

# Key Developments in Trade Secrets Law



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# Presenters

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# Overview

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- I. What is a Trade Secret.
- II. Correctly Pleading Misappropriation of Trade Secrets.
- III. Damages for a Misappropriation Claim.
- IV. Significant Verdicts in 2023.
- V. How to Protect Trade Secrets.
- VI. International Trade Commission.



# What Is a Trade Secret?

# Trade Secret Protection

- The **Uniform Trade Secrets Act (UTSA)** adopted by every state except North Carolina and New York
- The federal **Defending Trade Secrets Act (DTSA)**
- Provide a cause of action for misappropriation of a trade secret

Public Law 114–153  
114th Congress

An Act

May 11, 2016  
[S. 1890]

To amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes.

Defend Trade  
Secrets Act of  
2016.  
18 USC 1 note.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the “Defend Trade Secrets Act of 2016”.

(765 ILCS 1065/1) (from Ch. 140, par. 351)

Sec. 1. This Act shall be known as and may be cited as the “Illinois Trade Secrets Act”.

(Source: P.A. 85-366.)

# What Is a Trade Secret?

“[A]ll 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.”

18 U.S.C. § 1839(3)

- Customer Lists and Financial Data
- Source/Computer Code
- Manufacturing Processes & Methods
- Proprietary Pricing & Marketing
- Business Models & Operations
- Formulas and Recipes





# Pleading a Misappropriation Claim



# Pleading a Misappropriation Claim

- *Oakwood Laboratories v. Thanoo* (3d Cir. 2021)
  - Plaintiff need not “spell out the details of the trade secret” to avoid dismissal.
  - Must plead sufficient facts “to permit the defendant to ascertain at least the boundaries within which the secret lies”
  - Fact specific question.



# Pleading a Misappropriation Claim

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## ***Establish the Trade Secret***

- Evidence that the plaintiff derives independent economic value from the trade secret not being generally known or readily ascertainable
- Evidence of active efforts to protect the confidential information



# Pleading a Misappropriation Claim

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## *Establishing Trade Secrets in New York*

1. the extent to which the information is **known outside of the business**;
2. the extent to which it is **known by employees** and others involved in the business;
3. the extent of **measures taken** by the business **to guard the secrecy** of the information;
4. the **value** of the information to the business and its competitors;
5. the amount of effort or money expended by the business in **developing the information**; and
6. the **ease or difficulty** with which the information could be properly **acquired or duplicated** by others

# Pleading a Misappropriation Claim

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## *Pleading Misappropriation*

1. Possession by the defendant
2. Improper acquisition
3. Improper disclosure
4. Use, either without consent or in breach of confidential relationship or duty

***No harm requirement***

“By statutory definition, **trade secret misappropriation is harm.**”

*Oakwood Lab’ys LLC v. Thanoo,  
999 F.3d 892, 913 (3d Cir. 2021)*



# Damages for Misappropriation Claims



# Damages: Categories

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- Actual Damages
- Unjust Enrichment
- Reasonable Royalties
- Exemplary Damages
- Attorneys' Fees





# Actual Damages: Lost Profits

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- Trade Secret Owner's Loss
  - Revenue lost minus cost incurred to generate the lost revenues.
  - Objective data generally required.
  - Some measure of *reasonable certainty*.



# Actual Damages: Continued

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- Actual damages may also be based on:
  - Misappropriator's profits, but only if attributable to the trade secret owner's losses
  - Difference in company's market value before and after misappropriation
  - Value of the trade secret to the misappropriator
  - Trade secret owner's increased costs
  - Future profits
  - Fair market value



# Unjust Enrichment

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- The trade secret owner may also recover a portion of the benefits the misappropriator received from the misappropriation of trade secrets
- Unjust enrichment is measured by the defendant's actual profits resulting from the use or disclosure of the trade secret
- Can be combined with a lost profits award as compensatory damages

# Unjust Enrichment: Avoided Costs

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- Recover expense the Plaintiff incurred to develop the trade secret.
- These include the development, marketing, and other costs the misappropriator “avoided” by stealing the trade secret.
  - Avoided cost damages are only recognized in some states.
  - In New York, avoided costs not measure of unjust gains.
    - *E.J. Brooks Co. v. Cambridge Sec. Seals*, 31 N.Y.3d 441, 454, 105 N.E.3d 301, 311 (2018)

# Unjust Enrichment: Head Start Damages

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- Marketplace value of unfair head start the misappropriator obtained
- Generally limited to time needed to develop the product in the absence of the misappropriation





# Damages: Reasonable Royalties

- Generally used when lost profits fail to reasonably compensate the trade secret owner for the misappropriation.
- Reasonable royalties provide trade secrets owner a percentage of the value of the stolen trade secret or product/process incorporating the trade secret.



# Damages: Reasonable Royalties

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- Factors considered when calculating royalties for trade secret misappropriation:
  - Changes in the parties' competitive posture
  - Prices past purchasers or licensees may have paid
  - The total value of the trade secret
  - The nature and extent of the intended use
  - Other “unique factors,” such as the ready availability of alternatives

# Damages: Exemplary Damages

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- In cases of willful and malicious misappropriation, the court may award exemplary damages up to two times the amount of the actual damages.





# Damages: Attorneys' Fees

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- Examples where reasonable attorneys' fees awarded to the prevailing party:
  - A misappropriation claim is made in bad faith;
  - A motion to terminate an injunction is made or opposed in bad faith; or
  - A trade secret was willfully or maliciously misappropriated.

# Calculating Damages

# Calculating Damages: Apportionment

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- Some courts require plaintiffs to apportion damages stemming from the misappropriation.
  - *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299 (Fed. Cir. 2018)
  - *Mentor Graphics v. EVE–USA*, 870 F.3d 1298 (Fed. Cir. 2017)
  - *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014)
  - *Waymo LLC v. Uber Techs., Inc.* No. C 17–00939 WHA, 2017 WL 5148390 (N.D. Cal. Nov. 6, 2017)



# Calculating Damages: Apportionment

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## Judge Erases Ford's \$105M Jury Verdict In Trade Secrets Row

But Dr. Malek said nothing about how long it would have taken Ford to develop less than all of the trade secrets. Nor did he tell the jury how long it would have taken Ford to develop any of the trade secrets individually. And he did not give the jury the tools to make those determinations. For instance, he did not tell the jury how many lines of code were in each individual trade secret, nor did he explain how any of the other factors considered by the development-time tools he used would apply to each of the individual trade secrets.

Without this information, the jury had no way to reliably determine how long it would have taken Ford to develop the three (out of four) trade secrets that it found to have been misappropriated. Under these circumstances, any development-time figure used by the jury – after it found that Ford misappropriated the Grid, Buildability, and Workspaces, but *not* MCA – would necessarily have been pure speculation. For that reason, the jury's award of trade secret damages lacks a sufficient evidentiary foundation and cannot stand.

# Calculating Damages: Timing

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- Period in which information is entitled to protection as a trade secret, plus period where misappropriator retains an advantage.
  - No remedy for period subsequent to disclosure of trade secret by issued patent
  - Period that it would have taken to discover trade secret without misappropriation

# Significant Verdicts in 2023



## Significant Verdicts

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- ***Epic Sys. Corp. v. Tata Consultancy Servs. Ltd.***, No. 22-2420, 2023 WL 4542011 (7th Cir. July 14, 2023)
  - After first vacating a \$280 million punitive damages award as being unconstitutionally excessive, the Seventh Circuit affirms a reduced punitive damages award of \$140 million



# Significant Verdicts

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- Courts overturn two multimillion-dollar jury verdicts on Judgment as a Matter of Law.
  - ***Versata Software, Inc. v. Ford Motor Company***, 2023 WL 3175427 (E.D. Mich. May 1, 2023)
  - ***Coda Development v. Goodyear Tire & Rubber***, 2023 WL 2734684 (N.D. Ohio Mar. 31, 2023)



# Significant Verdicts

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- ***Syntel Sterling Best Shores Mauritius Limited v. TriZetto Group***, 68 F.4th 792 (2d Cir. 2023)
  - Second Circuit vacates damages award based on avoided costs, finding that Plaintiff was adequately compensated by lost profits award





# Significant Verdicts

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- ***Equate Media, Inc. v. Suthar***, 2023 WL 7297328, at \*1 (9th Cir. Nov. 6, 2023)
  - Ninth Circuit reverses District Court dismissal of \$17 million verdict.



# Significant Verdicts

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- ***Novus Grp., LLC v. Prudential Fin., Inc.***, 74 F.4th 424 (6th Cir. 2023)
  - Sixth Circuit upholds summary judgment ruling based on failure to demonstrate a confidential duty.



# Significant Verdicts

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- ***Ahern Rentals, Inc. v. EquipmentShare.com, Inc.***, 59 F.4th 948 (8th Cir. 2023)
  - Eight Circuit rules that in some circumstances, it is sufficient to plead trade secret misappropriation on “information and belief.”





# Significant Verdicts

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- ***Arconic Inc. et al. v. Universal Alloy Corp.***, No. 1:15-cv-01466 (N.D. Ga. 2023)
  - Alcoa loses \$200M trade secrets case after failing to demonstrate ownership over trade secret.



# Protecting Your Trade Secrets



# What is a “Reasonable Measure?”

- A company must take “reasonable measures” for its information to be considered a “trade secret” as a matter of law.
  - *E.g.*, under the Defend Trade Secrets Act, the definition of a trade secret includes that the owner of the secrets took “reasonable measures to keep such information secret.” 18 U.S.C.A. § 1839(3)(A).
- Whether reasonable measures have been taken requires a fact-intensive analysis.

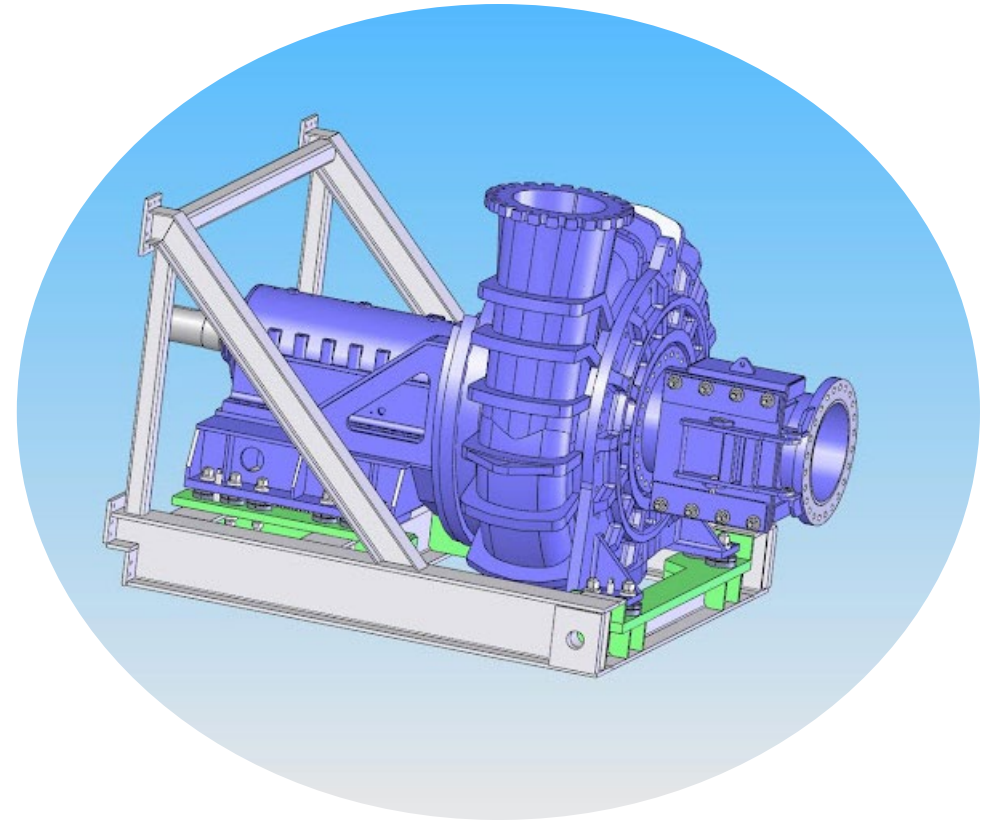




# Recent Instructive Cases

# ***Hagler Sys., Inc. v. Hagler Grp. Glob., LLC (S.D.Ga. Apr. 28, 2020)***

- The court granted injunctive relief against a former employee, finding the plaintiff had in fact taken reasonable measures where defendant had downloaded 58k files.
- Court reasoned that:
  - Company laptop was secured, despite defendant being allowed to retain it.
  - The documents were clearly marked as confidential and proprietary.
  - There were multiple levels of both in-person and cyber security protecting access to the information.
  - Defendant had to recruit a third party with access to download the information for him.



## ***RV Horizons, Inc. v. Smith* (D. Colo. Nov. 13, 2020)**

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- Plaintiff failed to show that it took reasonable measures to protect its investor list.
- Plaintiff failed to show that the list was only accessible to a limited number of individuals or partitioned from other data.
- Plaintiff failed to show that it had any confidentiality agreement, employee handbook, or trainings geared at protecting this proprietary information.
- Defendant was never informed that the investor list was proprietary information and confidential.

## ***Investment Sciences, LLC v. Oath Holdings Inc. (S.D.N.Y. Aug. 11, 2021)***

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- Plaintiff did not take reasonable measures to protect confidential information vis-à-vis a potential business partner when it only relied on an informal “understanding” that there needed to be confidentiality and discretion between them.
- Plaintiff did not require business partner to sign a confidentiality agreement prior to sharing proprietary information.
- Plaintiff also did not allege that it took any additional measures to protect the confidential nature of the information.



# Common Risks and Best Practices

# Risks in Today's Work Realities

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## Work from Home

- Lack of company oversight.
- Leaving documents at home without returning or disposing of them.
- Employee may have a roommate or visitor who can access their devices and take what they see for personal gain.
- Retaining data on personal devices.

# Risks in Today's Work Realities (cont'd)

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## Departing Employees

- Use of email, thumb drives, printing, deceptive downloading, screen shots, or taking pictures.
- Employee using their access to take sensitive data once they learn they are going to be terminated.
- Retention of trade secrets on personal devices and in backup files.

# Risks in Today's Work Realities(cont'd)

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## Business Partners and Independent Contractors

- Lack of oversight; inability to know if/how their sharing proprietary information.
- Failing to use a confidentiality agreement.
- Keeping sensitive information beyond what is necessary for the business relationship.
- Unintentional disclosure of proprietary information by employees.
- Not properly marking documents as subject to a confidentiality agreement.



# Best Practices for Reasonable Measures

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- Password-protect the company's network.
- Maintain a catalog or inventory of all the company's trade secrets to ensure proper protection. However, be sure to denote that the list is non-exhaustive.
- Have employee's business partners sign confidentiality agreements. Consistently update the agreements. Have the agreements reaffirmed.
- Actively monitor trade secrets for any potential breaches.
  - Tracking employee printing / emailing / downloading for irregularities.
  - Prohibit employees from storing trade secrets information, or download trade secrets, on their personal devices or external drives.
- Limit access only to those individuals with a need to know.
- When working with third parties, ensure there is a confidentiality agreement in place prior to exchanging trade secrets.

# Best Practices for Reasonable Measures (cont'd)

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- Properly designate, and section off, trade secrets from other business information.
- Track any movement of, and access to, trade secrets.
- Institute a robust technology confidentiality policy, which includes:
  - Encryption of the company's network.
  - Limiting network access from personal devices.
  - Requiring employees to consistently change password and institute a two-step verification requirement.
- Train employees on properly protecting and distinguishing company trade secrets.
- Develop policies that are specific to industry / business needs.

# Best Practices For Departing Employees

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- Develop a robust off-boarding policy that includes:
  - Collecting company property.
  - Immediately revoking employee access to sensitive material.
  - Performing investigations of electronic devices for any irregularities.
  - Avoiding leaking plans to terminate an employee before the discharge takes place.
  - Requiring the former employee to delete any company information from their personal devices.
  - Including a non-disclosure provision in separation agreements and/or indicate in writing that prior confidentiality provisions / policies survive termination of employment.



# Best Practices to Avoid Risk Associated with WFH

- Develop work from home policies and trainings to teach employees about protecting trade secret information in non-private environments and the risks of accidental disclosure.
- Institute a policy requiring employees to return all documents and dispose of documents.
- Require employees to lock devices when they are not actively working.
- Request that employees review their home office space to limit view of their computer or being overheard while answering private calls.





# International Trade Commission (ITC)



# Tariff Act of 1930 (Section 337)

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- Under Section 337, the ITC can investigate any claim of trade secret misappropriation tied to an imported product, even if the trade secret and alleged misappropriation occurred outside the United States.

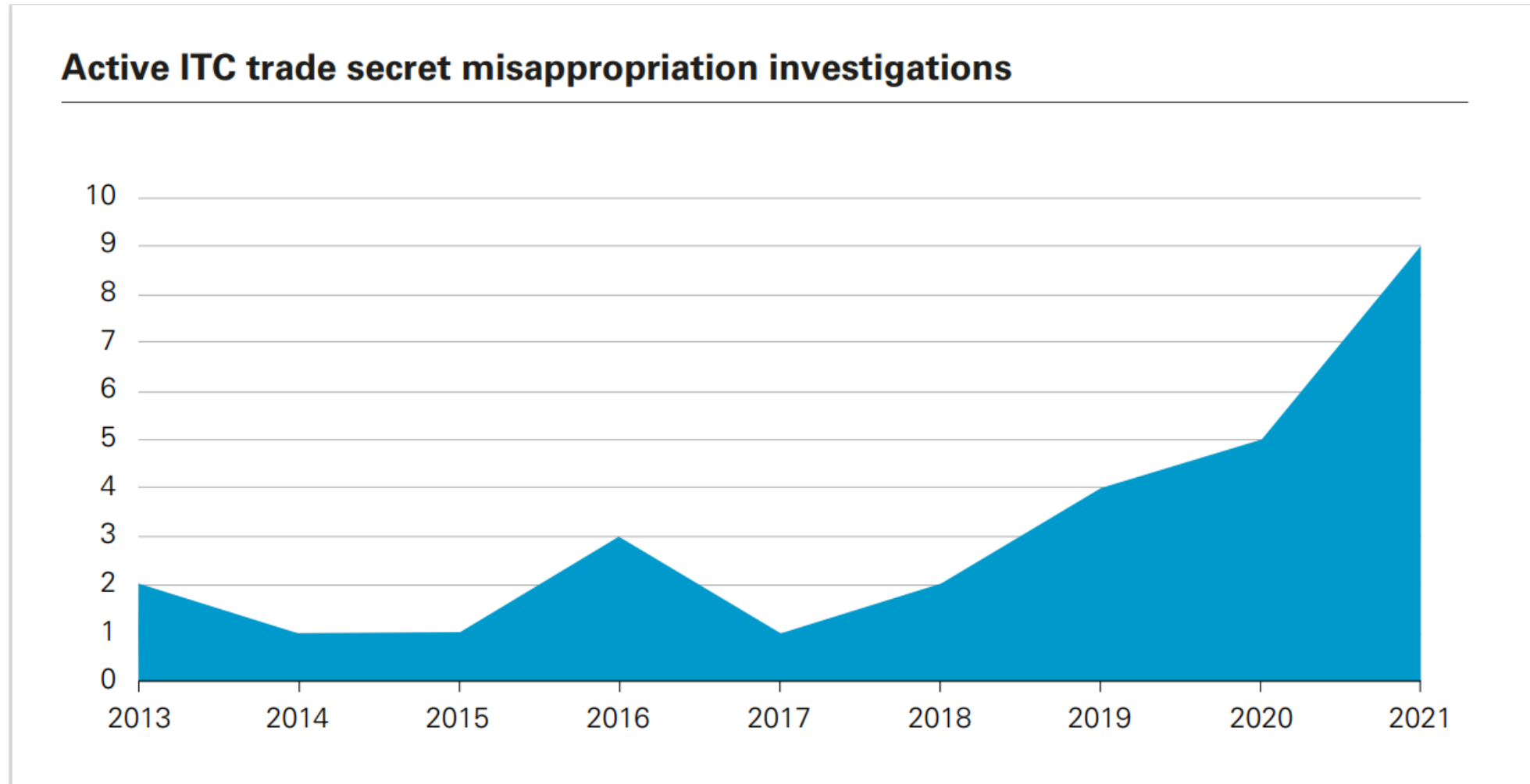


# Rise of Trade Secret Investigations at the ITC

- From 2017 to 2021, the number of active trade secret misappropriation investigations at the ITC went from one to nine – an increase of 800 percent.
- Between 2013 and 2017, the number of cases averaged only two per year.



# Rise of Trade Secret Investigations at the ITC





# Unique Traits Driving ITC's Popularity

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- Worldwide jurisdiction
  - The ITC can investigate claims of trade secret misappropriation happening anywhere in the world, provided the trade secret relates to a physical product imported into the US.
- Mandatory injunction
  - If the ITC finds a violation under Section 337, it will issue an “exclusion order” prohibiting the violating products from entering the US (unless it finds that exclusion goes against public interest)
- Speed to trial
  - Trade secret misappropriation claims at the ITC move much faster than in traditional courts.
  - Between 2019 and 2022, the average length of an investigation at the ITC was 17.6 months. By comparison, the average length of a trade secret misappropriation case in US district courts was 27.8 months.
- Preclusive effect
  - Generally, district courts are required to follow ITC decisions on trade secret misappropriation claims.

# ITC Exclusion Orders

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- Exclusion Orders issued by the ITC may be either “General” or “Limited.”
- If the ITC finds a violation of Section 337, it will presumptively issue a limited exclusion order. A limited exclusion order bars importation of misappropriating products by the specific respondents identified in the underlying investigation.
- A general exclusion order is significantly broader and prohibits the importation of all misappropriating products, regardless of source.
- The ITC will impose a general exclusion order in two situations:
  - Where necessary to prevent circumvention of a limited exclusion order, and
  - Where there is a pattern of violating Section 337 and it is difficult to identify the source of the violating products.

# ITC Cease-and-Desist Orders

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- Cease-and-desist orders are issued for misappropriating products that are already being held in domestic inventory.
- The order prohibits a respondent in a Section 337 investigation from committing any unfair acts in the U.S. associated with a previously imported misappropriating product, including selling the product outside of the U.S.





# Key Developments in Trade Secrets Law



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