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# Trade Secret Litigation: Strategic Considerations and Trends

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# Today's Webinar Presenters



**Sheryl Falk**  
Partner  
Houston  
+1 713-651-2615  
[sfalk@winston.com](mailto:sfalk@winston.com)



**David Enzminger**  
Partner  
Los Angeles  
+1 213-615-1780  
[denzminger@winston.com](mailto:denzminger@winston.com)

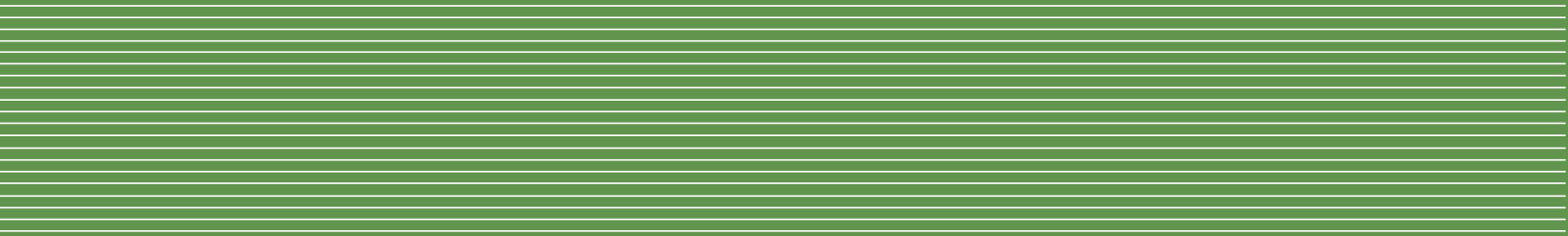


**Shane Blackstone**  
Partner  
Chicago  
+1 312-558-3754  
[sblackstone@winston.com](mailto:sblackstone@winston.com)

# Agenda

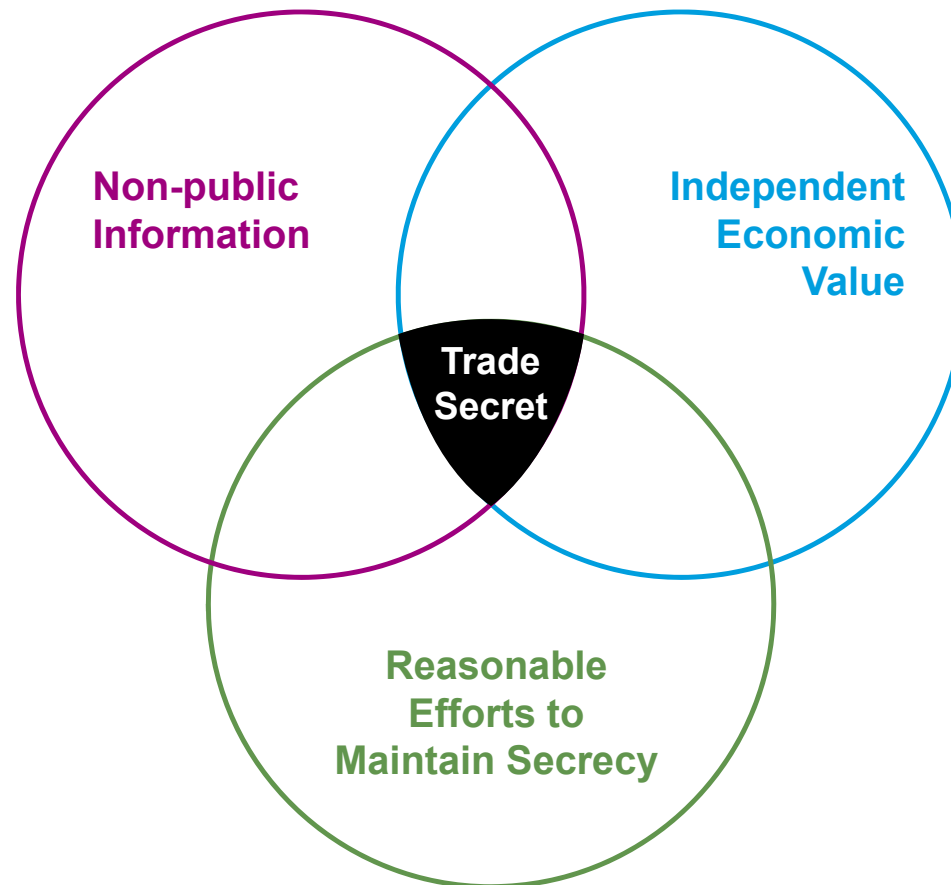
- Trade Secret Law Overview
- Maximizing chance of success in litigation
- Strategic Litigation Considerations
- Damages/Injunctions
- Recent Developments and Trends in Trade Secret cases

# Trade Secret Law Overview

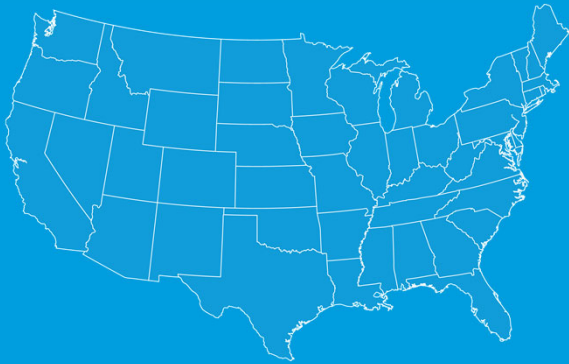


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# What Is a Trade Secret?



# Federal Law: Defend Trade Secrets Act



- **United States Federal Law – May 11, 2016**
  - 18 U.S.C. §1836
  - Amendment to the Economic Espionage Act
- **Defend Trade Secrets Act (DTSA)**
  - Creates a new Federal Trade Secret Law applicable to all states and territories in the United States
  - Ex parte seizure remedy
  - Whistleblower protection: new notice requirements for non-disclosure or confidentiality agreements
- **Does not change or preempt state laws**

# State Law: Uniform Trade Secret Act (UTSA)

- 49 states and District of Columbia have adopted
  - Not adopted by NY
- UTSA adoption is not identical in all states
- Differences amongst state laws relating to preemption



# Comparison of DTSA to the UTSA

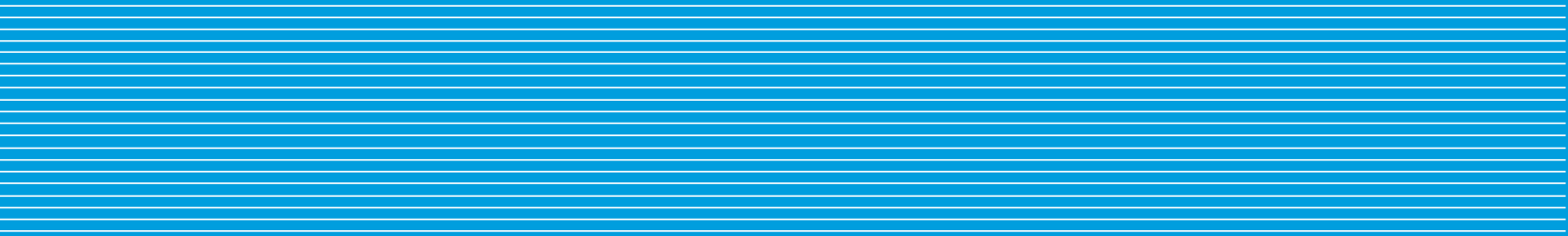
- The DTSA adopts many of the provisions of the UTSA, including:
  - Similar definition of “trade secret”
  - An identical definition of “misappropriation”
  - Similar available remedies, namely:
    - Injunctive relief to prevent actual or threatened misappropriation (with limits)
    - Actual damages
    - Exemplary damages for willful misappropriation (if notice satisfied)
    - Attorneys’ fees to prevailing party (if notice satisfied)



# Litigating Under the DTSA

- Because the DTSA does not preempt state trade secret laws, owners should carefully consider which laws are most useful in enforcing their rights
  - Differences should be investigated for statute of limitations, recoverable damages, enhanced damages, the recovery of attorneys' fees, etc. For example:
    - DTSA has a 3-year statute of limitations; state statutes vary from 2 to 5 years
    - Where actual damages cannot be proved, some states allow a reasonable royalty to be awarded for as long as it would take to develop the trade secret without the misappropriation; DTSA contains no similar remedy.
- Trade secrets owners no longer have to file multiple lawsuits in different venues when confidential information has been moved out of state / to another country

# Pre-Litigation Steps to Maximize Litigation Success



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# Proactive Approach to Trade Secrets

Two Goals: minimizing theft + increasing legal options



# Take “Reasonable Measures” to Protect Secrets



**NOT**  
Take Reasonable  
Measures

**=**

**NOT**  
A Trade Secret

2009 to 2018: more than 11% of claims dismissed for lack of “reasonable measures”

# What are “Reasonable Measures”?

- Fact and circumstances dependent – no bright line rule
- Contractual Protections
  - Employee confidentiality and IP agreements
  - NDAs with customers and other business partners
- Robust policies and procedures
  - Use of electronic devices; removal/transmittal of files and documents
  - Exit protocols
- System security
  - Password protections; restricted access to files
  - Restrict ability to use cloud storage and USB devices
- Marking of documents as “Confidential”

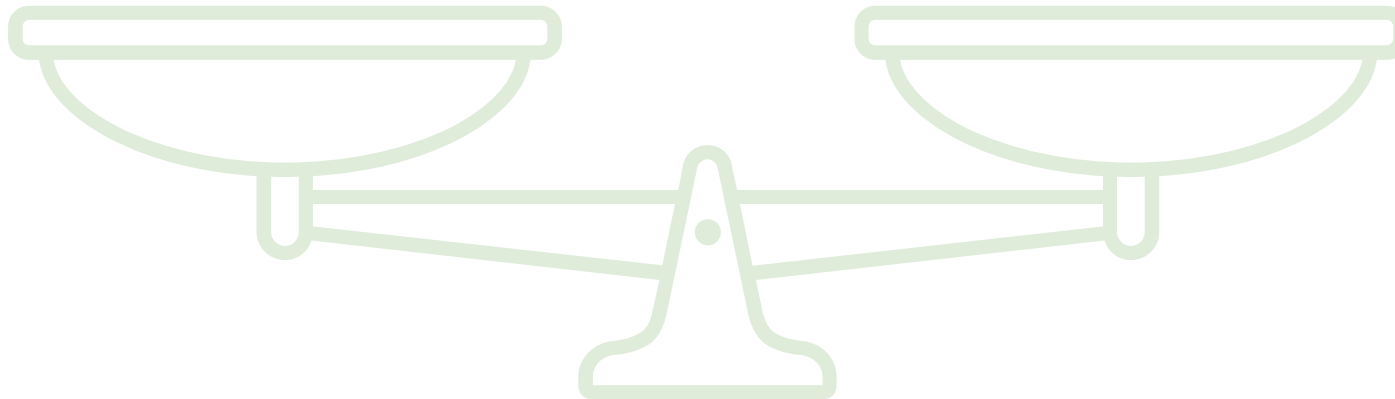
# Implement a Thoughtful Marking Policy

## To Mark?

Viewed as reasonable measure  
Puts potential thief on notice  
Some courts think dispositive

## Or Not to Mark?

Failure to abide by policy  
can undermine claim  
Fact-based determination



# Utilize Robust Onboarding

- Require confidentiality agreement as a condition of employment
  - Include specific provision that strictly prohibits the use of other's confidential information
  - State the company's policy against the use of any such information
  - Recognizes variations in different state laws
- Affirmation of employee's confidentiality obligations to former employers
- Communicate the importance of confidentiality agreements
  - Document meetings, internal communications and policy manuals to show good faith intention not to misappropriate confidential information



# Conduct Comprehensive Training

- Utilize policies that explicitly state obligations
  - Confidentiality obligations; sanctioned use of electronic systems
  - Make sure understanding of what is a trade secret is clear
- Implement practical training
  - Require certification of understanding/acknowledgment
  - Comprehension testing
  - Not a one-time thing – should repeat regularly
- Keep track of training—including copies of versions of training taken



# Have Sufficient Exit Protocols

- Terminate physical and electronic access completely and promptly
  - IMMEDIATELY collect devices
  - Require return of data
- Conduct an exit interview
- Require the employee to re-certify obligations
- Assess risk of theft → heightened protocols



# Implement Protective Measures with Business Partners

- Use a carefully drafted NDA
- Ensure compliance with applicable legal and regulatory requirements
- Include defensive provisions designed to protect against and minimize the possibility of a subsequent claim
- Narrow definition of what is “confidential”
- Require labeling of confidential information
- Include time frame of confidentiality obligations
- Disclaim any implied obligations that exceed the agreement’s confidentiality obligations

# Investigation Triggers



- Suspicious Departures
  - Multiple resignations within a group
  - Employee leaving to work for competitor
  - Employee not willing to divulge next employer
  - Employee leaving for start-up company in same field
  - **LinkedIn** tip off
- Exposure to highly sensitive information
- Refusal to account for all company assets
- Frequent Use of USB devices
- Forwarding documents to external email address
- Copying documents to unapproved cloud storage services
- Use of external VPN services to hide activities
- DLP alert
- New company with former employees announces competing product in suspiciously short time
- **Customer contacts**

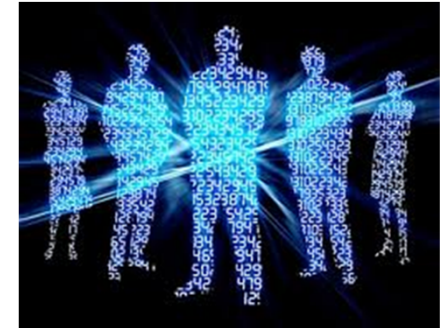
# Theft of Trade Secrets

- Possession of laptop/phone
- Legacy data on personal systems
- USB devices
- Printing hard copies
- Email
- Text/WhatsApp/chats
- Slack channels
- Upload to Cloud
- Photographing data
- Remote VPN access to data
- Remote viewing sessions through TeamViewer, etc.

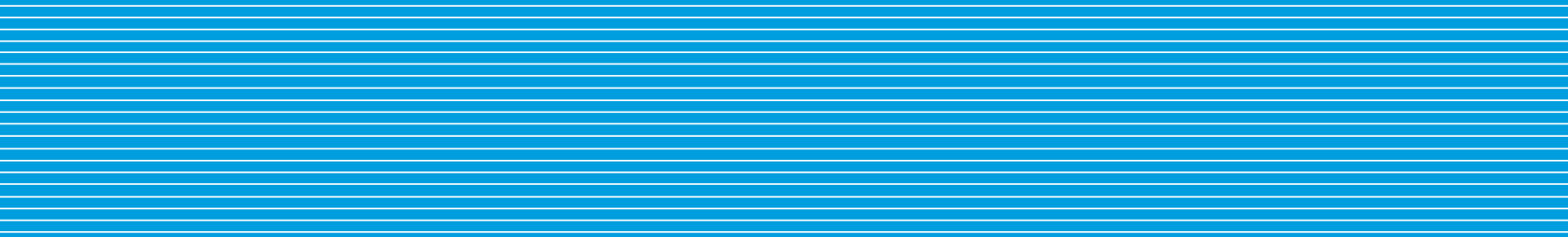


# Investigation

- Identify all affected data, machines and devices
- Forensically Preserve Evidence (Chain of Custody)
- Develop the Evidence
  - Analyze the data for transfer, use, destruction
  - Conduct interviews with key personnel
  - Reviewing incident documentation
- Understand use of the copied data
- Identify the spread of the data
- Understand how the data was protected
- Document costs associated with harm/investigation



# Strategic Litigation Considerations



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# Filing Suit: Initial Strategic Considerations

- Forum for litigation
  - Federal vs State courts
  - Venue considerations
- Parties to the litigation
  - Potential plaintiffs
  - Who do you name as defendants
- Common claims
- Involvement of law enforcement
- Expedited injunction proceeding vs. claim for damages

# Pleading and Other Initial Filings

- Complaint
  - Pleading standards
    - Federal notice pleading / “Plausibility”
    - Fact pleading jurisdictions
      - Identify trade secret with reasonable particularity
    - Impacts pleading of trade secret status and other elements of claims
  - Verification of Complaint?
  - Other filings:
    - TRO or Preliminary Injunction
    - Expedited discovery



# Can I Get My Opponent's Hard Drive?

DTSA allows for ex parte order providing for seizure of property necessary to prevent disclosure

Generally, your chances are stronger if you:

- Show evidence of data transfer, missing USBs
- Show destruction of other evidence
- Show no alternate method to obtain data
- Limit requests to forensic artifacts, not the file data
- Propose neutral expert and Agreed Protocol
- Agree to share costs



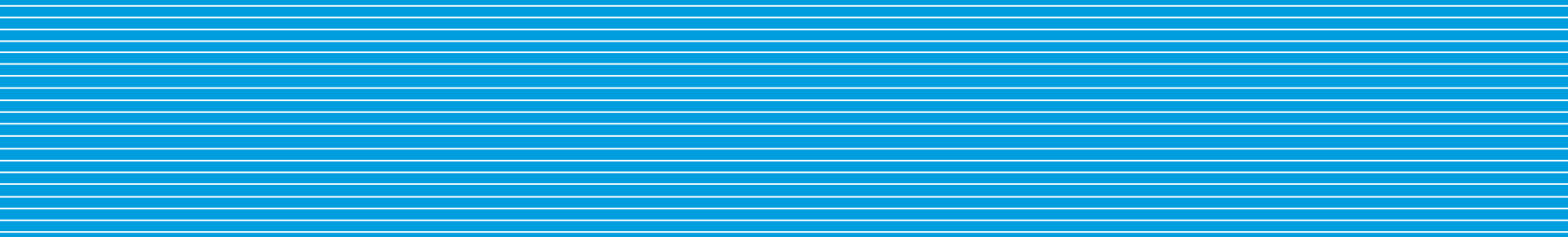
# When Faced with a Trade Secret Claim

- Decision – Fight or Cooperate?
- Immediate investigation required in either event
  - Privilege
  - Data preservation and spoliation issues
- Cooperation
  - Frequently involves agreed remediation
  - Negotiate and narrow the scope of relevant information
  - If employment context, future employment relationship must be considered

# When Faced with a Trade Secret Claim

- Defending against trade secret claims
  - Force plaintiff to define the trade secrets with particularity
  - Work to show information is publically available to set up for a summary judgment
  - Fight broad injunctive relief requests -- show the plaintiff's claim is inconsistent with employee mobility
- Strategy if only the employee is named
  - Representation issues
  - Confidence in employee
  - Indemnification requests by employee

# Damages and Injunctive Relief



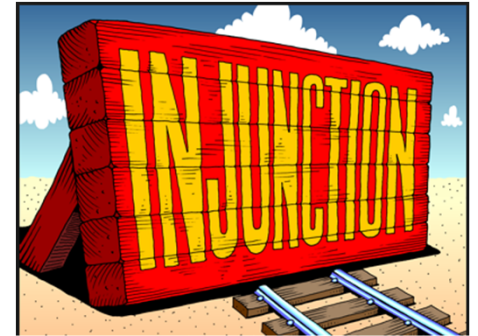
# Trade Secret Litigation Remedies

- **Injunctive Relief**

- Available for actual or threatened misappropriation
  - Removes “lead time” advantage
  - Protects loss of secrecy
  - May prevent “inevitable disclosure” by departing employee with significant trade secret knowledge who joins competitor (not federal or California)
- Preliminary Injunctions more prevalent in trade secret cases

- **Damages**

- Actual damages, disgorgement of unjust enrichment, or reasonable royalty
- Exemplary damages and attorneys’ fees possible for bad faith claims or willful or malicious conduct



# Remedies: Damages Under The UTSA

## —UTSA § 3. Damages

- (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.
- (b) If willful and malicious misappropriation exists, the court may award exemplary damages in the amount not exceeding twice any award made under subsection (a).



### **Monetary Damages**

1. Damages
2. Disgorgement of Unjust Gains
3. In Some Cases, a Reasonable Royalty
4. Potential Punitive Damages

# Reasonable Royalty

- Reasonable royalty factors:
  - the resulting and foreseeable changes in the parties' competitive posture
  - the prices past purchasers or licensees may have paid
  - the total value of the secret to the plaintiff, including the plaintiff's development costs and the importance of the secret to the plaintiff's business
  - the nature and extent of the use the defendant intended for the secret
  - and finally[,] whatever other unique factors in the particular case...might have affected the parties' agreement, such as the ready availability of alternative processes

# Remedies: Injunctive Relief Under The UTSA

## —UTSA § 2. Injunctive Relief

- (a) Actual or threatened misappropriation may be enjoined. Upon application to the court an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
- (b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.
- (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

### **Generally:**

Injunctive Relief to Prevent Future Misappropriation and to Remove “Lead Time Advantage”



# Remedies Under Federal Defend Trade Secrets Act 18 USC §1836(b)(3)

- Monetary Damages
  - Actual Loss, Restitution, or Reasonable Royalty
    - Broader than some State Laws such as California (where reasonable royalty may only be of limited duration)
  - Enhanced Damages and Attorneys' Fees in some cases
  - Injunctive Relief
    - Similar to USTA
    - Except that Federal Courts do not have power to prevent an employee from entering into an employment relationship, based on knowing trade secret information
  - **Ex Parte Seizure**
    - **Court may order trade secret information seized without notice**
    - **Material seized held by court and not turned over to plaintiff**

# How to Craft Injunctive Relief

- Return or destruction of trade secret information
- Preclusion of Use of the Trade Secret Information
  - Technical trade secrets
  - Customer contact and sales
  - Usually of limited duration
  - Under USTA (outside California), restriction on employment
- For Defendant
  - Exception for technology developed by verified clean room

# Immunity Provision Limitation

- The DTSA requires employers to provide notice of the immunity to any employee, contractor or consultant in any contract governing the use of trade secrets or other confidential information
  - Required for new employment contracts entered after the effective date of the DTSA
  - Required notice can be provided by cross-referencing a policy document setting forth employer's reporting policy for suspected violations of the law
  - Employer that does not provide required notice may be precluded from recovering exemplary damages or attorneys' fees under the DTSA

# Recent Developments and Trends in Trade Secret Cases



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# DOJ Continues to Focus on Chinese Entities and Emerging Technologies

- Nov 2018: DOJ announced the China Initiative
- 2019: DOJ has brought over 20 theft prosecutions involving Chinese actors or entities, including:
  - Two affiliates of Huawei Technologies
  - Former Coca-Cola scientist
  - 14-count indictment against American power company and Chinese businessman
- the Domestic front, Emerging Technologies continue to be a focus of prosecution.

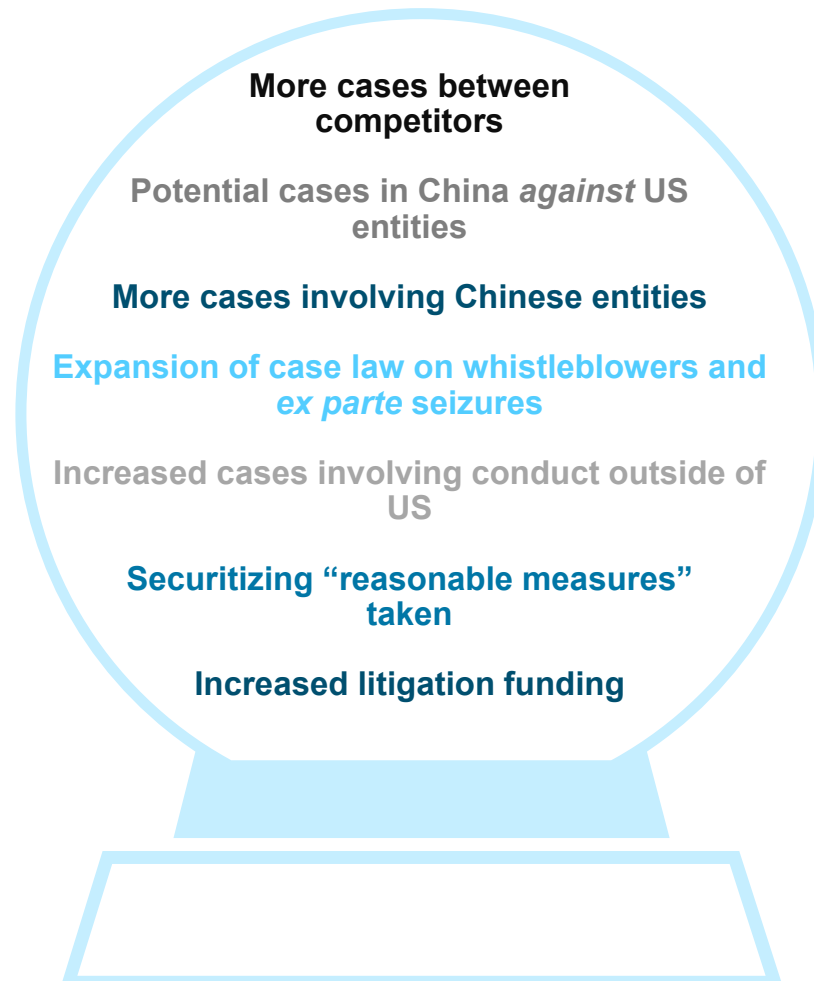
# Dismissals Based on Time Issues

- Eighth Circuit affirmed SJ in favor of Iowa Parts against CMI Roadbuilding because was on notice that trade secrets had been used
- N.D. California dismissed CUSTA claim because plaintiff was on notice for more than four years
- Two courts dismissed cases because plaintiffs failed to allege that two or more predicate acts occurred after May 11, 2016 (when the DTSA was enacted)
  - *Magnesita Refractories Co. v. Tianjin New Century Refractories Co., Ltd.*, 2019 WL 100623, at \*8 (M.D. Pa. Feb. 28, 2019)
  - *Attia v. Google LLC*, 2019 WL 1259162, at \*3 (N.D. Cal. March 19, 2019)

# ITC May Become a Popular Forum

- International Trade Commission
  - Quasi-judicial agency of U.S. Government
  - Origins in Tariff Act of 1930
  - Broad powers to adjudicate intellectual property-related claims pertaining to trade laws and importation of goods
- Trade secrets
  - Catch-all for “unfair methods of competition and unfair acts in the importation of articles”
  - Remedies include barring entry of the offending products into the U.S., or preventing commercialization to the extent already imported
- Initiated by complaint; expeditious (relatively) litigation process
- Compliment to judicial action

# What may the future hold?





# Thank you for Joining us!



**Sheryl Falk**  
Partner  
Houston  
+1 713-651-2615  
[sfalk@winston.com](mailto:sfalk@winston.com)



**David Enzminger**  
Partner  
Los Angeles  
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[denzminger@winston.com](mailto:denzminger@winston.com)



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