*, 2019 WL 3531419 (C.D. Cal. Aug. 2, 2019);

- Whether the alleged trade secret was generally known or readily ascertainable to others, *see Prostar Wireless Group, LLC v. Domino's Pizza, Inc.*, 360 F.Supp.3d 994 (N.D. Cal. Dec. 28, 2018);
- Whether misappropriation by improper means occurred, *see Weiss Residential Research LLC v. Experian Information Solutions, Inc.*, 2021 WL 4520046 (C.D. Cal. Sept. 30, 2021); and
- Whether improper disclosure occurred, *see M.A. Mobile Ltd. v. Indian Inst. Of Tech. Kharagpur*, 400 F.Supp.3d 867 (N.D. Cal. 2019).

## 7.2 Burdens of Proof

The apparently higher rate of summary judgment grants to defendants on trade secret claims likely results from the burdens that each party will bear to succeed on a motion for summary judgment. The general rules regarding summary judgment apply to trade secret cases. To prevail on summary judgment, the moving party must show “that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” FED. R. CIV. P. 56(a). A genuine dispute of material fact will preclude summary judgment “if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). It is the movant’s burden to “demonstrate the absence of a genuine issue of material fact.” *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). A District Court’s grant of summary judgment is reviewed *de novo*, resolving all factual ambiguities and inferences in favor of the non-moving party.

At trial, a trade secret owner bears the burden of persuasion on each element of a claim for misappropriation. This means that a trade secret owner moving for summary judgment must produce evidence showing that no reasonable jury could fail to find for it on every element of the claim. In contrast, an alleged misappropriator moving for summary judgment must show that no reasonable jury could find for the trade secret owner on at least one essential element of the claim. Where the trade secret owner makes a *prima facie* case of misappropriation but defendant comes forward with no contrary evidence, judgment may be entered in favor of the trade secret owner; where, however, defendant proffers controverting evidence, plaintiff must respond with evidence or legal argument showing why defendant’s proffer does not contradict its evidence.

However, it is important to keep in mind that when an alleged misappropriator moves for summary judgment, *it* bears the burden to show entitlement to judgment, notwithstanding that the trade secret owner would bear the burden of persuasion at trial. The alleged misappropriator may satisfy its Rule 56 burden either: “[i] by submitting evidence that negates an essential element of the non-moving party’s claim, or [ii] by demonstrating that the non-moving party’s evidence is insufficient to establish an essential element of the non-moving party’s claim.” *Farid v. Smith*, 850 F.2d 917, 924 (2d Cir. 1988).

## 7.3 Substantive Issues That May Be Raised During Summary Judgment Specific to Trade Secret Cases

### 7.3.1 Trade Secret Elements

While different states have different formulations for the elements of a cause of action for trade secret misappropriation, both DTSA and UTSA have the same general elements: that the claimed trade secret information is not generally known or readily ascertainable; that the owner took reasonable efforts to maintain that secrecy; and showing that the information derives economic

value from being secret. DTSA, 18 U.S.C. § 1839(3); UTSA § 1.4. Courts are divided as to whether the ultimate conclusion that something is a trade secret is a question of fact or law. *Compare, Matter of Innovative Const. Sys., Inc.*, 793 F.2d 875, 882 (7th Cir. 1986) *with, Rivendell Forest Prod., Ltd. v. Georgia-Pac. Corp.*, 28 F.3d 1042, 1045 (10th Cir. 1994). Regardless, the ultimate conclusion is evaluated based on underlying factual questions surrounding each element required for trade secrecy. *See* POOLEY, TRADE SECRETS § 12.04(2)(b)(ii).

### **7.3.1.1 Trade Secret Eligibility**

A broad range of information can potentially qualify as a trade secret provided that the statutory elements are satisfied. This vast scope of subject matter eligible to receive trade secret protection means that summary judgment motions will rarely succeed if based on the bare assertion that certain subject matter must be excluded.

For example, just because a claimed trade secret is made up of information gathered from the public domain does not necessarily mean that the compilation of that information cannot qualify as a trade secret. *See Rivendell Forest Prods., Ltd. v. Georgia-Pac. Corp.*, 28 F.3d 1042, 1045–46 (10th Cir. 1994). Whether a compilation so qualifies will often involve a fact-laden inquiry that can be difficult to resolve at the summary judgment stage. *See USA Power, LLC v. PacifiCorp*, 235 P.3d 749, 760 (Utah 2010).

### **7.3.1.2 The Particularity Requirement**

As discussed in Chapter 4, trade secret plaintiffs must identify their trade secrets with “reasonable particularity.” Ideally, identification issues will have been resolved before the summary judgment stage. *See* § 4.8. However, in some cases, disputes as to the sufficiency of identification may come to the fore during discovery and provide a basis for a summary judgment motion. The particularity requirement can evolve during or after discovery in part due to the common reality that trade secret disputes often turn on evidence that is uniquely in the possession of the defendant, such as when former employees are charged with keeping to themselves (and taking with them) inventions and discoveries that they were obliged by contract or common law to disclose to their employer. *See A&P Tech. Inc. v. Lariviere*, 2017 WL 6606961 (S.D. Ohio Dec. 27, 2017).

As a result, a plaintiff’s failure to satisfy the particularity requirement can provide a basis to grant summary judgment to the defendant. *See Givaudan Fragrances Corp. v. Krivda*, 639 F. App’x 840, 843 (3d Cir. 2016); *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 583–84 (7th Cir. 2002) (Easterbrook, J.); *Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F.Supp.3d 789, 798–800 (W.D. Wis. 2017). *Cf. BondPro Corp v. Siemens Power Generation, Inc.*, 463 F.3d 702, 710 (7th Cir. 2006) (affirming grant of judgment as a matter of law for the defendant where the plaintiff’s “trade secret resides in specifics that have not been disclosed” to the Court, and observing that “[o]ne expects a trade secret to be rich in detail, because a process described in general terms . . . will usually be widely known and thus not worth incurring costs to try to conceal and so not a trade secret”). *But see, Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1214–15 (N.D. Cal. 2012) (denying defendant’s motion for summary judgment on issue of particularity, concluding that trade secret customer lists linking names, buying patterns, product needs, and preferences, were defined with sufficient particularity to separate them from general knowledge, skill, or experience, or to “permit defendant to ascertain at least the boundaries within which the secret lies,” even though the lists were not reduced to writing) (internal citation omitted)).



A key issue concerning trade secret status that may differ at summary judgment as compared to earlier stages of a proceeding is the level of particularity with which the plaintiff should be required to disclose the underlying factual bases to support a finding that a protectable trade secret exists. By the summary judgment stage, meaningful discovery should have already taken place. As a result, courts should ordinarily require plaintiffs to describe alleged trade secrets with greater particularity than at earlier stages of litigation. *Cf. IntelIClear, KKC v. ETC Global Holdings, LLC*, 978 F.3d 653, 660 (9th Cir. 2020) (error to grant summary judgment to alleged misappropriator on identification issue before discovery occurred). The plaintiff must identify the confidential information with sufficient particularity to place the defendant on notice of what was allegedly misappropriated, and for the Court to determine whether it satisfies each element of a trade secret. *See Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F.Supp.3d 789, 798-800 (W.D. Wis. 2017) (quoting *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 584 (7th Cir. 2002)).

### 7.3.1.3 Secrecy

The plaintiff bears the burden to show secrecy as an element of a protectable trade secret. Two issues surrounding secrecy that commonly arise at the summary judgment stage are whether the trade secret has been destroyed and whether it is readily ascertainable.

Where secrecy has been indisputably destroyed—because, for instance, proprietary information has been publicly released or published in a patent application—the Court may grant summary judgment in favor of defendant because no protectable trade secret exists. *See Fleet Engineers, Inc. v. Mudguard Techs., LLC*, 761 F. App'x 989, 994 (Fed. Cir. 2019); *Advantor Sys. Corp. v. DRS Tech. Servs., Inc.*, 678 F. App'x 839, 854 (11th Cir. 2017); *Seng-Tiong Ho v. Taflove*, 648 F.3d 489, 504 (7th Cir. 2011). Note, however, that timing matters in these circumstances because a claim for misappropriation that occurred before secrecy was destroyed may still survive summary judgment, even if a protectable trade secret no longer exists. *See, e.g., Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F.2d 104, 107-08 (7th Cir. 1936).

Secrecy may also be destroyed if the information becomes generally known to others within the relevant industry. This issue may be less amenable to summary judgment than a public release of the alleged trade secret information because determining whether information is generally known within the relevant industry can be factually complex. Nonetheless, courts do sometimes grant summary judgment on this issue for both trade secret plaintiffs and defendants. *See, e.g., Innovation Ventures, L.L.C. v. Aspen Fitness Products, Inc.*, 2015 WL 11071470, at \*6 (E.D. Mich. Mar. 31, 2015) (finding that plaintiff established that information was not “generally known to the public”); *Prostar Wireless Group, LLC v. Domino's Pizza, Inc.*, 360 F.Supp.3d 994, 1013 (N.D. Cal. Dec. 28, 2018) (plaintiff could not establish that information was not generally known); *John M. Floyd & Associates, Inc. v. First Imperial Credit Union*, 2017 WL 4810223, at \*3-4 (S.D. Cal. Oct. 25, 2017) (plaintiff could not establish that information was not “generally known and used in the banking industry”); *Li v. Shuman*, 2016 WL 7217855, at \*20 (W.D. Va. Dec. 9, 2016) (plaintiff could not establish that recipes were “different from those generally known in the industry”); *Giles Const., LLC v. Tooole Inventory Solution, Inc.*, 2015 WL 3755863, at \*6 (D. Utah June 16, 2015) (finding information “was well known in the industry”).

Even information that is not generally known within the industry might still be readily ascertainable. Information that is readily ascertainable does not meet the secrecy requirement for protection under the DTSA or trade secret law. Whether information is readily ascertainable is another factually complex issue that is similarly difficult to resolve through summary judgment.

Of course, there are circumstances where this is not the case. For instance, if information claimed as a trade secret is inherently ascertainable from a marketed product, then the lack of trade secret eligibility can be determined on summary judgment. But, more often than not, the issue will involve disputes over inferences drawn from circumstantial evidence, and over conflicting expert testimony. As a result, a non-moving party will often be able to preclude summary judgment by raising a genuine factual dispute over whether the information was readily ascertainable. *See Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F.Supp.3d 789, 799-800 (W.D. Wis. 2017). The ascertainability of compilation trade secrets drawn from public domain sources can be particularly challenging to assess. For example, in *Poller v. BioScrip, Inc.*, 974 F.Supp.2d 204 (S.D.N.Y. 2013), the accused misappropriator's motion for summary judgment was denied due to a factual dispute over whether a compilation of medical referral sources, "together with corresponding patient names, treatments, dosages, insurance information, hospitals, and territory area," qualified as a trade secret despite the availability of the information in the public domain, because of the effort required to cultivate and secure the information as well as the inclusion of "non-public aspects that are not easily replicated." *Id.* at 217-19.

#### **7.3.1.4 Reasonable Efforts to Maintain Secrecy**

A trade secret owner's efforts to protect the secrecy of trade secret information need not be perfect, but must be reasonable. Whether a claimant's efforts to protect secrecy are reasonable is a question of fact that requires balancing the costs of various means of protection—in terms of productivity and collaboration as well as resources—against their gains for security. As a result, "only in an extreme case can what is a 'reasonable' precaution be determined on a motion for summary judgment, because the answer depends on a balancing of costs and benefits that will vary from case to case and so require estimation and measurement by persons knowledgeable in the particular field of endeavor involved." *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179-80 (7th Cir. 1991); *see Niemi v. NHK Spring Co.*, 543 F.3d 294, 303 (6th Cir. 2008) (reversing grant of summary judgment to defendants and explaining that, "except where the evidentiary showing of reasonable efforts could not conceivably support a judgment in favor of the plaintiff, the reasonableness of the efforts is a question for the trier of fact").

Most of the time, the non-moving party will be able to identify a dispute of material fact as to whether the plaintiff took reasonable efforts to maintain secrecy, precluding summary judgment on that issue. *See Advantor Sys. Corp. v. DRS Tech. Servs., Inc.*, 678 F. App'x 839, 856 (11th Cir. 2017) (reversing grant of summary judgment due to factual dispute over whether disseminating manuals that bore "confidentiality legends," and requiring recipients to sign a notice acknowledging confidentiality, constitutes "reasonable efforts to maintain secrecy"); *Kendall Holdings, Ltd. v. Eden Cryogenics, LLC*, 521 F. App'x 453, 459-60 (6th Cir. 2013) (reversing grant of summary judgment to defendants because of factual disputes over whether plaintiff took reasonable efforts to maintain the secrecy of design drawings that had been stamped confidential); *San Jose Construction, Inc. v. S.B.C.C., Inc.*, 155 Cal. App. 4th 1528, 1543 (2007) (reversing grant of summary judgment to defendant due to factual disputes over whether plaintiff took reasonable precautions to maintain secrecy, where the "significance and sufficiency of the confidentiality agreement on the issue . . . is for the jury to measure"); *AT&T Communications of California, Incorporated v. Pacific Bell*, 238 F.3d 427, \*2 (9th Cir. 2000) (unpublished) (reversing a grant of summary judgment to the trade secret plaintiffs because evidence of some initial confidentiality measures in the absence of a contract for confidentiality, followed by an ex-post label of confidentiality, was insufficient to conclusively establish that plaintiff engaged in reasonable

efforts to maintain secrecy); *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 177-80 (7th Cir. 1991) (reversing grant of summary judgment to defendants due to dispute of material fact over whether plaintiff's precautions to maintain the secrecy of drawings for printing press parts were reasonable where plaintiff kept the drawings in a limited-access vault, shared the drawings with machine shop vendors hired to manufacture the parts, and had the vendors sign a confidentiality agreement but did not prevent them from copying the drawings or enforce a contractual requirement that the drawings be returned).

However, in some cases summary judgment may be proper, such as where a plaintiff "has submitted no evidence of effective security measures taken to guard its alleged trade secrets." *R & R Plastics, Inc. v. F.E. Myers Co.*, 92 Ohio App.3d 789, 804 (1993).

### **7.3.1.5 Economic Value**

As with the other elements of a trade secret, economic value derived from secrecy is a factual issue that often must go to the jury because there are disputed issues of material fact. *See Experian Info. Sols., Inc. v. Nationwide Mktg. Servs. Inc.*, 893 F.3d 1176, 1188 (9th Cir. 2018) (reversing grant of summary judgment to defendant due to disputes of material fact over whether a compilation of public names and addresses had economic value as a trade secret where plaintiff spent "a considerable amount of money and effort in developing the compilation"); *San Jose Construction, Inc. v. S.B.C.C., Inc.*, 155 Cal. App. 4th 1528, 1537-39 (2007) (reversing grant of summary judgment to defendant due to factual disputes over whether project budgets, proposals, and bids in a binder had independent economic value where each separate document had either been generated by, or disclosed to, third parties, but where no one but plaintiff had possession of all together); *Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1213-14 (N.D. Cal. 2012) (denying defendant's motion for summary judgment on issue of protectability due to factual disputes over whether purported trade secrets were "generally known to the public," and whether they "derive potential economic value" from secrecy).

As with the other elements of a protectable trade secret, however, summary judgment may be appropriate in some cases. The Eleventh Circuit has affirmed a grant of summary judgment to an alleged trade secret misappropriator of purported trade secret price quotes because the quotes lacked independent economic value by virtue of being secret. *See Advantor Sys. Corp. v. DRS Tech. Servs., Inc.*, 678 F. App'x 839, 853-54 (11th Cir. 2017) ("This quote qua quote simply had no independent value except when disclosed in the context of bilateral negotiation."). For another recent example, the Northern District of Illinois granted summary judgment to an alleged misappropriator of a published textbook on the basis that a textbook's value "consists in it being read and distributed, not in its being kept secret from 'other persons who can obtain economic value from its disclosure or use.'" *See Am. Ctr. for Excellence in Surgical Assisting Inc. v. Cmty. Coll. Dist. 502*, 315 F.Supp.3d 1044, 1059 (N.D. Ill. 2018) (citation omitted).

### **7.3.2 Misappropriation**

Issues of misappropriation can be challenging to resolve on summary judgment because misappropriation is typically shown with circumstantial or indirect evidence from which a trier of fact may be able to draw a range of reasonable inferences. As a result, it will often be possible for the non-moving party to withstand summary judgment by pointing to some piece of evidence that raises a material dispute of fact. Put differently, even when the underlying facts in record are uncontested, disputes over the inferences of misappropriation to be drawn from those facts may

preclude summary judgment. *See, e.g., C&M Oilfield Rentals, LLC v. Location Illuminator Techs., LLC*, 2020 WL 7012008, at \*5-6 (W.D. Tex. Sept. 30, 2020) (denying defendant's motion for summary judgment on improper use of trade secrets where defendant's product had similarities to plaintiff's product, and was developed in half the time). Courts generally resolve issues of circumstantial evidence of misappropriation on summary judgment only if the inferences advanced by one party are based on pure speculation or conjecture.

That said, misappropriation can be more likely to be amenable to summary judgment than non-misappropriation because a trade secret plaintiff can meet its burden by showing any one of a variety of types of wrongful conduct by the defendant, namely improper acquisition, use, or disclosure. *See, e.g., First Fin. Bank, N.A. v. Bauknecht*, 71 F.Supp.3d 819, 844-45 (C.D. Ill. 2014) (granting plaintiff's motion for summary judgment on misappropriation where loan agent disclosed confidential information to competitor and memorized customer lists in order to compete with former employer). Conversely, an accused misappropriator must show the absence of evidence of all such alleged conduct in order to establish entitlement to judgment. For instance, a defendant cannot win summary judgment solely based on showing the absence of evidence of misuse, without also showing absence of evidence of improper acquisition and disclosure. *See, e.g., Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1215-16 (N.D. Cal. 2012).

The following sections examine the issues within claims of misappropriation, namely acquisition, use, and disclosure, as they pertain to summary judgment.

#### **7.3.2.1 Permissible Inference vs. Impermissible Speculation**

A key issue for the Court on summary judgment is distinguishing circumstantial evidence that gives rise to a permissible inference of misappropriation from circumstantial evidence that merely supports a speculation or conjecture of misappropriation. The former can suffice to withstand a defendant's motion for summary judgment, but the latter cannot.

Evidence of misappropriation need not be direct. *See SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1261 (3d Cir. 1985). Circumstantial evidence alone may suffice to prove misappropriation, even when countered by a defendant's direct testimony denying the allegations. For an example of permissible inferences of misappropriation from circumstantial evidence, *see Leggett & Platt, Incorporated v. Hickory Springs Manufacturing Company*, 285 F.3d 1353, 1360-62 (Fed. Cir. 2002). In *Leggett*, the Federal Circuit reversed a grant of summary judgment to the defendant because circumstantial evidence of the defendant's access to trade secrets, plus conflicting testimony as to similarities between those secrets and defendant's products, could support an inference that the defendant "could not have created its product without the use of L&P's trade secrets," and thus created a dispute of material fact. *Id.* at 1361-62.

Summary judgment for the trade secret owner has been denied, however, where defendant comes forward with un rebutted direct evidence contradicting plaintiff's circumstantial case. Courts evaluating circumstantial evidence of misappropriation should distinguish between evidence that supports a "permissible inference" of misappropriation and evidence that supports mere "impermissible speculation" of the same. *See Ancora Capital & Management Group, LLC v. Corporate Mailing Services, Inc.*, 214 F.Supp.2d 493, 501-03 (D. Md. 2002) (finding impermissible speculation and granting summary judgment to the defendant after concluding that the plaintiff's evidence that defendant had lied about new employment during his exit interview,

combined with weak testimony “based upon opinion and speculation,” were insufficient to raise a material fact as to misappropriation).

### **7.3.2.2 Acquisition by Improper Means**

Under both DTSA and UTSA definitions, misappropriation includes “acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.” 18 U.S.C. § 1839(5)(A); UTSA § 1(2)(i). “Improper means,” in turn, includes “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.” 18 U.S.C. § 1839(6)(A); UTSA § 1(1).

Issues of misappropriation between strangers, or between parties in arms-length relationships, may be amenable to summary judgment if they turn on whether the means by which the defendant acquired the trade secret qualify as acceptable competitive intelligence, or as wrongful industrial espionage. As with other elements of a trade secret claim, the opportunities for summary judgment will be limited because the issue of whether particular conduct qualifies as wrongful espionage is often highly fact-specific: “conduct that may otherwise be perfectly lawful ([such as] taking pictures from an airplane) may constitute ‘improper means’ under circumstances that suggest unfairness.” POOLEY, TRADE SECRETS § 2.03(3)(b); *see E.I. DuPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970). And the underlying facts of what precisely the defendant did can be hotly disputed. Nonetheless, summary judgment may still be proper if the Court determines that, construing all the evidence and drawing all inferences in favor of the nonmoving party, no reasonably jury could find that the conduct qualifies as wrongful espionage. *See, e.g., TI, Ltd. v. Chavez*, 2021 WL 4690514, at \*8 (S.D. Cal. Oct. 7, 2021) (granting defendant’s motion for summary judgment where plaintiff failed to submit evidence that defendant acquired its travel portal source code through improper means).

Issues of misappropriation that involve departing employees and their new employers, or other contractual relationships, can be especially difficult to resolve on summary judgment. In these often-complex disputes, determining whether a trade secret was acquired by improper means may first require evaluating whether the accused misappropriator owed a duty of confidentiality to the trade secret plaintiff, which is a question of law, and whether that duty was breached, which is a question of fact. Or it may require evaluating factual issues concerning the accused’s state of mind, specifically whether the accused knew or had reason to know that the secret was acquired under a duty of confidentiality, by otherwise improper means, or by accident or mistake. These types of underlying factual disputes over acquisition by improper means will often preclude summary judgment on the issue of misappropriation. *See, e.g., Experian Info. Sols., Inc. v. Nationwide Mktg. Servs. Inc.*, 893 F.3d 1176, 1189 (9th Cir. 2018) (reversing grant of summary judgment for the defendant where evidence that defendant purchased a trade secret at below-market cost (less than 1% of market rate for a one-time license) could support an inference that the defendant knew or should have known the secret was acquired through improper means). In some cases, however, summary judgment on acquisition by improper means may be appropriate even in disputes between employers and employees. *See, e.g., On-Line Technologies, Inc. v. Perkin-Elmer, Corp.*, 253 F.2d 313, 325-26, 329-32 (D. Conn. 2003) (granting accused misappropriator’s motion for summary judgment where it was undisputed that defendant acquired the trade secrets with permission during negotiations; the sole evidence of use pertained to information that had been disclosed in a patent and was thus no longer protectable; and no evidence supported an inference that defendant used other secret information not so disclosed).

### 7.3.2.3 Unauthorized Use or Disclosure

Under both DTSA and UTSA definitions, misappropriation includes “disclosure or use of a trade secret of another without express or implied consent” by a person who either acquired the trade secret through improper means or knew or had reason to know that it was acquired improperly. 18 U.S.C. § 1839(5)(B)(i)–(iii); UTSA § 1(2)(ii). As with the other essential elements of a trade secret claim, it is the trade secret owner’s burden to prove misappropriation through unauthorized use or disclosure.

Common circumstantial evidence of non-consensual use includes: evidence of the speed by which the defendant developed a competing product; evidence of the defendant’s access to the trade secret combined with the similarity of the defendant’s competing product to the contents of the secret; the defendant’s “derivation” of a product using the secret; and evidence of the defendant’s intent to misappropriate the secret.

For an example of plaintiff’s evidence of the speed of defendant’s development defeating summary judgment, see *Rivendell Forest Prods., Ltd. v. Georgia–Pac. Corp.*, 28 F.3d 1042, 1044 (10th Cir. 1994) (reversing grant of summary judgment to defendants where departing employee who was not a computer expert began working on a computer system “immediately after being hired” by a competitor, and the “system was *very soon* developed, and it was for all practical purposes the same” as the plaintiff’s). For an example of plaintiff’s evidence of “access plus similarity” defeating summary judgment, see *USA Power, LLC v. PacifiCorp*, 235 P.3d 749, 761-62 (Utah 2010) (reversing grant of summary judgment to defendants because a reasonable jury could infer misappropriation from evidence that defendant “had access to [plaintiff’s] alleged trade secret” and defendant’s product “is substantially similar to” plaintiff’s product).

Because circumstantial evidence will often support conflicting inferences about wrongful acquisition, use, or disclosure that must be resolved by the trier of fact, the prevalence of circumstantial evidence of misuse makes summary judgment difficult on these issues. Trade secret owners moving for summary judgment will have to show that no reasonable juror could find defendant’s explanation plausible to defeat plaintiff’s *prima facie* case, while accused misappropriators moving for summary judgment will have to show that no evidence in the record plausibly contradicts defendant’s explanation. Attempts to make those showings are often unsuccessful. See, e.g., *AT&T Communications of California, Incorporated v. Pacific Bell*, 238 F.3d 427, \*3 (9th Cir. 2000) (unpublished) (reversing grant of summary judgment to the trade secret plaintiff due to a dispute of material fact over whether the defendant owed the plaintiff “a duty not to use [its] billing data for marketing purposes,” and thus whether the defendant’s conceded non-consensual use of that data for the same breached a duty of confidentiality).

Some courts have, however, found circumstantial evidence of misuse insufficient, and granted judgment to defendants. See *GE Betz, Inc. v. Moffitt-Johnston*, 885 F.3d 318, 326-27 (5th Cir. 2018) (affirming grant of summary judgment to defendants, despite employee’s suspicious downloading of emails and other files on eve of departure for a competitor because link between downloading and defendant’s subsequent development of a generic business plan, raw financials, and success with plaintiff’s clients was speculative and insufficient to show misuse of a trade secret). Cf. *Omnitech Intern., Inc. v. Clorox Co.*, 11 F.3d 1316, 1323-25 (5th Cir. 1994) (affirming grant of JMOL for defendant because record was insufficient to support a finding of misappropriation where access was authorized, plaintiff conceded there was no evidence of disclosure, and plaintiff’s “witnesses made conclusory allegations that they believed [defendant]

would have had to have ‘used’” the trade secrets when evaluating a purchase, but the Court determined that claim mere access to the trade secrets made defendant “‘smarter’ about the market” did not amount to misappropriation). *But cf. Jasmine Networks, Inc. v. Marvell Semiconductor, Inc.*, 2013 WL 3776188, at \*13 (Cal. Ct. App. July 17, 2013) (affirming trial court’s denial of plaintiff’s motion for judgment notwithstanding the verdict because voicemail “merely referenc[ing] a trade secret in a conversation” does not qualify as use for purposes of misappropriation).

#### **7.3.2.4 Independent Development**

Independent development of trade secret information is a complete defense to a charge of misappropriation and may provide a basis for a summary judgment ruling. A plaintiff’s circumstantial evidence of misappropriation may not suffice to raise a genuine dispute of material fact when defendant has offered sufficient evidence of independent development. 4 MILGRIM ON TRADE SECRETS § 15.01 (2022); *see, e.g., Purchasing Power, LLC v. Bluestem Brands, Inc.*, 2014 U.S. Dist. LEXIS 64101, \*31 (N.D. Ga. May 9, 2014) (granting summary judgment for defendant despite plaintiff’s circumstantial evidence of product similarities that was not inconsistent with defendant’s direct evidence of independent development). However, a Court must deny summary judgment where a genuine dispute of material fact remains as to whether defendant has met the burden of proving an independent development defense. *See* 4 MILGRIM ON TRADE SECRETS § 15.01 (2022); *ScentSational Techs., LLC v. PepsiCo, Inc.*, 2017 U.S. Dist. LEXIS 162723, \*\*50–51, 2017 WL 4403308 (S.D.N.Y. Oct. 2, 2017) (denying defendant’s motion for summary judgment when defendant had documentation to support its independent development claim but the record as a whole could have reasonably been interpreted otherwise).

A defendant can use its own documents, financial records, and electronic files to show that it made no use of the plaintiff’s information. *See Ahlert v. Hasbro, Inc.*, 325 F.Supp.2d 509, 515 (D.N.J. 2004) (granting summary judgment for defendant when plaintiff failed to refute evidence of independent development, consisting of documentation and expert testimony); *Maxtech Consumer Products, Ltd. v. Robert Bosch Tool Corp.*, 255 F.Supp.3d 833, 848-49, 853 (N.D. Ill. 2017) (granting summary judgment for defendant who established independent development through a product sheet that showed prior conception). *But see Cerner Corp. v. Visicu, Inc.*, 667 F.Supp. 2d 1062, 1080 (W.D. Mo. 2009) (denying summary judgment for alleged misappropriator and finding that independent development defense failed because evidence showed that alleged misappropriator’s product was developed with the aid of alleged trade secrets).

#### **7.3.3 Statute of Limitations**

An accused misappropriator who pled expiration of the statute of limitations as an affirmative defense but who did not make or was unsuccessful in making a motion to dismiss on statute of limitations grounds may raise the defense with the more developed evidentiary record at summary judgment. Doing so may eliminate or to narrow claims for trial. Defendants may be particularly eager to resolve statute of limitations issues at summary judgment, rather than send them to trial, because juries can react unsympathetically to even a valid limitations defense if jurors perceive the defense to be an overly technical excuse to a bad act.

The general rules for statute of limitations defenses apply in trade secret cases. For instance, it is the defendant’s burden to establish each element of a statute of limitations defense. This generally requires showing “when and how the plaintiff discovered an injury, whether the plaintiff

conducted a reasonable investigation, when such an investigation would have brought to light the factual basis for the cause of action for which the plaintiff sought delayed accrual, and whether the plaintiff could have discovered the factual basis for a cause of action earlier by exercising reasonable diligence.” *Fox v. Ethicon Endo-Surgery, Inc.*, 35 Cal.4th 797, 810 (2005). A defendant seeking summary judgment on statute of limitations grounds must establish that there is no genuine issue of material fact as to any of these elements. *See Raytheon Co. v. Indigo Sys. Corp.*, 688 F.3d 1311, 1317 (Fed Cir. 2012).

The following sections address issues specific to statute of limitations defenses in trade secret cases.

### **7.3.3.1 The Limitations Period and the Discovery Rule**

DTSA and most UTSA jurisdictions impose a three-year limitations period that begins to run when the plaintiff either actually discovered the misappropriation, or should have discovered the misappropriation with the exercise of reasonable diligence. *See* DTSA, 18 U.S.C. § 1836(d); UTSA § 6.

Some states that adopted UTSA have imposed a different limitations period ranging from two to five years. For example, Maine imposes a four-year limitations period. *See* Me. Rev. Stat. Ann. tit. 10. Illinois has a five-year period. *See* 765 Ill. Comp. Stat. 1065/7. New York, the only state that has not adopted the UTSA, or any other civil trade secrets statute, applies the three-year limitations period applicable to injury to property, N.Y. CPLR 213(4), and treats each successive use or disclosure while the information remains a trade secret as a separate tort triggering the running of a new statute of limitations. The limitations period begins when the plaintiff either discovered the harm or was aware of enough suspicious circumstances that would lead a reasonably prudent person to discover the harm.

Regardless of the precise limitations period, the statute of limitations defense turns on factual findings that are often subject to genuine dispute, and hence often inappropriate for resolution at the summary judgment stage.

The existence of notice or constructive notice under the discovery rule is ordinarily an issue of fact, and depends on a series of underlying facts that can each be subject to dispute. *See Raytheon Co. v. Indigo Sys. Corp.*, 688 F.3d 1311, 1316 (Fed Cir. 2012). “Under the discovery rule, suspicion of one or more of the elements of a cause of action, coupled with knowledge of any remaining elements, will generally trigger the statute of limitations period.” *Brocade Commc’ns Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1217 (N.D. Cal. 2012) (quoting *Fox v. Ethicon Endo-Surgery, Inc.*, 35 Cal. 4th 797, 807 (2005)).

Examples of underlying factual issues involved in determining notice include:

- When the alleged misappropriation occurred. Disputes over the actual date of misappropriation can arise if one party alleges that the misappropriation itself—and hence any discovery of it—took place within the limitations window. *See, Kendall Holdings, Ltd. v. Eden Cryogenics, LLC*, 521 F. App’x 453, 457-58 (6th Cir. 2013).
- What constitutes “reasonable diligence” in investigating misappropriations. *See, Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1216-17 (N.D. Cal. 2012); *B&P Littleford, LLC v. Prescott Machinery, LLC*, 2021 WL 3732313 (6th Cir. Aug. 24, 2021) (reversing summary judgment dismissal of a misappropriation claim on statute of limitations grounds where plaintiff had presented evidence from



which a reasonable jury could conclude that defendant had deliberately stymied plaintiff's investigation efforts during the limitations period and that plaintiff had satisfied its obligation to conduct a reasonable, albeit unsuccessful, investigation that tolled the statute of limitations)

- Whether the plaintiff should have understood the conduct as misappropriation at the time it either occurred or was discovered, which in turn may depend on whether a protectable trade secret existed and whether any misappropriation actually occurred. *See New Media Strategies, Inc. v. Pulpfree, Inc.*, 941 A.2d 420, 423-27 & nn.11–12 (D.C. Ct. App. 2008).
- Whether the defendant fraudulently concealed the misappropriation, and thus a plaintiff exercising reasonable diligence would not have been placed on constructive notice. *See, Raytheon Co. v. Indigo Sys. Corp.*, 688 F.3d 1311, 1316 (Fed Cir. 2012).

Inquiries into each of these underlying facts may involve subjective judgments, as well as evidence of misappropriation that is either ambiguous or in the exclusive possession of the defendant, making it difficult to achieve a summary judgment determination on the issue of inquiry notice.

Nonetheless, there are times when summary judgment on statute of limitations grounds will be appropriate. For example, courts may grant summary judgment if the record contains clear and unambiguous or undisputed evidence of notice within the limitations period and failure to timely file suit. *See Phillip M. Adams & Assocs., LLC v. Dell Computer Corp.*, 519 F. App'x 998, 1005-07 (Fed. Cir. 2013).

There are a few specific fact patterns that can complicate the notice inquiry further still. Where the defendant initially acquired the trade secret with authorization in confidence and later allegedly misused the information, the cause of action accrues at the time of misuse in breach of the confidential relationship. As a result, mere notice that the defendant had obtained, or even retained, the information may be insufficient to trigger the discovery rule. In these circumstances, defendants moving for summary judgment on statute of limitations grounds will have to show conclusively that the plaintiff had constructive notice of the *subsequent* misuse that gave rise to the cause of action for trade secret misappropriation. *See, Raytheon Co. v. Indigo Sys. Corp.*, 688 F.3d 1311, 1317-19 (Fed Cir. 2012). Finally, in a multi-defendant case, constructive notice of misappropriation must be established for each defendant separately. *See Stolle Machinery Co., LLC v. RAM Precision Industries*, 605 F. App'x 473, 483 (6th Cir. 2015) (unpublished).

### 7.3.3.2 The Single Claim Principle

One issue that may arise in trade secret cases is whether subsequent instances of misuse reset the limitations clock. Under both DTSA and UTSA, the limitations period begins to run at the first unauthorized use or disclosure and does *not* re-set with successive uses or disclosures by the same defendant. *See B&P Littleford*, 2021 WL 3732313 at \*6 (6th Cir. Aug. 24, 2021) (citing *Amalgamated Indus. Ltd. v. Tressa, Inc.*, 69 F. App'x 255, 261 (6th Cir. 2003) and explaining that while the initial wrongful acquisition of the trade secret and each subsequent misuse of that trade secret are separate acts of misappropriation, “a *claim* for misappropriation arises only once...at the time of the initial misappropriation, subject to the discovery rule.” (emphasis in original); *Houser v. Feldman*, 2021 WL 4991127 at \* 4 (E.D. Pa. Oct. 27, 2021) (following *B&P Littleford* and stating that in analyzing statute of limitations on DTSA claims “[i]t is the relationship between the parties at the time the secret is disclosed that is protected . . . [t]he fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may

thereby be aggravated”; granting summary judgment to defendant dismissing as time barred claim for wrongful use of trade secrets that had allegedly been misappropriated during the statute of limitations period); *Stolle Machinery Co., LLC v. RAM Precision Industries*, 605 F. App’x 473, 482 (6th Cir. 2015); *Cadence Design Sys., Inc. v. Avant! Corp.*, 57 P.3d 647, 648 (Cal. 2002); Ohio Rev. Code § 1333.61-69.

If a plaintiff has multiple related claims against the same defendant, the limitations period for all claims begins to run at the same time. By contrast, if a plaintiff has multiple claims against different defendants, the limitations period for each defendant begins independently when the plaintiff knew or should have known of that defendant’s misappropriation. See *Ashton-Tate Corp. v. Ross*, 916 F.2d 516, 523-24 (9th Cir. 1990); *Houser v. Feldman*, 2021 WL 4991127, \*5.

Prior to promulgation of UTSA, some jurisdictions subscribed to the opposite “continuing tort” theory of misappropriation, which resets the limitations period upon each successive misuse of the secret. See *Kehoe Component Sales, Inc. v. Best Lighting Products, Inc.* 196 F.3d 576, 583 (6th Cir. 2015); *Underwater Storage, Inc. v. United States Rubber Co.*, 371 F.2d 950, 953-55 (D.C. Cir. 1966). However, that view has largely been rejected. See Darin Snyder, Marcus Quintanilla, & Michael Myers, *Statute of Limitations and Trade Secret Claims: Some Answers and Some Questions*, 20 INTELL. PROP. & TECH. L.J. 1, 1-3 (No. 8 Aug. 2008) (noting uncertainty at common law over whether to measure the statute of limitations according to the continuing tort or single claim rule). New York continues to adhere to theory that each misappropriation triggers the running of a new statute of limitations so long as the information remains a trade secret at the time of subsequent misappropriations. *Norbrook Labs, Ltd. v. G.C. Hanford Mfg. Co.*, 126 F. App’x 507, 509 (2d Cir. 2005); *G4 Concept Mktng, Inc. v. Mastercard Int’l*, 670 F.Supp.2d. 197 (W.D. N.Y. 2009).

### 7.3.4 Damages

“Although the amount of recoverable damages [] is a question of fact, the *measure of damages* upon which the factual computation is based is a question of law.” *U.S. for Use of N. Maltese and Sons, Inc. v. Juno Const. Corp.*, 759 F.2d 253, 255 (2d Cir.1985) (emphasis added); see generally § 2.6.2 (summarizing trade secret damages law). Under DTSA, damages may be sought: (1) “for actual loss caused by the misappropriation,” and (2) “for any unjust enrichment caused by the misappropriation . . . that is not addressed in computing damages for actual loss”; or (3) “in lieu of damages measured by [those] methods, the damages . . . measured by imposition of liability for a reasonable royalty for the misappropriator’s unauthorized disclosure or use of the trade secret.” 18 U.S.C. § 1836(b) (3) (B). Apart from DTSA claims, the standards for proving and calculating damages can vary significantly by state. In addition to damages for plaintiff’s loss plus defendant’s gain, or for a reasonable royalty, most states that have enacted UTSA also allow for punitive damages of up to twice the compensatory damages amount where misappropriation was “willful and malicious.”

Generally speaking, the plaintiff may choose the method of calculating damages that gives the highest recovery, including recovery of plaintiff’s loss and any additional unjust enrichment damages, but may not get double recovery. However, the relief available may sometimes depend on the type of misappropriation. Injunctions are usually available for deliberate theft of a trade secret, but courts sometimes impose a royalty in lieu of an injunction in exceptional circumstances where defendants have accidentally received and used a trade secret. In some jurisdictions, establishing that the plaintiff “cannot show any loss,” and that the defendant “has not enjoyed any

profits,” may be prerequisites to asserting a claim for reasonable royalty damages. *See Walker Mfg., Inc. v. Hoffman, Inc.*, 261 F.Supp.2d 1054, 1086 (N.D. Iowa 2003).

It is the plaintiff’s burden to prove the fact of damages “with reasonable certainty.” *See* RESTAT. (THIRD) UNFAIR COMP., § 45, cmt. b. The plaintiff must prove that the misappropriation was the proximate cause of the damages, and may do so with circumstantial evidence alone. In other words, circumstantial evidence is sufficient to prove that a misappropriation caused harm or unjust enrichment. While the fact of damages must be proven with reasonable certainty and cannot be purely speculative, a plaintiff need not prove the amount of damages with certainty. *See W.L. Gore & Associates, Inc. v. GI Dynamics, Inc.*, 872 F.Supp.2d 883, 892 (D. Ariz. 2012) (denying defendant’s motion for summary judgment, and rejecting defendant’s argument that the plaintiff’s “reasonable royalty theory [was] unduly speculative,” because plaintiff provided competent evidence sufficient to support a reasonable jury’s finding of damages, although the amount remained uncertain). Where an estimation of the amount of damages is inherently speculative, relief may be limited to a court-imposed royalty.

Non-moving parties will often be able to raise factual disputes over how to identify and measure damages that cannot be resolved on summary judgment. *See, e.g., Engelhard Industries, Inc. v. Research Instrumental Corp.*, 324 F.2d 347, 353 (9th Cir. 1963) (reversing grant of summary judgment to defendant because plaintiff’s claim that use of its trade secret enabled defendant “to build and market” a competing product “substantially sooner than if without it” sufficed to create a dispute of material fact over the existence of damages); *Walker Mfg., Inc. v. Hoffman, Inc.*, 261 F.Supp.2d 1054, 1088 (N.D. Iowa 2003) (observing a dispute of fact over whether the grant of a preliminary injunction “lasted long enough to deprive [the defendant] of any benefit that it might have gained from misappropriating,” and to shield the plaintiff from any loss).

Nonetheless, as with other fact-laden issues, there are circumstances in which summary judgment on damages will be appropriate. For instance, defendants may prevail on a motion for summary judgment on the issue of damages if the record establishes conclusively that the plaintiff will be unable to prove any damages at all, or if the record shows that the sum of the plaintiff’s proof of damages is impermissibly speculative. *See Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1043 (Fed. Cir. 2001) (affirming grant of summary judgment to defendant where trade secret was destroyed by publication in patent application, “misappropriation damages were limited to any ‘head-start’ advantage” [defendant] obtained by using the trade secrets” prior to that date, and plaintiff “stipulated that it could not prove any such damages”); *Carbo Ceramics, Inc. v. Keefe*, 166 F. App’x 714, 724-25 (5th Cir. 2006) (affirming grant of summary judgment to defendants because there was “no sound and reliable evidence from which to derive a dollar value for the alleged trade secrets,” and thus no “triable issue of material fact as to actual damages recoverable under [the plaintiff’s] trade secret misappropriation claim”).

Given that methods for calculating damages vary by state, courts may be able to resolve summary judgment motions by clarifying the law in the controlling jurisdiction. For example, courts may be asked to determine what types of costs to the plaintiff qualify for recovery. When calculating a plaintiff’s loss, courts may consider a range of issues including lost sales, price erosion, reduced probability of success for products not yet marketed, lost business opportunities, reputational harm, costs and expenses incurred in investigating and/or mitigating the misappropriation, and fair market value of a trade secret if it has been destroyed through public disclosure. Note that commercial use is not a prerequisite to establishing loss. *See BondPro Corp v. Siemens Power Generation, Inc.*, 463 F.3d 702, 707 (7th Cir. 2006) (“Even a trade secret that

had never been used at all could have a market value, enabling damages from the destruction of the secret to be estimated.”).

In terms of calculating a defendant’s unjust enrichment, factual disputes will often preclude a grant of summary judgment. *See, Steves and Sons, Inc. v. JELD-WEN, Inc.*, 2018 WL 2172502, at \*1, \*7, \*11-15 (E.D. Va. 2018) (denying plaintiff’s motion for summary judgment on defendant’s DTSA and Texas trade secret counterclaims where record evidence as to unjust enrichment based on a hypothetical manufacturing plant modeled after existing plants involved “some guesswork” but was not “very speculative,” and where plaintiff argued, unsuccessfully, that defendant’s “damages expert failed to apportion damages between specific trade secrets”). However, courts may be able to determine certain parameters for the inquiry as a matter of law, such as whether a defendant may be liable for damages that occur after a trade secret has been destroyed by publication, provided the defendant is unaware of the publication and continues to use information that derives from the breach and not from the public domain. *See Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1050-51 (Fed. Cir. 2001) (affirming the determination on summary judgment that Missouri law precludes recovery of damages that occurred after the publication of a trade secret, despite the alleged misappropriator’s unawareness of the publication).

As for royalty damages, non-moving parties may be able to defeat summary judgment by raising factual disputes over what constitutes a “reasonable” royalty. Nonetheless, it may be appropriate for the Court to grant partial summary judgment or otherwise to resolve certain legal parameters for the inquiry, which can vary by jurisdiction. For example, some jurisdictions permit courts to impose a “royalty measure” of damages based solely on the actual market value of the secret, even if the defendant took but never used the secret. *See POOLEY, TRADE SECRETS* § 7.03(2)(d). Other jurisdictions, however, require a plaintiff seeking royalty damages to show that the defendant “actually put the trade secret to some commercial use.” *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974). In the latter jurisdiction, then, if a plaintiff fails to point to evidence in the record that could support a finding of actual commercial use, a grant of summary judgment to the defendant on the issue of royalty damages would be proper. *See also, Walker Mfg., Inc. v. Hoffman, Inc.*, 261 F.Supp.2d 1054, 1088 (N.D. Iowa 2003) (confirming that, under Iowa law, reasonable royalty damages are available in addition to injunctive relief when there is no proof of plaintiff’s loss or defendant’s gain, and denying summary judgment due to dispute of fact over entitlement to a reasonable royalty in the case).

A plaintiff does not need to prove damages in order to win a judgment on the issue of misappropriation. *See Global Med. Technologies, Inc. v. Jackson*, 2006 WL 3735581 at \*4 (Cal. Ct. App. 3d Dist., Jan. 19, 2007) (reversing grant of summary judgment based on lack of proof of actual damages, without prior determination of whether misappropriation occurred, because economic injury is not an element of the cause of action); *Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1217-18 (N.D. Cal. 2012) (damages considered on summary judgment).

#### **7.4 Expert Declarations**

An expert declaration may help defeat a motion for summary judgment. “Where the party opposing summary judgment raises a genuine issue of material fact by proffering expert testimony in conflict with the positions of the moving party, summary judgment is properly denied.” *Cerner Corp. v. Visicu, Inc.*, 667 F.Supp.2d 1062, 1072–73 (W.D. Mo. 2009) (citing *Metro. Life Ins. Co. v. Bancorp Serv., L.L.C.*, 527 F.3d 1330, 1338–39 (Fed. Cir. 2008)).

Expert declarations can create genuine issues of material facts as to the existence of a trade secret. See *Thermodyn Corp. v. 3M Co*, 593 F.Supp.2d 972, 987–88 (N.D. Ohio 2008) (denying summary judgment when expert testimony created genuine issues of material fact as to whether a formula was commonly known and as to whether a customer list was easily obtained); *Allied Erecting and Dismantling Co., Inc. v. Genesis Equip. & Mfg., Inc.*, 649 F.Supp.2d 702, 715-18 (N.D. Ohio 2009) (finding that technical expert declaration created genuine issues of material fact as to whether protectable trade secrets existed); *Brocade Commun. Sys., Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1214 (N.D. Cal. 2012) (finding a genuine material factual dispute as to whether trade secrets existed given 30(b)(6) witness testimony and damages expert opinion). Expert declarations have also been used to create issues of genuine fact regarding other elements. See *Brocade Commun. Sys., Inc.*, 873 F.Supp.2d at 1216 (finding a genuine issue of material fact as to whether trade secret was misappropriated given forensic expert testimony regarding copying and deleting a large number of source code files).

But, without further evidence of misappropriation, an expert declaration alone may not be sufficient to defeat a motion for summary judgment. See *Cerner*, 667 F.Supp.2d. at 1076-81 (granting summary judgment for misappropriator even when trade secret owner established existence of trade secret with expert testimony because trade secret owner did not provide evidence that misappropriator “ever possessed, acquired, or derived” that particular trade secret).

Further, unsatisfactory expert opinions may be insufficient to defeat a defendant’s motion for summary judgment. See, e.g., *Calendar Research LLC v. StubHub, Inc.*, 2020 WL 4390391, at \*7, \*14 (C.D. Cal. May 13, 2020) (granting motion for summary judgment on DTSA claims to defendants, noting that technical expert only offered “lists of broad technical concepts—creating a circuitous path of unexplained jargon” and “consistently uses vague and over-inclusive phrases to encompass as much information as possible”); *Joshua David Mellberg LLC v. Will*, 20-16215, 2021 WL 4480840, at \*1 (9th Cir. Sept. 30, 2021) (affirming grant of summary judgment to defendants where plaintiffs failed to establish defendants’ conduct caused any damages and damages expert only opined on the amount of damages). Thus, the mere presence of an expert declaration should not be sufficient to survive summary judgment, as courts should scrutinize the substance of the declaration itself.

## **7.5 Partial Summary Judgment**

Courts may grant partial summary judgment on some, but not all of the trade secrets alleged in one claim. FED. R. CIV. P. 56(a) provides that a party may move for summary judgment on not just a claim but also “part of each claim.” This standard allows for split summary judgment decisions when multiple concepts and technologies are alleged under one trade secret misappropriation cause of action. See *Pixion Inc., v. PlaceWare, Inc.* 421 F.Supp.2d 1233, 1246 (N.D. Cal. 2005) (granting summary judgment with respect to trade secret categories 1, 3, 5 and 6, but denying summary judgment with respect to categories 2 and 4); *Rita Medical Systems, Inc. v. Resect Medical, Inc.*, 2007 WL 161049 at 5 (N.D. Cal. 2007) (granting summary judgment as to the remaining alleged trade secrets after previously granting partial summary judgment for two other alleged trade secrets); *Callaway Golf Company v. Dunlop*, 318 F.Supp.2d 205, 216 (D. Del., 2004) (granting partial summary judgment as to only one of the alleged trade secrets).

Partial summary judgment is a valuable case management tool because trade secret claims oftentimes allege theft of many trade secrets. Each alleged trade secret must satisfy all of the requirements for a protectable trade secret (i.e., particularity, secrecy, economic value). Not all of

the trade secrets asserted at the beginning of a case may satisfy all of these requirements. Throughout the discovery process, it may become clear that some alleged trade secrets do not have any basis in law or fact. By granting partial summary to winnow the case down to only legitimately asserted trade secrets, a Court can save valuable resources and time.

By contrast, partial summary judgment may not be available in state courts. For example, California summary judgment procedure does not allow for split decisions. *See* Code Civ. Proc., § 437c subd. (a) (summary judgment) and (f) (summary adjudication). But, federal courts applying state trade secret law have found that federal procedure rules apply, and therefore that partial summary judgment is available for state law misappropriation claims brought in federal court. *See Convolv Inc., v. Compaq Computer*, 2006 WL 839022 at 9-10, (S.D.N.Y. 2006) (applying California law and rejecting plaintiff's objection that the Court had no authority to hear partial summary judgment of just a subset of alleged trade secrets).

Even where summary judgment is not appropriate, summary judgment proceedings may nevertheless be helpful in simplifying a patent case for trial. FED. R. CIV. P. 56(g) states that where "the court does not grant all the relief requested by the motion, it may enter an order stating any material fact—including an item of damages or other relief—that is not genuinely in dispute and treating the fact as established in the case." Although a Court should apply FED. R. CIV. P. 56(g) wherever applicable, it must do so carefully, considering the scope of the motion and the relative burdens of proof. The Court should utilize this rule only where the issues have been joined fully in the summary judgment proceedings.

## **7.6 Streamlining the Summary Judgment Process**

Courts handling patent and trade secret cases have employed a variety of case management procedures to streamline summary judgment motions. Among the most useful are: (1) a pre-motion letter briefing process; (2)

### **7.6.1 Letter Briefs Followed by Summary Judgment Motions**

Some courts employ a pre-motion letter briefing process to limit the number of summary judgment motions filed by the parties. Each party is required to submit a letter brief summarizing each proposed motion. The Court then holds a telephone hearing during which each of the proposed motions is discussed. After this hearing, the Court identifies which of the motions may be filed. Some courts allow the parties to file one motion without leave and require leave of court for any motions beyond the first.

The obvious advantage of this approach is that it gives the Court an overview of the possible summary judgment issues and their potential to narrow the case. This allows the court to manage its docket with a better understanding of the impact of its decisions. The Court can tailor its limits on summary judgment motions to suit the needs of each particular case.

Disadvantages of the letter-brief approach may include an increase in resources required to manage the case, a somewhat longer summary judgment process, and possible distortion of complex issues by forcing the parties to compress their arguments. However, these risks are small compared to the benefit of not considering a large number of motions, and a more flexible alternative allows the parties to file a single motion without leave of court. In many cases, one motion will be enough and the parties will be content to not file letter briefs requesting leave to file additional motions.

Competent counsel can usually convey enough information to the Court in two to three pages and five minutes of oral argument on a telephonic hearing to enable the Court to evaluate whether the substance of a proposed motion justifies a full briefing.

### **7.6.2 Limiting the Number of Summary Judgment Motions or the Number of Pages of Summary Judgment Briefing**

Some courts limit the number of summary judgment motions the parties can bring during the life of a case; some limit the total number of pages of summary judgment briefing that can be filed; and others implement a limit based on various permutations of the above.

Where a Court or jurisdiction limits the number of summary judgment motions that can be brought during the life of a case, or is considering doing so, it should inform the parties early in the case, ideally at the initial case-management conference. Such limitations can affect the parties' litigation strategy and practice. Limiting summary judgment motions in this way has the significant advantage of forcing the parties to focus on and identify their best arguments, and it can significantly reduce the burden on the Court. On the other hand, limiting the number of summary judgment motions can reduce the chance for early disposition of the case. This can also limit the Court's opportunity to create a more manageable dispute by narrowing the issues early in the case. In general, this approach is not recommended because it lacks flexibility.

Some courts employ a variation of this approach in which they do not limit the number of summary judgment motions, but instead require all motions to be addressed in a single brief conforming to the usual page limits required by the jurisdiction. This approach does not streamline the summary judgment process. Because parties may bring any number of motions, it does not necessarily reduce the number of issues that the Court will have to decide. By limiting each party to a single brief with the usual page limitations, it significantly reduces a party's ability to quote and discuss the importance of evidence supporting the motion. Thus, instead of easing the burden on the Court, this approach often results in dense briefs that string-cite evidence, forcing the Court to pick through voluminous evidence to reach the merits of the motion. The inefficiencies of this approach are most pronounced when a party brings two or three well-founded motions for summary judgment, but cannot treat any one motion fully. Consequently, we recommend against this variation.

To streamline the process and reduce the burden on the Court, but also avoid the issues created by adherence to a strict motion limit or default page limit, some courts consider the potential issues in the case and then limit the total number of pages of summary judgment briefing that can be filed. This hybrid approach requires the parties to select their best arguments and be judicious in the number and scope of motions filed. Nonetheless, it does not arbitrarily limit the number of motions that a party can bring. To determine an appropriate total page limit for briefing, the Court should indicate to the parties that it intends to implement such limitations early on in the case, and then during a case-management conference in advance of summary judgment briefing discuss with the parties a reasonable limitation for total pages based on the potential motions in the case. Such a discussion will also help the Court evaluate the merits of such motions and establish a reasonable page limitation for the motions that the Court will allow the parties to file.

### **7.7 Summary Judgment Hearing**

The length of time needed for a summary judgment motion varies widely depending on the Court's preferences and the scope and nature of the issues at stake. As an example, a motion

seeking summary judgment of infringement implicates a broad scope of issues and may require significantly more time than a motion for summary judgment of noninfringement, which might focus on the absence of a single claim limitation. Typically, whatever time the Court allots to the hearing should be divided equally between the parties, and each party should be free to elect how best to use it.

As the factual issues relevant to a motion for summary judgment are sufficiently settled before a motion is brought, live testimony during the hearing is rarely appropriate. Live testimony can be unduly time-consuming and invite cumulative evidence. However, it can be useful in limited circumstances where declarations submitted by the parties do not squarely address each other, creating the perception of a question of material fact when, in reality, one may not exist. In such circumstances, live testimony may allow the Court to probe discrepancies in the testimony that may affect whether summary judgment is appropriate.

Because the technology implicated by trade secrets can be complex and unfamiliar to the Court, a technology tutorial may clarify the issues to be decided. The methodology of the tutorial can take various forms, including a neutral presentation by counsel, a presentation by each party's experts or by a technical advisor to the Court, and written submissions by the parties followed by a question-and-answer session.



## Appendix: Trade Secret Issues—Questions of Law vs. Questions of Fact

Doctrine	Law vs. Fact	Authority
The Discovery Rule under the Statute of Limitations – Constructive Notice	Fact	<i>Brocade Comm. Sys., Inc. v. A10 Networks, Inc.</i> , 873 F.Supp.2d 1192, 1216-17 (N.D. Cal. 2012).
The Discovery Rule under the Statute of Limitations – Date of Alleged Misappropriation	Fact	<i>Kendall Holdings, Ltd. v. Eden Cryogenics, LLC</i> , 521 F. App'x 453, 457-58 (6th Cir. 2013).
The Discovery Rule under the Statute of Limitations – Reasonable Diligence	Fact	<i>Raytheon Co. v. Indigo Sys. Corp.</i> , 688 F.3d 1311, 1316 (Fed Cir. 2012).
The Discovery Rule under the Statute of Limitations – Understanding Conduct as Misappropriation	Fact	<i>New Media Strategies, Inc. v. Pulpfree, Inc.</i> , 941 A.2d 420, 423-27 & nn.11-12 (D.C. Ct. App. 2008).
The Discovery Rule under the Statute of Limitations – Fraudulent Concealment	Fact	<i>Raytheon Co. v. Indigo Sys. Corp.</i> , 688 F.3d 1311, 1316 (Fed Cir. 2012).
Statute of Limitations – Investigative Reasonable Diligence	Fact	<i>Adcor Indus., Inc. v. Bevcorp, LLC</i> , 411 F.Supp. 2d 778, 786 (N.D. Ohio 2005), <i>aff'd</i> , 252 F. App'x 55 (6th Cir. 2007); <i>Raytheon Co. v. Indigo Sys. Corp.</i> , 688 F.3d 1311, 1316 (Fed. Cir. 2012).
Identification of Trade Secret with Sufficient Particularity to the Defense	Law	<i>Givaudan Fragrances Corp. v. Krivda</i> , 639 F. App'x 840, 843 (3d Cir. 2016); <i>IDX Sys. Corp. v. Epic Sys. Corp.</i> , 285 F.3d 581, 583-84 (7th Cir. 2002) (Easterbrook, J.); <i>Kuryakyn Holdings, LLC v. Ciro, LLC</i> , 242 F.Supp.3d 789, 798-800 (W.D. Wis. 2017). <i>Cf. BondPro Corp v. Siemens Power Generation, Inc.</i> , 463 F.3d 702, 710 (7th Cir. 2006); <i>Brocade Comm. Sys., Inc. v. A10 Networks, Inc.</i> , 873 F.Supp.2d 1192, 1214-15 (N.D. Cal. 2012).
Trade Secret Eligibility – Ultimate Question	Divided Courts	<i>Compare, Matter of Innovative Const. Sys., Inc.</i> , 793 F.2d 875, 882 (7th Cir. 1986) <i>with, Rivendell Forest Prod., Ltd. v. Georgia-Pac. Corp.</i> , 28 F.3d 1042, 1045 (10th Cir. 1994)

		<i>USA Power, LLC v. PacifiCorp</i> , 235 P.3d 749, 760 (Utah 2010).
Secrecy – Secrecy and Generally Known	Fact	<i>K-2 Ski Co. v. Head Ski Co.</i> , 506 F.2d 471, 474 (9th Cir. 1974); <i>NCH Corp. v. Broyles</i> , 749 F.2d 247, 252 (5th Cir. 1985).
Secrecy – Readily Ascertainable	Fact	<i>Kuryakyn Holdings, LLC v. Ciro, LLC</i> , 242 F.Supp.3d 789, 799-800 (W.D. Wis. 2017); <i>Poller v. BioScrip, Inc.</i> , 974 F.Supp.2d 204 (S.D.N.Y. 2013).
Secrecy – Reasonable Efforts to Maintain Secrecy	Fact	<i>Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.</i> , 925 F.2d 174, 179-80 (7th Cir. 1991) (Posner, J.); <i>Niemi v. NHK Spring Co.</i> , 543 F.3d 294, 303 (6th Cir. 2008).
Secrecy – Economic Value (general)	Fact	<i>Experian Info. Sols., Inc. v. Nationwide Mktg. Servs. Inc.</i> , 893 F.3d 1176, 1188 (9th Cir. 2018); <i>San Jose Construction, Inc. v. S.B.C.C., Inc.</i> , 155 Cal. App. 4th 1528, 1537-39 (2007); <i>Brocade Comm. Sys., Inc. v. A10 Networks, Inc.</i> , 873 F.Supp.2d 1192, 1213-14 (N.D. Cal. 2012).
Misappropriation - General	Fact	<i>Bryan v. Kershaw</i> , 366 F.2d 497, 499 (5th Cir. 1966) (“we feel that the finding of a breach of confidence is one of ultimate fact”).
Misappropriation – Permissible Inference vs. Impermissible Speculation	Law	<i>Electronic Planroom, Inc. v. The McGraw-Hill Companies Inc.</i> , 135 F.Supp.2d 805, 821 (E.D. Mich. 2001).
Misappropriation – Acquisition by Improper Means Between Strangers	Fact (often too many fact issues to resolve on summary judgment)	<i>E.I. DuPont deNemours &amp; Co. v. Christopher</i> , 431 F.2d 1012 (5th Cir. 1970).
Misappropriation – Acquisition by Improper Means Involving Departing Employees	Fact	<i>Experian Info. Sols., Inc. v. Nationwide Mktg. Servs. Inc.</i> , 893 F.3d 1176, 1189 (9th Cir. 2018).
Misappropriation – Unauthorized Use or Disclosure	Fact	<i>Black, Sivalls &amp; Bryson, Inc. v. Keystone Steel Fabrication, Inc.</i> , 584 F.2d 946, 953 (10th Cir. 1978).

Damages – Amount Recoverable	Fact	<i>U.S. for Use of N. Maltese and Sons, Inc. v. Juno Const. Corp.</i> , 759 F.2d 253, 255 (2d Cir. 1985).
Damages – Measure of	Law	<i>U.S. for Use of N. Maltese and Sons, Inc. v. Juno Const. Corp.</i> , 759 F.2d 253, 255 (2d Cir. 1985).

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## Chapter 8: Experts

### 8.1 Introduction

Trade secret cases do not inherently require expert testimony. Simple disputes involving the customer list of a small business, for example, may be entirely understandable to a lay juror. However, litigation about more complicated matters beyond everyday experience, such as industry-specific marketing strategies or technology, is likely to call for assistance from one or more specialist witnesses. In practical terms, this means that the Court, in managing and trying a trade secret case, will most often need to deal with issues surrounding the qualification of individuals to provide that assistance fairly and in accordance with standards developed around FED. R. EVID. 702-705.

Trade secret misappropriation claims present broad questions based on a minimalist statutory framework—for example whether information is “generally known” or “readily ascertainable;” whether it “derives independent economic value, actual or potential” from its secrecy; and whether the plaintiff has taken “reasonable measures” to maintain secrecy. And then there is the question of how to calculate damages in favor of a wronged plaintiff. These questions usually require expert help in analyzing the evidence.

Other special dimensions of trade secret litigation become relevant in application of general rules related to experts. These cases are normally presented by the lawyers, and seen by the jury, as a morality tale, a struggle about unethical conduct and intentional fault. In an effort to harness the emotional content of the story, the lawyers may seek to deploy experts to fill gaps in a narrative, inviting speculation. Recognizing this phenomenon, courts may be inclined toward a greater skepticism about experts in these cases. However, it is important to keep in mind that misappropriation is often difficult to prove due to a lack of direct evidence,<sup>1</sup> and experts can provide useful guidance on what can be reasonably inferred from what is known. And because trade secret misappropriation is grounded in tort law, experts can assist the trier of fact in determining fair compensation. Ultimately, as in so many other aspects of trade secret law, there exist legitimate opposing interests in tension when it comes to marshaling and presenting evidence with the help of experts, and the Court must referee that contest.

Although most issues regarding experts arise with respect to professionals retained by the parties, it is of course open to the Court, pursuant to FED. R. EVID. 706, to appoint its own expert to provide fully independent advice on specialized issues. However, because such appointments are unusual and depend on unique facts, this chapter will provide relevant guidance only indirectly, in describing below the most frequent subjects of expert testimony.

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<sup>1</sup> See *Greenberg v. Croydon Plastics Co. Inc.*, 378 F.Supp. 806, 814 (E.D. Pa. 1974) (“Misappropriation and misuse can rarely be proved by convincing direct evidence. In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.”).

Finally, courts commonly confront questions related to lay opinion testimony pursuant to FED. R. EVID. 701. Since the 2000 amendments to that rule clarifying that its scope is distinct from that of retained experts, courts generally have reinforced that distinction by preventing a “fact witness” from straying into territory reserved for testimony under FED. R. EVID. 702. For example, a lay witness without broad knowledge of other companies’ operations may not opine on whether certain information is generally known in the relevant industry. *Thomas & Betts Corp. v. Richards Mfg. Co.*, 2006 U.S. Dist. LEXIS 16636 at \*34-\*37 (D.N.J. April 3, 2006) (also barring lay opinion on how long it would take to reverse engineer the relevant technology). On the other hand, opinions of party representatives whose positions in the company give them an understanding grounded in personal experience can speak to issues such as the harm caused to the company by the alleged misappropriation, even though the testimony may also draw on specialized knowledge. *Stonecoat of Tex. v. Procal Stone Design*, 2019 U.S. Dist. LEXIS 233042 at \*53-\*55 (E.D. Tex. June 28, 2019). In the end, the decision whether to permit any particular proffered lay opinion will likely require context in which the Court can assess the foundation for it and consider whether it may violate the notice requirements of FRCP Rule 37(c)(1). *InfoSpan, Inc. v. Emirates NBD Bank PJSC*, 2016 U.S. Dist. LEXIS 189015 at \*8-\*9 (C.D. Cal. June 8, 2016).

## **8.2 Common Topics of Expert Testimony in Trade Secret Cases**

Because what constitutes a trade secret or establishes misappropriation may be a question of law, it is generally considered inappropriate for an expert to testify as to those ultimate issues. *Contour Design, Inc. v. Chance Mold Steel Co.*, 794 F.Supp.2d 315, 320-321 (D.N.H. 2011). However, it is acceptable for experts to speak in terms of the elements that inform these conclusions. *Miller UK Ltd. v. Caterpillar Inc.*, 2017 U.S. Dist. LEXIS 49929 at \*21 (N.D. Ill. March 31, 2017) (derivation); *Highmark Digital, Inc. v. Casablanca Design Centers, Inc.*, 202 U.S. Dist. LEXIS 80302 at \*22-\*24 (C.D. Cal. March 26, 2020) (value and reasonable measures). In this section we address the most frequent subjects of expert testimony.

### **8.2.1 Secrecy and Ascertainability**

Information may qualify under the DTSA and UTSA if it is not “generally known” or “readily ascertainable.” This standard reflects the notion of “relative” secrecy, in the sense that information can be shared in confidence without losing its protectability. That information must not be “readily ascertainable” reflects the law’s reluctance to deal with trifles, such that information easily determined from a modest research effort or examination of a marketed product is considered no more protectable than what one can find immediately on the internet. However, while a lay juror may be able to assess the ascertainability of some customer or market information, it may be difficult to determine the relative secrecy of technology without expert help. As with questions of obviousness in the patent arena, competing experts can assist the jury to appreciate hindsight reckoning in judging whether and to what extent it may be easy to independently discover the secret.

Closely related to this threshold requirement of proof is the question whether information, although not “readily” ascertainable, may nevertheless be subject to independent discovery over time, including through some form of reverse engineering. Experts are often called to testify to the time it would take to accomplish that task, which can be referred to as the “head start” period. Evidence and opinion on that point can be useful not only in determining damages, but also in setting a term for an injunction or payment of a running royalty pursuant to 18 U.S.C. §

1836(b)(3)(A)(iii).<sup>2</sup> Although opinions about future duration of a head start period may risk some amount of speculation, it is possible in the abstract for an expert to ground their opinion in sufficient experience and observation. Moreover, occasionally experts will offer testimony about a “clean room” experiment, in which actors without access to the alleged trade secret have developed the same information using only a high-level functional specification. If the process was sufficiently quick, it might be received as proof of ready ascertainability; and in any event will usually be probative of the value of the alleged secret for purposes of calculating damages.

### **8.2.2 Competitive Advantage (Value)**

The “value” of information claimed as a trade secret arises as a threshold issue on whether it can qualify as such, by meeting the requirement that it provide the holder with some advantage over the competition. It is usually not sufficient merely to demonstrate that the information is “unique” or was collected with significant effort, if the plaintiff cannot articulate how it helps the company be more efficient or secure more revenue. In most trade secret litigation this element of proof can be satisfied without the need for an independent expert, because an employee of the plaintiff will be able to explain it adequately. However, occasionally the question is more complicated, as when all businesses in the industry have their own secret processes, and the plaintiff is unable to make a direct comparison. In those cases, experts with broad industry experience may be called to help the trier understand the value inherent in the claimed technology or market data.

### **8.2.3 Reasonable Measures**

Another required element of the plaintiff’s case is proof that it has “taken reasonable measures to keep such information secret.” 18 U.S.C. § 1839(3)(A). (The standard under the Uniform Trade Secrets Act is essentially the same, requiring that the information “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”) As with other legal standards expressed in terms of what is “reasonable,” the determination of this issue will necessarily be contextual to the circumstances of the particular case. In effect, it requires an assessment of the security risks for that information in the business, and the burden of mitigation techniques measured against the value of the information as a secret. *See* RESTAT. (THIRD) UNFAIR COMPETITION § 43, comment c (one should consider the risk of the sort of conduct that may lead to loss, weighed against the cost and effectiveness of preventive measures, and viewed in context of the information’s value); and *Adler v. Loyd*, 2020 U.S. Dist. LEXIS 189971 at \*19 (D.D.C. Oct. 14, 2020) (“A reasonable measure depends on the circumstances, not any bright line rule.”) Because jurors cannot be expected to understand the specific information security risk environment of most businesses and what options might be available to reduce risk, where this element of proof is seriously contested the jury may benefit from qualified expert guidance. *United*

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<sup>2</sup> RESTAT. (THIRD) UNFAIR COMP. § 44, comment f, notes that the period for a trade secret injunction may “be measured by the time it would take a person of ordinary skill in the industry to discover the trade secret by independent means or to obtain the trade secret through the reverse engineering of publicly marketed products. The opinions of experts familiar with the particular industry are thus relevant in determining an appropriate duration.”

*States Gypsum Co. v. Lafarge North Am. Inc.*, 670 F.Supp.2d 768, 773-774 (N.D. Ill. 2009) (denying motions *in limine* to bar expert testimony).

#### **8.2.4 Misappropriation**

As noted in § 8.1, proof of misappropriation is seldom based on direct evidence that the defendant acquired or misused the information with knowledge or reason to know that such behavior was improper. Instead, the case will depend on circumstantial evidence from which the jury will be asked to make reasonable inferences about those issues. Sometimes those circumstances are straightforward and easy to evaluate based on a juror's everyday experience. But often the facts bearing on use and intent are highly technical, as when a defendant with trusted access to the secret creates a similar product in a short time, and expert testimony can provide the context for either side to promote its interpretation of the evidence. Another, subtler example is when the defendant is shown to have failed to inquire into the source of trade secret information, as would be expected under industry standards. *MAR Oil Co. v. Korpan*, 973 F.Supp.3d 775, 785 (N.D. Ohio 2013) (expert allowed to testify concerning industry practice). However, while expert testimony may be helpful to the jury in assessing inferences about misappropriation, as explained below regarding *Daubert* challenges, such testimony must be based on a reliable methodology.

#### **8.2.5 Damages**

Although now defined broadly by statute, the principles of compensation in trade secret cases are rooted in the common law development of misappropriation as a tort. Therefore, calculating damages begins with the goal of making the plaintiff whole, and some flexibility and even creativity may be necessary. *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 538 (5th Cir. 1974) ("every case requires a flexible and imaginative approach to the problem of damages"). In most trade secret litigation, experts will be offered to explain the evidence on type of harm inflicted or benefit conferred, and the basis for calculating an award. Judges are often called on to rein in expert opinions that are supported by speculation or failure to account for obvious external factors. See *Storage Technology Corp. v. Cisco Systems, Inc.*, 395 F.3d 921, 926-928 (8th Cir. 2005) (rejecting theory that damage could be based on price paid in later acquisition of ex-employees' new company) and *MicroStrategy, Inc. v. Business Objects, S. A.*, 429 F.3d 1344, 1354-1356 (Fed. Cir. 2005) (failure to consider market forces that affected losses). Perhaps less often, the Court will need to deal with an expert's damage calculation that was based on an assumption of misappropriation of an entire set of secrets, when summary judgment or trial eliminates some of those claims. *O2 Micro International Ltd. v. Monolithic Power Systems, Inc.*, 399 F.Supp.2d 1064, 1076-1077 (N.D. Cal. 2005) (vacating jury award because expert analysis assumed misappropriation of all claimed secrets). If the expert has failed to allocate damages among discrete secrets in a way that would accommodate the newly found facts, the Court may have to decide whether to allow amendment of the offered opinion. *Medidata Solutions, Inc. v. Veeva Systems, Inc.*, 2021 U.S. Dist. LEXIS 160919 at \*6-\*7 (S.D.N.Y. Aug. 25, 2021) (allowing modification of expert report).

#### **8.2.6 Computer Forensics**

An increasingly common fact pattern in trade secret litigation involves an employee who, just prior to resigning, downloads a number of sensitive files and places them on a separate drive or forwards them to a personal email address or cloud storage. In such cases forensic evidence—the



tracking of where and how the information was moved, and what happened to it afterwards—will be critical to establishing or disproving liability. This sort of proof requires highly trained experts who can recreate the path taken, and who can compare the misappropriated information to later work by the defendant to determine whether the secret has been used. *See Wellogix, Inc. v. Accenture, LLP*, 788 F.Supp.2d 523, 535-537 (S.D. Tex. 2011) (permitting software design expert to opine about matches in source code).

### **8.3 Daubert Challenges**

#### **8.3.1 Court as Gatekeeper**

Pursuant to FED. R. EVID. 702 and 403, and following guidance from the Supreme Court decisions in *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589 (1993) and *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147 (1999), federal courts act as gatekeepers to prevent unreliable expert testimony from being received and considered by the jury. Trade secret cases frequently present this threshold issue, because of their emotional content and because they are driven more by principles than rules. That environment can sometimes lead to overly creative and speculative opinions from experts. Although the trial court's decision on whether to admit opinion evidence is governed by an abuse of discretion standard, judges should where possible support their decisions with findings that address the factors identified in *Daubert* and *Kumho*. *Mike's Train House, Inc. v. Lionel, L.L.C.*, 472 F.3d 398, 407 (6th Cir. 2006) ("the district court abandoned its gate-keeping function by failing to make any findings regarding the reliability" of expert testimony claiming that defendant had copied from plaintiff's confidential design drawings).

#### **8.3.2 Inadequate Qualifications**

Trade secret cases raise common, familiar issues for expert testimony, such as damages, for which the necessary qualifications of an expert will be obvious and not controversial. But other elements of the case may lead to experts being called on subjects that seem more esoteric, where there is not a predictable set of expected credentials, and where the offered testimony is based more on the accumulated experience of the expert than it is on diplomas and certificates. *Atkinson v. General Research of Electronics, Inc.*, 24 F.Supp.2d 894, 898 (N.D. Ill. 1998) (expert without formal schooling allowed to testify about technological comparison of parties' products). For example, whether certain information is "readily ascertainable" by others in the industry may call for testimony by someone who has worked in that industry and may be able to explain, based solely on experience, how an individual's accumulated skill would permit easy and quick independent discovery of the claimed secret. In addition, as noted above in § 8.2.3, whether the plaintiff has engaged in "reasonable measures" to protect the putative secret may justify hearing testimony from an expert with experience in information security risk management.

Another aspect of qualification can occasionally arise when the offered expert has had previous exposure to the claimed secret information. Although prior authorized access would not normally lead to disqualification, where the expert has "switched sides" and effectively threatens to use information gleaned in confidence from a prior relationship, the Court may use its inherent power to control the integrity of the proceedings and order disqualification. *Edwards Vacuum LLC v. Hoffman Instrumentation Supply, Inc.*, 2020 U.S. Dist LEXIS 235448 at \*26 (D. Ore. Dec. 15, 2020) (discussing conflicting authorities and declining to disqualify because the relevant confidential information would be available through discovery).

### 8.3.3 Improper Subject Matter

Although FED. R. EVID. 704 states that an opinion “is not objectionable just because it embraces an ultimate issue,” in trade secret cases judges frequently exclude opinions from experts on whether information qualifies as a trade secret, or whether it has been misappropriated, because these are viewed as issues of law. However, the elements that go to proving the existence of a trade secret (such as value and reasonable measures) or its misappropriation (such as an inexplicably short period for developing a competing product) are generally acceptable subjects for expert opinion. Compare *Contour Design, Inc. v. Chance Mold Steel Co.*, 794 F.Supp.2d 315, 320 (D. N.H. 2011) (opinion by lawyer about scope of confidentiality agreement and whether information qualified as trade secret) with *Highmark Digital, Inc. v. Casablanca Design Centers, Inc.*, 2020 U.S. Dist. LEXIS 80302 at \*22-\*24 (C.D. Cal. March 26, 2020) (although expert may not testify whether information is trade secret, he may testify to underlying factors such as value and reasonable measures). In practical terms, because trade secret litigation typically involves reliance on inferences to be drawn from circumstantial evidence, the Court should be alert to the risk that the hired expert will simply repeat arguments that counsel could make, or attempt to comment on matters of credibility. *LinkCo, Inc. v. Fujitsu Ltd.*, 2002 U.S. Dist. LEXIS 12975 at \*5-\*7 (S.D.N.Y. July 16, 2002) (expert’s report “contains arguments and conclusory statements about questions of fact masquerading behind a veneer of technical language”).

### 8.3.4 Unreliable Methodology

FED. R. EVID. 702 defines the factors underlying an appropriate expert opinion: it helps the trier of fact understand the evidence; it is based on sufficient facts; and it is grounded on reliable principles and methods which have been reliably applied. This does not mean that the so-called “*Daubert* factors” such as peer review and publication, appropriate to cases involving science, must be imposed on the applied technology of trade secret cases, where jurors can benefit from an expert’s experience to interpret the evidence. Compare *GSI Technology, Inc. v. United Memories, Inc.*, 2015 U.S. Dist. LEXIS 140085 at \*9-\*10 (N.D. Cal. October 14, 2015) (allowing expert opinion that defendant had reason to know that the information had been acquired by improper means, based on lengthy experience with industry transactions) with *Mike’s Train House, Inc. v. Lionel, L.L.C.*, 472 F.3d 398, 408 (6th Cir. 2006) (expert’s personal rating system to determine likelihood and extent of misappropriation lacked reliability). But as already noted, because trade secret disputes typically are determined based on broad standards for liability and loss, hired experts may sometimes tend to draw exclusively on their experience in order to arrive quickly at a conclusion. Courts should be sensitive to the need for some structured analysis that goes beyond the expert’s mere *ipse dixit*.

### 8.3.5 Improper Speculation

For trade secret litigation, speculation is most frequently an issue in regard to causation and damage. Although the general tort principle applies to resolve uncertainty about the amount of damage against the tortfeasor, the Court should be aware that party experts may attempt to assign causation to one variable while ignoring other plausible explanations for loss. See *TNS Media Research, LLC v. TRA Global, Inc.*, 977 F.Supp.2d 281, 316 (S.D.N.Y. 2013) (excluding testimony that misappropriation caused company to lose value because “a causation opinion based solely on a temporal relationship” does not control “for other equally plausible causes of that effect”). They

may also assert causation through an implausibly distant connection. *See MAR Oil Co. v. Korpan*, 973 F.Supp.2d 775,785 (N.D. Ohio 2013) (expert could testify about cost of acquiring data as measure of damage, but not about lost investment allegedly due to pending trade secret litigation).

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## **Chapter 9: Pre-Trial Case Management**

### **9.1 Introduction**

Trade secret cases tend to take on a life of their own, absent close judicial management. Unlike other forms of intellectual property, trade secrets cover a wide swath of commercially useful information, and the boundaries of what is protectable can be vague. Because claims are fault-based and typically arise from a failed confidential relationship, the parties (and occasionally their lawyers) can have an emotional investment in the litigation. Proof of misappropriation is usually circumstantial, leading to intense competition for inferences drawn from ambiguous facts. Even damage calculations can be challenging, as the trier of fact must be able to distinguish the speculative from the merely creative.

Although most trade secret claims are resolved through settlement before trial, the distinctive aspects of trade secret disputes mean that settlements will often occur later in the process. In addition to the features noted above, relative to most commercial lawsuits the trade secret litigants are in information asymmetry at the beginning, as the plaintiff has little understanding of how the misappropriation occurred and must rely on discovery to get the relevant facts. And the defendant may struggle to understand the dimensions of risk because of an inexact or changing list of claimed trade secrets. All this can delay the parties' recognition of opportunities for resolution. As a result, when the Court sees the litigants for the initial pretrial conference, their positions may only recently have formed, or may still be in formation. Moreover, trade secret claims are often not litigated by themselves, but instead are presented with other claims that partially overlap, such as claims regarding restrictive covenants, that make trade secret cases more complex than single-issue trials.

The pretrial process therefore can be especially critical to the successful management of trade secret litigation. The parties may need guidance and discipline to help them assess the case and, if it is to be tried, to prepare for the trial. And the Court naturally has a keen interest in avoiding surprises and keeping trial under control. In this chapter we will address this later phase of the trade secret case, focusing on what should be done before, and during, the final pretrial conference under FED. R. CIV. P. 16(e).

### **9.2 Proceedings before Final Pretrial Conference**

FED. R. CIV. P. 16 provides for multiple pretrial conferences, and particularly for complex trade secret litigation the Court should address some critical issues in advance of the final conference, giving the parties and the Court time to adjust to emerging changes. The following subsections describe issues that experience has shown should be tackled as early as possible.

#### **9.2.1 Amendment of Claims and Defenses**

Preparing for trial requires knowing what issues will be tried. As in other litigation, this means that formal amendments to the pleadings should be considered well in advance of the final pretrial, so that any resulting additional discovery or expert reports can be factored in. But when it comes to defining the scope of the action, trade secret cases present a special challenge in defining exactly what the plaintiff claims to be the trade secrets that were misappropriated by the defendant. We have treated this subject in Chapter 4, but it bears emphasis that the trade secret designation should be finalized before serious trial preparation begins. Indeed, if the Court has dealt with the issue from the beginning by insisting on a separate (confidential) document including numbered paragraphs to organize the claim, then the question will be whether the plaintiff wishes to amend that designation, and if so how. In general, courts apply a good cause standard to such amendments,

and are particularly lenient in permitting a plaintiff to drop one or more secrets from the list, recognizing that this can be a natural consequence of discovery. Requests to add to the designation or modify it in some way that might cause prejudice or delay, in contrast, may require a more critical analysis.

Some courts have placed a restriction on the number of trade secrets that a plaintiff can assert at trial in order to shorten the trial or increase juror comprehension. Typically, those courts have included in early pretrial orders a requirement that the plaintiff reduce its trade secrets for trial to some set number, as has become common with patent claims in infringement litigation. The practice can be fraught, however, and should be carefully considered in the factual context of each case. For one thing, the plaintiff controls the way in which it articulates its claimed secrets, and “individual” secrets can express a very broad scope of subject matter. Therefore, not just the number, but also the content, of the individual descriptions becomes relevant. In addition, unlike patent claims which can often reliably be bifurcated for later resolution, trade secret rights exist in gross within a confidential relationship, and it may be that an attempt to sever some subset of the claimed information could cause prejudice to the plaintiff.

Nevertheless, it is critical that the case be presented in a way that the jury is capable of understanding the alleged trade secrets and applying the legal standards for their sufficiency. See *Medidata Solution, Inc. v. Veeva Systems, Inc.*, 2021 U.S. Dist LEXIS 24734 at \*7 (S.D.N.Y. Feb. 9, 2021) (“a plaintiff’s trade secret must be described specifically enough for a jury to apply the relevant legal tests – whether a trade secret existed and whether the defendant misappropriated it.”) A jury presented with a hundred distinct secrets and asked to determine as to each one whether it was in fact a secret, provided competitive value, was the subject of reasonable secrecy measures, and was misappropriated, faces a practically impossible task. Therefore, the litigants should provide, and the court should insist on, a presentation of the evidence that will allow a lay jury to reach a reasonable verdict. How that goal is best accomplished will of course vary with the circumstances, but where the claimed secrets are so numerous as to challenge the ability of any jury to reach a reasonable verdict, the court should consider urging the plaintiff to narrow its claims, or at least requiring clustering of closely related secrets into a manageable number of categories.

### **9.2.2 Overlapping Related Claims**

Trade secret cases pled under the DTSA often appear along with other theories of liability based on the same general set of facts. Some, like RICO or copyright infringement, are based on federal law; but most come to the court as state law claims under supplemental jurisdiction. Of these, most common are claims based on the state’s Uniform Trade Secrets Act (which may provide for remedies and limitation periods different than the DTSA) and breach of contract. Others frequently asserted include tortious interference, unfair competition, fraud, breach of fiduciary duty, conversion, and unjust enrichment. For some of these claims there may be a requirement to elect remedies. Others may be “displaced” (preempted) by the state’s Uniform Trade Secrets Act. See § 3.4.3. The efficiency of trial preparation can be significantly improved by settling these issues at an earlier time.

### **9.2.3 Severance and Bifurcation of Related Claims**

Circumstances in a particular case may suggest that some aspect of the action be separated for trial. For example, if the claimed trade secret misappropriation is asserted as a predicate act under RICO, the Court may wish to try the primary claim first. As another example, when it appears that

a limitations defense could resolve the entire matter, it is worthwhile to consider whether the evidence relevant to that defense can be separated sufficiently to save substantial time, even if it is ultimately unsuccessful. Other issues may be identified as essentially equitable in nature and therefore separated for a concurrent or subsequent bench trial. *See* §§ 2.8.3.6, 3.15.1 (discussing claim for damages based on unjust enrichment). And questions such as liability for enhanced damages and attorneys' fees, although directed to the "Court" under 18 U.S.C. § 1836(b)(3), may be determined based on the jury's predicate finding of willful and malicious misappropriation or bad faith. (As to the latter, the Court may wish to bifurcate the issue in order to avoid problems of privilege and testimony by litigation counsel.) It is helpful for the Court and the parties to know well in advance who will be making the decision.

#### **9.2.4 Daubert Challenges**

As detailed in Chapter 8, trade secret cases usually involve testimony from expert witnesses. To give just a few examples, the subject matter of a trade secret often requires a technical or industry expert to identify it or to delineate it from what is generally known or readily ascertainable; the computer forensics implicated in many trade secret cases require testimony from a computer expert; and determination of damages often requires the assistance of an accountant or economist. With this many experts, trade secret cases often provoke one or more challenges to the sufficiency of this testimony.

Given that expert discovery will continue in most cases to a point close to trial, it may be inevitable that some challenges to expert opinion testimony will only ripen for decision at the final pretrial stage. However, to the extent possible it is preferable to identify and resolve these issues at an earlier time, primarily so that any correctable defects can be addressed with supplemental reports and additional depositions before trial. *See, e.g., LivePerson, Inc. v. [24]7.ai, Inc.*, 2029 U.S. Dist. LEXIS 121005 at \*4-\*6 (N.D. Cal. July 19, 2019) (expert initially failed to allocate damages to each of 28 claimed secrets or offer any other means for the jury to determine damages if it found that only a subset had been misappropriated; supplemental report found sufficient).

#### **9.2.5 Effect of Earlier Proceedings**

Occasionally the issues presented for trial in a trade secret dispute have been the subject of related proceedings, such as an action before the International Trade Commission (*see* § 3.11), another state or foreign jurisdiction (*see* § 3.9.1), or in a criminal court (*see* § 3.10, Chapter 11). The Court and the parties should have time substantially in advance of trial to settle the effect of those proceedings, for example on matters of issue preclusion, and to know what records of, or other references to, those proceedings will be permitted at trial.

#### **9.2.6 Settlement**

Because of the imperfect distribution of knowledge at the outset of a trade secret case, it may be difficult for the parties to engage successfully in settlement negotiations at the outset. However, as substantial discovery has taken place and the dimensions of a likely trial begin to emerge, the sense of dawning reality may provide a helpful impetus to meaningful discussions. At this point, while the parties have an idea of the substantial additional investment they will have to make in order to take the case through trial, but before actually spending the time and money, the Court's intervention to ensure serious settlement negotiations can be very effective.

### **9.3 The Final Pretrial Conference**

The outcome of the final pretrial conference is the Pretrial Order which, per the terms of FED. R. CIV. P. 16(d), “controls the course of the action unless the court modifies it.” The Proposed Pretrial Order, contained in Appendix 9.1, can be adapted to local rules and practice, and can also be adapted to cases involving claims other than trade secret misappropriation. In this section we will focus on some of the issues anticipated by the proposed order that are particularly salient for trade secret litigation.

### **9.3.1 Jury Issues**

Trade secret trials can present some special risks for jury confusion. In cases involving technical secrets (as contrasted, for example, with customer list disputes), the jury may find it challenging to understand and parse the technology sufficiently to distinguish the plaintiff’s claims from what is generally known or readily ascertainable. Indeed, in a cynical view of such a case, the plaintiff may not want the jury to understand the technology, content that it be viewed as some form of magic, while the jury’s attention is directed toward what the plaintiff contends is the defendant’s bad behavior. Even when the secret information is not difficult to understand, there can be a danger in some cases that the proof on misappropriation will overtake and substitute for proof of the existence of a protectable trade secret. This risk of trade secret litigation reinforces the need for diligence to ensure that the jury can fairly comprehend the evidence and understand how to apply the law.

Assisting the jury with comprehension begins with a carefully drawn description of the case, one that is simple enough to be easily understood, but is sufficiently comprehensive and clear to communicate the specific issues that the jury has been called to decide. The same attention should be paid to preliminary instructions, sufficient to give the jury an idea of the task ahead, without overwhelming them. At this point it is good practice to admonish the jury that, although it will be up to them to determine whether or not any trade secrets exist in the case, their duty as jurors includes maintaining in confidence the alleged trade secrets that they learn through the proceedings. *See* § 10.5.1. To the extent possible consistent with local practice and rules, the jury should be allowed to take notes and to ask questions through the Court. Allowing counsel to provide very brief transition statements can also help the jury keep track of what is often a complicated story with many actors.

Naturally, the final jury instructions will be critically important. *See* § 10.7. Keeping in mind that trade secret law is driven by broad principles, the Court should consider, and make use of, form instructions. In addition, it often will be helpful to the jury to have special instructions that can put a finer point on the issues they need to decide, although the Court should take care to consider the context of what is represented as clarifying case law. Finally, the verdict form sometimes receives less attention than it should. Ideally, if the plaintiff has identified its trade secrets in a numbered list, this can be transferred to the verdict form in order to accommodate a finding of misappropriation on fewer than all of the claimed secrets. (Note that this possibility underscores the need for damages experts to provide some methodology for calculating damages on that basis or an explanation of why the misappropriation of any single trade secret from a group of secrets points to the same total amount of damages.) In addition, the verdict form should include questions that can provide a predicate for later rulings by the Court, such as the existence of willful and malicious misappropriation. *See* Appendix 10.2.

### **9.3.2 Exhibits and Witnesses**



In most trade secret litigation, discovery will have been conducted pursuant to a protective order that allows counsel to designate documents and other discovery materials at some level of confidentiality. For the most part, the discovery protective order will not apply to trial proceedings, and so the parties' concerns about confidentiality of the presentation of evidence, as well as compliance with the directive in 18 U.S.C. § 1835(a) to protect trade secrets,<sup>1</sup> will have to be addressed separately. Normally each party will have concerns over the protection of its own secrets, and counsel can be expected to propose protocols, such as the use of code words and numbers from the trade secret list, that obviate putting sensitive information into the public trial record. For its part, the Court should remind the parties that the trial is a public proceeding, and that any suggestions for closing the courtroom will have to be carefully scrutinized and appropriately limited. *See* § 10.5.

Another consequence of the typical discovery protective order is that most of the documents exchanged in discovery will have been marked with some legend such as "confidential" or "attorneys eyes only." In order to avoid confusion and misunderstanding by the jury, these legends will either have to be removed or at least explained as being an artifact of the litigation process, and not a suggestion that the documents contain trade secrets or that they were designated this way in the ordinary course of business.

Demonstrative exhibits used in opening and closing, and in some direct examination, may require special attention, given the suggestive and potentially speculative nature of evidence in these cases. Normally the potential for prejudice or confusion can be avoided or at least mitigated by requiring advance disclosure to counsel and allowing sufficient time to challenge and perhaps remediate exhibits.

As for witnesses, the only typical procedure specific to trade secret trials is sequestration of fact witnesses. This addresses the classic issue of avoiding tainted testimony, and it also avoids the complaint that the trial may otherwise serve to inform a competitor about the details of valuable secrets. For obvious reasons, an individual party or corporate representative of a party is entitled to remain in the courtroom throughout the trial.

### **9.3.3 Motions *in Limine***

Because trade secret trials can take the form of morality plays, in which each side attempts to disparage the behavior and intentions of the other, the litigants pay a great deal of attention to sculpting the case to their advantage, in part by attempting to block the introduction of certain evidence by the other side. Of course, excluding some evidence can often helpfully streamline the trial and reduce jury confusion. But because some evidence, and the relevance of other evidence, becomes known to the parties only toward the close of expert discovery, motions *in limine* tend to crowd the docket on the eve of trial. *See, e.g., GSI Technology, Inc. v. United Memories, Inc.*, 2015 U.S. Dist. LEXIS 140085 at \*3 (N.D. Cal. October 14, 2015) (addressing 23 motions *in limine*). Anticipating this scrum of motions, the Court may want to set limits on the number that can be filed, and on how they are to be presented and argued.

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<sup>1</sup> A similar provision exists in UTSA § 5, as enacted in most states, requiring that courts "preserve the secrecy of an alleged trade secret by reasonable means, which may include . . . holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval."

*In limine* motions in trade secret cases often include requests to preclude evidence or argument about (a) unasserted trade secrets; (b) comments on changes made to the trade secret identification during litigation; (c) improper lay opinions; and (d) improper or undisclosed expert opinions, especially from damage experts who may have to sharpen their analysis based on recently discovered facts or in response to some order from the Court. Another class of *in limine* motions may be directed at extraneous, overlapping or preempted claims (*see* § 9.2.2); some arguably “boilerplate” defenses that ultimately can be seen to lack specific evidentiary support; and matters that are equitable or otherwise should be submitted to the Court outside the presence of the jury. *See* § 9.2.3.

## **Appendix 9.1 Proposed Pretrial Order for Trade Secret Cases**

[CAPTION]

### **PROPOSED PRETRIAL ORDER**

[Instructions to parties and counsel provided in this document are enclosed within brackets and should be omitted from the document when the Proposed Pretrial Order is prepared for submission.]

#### **Trial Counsel for the Parties**

[Each party shall identify the names, law firms, addresses, telephone numbers, and email addresses for the attorneys who will try the case on behalf of that party.]

#### **Jurisdiction**

[The parties shall identify the basis for the Court's jurisdiction.]

#### **Nature of the Action**

[The parties shall provide a brief description of the nature and background of the action.]

#### **The Parties' Contentions**

[Plaintiff shall provide an identification and brief description of its contentions. For its trade secret claim, Plaintiff shall provide at least the following information:

The specific information that will be claimed as a trade secret at trial, with reference to the most recent trade secret description it has submitted to the Court. Any requests to amend that description shall be accompanied by a description of the basis therefor.

A brief summary of the facts demonstrating that the claimed trade secrets have value from not being generally known or readily ascertainable.

A brief summary of the facts demonstrating that the claimed trade secrets have been the subject of reasonable measures to maintain their secrecy.

A brief summary of the facts alleged to establish misappropriation by the defendant, including the type of misappropriation Plaintiff expects to prove.

The remedies Plaintiff seeks for the alleged misappropriation, including a brief description of its damage theor(ies) pursuant to 18 U.S.C. § 1836(b)(3)(B), and a brief summary of the facts alleged to support any claim of enhanced damages or fees pursuant to 18 U.S.C. § 1836(b)(3)(C) and (D).

[Defendant shall provide an identification and brief description of its contentions. As to the Plaintiff's trade secret claim, Defendant shall provide at least the following information:

A brief summary of the facts alleged to support each of its affirmative defenses.

A brief summary of the facts alleged to support any claim of bad faith pursuant to 18 U.S.C. § 1836(b)(3)(D).

### **Uncontested Facts and Stipulations**

[The parties shall identify undisputed facts that are relevant to their contentions, as set forth in the preceding section, and stipulations regarding trial procedures (e.g., exchange of demonstrative exhibits, disclosure of deposition designations and objections, proposed handling of confidential testimony or exhibits, sequestration of witnesses, and the like), the subject matter to be tried, or that otherwise bear on the trial.]

### **Contested Legal and Factual Issues**

[Each party shall identify the specific issues of fact and law that are relevant to their contentions, as set forth above, and which are contested.]

### **Jury and Non-Jury Issues**

[The parties shall identify whether they request trial by a jury or by the Court. If the case is to be tried to a jury, the parties shall identify any equitable, legal, or other issues that they contend should be decided by the Court, through a bench trial or otherwise.]

### **List of Witnesses**

[Each party shall submit with the Proposed Pretrial Order a list of witnesses (a) that it will call and (b) that it may call at trial, and specify for each witness: (a) whether that witness is expected to testify live or by deposition; (b) whether the witness will provide fact or expert testimony; (c) a brief description of the expected testimony; (d) the expected duration of the testimony offered by that party; and (e) any objections that have been made to the witness being called to testify.]

### **List of Exhibits**

[Each party shall submit with the Proposed Pretrial Order a list of exhibits that it may seek to offer into evidence at trial, along with the objections, if any, that have been made to such exhibit. The parties are encouraged to stipulate to authenticity and other foundational matters as appropriate. To the extent the parties have not stipulated to a procedure for handling confidentiality designations made pursuant to a discovery protective order, each party shall describe its proposed procedure.]

## **List of Pending and Anticipated Motions**

[Each party shall identify (a) the motions that it has filed that remain pending with the Court and (b) any motions, other than for Judgment as a Matter of Law, that it anticipates filing in advance of trial. The process for receiving and determining *in limine* motions will be determined according to this Court's rules.]

## **Jury Instructions**

[If the case is to be tried to a jury, the parties shall submit with the Proposed Pretrial Order a joint set of preliminary instructions and a joint set of final instructions. The Court may use these proposed instructions to charge the jury, or may modify them or use other instructions as is warranted. The parties should exchange proposed preliminary instructions and proposed final instruction in accordance with the Court's scheduling order and confer well in advance of the submission of the Proposed Pretrial Order. Each instruction shall be separately numbered on a single printed page (or series of pages). Where the parties disagree about whether a particular instruction should be given, or about the specific language used, the proposed instruction shall be titled "PROPOSED BY PLAINTIFF [OR DEFENDANT]" and shall provide a brief supporting explanation, including relevant citations. Each such proposed instruction shall be immediately followed by a separate page on which the party opposing it shall provide a brief explanation of its opposition, including relevant citations.]

## **Verdict Form**

[If the case is to be tried to a jury, the parties shall submit with the Proposed Pretrial Order a proposed verdict form. If the parties are unable to agree on a verdict form, each party shall submit a proposed verdict form, along with a brief explanation why its proposal should be adopted, including relevant citations.]

## **Trial Length and Logistics**

[Each party shall specify the number of hours that it contends is appropriate for each party for each of the following: (a) voir dire; (b) opening statements; (c) presentation of evidence; and (d) closing arguments. To the extent that the parties have not reached a stipulated proposal for trial procedures directed at the preservation of confidentiality in accordance with 18 U.S.C. § 1835(a), each party shall describe its proposal and the basis therefor, with appropriate regard for the public's right of access. If, apart from any pending motion any party intends to request phasing, bifurcation, or other procedure concerning the trial length or ordering of evidence, that party shall include such request, along with a short explanation of the basis therefor. A party opposing the request may include a short explanation of its opposition.]

## **Settlement**

[The parties shall describe their efforts in good faith to explore a settlement of the case, including the circumstances of their most recent substantive discussions.]

**Additional Matters**

[The parties shall describe any additional issues requiring resolution prior to trial.]

Dated: \_\_\_\_\_

[Counsel Signatures]

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## Chapter 10: Trial

### 10.1 Introduction

Unlike other intellectual property causes of action, trade secret disputes are fault-based, requiring the plaintiff to prove that the defendant knew or should have known that its actions were improper. This factor, enhanced by the parties' own sense of betrayal or umbrage, often leads counsel for both sides to present the case as a morality play, in which state of mind takes center stage. When the matter involves complex technology, there is a related risk that objective evidence and analysis of the scope of the trade secrets and the nature of the alleged misappropriation will be swamped by opinions and speculation. This special environment may require greater than normal attention by the trial judge.

That is not to say that trade secret claims must be proved without resort to inference from ambiguous facts. Indeed, as noted earlier, a distinctive feature of trade secret litigation is its reliance on circumstantial evidence. At the outset of any dispute, the parties are typically in information asymmetry, as only the defendant knows the full story of its own behavior. By the time the case has gone through discovery and pretrial preparation, the imbalance will have largely resolved, but what the facts actually mean will remain hotly contested. The importance of separating reasonable inference from improper speculation cannot be overstated, and although it is the province of the jury to make that determination, the role of the trial judge as gatekeeper on evidentiary issues is necessarily key to a fair process. This is particularly true with respect to the question of misappropriation (to what extent did the defendant actually use the secret), somewhat less so for damage calculation, and generally even less on the issue of the existence of the trade secret.

Indeed, as noted in Chapter 4, identification of the trade secret—the subject matter of the suit—is another critical and distinguishing aspect of this litigation. While the dimensions of the secret may be alleged in somewhat general terms in the publicly-filed complaint, by the time the matter is ready for trial the secret must have been defined in a way that will allow the jury to understand what it is and to compare it to what is generally known, to determine if it qualifies for protection at all. Courts should be alert to attempts by the plaintiff to present the secret exclusively in generalities, inviting the jury to see it as a “black box” that need only be assessed for the perceived value of the results it is claimed to provide in the business. While the plaintiff should be provided reasonable latitude in proving misappropriation, it should come to the trial with well-defined secrets.

### 10.2 Late Pre-Trial Motions

The Pretrial Order (*see* Appendix 9.1) governs the conduct of the trial, pursuant to FED. R. CIV. P. 16(e). However, circumstances may change from the time when the Pretrial Order was issued. Given the fact-intensive nature of trade secret disputes and the search for inferences in the evidence to support competing moral narratives, it is common for the parties to try to protect those narratives by excluding information that they fear could inappropriately influence the jury. *See* § 9.3.3. And because rulings on *Daubert* motions and other pre-trial orders may affect the framework of each party's case, last minute *in limine* motions are a typical feature of trial preparation, as the litigants attempt to adjust to current realities. In general, because so many issues in these cases are contextual, courts should allow evidence that may be only indirectly relevant. For example, where misappropriation is asserted based on improper use but not improper acquisition, it may be



appropriate to receive evidence of the means of acquisition because it is an integral and natural part of the narrative. *Hallmark Cards, Inc. v. Monitor Clipper Partners, LLC*, 758 F.3d 1051, 1059 (8th Cir. 2014). On the other hand, *in limine* motions can present the Court with a final opportunity to test whether evidence or theories of argument are inherently speculative, particularly regarding indirect misappropriation and damages.

### **10.3 Pre-Instruction for Jurors**

In contrast to patent cases, where jurors often benefit from an initial grounding in unfamiliar processes and legal terminology, trade secret disputes involve language and concepts that are common to most laypersons. That said, if the case involves some unusual or complex technology, it will likely be helpful to provide the jury with an introduction to that dimension of the case, along with the typical description of the parties' various claims and the nature of the jurors' duties in resolution of the matter. *See* § 9.3.1. In addition, the pre-instruction phase is normally a good time to address issues around maintaining confidentiality of the evidence, *see* § 10.6, and to point out that the Court's efforts in that regard are not to be taken as a determination that any given matter necessarily qualifies as a trade secret.

### **10.4 Burdens of Proof and Persuasion**

Because trade secret misappropriation most often occurs through covert activity, claims seldom are proved entirely by direct evidence; settled law accepts the circumstantial case. *See, e.g., Yeiser Research & Development LLC v. Teknor Apex Co.*, 281 F.Supp.3d 1021, 1048 (S.D. Cal. 2017). Indeed, it is helpful to keep in mind the frequently-quoted observation of the Court in *Greenberg v. Croydon Plastics Co., Inc.*, 378 F.Supp. 806, 814 (E.D. Pa. 1974):

Plaintiffs in trade secret cases, who must prove by a fair preponderance of the evidence disclosure to third parties and use of the trade secret by the third parties, are confronted with an extraordinarily difficult task. Misappropriation and misuse can rarely be proved by convincing direct evidence. In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.

In general, the plaintiff bears the burden of proof on all elements necessary to prove the claim: the existence and ownership (or lawful possession) of valuable, secret information, plaintiff's reasonable measures to protect it, defendant's confidential relationship or improper means of acquisition, unauthorized use, and resulting harm. *See, e.g., Rohm and Haas Co. v. Adco Chemical Co.*, 689 F.2d 424, 429-430 (3d Cir. 1982). However, if the plaintiff establishes access by the defendant and similarity of product as circumstantial proof of misappropriation, the burden of persuasion may shift, in the sense that the trier of fact will naturally expect the defendant to come forward with evidence of development that was independent of plaintiff's information. *See Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal.App.4th 1658, 1666-1668 (2003) (contrasting burden of proof and burden of persuasion).

#### **10.4.1 Secrecy**

Secrecy may be the most contentious issue in many trade secret cases, especially those involving technical secrets, because the boundary defining what is generally known—or what represents the application of individual skill—is often unclear, especially as compared to the subject matter being litigated, which the plaintiff may attempt to adjust, in spite of the Court’s best efforts to enforce a commitment to trade secret identification early in the case. *See* Chapter 4. Even assuming that the asserted secrets have been defined with reasonable particularity, they may be difficult for the jury to fully understand, leaving them reliant on testifying experts. The task can become more difficult with so-called “combination” secrets, in which a broadly claimed product, such as a computer program, contains both secret and publicly known elements. Nevertheless, secrecy, like other issues in these cases, can often be proved indirectly, such as by the defendant’s efforts to obtain the information. *See A.H. Emery co. v. Marcan Products Corp.*, 389 F.2d 11, 16 (2d Cir. 1968) (stating that “the very fact that Mills resorted to subterfuge in order to obtain the coveted information, which would have been unnecessary if, as appellants now claim, the tolerance data had been freely disclosed to all comers”); *see also* RESTAT. (THIRD) UNFAIR COMP. § 43, comment d (explaining that doubts regarding secrecy may be resolved “when the means of acquisition are clearly improper”).

Secrecy may be proved by showing that competitors have tried and failed to duplicate a product or process. *See CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 858 (1st Cir. 1985). Similarly, a plaintiff’s lengthy development time may support an inference that the information is not readily ascertainable. This inference, however, is not automatic and the jury may conclude that this is not the most rational interpretation of the evidence. *Compare Basic American, Inc. v. Shatila*, 992 P.2d 175 (Idaho 1999) (citing six years of development) *with TLS Management & Marketing Services, LLC v. Rodriguez-Toledo*, 966 F.3d 46, 55-56 (1st Cir. 2020) (defendants’ evidence that secret is publicly known requires plaintiff to demonstrate that secret as a whole is not readily ascertainable from public sources). Defendant, too, may make use of inferences to disprove secrecy, for example by showing that plaintiff failed to follow its own procedures for classification and protection of the information. *See nClosures, Inc. v. Block and Co.*, 770 F.3d 598, 602 (7th Cir. 2014).

#### **10.4.2 Reasonable Measures**

Trade secret law has always included an element of self-help. Under the RESTAT. (FIRST) TORTS, “reasonable efforts” to protect a secret was one of six factors to be considered in determining whether information qualified as a trade secret. In some jurisdictions that six-factor test remains a viable tool, although courts should be alert to potential jury confusion resulting from describing the issue as a “factor” (i.e., a suggestion), when statutory trade secret law treats it as a requirement. Thus, the DTSA requires that the owner have “taken reasonable measures to keep such information secret;” 18 U.S.C. § 1839(3)(A), and the UTSA similarly provides that the information must be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” In addition to establishing the element of reasonable measures, proof of extensive secrecy efforts may also be received as evidence of the element of secrecy. *Compare Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1199 (5th Cir. 1986) (management would not spend on security measures for public data) *with Aero Industries Corp. v. Chemcast Corp.*, 633 F.2d 435, 443 (6th Cir. 1980) (subjective intent is insufficient).

Security measures can demonstrate notice to the defendant of the confidential nature of the information, helping to establish knowledge and intent. *See* RESTAT. (THIRD) UNFAIR COMP. § 39, comment g. By the same token, lack of sufficient security measures can reflect a failure of notice

to recipients that the information was intended to be protected. See, e.g., *HCC Insurance Holdings, Inc. v. Flowers*, 237 F.Supp.3d 1341, 1351 (N.D. Ga. 2017) (IT controls and other policies insufficient in light of failure to mark documents or otherwise communicate what was confidential). What expenditures or safeguards are reasonable is contextual, however, and may vary depending on the nature of the claimed secret (e.g. mission critical or ancillary) and the nature of the organization owning the trade secret (e.g. a small family-owned business or a multi-divisional international organization). What measures should be considered “reasonable” in a given case may be the subject of expert testimony. See § 8.2.3.

### 10.4.3 Misappropriation

In order to prevail on its claim, the plaintiff must present evidence that the defendant engaged in unauthorized acquisition, use or disclosure of the trade secret. Conclusory testimony is normally not sufficient. See *Omnitech International, Inc. v. Clorox Co.*, 11 F.3d 1316, 1323 (5th Cir. 1994) (testimony that defendant “must have” used secrets not supported by other evidence). However, circumstantial evidence, if sufficiently convincing, can overcome direct denials by the defendant. See *Ajaxo Inc. v. E\*Trade Group, Inc.*, 135 Cal.App.4th 21, 50-53 (2005).

Frequently the circumstantial proof of misappropriation rests on showing suspiciously speedy product development following exposure to the information. See *Electro-Miniatures Corp. v. Wendon Co.*, 771 F.2d 23, 26 (2d Cir. 1985) (products brought to market quickly after hiring plaintiff’s employee). Typically, the plaintiff will also attempt to show similarity in the defendant’s offering to bolster its case. See *Sokol Crystal Products, Inc. v. DSC Communications Corp.*, 15 F.3d 1427, 1432 (7th Cir. 1994) (access plus similarity may support an inference of use). But similarity should be judged in context of the generally known technology; when that technical field is “crowded,” similarity is less probative of derivation. *American Can v. Mansukhani*, 742 F.2d 314, 331 (7th Cir. 1984). The same caveat may apply when functional constraints or industry standards indicate a particular design or feature. See *Aerospace America, Inc. v. Abatement Technologies, Inc.*, 738 F.Supp. 1061, 1072 (E.D. Mich. 1990). Moreover, parallel discovery is always possible, and in some areas of technology is likely. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 490 (1974) (referring to the “ripeness-of-time” concept of invention).

Misappropriation does not require proof of copying; it is sufficient that the plaintiff show that the defendant used the secret information as a “springboard,” see *Monovis, Inc. v. Aquino*, 905 F.Supp. 1205, 1232 (W.D.N.Y. 1994), or otherwise to “assist or accelerate research,” RESTAT. (THIRD) UNFAIR COMP. § 40, comment c. Occasionally defendant’s exposure to secret information (for example, by hiring a senior engineer from a competitor) is shown or can be inferred from records of defendant having taken an abrupt turn in the direction of its research. See *Cargill, Inc. v. Sears Petroleum & Transport Corp.*, 388 F.Supp.2d 37, 54, 67 (N.D.N.Y. 2005).

### 10.4.4 Value and Damage

The notion of value is relevant in two ways: first, to qualify the information as a trade secret because it provides a competitive advantage deriving from its secrecy; and second, to consider in the context of remedies, particularly damages. Evidence of the first sort of value is intended to show that secrecy matters; just because the plaintiff’s approach is different or even “unique” is not sufficient, unless that difference provides some identifiable commercial advantage. See *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 852 (1st Cir. 1985). However, the amount of value need not be great, just not trivial, *Telerate Systems, Inc. v. Caro*, 689 F.Supp. 221, 232 (S.D.N.Y. 1988) (“slight

competitive edge”), and may manifest in being the first to bring a product to market, see *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). This aspect of value can often be established without reliance on expert testimony. See § 8.2.2.

The second dimension of value in trade secret litigation arises in proving damages. The DTSA, like the UTSA, provides the plaintiff with overlapping choices of recovery of its own loss or the benefit conferred on the defendant, or both, so long as there is no double recovery; or the alternative of a reasonable royalty. 18 U.S.C. § 1836(3)(B). All of these approaches involve some assessment of the value of the information claimed as a trade secret, again typically with reference to the plaintiff’s cost of development, which can be applied to determine the costs that defendant was able to avoid through the misappropriation. See *Bourns, Inc. v. Raychem Corp.*, 331 F.3d 704, 709-710 (9th Cir. 2003). As in other areas of business torts, the court’s primary task will be to oversee and control the presentation of expert testimony. See § 8.2.5.

### **10.5 Managing Confidentiality in the Courtroom**

An inherent tension exists in most trade secret litigation between the traditional right of public access to court proceedings and the need to preserve the commercial secrecy that underlies the property right being litigated. See § 6.5.8. Although pretrial exchange of confidential discovery materials may have been accomplished through a protective order stipulated by the parties, it is at the trial, when issues of fact will be determined, that society has the greatest interest in the transparency of court proceedings. Nevertheless, the statutes that govern misappropriation claims require that the Court act to preserve the integrity of asserted trade secrets. DTSA, 18 U.S.C. § 1835(a), directs that “the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets;” and UTSA § 5 requires that “a court shall preserve the secrecy of an alleged trade secret by reasonable means . . . .” And courts have recognized the fundamental need for an exception to broad public access when trade secret rights are at stake. *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1162 (9th Cir. 2011). Although striking the right balance of interests can be challenging, a variety of practical mechanisms are available in most cases.

When implementing any of these precautions, the Court should instruct the jury that they are not to infer from them anything about whether the information in fact qualifies as a trade secret. Rather, these steps are taken in order to preserve the possibility of such a finding, which will be for the jury to decide. Indeed, through its careful attention to the management of confidentiality, the Court will not be making a determination of the trade secret status of the asserted information, but instead will be preserving that issue for the jury.

#### **10.5.1 Confidentiality Obligations of Jury and Court Personnel**

Federal court personnel are subject to the restrictions of 18 U.S.C. § 1905, which prohibits all federal employees from disclosing any trade secrets or confidential data exposed to them in the course of their work. However, it may be helpful, particularly in the more sensitive cases, to remind court staff of that obligation. In addition, the jury should be admonished to maintain in confidence what they learn about the claimed trade secrets in the course of their service in the case. Ideally, this instruction should be made known during selection of the jury, so that the Court can determine if any of the venire have objections to that restraint. Counsel and the party representatives and witnesses should be similarly admonished. As for non-litigant observers, it is common practice to inquire regarding their identity, so that the parties can consider applying for other prophylactic

measures. *See Lifenet Health v. Lifecell Corp.*, 2015 U.S. Dist. LEXIS 181315 at \*3 (E.D. Va. Jan. 9, 2015) (observers placed under protective order after being given an opportunity to object).

### **10.5.2 Controlling Access within the Courtroom**

Even with press or other public observers present, it is possible to maintain confidentiality of certain information by presenting it in a way that does not publish the alleged secrets. Code words tied to the plaintiff's detailed trade secret list may be established by agreement of the parties and used in open court, so long as the jurors have access to a translation key and witnesses are careful to use the codes. Some previously-sealed exhibits may be presented in hard copies without displaying their content on the courtroom monitors. Or the gallery monitors may be turned off momentarily to restrict display of the exhibit to the jury, Court and counsel. *See Sumotext Corp. v. Zoove, Inc.*, 2020 U.S. Dist. LEXIS 31374 at \*12 (N.D. Cal. Feb. 20, 2020) (sealed exhibits ordered not published to the gallery, witnesses ordered to keep confidential the content of the exhibits while testifying about them). *See also* § 6.5.9.

### **10.5.3 Sealing Portions of the Record**

Counsel for the proponent of alleged secrets should raise issues of sealing exhibits and testimony in advance of the trial, ideally no later than the pretrial conference. In that way, the Court can have the opportunity to receive and consider the evidence necessary to make the required "compelling showing" that would justify partial sealing of the record to avoid publication of plausible alleged secrets. *See Kamakana v. City and County of Honolulu*, 447 F.3d 1172, 1180 (9th Cir. 2006) (distinguishing the "good cause" standard applicable to non-dispositive motions). Before the trial begins, the Court should remind counsel—including counsel for any third parties who have produced confidential information during discovery—that it may be practically impossible for the Court to make such a critical fact-based determination in real time, resulting in a failure of the proponent to secure any sealing of the evidence. And because trade secret cases may involve many exhibits with a variety of content, it is important that counsel understand that sealing entire documents may not be appropriate, and that it is their job to identify the relevant portions for redaction well in advance of the time when they are presented at trial.

Upon conclusion of a case in which the jury determines that information is a trade secret, the trade secret owner should seek an appropriate order to ensure that exhibits and transcripts of testimony revealing the trade secrets remain under seal. *See Syntel Sterling Best Shores Mauritius, Ltd. v. Trizetto Grp., Inc.*, 2021 WL 2935963 (S.D.N.Y. July 31, 2021) (finding that proposed redactions to exhibits and transcripts were narrowly tailored to prevent the dissemination of sensitive information).

### **10.5.4 Clustering Testimony for Closure of Courtroom**

Closing the courtroom is likely the solution most seriously in tension with the right of public access, and so might be seen by most judges as a last resort for protecting trade secrets. However, it remains an option for those circumstances where the planned testimony and related exhibits are extremely sensitive or easily compromised, such that other approaches may be insufficient. Indeed, UTSA § 5 expressly provides for "holding in-camera hearings." Counsel should be warned in advance of trial to confer and present a plan for any proposed courtroom closures. Given the attendant disruption and inconvenience for the jury and court personnel, it is preferable that the relevant direct and cross-examination be arranged in such a way that closure only happens once for that witness, and is limited to information that the Court has determined, based on compelling

evidence, requires this exceptional approach. If there are multiple witnesses whose testimony requires consideration of possible courtroom closure, they should be scheduled as close together as possible.

### **10.6 Motions for Judgment as a Matter of Law**

FED. R. CIV. P. 50 motions are very common in trade secret cases, despite the predominance of fact issues that characterize them. Although it is possible that a plaintiff fails to introduce evidence sufficient to support a required element of the claim, it is often best to wait for the motion to be renewed after trial, to be informed by the context of a full record and a verdict that could moot the issue. In ruling on challenges to the plaintiff's proof, the Court should keep in mind that the plaintiff has the burden of proof on all elements of the claim. Although the defendant for strategic reasons usually presents evidence to support an argument of independent development, it remains the plaintiff's burden to establish misappropriation, *see Penalty Kick Management Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1296 (11th Cir. 2003), and plaintiff's reliance simply on conclusory and speculative evidence on that issue justifies granting a directed verdict, *see Omnitech International, Inc. v. Clorox Co.*, 11 F.3d 1316, 1323 (5th Cir. 1994). Similarly, a plaintiff's failure to explain the competitive value of its claimed secrets can be fatal, *see Capital Asset Research Corp. v. Finnegan*, 160 F.3d 683, 687 (11th Cir. 1998), as can a patently insufficient showing of the required "reasonable efforts" element, *see Walmart Inc. v. Cuker Interactive, LLC*, 949 F.3d 1101, 1109 (8th Cir. 2020). Furthermore, the plaintiff's calculation of damages may rest on speculation, requiring a verdict to be set aside. *See O2 Micro International Ltd. v. Monolithic Power Systems, Inc.*, 399 F.Supp.2d 1064, 1076-1077 (N.D. Cal. 2005) (damage expert failed to apportion among multiple trade secrets, and jury found misappropriation of fewer than were claimed).

### **10.7 Jury Instructions and Verdict Form**

As with other disputes involving transactions or technology that may be unfamiliar to the lay juror, pre-instructing the jury at the outset will assist in their understanding and provide context for the evidence that they will be asked to evaluate. *See* § 9.3.1. Counsel for the parties should confer and jointly propose a brief neutral summary of the case to be read by the Court before beginning *voir dire*. Similarly, substantive instructions on the law should be proposed and discussed early in the proceedings (if not by the time of the last pretrial conference) in order to provide sufficient time for argument and consideration of any special issues.

The elements of trade secret misappropriation, as applied to any given case, are relatively simple and straightforward. However, achieving optimal understanding by the jury requires that the Court instruct on only those elements for which there is relevant evidence in the case. For example, 18 U.S.C. § 1839(3) defines "trade secret" with a non-exhaustive list of examples to express its breadth of coverage; but it should be sufficient to refer simply to "information" that meets the requirements of secrecy, value and reasonable measures, or to provide limited examples drawn from the case being tried. Similarly, the definition of "misappropriation" in § 1839(5), when fully parsed, describes many distinct scenarios, depending on whether the information was acquired improperly, whether it was used or disclosed, whether the defendant accessed it directly from the plaintiff or through another who was under an obligation of confidentiality, whether the defendant knew about its confidential source at the time of use or disclosure, and any "material change in position" before that happened. Obviously, it is not necessary to give the jury a

comprehensive understanding of this legal definition when it is possible to fashion one that matches the specific evidence in the case being tried.

Courts should be mindful that broadly stating general principles or, conversely, adopting verbatim instructions from other decisions, can be inappropriate to a particular case and confusing for jurors. Language drawn directly from published opinions in other cases may be a reflection of a factual context that is not directly applicable. Moreover, because special instructions are often proposed by a party seeking to nudge the jury in the direction of a desired outcome, such proposals should be measured against the risk of misleading the jury.

In framing instructions, courts should be aware that trade secret law today differs in some substantial ways from the common law of decades past and be careful not to rely on “form” jury instructions or instructions from other cases developed under inapplicable regimes. For example, the common law definition of a trade secret pursuant to the RESTAT. (FIRST) TORTS § 757, first published in 1939, requires that the alleged secret be in “continuous use” in a business, and does not extend to “ephemeral” information such as bids or marketing data. This requirement continues to apply to some degree under the common law of New York, which has not adopted the UTSA, but not elsewhere and not under the DTSA. In a claim brought solely under New York state law, and not the DTSA, an instruction on “continuous use” might be appropriate. In cases brought under the UTSA or the DTSA, it should not be used. Under modern statutory law as expressed in the DTSA and UTSA, all information which has “actual or potential value” is eligible to be a trade secret, regardless of its projected lifespan. In UTSA and DTSA cases, if the matter is disputed, an instruction may direct jurors to determine whether plaintiff has shown that an alleged trade secret has actual or potential economic value.

In addition, while the RESTATEMENT OF TORTS definition and commentary relied on a non-exhaustive list of six factors to determine the existence of a trade secret, some of those “factors” are now statutory requirements, while others should not be assumed to apply to every case. Directing jurors sitting in cases brought under the UTSA or the DTSA to consider a list of six “factors” under the RESTATEMENT regime can be confusing and lead to error. As an example, one of the six factors is the “extent of measures taken . . . to guard the secrecy of the information.” The DTSA and the UTSA have now made “reasonable measures” a statutory requirement, not simply a “factor” to be considered. Similarly, while one of the six “factors” is “the ease or difficulty with which the information could be properly acquired or duplicated by others,” the DTSA and the UTSA as adopted in most states imposes as a definitional requirement that the information must not be “readily ascertainable” by proper means. Where the issue is in dispute, jurors will be instructed to determine whether the measures a trade secret owner used to protect information were “reasonable” or not and whether information was “readily” ascertainable or not; they should not be instructed that these issues are simply “factors.”

Other factors called out for attention in the “six factor” test can be helpful to advocates in organizing the presentation of evidence but may not be appropriately presented to jurors for determination. Including them in jury instructions could be confusing. For example, one of the six factors is “how widely known the information is within the trade secret owner’s organization.” In a lean startup organization, every member of the founding team may have good reason to know the trade secret. The fact that they did does not necessarily undercut a finding that the information is a trade secret. An instruction directing jurors to focus on this factor could mislead them into concluding that information cannot be a trade secret if more than a certain number or percentage of company personnel know it.

Another factor is “the amount of effort or money expended by the business in developing the information.” While some trade secrets are the result of years of development and multi-million dollar expenditures, others have been more swiftly developed through a “flash of genius” or based on prior research and investment and may nonetheless be of value and protectable. Directing jurors that they should consider this “factor” may lead them to believe, erroneously, that a plaintiff having a low research budget cannot have trade secrets to protect. Nevertheless, courts purporting to apply the UTSA and, to a lesser extent, the DTSA, have occasionally viewed the RESTATEMENT’s six useful factors as a straitjacket and included in their jury instructions a requirement that the jury find that plaintiff has presented evidence on all of the six factors from the RESTAT. (FIRST) TORTS. This practice can be misleading, is contrary to the statutes, and should not be followed.

Another common pitfall of some pattern instructions is their treatment of defendant’s claim of reverse engineering or independent development of information claimed to be a trade secret. Some instructions treat this claim as an “affirmative defense” that must be “proved” by defendant. This description is not an accurate reflection of the burden of proof regarding misappropriation, which remains on the plaintiff at all times, although for obvious reasons the defendant will necessarily provide such evidence as a “traverse” to the plaintiff’s case. If defendant offers no evidence that it has independently developed information found to be a trade secret, plaintiff will have carried its burden; if defendant offers evidence that it claims shows independent development, plaintiff will need to rebut that defense if it can through cross-examination and through its own counter-evidence. Depending on the disputes at trial, a jury instruction may need to clarify each party’s burdens. If evidence is presented at trial that the defendant “reverse engineered” plaintiff’s information or products, the jury should be instructed to first consider whether the information or product was lawfully obtained. Normally the jury instructions should then include a statement that reverse engineering of lawfully obtained information or products is not an “improper means” of acquiring a trade secret unless prohibited by an enforceable contract.

Appendix 10.1 provides a basic set of instructions drawn from several cases applying the DTSA. Appendix 10.2 contains a sample verdict form that assumes there is a list of trade secrets for the jury’s reference, and that the list is not so lengthy that answering interrogatories about the elements of each alleged secret is unwieldy. Courts should take note that the verdict form in a trade secret case is at least as important and fraught with the potential for error as the instructions. The parties should be required to draft proposed verdict forms before trial begins, which should be closely examined for the possibility of inconsistent findings and the need for any advisory findings, such as whether misappropriation was “willful and malicious.”

## **10.8 Injunction after Trial**

### **10.8.1 Determining Whether to Grant Post-Trial Injunctive Relief**

Once there has been a finding of misappropriation, the pretrial issue of “likelihood of success” has been effectively mooted. Nevertheless, the DTSA and UTSA are explicit that the Court “may” issue injunctive relief, which places the matter of whether to grant permanent injunctive relief after trial within the Court’s informed discretion. Courts have applied the teachings of *eBay* and evaluated all of the equitable factors, rather than simply applying presumptions, in determining whether a permanent injunction is appropriate. *See, e.g., Syntel Sterling Best Shores Mauritius, Ltd. v. Trizetto Grp., Inc.*, 2021 WL 1553926, at \*12 (S.D.N.Y. Apr. 20, 2021) (granting permanent injunction after considering equitable factors and finding that absent a permanent injunction plaintiff would suffer irreparable harm); *Ecimos, LLC v. Carrier Corp.*, 2018 WL 7272058 (W.D.



Tenn. Oct. 9, 2018), *aff'd* 971 F.3d 616 (6<sup>th</sup> Cir. 2020) (same). *Cf. Versata Software, Inc. v. Internet Brands, Inc.*, 2012 WL 3075712 (E.D. Tex. July 30, 2012) (following *eBay* in assessing equitable factors and denying a permanent injunction where plaintiff presented no evidence of ongoing harm); *Uhlig, LLC v. Shirley*, 2012 WL 2458062 (D.S.C. June 27, 2012) (finding that *eBay* had effectively abrogated a presumption of irreparable harm applicable to trade secret disputes; denying permanent injunction after finding that movant had not established irreparable harm).

Absent some exigent circumstances, the Court should normally postpone any decision on this equitable issue until the other post-trial motions have been filed and considered, although it may direct the parties to consider whether interim measures are appropriate after trial prior to adjudication of a motion for permanent injunction. *See Syntel Sterling*, No. 15-Civ. 211 (LGS), Dkt. No. 940 (S.D.N.Y. May 18, 2021). Any preliminary injunction that was in place before trial may be continued until that time, although it is also within the Court's discretion to lift or modify a pre-trial order based on the changed circumstance of a jury verdict rejecting the underlying claim.

### **10.8.2 Relation to Damage Award**

Although injunctive relief is not necessarily inconsistent with an award of damages, there are important overlapping issues to consider. If damages were requested and assessed only for past conduct, it could be appropriate to enjoin future exploitation of the trade secret, assuming that other conditions for equitable relief are met. *See* RESTAT. (THIRD) UNFAIR COMP. § 44, comment b. But if the award was intended to compensate for both past and future harm, a post-trial injunction would normally be improper. *See CardiAq Valve Techs. V. Neovasc, Inc.*, 708 F. App'x 654 (Fed. Cir. 2017) (unpublished).

### **10.8.3 Types of Permanent Injunctions**

Equitable relief after trial may take a number of forms. Permanent injunctions may be “use” injunctions, prohibiting defendant from using or disclosing specified trade secrets or from engaging in particular activities leading to use or disclosure. *Cf. O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064 (N.D. Cal. 2006), *aff'd* 221 F. App'x 996 (Fed. Cir. 2007) (denying use injunction because the information was no longer secret and had been disclosed; jury had awarded unjust enrichment damages).

In some cases, the Court orders post-trial “remediation” activities to ensure that the trade secret is removed from the files, computer system, and operations of the defendant company. Courts may enter permanent relief directing the appointment of a forensic examiner to lead and verify this process. *See Syntel Sterling*, No. 15-Civ. 211 (LGS), Dkt. No. 993 (S.D.N.Y. May 18, 2021); *Epic Sys. Corp. v. Tata Consultancy Svcs., Ltd.*, 2016 WL 6477011, at \*3 (W.D. Wis. Nov. 2, 2016); *IHE Auto Parts, LLC v. Abelson*, 2017 WL 7519067 (N.D. Ga. Nov. 16, 2017); *Allergan, Inc. v. Merz Pharm., LLC*, No. SACV-11-446 AG (Ex), Dkt. No. 12 (C.D. Cal. Mar. 9, 2012).

Where the trade secrets have been found to be “inextricably intertwined” with a defendant organization's manufacturing or other processes and remediation of the secrets will be difficult or impossible, courts have sometimes entered “production” injunctions requiring the defendant to exit the field for a period of time necessary to undo the unfair competitive advantage gained through misappropriation. *See* RESTAT. (THIRD) UNFAIR COMP. §44, cmt. d (1995) (a production injunction may be appropriate where a use injunction would be impossible to enforce due to difficulty of distinguishing further improper use of trade secret from independent discovery); *Wyeth v. Natural Biologics, Inc.*, 395 F.3d 897, 903 (8th Cir. 2005) (prohibiting defendant from

making or distributing products that had been based on plaintiff's trade secrets); *General Elec. Co. v. Sung*, 843 F. Supp. 776 (D. Mass. 1994) (enjoining defendant from producing industrial grade diamonds for seven years where manufacturing process incorporating plaintiff's trade secrets was inextricably intertwined with defendants' production process). *See also* § 2.6.1.3.2. The Court may exercise its discretion to appoint a special master to oversee clean room development of a product not based on plaintiff's trade secrets. *See Ecimos, LLC v. Carrier Corp.*, 2018 WL 7272058 (W.D. Tenn. Oct. 9, 2018), *aff'd* 971 F.3d 616 (6th Cir. 2020).

Regardless of the type of permanent injunction ordered, it should be tailored to be as narrow as warranted by the evidence, including evidence of defendant's prior behavior and tendency to violate court orders. *See ClearOne Commc'ns, Inc. v. Bowers*, 643 F.3d 735 (10th Cir. 2011); *Minnesota Mining & Mfg. Co. v. Pribyl*, 259 F.3d 587, 598 (7th Cir. 2001) (entering broad injunction order finding that under the circumstances "no opportunity for loopholes should be allowed").

#### **10.8.4 Duration of Injunction**

Generally, an injunction should last no longer than is necessary to protect the rights of the plaintiff and deny the defendant the fruits of a misappropriation, or improper "head start." *See* RESTAT. (THIRD) UNFAIR COMP. § 44(3).<sup>1</sup> A "permanent" injunction (so called to distinguish it from the "preliminary" injunction) remains subject to modification by the Court based on meaningfully changed circumstances. FED R. CIV. P. 60(b)(5) authorizes the Court to relieve a party from the order where "applying it prospectively is no longer equitable." *See Microstrategy, Inc. v. Business Objects, S.A.*, 369 F.Supp.2d 725, 732 (E.D. Va. 2005) (granting second motion to dissolve injunction that had been in effect for five years based on evidence that the information was no longer a trade secret and sufficient time had passed to eliminate any unfair competitive advantage).

#### **10.8.5 Geographic Scope of Injunction**

Because of the nature of the harm that is caused by trade secret misappropriation, injunctive relief is not necessarily subject to geographic limitations and may operate globally. *See* RESTAT. (THIRD) UNFAIR COMP., §44 cmt. d (stating that "[a] defendant would normally be enjoined from disclosing or using the trade secret even outside the geographic market of the trade secret owner"). This notion is reinforced under the DTSA, which has been held by district courts considering the matter to apply extraterritorially. *See Syntel Sterling*, 2021 WL 1553826, at \*14 (entering worldwide permanent injunction under DTSA where acts in furtherance of the offense had occurred in the United States and evidence supported claim that ongoing harm would be irreparable); *OmniGen Research, LLC v. Yongqiang Wang*, 2017 WL 5505041, at \*24 (D. Or. Nov. 16, 2017) (entering worldwide injunction after entering terminating sanctions for spoliation as "appropriate and necessary" where "Defendants' wrongful actions have included conduct

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<sup>1</sup> The language of UTSA § 2, which permits termination of injunctions subject to a "head start" extension, was not carried over into the comparable section of the DTSA, 18 U.S.C. § 1836(b)(3)(A)(i). However, there is no indication in the legislative history that this was intended to produce results different from that which would obtain under the UTSA. Indeed, the DTSA provision that corresponds to UTSA § 2(b), 18 U.S.C. § 1836(b)(3)(A)(iii), permits payment of a royalty "for no longer than the period of time for which such use could have been prohibited," implying that trade secret injunctions may have to be terminated due to changed circumstances.

occurring in China”); *see also Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970, 974 (9th Cir. 1991) and *General Elec. Co. v. Sung*, 843 F.Supp. 776 (D. Mass. 1994) (entering worldwide injunctions). *Cf. Nordson Corp. v. Plasschaert*, 674 F. 2d 1371, 1377 (11<sup>th</sup> Cir. 1982) (observing that “[a]s a practical matter, however, geographical limits often can be set” and limiting permanent injunction to Western Europe, the United States and Canada).

### **10.8.6 Framing the Injunction Order**

Meeting the requirement of FED. R. CIV. P. 65(d) that every injunction order must “describe in reasonable detail” the actions being restrained has particular importance in trade secret cases, because the subject matter of the action will have been shaped throughout the litigation by the court’s efforts to ensure that the plaintiff has identified its claimed secrets with enough specificity that they can be distinguished from matters that are generally known. *See* Chapter 4. If a preliminary injunction was entered in the case, *see* § 5.13, that will likely be a useful starting point, along with the plaintiff’s designation of asserted trade secrets that was prepared for trial. The focus of the court’s effort at this stage of the case should be on specificity of the behavior to be restrained, expressed in narrow terms. This is critical not merely for compliance with Rule 65, but also to reduce the risk that the parties will return repeatedly to the Court for interpretations and directions. *See Microstrategy, Inc. v. Business Objects, S.A.*, 331 F.Supp.2d 396, 431 (E.D. Va. 2004).

In order that publication of the injunction not destroy the property right that the litigation was meant to protect, it is acceptable for the Court to make reference in its order to a confidential appendix that describes the trade secrets, notwithstanding the requirement of Rule 65(d) that an injunction not describe its subject by reference to another document. *Henry Hope X-Ray Products, Inc. v. Marron Carrel, Inc.*, 674 F.2d 1336, 1343 (9th Cir. 1982).

## **10.9 Exemplary Damages and Attorney’s Fees**

### **10.9.1 Exemplary Damages**

Borrowing language from UTSA § 3(b), the DTSA permits a court to award exemplary damages in an amount not more than double the compensatory award if “the trade secret is willfully and maliciously misappropriated.” 18 U.S.C. § 1836(B)(3)(C). States vary in their statutory limits on exemplary damages, ranging from zero to five times actual damages. The maximum amount allowed may be lower if dictated by application of constitutional principles of due process. *See Epic Systems Corp. v. Tata Consultancy Services Ltd.*, 980 F.3d 1117, 1142-1145 (7th Cir. 2020) (applying UTSA). Pursuant to the UTSA, which states that an exemplary damage award may be made by “the court,” unless applicable state law provides otherwise, the predicate question of willfulness has been submitted to the jury, with the trial judge to determine the consequences of the jury’s finding. *See Wellogix, Inc. v. Accenture, LLP*, 716 F.3d 867, 877 (5th Cir. 2013). The same approach is appropriate under the DTSA, pursuant to which “a court may” award exemplary damages. *See Proofpoint, Inc. v. Vade Secure, Inc.*, 2021 U.S. Dist. LEXIS 223204, at \*10-\*11 (N.D. Cal. Nov. 18, 2021) (discussing factors and declining to make the award even though jury had found willful and malicious misappropriation).

### **10.9.2 Attorney’s Fees**

A finding of willful and malicious misappropriation may also justify an award of attorney’s fees pursuant to DTSA 18 U.S.C. § 1836(B)(3)(D) and UTSA § 4. Each of those statutes also permit an award of fees to the defendant if “a claim of misappropriation is made in bad faith” (a

determination which the DTSA expressly states may be “established by circumstantial evidence”) or to either side if a motion to terminate an injunction is made or opposed in bad faith. As noted with respect to exemplary damages, if the jury makes the preliminary fact finding of willfulness, it is for the Court in its discretion to determine whether to make the award and if so in what amount. The same broad discretion applies to an award of fees by the Court. *See Chemetall GmbH v. ZR Energy, Inc.*, 2002 U.S. Dist. LEXIS 158 at \*6-\*11 (N.D. Ill. Jun. 8, 2002) (applying “exceptional case” standard from patent law and discussing factors in denial of fee award despite jury finding of willfulness).

Courts may decline to calculate the amount of attorney’s fees to be awarded pursuant to statute until final decision in the case after all appeals. *See Syntel Sterling*, No. 1:15-cv-00211 (LGS), Dkt. No. 994 (S.D.N.Y. May 18, 2021). Where the case involves other claims for which attorney’s fees are not recoverable, the Court should determine the appropriate allocation of any fee award to the trade secret aspects of the litigation. *See Mattel, Inc. v. MGA Entertainment, Inc.*, 801 F.Supp.2d 950, 957-958 (C.D. Cal. 2011), *vacated on other grounds*, 705 F.3d 1108 (9th Cir. 2013).

## Appendix 10.1 Model Jury Instructions for Trade Secret Cases

Sound jury instructions offer critical guidance to jurors for assessing the evidence. Confusing, or worse, misleading, instructions can lead to confused decision-making or even reversal. At present there are few “official” guides to jury instructions in trade secret cases, particularly under the Defend Trade Secrets Act. This is likely due to the fact that the DTSA was enacted only in May 2016 and few jury verdicts have gone through full appellate review at this time. The Sedona Conference Working Group 12 on Trade Secrets is at work developing jury instructions for consideration in DTSA cases and readers should check the Sedona Conference website, <https://thesedonaconference.org/wgs/wg12>, for future drafts. The Intellectual Property Section of the California Lawyers Association has released some guidance, particularly with respect to claims under the California UTSA in its treatise, *TRADE SECRET LITIGATION & PROTECTION: A PRACTICE GUIDE TO THE DTSA AND THE CUTSA* (California Lawyers Association 2022), Appendix A. Some states have Pattern Jury Instructions that address some issues under state trade secret law, although few yet address instructions under the DTSA. For another sample set of instructions relevant to some issues arising in trade secret disputes, see Bill A. Hill & Charles F. B. McAleer Jr., *Misappropriation of Trade Secrets*, BRIAN A. HILL (ED.), *MODEL JURY INSTRUCTIONS, BUSINESS TORT* (ABA SECTION OF LITIGATION) ch. 8 (5<sup>th</sup> ed. 2022). Jury instructions given by courts in similar cases can be instructive in flagging issues to be addressed in final jury instructions but are not a substitute for case-specific tailoring.

### **Suggested Topics for Consideration for Inclusion in Jury Instructions**

Topics for consideration as the parties and the court arrive at jury instructions in cases raising trade secret claims may include the following, in addition to the general civil jury instructions:

1. The elements of a trade secret claim
2. Definition of trade secrets
3. Applicable limitations on scope of trade secret eligibility and, if applicable, clarification that trade secrets can include information held in human memory
4. A specification of the alleged trade secrets
5. Explanation of the meaning of “secrecy”
6. Explanation of the meaning of “reasonable measures” to protect information, including the fact that measures do not have to be perfect and may vary depending on the nature of the information and relevant businesses and relationships
7. Where relevant, a discussion of “negative know-how”
8. Explanation of the meaning of “generally known” or, as applicable, whether information is “readily ascertainable”
9. Where relevant, guidance on separating an employee’s “general skill and knowledge” from “trade secrets”
10. Explanation of “actual or potential independent economic value” because of secrecy
11. Definition of “misappropriation” of the alleged trade secret, tied to plaintiff’s claims (e.g., generally courts do not instruct on bribery as a wrongful means means of gaining access to trade secrets if no evidence has been presented on bribery)

12. Where pertinent, instruction on the DTSA requirement that the alleged secret be related to a product or service used in or intended for use in interstate commerce
13. Where pertinent, which given the passage of time will be a diminishing number of cases, an instruction regarding the effect of misappropriation occurring prior to May 11, 2016
14. Where asserted by defendant, explanation of “independent development”
15. Where pertinent, explanation of lawful “reverse engineering”
16. Explanation of which party bears the burden of proof on each element of a claim or defense of a claim for misappropriation including explaining, where relevant, the difference between the burden of proof and the burden to produce evidence
17. Explanation of when a party “knew or had reason to know” that information was a trade secret or that acts taken in relation to the information were unlawful (including, as applicable, regarding a defense that the claim is barred by the statute of limitations)
18. Derivative responsibility for acts of another
19. Requirement to tie damages to misappropriation
20. Actual loss or unjust enrichment or, where applicable, reasonable royalty calculations
21. Willfulness (recognizing that some courts ask juries to provide an advisory opinion on this issue)
22. Duty to mitigate damages, if applicable
23. Where applicable, nominal damages
24. Where applicable, the amount of any exemplary damages (recognizing that in many jurisdictions a jury determination on this issue may be advisory)
25. Where applicable, impact of alleged spoliation or other litigation misconduct
26. Other affirmative defenses, such as statute of limitations or estoppel
27. Elements of any counterclaims

#### **A. Sample Instructions**

What follows is an abbreviated simple illustration of jury instructions of the type that might be used in trade secret disputes. It is not a “form,” rather, a guide to fashioning case-specific instructions. It is largely patterned on the DTSA and UTSA and, where noted, the RESTATEMENT (FIRST) OF TORTS § 757.

As a matter of case management, jury instructions normally must be presented to the Court, argued, and largely finalized before the trial begins so that the parties can structure their presentation of evidence accordingly. A final charging conference typically occurs as the trial unfolds with final instructions determined after the close of evidence.

In cases in which multiple trade secrets are at issue, there will usually be a special verdict form asking the jury to determine as to each claimed trade secret (a) whether it meets the legal tests to be a trade secret and (b) whether plaintiff has shown by a preponderance of evidence that defendant has misappropriated the information. Where there are multiple

defendants, each alleged to have a different role in the misappropriation, a verdict form may need to be crafted addressing the culpability of each defendant. Appendix 10-2 contains a sample verdict form.

### **Outline of Basic Jury Instructions**

The following sample instructions deal only with the issues of law peculiar to trade secrets, and do not comprise a comprehensive set, which would include general instructions and would address other matters such as affirmative defenses and counterclaims. These instructions are generally consistent with the Uniform Trade Secrets Act, the Defend Trade Secrets Act, and with the Restatement (Third) of Unfair Competition except as otherwise noted; however, they should be checked against the law of the particular jurisdiction. Moreover, they should be supplemented with instructions that reflect the unique facts of the particular case. For example, in appropriate cases, the parties should consider instructions regarding adverse inferences that may be drawn from a party's spoliation of evidence.

#### **Circumstantial Evidence**

You must reach your verdict based on the evidence presented during the trial. You may not consider evidence that I have instructed you to disregard or on speculation about what witnesses might have said if I did not sustain an objection to their testimony.

In evaluating the evidence, there may be direct testimony or documents that particular acts did or did not occur. There may also be "circumstantial" evidence. Circumstantial evidence is evidence that tends to prove a disputed fact by proof of other facts. Circumstantial evidence is of no less value than direct evidence. The law makes no distinction between direct evidence and circumstantial evidence. You are entitled to weigh the force and importance of each type of evidence in arriving at your conclusion as to a particular fact. *[Courts often give the illustration of watching people enter an interior courtroom carrying wet umbrellas as circumstantial evidence that could be used to draw an inference that it is raining.]*

#### **Elements and Burden of Proof**

Plaintiff ABC Corporation contends that defendant XYZ Company and its employee John Smith have engaged in the unauthorized acquisition, use or disclosure of ABC's trade secrets. [NOTE, if any form of misappropriation is not at issue in the case, do not reference that type of misappropriation]. To prevail on this claim, ABC must prove, by a preponderance of the evidence, each of the following elements:

1. That ABC owned or had a license to use a trade secret. [NOTE that the instruction on ownership may vary depending on whether state or federal law applies and should track the applicable law or statute]
2. That defendants XYZ or Smith misappropriated the secret.
3. That ABC has been harmed as a result of the misappropriation.

I will instruct you about each of these elements. Later, I will instruct you about certain defenses as to which XYZ and Smith have the burden of proof or the burden to produce evidence in support of their contention.

"Preponderance of the evidence" means evidence that has more convincing force than that opposed to it. If the evidence is so evenly balanced that you are unable to say that the evidence on either side of an issue preponderates, your finding on that issue must be against the party who had the burden of proving it.

You may have heard that in criminal cases the government has the burden of proving particular claims “beyond a reasonable doubt.” That burden does not apply to any claims in this case.

You should consider all of the evidence bearing upon every issue regardless of who produced it.

### **Trade Secret Defined**

[Uniform Trade Secrets Act and Defend Trade Secrets Act] A trade secret is any information which has actual or potential economic value because it is not generally known to, or readily ascertainable by, others who could have profited by using or disclosing it, and which the owner has made reasonable efforts to protect.<sup>2</sup>

[Restatement (First) of Torts, §757 (applicable to claims brought under New York common law; otherwise this addition should not be included in the instructions)] A trade secret is any information that is in continuous use in the operation of a business or other enterprise and that is sufficiently valuable and secret to give an actual or potential economic advantage over others.

[Instruction drawing on Restatement of Torts when considering claims brought under New York common law; otherwise this addition should not be included in the instructions)] You may consider the following factors in deciding whether information qualifies as a trade secret of ABC:

1. The extent to which the information is known outside of ABC’s business.
2. The extent to which the information is known by employees and others involved in ABC’s business.
3. The extent of measures taken by ABC to guard the secrecy of the information.
4. The value of the information to ABC and its competitors.
5. The amount of effort or money expended by ABC in developing the information.
6. The ease or difficulty with which the information could be properly acquired or duplicated by others.

### **Secrecy**

To qualify as a trade secret, a substantial element of secrecy must exist, so that, except by the use of improper means, the information would be difficult or costly to acquire. “Secret” means that (1) the information was known only by Plaintiff or by others who learned the information from the Plaintiff and were obligated to keep the information secret, or by others who developed it independently and kept it secret, and (2) Plaintiff took reasonable precautionary measures to

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<sup>2</sup> See New York Pattern Jury Instr. (“NY PJ”), Civil Division 3 G 4 Intro. 1 (3d ed. 2019); *Broker Genius, Inc. v. Zalta*, 280 F. Supp. 3d 495, 514 (S.D.N.Y. 2017) (applying New York law and federal Defend Trade Secrets Act (“DTSA”)); 18 U.S.C. § 1839(3) (defines trade secrets as “‘all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible,’ so long as (1) ‘the owner thereof has taken reasonable measures to keep such information secret’ and (2) ‘the information derives independent economic value . . . from not being generally known to, and not being readily ascertainable through proper means’ by others.”).



keep the information secret.<sup>3</sup> Thus, information that is readily ascertainable, because it is easily available to the relevant public such as through public postings on the internet, in trade journals, reference books, or other published materials, or from an inexpensive examination of a publicly marketed product, cannot be a trade secret.<sup>4</sup>

However, a trade secret may consist in a combination of information that is generally known or readily ascertainable, if the combination itself qualifies as a trade secret under the standards I have described.

Also, information can qualify as a trade secret even though it may be independently discovered through reverse engineering—that is, starting with a known product and working backward by taking it apart, examining or testing it to find the method by which it was developed or manufactured—if that effort is lengthy or expensive.

A trade secret does not have to be absolutely secret. It can be disclosed to employees involved in its use, or to unrelated parties under circumstances that are intended to keep it from becoming generally known. The fact that someone may be or has been able to circumvent or overcome measures designed to ensure secrecy does not mean that the information is not a trade secret. However, a trade secret owner must make reasonable efforts to keep the information secret, as I will explain to you. Finally, the fact that another has been able to independently develop the same or similar information as the trade secret does not mean that the plaintiff does not have the right to protect the information it has developed so long as the information has not become generally known without restriction to the relevant public and the plaintiff takes reasonable measures to protect the information.

### **Value**

As I have said, a trade secret must have value that results from its secrecy. In other words, a trade secret must be of sufficient value to provide an actual or potential economic advantage over others who do not possess the information. The advantage, however, need not be great. It is sufficient if the secret provides an advantage that is more than trivial. Although a trade secret can consist of a patentable invention, there is no requirement that the trade secret meet the standard of inventiveness applicable under federal patent law.

### **Reasonable Efforts to Protect Secrecy**

One of the elements of a trade secret is that its owner must have made reasonable efforts to keep it secret. A trade secret owner does not have to undertake extreme and unduly expensive measures; however, its efforts must represent a reasonable attempt to limit exposure of the information to those who have a reason to know it and who are made aware of its confidential nature. In assessing reasonableness under the circumstances you may consider the value of the information, the risk of unintended disclosure, and the cost or inconvenience of particular measures.

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<sup>3</sup> See *Broker Genius*, 280 F. Supp. 3d at 514; 18 U.S.C. § 1839(3).

<sup>4</sup> *Broker Genius, Inc.*, 280 F.Supp.3d at 514 (“If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.” (quoting *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002 (1984))).

### **Application of Definition of Trade Secret to Each Alleged Secret**

Below (or, if lengthy, in an Exhibit A) is a list of each item of information plaintiff has alleged to be a trade secret in this action. As to each item, please indicate whether you find that the information is a trade secret or is not a trade secret by marking the verdict questionnaire with an “x” in the appropriate box indicating that it is or is not a trade secret.

If you find that none of the listed items is a trade secret, you should sign and date the verdict form and advise the courtroom deputy. You will not be required to complete the rest of the jury verdict form.

### **Misappropriation of a Trade Secret<sup>5</sup>**

If you find that ABC has proved the existence of trade secret information as I have defined it for you, then you must decide whether Smith or XYZ have misappropriated any of this information.

Someone can misappropriate the trade secret of another in either of two ways: (1) by acquiring by improper means information that he knows or should know is another’s trade secret; or (2) by using or disclosing without consent information that he knows or should know is another’s trade secret.

As to the first kind of misappropriation, wrongful acquisition, “improper means” include theft, fraud, unauthorized interception of communications, inducement of or knowing participation in a breach of a duty of confidence, and other means either wrongful in themselves or wrongful under the circumstances of this case. Independent discovery and analysis of publicly available products or information are not improper means of acquisition.

A “duty of confidence” is owed by a person to whom a trade secret is disclosed, if the recipient either: (1) made an express promise, orally or in writing, to maintain secrecy; or (2) received the trade secret under circumstances that show that the recipient knew or should have known that the disclosure was intended to be confidential. Sometimes the nature of the relationship between the parties is sufficient to establish the necessary understanding of confidentiality.

The second kind of misappropriation, wrongful use or disclosure, consists of use or disclosure of the trade secret without consent, when the defendant knew or should have known that the information was a trade secret.

The defendant’s knowledge can be proved in one of several ways, by showing that he knew or had reason to know that: (1) he acquired the trade secret under a duty of confidence; (2) he acquired the trade secret by improper means; (3) he acquired the trade secret from another person who had acquired it by improper means or breached a duty of confidence; or (4) he acquired the trade secret through an accident or mistake (unless the accident or mistake constituted a failure by the owner to make reasonable efforts to maintain secrecy).

To show that a defendant has “used” a trade secret does not require that he has copied or replicated the trade secret or employed it in the same way as the owner. Any exploitation of the information that is likely to result in injury to the owner is sufficient, including marketing goods that embody the trade secret, employing the trade secret in manufacturing, relying on the trade

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<sup>5</sup> The court should not instruct on forms of misappropriation that are not claimed to be at issue in the particular dispute.

secret to assist or accelerate research or development, or soliciting customers through use of trade secret information. The unauthorized use need not extend to every aspect or feature of the trade secret; use of any substantial portion of it is sufficient. The defendant may also be liable if he uses the trade secret together with independently created improvements or modifications, if the result is substantially derived from the trade secret.

For each item of information you have concluded is a trade secret, you must indicate on your jury verdict form whether you find that plaintiff has proved that defendant misappropriated that trade secret.

### **Responsibility for Actions of Another**

In determining whether XYZ is liable for misappropriation of a trade secret, you must consider whether XYZ directly engaged in acts of misappropriation as I have described them to you.

You must also consider whether XYZ authorized or directed Smith or others to misappropriate trade secrets on its behalf or whether the actions of Smith may be legally imputed to XYZ, as would be the case if XYZ knew or had reason to know of misappropriation by Smith but used the results of the misappropriation or otherwise benefitted by the misappropriation.

In the event that you find that XYZ directed or knew or should have known of the misappropriation or knowingly benefitted from the misappropriation, you must find XYZ liable for misappropriation of that particular trade secret.<sup>6</sup>

### **Damages for Misappropriation**

If you find that either Smith or XYZ, or both, are liable for misappropriation of a trade secret, you must then decide the amount of damages caused by the misappropriation which are to be awarded to ABC to compensate it for the misappropriation. The fact that I am instructing you on damages does not mean that any party is entitled to recover damages. It is exclusively your function to decide whether Plaintiff has proven its claims, and I am instructing you on damages, if any, only so that you will have guidance should you decide that it has done so.

The purpose of compensatory damages is to award, as far as possible, just and fair compensation for the loss, if any, which you believe that Plaintiff has suffered or the amount by which Defendant was enriched by the misappropriation. You may award ABC damages in an amount that represents either ABC's actual loss, or the benefit to the defendant(s); or you may award ABC's actual loss plus the benefit to the defendant(s)<sup>7</sup> to the extent that such benefit is not already taken into account in computing the actual loss.<sup>8</sup>

Damages must be determined with reasonable certainty from the evidence presented. Mathematical precision need not be shown, but you are not to guess or speculate as to damages.

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<sup>6</sup> Note also the following instruction approved in *C&F Packing Co., Inc. v. IBP, Inc.*, 224 F.3d 1296, 1303 (Fed Cir. 2000): "Trade secret misappropriation may . . . be facilitated by placing a person who has legitimate knowledge of trade secrets in a position that may inherently call for disclosure or use. However, employing a competitor's former employee is not in and of itself sufficient to find misappropriation. An employee cannot be prevented from using his general skills or experience, even if they were obtained or developed while working for another employer."

<sup>7</sup> Under New York law, unjust enrichment damages are unavailable when measured by defendant's avoided development costs. *E.J. Brooks Co. v. Cambridge Sec. Seals*, 105 N.E. 3d 301 (N.Y. 2018).

<sup>8</sup> Final Instruction No. 42 from *Motorola Sols., Inc. v. Hytera Commc'ns. Corp. Ltd.*, 2020 WL 1026166 (N.D. Ill. 2020)).

You are to consider each type of damage for each claim and then determine which form of damages is most appropriate, if any.

**Reasonable Royalty for Misappropriation (depending on availability under applicable law)**

If you find that Defendant has misappropriated one or more of Plaintiff's trade secrets but that Plaintiff has not established either lost profits or unjust enrichment by Defendant, you may consider an award of a reasonable royalty as damages for the misappropriation of that trade secret. A reasonable royalty is the price that would be agreed upon by the owner of the trade secret and the misappropriator in advance of the misappropriation for its use of the trade secret. Some of the factors you may consider in determining the amount of any reasonable royalty include:

1. Royalties, including as a portion of profits or selling price, that others have paid for the use of the information or comparable information;
2. The nature, scope, and duration of the Defendant's use of the trade secret and the commercial relationship between the parties;
3. The total value of the information to the owner, including its development costs, if any;
4. The time and effort that would have been required before the Defendant could have acquired or likely acquired the same or equivalent information through proper means;
5. The benefits of the information, its lifespan, and uses;
6. The profitability of any product made using the information and the extent and value of the use of the information by the Defendant.<sup>9</sup>

*Note that the jury is also typically instructed to determine the period for which royalties will be awarded.*

**Willful and Malicious Conduct**

If you decide that either Smith or XYZ has misappropriated a trade secret of ABC, you will be asked on your verdict form to indicate whether such misappropriation was willful and malicious. An act is done "willfully" if it is voluntary and intentional, rather than by mistake or accident. An act is done "maliciously" if prompted or accompanied by such gross indifference to the rights of others as will amount to a willful act without just cause or excuse. To find that an act was done "maliciously" you are not required to find that defendant had personal animus toward or hated the plaintiff.

*Note that in appropriate cases an instruction may need to be given regarding the availability of punitive damages against an employer because of an act taken by its employee.*

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<sup>9</sup> See, e.g., ABA Model Jury Instr. Bus. Tort Lit. 421A; *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142, 152 (2d Cir. 1996).

## Appendix 10.2 Sample Verdict Form for Use in Civil Trade Secret Cases

This verdict form is based on the verdict form used in TechForward, Inc. v. BestBuy Co., Inc., Case No. CV-11-01313-ODW (JEMx), Dkt. #193 (C.D. Cal. Nov. 16, 2012).

### CLAIM FOR MISAPPROPRIATION OF TRADE SECRETS

**We answer the questions submitted to us as follows:**

#### **QUESTION NO. 1:**

Was Plaintiff the owner or was Plaintiff the person or entity in whom or in which rightful legal or equitable title to, or license in, any of the following items is reposed? For all questions, see Court Exhibit 1, which lists the alleged trade secrets.

a. Alleged trade secret #1 (described)	Yes____ No____
b. Alleged trade secret #2 (described)	Yes____ No____
c. Alleged trade secret #3 (described)	Yes____ No____
d. Alleged trade secret #4 (described)	Yes____ No____
Etc. (identifying alleged trade secrets or groups of trade secrets)	

If your answer to Question 1(a) or 1(b) or 1(c) or 1(d) is “Yes,” then answer Question 2.

If you answered “No” to Question 1(a) and 1(b) and 1 (c) and 1 (d), answer no further questions and have the presiding juror sign and date this form.

#### **QUESTION No. 2:**

Was any of the following a “trade secret” as that term is defined in the instructions?

a. Alleged trade secret #1	Yes____ No____
b. Alleged trade secret #2	Yes____ No____
c. Alleged trade secret #3	Yes____ No____
d. Alleged trade secret #4	Yes____ No____

If your answer to Question 2(a) or 2(b) or 2(c) or 2(d) is “Yes,” then answer Question 3.

If you answered “No” or “not applicable” to Question 2(a) and 2(b) and 2(c) and 2(d), answer no further questions, and have the presiding juror sign and date this form.

**QUESTION No. 3:**

Did Defendant improperly use the following trade secret(s)?

a. Alleged trade secret #1	Yes____ No____
b. Alleged trade secret #2	Yes____ No____
c. Alleged trade secret #3	Yes____ No____
d. Alleged trade secret #4	Yes____ No____

If your answer to Question 3(a) or 3(b) or 3(c) or 3(d) is “Yes,” then answer Question 4.

If you answered “No,” or “Not applicable” to Question 3(a) and 3(b) and 3(c) and 3(d), answer no further questions, and have the presiding juror sign and date this form.

***Note to Reader: if Plaintiff claimed misappropriation through wrongful acquisition or through disclosure, questions based on that theory would be added or substituted as appropriate, tracking Question 3***

**QUESTION NO. 4**

Was Plaintiff harmed or was Defendant unjustly enriched as a result of Defendants improperly [acquiring] [using] [or disclosing] the following trade secrets?

	Harm to Plaintiff	Unjust Enrichment to Defendant
a. Alleged trade secret #1	Yes____ No____	Yes____ No____
b. Alleged trade secret #2	Yes____ No____	Yes____ No____
c. Alleged trade secret #3	Yes____ No____	Yes____ No____
d. Alleged trade secret #4	Yes____ No____	Yes____ No____

If your answer to Question 4(a) or 4(b) or 4(c) or 4(d) is “Yes,” then answer Question 5.

If you answered “No” or “not Applicable” to Question 4(a) and 4(b) and 4(c) and 4(d), answer no further questions and have the presiding juror sign and date this form.

**QUESTION NO. 5:**

What amount of harm to the Plaintiff, if any, was caused by the improper [acquisition] [use] [or disclosure] of Plaintiff’s alleged trade secret(s) by Defendant?

\$\_\_\_\_\_

Next, answer Question No. 6

*Note: depending on the argument and evidence offered by the parties, the Court may decide to instruct the jury to calculate damages for each alleged trade secret.*

**QUESTION NO. 6:**

What amount of unjust enrichment, if any, was caused by the improper use of Plaintiff's trade secrets by Defendant?

\$ \_\_\_\_\_

Next, answer Question No. 7

**QUESTION NO. 7:**

Was Defendant's improper misappropriation of Plaintiff's trade secret(s) as found in response to the prior questions willful and malicious?

\_\_\_\_ Yes

\_\_\_\_ No

There are no further questions in this section. Have the presiding juror sign and date this form, and proceed to the breach-of-contract sections of the jury verdict form.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_

After all verdict forms have been signed, notify the clerk/bailiff/court attendant that you are ready to present your verdict in the courtroom.

***NOTE: Additional questions would be added for any additional claims or counterclaims. If there is a claim for breach of a contract as well as a claim for misappropriation, after providing Questions relating to breach of contract, add a question as follows:***

What amount of the damages stated in response to Question \_\_\_\_ [damages for breach of contract], if any, was included in your award of damages, if any, for the misappropriation of trade secrets?

This verdict form was suggested by verdict form used in *TechForward, Inc. v. BestBuy Co., Inc.*, Case No. CV-11-01313-ODW (JEMx), Dkt. #193 (C.D. Cal. Nov. 16, 2012).



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# Chapter 11: Criminal Trade Secret Law and Case Management

## 11.1 Introduction

The Economic Espionage Act, enacted in 1996, imposes criminal liability for trade secret misappropriation. The EEA is divided into two sections. First, § 1831 punishes the theft or misappropriation of a trade secret when undertaken by anyone “intending or knowing that the offense will benefit any foreign government, foreign instrumentality or foreign agent.” 18 U.S.C. § 1831(a). This prohibition targets foreign business espionage. *See* 142 Cong. Rec. S12208 (daily ed. Oct. 2, 1996). To establish a violation of § 1831, the government must prove that: (1) the defendant stole or without authorization of the owner, obtained, possessed destroyed, or conveyed information; (2) the defendant knew this information was proprietary; (3) the information was in fact a trade secret; and (4) the defendant intended or knew that the offense would “benefit” a “foreign government, foreign instrumentality or foreign agent.” 18 U.S.C. § 1831(a).

In contrast, § 1832 is a general criminal trade secrets provision and applies to anyone who knowingly engages in any misappropriation of a trade secret. To establish a violation of § 1832, the government must prove:

- (1) that the defendant intended to convert proprietary information to the economic benefit of anyone other than the owner; (2) that the proprietary information was a trade secret; (3) that the defendant knowingly stole, copied, possessed or received trade secret information; (4) that the defendant intended or knew the offense would injure the owner of the trade secret; and (5) that the trade secret was included in a product that is placed in interstate commerce.

*U.S. v. Wen Chyu Liu*, 716 F.3d 159, 169 (5<sup>th</sup> Cir. 2013).

In turn the term “owner,” with respect to a trade secret, means the person or entity in whom or in which rightful legal or equitable title to, or license in the trade secret is reposed. 18 U.S.C. § 1839(4).

The Defend Trade Secrets Act (DTSA) of 2016, among other things, added § 1831 and § 1832 as predicate offenses under the Racketeer Influenced Corrupt Organization (“RICO”) Act, 18 U.S.C. 1961, *et seq.* In general, it provides for both civil and criminal penalties, civil forfeiture, injunctive relief, treble damages, and attorney’s fees upon proof of a “pattern” of multiple prohibited offenses in interstate commerce by a “continuing enterprise.” *See* § 3.4.1.4.

## 11.2 Elements Common to §§ 1831 and 1832

While the two sections clearly are directed at different actors, there are a number of common elements that the government must prove beyond a reasonable doubt: (1) the defendant stole or without authorization of the owner, obtained, destroyed, or conveyed information; (2) the defendant knew this information was proprietary; and (3) the information was in fact a trade secret. *See e.g., United States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1012 (N.D. Ill. 2012), *aff’d* 733 F.3d 718 (7<sup>th</sup> Cir. 2013).

### 11.2.1 Definition of a Trade Secret

The *sine qua non* of an action under either § 1831 or § 1832 is the existence of a “trade secret.” Whether information qualifies as a trade secret under the Economic Espionage Act (EEA) is a fact-specific inquiry that requires evaluation of the surrounding circumstances. The EEA defines that term as follows:

(3) the term ‘trade secret’ means all forms and types of financial, business, scientific, technical, economic or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

18 U.S.C. § 1839(3). The EEA previously required “not being readily ascertainable through proper means by, the public.”

Thus, the government must establish the following three elements to establish a violation of either § 1831 or § 1832: (1) that the information is actually secret because it is neither known to, nor readily ascertainable by, a competitor; (2) that the owner took reasonable measures to maintain that secrecy; and (3) that independent economic value may be derived from that secrecy. *See e.g., United States v. Chung*, 659 F.3d 815, 824-25 (9th Cir. 2011).

This definition generally tracks the definition of trade secret in the UTSA. *See* UTSA, § 1(4); *see generally* § 2.2.1. While there are some minor differences, UTSA cases addressing the meaning of a trade secret are generally relevant to EEA prosecutions. *See e.g., United States v. Chung*, 659 F.3d 815 (9th Cir. 2012) (explaining that because the EEA trade secret definition “is derived from the definition that appears in the Uniform Trade Secrets Act . . . we consider instructive definitions of state laws that adopted the UTSA definition without substantial modification” (footnote omitted)).

In short, every type of information can qualify as a trade secret under the EEA so long as the other conditions are met. Indeed, the statute’s legislative history suggests giving a broad interpretation to the definition of a trade secret. *See* H.R. Rep. No. 788, 104th Cong., 2d Sess. 12 (Sept. 16, 1996), *reprinted* in 1996 U.S.C.C.A.N. 4021, 4031. Moreover, the Ninth Circuit explained that while “the notion of a trade secret often conjures up magic formulas, like Coca Cola’s proprietary formula, technical drawings or scientific data” and “it is no surprise that . . . technically complex cases have been brought under the EEA, . . . [however], the scope of the EEA is not limited to these categories and the EEA, by its terms, includes financial and business information.” *United States v. Nosal*, 844 F.3d 1024, 1041-42 (9th Cir. 2016); *see, e.g., United States v. Smith*, 469 F.Supp.3d 1249, 1258 (N.D. Fla. 2020) (relating to fishing coordinates), *aff’d in pertinent part*, 22 F.4th 1236, 1245 (11<sup>th</sup> Cir. 2022), *cert. granted*, 143 S.Ct. 541 (2022). It also includes test results, test data, and testing procedures. *See e.g., United States v. Yu Xue*, No. 16-22, 2020 WL 5645765, at \*n.6 (E.D. Penn. Sept. 22, 2020).

The definition of trade secret information under the EEA includes “tangible or intangible” information regardless of “whether or how” it is “stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.” 18 U.S.C. § 1839(3). The references to intangible information and the “whether or how” language implies that information “stored” only in an individual’s memory can be the subject of prosecution for trade secrets theft.

Nonetheless, the government has not brought charges against an individual that did not involve the misappropriation of a physical manifestation of a trade secret. This may reflect comments in the EEA legislative history noting that former employees should not be punished merely for taking with them the general skill, knowledge, and industry experience they have acquired on the job. *See* 142 Cong. Rec. S12212 (daily ed. Oct. 2, 1996) (statement of Sen. Kohl) (“Trade secrets are carefully defined so that the general knowledge and experience that a person gains from working a job is not covered.”); H.R. Rep. No. 104-788, 104th Cong., 2d Sess. (Sept. 16, 1996). This parallels civil trade secret jurisprudence. *See* § 2.2.1.2 (noting that general skills and knowledge acquired in the court of employment is part of the “employee’s tool kit” is not protectable as a trade secret). It also may reflect the difficulty for the government to establish beyond a reasonable doubt that an individual misappropriated the trade secret through memorization without any tangible evidence that he or she did so.

#### **11.2.1.1 Proving the Existence of a Trade Secret**

Whether information qualifies as a trade secret is a “fact-specific inquiry that ‘requires an ad hoc evaluation of all the surrounding circumstances.’” *United States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1007 (N.D. Ill. 2011) (quoting *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 725 (7th Cir.2003)), *aff’d* 733 F.3d 718 (7th Cir. 2013). Thus, in that case, the court permitted the government to establish the existence of a trade secret through expert witness testimony. The court also exercised its gatekeeper function under Federal Rule of Evidence 702 regarding admission of expert testimony and denied the government’s motion to exclude defendant’s expert from testifying about: (1) whether cellular phone technology was obsolete (which was relevant to any determination of the economic value of the trade secrets); (2) whether Chinese entities to which defendant sought to deal trade secrets regarding cellular phone technology had sufficient time to reverse engineer that technology; (3) whether stolen technology was compatible with technological needs of the Chinese military; and (4) the Chinese company’s interests or needs. *See also United States v. Shanshan Du*, 570 F.App’x 490 (6<sup>th</sup> Cir. 2014) (affirming conviction for multiple counts relating to theft of trade secrets because the conviction was supported, *inter alia* by testimony from multiple witnesses that the specific information in the documents was not in the public domain.); *United States v. Aleynikov*, 785 F.Supp.2d 46, 48 (S.D.N.Y. 2011), *rev’d on other grounds*, 676 F.3d 71 (2d Cir. 2012, (noting Government’s expert witness testified as to “the secretive nature of business” in a case involving the securities industry, which supported conviction under statutory theft of trade secrets.); *United States v. You*, No. 2:19-CR-14, 2021 WL 1539579, at \*2, (E.D. Tenn. Apr. 19, 2021) (excluding defendant’s expert witness testimony on various issues based on relevance grounds).

In *United States v. Xue*, 597 F.Supp.3d 759 (E.D.Pa. 2022), the court held that expert witnesses may not use the term “trade secret” when testifying at trial. *Id.* at 775. The court reasoned that while under F.R.E. 704(a) expert witnesses may provide testimony that embraces an ultimate issue, when providing such testimony, expert witnesses may not provide a legal opinion, and because the term “trade secrets” is statutorily defined under § 1839, and is element of the crime, expert witnesses may not testify using that term. *Id.* The court noted, however, that “[a]s an alternative to ‘trade secret’ or ‘secret,’ the [government’s] expert witnesses may testify that the information was ‘confidential’ or ‘proprietary’ about steps taken to protect the confidentiality of the information, and about industry customs and practices. The witnesses may also use synonyms for the words ‘trade’ and ‘secret.’” *Id.* at 776.

#### **11.2.1.2 Public Domain/Combination of Elements/Compilations**

Paralleling civil trade secret law, UTSA § 4, the EEA expressly includes “compilations” within the definition of trade secret information. 18 U.S.C. § 1839(3). In *United States v. Nosal*, 844 F.3d 1024, 1042 (9th Cir. 2016), the Ninth Circuit held that the scope of a trade secret under the EEA may also “consist of a compilation of data, public sources or a combination of proprietary and public sources.” The Ninth Circuit rejected the defendant’s argument that source lists of prospective candidates for high-level employment positions could not constitute a trade secret because the lists “are composed largely, if not entirely, of public information and therefore couldn’t possibly be trade secrets.” *Id.* The court noted that a trade secret can consist of a compilation of public source material that creates a secret combination. *See id.*; *see also United States v. O’Rourke*, 417 F.Supp.3d 996, 1006 (N.D. Ill. 2019) (agreeing with protectability of compilations of information, but noting that, the government must “describe how the unique combination of information was a trade secret and not publicly known”).

### **11.2.1.3 Novelty**

Unlike patents, which must be both novel and an inventive step beyond “prior art,” trade secrets may only be “minimally novel” to be protected. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476, (1974). In other words, a trade secret must contain some element that is not known and sets it apart from what is generally known. According to the legislative history of the EEA, “[w]hile [the EEA] does not strictly impose a novelty or inventiveness requirement in order for material to be considered a trade secret, looking at the novelty or uniqueness of a piece of information or knowledge should inform courts in determining whether something is a matter of general knowledge, skill or experience.” 142 CONG. REC. S12201, 12212 (daily ed. Oct. 2, 1996).

### **11.2.2 Trade Secret Elements**

As with civil trade secret protection, *see* § 2.2, the government must prove that the trade secret owner undertook reasonable measures under the circumstances to keep the information confidential, the information derives independent economic value from not being generally known, “by, another person who can obtain economic value from the disclosure or use of the information” and the defendant misappropriated the information.

#### **11.2.2.1 Reasonable Measures**

The EEA’s definition of reasonable precautions, 18 U.S.C. § 1839(3)(A), tracks the UTSA’s definition. According to the EEA legislative history,

the definition of a trade secret includes the provision that an owner has taken reasonable measures under the circumstances to keep the information confidential. We do not with this definition impose any requirements on companies or owners. Each owner must assess the value of the material it seeks to protect, the extent of a threat of theft, and the ease of theft in determining how extensive their protective measures should be. We anticipate that what constitutes reasonable measures in one particular field of knowledge or industry may vary significantly from what is reasonable in another field or industry. However, some common sense measures are likely to be common across the board. For example, it is only natural that an owner would restrict access to a trade secret to the people who actually need to use the information. It is only natural also that an owner clearly indicate in some form or another that the information is proprietary. However, owners need not take heroic or extreme measures in order for their efforts to be reasonable.

142 CONG. REC. S12201, 12213 (daily ed. Oct. 2, 1996). Conversely, the failure to take steps to protect a secret “is persuasive evidence that the secret has no real value” and is undeserving of the law’s protection. See *BondPro Corp. v. Siemens Power Generation Inc.*, 463 F.3d 702, 708 (7th Cir. 2006). Moreover, “[i]f the owner fails to attempt to safeguard his or her proprietary information, no one can be rightfully accused of misappropriating it.” H.R. Rep. No. 104-788, at 7 (1999).

Taking precautionary measures to protect secrets imposes both direct and indirect costs on the owner of the secret, and thus “perfect security is not optimum security.” *Rockwell Graphic Systems v. DEV Industries*, 925 F.2d 174, 180 (7th Cir. 1991); see § 2.2.1.3. Notwithstanding the contextual nature of reasonable precautions, courts have rejected the contention that the term “reasonable measures” in the EEA is unconstitutionally vague as applied. See *United States v. Krumrei*, 258 F.3d 535 (6th Cir. 2001); *United States v. Genovese*, 409 F.Supp.2d 253, 256-578 (S.D.N.Y. 2005).

In *United States v. Nosal*, 844 F.3d 1024 (9th Cir. 2016), the Ninth Circuit rejected defendant’s argument that sharing of information with clients constituted insufficient precautions. The court noted that the victim used reasonable procedures “to keep the data secret, both in terms of technology protections built into the computer system and limitations on distribution of the search results.” *Id.* at 1043. With regard to the alleged sharing of the information with clients, the court found that:

[a]s a matter of practice, Korn/Ferry did not show source lists to clients. In the occasional instance when a client was given a source list or shown one at a pitch, it was provided on an understanding of confidentiality, and disclosing the lists was contrary to company policy. It is also well established that ‘confidential disclosures to employees, licensees, or others will not destroy the information’s status as a trade secret.’

*Id.* at 1043-44 (quoting RESTAT. (THIRD) UNFAIR COMP. § 39 cmt.f (1995)).

In general, the more, and the greater extent of, the security measures taken by the trade secret owner, the greater the likelihood that such measures should be considered “reasonable.” For example, in *United States v. Chung*, 659 F.3d 815 (9th Cir. 2011), the court found that Boeing undertook reasonable efforts to protect its trade secrets where:

Boeing implemented general physical security measures for its entire plant. Security guards required employees to show identification before entering the building, and Boeing reserved the right to search all employees’ belongings and cars. Boeing also held training sessions instructing employees not to share documents with outside parties, and it required employees, including Defendant, to sign confidentiality agreements. Further [the documents at-issue] were marked as proprietary.

*Id.* at 827. Similarly, in *United States v. Shanshan Du*, 570 Fed. Appx. 490 (6th Cir. 2014), the Sixth Circuit concluded that the use of security guards, “who required employees to show a photo identification to enter,” and “who checked all bags and computer devices carried out of the building patrolled the facility after hours, and escorted visitors within the facility” constituted reasonable physical security measures. *Id.* at 500-01. The court further noted the victim’s use of a “password-protected firewall preventing access from unauthorized users outside the facility. See *id.*; see also *United States v. Zhang*, 590 F. Appx. 663, 665 (9th Cir. 2014) (“[S]ufficient evidence shows [the victim] took ‘reasonable measures’ to protect its trade secrets. [The victim] ‘advised users of the existence of a trade secret limited access to the trade secret on a need to know basis, and controlled

access to the extranet by requiring usernames and passwords, additional passwords and licenses for certain documents, and the user's agreements to a Terms of Use."); *United States v. Lange*, 312 F.3d 263, 266 (7th Cir. 2002) (finding that the distribution of schematics necessary to manufacture the products among a number of vendors with no single vendor receiving a full copy made it irrelevant that the victim did not require its vendors to sign confidentiality agreements: the victim "relies on *deeds* (splitting of tasks) rather than *promises* to maintain confidentiality" (emphasis in original)).

Reasonableness is assessed as of the time of the alleged theft occurred. The court in *United States v. Shiah*, 2008 WL 11230384, at \*17 (C.D. Cal. Feb. 19, 2008) observed that "[o]ver time, there will and have been improvements in technology, information, and knowledge pertaining to data secrecy, as well as more awareness of the EEA and its implications."

In general, courts consider the following factors in determining whether the plaintiff has instituted reasonable measures:

- limiting access to information and notice that information is confidential;
- signed confidentiality agreements with employees and purchasers;
- signed non-compete, non-disclosure, and non-solicitation agreement with former employees and access to information on a need-to-know basis;
- oral agreements to keep documents secret; restricted access to computers and information stored on computers through a segregated computer network, use of passwords and firewall protections;
- distribution of documents on a need-to-know basis; making information as "confidential" or as a "trade secret;"
- monitoring flow of information;
- restricting visitors' access;
- acknowledgement of organization's code of conduct including confidentiality policy;
- destruction of photocopies of confidential documents;
- issuing memorandum to employees reminding them of confidentiality and required employees to sign confidentiality agreements;
- giving reminders at meetings that information was confidential;
- requiring employees to certify in writing that they had surrendered all documents and to maintain confidentiality on termination of employment;
- posting warnings reminding employees of confidentiality.

That the victim could have taken other measures but it did not, does not necessarily mean that the measures that it did not institute were not reasonable. See e.g., *United States v. Jin*, 833 F.Supp. 2d 977, 1008-09 (N.D. Ill. 2012), *aff'd* 733 F.3d 718 (7th Cir. 2013).

#### **11.2.2.1.1 Disclosures to the Government**

Information disclosures to the government as part of criminal investigation or EEA prosecution do not waive trade secret protection. See *United States v. Pin Yen Yang*, 1999 U.S. Dist. LEXIS 7130 (N.D. Ohio, March 18, 1999) (victim's disclosure of trade secret to government for use in a sting operation under oral assurances that the information would not be used or disclosed for any purpose unrelated to the case did not vitiate trade secret status). The court in *United States v. Hsu*, 185 F.R.D. 192 (E.D. Pa. 1999) rejected defendant's argument that the disclosure of unredacted documents to defendants during an undercover meeting destroyed their trade secret status. It explained that



To hold that dangling such bait waives trade secret protection would effectively undermine the Economic Espionage Act at least to the extent that the Government tries . . . to prevent an irrevocable loss of American technology before it happens. We cannot believe Congress intended to put in such danger the very trade secrets it sought to protect under the new Act.”

*Id.* at 198.

This approach avoids discouraging victims from reporting trade secret violations. As an added precaution, victims can require the government to sign a non-disclosure agreement.

#### 11.2.2.2 Independent Economic Value

The DTSA amendment to the EEA requires that the government prove that “the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, ~~the public~~ *another person who can obtain economic value from the disclosure or use of the information.*” 18 U.S.C. § 1839(3)(B) (new language italicized, prior language stricken). Previously, the government was required to prove that the information was not generally known to “the public.” As the legislative history explains, the amendment “bring[s] the Federal definition of a trade secret in conformity with the definition used in the Uniform Trade Secrets Act” and resolves some uncertainty by the courts on whether any difference in the language was substantive or intended. H.R. Rep. 529, 114th Cong., 2d Sess., at 13-14 (April 26, 2016) (citing cases).

The analysis of independent economic value is “fact intensive,” and varies from case to case. In assessing independent economic value, courts most often consider “the degree to which the secret information confers a competitive advantage on its owner.” *United States v. Chung*, 659 F.3d 815, 826-827 (9th Cir. 2011) (explaining that the information at issue derived economic value from being kept a secret because “the information could assist a competitor in understanding how [the trade secret owner] approaches problem-solving and in figuring out how to best bid on the similar project in the future”)<sup>1</sup>; *United States v. Lange*, 312 F.3d 263, 269 (7th Cir. 2002) (noting that “[e]very firm other than the original equipment manufacturer and RAPCO had to pay dearly to devise, test and win approval of similar parts; details unknown to the rivals, and not discoverable with tape measures, had considerable “independent economic value . . . from not being generally known”). In *United States v. Sing*, 736 F. Appx. 184 (9th Cir. 2018), a non-precedential but illustrative decision, the court rejected the contention that the schematics at issue contained outdated, flawed, and incomplete information:

[T]he appropriate inquiry in assessing economic value is whether the schematics conferred a competitive advantage on their owner, *United States v. Chung*, 659 F.3d 815, 826 (9th Cir. 2011), a burden that can be satisfied through direct evidence of the contents of the information and its impact on business operations or through circumstantial evidence of the resources invested by the owner in the production of the information and the

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<sup>1</sup> In the civil context, courts have held that information that affords only a “slight” advantage to the holder may qualify as a trade secret. *See, e.g., Sheridan v. Mallinckrodt, Inc.*, 568 F.Supp. 1347 (N.D.N.Y. 1983) (“Although the advantages [of a trade secret] may be slight, they are responsible for helping to control production costs, and do, therefore provide [the owner] with a competitive advantage.”).

precautions taken to protect the secrecy of the information. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (Am. Law Inst. 1995). Here, the district court reasonably inferred from the evidence at trial that the information contained in the charged schematics allowed RK to maintain a competitive advantage in its industry that would have been lost if the information were disclosed to others.

*Id.* at 185.

“Courts also look to the cost and the effort to develop the secret information.” *United States v. Olgado*, 2022 WL 2356996, \*4 (N.D.Cal. June 30, 2022) (quoting *United States v. Chung*, 659 F.3d 815, 826 (9th Cir. 2011) (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 11, 521 (9th Cir. 1993)).

Independent economic value can be established through the testimony of an expert witness. *See e.g., United States v. Olgado*, 2022 WL 62538 \*11 (N.D. Cal. Jan. 6, 2022) (withdrawn in part on reconsideration by *United States v. Olgado*, 2022 WL 2356996, \*4 (N.D. Cal. June 30, 2022)). However, that is not required in all circumstances. *See id.*, at \*4 (holding that expert testimony might not be required to establish independent economic value in all cases; and that the evidence in this case was sufficient for a rational juror to conclude that certain of the trade secrets charged in certain counts derived independent economic value from their secrecy).

The trade secret element of independent economic value is different from the alleged loss suffered by the victim relevant for sentencing guideline purposes. *See* § 11.10.4.2 - 4. “The government does not have to prove that the owner of the alleged trade secret actually lost money as a result of the alleged theft or unauthorized possession. Instead, the government has to prove the alleged trade secrets have ‘independent economic value’ attributable to the information remaining secret. . . . Damages is not an element” to a violation of either § 1831 or § 1832. *United States v. You*, No. 2:19-CR-14, 2021 WL 1539579, at \*3, (E.D. Tenn. Apr. 19, 2021).

#### **11.2.2.3 Misappropriation – “Appropriated . . . Without Authorization”**

Congress defined “misappropriation” broadly so as “to ensure that the theft of intangible information is prohibited in the same way that the theft of physical items is punished.” H.R. Rep. No. 788, 104th Cong., 2d Sess. at 11, (Sept. 16, 1996), reprinted in 1996 U.S.C.C.A.N. 4021, 4030. Sections 1831(a) and 1832(a) contain almost identical language regarding acts of misappropriation. The only difference apart from the penalty range is the use of “trade secret” in § 1831(a)(1), (2), and (3) whereas § 1832(a)(1), (2), and (3) uses the term “such information.” We explore this difference in § 11.2.2.3.1.

The term “appropriate[]” that is found in §§ 1831(a)(1), 1831 (a)(3), 1832(a)(1) is not defined in the statute. In *United States v. Olgado*, 2022 WL 2356996 (N.D.Cal. June 30, 2022), the court found that the term “misappropriates,” which is defined in the statute, to be “instructive” in construing the term “appropriated.” *Id.* at \*8. The court observed that “‘misappropriation’ is defined to include actions falling under two umbrellas”: (1) the “‘acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means,’” *see id.* (citing 18 U.S.C. § 1839(5)(A)); and (2) “disclosure or use of a trade secret,” *see id.* at \*9.

The *Olgado* court found that there was ample evidence for the jury to find that the defendant “acquired the information by improper means because he evaded [his employer’s] internal restriction on downloading that information” and that he knew that he was doing so was in violation of his employer’s restriction for the benefit of a new company that he intended to found.

*Id.* at \*9. “Improper means” includes “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means” that does not include one of the listed affirmative defenses, *see id.* § 1839(6)(A). The court also carefully distinguished three civil cases cited by the defendant on the grounds that there was no evidence in those cases that the defendant-employees had bypassed their employers’ internal restrictions to access the secret information. The court stated that Olgado’s “additional actions, independent of an employee’s authorization to acquire information, amount to acquisition by ‘improper means.’” *Id.* at \*8.

The court did not apply the second umbrella of actions to Olgado because there was sufficient information to convict him under the first umbrella. The court noted, however, that “the existence of this separate umbrella of actions illustrates an important point: while this second type of ‘misappropriation’ uses the phrase disclosure or use of a trade secret,’ the first type does not. *Compare* § 1839(5)(A) with § 1839(5)(B). This reinforces the conclusion that the actions covered by § 1839(5)(A)—a distinct definition of misappropriation—do not require use or disclosure of a trade secret and instead merely involve the means of acquiring the trade secrets.” *Id.*

**Table 11.1 Comparison of §§ 1831(a) and 1832(a) (italics added)**

§ 1831(a)	§ 1832(a)
(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice or deception obtains a <i>trade secret</i> ;	(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice or deception obtains such <i>information</i> ;
(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a <i>trade secret</i> ;	(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such <i>information</i> ;
(3) receives, buys, or possesses a <i>trade secret</i> , knowing the same to have been stolen or appropriated, obtained, or converted without authorization;	(3) receives, buys, or possesses such <i>information</i> , knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
(4) attempts to commit any offense described in paragraphs (1) through (3); or	(4) attempts to commit any offense described in paragraphs (1) through (3); or
(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,	(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,
shall, except as provided in subsection (b), be fined not more than \$5,000,000 or imprisoned not more than 15 years, or both.	shall, except as provided in subsection (b), be fined under this title or imprisoned not more than 10 years, or both.

#### 11.2.2.3.1 Knowledge

The EEA contains a more heightened *mens rea* requirement than civil trade secret liability. Sections 1831(a) and 1832(a) require that the defendant *knowingly* misappropriate certain information. The texts of these provisions differ slightly as to what the defendant must know about the information misappropriated. Section 1831 requires that the defendant “knowingly” misappropriate a “trade secret,” whereas Section 1832 requires that defendant “knowingly” misappropriate “such information.” “[S]uch information” refers to “trade secret,” so it appears that this difference in wording does not result in any operative difference, i.e., under either provision, the government must prove the defendant knew that it was misappropriating information that constituted a trade secret. One court has called this textual attention to this textual issue, but it did not resolve the meaning of the distinction. *See United States v. O’Rourke*, 417 F.Supp.3d 996, 1005 (N.D. Ill. 2019).

As a guide for interpreting the EEA’s *mens rea* component, the legislative history notes that “[a] knowing state of mind with respect to an element of an offense is (1) an awareness of the nature of one’s conduct, and (2) an awareness of or a firm belief or knowledge to a substantial certainty of the existence of relevant circumstance, such as whether the information is proprietary economic information as defined by this statute.” S. Rep. No. 359, 104th Cong., 2d Sess. at 16 (Aug. 27, 1996); *see also* 142 Cong. Rec. S. 12210, 12213 (daily ed. Oct. 2, 1996) (stating “that the information [defendant] is taking is proprietary,” and explaining that “[t]his requirement should not prove to be a great barrier to legitimate and warranted prosecutions [because m]ost companies go to considerable pains to protect their trade secrets” and “[a] defendant charged with economic espionage will necessarily have some understanding of the measures that have been taken to protect the information he possesses”). The legislative history further notes that the knowledge “that the information . . . is proprietary” standard protects against the prosecution of an individual who took “a trade secret because of ignorance mistake, or accident,” or because “he actually believed that the information was not proprietary after [he took] reasonable steps to warrant such belief.” 142 Cong. Rec. S. 12210, 12213 (daily ed. Oct. 2, 1996) (Managers’ Statement on the Economic Espionage Bill).

The U.S. Department of Justice interprets the EEA as requiring proof of three *mens rea* components—that the defendant: (1) knowingly committed an act of misappropriation; (2) intentionally “convert[ed] a trade secret” to his own or another’s “economic benefit”; and (3) committed misappropriation with the intent or knowledge that it will “injure any owner of that trade secret.” U.S. DEP’T OF JUSTICE, PROSECUTING INTELLECTUAL PROPERTY CRIMES 177-82, 185-86 (4<sup>th</sup> ed. 2013) (hereinafter cited as DOJ IP CRIMES PROSECUTION MANUAL), *available at* <https://www.justice.gov/file/442151/download>.

Courts vary in their reading of the *mens rea* requirement. Some courts require that the defendant *knew* the information it its possession was a trade secret, but not that the defendant knew its behavior was illegal. *See Hanjuan Jin*, 833 F.Supp.2d 977 (N.D. Ill. 2012) (holding that “knowingly” in § 1831(a)(3) modifies “trade secret” and therefore that this subsection requires the government “prove that a defendant knew, as a factual matter, that the information she possessed had the general attributes of a trade secret”), *aff’d* 733 F.3d 718 (7th Cir. 2013); *United States v. Chung*, 633 F.Supp.2d 1134 1145-46 (C.D. Cal. 2009), *aff’d*, 659 F.3d 815, 828 (9th Cir. 2011). Other courts read the statute to require only that the defendant knew or should have known that its actions were not authorized and that the information in its possession was proprietary. *See United States v. Krumrei*, 258 F.3d 535, 539 (6th Cir. 2001) (holding that the “defendant need not have been aware of the particular security measures taken by [the owner of the trade secret owner]. Regardless of his knowledge of those specific measures, defendant knew the information was

proprietary.”); *United States v. Roberts*, 2009 WL 5449224, at \*5 (E.D. Tenn. Nov. 17, 2009) (holding that “a defendant must know that the information he or she seeks to steal is proprietary, meaning belonging to someone else who has an exclusive right to it, but does not have to know that it meets the statutory definition of a trade secret”), *report and recommendation adopted by* 2010 WL 56085 (E.D. Tenn. Jan. 5, 2010) (quoting H.R. Rep. No. 788, 104th Cong., 2d Sess. at 12), *aff’d in pertinent part*, *U.S. v. Howley*, 707 F.3d 575 (6th Cir. 2013); *United States v. Genovese*, 409 F.Supp.2d 253, 258 (S.D.N.Y. 2005) (concluding that “one can infer that Genovese knew not only that the source code was proprietary, but that any protective measures by Microsoft had been circumvented”).

In the Department of Justice’s view, the government is not required to prove that the defendant knew and understood the statutory definition of a trade secret, as set forth in 18 U.S.C. § 1839(3), before acting. *See* DOJ IP CRIMES PROSECUTION MANUAL, *supra*. Rather, the Department of Justice follows the legislative history’ reference to a “knew or should have known” *mens rea* requirement:

It is not necessary that the government prove that the defendant knew his or her actions were illegal, rather the government must prove that the defendant’s actions were not authorized by the nature of his or her relationship to the owner of the property and that the defendant *knew or should have known* that fact.

H.R. Rep. No. 104-788, at 12 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021,4030-31 (emphasis added); 142 Cong. Rec. 27,117 (1996) (government must show the defendant was “aware or substantially certain” he was misappropriating a trade secret).

#### **11.2.2.3.1.1 Subsection (a)(4)—Attempts**

Both § 1831(a)(4) and § 1832(a)(4) prohibit “attempts to commit any offense described in any of paragraphs (1) through (3).” This is a notable difference between civil and criminal trade secret misappropriation. Nearly all federal criminal statutes penalize “attempts.”

In adjudicating attempted trade secret misappropriation liability, the Third Circuit in *United States v. Hsu*, 155 F.3d 189 (3d Cir. 1998), adopted the MODEL PENAL CODE definition of “attempt” and held that “a defendant is guilty of attempting to misappropriate trade secrets if ‘acting with the kind of culpability otherwise required for commission of the crime he . . . purposely does or omits to do anything that, under the circumstances as he believes them to be, is an act or omission constituting a substantial step in a course of conduct planned to culminate in his commission of the crime.’” *Id.* at 202 (quoting MODEL PENAL CODE § 5.01(1)(c) (1985)). A key implication of this approach is that the government does not have to prove that the defendant attempted to misappropriate an actual trade secret. The government need only prove that the defendant *believed* that the information in question was a trade secret. *See id.* at 203. Other courts have followed this interpretation. *See United States v. Nosal*, 844 F.3d 1024, 1045 (9th Cir. 2016); *United States v. Pin Yen Yang*, 281 F.3d 534, 543-544 (6th Cir. 2002) (finding “the logic and reasoning of the Third Circuit [in *Hsu*]” persuasive); *United States v. Martin*, 228 F.3d 1, 13 (1st Cir. 2000) (holding the “key question is whether [the defendant] intended to steal secrets,” not whether he actually did).

#### **11.2.2.3.1.2 Subsection (a)(5)—Conspiracies**

Both § 1831(a)(5) and § 1832(a)(5) impose criminal liability on anyone who “conspires with one or more other persons to commit any offense described in any of paragraphs (1) through (3),

and one or more of such persons do any act to effect the object of the conspiracy.” As with attempt liability, the government need not prove the existence of a trade secret, only that the defendant(s) conspired to misappropriate what they believed to be a trade secret. *See United States v. Nosal*, 844 F.3d 1024, 1044-45 (9th Cir. 2016). In construing conspiracy liability, courts have carried over the more general criminal law principle that impossibility is not a defense to an inchoate crime. *See id.* at 1045 (citing and quoting *United States v. Rodriguez*, 360 F.3d 949, 957 (9th Cir. 2004) (upholding convictions for conspiracy to rob cocaine traffickers where “neither the narcotics nor the narcotics traffickers actually existed” since “[i]mpossibility is not a defense to [a] conspiracy charge”)); *see also United States v. Shi*, 991 F.3d 198, 209-10 (D.C. Cir. 2021) (leaving open the possibility that the government need establish only that the defendant conspired to obtain information defendant *believed* to contain trade secrets, rather than prove he conspired to obtain *actual* trade secrets, but declining to resolve the issue because the defendant did not raise it; noting that “[t]his understanding best comports with our precedent holding that impossibility is not a defense to an inchoate crime, as well as the intent behind 18 U.S.C. § 1832, the statute defining the crime of conspiracy to commit theft of trade secrets”).

Reflecting general conspiracy law principles, appellate courts have upheld convictions based on the defendants’ state of mind regardless of whether the underlying misappropriation occurred. Thus, in *United States v. Chung*, 659 F.3d 815 (9th Cir. 2011), the Ninth Circuit concluded that there was sufficient evidence to support defendant’s conviction for conspiring to violate the EEA even though there was no direct evidence that defendant specifically agreed to pass trade secrets to China and defendant and his “handler” retired outside of the statute of limitations period. *See id.* at 829; *see also, United States v. Du*, 570 Fed. Appx. 490, 503 (6th Cir. 2014) (concluding that “Du and Qin committed conspiracy to steal a trade secret if they intended to commit a violation of § 1832(a)(3) together and took a substantial step towards commission of the crime, regardless of whether the information obtained included trade secrets or they completed the crime.”).

#### **11.2.2.3.2 Without Authorization**

The term “without authorization” is used in the first three subsections of § 1831 and § 1832. This requirement distinguishes between criminal and innocent conduct. The legislative history makes clear that “authorization is the permission, approval, consent or sanction of the owner” to obtain, destroy or convey the trade secret. *See* 142 CONG. REC. S12202, 12212 (daily ed. Oct. 2, 1996). Nonetheless, this critical term, which used throughout the EEA, is not specifically defined. *United States v. Nosal*, 844 F.3d 1024, 1035 (9th Cir. 2016). Courts therefore look to its “ordinary contemporary, common meaning.” *See United States v. Olgado*, 2022 WL 62538 \*11 (N.D.Cal. Jan. 6, 2022) (withdrawn in part on reconsideration by *United States v. Olgado*, 2022 WL 2356996, \*4 (N.D.Cal. June 30, 2022); *see also United States v. Du*, 570 F. Appx. 490, 501-02 (6th Cir. 2014) (finding that the defendant “appropriated, obtained or converted [trade secrets] without authorization,” that “even if [defendant] had been authorized to review these documents, it is undisputed that she was not authorized to keep any GM information contained in the documents after her termination in 2005.

##### **11.2.2.3.2.1 Subsection (a)(1) – Obtains a Trade Secret or Information**

Section 1831(a)(1) prohibits anyone who “intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly” “steals, or *without authorization* appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret” (emphasis added). Section 1832(a)(1) contains a similar prohibition with

respect to conversion of a trade secret except that it substitutes “information” for “trade secret.” Thus, these subsections address the acquisition of a trade secret by “improper means.” However, unlike the UTSA, the EEA does not explicitly provide that the “disclosure” of a trade secret is a violation. This subsection targets appropriating, taking, or carrying away a trade secret without the trade secret owner’s authorization.

#### **11.2.2.3.2.2 Subsection(a)(2) – Conveys a Trade Secret or Information**

Section 1831(a)(2) prohibits anyone who “intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly” “*without authorization* copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret” (emphasis added). Section 1832(a)(2) contains a similar prohibition with respect to conversion of a trade secret except that it substitutes “information” for “trade secret.”

Unlike subsection (a)(1), subsection (a)(2) is not limited to secrets acquired by “improper means.” Thus, it is possible that even legally acquired secrets can be misappropriated under the EEA if they are analyzed or duplicated in one of the ways listed in subsection (a)(2). The UTSA prohibits some such uses of a lawfully acquired trade secret, but limits its reach to the disclosure or use of a secret in violation of a confidential relationship. Furthermore, some of the specific provisions in subsection (a)(2), such as the prohibition against “altering” or “destroying” a trade secret, are outside the normal reach of trade secret law.

While these prohibitions might seem to apply to physical vandals and computer hackers, as well as more traditional types of trade secret defendants, the government has not charged a defendant for such conduct under the EEA, probably, in part because Section 1832 requires that the defendant act “with intent to convert a trade secret” which arguably incorporates the criminal law relating to conversion. This precludes prosecution of those who act based on non-economic motives. *See, e.g., United States v. LaMacchia*, 871 F.Supp. 535, 541-542 (D. Mass. 1994) (criminal copyright statute did not apply to an electronic bulletin board owner who posted infringing computer software without receiving any financial benefit).

The Ninth Circuit found that sufficient evidence supported defendant’s conviction under Section 1832(2) for illegally downloading trade secrets belonging to his employer. *See United States v. Zhang*, 590 Fed. Appx. 663, 666 (9th Cir. 2014). The court noted that the “volume and timing” of defendant’s downloads, his not having the need to know about the subject of information contained in the downloads, and the transfer of the information to his laptop at his new employer, coupled with evasive answers when questioned by the FBI, constituted sufficient evidence that defendant stole or misappropriated information. *See id.*

In *United States v. Qin*, 688 F.3d 257, 260 (6th Cir. 2012), the Sixth Circuit cabined the scope of admissible evidence relating to conversion acts. The government sought to introduce evidence that defendants, charged under § 1832(a)(2), (3), (5), had previously appropriated resources from their former employer under FED. R. EVID. 404(b) to show their specific intent to commit the offense, their participation in a common scheme or plan, and the absence of mistake. The appellate court upheld the district court’s ruling that such evidence was inadmissible, finding that “[p]ilfering office supplies . . . and conducting personal business on company time may well constitute theft, but they are of a fundamentally different character than stealing trade secrets, which involves gaining unauthorized access to highly confidential and valuable intellectual property and converting that information for one’s own economic benefit.” *Id.* at 263. Thus, the

government failed to prove the first prong for admissibility under Rule 404(b), that defendants committed a similar act. *See id.*

Although trade secret law prohibits conveying or using intangible information that has been memorized, *see* § 2.2.2.1, the government has yet to bring an EEA prosecution alleging that the defendant misappropriated the trade secret through memorization. The lack of tangible evidence of theft would make such a case difficult to prove. Furthermore, the government does not consider “mere risk of misappropriation” to be prosecutable.” *See* DOJ IP CRIMES PROSECUTION MANUAL, at 177 (explaining that “[a] former employee cannot be prosecuted because she was exposed to a trade secret at her former job and has now moved to a competitor. The government must establish that she knowingly stole or misappropriated a particular trade secret and did so with the [requisite intent]” (citing 18 U.S.C. § 1832(a)).

#### **11.2.2.3.2.3 Subsection (a)(3) – Possesses a Trade Secret or Information**

Section 1831(a)(3) prohibits anyone who “intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly” “receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted *without authorization*” (emphasis added). Section 1832(a)(3) contains a similar prohibition with respect to conversion of a trade secret except that it substitutes “information” for “trade secret.”

The crux of this subsection is establishing that the defendant “knew” that the information that he or she possessed was stolen. As reflected in the NINTH CIRCUIT MODEL CRIMINAL JURY INSTRUCTIONS, “[a] person has possession of something if the person knows of its presence and has physical control of it, or knows of its presence and has the power and intention to control it.” NINTH CIRCUIT MODEL CRIMINAL JURY INSTRUCTIONS, 3:15.

In the context of digital resources, possession of information implicates “access.” In *United States v. Olgado*, 2022 WL 2356996 (N.D. Cal. June 30, 2022) (withdrawn in part on reconsideration by *United States v. Olgado*, 2022 WL 2356996, \*4 (N.D. Cal. June 30, 2022)), the defendant asserted in post-trial briefing after being convicted of *possessing* stolen trade secrets that he could not have possessed them because he did not have the software necessary “to access, read, or do anything with” the trade secrets. The court found, however, that Olgado retained possession of the trade secrets after he departed his employer, and therefore any authorization that he had to the trade secrets during this employment had terminated. The court interpreted § 1832(a)(3)’s prohibition on possession of trade secrets *without authorization* as evoking the common law of conversion. Because the EEA does not define “conversion,” the court looked to the plain and ordinary meaning of the term. *See* 2022 WL 62538 at \*12 (quoting BLACK’S LAW DICTIONARY (11th ed. 2019) (“willful interference . . . with an item of property in a manner inconsistent with another’s right, whereby the other person is deprived of the use and possession of the property”)). Based on that definition, the court concluded that there was “sufficient evidence for a rational juror to conclude that Olgado ‘converted’ the trade secrets without authorization within the common law meaning of that term.” *See id.* at \*13.

#### **11.3 Additional § 1831 Element—Knowingly Benefit a Foreign Entity**

In addition to proving the three elements discussed above (reasonable measures, independent economic value, and misappropriation), the government must also prove a second *mens rea* element under § 1831: that the defendant *intended or knew* that the offense would “benefit” a “foreign government, foreign instrumentality, or foreign agent.” 18 U.S.C. § 1831(a); *United*



*States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1019 (N.D. Ill. 2012), *aff'd* 733 F.3d 718 (7th Cir. 2013).

### **11.3.1 Foreign Government, Foreign Instrumentality or Foreign Agent**

One of the key issues under § 1831 is the extent to which foreign corporations fall within its scope. EEA defines “foreign instrumentality” as any entity that is “substantially owned, controlled, sponsored, commanded, managed or dominated by a foreign government” and “foreign agent” as “any officer, employee, proxy, servant, delegate, or representative of a foreign government.” 18 U.S.C. § 1839(1). The EEA legislative history indicates that § 1831 targets foreign government action, not any act of espionage undertaken by a foreign corporation. *See* 142 Cong. Rec. H12137-01 (daily ed. Sept. 28, 1996) (statement of Rep. McCollum) (“The term ‘foreign instrumentality’ is defined in the legislation to mean a foreign corporation or company only when a foreign government substantially owns, controls, sponsors, commands, manages, or dominates that corporation or company. Thus, when this not the case, a foreign corporation or company should not be prosecuted under the section dealing with economic espionage.”); 142 Cong. Rec. S. 12210, 12212 (daily ed. Oct. 2, 1996) (manager’s statement) (“Enforcement agencies . . . should not apply § 1831 to foreign corporations where there is no evidence of foreign government sponsored or coordinated intelligence activity. . . . Although the term ‘substantially,’ is not defined, it is a relative term that connotes less than total or complete ownership, control, sponsorship, command, management domination. . . . [T]he pertinent inquiry is whether the activities of the company are, from a practical and substantive standpoint, foreign government directed.”).

Thus, the government cannot prosecute a foreign business under § 1831 unless there is “evidence of foreign government sponsorship” or “coordinated intelligence activity.” 142 Cong. Rec. S. 12210, 12212 (daily ed. Oct. 2, 1996). This may include a business, a research institute, or a non-governmental organization so long as they are “substantially owned, controlled, sponsored, commanded, managed or dominated by a foreign government.” This does not mean that the foreign government must exert complete control, but rather it is enough for the foreign government to exert “material or significant control.” *See id.* As the Department of Justice explains:

The purpose behind the expansion of the intended beneficiaries beyond foreign governments and foreign agents is to preclude evasion of the statute by foreign governments hiding behind corporate or other shell entities. An analysis of proof regarding a foreign instrumentality requires a lot of investigation into the structure, function, operation, personnel, and conduct of the instrumentality and its business and relationship with the foreign government. Proving that the benefit was intended for a foreign instrumentality is more complicated than proving that the benefit was intended for a foreign government. Generally, the same facts and inferences will support a theory of the case that the theft was conducted with the intent to benefit a foreign government as well as the foreign entity. This evidence comes in many forms, primarily from a defendant’s own statements and documents, a money trail, public records, a mutual legal assistance treaty, letters rogatory, evidentiary requests, and expert witnesses who can explain the relationship among foreign entities and how the foreign government can benefit from the offense.

Thomas Reilly, *Economic Espionage Charges Under Title 18 U.S.C. § 1831: Getting Charges Approved and the ‘Foreign Instrumentality’ Element*, 57 UNITED STATES ATTORNEYS’ BULLETIN, No. 5, 24, 25-26 (Nov. 2009).

The “pertinent inquiry is whether the activities of the company are, from a practical and substantive standpoint, foreign government directed.” *Id.* This analysis turns not on ownership, but control. Not every foreign entity is an “instrumentality” of its government, even if that government owns a portion of the entity. On the other hand, an entity that is not owned in any part by a foreign government may nevertheless be an “instrumentality” if the government directs or controls its activities. *See* DOJ IP CRIMES PROSECUTION MANUAL, *supra*, at 183 (noting that this requirement “should be analyzed very carefully”).

The scope of “foreign instrumentality” and “foreign agent” arose in *United States v. Liew*, 856 F.3d 585 (9th Cir. 2017), where the Department of Justice charged Walter Liew, a U.S. citizen and his company (USA Performance Technology, Inc.), with violating § 1831 and § 1832 based on their alleged conspiracy and attempt to convey DuPont industrial process trade secrets to Pangang Group, a Chinese company. According to the superseding indictment, Pangang Group was “controlled” by the PRC’s State-Owned Assets Supervision and Administration Commission (“SASAC”). *See* Superseding Indictment, *United States v. Liew*, No. 4:11-cr-00573 (N.D. Cal. Feb. 7, 2012) ¶ 1. The indictment alleged that SASAC was an arm of the PRC’s highest authority, the State Council, and SASAC supervised and managed government owned enterprises. *See id.*, at ¶ 8. The indictment also noted that SASAC managed the appointment of senior officers and directors of state-owned entities, and that the chairman and other senior managers of Pangang Group were officials of the Chinese Communist Party. The district court denied defendants’ motion for judgment of acquittal claiming that the evidence of state control was insufficient as a matter of law to support a jury verdict that the Pangang Group was an “instrumentality” of the PRC government. The court found contacts between Pangang Group and the defendants involving senior government ministers and the Chinese Premier’s office was sufficient to raise a jury question. *See* Order Denying Motion for Judgments of Acquittal, Renewed Motion for Judgments of Acquittal and Motion for New Trials, *United States v. Liew*, No. 4:11-cr-00573 (N.D.Cal. June 9, 2014), at 7-8.

In a subsequent decision involving the Pangang Group, *United States v. Pangang Group Co. LTD*, 6 F.4th 946 (9th Cir. 2021), the Ninth Circuit found that because the EEA’s definition of “foreign instrumentality” is so much broader than the Foreign Sovereign Immunities Act’s definition of “agency or instrumentality of a foreign state,” “the indictment’s allegation that the Pangang Companies satisfy the former is insufficient to establish a prima facie case that they meet the latter.” *Id.* at 960.

### 11.3.2 Intent

The government must also prove that the defendant *intended* to “benefit” a “foreign government, foreign instrumentality or foreign agent.” 18 U.S.C. § 1831(a). There is no requirement of actual benefit, nor is there a requirement of proving that the foreign government was involved in or participated in the misappropriation of the trade secret. The focus is on the intent of the defendant. *See United States v. Chung*, 659 F.3d 815, 828 (9th Cir. 2011) (holding that “criminal liability under the EEA may be established on the basis of Defendant’s intent alone”); 142 CONG. REC. S. 10882, 10885 (Sept. 18, 1996) (remarks of Sen. Kohl) (explaining that “the prosecution must show in each instance that the perpetrator intended to, or had reason to believe that his or her actions would aid a foreign government, instrumentality, or agent”). The focus on the defendant’s intent relieves the government of adducing evidence of the foreign government’s participation, which can be especially difficult. That said, foreign government activities may be relevant to establishing defendant’s intent.

### 11.3.3 Benefit

The EEA does not specifically define “benefit” to a “foreign government, foreign instrumentality, or foreign agent.” The legislative history indicates that the term should be interpreted “broadly” and is not limited to a mere economic benefit, but can include a “reputational, strategic or tactical benefit.” H.R. Rep. No. 788, 104th Cong., 2d Sess. at 11 (Sept. 16, 1996), reprinted in 1996 U.S.C.C.A.N. 4021.

Several decisions have determined that the Department of Justice failed to prove sufficient benefit to a foreign government, instrumentality, or agent. In *United States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1016, 1020 (N.D. Ill. 2012), *aff’d*, 733 F.3d 718, 722 (7th Cir. 2013), the district court concluded that “[t]here is certainly plenty of speculative proof that the PRC [People’s Republic of China] may have benefitted from [defendant’s] conduct, but such speculation does not equate to proof beyond a reasonable doubt.” Nonetheless, the court found the defendant guilty of violating § 1832. In another case, the court ruled that the mere fact that “Defendants intended to apply for a grant from the PRC is insufficient to satisfy the statutory requirement that the government prove that the Defendants intended to provide a benefit to the PRC, or one of its instrumentalities or agents.” *United States v. Lee*, No. 06-CR-00424 (N.D. Cal. Sept. 26, 2007), Order Granting In Part Defendants’ Motion for Judgment of Acquittal, 13 (May 21, 2010) (Doc. No. 327). The court concluded that the government had presented “no evidence that Defendants intended to or were required as a condition of the grant to transfer any technology to the PRC or to any instrumentality or agent or to operate on behalf of a foreign government.” *Id.*

### 11.4 Additional § 1832 Elements

In addition to proving that the defendant “knowingly” committed one of the listed acts of misappropriation, § 1832(a) requires that the government prove three additional elements: (1) the defendant acted “with intent to convert a trade secret . . . to the economic benefit of anyone other than the owner thereof”; (2) the defendant acted “intending or knowing that the offense will injure any owner of that secret”; and (3) the trade secret is “related to a product or service used in or intended for use in interstate or foreign commerce.”

#### 11.4.1 Economic Benefit of a Third Party

In contrast to § 1831, § 1832 requires an *economic* benefit to the defendant or anyone other than the trade secret owner. It precludes prosecution for non-economic benefits, such as spite or some other noncommercial purpose, such as the belief that “information should be free.” See *United States v. Hsu*, 155 F.3d 189, 196 (3d Cir. 1998). The key inquiry is “the defendant’s intent at the time of the offense, not whether there was an actual benefit to a party other than the owner of the trade secret.”

In practice, this element has been relatively easy to establish. See, e.g., *United States v. Zhang*, 90 F.Appx. 663, 666 (9th Cir. 2014) (finding sufficient evidence that the defendant intended to use downloaded information to reap an economic reward based on volume and timing of downloads, transfer of the information to a computer owned by his employer, and his knowledge that his activities would injure the trade secret owner); *United States v. Olgado*, 2022 WL 62538 \*5 (N.D. Cal. Jan. 6, 2022) (holding that a rational juror could have concluded that defendant intended to convert trade secrets based on the evidence that defendant “skirted” victim’s internal security measures “and then covered his tracks”).

#### 11.4.2 Intent to Injure the Trade Secret Owner

Section 1832 also requires that the defendant act “intending or knowing that the offense will injure any owner of that secret.” 18 U.S.C. § 1832(a). The legislative history explains that this provision “does not require the government to prove malice or evil intent, but merely that the actor know or was aware to a practical certainty that his conduct would cause some disadvantage to the rightful owner.” H.R. Rep. No. 788, 104th Cong., 2d Sess. (1996).

In practice, this element has been relatively easy to establish. In order for information to qualify as a trade secret, information must have independent economic value which would be lost or diminished if that information is disclosed or used by a third party. As the Supreme Court has recognized,

[o]nce the data that constitutes a trade secret are disclosed to others, or others are allowed to use those data, the holder of the trade secret has lost his property interest in the data. . . . The economic value of that property right lies in the competitive advantage over others that [the trade secret owner] enjoys by virtue of its exclusive access to the data, and disclosure or use by others of the data would destroy that competitive edge.”

*Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011-1012 (1984). Accordingly, injury to the trade secret owner can typically be established by showing that the defendant acted for the economic benefit of someone other than the owner. *See, e.g., United States v. Du*, 570 F. Appx. 490, 502 (6th Cir. 2014) (finding that defendants’ intent to convert owner’s trade secrets and injure owner was supported by sufficient evidence, including that defendants “downloaded thousands of GM documents—including more than a dozen identified at trial as containing trade secrets—onto personal devices,” testimony that defendants’ side business had already used owner’s trade secret information for their hybrid motor technology project, and emails, documents, and testimony indicating that defendants were setting up joint venture to develop and manufacture hybrid motor control systems for which they did not have expertise or resources without owner’s technology). Moreover, the government does not have to prove that the owner of the trade secret actually lost money as a result of the theft. *See United States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1017 (N.D. Ill. 2012) (noting that the ‘independent economic value’ attributable to the information’s remaining secret need only be ‘potential’ as distinct from ‘actual’”), *aff’d* 733 F.3d 718 (7th Cir. 2013).

Absent direct evidence of an individual’s intent or knowledge that the trade secret’s owner would be injured by the theft, such as an admission, intent to injure can be shown through the circumstances surrounding the individual’s conduct. Such circumstantial evidence of intent to injure could include lying to supervisors about post-employment plans, taking steps to cover one’s tracks, disclosing the victim’s trade secret information to a competitor, using the victim’s trade secret information while working for a competitor, and directing business to a new employer while still employed by the victim. If, however, the defendant did not intend to use the information to compete with the trade secret owner, the government might not be able to prove that the defendant intended to injure the trade secret owner.

### 11.4.3 Interstate or Foreign Commerce

The final § 1832 element addresses an interstate or foreign commerce requirement, which is necessary to satisfy the Commerce Clause of the U.S. Constitution. Prior to December 28, 2012, § 1832(a) required that the trade secret be “related to or included in a product that is produced for or placed in interstate or foreign commerce.” Based on this language, the Second Circuit in *United States v. Aleynikov*, 676 F.3d 71 (2d Cir. 2012), reversed an EEA conviction on the ground that the trade secret software program was used internally and therefore was not sufficiently related to

a product produced for or placed in interstate or foreign commerce. In response to this decision, Congress expanded § 1832(a) to encompass trade secrets “related to a product or service used in or intended for use in interstate or foreign commerce.” 18 U.S.C. § 1832(a); see Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627 (Dec. 28, 2012); 158 Cong. Rec. H6849 (daily ed. Dec. 18, 2012) (statement of Rep. Smith) (noting the “dangerous loophole” created by the *Aleynikov* decision and calling on Congress “to ensure we have appropriately adapted the scope of the EEA in the digital age.”). Thus, § 1832(a) now broadly covers trade secrets that are used internally or those that are related to products or services that are in the development stage so long as the trade secret is related to a product that is intended for use in interstate commerce.

### 11.5 Identifying the Trade Secrets (Specificity)/Bill of Particulars

One of the most important issues in a criminal trade secret matter is the degree of specificity with which the government must identify the trade secret(s). The EEA does not specifically address this issue. There exists inherent tension between the legitimate concern of not providing details of the trade secret to the defendant and informing the defendant of the nature of the charge against him with sufficient precision to enable him to prepare for trial. The EEA legislative history indicates that Congress intended the government to describe the trade secrets with particularity. See 142 Cong. Rec. S 12213 (daily ed. Oct 2, 1996) (statement of Peter Schweizer) (noting that “a prosecution under [the EEA] *must* establish a particular piece of information that a person has stolen or misappropriated” (emphasis added)). Recognizing the sensitivity of trade secrets, courts routinely require defendants to enter into a protective order before the government provides discovery relating to the alleged trade secret(s).

Courts have varied in requiring specificity regarding trade secrets in the bill of particulars. In *United States v. Case*, No. 3:06 Cr. 210TSL-LRA 2007 WL 1746399 (S.D. Miss. June 15, 2007), the court dismissed a § 1832 indictment broadly alleging theft of “entire working product” and an “entire universe” of information, some which were trade secrets, to be “so broad as to be meaningless.” *Id.* at \*4. By contrast, the court in *United States v. Latimore*, No. 08-CR-20633 2009 WL 3876171 (E.D. Mich. Nov. 17, 2009), denied the defendant’s motion for a bill of particulars under arguably similar circumstances:

The Indictment in the instant case does not list specific documents containing the trade secrets which Defendant Latimore allegedly misappropriated. It does however state that trade secrets are found in documents containing costs and supplier strategies belonging to Visteon, Incorporated. The Indictment also identifies the two-month time period during the crimes were allegedly committed. In addition, the Indictment notifies Defendant Latimore of the actions he is accused of taking in violation of the statute. For example, the Indictment charges Defendant in part with the specific acts of stealing, or misappropriating, taking, and carrying away information without authorization in violation of 18 U.S.C. §1832(a)(1). The Court finds that the Indictment tracks the language of the relevant portions of the statute the Defendant is accused of violating. It also clearly sets forth the elements of the offense charged.

*Id.* at \*3. Cf. *United States v. Liang Chen*, No. 17-cr-00603-BLF-1, 2020 WL 6342931, at \*4-\*5 (N.D. Cal. Oct. 29, 2020) (finding that although the indictment is constitutionally sufficient, ordering the Government submit a bill of particulars identifying the alleged trade secrets

notwithstanding that the Government “sufficiently clarified that its case is proceeding on the theory that the CAD drawings, and not the physical parts, are the alleged trade secrets”)

The government does not have to identify the trade secret(s) with specificity where the defendant is charged with attempt or conspiracy to steal trade secrets. *See* §§ 11.2.2.3.1.1, 11.2.2.3.1.2.

## 11.6 Venue

FED. R. CRIM. P. 18 governs venue in EEA prosecutions: “the government must prosecute an offense in a district where the offense was committed.” It is well-established that this means that “the *locus delicti* must be determined from the nature of the crime alleged and the location of the act or acts constituting it.” *United States v. Cabrales*, 524 U.S. 1, 6–7 (1998); *see also* BLACK’S LAW DICTIONARY (11th ed. 2019) (defining “*locus delicti*” as “[t]he place where an offense is committed; the place where the last event necessary to make the actor liable occurred”). To determine the *locus delicti* of a crime, the “court must initially identify the conduct constituting the offense (the nature of the crime) and then discern the location of the commission of the criminal acts.” *United States v. Rodriguez-Moreno*, 526 U.S. 275, 279 (1999). This requires the court to determine the “essential conduct elements” of the crime from the language of the statute. *See id.* at 281.

In criminal trade secret prosecutions, venue can lie where the defendant received custody of the trade secret or where the misappropriation occurred. This determination can be difficult in the Internet Age, where individuals can access data from distant locales without traveling to where the data is found. In *United States v. Smith*, 22 F.4th 1236 (11<sup>th</sup> Cir. 2022), the defendant software engineer (Smith) hacked into a website controlled by a company based in the Northern District of Florida. The government prosecuted Smith for trade secret theft in the Northern District of Florida. While acknowledging that the government could have prosecuted him in the Southern District of Alabama—where he committed the acts—or likely the Middle District of Florida—where the hacked servers were located—Smith contended that the Northern District of Florida was not a proper venue. On appeal of Smith’s conviction, the Eleventh Circuit reversed on venue grounds, finding that none of the essential conduct elements of the crime occurred in the Northern District of Florida. *See id.* at 1243-45.<sup>2</sup>

## 11.7 Defenses

Apart from the statute of limitations, the EEA does not expressly provide for defenses to criminal trade secret liability. Nonetheless, several defenses are implicit in the inherent contours of trade secret protection. Hence, many of the defenses to civil trade secret liability will come into play. *See* § 2.4. Furthermore, the EEA legislative history makes clear that parallel development or reverse engineering of a trade secret under certain circumstances could be a defense. *See* 142 Cong. Rec. S12212 (Oct. 2, 1996). The legislative history also indicates that an employee should be permitted to take his or her general skill and knowledge from one job to the next. *See id.* Following is a list of potential defenses to violations of the EEA that have been or could potentially be asserted.

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<sup>2</sup> The Supreme Court has granted certiorari to address a circuit split over whether reversal for improper venue merely vacates the conviction and allows the government to re-try the defendant in a proper district or requires acquittal based on Double Jeopardy Clause considerations. *See Smith v. United States*, 143 S.Ct. 541 (2022).

### **11.7.1 Statute of Limitations**

The EEA's statute of limitations for violations is five years and begins to run on the last day of defendant's continuing offense. *See* 18 U.S.C. § 3282(a). The misappropriation of trade secrets before the statute of limitations period alongside possession of the trade secret during the statute of limitations period has been found to be within the statute of limitations since the possession constitutes a "continuing offense." *See United States v. Chung*, 633 F.Supp.2d 1134, 1146 n.12 (C.D. Cal. 2009), *aff'd* 659 F.3d 815 (9th Cir. 2011); *see also United States v. Case*, 309 Fed. Appx. 883, 886 (11th Cir. 2009) (statute of limitations begins to run on the last day of defendants' continuing offense, even though the offense began in one venue and was completed in another). In contrast, the statute of limitations for civil violations of the DTSA is three years. *See* § 3.4.1.3.6. This means that the government can potentially prosecute a criminal case for the theft of trade secrets whereas the parallel civil case is barred by the civil three-year statute of limitations.

### **11.7.2 Parallel Development/Independent Discovery**

The legislative history of the EEA recognizes that unlike the holder of a patent, the owner of a trade secret does not have an absolute monopoly on the information or data that comprises the trade secret. 142 Cong. Rec. S12212 (Oct. 2, 1996) (*citing Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 490-491 (1974)); § 2.4.1. Thus, the EEA does not prohibit companies, manufacturers, or inventors from using their skills, knowledge, and experience to solve a problem or invent a product that they know someone else is also working on. The essence of this defense is that the defendant, independently through its own efforts, developed the same information as the putative victim, without access to the victim's trade secrets. This does not mean, however, that the theoretical ability of others to ascertain the invention through proper means is a defense where the defendant has acquired the trade secret through improper means. *See United States v. Wen Chyu Liu*, 716 F.3d 159, 170, n.28 (5th Cir. 2013).

### **11.7.3 Reverse Engineering**

Reverse engineering refers to the practice of taking something apart to determine how it was made or manufactured. *See* § 2.4.2. The legislative history of the EEA suggests that the focus of whether a trade secret was lawfully reverse engineered should be on "whether the accused has committed one of the prohibited acts of this statute rather than whether he or she has 'reverse engineered.' If someone has lawfully gained access to a trade secret and can replicate it without violating copyright, patent, or this law, then that form of 'reverse engineering' should be fine." 142 CONG. REC. S12212 (daily ed. Oct 2, 1996). It should be emphasized that the fact that a particular trade secret might have been reverse engineered after a time consuming and expensive laboratory process does not provide a defense to a criminal charge for someone who avoided the time and effort by stealing the secret unless the information was so apparent to be deemed "readily ascertainable" and thus not a trade secret at all. *See* § 2.4.3.

### **11.7.4 General Knowledge, Readily Ascertainable Information, and the Employee's Tool Kit**

Trade secret protection does not extend to information that is generally known, readily ascertainable, or part of the "employee's tool kit." *See* § 2.4.1. Consequently, the EEA does not impose liability on individuals who seek to capitalize on their lawfully developed knowledge, skill, or abilities.

The EEA legislative history makes clear that “[t]he government cannot prosecute an individual for taking advantage of the general knowledge and skills or experience that he or she obtains by or during his tenure with a company. Allowing such prosecutions to go forward and allowing the risk of such charges to be brought would unduly endanger legitimate and desirable economic behavior.” 142 CONG. REC. S12213 (daily ed. Oct 2, 1996). “It is not enough to say that a person has accumulated experience and knowledge during the course of his or her employ. Nor can a person be prosecuted on the basis of an assertion that he or she was merely exposed to a trade secret while employed. A prosecution that attempts to tie skill and experience to a particular trade secret should not succeed unless it can show that the particular material was stolen or misappropriated.” *Id.*; see *United States v. Martin*, 228 F.3d 1, 11 (1st Cir. 2000) (observing that the EEA “was not designed to punish competition, even when such competition relies on the know-how of former employees of a direct competitor. It was, however, designed to prevent those employees (and their future employers) from taking advantage of confidential information gained, discovered, copied or taken while employed elsewhere.” (emphasis in original)); *United States v. Hanjuan Jin*, 833 F.Supp.2d 977, 1011 (N.D. Ill. 2012) (“The technical data in the charged documents cannot be classified as personal or generic knowledge; it is clearly the type of “confidential information” the EEA prohibits employees from taking from their former employers.”), *aff’d* 733 F.3d 718 (7th Cir. 2013).

Thus, employees who change jobs cannot be prosecuted under the EEA merely on the ground that they were exposed to a trade secret while employed. There must be evidence that they misappropriated an actual trade secret or attempted or conspired to misappropriate what they thought to be a trade secret. It is often difficult to distinguish between what is a protectable trade secret and what should be characterized as general knowledge that an employee is free to take and use to their advantage. Whether information constitutes a trade secret or general knowledge is context-dependent based on the technology, industry, and businesses involved. See § 2.4.1.

The applicability of this defense is often triggered where an employee downloads a number of files before departing for a new employer. The government must establish that the downloaded information contained trade secrets and was misappropriated to benefit the new employer and was not simply non-confidential information that was part of the employee’s general knowledge. In this scenario, prosecutors focus on whether there is evidence that: (1) defendant took information that she did not work on at her former employer; (2) defendant accessed information that she did not have authority to obtain while working at her former company; and (3) the materials were actually provided to another person at the new company. See Thomas Dougherty, *Common Defenses in Theft of Trade Secret Case*, 57 UNITED STATES ATTORNEYS’ BULLETIN, No. 5, 27, 28 (Nov. 2009); cf. *United States v. Shiah*, 2008 WL 11230384 \*14, (C.D. Cal. 2008) (concluding that although defendant wrongfully downloaded 4,700 files as he was departing trade secret owner to pursue similar responsibilities at a competitor and would likely subject him to civil liability, these files were part of his “tool kit” or “reference library” and were not taken with the *intent* to economically benefit someone other than the owner of the trade secret beyond a reasonable doubt).

### **11.7.5 Constitutional Challenges**

Courts have considered and rejected First Amendment, vagueness, and Double Jeopardy challenges to EEA prosecutions.

#### **11.7.5.1 First Amendment**



The First Amendment is not in general a defense to EEA liability where the defendant's speech is the very vehicle of the crime. *See United States v. Rowlee*, 899 F.2d 1275 (2d Cir. 1990); *see also United States v. Morrison*, 844 F.2d 1057, 1068 (4th Cir. 1988) (rejecting defendant's First Amendment defense and upholding conviction for a violation of 18 U.S.C. § 641 for stealing secret government documents noting "[w]e do not think that the First Amendment offers asylum . . . just because the transmittal was to a representative of the press"). Further, § 1832 expressly requires a showing that the defendant acted "with intent to convert a trade secret . . . to the economic benefit of anyone other than the owner thereof" which if proven should negate a defendant's assertion that the disclosure of the trade secret is protected by the First Amendment. *See United States v. Genovese*, 409 F.Supp.2d 253, 256 (S.D.N.Y. 2005). In other words, if the defendant was motivated by financial gain, the defendant cannot argue that she disclosed the trade secret as a public service or to educate the public. *See United States v. Riggs*, 743 F.Supp. 556, 560-561 (N.D. Ill. 1990) (rejecting defendant's assertion that the First Amendment provides a defense to a charge under 18 U.S.C. § 2314 of the United States Code for the interstate transportation of stolen computer files: "Interpreting the First Amendment as shielding [defendant] from criminal liability would open a gaping hole in criminal law; individuals could violate criminal laws with impunity simply by engaging in criminal activities which involve speech-related activity. The First Amendment does not countenance that kind of end run around criminal law.").

#### **11.7.5.2 Vagueness Challenges**

Courts have turned away challenges that the EEA is unconstitutionally vague. *See United States v. Hsu*, 40 F.Supp.2d 623, 625, 627 (E.D. Pa. 1999) (holding that neither the definition of "trade secret" nor the term "related to or included in" a product that is produced for or placed in interstate or foreign commerce are unconstitutionally vague), *aff'd United States v. Hsu*, 155 F.3d 189 (3d Cir. 1998); *United States v. Chung*, 622 F.Supp.2d 971, 974 (C.D. Cal. 2009), *aff'd* 659 F.3d 815 (9th Cir. 2011); *see also United States v. Genovese*, 409 F.Supp.2d 253, 257 (S.D.N.Y. 2005) (denying motion to dismiss indictment as vague by defendant who argued that having found confidential source code on the Internet, he could not know whether the code was generally known to the public or whether the code's owners took reasonable measures to keep it secret); *United States v. Yang*, 281 F.3d 534, 544 n.2 (6th Cir. 2002) (rejecting defendants' argument that the EEA would be unconstitutionally vague if attempt and conspiracy charges need not be based on actual trade secrets because "[w]e have every confidence that ordinary people seeking to steal information that they believe is a trade secret would understand that their conduct is proscribed by the statute"); *United States v. Krumrei*, 258 F.3d 535, 539 (6th Cir. 2001) (holding that the term "reasonable measures" as used in EEA's definition of trade secret is not unconstitutionally vague as applied against former contractor of trade secret owner who was caught in a sting operation).

#### **11.7.5.3 Multiplicitous Charges by the Government**

The government may not charge a single offense in several counts without running afoul of the U.S. Constitution's Double Jeopardy Clause prohibiting anyone from being prosecuted twice for the same crime. *See U.S. CONSTITUTION, AMEND. V.* The test for determining whether the same act or transaction constitutes two offenses or only one is whether conviction under each statutory provision requires proof of an additional fact which the other does not. *See United States v. Free*, 574 F.2d 1221, 1224 (5th Cir. 1978).

Courts have rejected the assertion that charging a defendant under multiple § 1832(a) subsections violates the Double Jeopardy Clause. *See United States v. Case*, 656 F.Supp.2d 603 (S.D. Miss. 2009) (holding that charges against the defendants for stealing trade secrets, copying

trade secrets, and possessing trade secrets each required proof of an element that the others did not and hence were not multiplicitous); see also *United States v. Latimore*, No. 08-20633, 2010 WL 431739, at \*6 (E.D. Mich. Feb. 2, 2010); *United States v. Summit Refrigeration Group, Inc.*, 2006 WL 3091115 at \*7 (E.D. Wis. Oct. 26, 2006) (noting that “the plain language of 18 U.S.C. § 1832 does not . . . suggest that Congress intended that there be just one penalty for violating any one or more of the subsections contained therein”).

### **11.8 Confidentiality**

In enacting the EEA, Congress recognized that victims of trade secret thefts could face a dilemma between reporting the matter to law enforcement and concerns that the trade secret will be disclosed during discovery or during a criminal trial. To alleviate this concern, the EEA provides that

[i]n any prosecution or other proceeding under this chapter, the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence and all other applicable laws. An interlocutory appeal by the United States shall lie from a decision or order of a district court authorizing or directing the disclosure of any trade secret.

18 U.S.C. § 1835(a). The legislative history explains that “[t]he intent of this [provision] is to preserve the confidential nature of the information and hence, its value. Without such a provision, owners may be reluctant to cooperate in prosecutions for fear of further exposing their trade secrets to public view, thus further devaluing or even destroying their worth.” H.R. Rep. No. 104-788, at 13 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021, 4032.

#### **11.8.1 Crafting Protective Orders**

Courts have a variety of tools for protecting trade secrets during criminal investigations and prosecutions. The type and scope of measures depend on the stage of the case: (1) before charges are filed in order to explore a possible pre-indictment resolution of the case; (2) after charges are filed but before trial to restrict access to the trade secret solely to the attorneys defending against the charges; and (3) during trial to govern the use of the trade secret during the presentation of the case in a public forum.

The protective order sought and approved in *United States v. Liew* nicely illustrates the tailoring of trade secret protection during the pretrial stages of an EEA prosecution. After being charged with stealing DuPont trade secrets, the defendants subpoenaed documents that might contain trade secrets. The parties agreed on a stipulated protective order requiring an initial *in camera* review of documents produced by DuPont, which “[i]n the event the Court determine[d] to allow the defense to review the Confidential Materials produced by DuPont,” such materials would be disclosed only to defendants and their counsel, and only as reasonably necessary to prepare the defense. Stipulation and Order Re Production of Material Produced by E.I. DuPont de Nemours & Co. Pursuant to Rule 17(c) Subpoena, *United States v. Liew*, No. 4:11-cr-00573 (N.D. Cal. Sept. 17, 2013). The order permitted defendants to review the materials only in the presence of defense counsel, and forbade them to retain any such materials. See *id.*, at 3-4. It permitted disclosure of confidential materials to expert witnesses, but only to the extent such witnesses agreed to be bound by the order. See *id.*, at 5. Finally, the order required the defendants, counsel, and expert witnesses to return all confidential documents to DuPont at the conclusion of the case,

and to take “adequate steps” to ensure that any electronic copies of such material were “deleted and permanently erased from any computer or computer system” on which they were stored. *See id.*, at 6.

Among the tools to protect trade secrets during trial are the use of redacted documents, sealed exhibits, the use of courtroom video monitors to display documents to the court and jury but not to the public, and the sealing of the courtroom during the sentencing phase of the proceeding to avoid disclosure of proprietary business information relating to the damages caused by the theft of trade secrets. Federal regulations require a prosecutor to obtain the approval of the Deputy Attorney General before seeking an order to seal a courtroom. *See* 28 C.F.R. § 50.9.

In dealing with how to protect the secrecy of the information during trial, courts must balance this interest with the defendant’s right to a public trial under the First Amendment. However, the right to a public criminal trial is not absolute and may be limited in certain circumstances. For example, in *United States v. Aleynikov*, 2010 WL 5158125 (S.D.N.Y. Dec. 14, 2010), the district court permitted the courtroom to be closed to the public on multiple occasions for relatively short intervals (most less than 20 minutes) to prevent disclosure of trade secrets. The court instituted a procedure by which “the jury was asked to retire to the jury room before an application for sealing was made and at the conclusion of a witnesses’ [witness’s] cross-examination in an effort to create a seamless transition between the public and non-public portions of the trial testimony.” *Id.* at \*1. In *United States v. Roberts*, 2010 WL 1010000 (E.D. Tenn. March 17, 2010), the court rejected defendants’ argument that limiting the public’s access to the photographs would infringe defendants’ Sixth Amendment right to a public trial and that precluding the display of the photographs to the public and placing the photographs under seal would unfairly suggest to the jury that the photographs had been determined to be trade secrets. In *United States v. Zhang*, 590 Fed. Appx. 663 (9th Cir. 2014), the Ninth Circuit rejected defendant’s argument that closing the courtroom for limited periods of time and taking other steps such as “turning the courtroom televisions away from the courtroom” to protect victim’s trade secrets violated defendant’s Sixth Amendment right to a public trial. *See id.* at 667.

### 11.8.2 Interlocutory Review

As an additional safeguard, § 1835(a) provides for interlocutory appeal by the United States “from a decision or order of a district court authorizing or directing the disclosure of any trade secret.” The government invoked this provision (in conjunction with Federal Rule of Criminal Procedure 16(d)(1)) in *United States v. Hsu*, 155 F.3d 189 (3d Cir. 1998), to obtain interlocutory review of a district court discovery order authorizing disclosure of sensitive alleged trade secrets to select members of the defense team. The government had proposed that the district court enter an order under which the trial judge would review the documents and the proposed redactions by the trade secret owner *in camera*, and would then permit redactions of proprietary secret information. Upon review, the Third Circuit credited the government’s contention that the defendants had no need for the actual trade secrets because proof of the existence of trade secrets is not an element of the alleged attempt and conspiracy offenses. *See* §§ 11.2.2.3.1.1, 11.2.2.3.1.2. The appellate court also directed the district court to conduct an *in camera* review to determine to whether the documents had been properly redacted to exclude only confidential information and to assess whether the redacted portions were “material” to the defense.

The scope of the government’s interlocutory authority under § 1835(a) is limited. In *United States v. Fei Ye*, 436 F.3d 1117 (9th Cir. 2006), the Ninth Circuit held that that the plain language of the provision indicates that the government can file an interlocutory appeal only where a district

court's order directs or authorizes the disclosure of a trade secret. In that case, the appellate court lacked jurisdiction to hear the government's interlocutory appeal from an order of the district court granting defendant's motion to depose the government's expert witnesses prior to trial for the purpose of clarifying which of the materials that government had previously disclosed were alleged to be trade secrets. "Because the purpose of the district court's order was only to clarify exactly which materials the government contends constitute the protected trade secrets, and all relevant materials have already been turned over, the district court's order does not direct or authorize the 'disclosure' of trade secrets as required by the plain language of § 1835." *Id.* at 1121. Nonetheless, the court granted a *writ of mandamus* pursuant to the All Writs Act 28, U.S.C. § 1651, directing the district court to rescind the order stating that "[t]he district court's order was 'wholly unauthorized' and 'constitutes a clear and very substantial departure from the fundamental principles governing criminal pretrial and trial procedures in federal court.'" *Id.* at 1124.

### 11.8.3 Trade Secret Owner Participation

Congress amended Section 1835 to include a provision designed to better ensure that district courts treat trade secrets disclosures in confidence. Section 1835(b), added by the DTSA, Pub. L. 114–153, § 3(a)(2), May 11, 2016, 130 Stat. 382, provides that

[t]he court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential. No submission under seal made under this subsection may be used in a prosecution under this chapter for any purpose other than those set forth in this section, or otherwise required by law. The provision of information relating to a trade secret to the United States or the court in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection, and the disclosure of information relating to a trade secret in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection unless the trade secret owner expressly consents to such waiver.

18 U.S.C. § 1835(b). The legislative history states that § 1835(b) "is also intended to ensure that in a prosecution for conspiracy related to the alleged theft of a trade secret, the actual trade secret itself is not subject to disclosure to the defense, because the actual secrecy of the information that is the object of the conspiracy is not relevant to the prosecution of a conspiracy charge." H.R. Rep. No. 529, 114th Cong., 2d Sess. at 15 (April 26, 2016). While this provision has not been challenged on constitutional grounds, it may be open to question on the ground that § 1835 would violate the 6<sup>th</sup> Amendment by denying access of information that is material to the defendant.

It is not clear what remedies a victim may have if a court fails to adequately consider the interests of the trade secret owner. The use of the term "opportunity to file a submission" suggests that a victim may be without redress if a court does not take into account the victim's interests in fashioning a plan to protect the trade secrets at issue. In *United States v. Fei Ye*, 436 F.3d 1117 (9th Cir. 2006), however, the Ninth Circuit granted a *writ of mandamus* rescinding the district court's order granting the defendant's motion seeking to depose the government's expert witnesses prior to trial. The court determined that "[t]he district court's order was 'wholly unauthorized' and 'constitutes a clear and very substantial departure from the fundamental principles governing criminal pretrial and trial procedures in federal court.'" *Id.* at 1124.

### 11.8.4 Cooperation Between the Government and the Victim

Although the victim's participation in the prosecution is not necessary to a trade secret theft prosecution, the government commonly relies upon close cooperation with the victim of the alleged trade secrets misappropriation in investigating and prosecuting criminal trade secret cases. Courts have rejected defendants' argument that the government was acting in the interests of the victim and not in the interests of the United States. Thus, courts do not consider close cooperation between the victim and the government to taint the prosecution. The Sixth Circuit noted that "victim's participation in the prosecution under the EEA is wholly irrelevant to either the defendant's guilt or the nature of his sentence." *United States v. P.Y. Yang*, 281 F.3d 534 (6th Cir) (2003).

In addition, the government may use materials it acquired pursuant to a grand jury subpoena served on the victim where the victim obtained the information from the same or related defendants in a civil case. *In re Grand Jury Subpoenas*, 646 F.3d 159, 163 (4th Cir. 2011). In that case, the government issued a grand jury subpoena seeking information from the victim, Dupont, that Dupont had obtained from a South Korean company, Kolon, Inc., which had been a defendant in a civil case involving the same general fact pattern. As a foreign corporation not having an office in the United States, Kolon was immune to a grand jury subpoena. Kolon moved to quash the subpoena, claiming, in part, that DuPont and the United States had coordinated to use the civil lawsuit to obtain information for use by the government against Kolon to revive a "dead" investigation. The district court denied Kolon's motion. *See id.*, at 164

On appeal, while the Court agreed with Kolon that DuPont's interests and those of the United States were "generally aligned," and that they had "cooperated with each other in a number of ways over the course of their respective proceedings." *Id.*, at 161, the Fourth Circuit nonetheless found no error in the trial court's refusal to quash the subpoena. In particular, the court first rejected Kolon's argument that the subpoena undermined the Mutual Legal Assistance Treaty (MLAT) between the United States and South Korea, which Kolon argued provided "the exclusive means for the government to obtain criminal discovery from a party located in [South Korea]." The court found the MLAT inapplicable because the government obtained the discovery directly from DuPont, a U.S.-based company. *See id.*, at 165. The court also rejected Kolon's assertion that the subpoenas violated FED. R. CRIM. P. § 17(e)(2) which prohibits service of a grand jury subpoena on a foreign company. Kolon argued that it was "unreasonable" under this rule for the government "to convert civil discovery mechanisms into a means to circumvent the restrictions on grand jury subpoena powers." *Id.*, at 166. The court agreed with the general proposition that "civil discovery may not be used to subvert limitations on discovery in criminal cases," but found no violation of that principle because the United States had not brought a parallel civil action against Kolon. Rather, the "subpoenaed documents were already located in the United States pursuant to discovery initiated by [DuPont]." *Id.* The court next rejected Kolon's contention that collusion between the government and DuPont invalidated the subpoenas because the government did not ask DuPont to request the documents from Kolon, which the government could then obtain through a grand jury subpoena from DuPont. "[T]he district court had expressly found that was no evidence that [DuPont] engaged in discovery in the Civil Litigation at the behest of the government." *Id.*, at 166-167.

The court also agreed with Kolon that DuPont had "substantial interaction" with the government but determined that this did not establish that the government was "directing" DuPont's discovery efforts. The court instead held the cooperation between them reflected the fact that they were "assisting one another in advancing their independent but shared interests." *Id.*, at 167. Kolon argued that the question of "specific direction" by the United States was a "red

herring,” because the government *knew* that DuPont’s discovery would reach documents the government wanted but could not otherwise obtain. But, quoting the District Court, the Fourth Circuit found that “[s]o long as the government did not improperly collude” with DuPont, its knowledge on this issue was “irrelevant.”

Finally, the court rejected Kolon’s arguments that the subpoenas were unreasonable because allowing the government to obtain criminal discovery in this fashion would “damage the rights of foreign sovereigns and foreign parties,” and that the protective order entered in the civil case “trump[ed]” the subpoenas. The court found that the risk of civil discovery providing grist for the criminal mill is not unique to foreign parties because civil discovery is “generally available” for use in criminal prosecutions. And the court found that even if the protective order entered in the civil litigation could override the subpoenas, there was no evidence that DuPont violated the protective order, which specifically contemplated the parties’ obligation to respond to the subpoenas. *Id.*, at 168.

### 11.9 Extraterritorial Application

The EEA applies to conduct that occurs, in whole or in part, outside the United States if:

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or

(2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837. The scope of this provision is broad and consistent with the goal of reaching foreign espionage, much of which occurs outside of the United States. See *Motorola Solutions, Inc., et al. v. Hytera Communications Corp. Ltd.*, 436 F.Supp.3d 1150, 1157-66 (N.D. Ill. 2020) (holding that the DTSA overcomes the presumption against extraterritoriality). The EEA legislative history explains that this provision was intended “[t]o rebut the general presumption against the extraterritoriality of U.S. criminal laws” and “makes it clear that the Act is meant to apply to the specified conduct beyond U.S. borders.” H.R. Rep. No. 788, 104th Cong., 2d Sess. at 14 (Sept. 16, 1996); S. Rep. No. 359, 104th Cong., 2d Sess. at 17 (Aug. 27, 1996).

The EEA does not define what constitutes “an act in furtherance of the offense.” Courts have, however, found a broad range of actions to constitute an “act in furtherance” sufficient to establish extraterritorial reach under the DTSA under § 1837(2). See § 3.4.1.3.5. For example, in construing the meaning of this term in a civil trade secret case, the Eastern District of Texas looked to federal conspiracy law for guidance:

‘It is not necessary that an overt act be the substantive crime charged in the indictment as the object of the conspiracy. Nor, indeed, need such an act, taken by itself, even be criminal in character. The function of the overt act in a conspiracy prosecution is simply to manifest that the conspiracy is at work, and is neither a project still resting solely in the minds of the conspirators nor a fully completed operation no longer in existence.’

*Luminati Networks Ltd., v. Bioscience Inc.*, No. 2:18-cv-00483-JRG, 2019 WL 2084426, at \* 10 (E.D. Tex. May 13, 2019) (quoting *Yates v United States*, 354 U.S. 298, 334 (1957)). Applying this principle to the DTSA, the reasoned

that the act in furtherance of the offense of trade secret misappropriation need not be the offense itself or any element of the offense, but it must ‘manifest that the [offense] is at work’ and is not simply ‘a project in the minds of the’ offenders or a “fully completed operation.”” [citing *Yates*, 354 U.S. at 334.] Put another way, an act that occurs before the operation is underway or after it is fully completed is not an act ‘in furtherance of’ the offense.

*Id.* at \*10. The court further distinguished between damages occurring in the United States—which—although relevant to the plaintiff’s remedy do not constitute part of the offense and standing alone would not be “in furtherance of” misappropriation—and use of the plaintiff’s trade secrets in the United States,” which is sufficient under the DTSA for jurisdiction. *See id.* at \*11; *but cf. ProV Int’l Inc. v. Lucca*, 2019 WL 5578880, at \*3 (M.D.Fla. Oct. 29, 2019) (finding that plaintiff had not alleged that an act in furtherance of the offense was committed in the United States where the amended complaint alleged no facts connecting defendant’s attendance at an U.S. trade show with the alleged misappropriation or alleged damages resulting from the misappropriation; concluding that the alleged acts “do not constitute part of the offense itself” but rather constitutes the effects of a “‘fully completed operation,’” and therefore does not support “an act in furtherance of the offense was committed in the United States (citing *Luminati Networks*, 2019 WL 2084426, at \*11 (quoting *Yates v. United States*, 354 U.S. 298, 334 (1957)))

#### **11.10 Whether to Stay a Parallel Civil Case**

The potential for parallel civil and criminal proceedings arises more frequently in trade secrets cases than in other types of cases because of the clear overlap of facts and law. Under these circumstances, the government will typically seek a stay of the civil litigation. Whether to stay a parallel civil proceeding is a two-step process: First, the government must seek the court’s authorization to intervene in the civil action as a third party for the limited purpose of moving for a stay. Second, it must establish that the interests of justice of federal criminal laws require a stay of discovery in the civil action.

Courts have generally permitted the government to intervene under FED. R. CIV. P. 24(b) for the purpose of filing a motion to stay a parallel civil action. Rule 24(b) authorizes permissive intervention within the trial court’s discretion “when an applicant’s claim or defense and the main action have a question of law or fact in common. *See S.E.C. v. Chestman*, 861 F.2d 49, Fed. (2d Cir. 1988) (per curiam); *Bridgeport Harbour Place I, L.L.C. v. Ganim*, 269 F.Supp.2d 6, 8 (D.Conn. 2002); *Twenty First Century Corp. v. LaBianca*, 801 F.Supp. 1007, 1009 (S.D.N.Y. 1992). *Ashworth v. Albers Med. Inc.*, 229 F.R.D. 527, 529-30 (S.D.W.Va. 2005); *Bureerong v. Unawas*, 167 F.R.D. 83, 85-86 (C.D.Cal. 1996). The government must show that the motion was filed in a timely manner and that there is nexus between the factual or legal issues in the civil trade secret action and the criminal action.

If the government is permitted to intervene, the court then has broad discretion to decide whether to stay the civil proceedings or otherwise limit the scope of the civil discovery. *See e.g., Landis v. North American Co.* 299 U.S. 248, 254 (1936) (“[T]he power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel and for litigants”).

In deciding whether to exercise its discretion to enter a stay of the civil action courts have applied the following five factor test:

(1) the interest of the plaintiffs in proceeding expeditiously with [the] litigation or any particular aspect of it, and the potential prejudice to plaintiffs of a delay; (2) the burden which any particular aspect of the proceeding may impose on defendants; (3) the convenience of the court in the management of its cases and the efficient use of judicial resources; (4) the interests of persons not parties to the civil litigation; and (5) the interest of the public in the pending civil and criminal litigation.

*Keating v. OTS*, 45 F.3d 322, 325 (9th Cir. 1995). In addition, courts occasionally consider other factors, including overlapping factual issues in the civil and parallel criminal proceeding and whether a target of the criminal investigation appears to be using the civil action as a means of obtaining discovery to which it would not be entitled in the criminal action. See *Chagolla v. City of Chicago*, 529 F.Supp.2d 941 (N.D. Ill. 2008); *Hicks v. City of New York*, 268 F.Supp.2d 238 (E.D. N.Y. 2003) (declining to stay civil proceeding).

In a situation analogous to an EEA prosecution involving distribution of counterfeit pharmaceuticals, the court granted a limited pre-indictment stay of two months noting that while the first factor will always favor the plaintiff, this interest in proceeding expeditiously may be overcome by a pending criminal investigation. See *Ashworth v. Albers Medical Inc.*, 229 F.R.D. 527, 531-32 (S.D.W. Va. 2005). In particular, the court found that the parallel criminal investigation was complex and had already resulted in guilty pleas, three active criminal cases, and two forthcoming indictments. Also, the interests of the defendants in the civil case favored a stay of discovery because a number of the defendants had received target letters in the criminal investigation and would potentially be forced into choosing between the adverse inference that may be drawn in a civil action from invoking the Fifth Amendment or the risks associated with waiving those rights. See *id.* The court found that while stays of civil litigation involving parallel criminal targets typically are not granted prior to an indictment, the fact that the government had represented that indictments were forthcoming mitigated that factor. See *id.* at 532 n.3 The court further found that judicial economy and that the United States had a significant interest in not allowing the subjects of its criminal investigation to use liberal civil discovery to circumvent the restrictions of criminal discovery weighed in favor of the stay. Finally, the court determined that the public's interest in the enforcement of criminal laws trumped the interests of private litigants. See *id.*, at 532. Weighing all of these factors, the court granted the government's motion for a stay of all civil discovery until the indictments were issued, at which point the court indicated that it would revisit the issue. *Id.*, at 532-33; see also *S.E.C. v. Chestman*, 861 F.2d 49 (2d Cir. 1988) (per curiam) (finding that district court had not abused its discretion in allowing the United States to intervene under Fed.R.Civ.P. 24(b) and in staying discovery, noting that since appropriate opportunities for discovery would be allowed when the stay was lifted, the defendant's defense of the civil case was not sufficiently prejudiced as to disfavor a stay, the defendant was not entitled to discovery in the criminal proceeding, and the government had a discernible interest in preventing discovery in the civil case from being used to circumvent the more limited scope of discovery in the criminal matter); *Securities & Exchange Commission v. Dresser Industries*, 628 F.2d 1368 (D.C. Cir. 1980) (*en banc*) (observing that the government may seek stay of civil proceeding "to prevent the criminal defendant from broadening his rights of criminal discovery against the government").

In assessing whether the "interests of justice" favor a stay, courts have generally been concerned about the extent to which continuing the civil proceeding would unduly burden a defendant's exercise of his rights under the Fifth Amendment, which provides that "[n]o person . .



. shall be compelled in any criminal case to be a witness against himself,’ U.S. Const. amend. V. *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83, 97 (2d Cir. 2012) (citations omitted). A defendant facing overlapping criminal and civil proceedings who invokes their right against self-incrimination risks an adverse inference in the civil proceeding. *See Baxter v. Palmigiano*, 425 U.S. 308, 318 (1976) (noting that the “the Fifth Amendment does not forbid adverse inferences against parties to civil actions when they refuse to testify in response to probative evidence against them”); *Keating v. Office of Thrift Supervision*, 45 F.3d 322, 326 (9th Cir. 1995) (observing that it is “permissible” for the trier of fact to draw such adverse inferences). On the other hand, if the defendant does not the Fifth Amendment right and fully cooperates with civil discovery, “testimony . . . in their defense in the civil action is likely to constitute admissions of criminal conduct in their criminal prosecution.” *Louis Vuitton Malletier S.A.*, 676 F.3d at 97. (quotation omitted). Thus, “[a] stay can protect a civil defendant from having the difficult choice between being prejudiced in the civil litigation, if the defendant asserts his or her Fifth Amendment privilege, or from being prejudiced in the criminal litigation if he or she waives that privilege in the civil litigation.” *Id.* Despite this, a stay of a civil case “to permit conclusion of a related criminal prosecution” is “an extraordinary remedy.” *Id.* at 98 (quotation omitted). And “[t]he person seeking a stay ‘bears the burden of establishing its need.’” *Id.* (quoting *Clinton v. Jones*, 520 U.S. 681, 706–08 (1997)).

Districts courts apply a multi-factor test in deciding stay motions. District courts in the Second Circuit examine the following six factors:

- 1) the extent to which the issues in the criminal case overlap with those presented in the civil case; 2) the status of the case, including whether the defendants have been indicted; 3) the private interests of the plaintiffs in proceeding expeditiously weighed against the prejudice to plaintiffs caused by the delay; 4) the private interests of and burden on the defendants; 5) the interests of the courts; and 6) the public interest.

*Trs. of Plumbers & Pipefitters Nat’l Pension Fund*, 886 F.Supp. at 1139 (footnotes omitted). Other circuits apply similar multi-factor tests. *See, e.g., Microfinancial, Inc. v. Premier Holidays Intern., Inc.*, 385 F.3d 72, 385 F.3d at 78 (1st Cir. 2004) (applying a five-factor test but also considering “the status of the cases” and “the good faith of the litigants (or the absence of it)”); *Keating v. Office of Thrift Supervision*, 45 F.3d 322, 324-25 (9th Cir. 1995) (applying a five-factor test).

## **11.11 Penalties**

The EEA provides for forfeiture, restitution, monetary penalties, and imprisonment.

### **11.11.1 Forfeiture**

The Prioritizing Resources and Organization for Intellectual Property Act of 2008 Pub. L. No. 110-402, § 202, 122 Stat. 3915 (Oct. 13, 2008), (“Pro-IP Act”), amended 18 U.S.C. § 1834 to provide that the forfeiture provisions of 18 U.S.C. § 2323 apply to violations of § 1831 and § 1832. Section 2323 provides that the “following property is subject to forfeiture to the United States Government:

- (A) Any article, the making or trafficking of which is prohibited under . . . Chapter 90, of this title [the EEA].
- (B) Any property used, intended to be used, in any manner or part to commit or facilitate the commission of an offense referred to in subparagraph (A).

(C) Any property constituting or derived from any proceeds obtained directly or indirectly as a result of the commission of an offense referred to in subparagraph (A).

18 U.S.C. § 2323. The PRO-IP Act also provides that the forfeiture, seizure and disposition of the property subject to forfeiture shall be governed under the laws relating to drug forfeitures. These laws vest title to the seized property in the United States and provide that the attorney general shall dispose of those assets “by sale or any other commercially feasible means.” 21 U.S.C. § 853(h).

### 11.11.2 Restitution

The Pro-IP Act also removed any doubt that intellectual property offenses require that a court provide the victim with restitution under the Mandatory Victims Restitution Act of 1996 (“MVRA”). *See* 18 U.S.C. § 1834. This statute provides for mandatory restitution following any “offense against property under [Title 18] . . . including any offense committed by fraud or deceit . . . in which an identifiable victim or victims suffered a pecuniary loss.” 18 U.S.C. § 3663A(c)(1)(A)(ii), (B); *see United States v. Nosal*, 844 F.3d 1024, 1045-48 (9th Cir. 2016). (It also may include internal investigation costs necessary to uncover the extent of the theft and for the value of the time that employees spent in the government’s investigation and prosecution. *Id.*

### 11.11.3 Statutory Criminal Penalties

Section 1831 authorizes courts to impose fines up to \$5,000,000 and imprisonment of not more than 15 years, or both. Section 1832 authorizes courts to impose unspecified fines on individuals and imprisonment of not more than 10 years, or both. Section 1832(b) authorizes fines “not more than the greater of \$5,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided.”

#### 11.11.3.1 Sentencing Guidelines

As the Supreme Court has declared, 18 U.S.C. § 3553(b) directs that a court “shall impose a sentence of the kind, and within the range” established by the Sentencing Guidelines, subject to departures in specific, limited cases. *See United States v. Booker*, 543 U.S. 220, 233-34 (2005). The district court must decide in each case “what constitutes a sentence that is ‘sufficient, but not greater than necessary,’ 18 U.S.C. § 3553(a), to achieve the overreaching sentencing purposes of retribution, deterrence, incapacitation, and rehabilitation.” *Rosales-Mireles v. United States*, 138 S.Ct. 1897, 1903 (2018) (*quoting Tapia v. United States*, 564 U.S. 319, 325; 18 U.S.C. §§ 3551(a), 3553(a)(2)). While a district court may exercise discretion in determining a sentence, it “must operate within the framework established by Congress.” *Id.* at 1903 (citing *United States v. Booker*, 543 U.S. at 264 (2005) (*quoting* 28 U.S.C. § 991(b)(1)(B))).

“[D]istrict courts *must* begin their analysis with the Guidelines and remain cognizant of them throughout the sentencing process.” *Id.* at 1904 (*quoting Peugh v. United States*, 569 U.S. 530, 541 (2013) (*quoting Gall v. United States* 552 U.S. 38, 50, n. 6 (2007)) (emphasis in original)). § 3553 provides:

(a) **Factors To Be Considered in Imposing a Sentence.**—The court shall impose a sentence sufficient, but not greater than necessary, to comply with the purposes set forth in paragraph (2) of this subsection. The court, in determining the particular sentence to be imposed, shall consider—

(1) the nature and circumstances of the offense and the history and characteristics of the defendant;

- (2) the need for the sentence imposed—
  - (A) to reflect the seriousness of the offense, to promote respect for the law, and to provide just punishment for the offense;
  - (B) to afford adequate deterrence to criminal conduct;
  - (C) to protect the public from further crimes of the defendant; and
  - (D) to provide the defendant with needed educational or vocational training, medical care, or other correctional treatment in the most effective manner;
- (3) the kinds of sentences available;
- (4) the kinds of sentence and the sentencing range established for—
  - (A) the applicable category of offense committed by the applicable category of defendant as set forth in the guidelines—
    - (i) issued by the Sentencing Commission pursuant to section 994(a)(1) of title 28, United States Code, subject to any amendments made to such guidelines by act of Congress (regardless of whether such amendments have yet to be incorporated by the Sentencing Commission into amendments issued under section 994(p) of title 28); and
    - (ii) that, except as provided in section 3742(g), are in effect on the date the defendant is sentenced; or
  - (B) in the case of a violation of probation or supervised release, the applicable guidelines or policy statements issued by the Sentencing Commission pursuant to section 994(a)(3) of title 28, United States Code, taking into account any amendments made to such guidelines or policy statements by act of Congress (regardless of whether such amendments have yet to be incorporated by the Sentencing Commission into amendments issued under section 994(p) of title 28);
- (5) any pertinent policy statement—
  - (A) issued by the Sentencing Commission pursuant to section 994(a)(2) of title 28, United States Code, subject to any amendments made to such policy statement by act of Congress (regardless of whether such amendments have yet to be incorporated by the Sentencing Commission into amendments issued under section 994(p) of title 28); and
  - (B) that, except as provided in section 3742(g), is in effect on the date the defendant is sentenced.
- (6) the need to avoid unwarranted sentence disparities among defendants with similar records who have been found guilty of similar conduct; and
- (7) the need to provide restitution to any victims of the offense.

18 U.S.C. § 3553(a).

Thus, determining a proper sentence begins with calculating the Sentencing Guideline range. To calculate the appropriate Guideline range, a court must determine a defendant's adjusted Offense Level and Criminal History Category. Calculating the correct guidelines range is often complex, especially for defendants convicted under the EEA because of the challenges of determining the loss to the victim. In addition, EEA sentencings involve the testimony of both fact and expert witnesses.

#### **11.11.3.1.1 Base Offense Level**

An offense level is calculated by identifying a base level for the offense of conviction and adjusting that level to account for circumstances specific to the defendant's case. Unlike other

intellectual property offenses (criminal copyright and trafficking in counterfeit goods), which are sentenced under United States Sentencing Guideline § 2B5.3 individuals convicted for violating either § 1831 or § 1832 are sentenced pursuant to § 2B1.1, which sets the base offense level at six for violations of § 1832. The base offense level for a violation of § 1831 is ten. *But cf. United States v. Hanjuan Jin*, 733 F.3d 718, 722 (7th Cir. 2013) (affirming the district court’s decision to increase the base offense level by two levels pursuant to § 2B1.1(b)(5) for a conviction under § 1832 even though the defendant was acquitted of charges under § 1831 based on the ground that “[a] judge need determine guilt of an offense only by a preponderance of the evidence in order to be allowed to factor that determination into his decision regarding the appropriate sentence for the offense of which the defendant has been convicted” (citing *United States v. O’Brien*, 560 U.S. 218 (2010); *United States v. Horne*, 474 F.3d 1004, 1006–07 (7th Cir. 2007)). The base offense level is increased by two levels if the trade secret was “transported or transmitted out of the United States” and four levels if “the offense would benefit a foreign government, foreign instrumentality, or foreign agent.” UNITED STATES SENTENCING GUIDELINES MANUAL, § 2B1.1(b)(14)(A) (2013).

Section 2B1.1 of the Guidelines does not require a loss calculation greater than zero. *See United States v. Free*, 839 F.3d 308, 323 (3d Cir. 2016). Instead, “[t]he loss determination is a special offense characteristic that increases the guidelines offense level’ through ‘bonus punishment points, which express a reasonable estimation of the victim’s financial loss.’” *Id.* (quoting *United States v. Pu*, 814 F.3d 818, 828–29 (7th Cir. 2016)). Thus, “the government is not entitled to a punitive loss calculation, even in cases involving fraud, absent evidence of actual or intended pecuniary loss.” *Free*, 839 F.3d at 323. The same reasoning applies to a case involving theft of trade secrets. The maximum increase is a 30-level enhancement for conduct resulting in a loss exceeding \$550 million.

#### 11.11.3.1.2 Loss Enhancement

Courts “employ a burden-shifting framework to establish that [a loss] enhancement applies.” *United States v. Diallo*, 710 F.3d 147, 151 (3d Cir. 2013). “[T]he government bears the burden of establishing the amount of loss for purposes of sentencing by a preponderance of the evidence.” *United States v. Free*, 714 F. App’x. 144, 146 (3d Cir. 2017) (quoting *Free*, 839 F.3d at 319). “[T]hough the government bears the burden of proof in guidelines cases, the burden of production may shift to the defendant once the government presents *prima facie* evidence of a given loss figure.” *Diallo*, 710 F.3d at 151 (quoting *United States v. Geevers*, 226 F.3d 186, 188 (3d Cir. 2000)). “However, the government always bears the burden of proving by a preponderance of the evidence that the facts support a sentencing enhancement, and ‘the defendant does not have to prove the negative to avoid the enhanced sentence.’” *Diallo*, 710 F.3d at 151 (quoting *United States v. Evans*, 155 F.3d 245, 253 (3d Cir. 1998)); *see United States v. Xue*, 42 F.4th 355 (3d Cir. 2022).

In determining whether the Government has presented *prima facie* evidence of the amount of loss (*i.e.*, the evidence sufficient to establish the amount of loss, if not rebutted), a district court should consult the Sentencing Guidelines’ commentary, which is binding. *See Geevers*, 226 F.3d at 190. Application Note 3 to Section 2B1.1 of the Guidelines “applies to the determination of loss under subsection (b)(1).” *See Xue*, 42 F.4th at 261.

The Sentencing Guidelines define “loss” as “the greater of actual loss or intended loss.” *See* U.S.S.G. § 2B1.1, app. n.3(A). The commentary makes clear that ‘pecuniary harm’ includes only ‘harm that is monetary or that otherwise is readily measurable in money,’ and not ‘non-economic harm.’” *United States v. Xue*, 42 F.4th 355, 362 (3d Cir. 2022) (citing *id.* at cmt. N.3(A)(iii).

“Actual loss” is defined as “the reasonably foreseeable pecuniary harm that resulted from the offense.” U.S.S.G. § 2B1.1, app. n.3(A).

In comparison, the Guideline definition of intended loss includes the *mens rea* requirement that the defendant “purposely sought to inflict” pecuniary harm on the victim even if that pecuniary harm “would have been impossible or unlikely to occur.” *Id* Therefore, to establish a *prima facie* case of intended loss, the Government must show that a defendant had the requisite subjective intent. In other words, the Government must establish that a defendant “purposely sought to inflict” a specific monetary amount of loss on the victim. *See* U.S.S.G. § 2B1.1, app. n.3(A)(ii). Thus, the “ ‘[i]ntended loss analysis, as the name suggests, turns upon how much loss the defendant actually intended to impose’ on the victim, regardless of whether the loss actually materialized or was even possible.” *United States v. Pu*, 814 F.3d 818, 824 (7th Cir. 2016) (quoting *United States v. Higgins*, 270 F.3d 1070, 1075 (7th Cir. 2001)); *see also United States v. Middlebrook*, 553 F.3d 572, 578 (7th Cir. 2009) (“[T]he true measure of intended loss [is] in the mind of the defendant.”); *United States v. Xu*, No. 1:18-cr-043, 2022 WL 16715663, at \*3 (S.D.Ohio Nov. 5, 2022) (explaining that “while ‘actual loss’ encompasses ‘reasonably foreseeable’ damages, ‘intended loss’ does not. Indeed, the United States Sentencing Commission amended the definition of ‘intended loss’ in 2015, in an effort to clarify that ‘intended loss’ should focus on a defendant’s subjective intent”); *United States v. You*, No. 2:19-CR-14, 2022 WL 1397771 (E.D.Tenn. May 3, 2022) (same).

This required mental state for purposes of the analysis for intended loss is different from the required element for a conviction under § 1832 that the defendant must know that his or her conduct will injure the owner of the trade secret. Because § 1832 does not explicitly require an economic loss of the victim, the former can include “non-pecuniary injuries that result from the theft of trade secrets, such as loss of the exclusive use of the information and the possible public disclosure that a company cannot protect the information” whereas the latter does not. *United States v. Xue*, 42 F.4th 355, 365 (3d Cir. 2022).

Further, the Third Circuit required the district court to “conduct ‘a deeper analysis’ before inferring that a defendant intended to cause a particular loss” for purposes of § 2B1.1. *Id.* at 361 (quoting *Diallo*, 710 F.3d at 151–52). “The record must support a finding that the defendant’s purpose was to inflict a pecuniary loss on the victim to apply this enhancement.” 42 F.4th at 363 (quotation and citations omitted) (concluding that “the District Court did not err by declining to value the stolen trade secrets where the Government failed to establish that the defendants had the required mental state for the enhancement on intended loss”).

The Sentencing Guidelines Application Note relating to estimation of loss lists six non-exhaustive factors and explains:

The court need only make a reasonable estimate of the loss. The sentencing judge is in a unique position to assess the evidence and estimate the loss based upon that evidence. For this reason, the court’s loss determination is entitled to appropriate deference. *See* 18 U.S.C. § 3742(e) and (f).

The estimate of the loss shall be based on available information, taking into account, as appropriate and practicable under the circumstances, factors such as the following:

- (i) The fair market value of the property unlawfully taken, copied, or destroyed; or, if the fair market value is impracticable to determine or inadequately measures the harm, the cost to the victim of replacing that property.

- (ii) In the case of proprietary information (e.g., trade secrets), the cost of developing that information or the reduction in the value of that information that resulted from the offense.
- (iii) The cost of repairs to damaged property.
- (iv) The approximate number of victims multiplied by the average loss to each victim.
- (v) The reduction that resulted from the offense in the value of equity securities or other corporate assets.
- (vi) More general factors, such as the scope and duration of the offense and revenues generated by similar operations.

U.S.S.G. § 2B1.1, Application Note 3(C).

Fair market value or cost of development can contribute to the estimate of the loss calculation only when the factor is “appropriate and practicable under the circumstances.” *Id.* Consequently, these figures must be buttressed by evidence the defendant purposefully sought to cause the victim to suffer a loss equal to the fair market value or development cost. *See United States v. Pu*, 814 F.3d 818, 826 (7th Cir. 2016) (cited with approval in *United States v. Free*, 839 F.3d 308 (3d Cir. 2016)). Without evidence showing a defendant intended his victim to suffer such a loss, either directly or by reasonable inference, the Government does not make out a *prima facie* case or meet its burden of proving the same by a preponderance of the evidence, and use of development cost and fair market value to determine intended loss is not appropriate. *See United States v. Xue*, 42 F.4th 355, 365 (3d Cir. 2022) (footnote omitted) (“We see no clear error in the District Court declining to infer intended loss from evidence of defendants gain.”).

Determining the “actual or intended loss” in an EEA case is complicated by the intangible nature of the trade secrets. Unlike the theft of a tangible asset, the theft of a trade secrets does not deprive the owner its use since it is still in the owner’s possession. The owner is deprived of exclusive use of the trade secret. Indeed, in many trade secret theft cases, the thief has appropriated and utilized the information to its advantage with no obvious effect on the victim except for the differences in their competitive positions. Moreover, the government may have arrested and prosecuted the thief before the thief used of the trade secret. Indeed, determining loss in attempt and conspiracy cases under the EEA can be especially difficult because of the more general challenges of establishing the fair market value of trade secrets.

In determining the value of the trade secret for sentencing purposes, the Sentencing Guidelines do not require that the government reach an exact figure for the loss a victim suffered or the amount of harm a defendant caused or intended to cause; a “reasonable estimate” is sufficient. *See* U.S.S.G., § 2B1.1, Application Note. 3(C) “In calculating the amount of loss under the Guidelines, a sentencing court ‘need only make a reasonable estimate of the loss.’” *United States v. Nosal*, 2014 WL 121519 at \*3 (N.D. Cal. Jan. 13, 2014) (*quoting United States v. Rigas*, 583 F.3d 108, 120 (2d Cir. 2009)). However, the district court must provide a basis for its finding of loss. *See United States v. Howley*, 707 F.3d 575, 582-583 (6th Cir. 2013) (remanding case for “reasonable” explanation of loss calculation, but noting that “the district court need not be exacting”); *United States v. Xu*, 2022 WL 16715663 at \*4 (S.D. Ohio Nov. 5, 2022) (citing *Howley*); *cf. United States v. Isler*, 983 F.3d 335, 342 (8<sup>th</sup> Cir. 2020) (rejecting defendant’s contention that the district court failed to adequately explain its deviation from the Guidelines range, noting that “the district court: (1) concluded that the loss and intended loss were large; (2) did not believe any of the loss-calculation methods presented by the government adequately measured the loss; and (3) determined that, where the evidence demonstrated the loss was significant but incapable of

ascertainment with sufficient certainty, the Guidelines range underrepresented the severity of the offense.”).

The district court in *United States v. You*, No. 2:19-CR-14, 2022 WL 1397771, \*3 (E.D.Tenn. May 3, 2022) concluded that while the Sixth Circuit does not require the use of a specific methodology to determine the amount of intended loss, “one thing is clear: the Court must reach a non-zero determination on the amount.” Therein, the court determined that “based on available information, including Defendant’s intent to gain existing market share in a monopoly, and as established by a preponderance of the evidence \$121.8 million USD is a conservative and reasonable estimate of Defendant’s intended losses to the victim companies in order to ‘break’ the can-coating monopoly and ‘fill the gap in Asia.” *Id.* at \*5. This translates into an increase of 24 levels under the Guidelines. *Id.*

The Sentencing Guidelines approach to measuring loss differ from the measurement of trade secret value in most civil cases. Civil trade secret misappropriation cases where the trade secrets have not been exploited for the defendant’s financial gain primarily use a “reasonable royalty” measure of damages. They rarely focus on the cost of replacing or recreating the trade secret. By contrast, the Sentencing Guidelines make clear that the goal of determining “loss” in criminal cases is to establish the *fair market value* of the stolen property. *See* U.S.S.G. § 2B1.1(b), Application Note 3(C)(i) (Loss includes such factors as “[t]he fair market value of the property unlawfully taken or destroyed; or, if the fair market value is impracticable to determine or inadequately measures the harm, the cost to the victim of replacing that property.”).

Furthermore, a court may want to consider, for several reasons, whether sentencing based on the victim’s lost profits is adequate. First, it would require for the government to demonstrate the defendant’s actual use of the trade secret information, which is not an element of the criminal statute. Second, it would be inapplicable in a significant number of cases where the trade secret was not used. Third, sentencing based on lost profits could never be applied to inchoate offenses. Finally, it would serve as an inadequate proxy for criminal culpability because individuals who intended to cause millions of dollars of harm but did not succeed would be treated more favorably than defendants who intended to cause smaller loss and succeeded.

For similar reasons, the defendant’s financial gain is an inadequate substitute for loss and is inconsistent with the Sentencing Guidelines. In many cases, the defendant will be apprehended before they are able to profit from the information, nullifying resort to the defendant’s gain as a measure of harm. Moreover, the measurement of a defendant’s financial gain in civil cases, which is founded on unjust enrichment principles, diverges from the Sentencing Guidelines’ market value concept reflected in § 2B1.1.

*United States v. Xu*, No. 1:18-cr-043, 2022 WL 16715663 (S.D. Ohio Nov. 5, 2022) provides a detailed analysis of the process for determining the amount of “intended loss” for sentencing purposes. The jury convicted Xu after a three-week trial of four counts involving conspiracy to commit economic espionage and theft of trade secrets under 18 U.S.C. § 1831(a)(5) and § 1832(a)(5), and attempted economic espionage and theft of trade secrets under the same sections. The trade secrets concerned GE Aviation’s technical information relating to jet engine fan blades. The court confronted two issues in sentencing: (1) “the precise economic harm Defendant intended to inflict upon GE Aviation” and (2) “the method of computation that will reasonably estimate the monetary cost of that harm.” *Id.* at \*4. The court found that with regard to the first issue, it has already concluded for sentencing purposes that defendant intended to inflict economic harm upon GE Aviation, but not the “scope of Defendant’s intended economic harm.” *Id.* In reaching this

amount, the court first rejected the government's position that this amount should reflect the entire \$98 million in research and development spent by GE Aviation, noting that while the intended beneficiary, the People's Republic of China, might have saved this amount in its own development of the trade secrets, it does not accurately reflect the loss to GE Aviation because "GE Aviation still possesses the technology as well." *Id.* at \*5. Instead, the court determined that "the most reasonable method of calculating the intended loss amount in this case is to estimate GE Aviation's potentially lost profits." *Id.*

To reach this figure, the court used the profits reported in GE's 2019 Annual Report as reduced by certain amounts "to reflect a more logical outcome," while "acknowledging that Defendant *intended* greater economic harm than what GE Aviation may realistically have lost." *Id.* at \*8 (emphasis in original). Based on this, the court "utilize[d] a 1% projected loss in profits to GE Aviation, and f[ou]nd a loss amount of \$50,094,000." *Id.* The court recognized that while this method "may be far from perfect, it is nevertheless, a reasonable estimate, based on a fair methodology, using facts and evidence, and ultimately resolving any uncertainty in Defendant's favor." This is what the law requires." *Id.* at \*9. The court also recognized that this amount of loss would result in a sentence in excess of the statutory maximum of 180 months (15 years) permitted by 18 U.S.C. § 1831, pointing out that "[u]ltimately, this Court will take into account all relevant facts and information, and will impose a sentence that is sufficient, but not greater than necessary, to accomplish the purposes of sentencing. 18 U.S.C. § 3553(a)." *Id.* at \*9, fn 10.

#### **11.11.3.1.3 Abuse of Position of Trust/Use of Special Skill**

The Sentencing Guidelines instruct the court to determine whether an upward or downward departure is warranted based the defendant's aggravating or mitigating role in the offense. *See* U.S.S.G. §§ 3B1.1, 3B1.2. Because many EEA defendants have advanced educational degrees, the Guideline's two-level upward adjustment for "abuse of position of trust or use of special skill" often applies. *See* U.S.S.G. § 3B1.3. The Guidelines define "special skill" as a "skill not possessed by members of the general public and usually requiring substantial education, training or licensing." U.S.S.G. §§ 3B1.3 Application Note 4 (listing pilots, lawyers, doctors, accountants, chemists and demolition experts as examples); *see, e.g., United States v. Lange*, 312 F.3d 263 (7th Cir. 2002) (affirming two-level upward adjustment to defendant's sentencing calculation based on defendant's "special skill" as a drafter, including his ability to use the specialized software used in committing the crime).

The Guidelines state that a "position of trust" "refers to a position of public or private trust characterized by professional or managerial discretion (i.e., substantial discretionary judgment that is ordinarily given considerable deference)." U.S.S.G. §§ 3B1.3. Factors tending to show "managerial discretion" include but are not limited to "the authority to engage in case-by-case decision-making, to set policies, and to grant exceptions to governing policies and protocols." *United States v. Spear*, 491 F.3d 1150, 1155 (10th Cir. 2007). In addition, for this adjustment to apply, the government must establish that defendant's position "must have contributed in some significant way to facilitating the commission or concealment of the offense." U.S.S.G. § 3B1.3 Application Note 1. Most defendants, apart from those who need access to the trade secret, but who have been access to it by virtue of their position in a company are likely to occupy a position of trust and could be subject to the two-level upward departure.

In addition to the "special skill" enhancement, the Guidelines also provide for an enhancement of two offense levels, and for a minimum offense level of twelve, where a defendant uses "sophisticated means" to perpetrate certain offenses. *See* U.S.S.G. § 2B1.1(b)(10)(C). In an EEA



case, this may involve factors such as using encryption, computer hacking, or other sophisticated steps to hide evidence of the crime.

#### **11.11.3.1.4 Attempts and Conspiracies**

If a defendant is convicted of conspiracy or attempt violations, rather than for the completed offense, the base offense level shall be decreased by three levels “unless the defendant completed all the acts the defendant believed necessary for successful completion of the substantive offense, or the circumstances demonstrate that the defendant was about to complete all such acts but for apprehension or interruption by some similar event beyond the defendant’s control U.S.S.G. § 2X1.1(b)(1).

#### **11.11.3.1.5 Organizations**

As with individuals, sentences imposed on organizations are determined with reference to the U.S. Sentencing Guidelines. Organization” means “a person other than an individual.” 18 U.S.C. § 18. “The term includes corporations, partnerships, associations, joint-stock companies, unions, trusts, pension funds, unincorporated organizations, governments and political subdivisions thereof, and non-profit organizations.” U.S.S.G. § 8A1.1.

The Guidelines instruct the court to determine the “offense level” applicable to the violation, and then to determine the “base fine” applicable to that offense level. U.S.S.G. § 8C2.4. With regard to a violation of § 1831 or § 1832, the base offense level is determined from § 2B1.1, which sets the base offense level at six. The “base fine” is then subjected to a multiplier based on the organizational defendant’s “culpability score,” which is calculated on the basis of factors including the organization’s involvement in or tolerance of criminal activity, prior criminal history, violation of an order, obstruction of justice, effective compliance and ethics program, and self-reporting, cooperation and acceptance of responsibility. *See* U.S.S.G. § 8C2.5(a)-(g). Depending on the “culpability score,” the “base fine” may be reduced up to 80%, or increased by up to 400%. U.S.S.G. § 8C2.6.

## Author Biographies

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