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# The Anatomy of a Trade Secret Claim

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# Trade Secret Litigation Trends

- Total trade secret theft—in just the United States—is estimated to be worth as much as \$450 billion annually\*
- Explosion of trade secret cases in past 20 years: Federal cases of trade secret theft doubled between 1995 and 2004 and will double again by 2017
- 85-90% of all trade secret cases involve disputes with employees or business partners

\* Source: <https://www.pwc.com/us/en/forensic-services/publications/assets/economic-impact.pdf>

# Overview of Discussion

- **Critical Steps in a Trade Secret Case**

- Selecting forum and evaluating preliminary remedies
- Pleading the trade secret claim
- Identifying protectable trade secrets
- Establishing use of trade secret
- Estimating damages

# Selecting Forum & Evaluating Preliminary Remedies

## • Common Types of Cases

- Business partner/licensee using alleged trade secret
- Former employee taking alleged trade secret
- Alleged breach of NDA or misuse of information entrusted to company

## • Key Early Decisions

- Where to bring action:
  - Federal Court
  - State Court
  - Arbitration
- Preliminary relief needed:
  - TRO
  - Expedited discovery
  - Seizure

# Selecting Forum & Evaluating Preliminary Remedies

## • Whether to File in Federal Court

### Does Jurisdiction Exist

- DTSA creates Federal Question Jurisdiction (even without diversity)
- Did conduct occur after passage of DTSA? (*See Adams Arms* (M.D. Fla.), *Brand Energy* (E.D. Pa.), *Syntel Sterling* (S.D.N.Y.), *Avago Tech.* (N.D. Cal.))
- Must be related to a product used in, or intended to be used in, interstate or foreign commerce (18 U.S.C. § 1836(b)(1))

### Does DTSA Offer Advantages

- DTSA may help address conduct occurring overseas (18 USC § 1837) (*T&S Brass & Bronze Works* (D.S.C. 2017))
- Federal Court action may avoid state procedural rules
- DTSA provides seizure remedy in certain cases

# Selecting Forum & Evaluating Preliminary Remedies

## • What Preliminary Remedies Needed?

TRO

Expedited  
Discovery

Seizure

- Restriction on employment with competitor (based on inevitable disclosure theory)
- DTSA does not circumvent state law limits on enforcement of non-compete obligations
- May just need early access to computers, thumb drives or other devices to determine extent of company information removed
- Requirements for ex parte seizure are very strict (18 USC 1836), only in extraordinary circumstances to prevent propagation of trade secret, and only if certain requirements met, (e.g., that an order pursuant to Rule 65 would be inadequate, and that defendant would likely move or hide asset if given notice)
- Most courts have found that Rule 65 injunctions or TROs suffice, and seizure is not required. *See Jones Printing* (E.D. Tenn.); *Trulite Glass* (N.D. Cal.); *Henry Schein* (N.D. Cal.); *But See Mission Capital Advisors* (S.D.N.Y)

# Pleading Requirements under DTSA and the UTSA

- To make out a claim for trade secret misappropriation, a plaintiff must allege:
  1. The existence of a protectable trade secret;
  2. Misappropriation of the secret by the defendant; and
  3. Damages
- The elements under the DTSA and UTSA are essentially the same. Courts reviewing DTSA and UTSA cases have treated them as identical and typically apply the UTSA standard



# Reasonably Identifying the Trade Secret

- The plaintiff must describe “the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons ... skilled in the trade.” *Imax Corp. v. Cinema Techs.*, 152 F.3d 1161 (9th Cir. 1998)
- Failure to adequately describe the trade secret can lead to dismissal under both the UTSA and the DTSA. *See Space Data Corp* (N.D. Cal.)
- At summary judgment, “[a] plaintiff must do more than just identify a kind of technology and then invite the court to hunt through the details in search of items meeting the statutory definition [of a trade secret].” *Bunnell v. Motion Picture Ass'n of Am.*, 567 F.Supp.2d 1148 (C.D. Cal. 2007); *Kuryakyn Holdings* (W.D. Wis.) (applying rule to DTSA claim)

# Reasonably Identifying the Trade Secret

- Certain jurisdictions require a particularized identification of purported trade secrets as a prerequisite to discovery. *See, e.g.*, Cal. Civ. Proc. Code § 2019.210 (requiring a plaintiff to identify the secrets with “reasonable particularity” before serving discovery)
- Courts are split on whether these state law identification requirements apply in federal court. *XpertUniverse, Inc. v. Cisco Sys., Inc.*, 2011 WL 1226365 (D. De. Mar. 28, 2011) (noting split). Some have chosen to require similar disclosures despite finding that the state requirements do not apply of their own force. *E.g.*, *Excelligence Learning Corp. v. Oriental Trading Co., Inc.*, 2004 WL 2452834 (N.D. Cal. June 14, 2004)
- DTSA does not include the discovery provision

# Reasonably Identifying the Trade Secret

- Courts reject overbroad, vague, or categorical identifications
  - *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581 (7th Cir. 2002) (43-page description of software)
  - *GlobalTap LLC v. Elkay Mfg. Co.*, 2015 WL 94235 (N.D. Ill. Jan. 5, 2015) (witness testified that “every word” of a 101-page document was a trade secret)
  - *Big Vision Private Ltd. v. E.I. DuPont De Nemours & Co.*, 1 F. Supp. 3d 224 (S.D.N.Y. 2014) (70 pages of laboratory papers)
  - *Bunnell v. Motion Picture Ass'n of Am.*, 567 F. Supp. 2d 1148, 1151 (C.D. Cal. 2007) (collection of 34 different documents)

# Parameters of a Protectable Trade Secret

- Under the UTSA, a trade secret is defined as:
  - I. information, including a formula, pattern, compilation, program, device, method, technique, or process, that
  - II. 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
  - III. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy
- The DTSA uses a substantially similar definition, except that the enumerated categories of protected information are broader

# Parameters of a Protectable Trade Secret

- I. Information, including a formula, pattern, compilation, program, device, method, technique, or process
  - Courts have provided conflicting guidance on whether concept or idea can constitute a trade secret:
    - Compare:
      - An “idea itself can constitute information protectable by trade secret law” *Altavion, Inc. v. Konica Minolta Sys. Lab. Inc.*, 226 Cal. App. 4th 26, 48 (Cal. App. 2014).
    - To:
      - Generally speaking, “[i]deas or concepts are not, in and of themselves, trade secrets.” *Agency Solutions.Com, LLC v. TriZetto Group, Inc.*, *Agency Solutions.Com, LLC v. TriZetto Group, Inc.*, 819 F. Supp. 2d 1001(E.D. Cal. 2011).

# Parameters of a Protectable Trade Secret

- These seemingly conflicting rulings can be reconciled by a rule that the more abstract and generalized the idea or concept or other information is, the less likely the court will grant it trade secret protection on
  - To be a protectable trade secret, an idea or concept must be “concrete” (*Global Tap*, 2015 WL 94235 (NDIL 2015)) and have “substantial novelty” (*Monolith*, 267 F. Supp. at 731 (SDCA 1966));
  - However, even if particular concepts do not independently “qualif[y] for protection as trade secrets,” the “combination of characteristics and components” may qualify as a protectable trade secret. *Altavion, Inc. v. Konica Minolta Sys. Lab. Inc.*, 226 Cal. App. 4th 26 (Cal. App. 2014)

# Parameters of a Protectable Trade Secret

- II. Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use
  - “Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret.” *Knudsen Corp. v. Ever-Fresh Foods*, 336 F. Supp. 241 (C.D. Cal. 1971).
  - An alleged trade secret “must at least be novel to the person receiving the disclosure. If the elements of the formula or pattern are known to him prior to the disclosure, he cannot be restrained from using the same or compelled to account for any past use.” *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem.*, 267 F. Supp. 726 (S.D. Cal. 1966).
  - The sine qua non of a trade secret ... is the plaintiff’s possession of information of a type that can, at the possessor’s option, be made known to others, or withheld from them, i.e., kept secret.” *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210 (Cal. App. 2010).

# Parameters of a Protectable Trade Secret

## III. Reasonable Efforts to Maintain Secrecy Of Information

- Public disclosure ... is fatal to the existence of a trade secret. If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information his property right is extinguished.” *In re Providian Credit Card Cases*, 96 Cal. App. 4th 292 (Cal. Ct. App. 2002).
- “Reasonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on ‘need to know basis,’ and controlling plant access.” *SkinMedica, Inc. v. Histogen Inc.*, 869 F.Supp.2d 1176 (S.D. Cal. 2012).
- This rule applies to all forms of public disclosure, including patent applications. “Once the information [in an alleged trade secret] is in the public domain,” including through the publication of “patent applications,” “the element of secrecy is gone” and “the trade secret is extinguished.” *Forcier v. Microsoft Corp.*, 123 F. Supp. 2d 520 (N.D. Cal. 2000).



# Parameters of a Protectable Trade Secret

- “[R]ecitals [of confidentiality] alone do not establish anything. Labeling information ... as confidential information does not conclusively establish that the information fits this description.”  
*Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425 (Cal. App. 2003)
- Widespread dissemination of purported trade secrets accompanied by sporadic use of NDAs, and observe of confidential markings has been found not to constitute “reasonable safeguards” as a matter of law. *Tax Trade Systems Corp. v. New Investor World, Inc.*, 478 F.3d 783 (7th Cir. 2007)
- Disclosure of client list to competitor without “seeking to protect” the list extinguishes trade secret protections as a matter of law. *Cole Asia Business Cent., Inc. v. Manning*, 2013 WL 3070913 (C.D. Cal. June 18, 2013)

## What Safeguards Must Be Taken to Maintain a Trade Secret?

- Where company enters into NDA, but individuals at receiving company did not execute NDA prior to use, such disclosure can support finding that no “reasonable safeguards” were taken. *nClosures, Inc. v. Block & Company, Inc.*, 770 F.3d 598

# What Constitutes “Improper Use”?

- A trade secret plaintiff must show “that the defendant improperly ‘used’ the plaintiff’s trade secret.” *Sargent Fletcher v. Able*, 3 Cal. Rptr. 3d 279 (Cal. Ct. App. 2003)
  - Courts often describe misappropriation as protected information that was “embodied” or “incorporated” into Defendant’s product or process
- “[I]nformation may be improperly ‘used’ in that it is unlawfully acquired and then built upon or modified before being disclosed or benefit derived.” *SkinMedica, Inc. v. Histogen Inc.*, 869 F.Supp.2d 1176 (S.D. Cal. 2012)
  - But even under this broad standard, there must be proof that the challenged product or process was “substantially derived” from the alleged trade secret

# What Constitutes “Improper Use”?

- “Employing the confidential information in manufacturing, production, research or development, marketing goods that embody the trade secret, or soliciting customers through the use of trade secret information, all constitute use.” *PMC Inc. v. Kadisha*, 78 Cal. App. 4th 1368 (Cal. App. 2000)
  - Courts have been reluctant to extend the principle of use to encompass claims that the purported trade secret “shaped or influenced” development of product. *Agency Solutions.com LLC v. TriZetto Group, Inc.*, 819 F.Supp.2d 1001 (E.D. Cal. 2011)
- “[U]se does not mean mere possession of a trade secret or mere internal discussion within the company of a trade secret.” *02 Micro Int’l Ltd. v. Monolithic Power Systems, Inc.*, 399 F.Supp.2d 1064(N.D. Cal. 2005)

# Damages Theories for Misappropriation: Compensatory Damages

## Actual Loss

- The pecuniary loss suffered by plaintiff from misappropriation
- **Lost Profits.** *Beiner Enters., Inc. v. Adam Caldwell, Inc.*, No. CV 13-08723-AB (MRWx), 2015 U.S. Dist. LEXIS 111172, at \*9 (C.D. Cal. Aug. 21, 2015) (“Lost profits must be determined to a reasonable certainty as the amount ACI would have earned but for BEI's breach, minus saved expenses.”)
- **Price Erosion.** *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112 (Fed. Cir. 1996) (awarding price erosion damages on trade secret claim)
- **Lost Value of Business**

# Damages Theories for Misappropriation: Compensatory Damages

## Unjust Enrichment

- The pecuniary gain enjoyed by defendant from misappropriation
- **Defendants' Increased Profits or Sales.** *Ajaxo Inc. v. E\*Trade Fin. Corp.*, 187 Cal. App. 4th 1295, 1303, 115 Cal. Rptr. 3d 168, 175 (2010) (Unjust enrichment is amount of profit that would not be achieved except for misappropriation)
- **Savings Enjoyed by Defendant in Development Costs.** *Minn. Mining & Mfg. Co. v. Pribyl*, 259 F.3d 587(7th Cir. 2001) (avoided cost of development are appropriate measure of damages)
- **Head Start Damages**

# Damages Theories for Misappropriation: Compensatory Damages

## Loss Causation

- “**But for**” standard typically used for lost profits and unjust enrichment. *Beiner Enters., Inc.*, 2015 U.S. Dist. LEXIS 111172, at \*9 (C.D. Cal. Aug. 21, 2015); *Ajaxo Inc.*, 187 Cal. App. 4th 1295, 1303 (2010)
- Courts sometimes reference “**proximate cause**” standard for damages, where conduct must play “substantial factor” in creating damages. *PFS Distrib. Co. v. Raduechel*, 574 F.3d 580 (8<sup>th</sup> Cir. Iowa 2009) (Plaintiffs own conduct was potential cause of loss of customers)
- Difficult to determine if losses caused by trade secret theft or legitimate competition of Defendant. See *Mattel, Inc. v. MGA Entm’t, Inc.*, 616 F.3d 904, 910-11 (9th Cir. 2010) (vacating award where Defendants’ conduct largely responsible for value)

# Damages Theories for Misappropriation: Compensatory Damages

## Reasonable Royalty

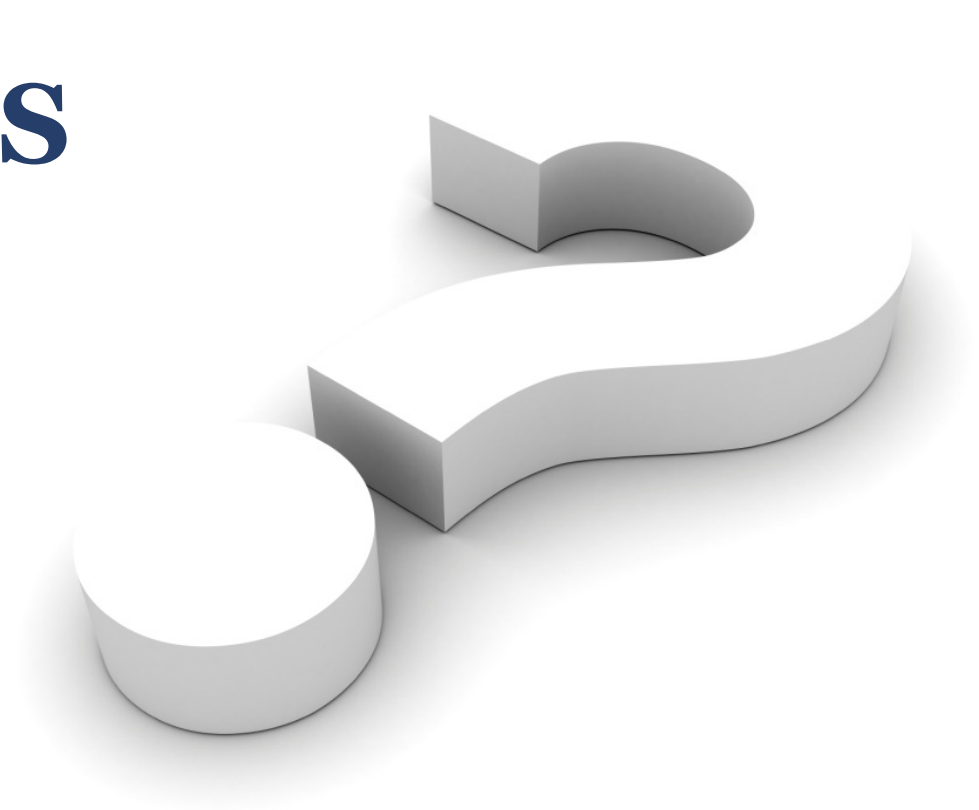
- If neither actual loss nor unjust enrichment are reasonably provable, the court “may” award a reasonable royalty
- Courts try to estimate likely results of a hypothetical negotiation between the parties occurring at the time of infringement
- Best evidence is often an actual license agreement for the same or similar products
- Courts may apply the “Georgia Pacific” factors to determine reasonable royalty rate. *See LinkCo, Inc. v. Fujitsu Ltd.*, 232 F. Supp. 2d 182 (S.D.N.Y. 2002)



# Damages Theories for Misappropriation: Punitive Damages

- Punitive damages are available if the plaintiff can show willful and malicious misappropriation
  - Intentional Misappropriation. *Mangren Research & Dev. Corp. v. Nat'l Chem. Co., Inc.*, 87 F.3d 937 (7th Cir. 1996) (Joking about having previously won trade secret case)
  - Knowing Disregard of Plaintiffs' rights. *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 879-80(N.D. Ill. 2001) (viewing trade secret information and then having employee enter indemnification agreement)
- A punitive award is limited to 2x compensatory damages
- Under DTSA, no exemplary damages or attorney fees for willful/malicious misappropriation in action against employee unless Company provided notice of immunity for whistle blowers

**QUESTIONS**



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