Welcome to the second edition of Jenner & Block’s Trade Secret Update. Both civil and criminal trade secret matters continue to grab headlines. Hardly a week passed this year without an announcement from the US Department of Justice regarding an indictment or plea deal related to an alleged trade secret theft. Most of the DOJ’s recent cases have involved defendants from China, a fact that looks intentional, as enforcement priorities continue with an “America first” agenda while US businesses complain that Chinese actors are rampant violators of trade secret law. It is clear that the DOJ has made the prosecution of trade secret theft a high priority across the country, especially where foreign actors are involved in the misappropriation.

On the civil side, trade secret cases also continued at a fast clip in 2018, with several commercial matters culminating in substantial settlements and verdicts and one matter in particular captivating the media for much of the first half of the year. The law also continued to mature, in sometimes surprising ways.

This second edition of the Trade Secret Update addresses developments on both the criminal and civil sides of US law, discussing several of the more notable criminal prosecutions and civil claims. It evaluates case law developments in a number of areas, including procedural issues such as preemption, discovery protections for confidential information, and trade secret identification rules. Of particular note this year is influence of the inevitable disclosure doctrine which, despite its rejection in California and its apparent rejection by the Defend Trade Secrets Act (DTSA), is recognized by many of the federal courts that have considered it in cases that contain DTSA claims. The influence of the two-year-old DTSA, with particular emphasis on its much-debated ex parte seizure provision, is also discussed in this year’s Update.

The United States is not the only jurisdiction with robust trade secret protections and a changing legal landscape for confidential information. Trade secret law spread internationally in 2018, through trade agreements and national laws. The Update briefly discusses the trade secret-related provisions of the European Union’s Recent Directive, the United Kingdom’s new enforcement regulations and the NAFTA-replacing trade agreement between the United States, Canada, and Mexico. Although the United States withdrew from the Trans-Pacific Partnership, on October 31, 2018, Australia became the sixth nation to ratify the replacement CPTPP, bringing the CPTPP into force at the end of 2018. The CPTPP, like nearly every other international agreement, contains certain trade secret protections that multinational companies must keep in mind as they move forward into 2019.
Notable Recent Trade Secret Verdicts and Settlements

The past few years have seen a number of notable trade secret verdicts and settlements, including the first damages award by a jury in a DTSA case, high-profile settlements by tech industry heavyweights, and a rare criminal prosecution of trade secrets theft.

APRIL 2017 – FIRST DTSA DAMAGES AWARD BY A JURY IN PENNSYLVANIA

In April 2017, a jury awarded Dalmatia Import Group, Inc. a $2.5 million verdict against Foodmatch, Inc., Lancaster Fine Foods, Inc., and others, including a $500,000 award based on its trade secrets claims. The case is notable as the first damages verdict based on a DTSA claim. Dalmatia alleged that the defendants, who were the distributors and manufacturers of Dalmatia’s popular gourmet fig spread, had misappropriated its recipe and production process under both the DTSA and the Pennsylvania Uniform Trade Secrets Act. While the jury awarded $500,000 on the trade secrets claim, the defendants claimed that the jury’s instructions did not sufficiently capture the misappropriation standards under the DTSA or the PUTSA. In 2018, however, the case settled without resolving the issue. The trial occurred in the Eastern District of Pennsylvania.

FEBRUARY 2018 – $245 MILLION SETTLEMENT IN CALIFORNIA BETWEEN WAYMO AND UBER

In February 2018, Waymo and Uber settled their dispute over allegations that Uber had misappropriated Waymo’s trade secrets regarding self-driving technology. The case settled on what would have been the fifth day of trial in the Northern District of California. Waymo, which is owned by Google’s parent company, Alphabet, had alleged that a former employee misappropriated trade secrets and brought them to Uber. The trade secrets related to LIDAR, a laser-based motion-sensing technology integral to self-driving cars. The settlement was for a pure equity transfer of 0.34% of Uber’s equity, then valued at approximately $245 million.

MARCH 2018 – $706.2 MILLION VERDICT IN TEXAS

Title insurance company Amrock, formerly known as Title Source, suffered a substantial loss against real estate valuation company HouseCanary in a March 2018 jury verdict out of Bexar County, Texas. Title Source initially filed a breach-of-contract claim against HouseCanary for having provided “completely unusable” software products. During discovery, however, HouseCanary alleged that it had uncovered evidence that Title Source was instead using the contract to misappropriate HouseCanary’s intellectual property to create competing software, and filed a counterclaim for misappropriation of trade secrets and fraud. After a seven-week trial, the 12-person jury unanimously agreed with HouseCanary and awarded $235.4 million in actual damages, plus $470.8 million in punitive damages.
APRIL 2018 – FACEBOOK SETTLES MAJOR SUIT IN CALIFORNIA

In the midst of a trial in April 2018 in the Northern District of California, Facebook settled a long-running suit against it by BladeRoom Group Ltd. BladeRoom had sued Facebook in 2015, alleging that Facebook had stolen BladeRoom’s trade secrets in designing a new datacenter in Sweden. BladeRoom had requested roughly $365 million in damages for the misappropriation of its modular datacenter and server-rack designs after it made a presentation to Facebook in 2011. The terms of the settlement were kept confidential. At the end of trial, BladeRoom won a $30 million verdict for trade secret misappropriation against Emerson Electric Co., which had built Facebook’s datacenter.

JULY 2018 – $59 MILLION CRIMINAL SENTENCE IN WISCONSIN

In January 2018, the Department of Justice secured a verdict against Sinovel Wind Group Co. Ltd., a Chinese wind turbine manufacturer, for stealing trade secrets belonging to Massachusetts-based American Superconductor, or AMSC. The trade secrets primarily involved technology known as Low Voltage Ride Through, which is used in wind turbines. Sinovel was allegedly able to steal the technology by means of a disgruntled former AMSC employee. AMSC claimed that it had lost at least $800 million based on the theft, and suffered a $1 billion loss in shareholder equity. At the sentencing hearing in July 2018, a federal judge ordered Sinovel to pay $57.5 million in restitution — based on a settlement agreement between Sinovel and AMSC — and a $1.5 million fine, which was the maximum available. The case proceeded in the Western District of Wisconsin.

AUGUST 2018 – $66 MILLION VERDICT IN CALIFORNIA

LED lighting company Lumileds LLC obtained a $66 million verdict against Chinese company Elec-Tech International in August 2018. Lumileds claimed that a former engineer stole its trade secrets regarding computer code used in the production of high-efficiency LED lights, and passed them on to Elec-Tech. The jury’s award was based on the cost of research and development that Elec-Tech saved by its misappropriation. The trial occurred in Santa Clara County Superior Court.
Identifying Trade Secrets with “Reasonable Particularity”


Although post-discovery identification would protect a plaintiff’s broad right to discovery, courts have found that this approach could also sanction “fishing expeditions” to uncover the trade secrets of competitors; could render mounting a defense “difficult, if not impossible”; and could allow plaintiffs to “mold [their] cause of action around the discovery” they receive. Kalencom, 2018 WL 1806037, at *3 (citation and quotations omitted). Accordingly, the “growing consensus seems to be in favor of requiring those plaintiffs bringing claims of trade secret misappropriation to identify, with reasonable particularity, the alleged trade secrets at issue.” Id. at *2 (citing StoneEagle Servs., Inc. v. Valentine, No. 3:12-CV-1687, 2013 WL 9554563, at *2 (N.D. Tex. June 5, 2013)); but see JJ Plank Co., LLC v. Bowman, No. 3:18-CV-00798, 2018 WL 3545319, at *3 (W.D. La. July 23, 2018) (while “pre-discovery identification seems to be the predominate trend . . . a mandate has not arisen,” as this “area of litigation is complex, contentious, and fact-intensive”).

What exactly constitutes “reasonable particularity,” however, remains a debated topic that normally depends on the facts of a dispute and the particular circumstances before the court.

In Openwave, for example, the plaintiff claimed the defendant had misappropriated nine trade secrets: (1) customer lists; (2) product pricing information and a pricing tool; (3) customer demand information; (4) customer satisfaction surveys; (5) customer mapping information; (6) customer contract terms; (7) the Openwave email platform stack; (8) the Virgin Media email system stack; and (9) Openwave’s technical data and documentation. 2018 WL 2117424, at *3. The court found the plaintiff’s disclosure adequate. Id. at *4. Plaintiffs, the court noted, “must identify” allegedly misappropriated trade secrets and “carry the burden of showing that they exist.” Id. at *4. To satisfy disclosure requirements, disclosures should include: “(1) a summary of the specific trade secret; (2) the background of the trade secret and a description of how each secret has derived independent, actual or potential economic value by virtue of not being generally known to the public; (3) a description of how each secret has been the subject of reasonable efforts to maintain its secrecy; and finally (4) each of the precise claimed trade secrets, numbered, with a list of the specific elements for each, as claims would appear at the end of a patent.” Id. (citation and quotation omitted).
In *Redfin Corp. v. iPayOne.com, LLC*, iPayOne’s amended trade secret identification identified “the success metrics of certain marketing strategies and campaigns, market research, and other aspects underlying its ‘1% commission structure’” as misappropriated trade secrets and also alleged the misappropriation “originate[d] out of several conference calls between iPayOne and Redfin employees.” No. C17-001217, 2018 WL 1397482, at *2 (W.D. Wash. Mar. 20, 2018). The court found this information “sufficient to give Redfin notice of what issues may arise later in this litigation as well as the scope of appropriate discovery.” *Id.*

In *Waymo LLC v. Uber Techs., Inc.*, Waymo alleged that Uber Technologies, Ottomotto and Otto Trucking had misappropriated self-driving car-related technology trade secrets. No. C 17-00939, 2017 WL 6887040, at *1 (N.D. Cal. Nov. 14, 2017). In particular, Waymo identified the design schematics and layouts of a specific printed circuit board in a specific Light Detection and Ranging technology design as a misappropriated trade secret. *Id.* at *7. The defendants characterized this identification as “overbroad” and not reasonably particular. *Id.* The court, after a personal examination, agreed. *Id.* at *8. The court reasoned that it was “readily apparent that the schematic in question included hundreds of components and specifications with no clue as to what part thereof might be considered trade secret information. Worse, Waymo argued that its asserted trade secret number 96 encompassed not only the information contained in the schematic itself but also strategies or concepts ‘reflected’ in the schematic.” *Id.* Waymo laid further claim to the “unique and unknown design characteristics such as the [] selection and layout of individual electrical components, and the required manufacturing tolerances.” *Id.* (emphasis omitted).

The *Waymo* court required more particularity. *Id.* It held that Waymo’s “wide-ranging expanders compounded the misery in trying to place arms around the breadth of asserted trade secret number 96. This disclosure came nowhere near the required reasonable particularity.” *Id.* After acknowledging the reasonable particularity standard may differ depending on the trade secret in question, the court called Waymo’s “inadequate[]” disclosure “vast[]” and “unfair, for it placed defendants in the untenable position of having to prove that hundreds of subparts of the design schematic — and innumerable other strategies and concepts arguably ‘reflected’ therein — either did not qualify as trade secret information or were not used in defendants’ technology.” *Id.* at *8, *10.

The *Kalencom* court had a similar reaction to the specification before it. It called the plaintiff’s allegations a “generic laundry list of ‘confidential and proprietary’ information,” including information the defendant “came to know while working for Kalencom: manufacturing information, client lists, property lists, business systems, future plans, research, development data, methods of developing pricing, pricing histories, information related to bases for pricing, financial information regarding clients and Kalencom, personal information regarding clients, suppliers, and company personnel such as sales, accounts receivable, inventory, number of personnel, and other proprietary and confidential information and trade secrets.” 2018 WL 1806037, at *3.

Rather than identify specifics, such as “‘jewelry box designs from 2016 manufacturing season’ or even just ‘designs,’” Kalencom instead offered a “vast and generic description” that made “it impossible to narrow its discovery requests to relevant information.” *Id.* at *4. As a result, the court held Kalencom must identify the allegedly misappropriated information and/or trade secrets with reasonable particularity and “should only include information on the list if it can show that the information was confidential and proprietary, and if it has a reasonable basis to believe that Shulman has used or is using the information since leaving her work with Kalencom.” *Id.* at *5.

In *Swarmify, Inc. v. Cloudflare, Inc.*, Swarmify attempted to claim as trade secrets not only its video streaming method and related technology, but also “the research and information used to develop [it], including aggregation of publicly-available information or knowledge on prior methods of video streaming”; implementation methods; market applications, costs and benefits; and even specific pricing, cost, limitation and usage agreements with vendors. No. C 17-06957, 2018 WL 1142204, at *3 (N.D. Cal. Mar. 2, 2018). The court explicitly rejected Swarmify’s “wholesale claim[s] to such nebulous, sweeping categories as ‘research and information,’ ‘methods for implementing,’ and ‘vendors.’” *Id.* Its disclosure did “not even come close to identifying plausible trade secrets with ‘reasonable particularity.’” *Id.* “Put simply,” the court concluded, such a disclosure was “a blatant abuse of the system.” *Id.*
Trade Secret Protection in US Discovery

Courts have continued to delineate how the December 1, 2015, changes to Federal Rule of Civil Procedure 26 — which expressly incorporated proportionality considerations into the scope of permissible discovery — affect the production and protection of trade secrets in discovery.

In Leadership Studies, Inc. v. Blanchard Training and Development, Inc., the Southern District of California relied heavily on the advisory committee’s notes for the 2015 Rule 26 amendments in rejecting the plaintiff’s motion to compel. No. 15-1831, 2017 WL 2819847 (June 28, 2017). The plaintiff brought a trademark infringement complaint against the defendant, a former business partner, and sought discovery of certain documents outlining a failed deal between the defendant and a third-party. The defendant turned over documents relating to the deal that mentioned the disputed trademark, but withheld other deal documents as trade secrets.

In its ruling, the court mentioned not only the new proportionality requirements of Rule 26, but also that the “reasonably calculated to lead to admissible evidence” standard was replaced with a “relevant to any party’s claim or defense” standard. The court expanded on the new requirements by highlighting the advisory committee’s note that “[a] party claiming that a request is important to resolve the issues should be able to explain the ways in which the underlying information bears on the issues as that party understands them.” The plaintiff failed to convincingly explain the import of the documents it sought, relying instead on conclusory statements. Additionally, the court noted that the withheld deal documents would not be necessary to show infringement of the trademark agreement between the plaintiff and the defendant, nor help to establish damages, as the plaintiff could not recover the third-party’s “valuation” of the trademark. Rather, the court agreed that the defendant’s concerns that the documents were being sought for an improper competitive purpose were valid, even if somewhat speculative.

1 The rule now provides that, “[u]nless otherwise limited by court order,” parties “may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense and 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) (emphasis added).
Calendar Research LLC v. StubHub, Inc. also relied on the advisory committee’s notes to the 2015 Rule 26 amendments, but, this time, in order to grant the plaintiff’s motion to compel. No. 17-4062, Dkt. 116, Order re Plaintiff’s Motion to Compel (C.D. Cal. Nov. 14, 2017). At issue in the case was whether the plaintiff’s former employees had used protected code while working on StubHub’s app. StubHub produced the client code for its app, but withheld the server code on the grounds that the employees had not worked on the server code, so that production of the protected server code would be neither proportionate nor relevant. The plaintiff’s expert, however, stated that the client code and server code worked together as a whole, that the employees did not appear to have worked on the client code provided, and that it was not possible to tell whether the employees worked on other codes for the app given what was produced.

The court looked to the advisory committee’s notes on the 2015 Rule 26 amendments for guidance: “It is [t]he court’s responsibility, using all the information provided by the parties, [ ] to consider [all] factors in reaching a case-specific determination of the appropriate scope of discovery.” Examining the large record as a whole, the court found that StubHub had not proven that the employees did not work on the withheld code and that the plaintiff’s expert was credible. Because of the expert’s testimony, the unproduced code was relevant to the plaintiff’s claims, and the estimated few days of work it would take StubHub to produce the code was proportionate. Additionally, according to the court, StubHub failed to show why the protective order in place would not be sufficient to protect against misuse.
The DTSA and the Inevitable Disclosure Doctrine

The inevitable disclosure doctrine allows a court to grant a former employer relief by prohibiting a departing employee from taking a new, competitive job based on the inevitability of future trade secret disclosure, based on the circumstances, without actual evidence of wrongful use or misappropriation.

The doctrine has been debated across many jurisdictions for years, and courts considering claims brought under state trade secrets laws have taken divergent views. Some state courts adopted the inevitable disclosure doctrine in its strongest form. For instance, Arkansas, Delaware, Illinois, Minnesota, New Jersey, Pennsylvania, and Utah courts apply the doctrine to grant injunctive relief without proof of actual misappropriation if the former employer can show that, by simply performing duties for the new employer, the employee cannot help but utilize or disclose knowledge of trade secrets gained through that employee’s work for the former employer. See, e.g., WebMD Health Corp. v. Dale, No. 11-5827, 2012 WL 3263582 (E.D. Pa. Aug. 10, 2012) (finding that because the defendant was exposed to confidential information about his former employer’s sales, marketing, and pricing strategies, he “would be likely to use that information, either consciously or not, when competing against” his former employer at his new job). At the other end of the spectrum, California, Georgia, Maryland, Virginia, and Louisiana courts have rejected the doctrine. See, e.g., Parrish v. Latham & Watkins, 238 Cal. App. 4th 81, reh’g denied (July 21, 2015), review granted on other grounds and opinion superseded, 357 P.3d 769 (Cal. 2015).

Unlike the Uniform Trade Secrets Act upon which most states’ trade secrets laws were modeled, the DTSA includes language that expressly forbids injunctions that limit employment based “merely on the information the person knows” or that “conflict with an applicable state law prohibiting restraints on the practice of a lawful profession, trade or business.” 18 U.S.C. § 1836(b)(3)(A)(i)-(II).

At least one federal court has rejected the inevitable disclosure doctrine in a suit alleging trade secret misappropriation under the DTSA and its state analogue, although it may have rested the rejection of the doctrine on existing precedent based on underlying state law. See, e.g., UCAR Tech. (USA) Inc. v. Yan Li, No. 17-01704, 2017 WL 6405620, at *3 (N.D. Cal. Dec. 15, 2017), on reconsideration, No. 17-01704, 2018 WL 2555429 (N.D. Cal. June 4, 2018) (in a suit alleging violation of the DTSA and California’s Uniform Trade Secrets Act, holding that “[t]o the extent the complaint relies on . . . ‘inevitable disclosure’ allegations, those allegations are ordered stricken from the complaint).

Other recent federal court decisions, however, have applied the doctrine, suggesting that the doctrine will continue to be used in trade secrets claims, even those involving the DTSA, at least in jurisdictions where the doctrine is recognized under state law. The doctrine’s death was, apparently, not inevitable after all.
Application of the inevitable disclosure doctrine to grant a preliminary injunction:

**FRES-CO SYSTEMS USA, INC. V. HAWKINS, 690 F. APP'X 72 (3D CIR. 2017)**

In this case, Fres-co brought suit against its competitor and its former employee Kevin Hawkins alleging breach of contract, interference with existing and prospective contractual relationships and misappropriation of trade secrets under the DTSA and the Pennsylvania Uniform Trade Secrets Act. Fres-co sought to enforce a non-competition agreement Hawkins signed and moved for a preliminary injunction barring him from disclosing Fres-co’s trade secrets and from soliciting 12 clients whom he had serviced while at Fres-co.

The trial court noted there was “substantial overlap” between Hawkins’ responsibilities at Fres-co and what he planned to do for its competitor—he would be working in the “the same role, the same industry and the same geographic region.” Given his position, the court determined Hawkins “would likely use his specialized and confidential knowledge to the detriment of Fres-co” and on that basis found there was a likelihood of irreparable harm without any direct proof that Hawkins would disclose or use any of the confidential or proprietary information.

On review, the Third Circuit found the trial court did not abuse its discretion in finding a likelihood of irreparable harm, though it did not cite the inevitable disclosure doctrine explicitly. The Third Circuit remanded for further analysis of the other preliminary injunction factors. The preliminary injunction issued by the trial court remained in place pending reconsideration.

**MICKEY’S LINEN V. FISCHER, NO. 17-2154, 2017 WL 3970593 (N.D. ILL. SEPT. 8, 2017)**

After Donald Fischer left Mickey’s Linen for a key competitor called Alsco, Mickey’s Linen sued Fischer for breach of an employment agreement, breach of the duty of loyalty and misappropriation of trade secrets under the DTSA and Illinois Trade Secrets Act. Mickey’s Linen sought a preliminary injunction enjoining Fischer from using or disclosing its trade secrets during his employment with Alsco.

In its analysis, the court acknowledged that Fischer’s positions at both companies included significant customer contact and sales activities and that both companies provided similar goods and services to customers in the same industry. The court also considered Fischer’s prior destruction of evidence and the weak measures Alsco implemented to prevent Fischer from using or disclosing Mickey’s trade secrets. The court concluded “the facts in this case compel the conclusion that Fischer will inevitably use or disclose Mickey’s trade secrets during his employment with Alsco if he is not enjoined from doing so” and found Mickey’s adequately demonstrated a likelihood of success on its trade secrets claims. The court granted the preliminary injunction.

Application of the inevitable disclosure doctrine to deny a motion to dismiss:


The Molon case has been widely reported as an example of the inevitable disclosure doctrine’s continued applicability. In this matter, Molon sued its competitor Nidec for misappropriation of trade secrets under the DTSA and the Illinois Trade Secrets Act. Molon argued that its former employee Manish Desai copied its confidential data onto a portable data drive before leaving for a similar job at Nidec, but it did not have evidence that Desai disclosed the alleged trade secrets to Nidec or that Nidec had used any of the information Desai allegedly copied. Nidec filed a motion to dismiss based on Molon’s failure to provide any specific allegations that it had acquired or used the alleged trade secrets.

The court found that “Molon’s allegations on the direct competition between the parties, as well as the allegations on the employment breadth and similarity of Desai’s quality control work at the two companies, are enough to trigger the circumstantial inference that the trade secrets inevitably would be disclosed by Desai to Nidec.” The court denied Nidec’s motion to dismiss the trade secrets claims, but cautioned that “going forward, Molon ultimately will bear the burden of proving—not just alleging—enough facts such that disclosure is not premised on a mere unsubstantiated fear.”
Preemption

While there have not been any significant changes relating to the application of preemption issues involving the Uniform Trade Secrets Act, preemption has played a role in dozens of cases across the country, including in the recent self-driving car case discussed in this Update above, *Waymo LLC v. Uber Technologies, Inc.*

Courts in different states have taken different approaches in their interpretation of the preemption clause of the UTSA. These different interpretations focus on two areas: first, whether or not the UTSA covers confidential information beyond what would qualify as a trade secret and, second, the types of state law claims that are preempted by the UTSA.

California courts have interpreted the California Uniform Trade Secrets Act to cover confidential information beyond strictly trade secrets, and they apply the “Same Nucleus of Facts” test in determining which state law claims are preempted by the CUTSA; if the core facts of the underlying state law claim overlap with the facts underlying the CUTSA claim, then the state law claim is preempted. In *Waymo*, the court followed this interpretation, holding that a parallel state-law claim for unfair competition was preempted by the CUTSA, 256 F. Supp. 3d 1059, 1061 (N.D. Cal. 2017).
Ex Parte Seizures: the DTSA at Two

It has now been more than two years since the federal Defend Trade Secrets Act of 2016 was signed into law. One of the most-anticipated and debated aspects of the law is a provision allowing courts faced with DTSA claims to issue an ex parte order authorizing the “seizure of property necessary to prevent the propagation or dissemination of the trade secret.” 18 U.S.C. § 1836(b)(2). A seizure order permits law-enforcement agencies to take possession of property containing misappropriated trade secrets, such as laptop computers, mobile devices, paper documents, and computer hard drives. Because of the potential disruption, Congress specified that the ex parte seizure remedy is to be exercised “only in extraordinary circumstances,” such as when “a defendant is seeking to flee the country or planning to disclose a trade secret to a third party immediately.” H.R. Rep. No. 114-220 at 9 (2016). So far, courts have abided by that direction, issuing only a handful of seizure orders in the time since the law went into effect. Indeed, there have not yet been any federal appellate decisions addressing the remedy. There are scattered district court examples, however. Orders approving ex parte seizures can be found at Blue Star Land Services v. Coleman, No. 17-931, ECF No. 10 (W.D. Okla. Aug. 31, 2017) and Mission Capital Advisors LLC v. Romaka, No. 16-05878, ECF No. 7 (S.D.N.Y. July 29, 2016).

To obtain an ex parte seizure order under the DTSA, a plaintiff must show that (1) the defendant or related third parties would “evade, avoid or otherwise not comply with” an order for other injunctive relief (e.g., a TRO), and would “destroy, move, hide or otherwise make [the sought after property] unavailable” if given notice; (2) the plaintiff will suffer “immediate and irreparable injury” if the seizure does not occur, and such injury to the plaintiff outweighs any injury the defendant or third parties would suffer from the seizure; and (3) that the defendant or related third parties have possession of the trade secret and misappropriated or conspired to use improper means to obtain it from the plaintiff. 18 U.S.C. § 1836(b)(2).

In addition, the plaintiff must describe with reasonable particularity what is to be seized and where it is located; the plaintiff must not publicize the requested seizure. The DTSA also requires the plaintiff to provide security for the damages the defendant or related third parties may suffer if the court later determines the seizure was wrongfully granted.

Rather than issuing ex parte seizure orders under the new DTSA process, most courts have turned to more traditional injunctive remedies to accomplish the same end. For instance, in OOO Brunswick Rail Management v. Sultanov, the Northern District of California declined to issue an order to seize a laptop and mobile phone. No. 17-00017, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017). A railcar leasing company had provided these devices to two former employees it alleged had misappropriated its trade secrets in an attempt to disadvantage the company in debt-restructuring negotiations. See Id. at *2. The court did, however, issue an injunction requiring the defendants to preserve all evidence on those devices and to deliver the devices to the court at an upcoming hearing. Id. at *2–3. Because the court could, in its view, achieve the same result without resorting to an extraordinary remedy, it found that a seizure order was unnecessary. See Id. Another court followed similar reasoning in refusing to grant requests for civil

In the handful of instances where courts have granted seizure orders, courts have relied on clear proof that a defendant has in the past been dishonest, destroyed evidence or disobeyed orders. In Mission Capital, the court had previously issued a TRO, but the defendant had evaded service of it five times. In addition, the court found that the defendant intended to misuse the plaintiffs’ trade secret information, as the defendant had previously lied about deleting the trade secret data, only for it to appear later in a forensic review. Because of these circumstances, the court ordered seizure of the data from the computer by the US marshalls, although the court did not yet authorize a forced entry if the defendant’s computer could not be seized.

Other cases show similar patterns of clearly dishonest defendants. See Axis Steel Detailing, Inc. v. Prilex Detailing LLC, No. 17-00428, 2017 WL 8947964 (D. Utah June 29, 2017) (ordering seizure where the defendants had previously attempted to delete information from computers, and showed “a willingness to provide false and misleading information”); Solar Connect, LLC v. Endicott, No. 17-01235, 2018 WL 2386066 (D. Utah Apr. 6, 2018) (ordering seizure where the defendants showed a willingness to provide “false information to conceal their identity,” and a “willingness to hide information and move computer files rather than comply with requests to cease use” of the plaintiff’s files).

As of now, the DTSA’s ex parte seizure remedy remains more a potential — rather than an actual — tool for trade-secret plaintiffs. Its limited history, coupled with the judicial reluctance to approve the seizure remedy in lieu of more established equitable remedies, means that a defendant facing a trade-secrets suit remains in little danger of the US marshals knocking on the door with an order to turn over electronic devices — at least so far.
Criminal Matters

As predicted in our last Update, the number of criminal trade secret cases has continued to rise. In 2017, at least 20 new prosecutions were initiated under the Economic Espionage Act (18 U.S.C. § 1831, et seq.), a nearly threefold increase from the seven prosecutions that began in 2016.

Federal and state prosecutors appear particularly interested in trade secret cases that involve foreign nationals, foreign entities with governmental ties, or national security concerns. This apparent focus is not surprising in light of stated objectives of halting the international theft of intellectual property.

A number of recent prosecutions involve ties to China. For instance, in May 2017, seven individuals, including two Chinese nationals, were charged with stealing trade secret information from Swedish engineering company Trelleborg. The individuals allegedly took models, ingredient lists and formulas for syntactic foam technology. A state-supported Chinese company allegedly used the misappropriated information to produce the same components at a lower cost in China and then turned around and tried to sell those components back to Trelleborg. *United States v. Shan Shi*, No. 1:17-mj-00344 (D.D.C.).

Similarly, in December 2017, four former engineers at Applied Materials were indicted for an alleged scheme to steal semiconductor chip designs. The individuals purportedly intended to steal trade secret information in order to form a US and China-based startup that would manufacture semiconductor wafers used in lighting and electronic devices and eventually compete with Applied Materials. *United States v. Lian Chen*, et al., No. F:17-cr-00603 (N.D. Cal.).

In July 2018, former Apple employee Xiaolang Zhang was indicted for allegedly stealing trade secrets intended to benefit a Chinese electric car startup. Zhang had worked on Apple’s top secret self-driving car project, and purportedly downloaded trade secret information regarding the power requirements, battery system and drivetrain suspension mounts before he resigned. Zhang was arrested by FBI agents as he attempted to board an airline flight to China. *United States v. Xiaolang Zhang*, No. CR 18.70919 (N.D. Cal.).

In August 2018, former GlaxoSmithKline PLC scientist Dr. Yu Xue pleaded guilty to charges relating to the misappropriation of trade secret information concerning anti-cancer drugs developed by the pharmaceutical company. Reportedly one of the top biochemists in the world, Dr. Xue allegedly emailed confidential internal documents from her GSK email account to a personal email account and transferred documents using portable electronic storage devices. According to the US Attorney’s Office, Dr. Xue intended to launch a competing pharmaceutical business in China with financial support from the Chinese government. Dr. Xue’s twin sister purportedly served as a front, holding funds for the Chinese company. The US Attorney’s Office called Dr. Xue’s conduct a “serious crime” and “a form of economic warfare against American interests.” *United States v. Yu Xue*, No. 2:16-cr-00022 (E.D. Penn.).

In October 2018, an alleged employee of a Chinese intelligence agency was extradited to the United States to face charges that he attempted to misappropriate trade secret information from an American aviation company. The defendant was arrested in Belgium, after allegedly traveling there to meet with an engineer and receive stolen information. The case is believed to be the first
time that the U.S. has prosecuted a member of the Chinese intelligence apparatus. The leader of the Department of Justice’s national security division, John Demers, characterized the defendant’s conduct as part of an “overall economic policy of developing China at American expense.” United States v. Xu, No. 1:18-cr-00043 (S.D. Ohio).

In September 2017, former Boeing engineer Gregory Justice was sentenced to five years in prison for attempting to sell sensitive satellite information to a person he believed to be a Russian spy, but who was, in fact, an undercover FBI agent. Justice worked on commercial and military satellites, and the information he allegedly provided to the undercover agent was restricted under the International Traffic in Arms Regulations. U.S. v. Gregory Justice, No. 16-1357M (C.D. Cal.).

In addition to cases involving foreign entities, government prosecutors have become involved in high stakes disputes between domestic commercial competitors, as demonstrated by two recent cases.

As discussed above, in early 2017, Waymo brought a civil suit for trade secret misappropriation against Uber, alleging that former Waymo engineer Anthony Levandowski stole 14,000 files containing confidential information regarding Waymo’s self-driving car technology and provided that information to Uber. Levandowski, who was not a defendant in the civil suit, asserted his Fifth Amendment right to remain silent in response to deposition questions and document requests in that suit. In an unusual turn of events, US District Court Judge William H. Alsup referred the case to the US Attorney’s Office for criminal investigation of Uber and Levandowski. Judge Alsup cited “compelling evidence” that Uber knew or should have known that Levandowski had taken and retained possession of Waymo’s confidential files. The DOJ confirmed that it was investigating Uber and Levandowski, and forwarded to Judge Alsup a letter obtained in the investigation, which appeared to corroborate Waymo’s allegations and allegedly was not produced in the civil action. The status of the criminal matter is not known.

In June 2018, a federal grand jury in the Northern District of California returned a criminal indictment against six current and former employees of Fitbit, the maker of wearable activity tracking devices. The six individuals allegedly possess trade secrets misappropriated from Jawbone, their former employer and a Fitbit competitor. Notably, Jawbone had previously alleged claims for trade secret misappropriation against Fitbit relating to the very same individuals before the US International Trade Commission, and a federal administrative law judge found that no misappropriation had occurred. Jawbone and Fitbit had also sued each other in separate civil lawsuits, which were settled after Jawbone went out of business. Nevertheless, federal prosecutors conducted their own two-year investigation and obtained the indictment. The indicted defendants face maximum sentences of up to 60 years’ imprisonment and $1.5 million in fines. United States v. Mogal, et al., Case No. 5:18-cr-00259 (N.D. Cal.).

As these cases demonstrate, criminal prosecution of trade secret misappropriation can raise serious issues for the corporations and individuals involved. In addition to the potential for a large damages award on the civil side, trade secret misappropriation may also result in criminal penalties, including stiff fines, debarment from federal contracts, and prison sentences. Because criminal investigations require different procedural and strategic considerations, and can significantly raise the stakes in a case, it is important to consider the potential for a criminal investigation.
Spoliation Sanctions under Amended Rule 37(E)

In December 2015, the most recent amendments to the Federal Rules of Civil Procedure went into effect. These amendments included changes to Rule 37(e), which addresses sanctions for a party’s failure to preserve electronically stored information. Whether a court issues sanctions in response to a party’s loss or destruction of ESI—and what type of sanctions the court issues—can be a make-or-break decision in a trade secrets case. As a result, decisions from federal courts applying the amended Rule 37(e) have been closely followed over the past few years.

Under the amended Rule 37(e), courts have generally been less willing to issue the most severe sanctions—such as adverse inference instructions and case terminating sanctions—absent a showing that the spoliating party intended to deprive the opposing party of evidence helpful to its claim. While this is not a positive development for trade secret plaintiffs hoping for sanctions, it should serve as a relief to trade secret defendants concerned about the appropriate scope of their document retention policies.

AMENDED RULE 37(E)

Prior to the 2015 amendments, Rule 37(e) provided simply that “[a]bsent exceptional circumstances,” a court may not impose sanctions for failure to produce ESI that was “lost as a result of the routine, good-faith operation of an electronic information system.” The previous rule created confusion regarding the circumstances that give rise to sanctions. The rule did not provide clear guidance on what “exceptional circumstances” trigger deviation from the general rule; what constitutes the “good-faith operation” of an ESI preservation system; or what level of culpability is required to issue severe spoliation sanctions.

Given this lack of clarity, courts tended to rely on case law regarding their “inherent authority” to oversee and control their cases rather than Rule 37 when issuing spoliation sanctions. This resulted in inconsistent approaches to the issuing of spoliation sanctions across circuits. For example, the Ninth Circuit held that case terminating sanctions could be issued only where there was evidence of “bad faith” by the spoliating party. The Fifth Circuit required evidence of “culpability” or “willful spoliation” before adverse inference instructions could issue. Meanwhile, the Second Circuit only required a showing of negligence to grant adverse inference instructions. This inconsistency across jurisdictions created uncertainty for organizations trying to strike a balance between avoiding severe sanctions for inadvertently losing relevant evidence against the often high cost of preserving all potentially relevant ESI.

The 2015 amendments now provide clearer guidelines for the imposition of sanctions for ESI spoliation. The amended Rule 37(e) reads as follows:

Failure to Preserve Electronically Stored Information. If electronically stored information that should have been preserved in the anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court:

1. upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or

2. Leon v. IDX Sys. Corp., 464 F.3d 951, 958 (9th Cir. 2006).
(2) only upon finding that the party acted with the intent to deprive another party of the information’s use in the litigation may:

(A) presume that the lost information was unfavorable to the party;

(B) instruct the jury that it may or must presume the information was unfavorable to the party; or

(C) dismiss the action or enter a default judgment.

The revised rule imposes a relatively straightforward set of requirements that must be satisfied before ESI spoliation sanctions can issue. Specifically, (i) the missing ESI must be evidence that “should have been preserved” in anticipation of litigation; (ii) the missing ESI must be irretrievably “lost”; and (iii) the loss must be caused by a party’s “failure to take reasonable steps to preserve it.” If these requirements are satisfied, and the court finds that the non-spoliating party will be “prejudiced[d]” by the loss of the ESI, then the court may issue proportional sanctions “no greater than necessary to cure the prejudice.” However, the court may issue the severe sanctions of adverse inference instructions and case termination only upon a finding that the spoliating party acted with an “intent to deprive” the opposing party of the information’s use in the litigation.

APPLICATION OF AMENDED RULE 37(E)

Since the amended Rule 37(e) went into effect, federal courts have for the most part been faithfully imposing its requirements before issuing sanctions. The fact-specific nature of spoliation analyses makes it difficult to isolate trends in these cases, but in general it appears the amendments to Rule 37(e) have made courts more reluctant to issue severe sanctions except where there is solid evidence to establish that the spoliating party intended to deprive the opposing party of evidence and thereby caused prejudice.

Courts Focus on Actual Prejudice. Due to the express requirement of prejudice in amended Rule 37(e), courts have declined to issue sanctions in cases where the non-spoliating party offered mere speculation that the missing evidence would have been helpful to its claim, even in cases where the spoliating party was at least somewhat culpable for the ESI deletion. For example, in HCC Insurance Holdings, Inc. v. Flowers, the defendants executed a number of computer scrubbing programs on a computer after the court ordered them to produce the computer. No. 1:15-cv-3262, 2017 WL 393732, at *2-4 (N.D. Ga. Jan. 30, 2017). While the court found the defendants’ actions “troubling” and a “breach of [their] duty to preserve,” the court nonetheless held that sanctions were not warranted because plaintiffs only offered “speculation” that the defendants’ scrubbing programs deleted any files relevant to their trade secret claim. Likewise, in Steves & Sons, Inc. v. JELD-WEN, Inc., the court held in a trade secrets case that—while the plaintiff was culpable for failing to suspend its standard ESI deletion policy—no sanctions were warranted because the plaintiff’s culpability “was not substantial” and “any prejudice . . . is limited” because the defendant’s arguments about the potential relevance of the missing data rested on “speculation.” No. 3:16-CV-545, 2018 WL 2023128, at *11 (E.D. Va. May 1, 2018).

Courts Focus on Proportionality. The requirement in Rule 37(e) that a court “may order measures no greater than necessary to cure the prejudice” appears to have given some courts pause before issuing the most severe sanctions. For example, in Edelson v. Cheung, the defendant opened an undisclosed email account during the course of litigation for the apparent purpose of evading discovery, and then deleted emails when the email account came to light. The defendant dubiously claimed that it “didn’t occur” to him to disclose his secondary account and that he deleted emails in the account because he thought it would make his email application operate more efficiently. No. 2:13-cv-5870 (JLL (JAD), 2017 WL 150241, at *2-*4 (D. N.J. Jan. 12, 2017). The court did not find this explanation credible, but nonetheless declined to issue the harsh sanction of default judgment because “the degree of prejudice” suffered by the plaintiff was not strong enough to merit this result. Instead, the court issued the least-harsh of the severe sanctions available under Rule 37(e)(2) — a permissive jury instruction that allowed but did not require the jury to presume that the missing information was unfavorable to the defendant.

Terminating Sanctions Imposed Where There is a Pattern of Abuse. Courts remain willing to enter terminating sanction under Rule 37(e)(2)(C); however, this sanction tends to be imposed only in cases involving a concrete pattern of discovery abuse and where the spoliating party defied a direct court order. For example, in Global Material Technologies, Inc. v. Dazheng Metal Fibre Company, the defendant Chinese company sold off numerous computers containing potentially relevant evidence while involved in trade secret litigation. No. 12 CV 1851, 2016 WL 4765689, at *9 (N.D. Ill. Sept. 13, 2016). The defendant also allowed a number of relevant employee email accounts to be deleted. The court was persuaded to enter the harsh sanction of default judgment in light of the fact that this spoliation was part of a long string of discovery misconduct and the fact that the defendant made numerous misrepresentations to the
court in the course of trying to explain reasons the ESI was destroyed. The court held that the defendant’s ongoing dishonesty compelled the conclusion that the ESI deletion was a deliberate effort to prevent plaintiffs from litigating their claims. Likewise, in Roadrunner Transportation Servs., Inc. v. Tarwater, the Ninth Circuit issued a memorandum opinion affirming entry of default judgment against the defendant as a Rule 37(e) sanction where there was “ample evidence” that the defendant had “deleted emails and files on his laptops after receiving multiple preservation demands” and “even after the court explicitly ordered [defendant] to preserve ‘all data’ on his electronic devices.” 642 F. App’x 759, 759–60 (9th Cir. 2016).

Meanwhile, in OmniGen Research v. Yongqiang Wang, the defendant — a former employee of the plaintiff who started a competing enterprise — deleted hundreds of files after receiving a cease-and-desist letter from the plaintiff putting him on notice of the prospect of trade secret litigation. 321 F.R.D. 367 (D. Or. 2017). The defendant also left the country for China in defiance of the court’s preliminary injunction order, and later deleted thousands of additional files from his computer. The court found there was a high likelihood of prejudice given that many of the non-recoverable documents had file names suggesting their relevance to the litigation. The court ultimately entered default judgment after finding that the defendant had acted with a clear “intent to deprive” the plaintiff of relevant evidence.

Many Courts Remain Willing to Exercise “Inherent Authority.” Some commentators predicted that following the amendments to Rule 37(e), courts would no longer be willing to exercise their “inherent authority” to issue sanctions for preservation failure. Indeed, the Committee Notes to the 2015 amendments state that the revised rule “forecloses reliance on inherent authority or state law to determine when certain measures should be used.” Nonetheless, shortly after the amended Rule 37(e) went into effect, Magistrate Judge James C. Francis IV held in Cat 3 LLC v. Black Lineage Inc., that if a party’s apparent alteration of e-mails was not sanctionable under amended Rule 37(e), then the court could still impose sanctions pursuant to its inherent authority. 164 F. Supp. 3d 488 (S.D.N.Y. 2016). This sparked debate as to whether Rule 37(e) was intended to occupy the entire field, or if courts retained flexibility in tailoring sanctions pursuant to their “inherent authority.” The US Supreme Court subsequently touched on this issue in Goodyear Tire & Rubber Co. v. Haeger, explaining that any sanctions issued pursuant to a court’s inherent authority cannot be punitive and must be “causally related to the sanctioned party’s misconduct.” 137 S.Ct. 1178 (2017). However, this case arose outside the context of spoliation, and the court did not address whether amended Rule 37(e) forecloses “inherent authority” sanctions. As this debate continues, courts have generally continued to assert their right to issue sanctions under their “inherent authority,” but at the same time have attempted to fit their sanctions within the boundaries of amended Rule 37(e).

PRACTICAL IMPLICATIONS

In general, the amendments to Rule 37(e) have made courts less willing to issue serious sanctions in response to evidence loss or destruction. For example, while a permissive adverse inference instruction (i.e., one that permits but does not require a jury to presume missing evidence would have been unfavorable) has historically been treated as a middle-of-the-road response to evidence destruction, courts appear less willing to issue this sanction now that it has been lumped together with terminating sanctions and mandatory presumption instructions under Section 37(e)(2), all of which require a showing of “intent to deprive” before they can be issued. Trade secret litigants seeking any form of adverse inference instruction should consider citing to cases that recognize the courts’ “inherent authority” to fashion appropriate sanctions (even those outside the scope of Rule 37(e)), while at the same time advocating that such an instruction is allowed under Rule 37(e).

While the amended Rule 37(e) may not be a welcome development to parties seeking sanctions, it serves as a relief to organizations concerned about the risk of sanctions that could issue in response to merely negligent failure to preserve ESI. The amended Rule 37(e)’s requirement of prejudice caused by the lost ESI, as well as the required proportionality of the remedy to cure that prejudice, should ease concerns that might have otherwise led an organization to expend excessive resources over-preserving ESI. However, while the negligent destruction of ESI can no longer lead to the most severe discovery sanctions under the amended Rule 37(e), it may still result in other damaging sanctions—including monetary sanctions, the exclusion of supporting evidence, and allowing the presentation of evidence regarding acts of spoliation.
Damages in DTSA Cases

Under the DTSA, economic remedies include actual damages, unjust enrichment and reasonable royalties. Prevailing DTSA plaintiffs can also obtain exemplary damages — not more than double the compensatory award -- where there is willful or malicious appropriation, as well as reasonable lawyers’ fees. Trade secret litigation can yield particularly high damages, as seen in cases like Epic Systems v. Tata Group (a 2016 Western District of Wisconsin case with almost a billion dollars in damages) and E.I. du Pont de Nemours and Company v. Kolon Industries Inc., et al. (a 2011 Eastern District of Virginia case that also had an almost-billion-dollar verdict, though it was eventually vacated).

The DTSA is structured in a way that would in theory allow for continued high damages figures. However, in the roughly two-and-a-half years since the DTSA’s enactment, few DTSA cases have reached damages verdicts. Moreover, because the DTSA provides a cause of action only for events occurring on or after its May 11, 2016 enactment date, there have been questions of whether damages stemming from an earlier misappropriation are available under the Act. Here are three notable recent trade secret damages decisions following the DTSA’s enactment date:

**APRIL 2017—“FIRST DTSA VERDICT”**

The Dalmatia v. Foodmatch case, noted as the “first DTSA damages award,” centered on a controversy over a gourmet fig spread. The dispute highlighted issues of discussing trade secrets with vendors and distributors—in this case, Dalmatia alleged that its former distributor took trade secrets after being terminated. A jury found for Dalmatia and awarded total damages of more than $2.5 million, with $500,000 attributed to the trade secrets misappropriation claim. But Foodmatch later argued that the jury instructions were improper because the instructions failed to sufficiently differentiate between claims at issue. Foodmatch also contended the lump amount awarded was based on a damages period that included several months before the DTSA was enacted.

The Eastern District of Pennsylvania ultimately rejected these post-trial arguments, finding that Dalmatia had shown it sustained damages in the period following the enactment of the DTSA, and it awarded treble damages that brought the judgment to $5.2 million.

**MAY 2018—AVOIDED COSTS IMPERMISSIBLE AS A DAMAGES MEASURE**

In E.J. Brooks Co. v. Cambridge Security Seals, a case about manufacturing plastic security seals, the Second Circuit considered whether avoided costs was an appropriate measure of damages. The plaintiff sought damages measured by the development costs that were allegedly saved as a result of the claimed misappropriation. The plaintiff sought damages measured by the development costs that were allegedly saved as a result of the claimed misappropriation. The Southern District of New York awarded $3.9 million in compensatory damages based on this theory, and the Defendant appealed on the basis that avoided costs are not a permissible measure of damages under New York law. The Second Circuit determined that the issue was unsettled, and as such, it certified the question to the New York Court of Appeals.
In a 4-3 decision issued in May of 2018, the New York Court of Appeals determined that the damages measure of avoided costs was not appropriate. The reasoning behind the court’s decision was that “[t]he fundamental purpose of compensatory damages is to have the wrongdoer make the victim whole.” That principle, according to the court’s finding, could not support damages beyond the plaintiff’s actual losses under the causes of action at issue in the case. The court noted that while disgorgement, a similar theory of damages, is permissible, the avoided costs measure was too indirect to plaintiffs’ actual losses or defendant’s actual gains.

While this case is based in state law, and not the DTSA (the causes of action accrued prior to the DTSA’s enactment), it is a useful reminder that the DTSA is only part of the patchwork of trade secret law. Further, it is possible if not likely that courts considering damages for DTSA violations would treat the avoided costs theory the same way as did the New York Court of Appeals.

In a Federal Circuit case titled *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, the court determined, among other things, that disgorgement damages for the defendant’s profits was an equitable issue for the court to determine. Accordingly, it vacated a $48.8 million jury award for disgorgement of profits.

The dispute between TAOS and Intersil arose following confidential discussions relating to a potential merger. After the merger discussions failed, Intersil released a product that TAOS alleges incorporated its confidential design information disclosed during the merger discussions. A jury in the Eastern District of Texas awarded more than $48 million in damages for disgorgement alone, in addition to other damages.

The Federal Circuit’s decision to vacate the jury’s damages award was based in its historical analysis of whether juries awarded disgorged profits in analogous tort cases like patent, copyright and trademark infringement when the Constitution was enacted in 1791. It determined they did not, and thus that the plaintiff did not have a Seventh Amendment right to a jury on the issue of disgorgement.

Central to the court’s reasoning was the issue of whether disgorgement damages could be considered a “proxy” for actual damages — if not, the issue was one of equity and not fact. While the court left room for future findings that disgorgement is a proxy for actual damages, it held that such was not the case there.

Between the statutory language of the DTSA and the little case law that exists on damages post-DTSA, it appears that economic remedies are similar to those under the Uniform Trade Secrets Act. But issues with lump damages awards, alternative theories of damages such as avoided costs and equitable versus legal damages questions make clear the importance of closely following both DTSA and state law damages verdicts, as this area will develop further.
Introducing the USMCA: What Does the New Trilateral Agreement Mean For Trade Secret Protections?

On September 30, 2018, American and Canadian negotiators reached an agreement to keep Canada in a trilateral trade pact with the United States and Mexico. If ratified by the countries' legislatures, the United States-Mexico-Canada Agreement (USMCA) would replace the North American Free Trade Agreement (NAFTA)—in effect since 1994—in early 2020. The new deal features a greatly expanded intellectual property regime, including the strongest trade secret protections of any US trade agreement.

As a baseline, the trade secret rules established by NAFTA’s Article 1711 carry over to Article 20 of the USMCA. Protection for trade secrets therefore cannot be limited in duration, and no party state can hinder their voluntary licensing. The only omission is of an exception: under NAFTA, countries are permitted to restrict trade secret protections to material that is reducible to physical or electronic evidence. This will no longer hold true.

Instead, the USMCA protects against misappropriation or disclosure of trade secrets in any form, not only to and by private parties, but also by governments. Furthermore, the agreement borrows the language of the defunct Trans-Pacific Partnership to bar a trade secret’s disclosure to, and acquisition or use by, “state-owned enterprises.” That addition is meant as a warning to China, the isolation of which is further encouraged by a separate clause allowing for accelerated termination of the entire accord if a party state enters into a trade agreement with a non-party.

USMCA’s enhanced trade secret protections are threefold. First, all party states must criminalize certain acts of willful misappropriation. The respective legislatures may choose amongst options, but criminal sanctions will apply in at least one of three situations: (a) actions taken for commercial or financial gain, (b) actions related to a product or service in national or international commerce or (c) actions intended to injure a rightful owner.

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5 For the full text of the agreement, see Office of the US Trade Representative, United States-Mexico-Canada Agreement Text, https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/united-states-mexico [hereafter “USMCA”].
Second, civil remedies for misappropriation must include the right to an injunction as well as to damages “adequate to compensate the person lawfully in control of the trade secret.” This compensation should include not only the harm traceable to misappropriation, but also the harm traceable to an enforcement action.

Third, both litigants and participants in regulatory proceedings will be reassured by new rights of confidentiality. In the judicial systems of each nation, civil trade secret cases must be granted specific protections, with courts able to sanction parties, lawyers, and any other person who violates a related order. Judges themselves will be barred from disclosing the trade secrets before them until they have given parties an opportunity to argue, under seal, for confidentiality. And in all proceedings, including criminal and regulatory ones, unauthorized disclosures by a government official must be made punishable by fines, termination and imprisonment.

Some terms may sound familiar, and not only because of the imported Trans-Pacific Partnership language. The drafters also appear to have looked to the federal Defend Trade Secrets Act of 2016 and to the Uniform Trade Secrets Act. Changes to existing domestic law are thus unlikely to be significant; as with its provisions for copyrights, trademarks and patents, USMCA largely imports current US-level protections. However, barring unforeseen developments, passage will assure trade secret holders of standardized and secured enforcement options north and south of the border, while also putting overseas entities on notice that the North American bloc stands firmly against the threat of misappropriation.
European Union Directive on Trade Secrets

New EU laws aimed at helping businesses protect their trade secrets have come into effect. Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (the Directive) entered into force on July 5, 2016, and EU member states were required to implement it under national laws by June 9, 2018. The Directive was designed to harmonize trade secret protection across Europe by imposing a minimum standard of protection (which may be increased by national laws).

WHAT AND WHO IS PROTECTED?
A trade secret is defined under the Directive as information that: (a) is a secret in the sense that it is not generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question, (b) has commercial value because it is a secret and (c) has been subject to reasonable steps by the person lawfully in control of the information (the “trade secret holder”) to keep it secret. The Directive enables a licensee to protect a trade secret, as well as its original owner.

WHAT ACTIVITIES ARE PROHIBITED?
Under the Directive, it is unlawful for anyone, without consent, to acquire a trade secret through: (a) unauthorized access to, appropriation of, or copying of any documents or other materials lawfully under the control of the trade secret holder containing the trade secret or from which the trade secret can be deduced or (b) any other conduct which is considered contrary to “honest commercial practices” (a term not defined).

Disclosure or use of an unlawfully gained trade secret, or disclosure/use in breach of a contractual duty or duty of confidence, is also unlawful.

Third parties are liable for the acquisition, use or disclosure of a trade secret from another person if they knew or should have known that the trade secret had been obtained unlawfully, or if they knowingly or recklessly manufactured or imported goods produced as a result of the unlawful use of a trade secret.

Exceptions to otherwise unlawful conduct include where the acquisition, use or disclosure of the trade secret was carried out for (a) exercising freedom of expression and information (as set out in the EU’s Charter of Fundamental Rights) or (b) revealing misconduct, wrongdoing or illegal activity (as long as it was done in the general public interest). Further, nothing in the Directive is intended to limit an employee’s mobility and so does not limit an employee’s use of (a) information that does not constitute a trade secret or (b) experience and skills honestly acquired in the normal course of their employment.
On the other hand, the Directive clarifies that it is lawful to acquire trade secrets by (a) independent discovery or creation, (b) reverse engineering from a product or object that has been made available to the public or is lawfully in the possession of the acquirer of the information and (c) any other practice that is in conformity with “honest commercial practices.”

**ADDITIONAL INTERNATIONAL TRADE ISSUES TO CONSIDER**

Theft of trade secrets by foreign entities has increasingly become a concern for any company with trade secrets requiring protection. It is also a particular concern for the government of the United States and US corporations. The Defend Trade Secrets Act and the EU Directive have the potential to change the landscape of trade secrets law around the globe, both by enhancing the ability of companies in the United States to go after foreign theft and through requiring foreign countries to implement stronger protection regimes of their own.

The DTSA, discussed in detail elsewhere in this Update, applies to certain conduct occurring outside the United States through 18 U.S.C. § 1837(2). That section applies the laws of the broader chapter, including the DTSA, to “conduct occurring outside the United States if . . . an act in furtherance of the offense was committed in the United States.”

Only a handful of cases have discussed the application of the DTSA to international conduct since its enactment two years ago. The first case to apply Section 1837 was *T&S Brass and Bronze Works, Inc. v. Slanina*, No. 16-3687, 2016 WL 11201768, at *6 (D.S.C. Dec. 20, 2016). The court recommended the granting of a preliminary injunction where the defendant transported the plaintiff’s manuals to the United Kingdom in order to duplicate the plaintiff’s machines for sale in Europe. In later granting the preliminary injunction, the court found that it could enjoin the defendant’s conduct under the DTSA, regardless of the terms of the defendant’s non-compete clause. No. 16-03687, 2017 WL 1734362, at *12 (D.S.C. May 4, 2017).

In the most recent case to apply Section 1837, *Vendavo Inc. v. Price f(x) AG*, the court dismissed a DTSA claim, with leave to amend, where the plaintiff had not distinguished clearly between the acts of the affiliated defendant corporations, one of which was a Delaware corporation and the other German. No. 17-06930, 2018 WL 1456697, at *4 (N.D. Cal. Mar. 23, 2018).

**REMEDIES FOR BREACH OF AN OBLIGATION**

Remedies include injunctive relief (both interim and final) and damages. The limitations period for bringing a civil claim may not exceed six years, but member states can elect to implement a lesser period.

**IMPLEMENTATION IN THE UK AND ELSEWHERE**

The Directive is unlikely to have a significant impact in the United Kingdom. The United Kingdom’s enforcement regulations came into effect on June 9, 2018. The substance of the Directive was already broadly reflected in UK law, and so the new regulations are primarily gap-fillers. In general, the new Directive will likely provide more confidence to UK businesses that their trade secrets will be protected across a greater portion of Europe in a relatively uniform manner.

While France missed the June 9 deadline, the French Parliament passed an enforcement bill on June 21 that mostly tracks the Directive. However, Germany still has yet to pass an enforcement bill, although one is expected to pass by the end of 2018, and many countries in central and eastern Europe have also failed to enact appropriate national legislation. Going forward, companies looking to protect their secrets in countries where an enforcement bill has not been implemented may be able to argue that the countries’ laws should be understood in light of the new Directive.
THE COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP

On January 30, 2017, the United States formally withdrew from the Trans-Pacific Partnership Act. Article 18.78 of the TPPA had required parties to enact criminal procedures and penalties in certain circumstances surrounding trade secret theft. After the United States’ withdrawal, the remaining 11 signatories entered into a new agreement in March 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP has been signed by all 11 countries and was ratified by more than half of those countries in 2018 – the agreement will come into force on December 30, 2018.

The largest change in the CPTPP involves the suspension of many of the intellectual property protections in the TPPA. However, Article 18.78, which protects trade secrets, has remained unchanged. The agreement provides some leeway for implementation in the member countries, but still sets a flexible minimum for the criminalization of trade secret misappropriation. The United States has recently begun to explore whether it should rejoin the agreement, and the United Kingdom has expressed interest in joining as well. The near future will be a key time to watch the implementation of both the DTSA and the CPTPP, to see whether the current promise of the documents stands up to the real-world pressures of diverging wills and differing national interests.
Trade Secrets and Restrictive Covenants Practice

Jenner & Block’s Trade Secrets and Restrictive Covenants Practice is highly experienced at securing victories for our clients, as plaintiffs and defendants, both in and out of the courtroom. Our interdisciplinary team comprises members of the firm’s Litigation, Intellectual Property and Labor and Employment Practices. This coordinated approach results in a team that is highly collaborative and excels at providing proactive counseling to avoid litigation and successfully and efficiently resolving litigation if it does arise. Our lawyers have litigated trade secrets cases throughout the country, in both state and federal courts, from temporary restraining orders to trial and appeals. With a proliferation of cases aimed at protecting or attacking valuable intellectual property, trade secrets are more important than ever.

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