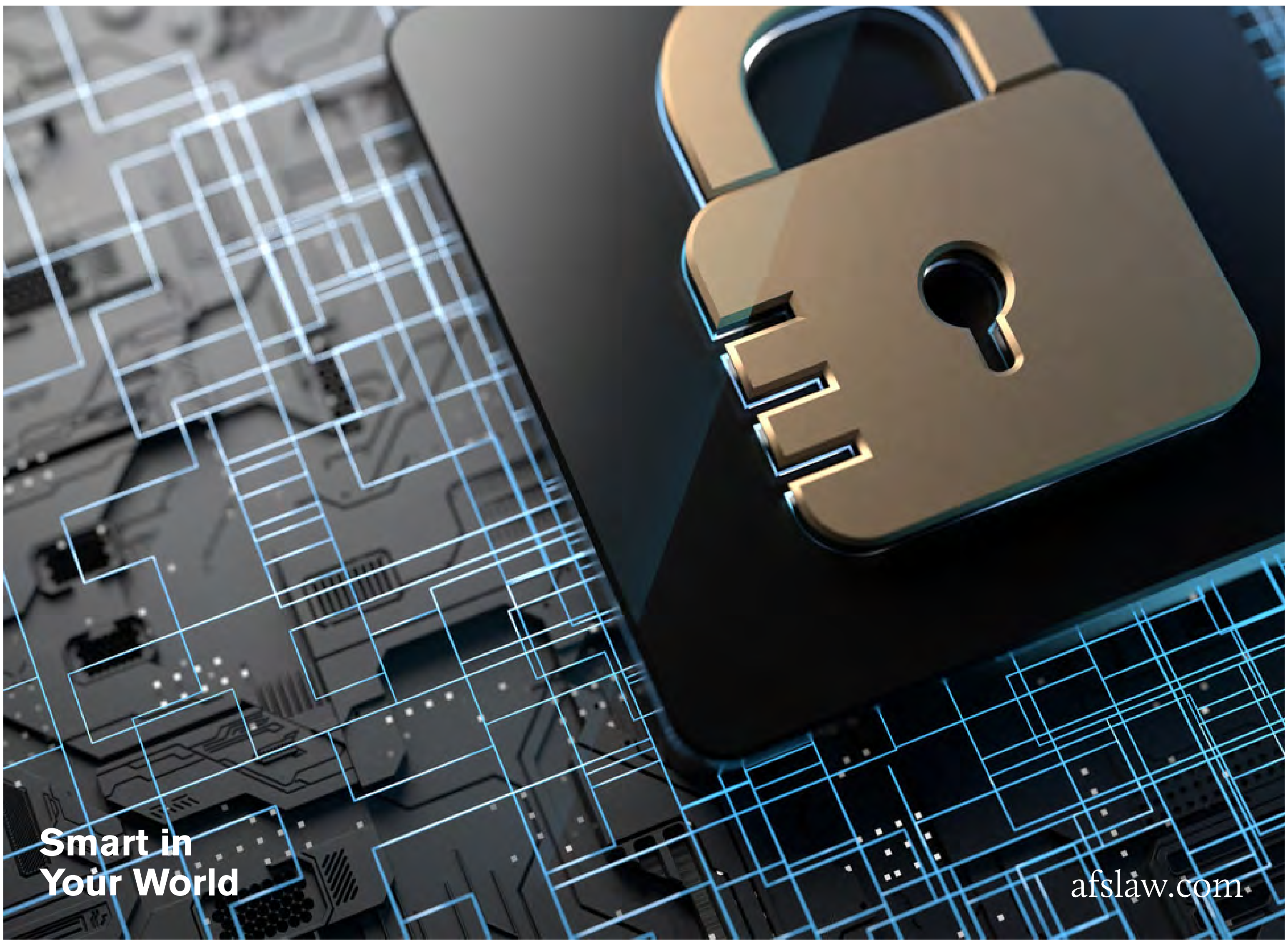
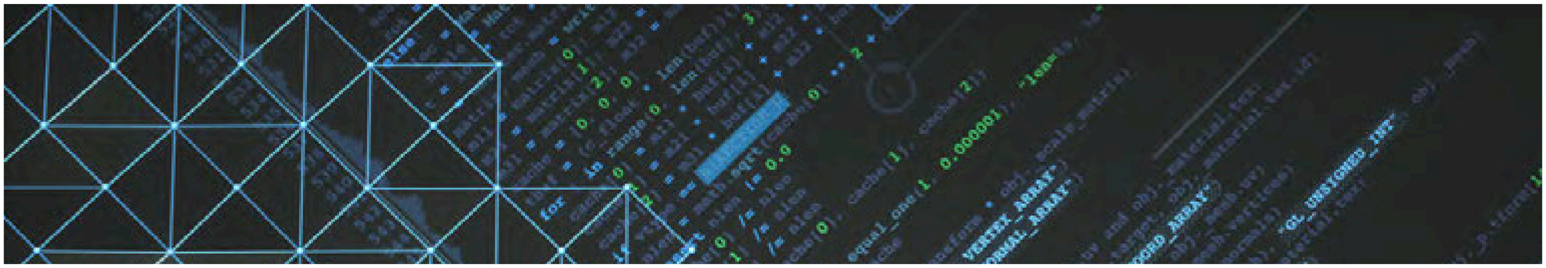
ArentFox Schiff

Trade Secrets, Non-Competes & Employee Mobility

2023 Trade Secrets End of Year Report





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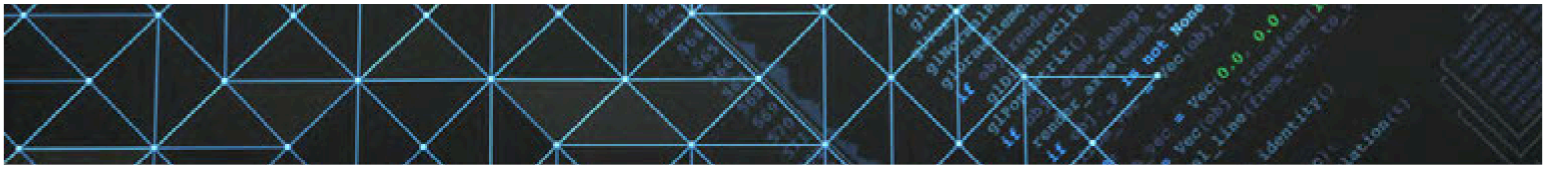

Key Case Summaries

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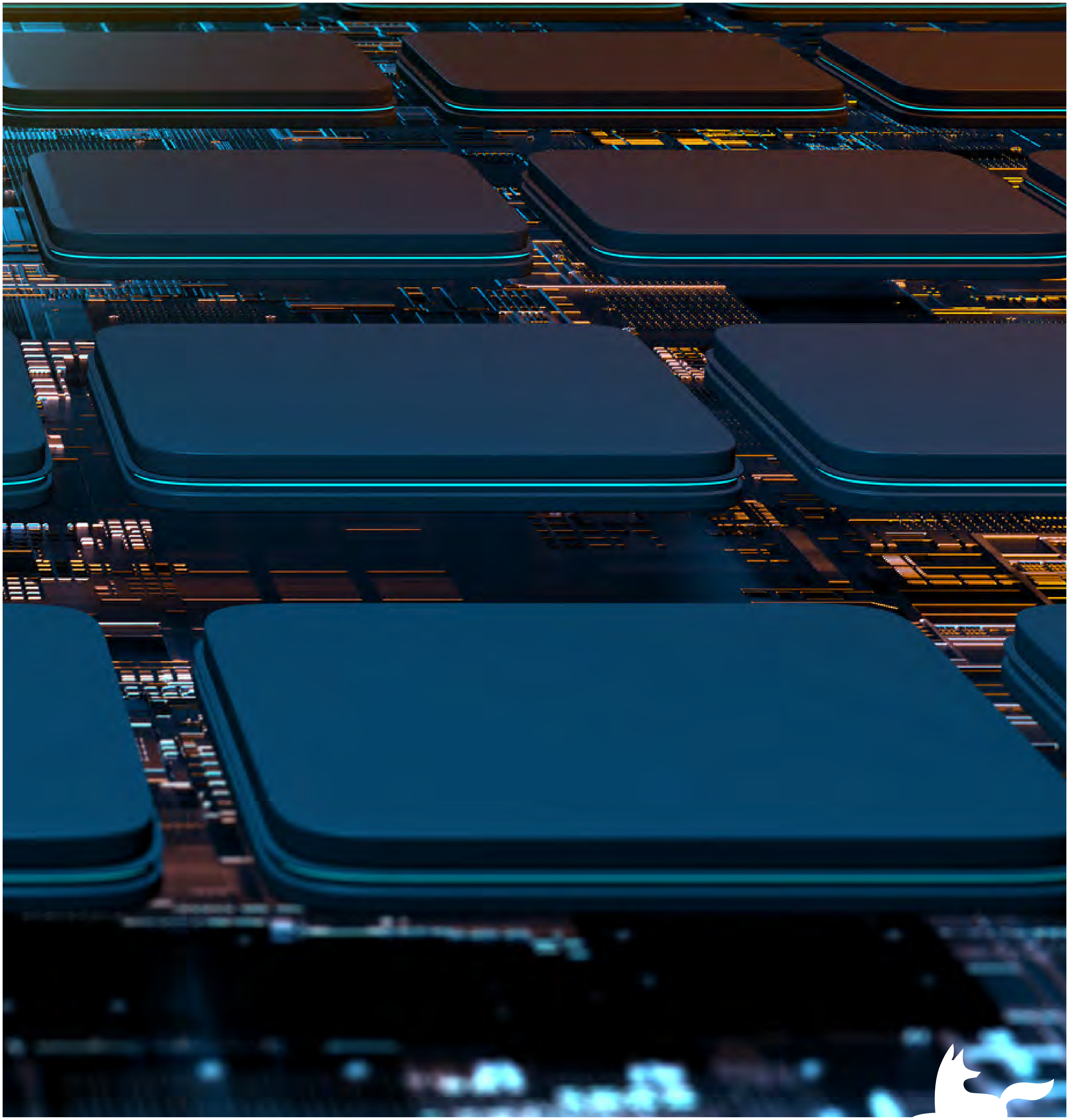
Executive Summary



Executive Summary

2023 was a banner year for trade secrets, non-competes, and other restrictive covenants. Non-competes continued to garner attention at the federal agency level, drawing commentary and action from the Federal Trade Commission, the National Labor Relations Board, and the U.S. Department of Justice (DOJ). Despite this, very little was done to actually move the needle in terms of enforcement or rule enactment. At the state level, Minnesota moved forward with a complete ban on non-compete agreements, while the similarly broad ban proposed in New York did not make it past the Governor's desk. California maintained its reputation as one of the least restrictive covenant friendly states, passing a flurry of legislation aimed at further restricting and policing their use. Companies and litigators would do well to take note that the number of reported trade secrets cases across the country also remained high, with courts focused on the technical requirements for identification and protection of trade secret information and overturning significant damages awards when litigants fell short of those requirements. Against this background, and particularly in light of the growing hostility toward non-compete provisions, companies heading into 2024 will be well advised to be proactive on implementing effective trade secret protection plans and monitoring their effective application.

Federal Non-Compete Action

At the federal level, on January 5, 2023, the Federal Trade Commission (FTC) proposed a rule that would, with limited exceptions, bar employers from using employee non-compete agreements and require rescission of existing non-compete agreements. See our prior commentary on the rule here. The FTC's press release accompanying the rule stated that its intent is to "promote greater dynamism, innovation, and healthy competition," which the agency contends is inhibited by non-competes that "block workers from freely switching jobs, depriving them of higher wages and better working conditions, and depriving businesses of a talent pool that they need to build and expand." The proposed rule would apply broadly, not just to all employees, but also to independent contractors and any individual who works for an employer, whether paid or unpaid (e.g., externs, interns, volunteers, apprentices, or sole proprietors). It also would apply not just to non-competes that expressly prohibit a worker from seeking or accepting certain employment after the conclusion of the worker's employment with the employer, but also to any contractual provision that functions as a de facto non-compete. The FTC held a public forum on February 16, 2023, and received nearly 27,000 public comments in support of and in opposition to the proposed rule.

The FTC is not expected to vote on the proposed rule, or a revised version of the proposed rule, until April 2024. However, the FTC is free to act sooner. Any final rule will take effect 180 days after its publication. In the event the FTC does adopt the proposed rule or some variation of it, the rule will face significant legal challenges, including whether (1) the FTC has substantive unfair methods of competition rulemaking authority, (2) the FTC's rule violates the major questions doctrine, (3) the FTC's rule constitutes an impermissible delegation of legislative authority under the non-delegation doctrine, (4) the retroactive components of the rule constitute an improper taking, and (5) the rule is otherwise arbitrary and capricious under the Administrative Procedure Act.

The FTC also entered into a Memorandum of Understanding (MOU) with the U.S. Department of Labor (DOL), which allows the organizations to share information, conduct cross-training of staff, and partner on investigative efforts.

The National Labor Relations Board (NLRB) also joined the fray, issuing an enforcement memorandum on May 30, 2023, asserting that most post-employment non-competition agreements for non-management and non-supervisory employees violate Section 7 of the National Labor Relations Act (NLRA). The General Counsel's memo states that the "proffer, maintenance, and enforcement" of non-competition agreements "reasonably tend to chill" employees exercising their Section 7 rights by making it harder for employees to seek different employment and thus, according to the General Counsel's theory, discouraging them from engaging in conduct that might put their current employment at risk. The memo also casts doubt on whether the protection of trade secrets could justify a non-competition agreement, particularly for "low-wage or middle-wage workers." The Memo came on the heels of the NLRB decision in McLaren Macomb, 372 NLRB No. 58 (2023), which held that severance agreements containing overly broad confidentiality, non-disclosure, and non-disparagement provisions also violate Section 7 of the Act. (See our prior alert, here).

In June 2023 the DOJ was handed its fourth straight loss in criminal cases targeting no-poach agreements in *USA v. Patel*. There, the government charged six defendants employed by a major aerospace company and its outsourcing suppliers in a single count indictment alleging conspiracy in restraint of trade in violation of the Sherman Act. According to the indictment, the defendants engaged in a years-long conspiracy to suppress competition by restricting the hiring and recruiting of engineers and other skilled-labor employees about a number of companies. The Federal Court in Connecticut, however, ruled that the DOJ's case would not go to the jury, because no reasonable jury could convict on the evidence presented by the prosecutors. In particular, Judge Bolden found as a matter of law that the alleged agreement did not constitute a market allocation requiring *per se* treatment and ordered the defendants be acquitted.

State Non-Compete Legislation

Flurries of state legislation focusing on the limitation of, and in some cases the prohibition of, non-competes and other restrictive covenants continued in 2023. Indeed, bills were introduced in well over half of the states, though the vast majority were unsuccessful. Nevertheless, significant changes were made in states where legislation was successful.

For example, in **Minnesota**, a statute banning all non-competition agreements with Minnesota residents went into effect on July 1, 2023. The statute does allow for the enforcement of non-competes in connection with the sale of a business if the restrictions are reasonable.

Unsurprising for many, **California** also continued its longstanding attack on restrictive covenants. (See our prior alert on this topic here). Through existing law, California has already made most non-compete agreements involving California employees void. In passing SB 699, the legislature noted that some employers still issue unlawful non-compete agreements for their in terrorem deterrent effect, which chills employee mobility. Thus, SB 699 prohibits employers from entering into non-compete agreements that are void under California law. Furthermore, SB 699 prohibits employers from attempting to enforce a non-compete agreement that is unlawful in California, regardless of whether the non-compete was initially signed by an employee who worked out of state at the time. Alongside SB 699, AB 1076 codified existing California case law that generally makes void any non-compete agreement in the employment context. Most notably, under AB 1076, employers must provide notice by February 14, 2024, to current and former employees who signed an unlawful non-compete agreement to inform them that the agreement is now void. Failure to provide individualized, written notice to employees will subject an employer to potential liability under California's Unfair Competition Law, which carries with it the possibility of recovery of attorney's fees by plaintiff's counsel. California's legislation is perhaps the most significant in its potential scope. In addition to the notice and enforcement provisions, as written the statutes could arguably be interpreted to apply not just to non-compete provisions, but also to non-solicitation of employee provisions and confidentiality obligations.

In **New York** a non-compete ban made its way to the Governor's desk in June 2023, where it was ultimately vetoed in December. (As discussed in our alert, here). The proposed ban was sweeping, containing no limitations on income level, no exception for the sale of business context, and no references to application to non-solicitation covenants. The Governor indicated in her veto of the bill that while she supports limits on the use of non-compete agreements for middle-class and low wage earners, the bill as presented did not strike the right balance. We expect that a revised bill will be part of the state's 2024 legislative agenda.

Case Law Developments

Trade secret litigation in 2023 continued to arise in all industries, and in state and federal courts across the country. While some courts took surprising pivots away from their usual positions (see Delaware below), many others took a careful step back to basics, judiciously reading and applying the requirements of the operative trade secrets statutes and dismissing cases or overturning damages awards when the parties didn't quite meet the mark.

Identifying Trade Secrets

A critical step in any trade secret litigation is identifying the trade secrets at issue. The requirements can change, depending on the procedural status of the case. For example, in *Voorhees v. Tolia*, the Third Circuit affirmed the dismissal of a claim for trade secret misappropriation where the generic descriptions of the information at issue were insufficient, even at the pleading stage, to separate the information from matters of general knowledge in the trade or of special knowledge of those skilled in the trade. Further down the path of litigation, the Western District of Washington addressed the issue of identifying and describing trade secrets in response to written interrogatories in the case of *RealD Spark LLC v. Microsoft Corporation*. There, the court, relying upon the Federal Rules of Civil Procedure, ordered RealD to produce the specific algorithms, datasets, and know-how that it alleged had been misappropriated. Until RealD was willing to disclose this information, the court issued a protective order preventing them from conducting discovery into Microsoft's confidential information.

In *Blockchain Innovation, LLC v. Franklin Res., Inc.*, the Northern District of California found that they were not constrained by a California statute requiring identification of a trade secret with particularity prior to discovery, because that state statute does not apply to claims brought under the federal Defend Trade Secrets Act (DTSA). While it may be an appropriate exercise of judicial discretion in some DTSA cases to require pre-discovery disclosure of trade secrets, the court did not find the need order it on the facts in Blockchain, in part because the plaintiff had already made significant efforts to identify the trade secrets at issue. On the other hand, the District of Arizona held in *Carlisle Interconnect Technologies Incorporated v. Foresight Finishing LLC* that before a plaintiff may obtain discovery regarding alleged misappropriation, it must first identify its own trade secrets with particularity.

Courts also continued to address the issue of whether information that derives its trade secret status from combining or compiling otherwise publicly available information may correctly be identified as trade secret. In *Allstate Ins. Co. v. Fougere*, the First Circuit held that the compilation of generally publicly available information, including client contact information, can indeed be treated as a trade secret when aggregated into a spreadsheet, in part due to the difficultly associated with creating the compilation. The North Carolina Superior Court agreed in *MarketPlace 4 Insurance, LLC v. Vaughn*, finding that compilations of detailed records collected over a significant period of time, which derive their value from the compilation, even though the underlying information could be ascertainable by anyone in the business, can be protected as trade secret. However, in *Johnston v. Vincent*, the Louisiana Supreme Court stated that information in a customer list is not a trade secret when it is common knowledge for the industry, "albeit conveniently compiled." Rather, to qualify for trade secret protection, the customer list would need to contain information — for example, financial data associated with the customers — that is not readily ascertainable.

Reasonable Protection of Trade Secrets

The DTSA and every state trade secret statute require information to be subject to reasonable measures for its protection in order to qualify for trade secret protection. In *Pauwels v. Deloitte*, the Second Circuit reminded would-be trade secret holders that formal protective measures must be in place in order to benefit from trade secret status. These might include a written agreement governing the confidentiality of information exchanged with outside parties, labeling of documents, and using passwords and encryption. In *Sigma Corp. v. Island Indus., Inc.*, the Western District of Tennessee held that an employee's fiduciary duty, standing alone, is not sufficient to demonstrate that a plaintiff took reasonable measures to protect the secrecy of the information at issue. The Sixth Circuit, in *Novus Grp., LLC v. Prudential Fin., Inc*., also clarified that contractual protection of trade secret information requires a direct confidential relationship.

Trade Secrets Damages

Notably, this year various courts across the country overturned significant trade secret damages awards on the grounds of legal and evidentiary failures. For example, in *Syntel Sterling Best Shores Mauritius Limited v. TriZetto Group*, the Second Circuit Court of Appeals overturned an award of $285 million in compensatory damages to TriZetto, reasoning that recovery of "avoided costs" as unjust enrichment damages, while proper in some circumstances, would improperly result in double recovery for the harmed party because its trade secrets were not diminished in value, it had retained their profitable use, and Syntel was permanently enjoined from all future use. In *Versata Software Inc. v. Ford Motor Co.*, the Eastern District of Michigan overturned a jury verdict of nearly $105 million against Ford Motor Company for breach of contract and misappropriation of trade secrets, finding that the plaintiff failed to present sufficiently specific evidence as to the damage calculation method or as to the development cost for each underlying trade secret, the court reduced the jury's award to $3. And, in *Coda Dev. s.r.o. v. Goodyear Tire & Rubber Co.*, the Northern District of Ohio overturned a $64 million damages award on the grounds that the identified trade secret was too vague to be legally protected.

Of course, the year was not without its large-scale damages awards. For example, the 7th Circuit, in the ongoing saga of *Epic Systems Corp. v. Tata Consultancy Services Ltd.*, upheld an award of $140 million in punitive damages given Tata Consultancy's "repeated and brazen misconduct."

Seeking Injunctive Relief

Injunctive relief is often one of the most powerful equitable remedies available to victims of trade secret misappropriation. In the case of *Direct Biologics L.L.C. v. McQueen*, the Fifth Circuit, however, upheld the lower court's decision not to apply the Texas presumption of irreparable harm, and found further that a plaintiff is required to provide specific evidence of the irreparable harm caused by both actual and potential disclosures of trade secrets, and also to prove the difficulty in quantifying damages in order to obtain injunctive relief. The case of *Aon PLC v. Alliant Ins. Servs., Inc.* provides a helpful roadmap to companies defending against a request for injunctive relief. There, the defendant successfully rebutted claims of potential irreparable harm by submitting detailed declarations explaining alleged wrongful access to trade secret information, engaging third-party forensic experts to isolate and preserve information, and offering evidence of onboarding procedures designed to prevent new employees from improperly utilizing trade secret information.

Enforceability of Restrictive Covenants

Finally, a discussion of trade secret litigation would not be complete without a consideration of the enforceability of restrictive covenants, including non-competition, non-solicitation, and non-disclosure provisions intended, in part, to protect confidential information from being used in furtherance of unfair competition. As discussed above, the question of whether and to what extent restrictive covenants will be enforced is largely dependent upon the jurisdiction and the underlying facts and circumstances.

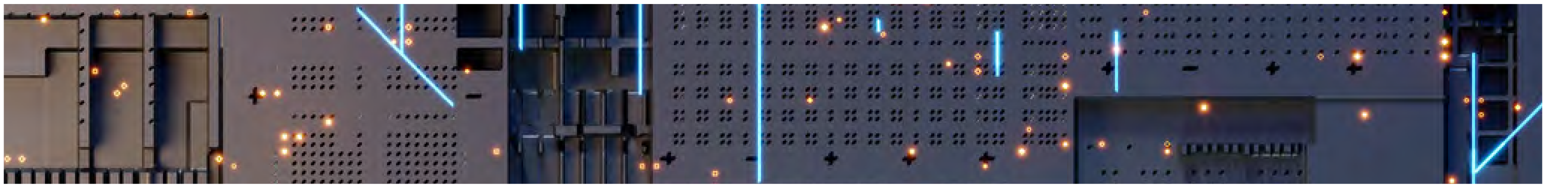
Notably in 2023, **Delaware**, a historically employer-friendly forum, appeared to join the larger trend of increased scrutiny of non-competes, by issuing a series of decisions narrowing the enforceability of restrictive covenants before the court. For example, following her 2022 decision in *Kodiak Building Partners, LLC v. Adams*, (discussed in our alert, here) in which the Delaware Chancery Court declined to enforce an overly broad non-compete in the context of a sale of business, Vice Chancellor Zurn again struck down the restrictive covenants in the case of *Ainslie v. Cantor Fitzgerald L.P.* There, she determined that a restrictive covenant limiting competition globally for two years and a four-year "forfeiture for competition" provision were both unreasonable and unenforceable. Similarly, in *Intertek Testing Services, NA, Inc. v. Eastman* and again in *Centurion Service Group, LLC v. Wilensky*, the Delaware Chancery Court declined to blue pencil what they viewed as overly broad restrictive covenants, even in the context of a sale of business or with non-Delaware choice of law, respectively.

The **Georgia** Supreme Court also clarified in *Motorsports of Conyers, LLC v. Burbach* that although recent changes in Georgia law require a more flexible and permissive approach to enforcing restrictive covenants, a Georgia court that is asked to apply foreign law to determine whether to enforce a restrictive covenant must first apply the Georgia Restrictive Covenants Act to determine whether the restrictive covenant is unenforceable as against public policy.

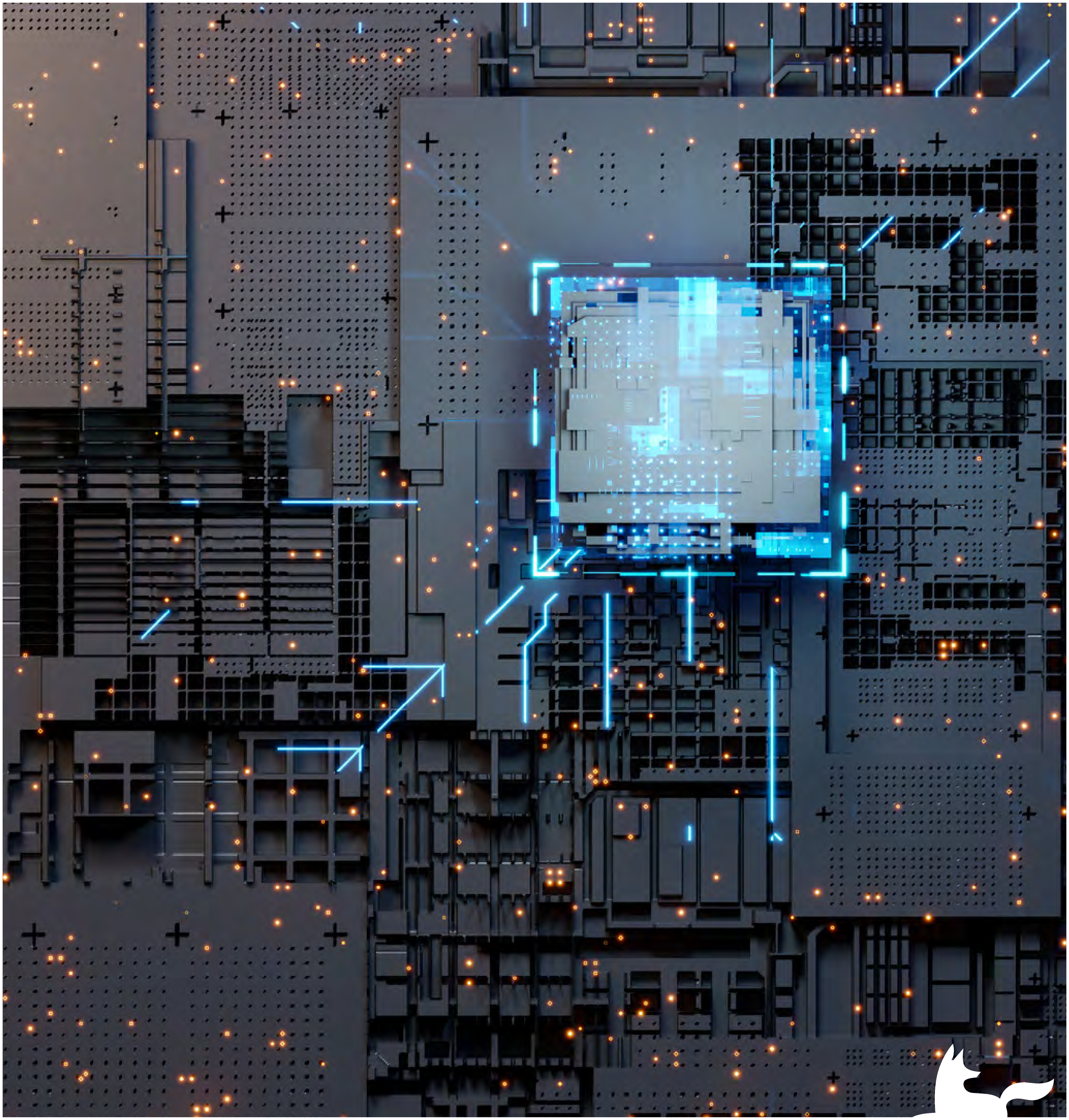
2024 and Beyond

Looking forward, 2024 promises to be another busy year in the trade secret and restrictive covenants space. We can expect movement from the FTC as to its final rule, which if implemented will almost certainly result in challenges in court. On the legislative side, if the past is any indicator, there will be plenty of attention at the state level as well on the appropriate use of restrictive covenants. At a minimum, we can expect to see a revised, more focused ban on non-competes surfacing in New York.

In the face of increasing scrutiny and focus on the technical requirements under applicable trade secret statutes, and a general movement away from enforceability of non-competition provisions on a broad scale, companies should be proactive in the coming year to identify their valuable trade secrets and ensure that appropriate protective measures are in place to support a claim in court if needed.



First Circuit



First Circuit

***Allstate Ins. Co. v. Fougere,* 79 F.4th 172, 176 (1st Cir. 2023).**

Industry: Insurance

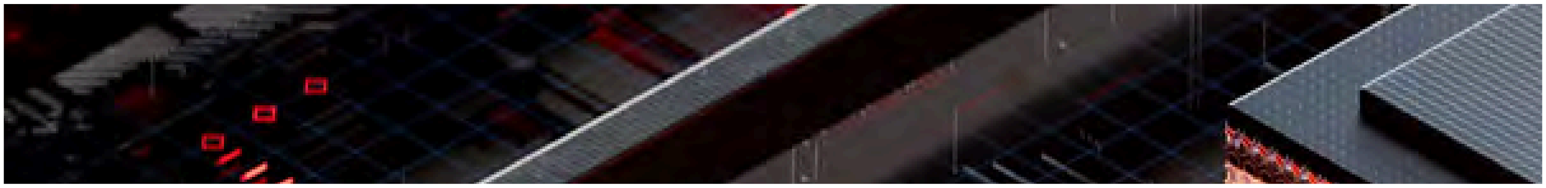
Takeaway: The compilation of generally publicly available information pursuant to an exclusive agency agreement can be treated as a trade secret, in part due to the difficultly associated with creating the compilation.

Details:

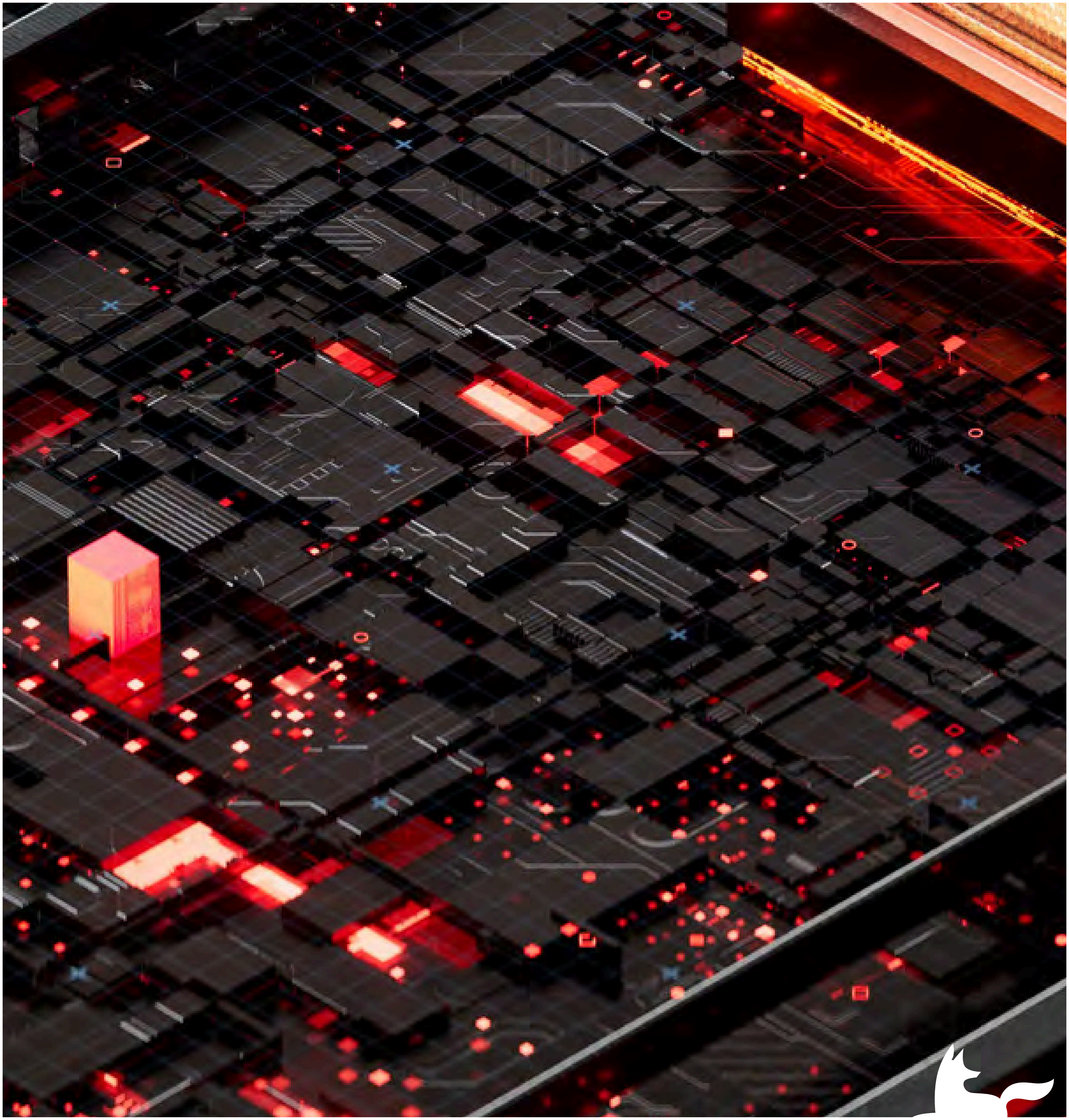
- **Procedural Posture:** The district court entered summary judgment in favor of Allstate Insurance Company (Allstate), which had brought trade secret misappropriation claims against two former insurance agents. The agents appealed to the U.S. Court of Appeals for the First Circuit, primarily arguing that the customer information at issue did not constitute trade secrets.

- **Factual Background:** Allstate utilized two insurance agents, Fougere and Brody-Isbill, through an exclusive agency agreement. Both agents agreed to return all confidential information to Allstate and refrain from using it following termination of their contract. Allstate terminated Fougere and Brody-Isbill, who then performed similar work for another insurance agency, ABIA. Allstate believed that the two former agents were targeting Allstate customers using spreadsheets containing confidential customer information, including contact information and data on the customer's current insurance policies. Allstate brought several trade secret claims against the two former agents and ABIA (collectively, defendants) under state and federal law. The defendants argued that the spreadsheets were not trade secrets because they contained public information, had no economic value, and Allstate failed to protect the information. The district court granted summary judgment in favor of Allstate.

- **Court's Decision:** The court rejected defendants' claim that the spreadsheets were not trade secrets. Defendants argued that certain parts of the spreadsheet contained publicly available information (such as customer contact data). The court found that inclusion of some public information did not defeat a trade secrets claim. The court also rejected defendants' argument that because they had compiled the information themselves under an exclusive agency agreement, they owned the information. The terms of the exclusive agency agreement specifically stated that the information remained the property of Allstate, regardless of who compiled it.



Second Circuit



Second Circuit

***Pauwels v. Deloitte LLP,* 83 F.4th 171 (2d Cir. 2023).**

Industry: Financial Services

Takeaway: A trade secret holder should use formal protection measures to show the existence of a protectable trade secret and not rely on an informal agreement. Such measures can include: a written agreement identifying confidential information; labeling the documents containing information as "Confidential"; limiting access to documents to certain individuals; or protecting documents with a password or encryption.

Details:

- **Procedural Posture:** Plaintiff's appeal of district court's dismissal of his claims.

- **Factual Background:** Plaintiff was hired by defendant as an independent contractor to work on an investment valuation project related to energy-sector investments. No written agreement governed the relationship between the parties, rather, plaintiff sent defendant periodic invoices for his services. As part of this work, plaintiff developed Excel spreadsheets that assisted in the valuation of various investments. Plaintiff provided defendant these spreadsheets to specific individuals on the oral promise that they would not be forwarded or distributed to other individuals. Despite this oral promise, these spreadsheets lacked password protection, encryption, or any label indicating the information was confidential. Plaintiff provided these services for two years. Defendant later engaged a third party to provide the same services as plaintiff and shared plaintiff's spreadsheets. Plaintiff sued for misappropriation of trade secret, unfair competition, unjust enrichment, fraud, and negligent misrepresentation.

- **Court's Decision:** The main issue was whether plaintiff had a legally recognizable trade secret in the form of his Excel spreadsheets that contained valuations of various investments. First, the court determined that the plaintiff failed to allege that the valuation spreadsheets or the calculations contained therein were a trade secret because the Plaintiff failed to take steps to guard the secrecy of the information.

  Plaintiff relied heavily on an "oral promise" with two of defendant's employees to keep the spreadsheets confidential and that they would not be shared outside of the defendant's company. However, the plaintiff also sent the spreadsheets to three other individuals employed with defendant without such assurances. According to the court, this demonstrated plaintiff's willing disclosure of the spreadsheets and informal nature of sharing his valuations, cutting against plaintiff's claim that the information was intended to be confidential. Moreover, plaintiff's spreadsheets lacked password protection, encryption, or any label marking them as "confidential," further showing the lack of any steps taken by plaintiff to protect his information. Lastly, the court considered plaintiff's refusal to share the spreadsheets with third parties on two occasions insufficient to defeat his treatment of the spreadsheets regarding defendant.

  Even if the spreadsheets were considered a trade secret, the court held that plaintiff could not prove that either defendant or the third party engaged by defendant misappropriated the information because they did not obtain the spreadsheets through improper means. The court also affirmed the district court's dismissal of the unfair competition, fraud, and negligent misrepresentation on similar grounds.

The court, however, reversed and remanded the district court's dismissal of plaintiff's unjust enrichment claim. It reasoned that a trade secret misappropriation and unfair competition claims rise and fall together because they both share the element of misappropriation. In contrast, unjust enrichment does not share the same elements as a trade secret misappropriation claim and the district court improperly dismissed it.

***Syntel Sterling Best Shores Mauritius Ltd. v. The TriZetto Group, Inc.*, 68 F.4th 792 (2d Cir. 2023).**

Industry: Software

Takeaway: (1) The degree of specificity required to identify trade secrets remains unsettled in the Second Circuit and is often a fact-specific question, and (2) "avoided development costs" are generally duplicative of lost profits, absent a showing that the trade secrets lost value because of the misappropriation.

Details:

- **Procedural Posture:** Appeal of jury verdict.

- **Factual Background:** Defendant TriZetto Group is a software development company which operates in the healthcare insurance sector. TriZetto developed a program called Facets, an automation and administrative task management platform which is used by various insurance companies for claims processing, adjudication, and billing. Plaintiff Syntel was a subcontractor for TriZetto, and it consulted with various Facets customers on implementation and customization. Through the parties' relationship, Syntel had access to certain of TriZetto's trade secrets. After TriZetto was acquired by a major competitor of Syntel, however, Syntel opted to terminate its subcontract and sought rebates due and owing. TriZetto counterclaimed for misappropriation of trade secrets concerning the Facets platform.

  After the litigation had commenced, TriZetto discovered that Syntel had destroyed computers and records. A forensic examination of Syntel's devices then revealed that it had been gradually building a stockpile of TriZetto's trade secrets to compete with the Facets program. Syntel contended that its prior agreement with TriZetto to subcontract authorized it to compete with TriZetto and use its trade secrets. The jury found in favor of TriZetto and awarded nearly $285 million in compensatory damages, which constituted the costs that Syntel had avoided having to expend to develop the platform itself.

- **Court's Decision:** The Second Circuit held that there was sufficient evidence to support the jury's determinations, including identification of the trade secrets with sufficient specificity. Moreover, the court squarely rejected Syntel's contentions that its contract with TriZetto allowed Syntel to utilize the trade secrets.

  The court vacated and remanded on damages. The court reasoned that permitting recovery of "avoided costs" as unjust enrichment damages, while proper in some circumstances, could improperly result in double recovery for the harmed party. Examining the record from trial, the court concluded that TriZetto was not entitled to damages for "avoided costs" because its trade secrets were not diminished in value, it had retained their profitable use, and Syntel was permanently enjoined from all future use. Thus, the court held that the district court had effectively imposed punitive damages on Syntel "under the guise of compensatory damages."

Connecticut

***USA v. Patel,* No. 3:21-CR-220, 2023 WL 3143911, at *1 (D. Conn. Apr. 28, 2023).**

Industry: Aerospace

Takeaway: As labor market enforcement remains a top priority for the DOJ, the Antitrust Division was dealt its fourth straight loss in criminal labor market trials, representing a setback to DOJ's efforts to criminally prosecute alleged no-poach agreements as *per se* Sherman Act violations.

Details:

- **Procedural Posture:** The district court granted defendants' Rule 29 Motion for Judgment of Acquittal at the close on the government's case-in-chief.

- **Factual Background:** The government charged six defendants employed by a major aerospace company and its outsourcing suppliers in a single-count indictment alleging conspiracy in restraint of trade in violation of the Sherman Act. According to the indictment, the defendants engaged in a years-long conspiracy to suppress competition by allocating employees in the aerospace industry working on projects for the aerospace company by restricting the hiring and recruiting of engineers and other skilled-labor employees between and among a number of companies. The defendants moved to dismiss the indictment, which the district court denied, finding that the indictment sufficiently pled a market allocation agreement. The case then proceeded to trial.

- **Court's Decision:** The government failed to prove that the hiring restrictions allegedly agreed to among the defendants, referred to as the "no-poach agreement", were a *per se* market allocation agreement. The court found that any agreement entered into did not allocate the alleged market to a meaningful extent because: (1) hiring restrictions within the agreement frequently changed; (2) the agreement had many exceptions, and (3) job switching between the companies was commonplace during the alleged period of the agreement as many engineers and other skilled labors were hired among the supplier companies. As a result, the no-poach agreement may have constrained the job applicants to some degree, but it did not allocate a market.

New York

***Spectrum Dynamics Medical Ltd. v. General Electric Co.,* No. 18-cv-11386, 2023 WL 4159358 (S.D.N.Y. June 2, 2023).**

Industry: Healthcare (medical technology)

Takeaway: Misappropriation of trade secrets claims are not preempted by patent law even where the plaintiff alleges ownership in those trade secrets.

Details:

- **Procedural Posture**: Motion to dismiss.

- **Factual Background:** Plaintiff is a company which specializes in nuclear medical technology, including nuclear molecular imaging technology. Plaintiff created a device in 2007 which greatly improved the process for and quality of cardiac imaging. Defendants considered acquiring plaintiff or its technologies, and the parties entered into a confidentiality and non-disclosure agreement (NDA). The NDA protected both parties' trade secrets and confidential information, but included exceptions to confidentiality, such as whether information was known prior to a voluntary disclosure under the NDA, and whether information was independently disclosed by a third party. Plaintiff disclosed numerous trade secrets as the parties discussed a potential deal. Defendants did not acquire plaintiff, and plaintiff alleged that various individuals on the due diligence team had breached the NDA by funneling trade secrets to an outside consultant. Plaintiff later became aware that defendants were in the process of developing a competing device and had pitched it to industry leaders, creating a threat to plaintiff's sales. Plaintiff filed suit, asserting various federal and state claims, and defendants moved to dismiss on the grounds that federal patent law preempted the state law claims.

– **Court's Decision:** Federal patent law preempted certain of plaintiff's state law claims, but not others, depending upon whether the claim requires allegations of inventorship or other "patent-like" protections.

  The court held that because state law claims for misappropriation of trade secrets and breach of contract can be established without reference or consideration of patent law issues, such claims are not preempted and do not rest on intellectual property rights. The parties' NDA imposed contractual obligations upon defendants to maintain the confidentiality of plaintiff's trade secrets, an issue susceptible to adjudication under basic contract principles. Likewise, the misappropriation claim also did not require any allegations related to who invented the information, but rather only that plaintiff rightfully owned and possessed the trade secrets.

  However, the court concluded that plaintiff's claims for conversion and civil conspiracy were preempted by federal patent law because they rested on allegations regarding the issuance of various patents.

***Espire Ads LLC v. TAPP Influencers Corp.*, 655 F. Supp. 3d 223 (S.D.N.Y. 2023).**

Industry: Influencer, Marketing

Takeaway: The three-year statute of limitations for misappropriation of trade secrets under the DTSA starts when the plaintiff knew or "should have known" of the trade secret misappropriation — actual notice is not required.

Details:

– **Procedural Posture:** Defendants' motions to dismiss.

– **Factual Background:** This decision involves two separate actions involving the same parties. In both actions, the parties are influencer social network and management companies that connect influencers to consumer brands (Espire, Blu Market, and TAPP) and individual employees at those companies.

  The first set of plaintiffs, Espire and founder Lisa Navarro (the Espire Plaintiffs), initially filed suit in December 2021 and accused Steven Forkosh, the founder of Blu Market and TAPP's owner, of backing out of a joint venture agreement. The joint venture agreement gave Navarro a 50% interest in Blu Market and Forkosh a 50% interest in Espire. The joint venture agreement also bound Navarro and Forkosh to covenants against direct or indirect business solicitation, business competition, and employee and vendor employment solicitation for one year. According to the Espire Plaintiffs, Forkosh solicited two Espire employees to join TAPP, and those employees allegedly — at the direction of TAPP and Forkosh — misappropriated Espires's web applications.

In response, TAPP and Forkosh (the TAPP Plaintiffs) filed suit against Espire and Navarro. According to the TAPP Plaintiffs, Navarro misappropriated Blu Market's confidential information before starting Espire. Navarro joined Blu Market in 2013 or 2014, founded Espire in 2015, and left Blu Market in 2017. Overall, the two actions involve nearly 50 claims against each other, including trade secret misappropriation and breach of contract claims.

– **Court's Decision:** In a lengthy decision, the court resolved a number of motions, including motions to consolidate; arguments that parties lacked capacity to sue; and motions for dismissal for failure to join necessary parties, lack of personal jurisdiction, improper venue, and lack of subject matter jurisdiction.

  Among the court's many rulings, it found that the TAPP Plaintiffs' DTSA claim was time-barred under the DTSA's three-year statute of limitations. The court determined that, based on the timing of the allegations, more than three years separated the time between the TAPP Plaintiffs' first knowledge of Navarro's alleged misappropriation (2017) and the filing of the TAPP action (2021). The court highlighted that Navarro left Blu Market in 2017, so by the end of 2017, the TAPP Plaintiffs should have known that Navarro possessed the alleged trade secrets and was appropriating them for Espire.

  Importantly, the court noted that the factual allegations as pleaded should have put the TAPP Plaintiffs on "reasonable notice" of the misappropriation of trade secrets: the test of whether a DTSA claim is time-barred does not require actual knowledge — only that the plaintiffs should have known of the trade secret misappropriation. As such, the court dismissed the TAPP Plaintiffs' DTSA claim as time barred.

***GateGuard, Inc. v. Amazon.com Inc.,* No. 21-CV-9321, 2023 WL 2051739, at *1 (S.D.N.Y. Feb. 16, 2023).**

Industry: Technology

Takeaway: The court's denial of defendants' motion to dismiss federal and state trade secret claims turned on many factual questions about the technology that could not be resolved at the pleadings stage.

Details:

– **Procedural Posture:** Defendants moved to dismiss under Rule 12(b)(6), and also to strike plaintiff's class allegations under Rule 12(f) and 23(d)(1)(D).

– **Factual Background:** GateGuard develops, manufactures, and sells security technology for multifamily residential properties, including an internet-enabled intercom device called "AI Doorman." It allows users to unlock entrances remotely and monitor activities with audiovisual functionality. GateGaurd alleges that it invested a great deal of time and effort into the development of its technology, which is offers based on a subscription model to customers.

  Defendants were Amazon and its affiliates (collectively, Amazon). In 2019, Amazon introduced a service called "Amazon Key for Business" that could be installed into existing intercom systems and remotely controlled. This service was meant to assist Amazon delivery workers. GateGuard claimed that Amazon would install its product into existing GateGuard intercoms, often without permission from either the property owners or GateGuard.

  The lawsuit alleged that this conduct resulted in damage to the GateGuard devices. As a result of malfunctions, GateGuard alleged that its reputation was harmed and that it lost over 100 contracts with buildings as well as millions of dollars in corresponding revenues. Asserting multiple causes of action, GateGuard sought monetary damages and injunctive relief from Amazon's practices. Amazon moved to dismiss the lawsuit.

– **Court's Decision:** The court issued a lengthy 30-page decision, which partially granted and partially denied Amazon's motion to dismiss. Some claims survived while others were dismissed. As relevant here, the court denied Amazon's motion with respect to GateGuard's claims for misappropriation of trade secrets under New York State law and the DTSA (18 U.S.C. § 1832 et seq.).

  The court began its analysis by noting that the federal and state claims for misappropriation of trade secrets are analyzed together, given that the requirements for showing misappropriation are essentially identical. To state a trade secret misappropriation claim under the DTSA, a plaintiff must plausibly allege that (1) the plaintiff possessed a trade secret, and (2) the defendant misappropriated that trade secret. The DTSA defines a "trade secret" as any kind of "financial, business, scientific, technical, economic, or engineering information" that the owner "has taken reasonable measures" to keep secret and that "derives independent economic value . . . from not being generally known to, and not being readily ascertainable through proper means by, another." 18 U.S.C. § 1839(3). A trade secret is "misappropriated" where the defendant has either (1) acquired the trade secret by "improper means," such as "theft, bribery, misrepresentation, [or] breach or inducement of a breach of a duty to maintain secrecy," or (2) disclosed or used the trade secret without consent. 18 U.S.C. § 1839(5)-(6).

  Amazon argued that GateGuard had no protectable trade secrets, given that its intercom devices were installed in public places. The court rejected that argument, finding that it needed to credit GateGuard's allegation that the devices were the property of their owners even after they were installed. Moreover, the court credited GateGuard's allegation that GateGuard still endeavored to maintain the secrecy of the innerworkings of each device even after installation.

  The court also rejected Amazon's contention that any trade secrets it obtained were through "reverse engineering," which the U.S. Supreme Court has held is generally non-actionable. But the court found that the authority only supports the proposition that reverse-engineering is acceptable when the owner cedes control. Here, there was a factual dispute about whether GateGuard indeed still controlled the devices once they were installed. The court therefore let the trade secret claims stand.

***Better Holdco, Inc. v. Beeline Loans,* 20 Civ. 8686, 2023 WL 2711417 (S.D.N.Y. Mar. 30, 2023).**

Industry: Mortgage Lending

Takeaway: The court reiterated that damages is not an element of a claim for misappropriation of trade secrets under the DTSA. As such, claims under the DTSA should not be dismissed based on the absence of actual damages, or where the plaintiff can only show unjust enrichment damages in the form of avoided costs. Under the DTSA, a plaintiff may recover for both damages of actual loss and damages for unjust enrichment, provided there is no double counting.

Details:

– **Procedural Posture:** Defendant's motion for summary judgment; parties' motions to exclude expert testimony.

- **Factual Background:** Plaintiff and defendant are mortgage lending platforms. A marketing analyst for plaintiff contacted defendant to inquire about a job opportunity. During a subsequent conversation with defendant's representatives, the marketing analyst revealed non-public information related to plaintiff's business and provided defendant with a "Proprietary Information and Intervention Agreement" that he entered into with plaintiff as part of his employment. In relevant part, the contract sought to prevent him from disclosing any of plaintiff's confidential information or trade secrets. Defendant extended a formal offer to the marketing analyst, which he accepted.

  The marketing analyst then downloaded over a dozen confidential documents belonging to plaintiff onto his personal computer, including plaintiff's operating model, Facebook ad data, and partner agreements. Significantly, the operating model included "quantifiable measures of [Plaintiff]'s financial and operational performance, including, among other things, counts of loan applications, interest rate locks, loans funded, and the associated revenues and profits earned." The Facebook ad data included information that could be used to replicate plaintiff's marketing strategy. This information was subsequently shared with defendant.

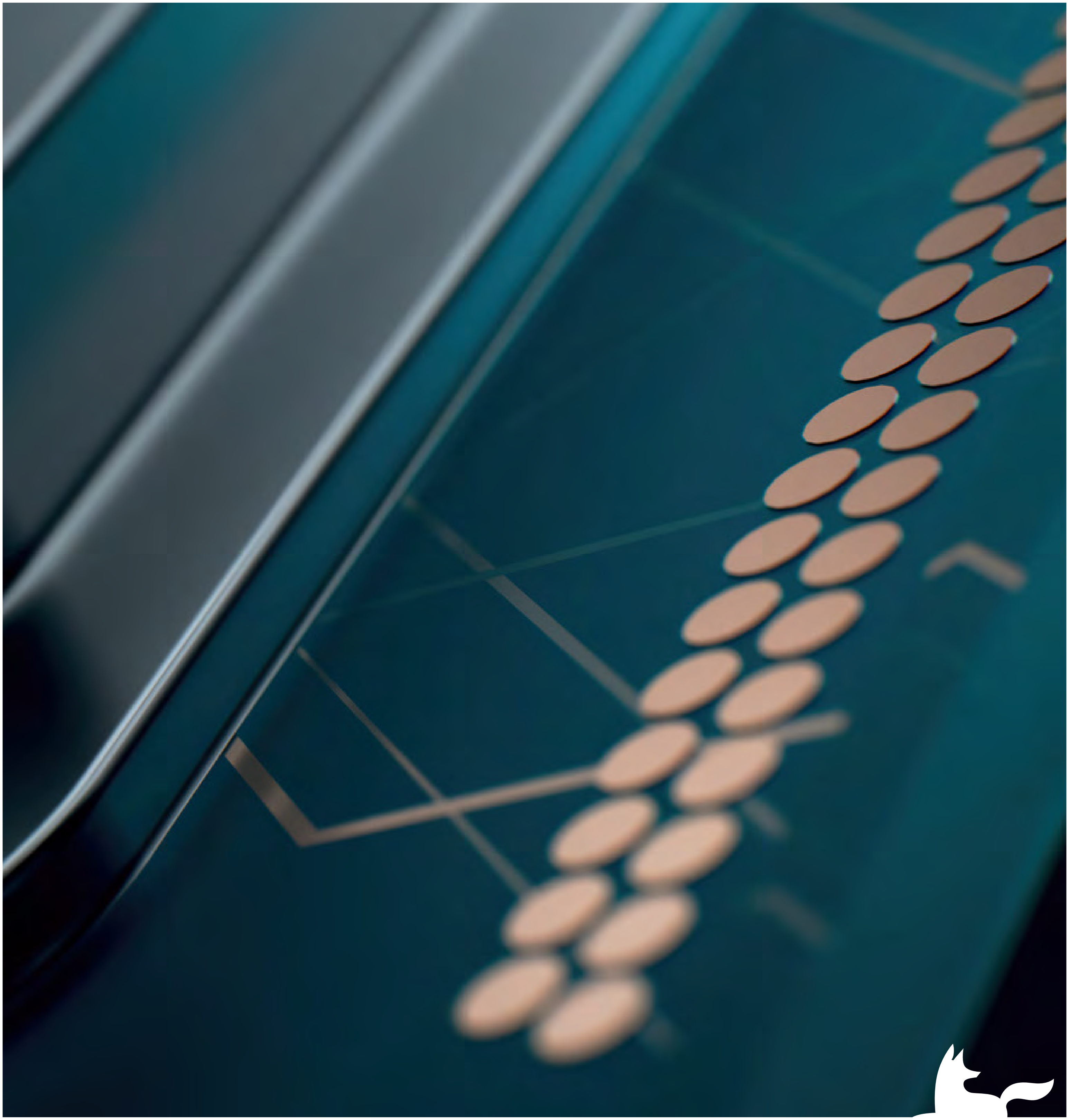
- **Court's Decision:** The principal trade secret dispute at issue was whether plaintiff could establish that it suffered any damages as a result of the alleged trade secret misappropriation under both federal and New York law. The court also assessed whether the plaintiff had taken reasonable measures to protect the alleged trade secrets at issue.

  The court opined as to the following:

  (1) Damages are not an element of a DTSA claim, but a plaintiff could show damages based on the defendant's avoidance of costs as a result of the improper misappropriation, as avoidance costs fall under the umbrella of unjust enrichment damages. However, avoidance costs are not a permissible form of damages under New York common law, where a plaintiff must show that it incurred actual losses as a result of the misappropriation. Nominal damages are available under New York law where a plaintiff cannot show actual damages.

  (2) On summary judgment, a plaintiff need only point to evidence that it took some protective measures to guard its trade secrets. The reasonableness of those protective measures is a question for the jury, and they are not necessarily unreasonable even when they are not successful in preventing the disclosure of the trade secrets. Here, the court held that "protective measures are not automatically unreasonable simply because they did not succeed in preventing wrongful disclosure. Indeed, many trade secrets claims arise due to an unauthorized disclosure of the information."

Third Circuit



Third Circuit

***Voorhees v. Tolia,* No. 23-1115, 2023 WL 4636738 (3d Cir. July 20, 2023).**

Industry: Technology

Takeaway: When considering a plaintiff's allegations of a trade secret, a plaintiff must provide enough detail about the information that is claimed as a trade secret and allege facts supporting the assertion that the information is indeed protectible as such (including the technology underlying it or how the technology was developed). Generic allegations of trade secrets are insufficient to plead the existence of a trade secret. Enough detail about the information is needed in order to separate the information from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade.

Details:

- **Procedural Posture:** Plaintiff's appeal on the dismissal of two claims and the entry of summary judgment.

- **Factual Background:** Appellant, Voorhees, formed Pear Enterprises Inc., in order to develop and market products she referred to as Augmented Reality for Education (AR4ED). Appellant shared the information about these products with Indu Tolia and Adam Newman. Appellant, Tolia and Newman proceeded to form Virtuality LLC to develop and market these educational products. According to Appellant, Tolia and Newman forced her out of Virtuality by defrauding her into signing a Stock Surrender Agreement and Employment Agreement by which she surrendered her ownership interest and became an employee. Virtuality was ultimately unsuccessful, and Tolia and Newman formed similar companies of their own (CARE LLC and Augthat LLC). Appellant later filed this suit against Tolia and Newman and their companies CARE LLC and Augthat LLC. The District Court dismissed her complaint based on certain contractual provisions. The Court of Appeals vacated and remanded. Appellant then filed an amended complaint asserting ten claims under New Jersey law. Tolia and CARE LLC moved to dismiss, and the District Court granted their motion in part and dismissed five of the claims against Tolia including those for misappropriation of trade secrets and fraud. After discovery, Tolia moved for summary judgment on Appellant's remaining claims. The court granted the motion and later dismissed the claims against the remaining defendants. Voorhees appealed.

- **Court's Decision:** In order to plead the existence of a trade secret, Voorhees had to sufficiently identify the information she claims as a trade secret and allege facts supporting the assertion that the information is indeed protectible as such. The subject of the trade secret must be described with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade. In analyzing whether Voorhees sufficiently alleged the existence of a trade secret, the court held that Voorhees's allegations of her trade secrets were wholly generic. In the complaint, Voorhees alleged generally that she and Pear Enterprises developed and owned software services, AR worksheets and lessons, information related to the concepts, ideas, and products for AR4ED, a wearable display and App, along with other worksheets and future development strategies. The court found Voorhees did not provide enough detail about this information to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade. Thus, the court found that Voorhees did not state a claim under the NJTSA.

Delaware

***Ainslie v. Cantor Fitzgerald LP,* No. 9436-VCZ, 2023 WL 106924 (Del. Ch. Jan. 4, 2023).**

Industry: Financial Services

Takeaway: The Delaware Chancery Court determined that a restrictive covenant limiting competition globally for two years and a four-year "forfeiture for competition" provision was both unreasonable and unenforceable.

Details:

- **Procedural Posture:** Cross-motions for summary judgment.

- **Factual Background:** Defendant Cantor Fitzgerald operated under a Delaware Limited Partnership Agreement. The Partnership Agreement contained a restrictive covenant with a one-year post-termination non-compete and a two-year non-solicitation provision. The Agreement also included a "conditioned payment device" pursuant to which a departing partner forfeited the right to receive earned compensation and capital account payments otherwise due if the partner (1) breached the restrictive covenant, or (2) engaged in competitive activity during the four years following departure.

  Plaintiffs, six former partners, each withdrew from the partnership. Defendant claimed each partner breached their obligations under the partnership by accepting employment with a competitor within a year of their departure. Accordingly, defendant ceased paying them the capital and earned compensation otherwise due. Plaintiffs filed suit alleging breach of contract. They also alleged that the restrictive covenants and the four year non-compete imposed by the conditioned payment device was unlawful and unenforceable.

- **Court's Decision:** The court determined the restrictive covenant was not reasonable, and thus unenforceable. Delaware courts review restrictive covenants to ensure that they (1) are reasonable in geographic scope and temporal duration, (2) advance a legitimate economic interest of the party seeking its enforcement, and (3) survive a balancing of the equities.

  The court held that the restrictive covenant was unenforceable for several reasons. First, there was no geographic limitation on any of the restrictions. It rejected Cantor Fitzgerald's arguments that such a restriction was reasonable because it was a "global" company as "conclusory." Second, the court found that the scope of the restricted activities was overbroad since it included activities competitive with any entity "affiliated" with Cantor Fitzgerald including other partnerships, corporations or entities under common ownership or control. A provision in the limited partnership agreement allowing the managing general partner discretion to determine when competition has occurred "exacerbated" the overbreadth of the restrictive covenant by expanding the scope of "prohibited employment . . . so long as the Managing General Partner believes in good faith that the employment was a Competitive Activity."

  The court also found the four-year conditioned payment device to be unenforceable. It referred to this device as a "forfeiture for competition" provision. The court noted that Delaware law was unclear as to whether such provisions should be analyzed for reasonableness. Some courts uphold such provisions under the "employee choice doctrine," reasoning that an employee or partner who decides to leave should be held to his or her contractual bargain and forfeit any payments barred by the provision. The court held that Delaware more likely would analyze such provisions under a reasonableness standard. Here, Cantor Fitzgerald's conditioned payment device was unreasonable because any legitimate interest the firm may have had in precluding competitive activity in the first two years following the partners' departure had grown stale by years three and four.

The case is currently on appeal, and the Delaware Supreme Court heard oral argument on November 1, 2023.

***HighTower Holding, LLC v. Gibson,* No. 2022-0086-LWW, 2023 WL 1856651, at *1 (Del. Ch. Feb. 9, 2023).**

Industry: Financial Industry

Takeaway: Overbroad language in a non-compete provision will be difficult to enforce.

Details:

- **Procedural Posture:** The plaintiff filed a lawsuit alleging breach of contract seeking to enforce an agreement containing non-compete provisions. Plaintiff filed a motion for preliminary injunction against defendant enjoining him from managing a certain hedge fund.

- **Factual Background:** Defendant was a financial analyst in company with other partners. Defendant and his partners sold a majority interest in their company to the plaintiff. Each defendant signed a Standard Protective Agreement containing a non-compete provision restricting defendant from directly or indirectly engaging in any competitive activity in a similar industry. Sometime later the defendant and his partners executed an Amended and Restated LLC Agreement that also contained a similar non-compete provision. Later, defendant expressed his interest to start a hedge fund and his partners reminded him of his non-compete. Defendant later resigned from the company and was sent a letter from his former partners reminding him again about his obligations. A few months after leaving, the defendant started a hedge fund. Plaintiff attributed loss of clients and revenues in the millions to defendant's departure.

- **Court's Decision:** Although filed in Delaware, and the agreements having Delaware choice of law provisions, the court determined that Alabama law should apply to its analysis. Applying Alabama law, the court determined that the non-compete provisions were overbroad and conflicted with Alabama's public policy frowning on restrictive covenants. The court denied plaintiff's motion for preliminary injunction.

***Illumina Inc v. Guardant Health,* No. 22-334-GBW-CJB, 2023 WL 1407716 (D. Del. Jan. 31, 2023), report and recommendation adopted, No. 22-334-GBW-CJB, 2023 WL 2867219 (D. Del. Mar. 29, 2023).**

Industry: Life Sciences, Healthcare

Takeaway: To sufficiently plead the existence of a trade secret, a plaintiff must describe the subject matter of the trade secret with sufficient particularity. It is not enough to merely plead misappropriation of an "incredibly expansive amount of material" without describing the subject matter of the trade secret.

Details:

- **Procedural Posture:** Defendant's motion to dismiss under 12(b)(2) and 12(b)(6).

- **Factual Background:** Plaintiff Illumina, a genetic mapping company, sued two former employees and their newly formed corporation, Guardant, for declaratory relief, misappropriation of trade secrets, and breach of contract. With respect to the misappropriation claim, plaintiff alleged two examples of the purported misappropriation: (1) 51,000 documents that one of the employees took from Illumina and (2) PowerPoint slides containing confidential and proprietary concepts for improvement of processes for genetic sequencing. Defendants argued that Illumina had failed to allege the trade secrets with sufficient particularity, and even if they did, the claims were time-barred because Illumina was, or should have been, aware of the misappropriation because the defendants' patents that purportedly incorporated the trade secrets were issued more than three years before Illumina filed suit.

  Court's Decision: As to the misappropriation claim, the court granted defendants' motion in part and denied it in part. The court "easily" found that, as to 51,000 emails, Illumina had failed to state a claim for misappropriation because Illumina did not state any trade secrets that were included in the 51,000 emails. "Th[e] bald reference to an incredibly expansive amount of material" was insufficient. On the other hand, the court found that Illumina had stated a claim for misappropriation for the PowerPoint slides because Illumina identified the particular category of trade secrets with sufficient particularity. The court further stated that the misappropriation claim was not time-barred. There is no *per se* rule that the statute of limitations begins to run when a patent application is filed or a patent is issued. Moreover, Illumina had alleged a number of facts that sufficiently demonstrated the fraudulent concealment doctrine, which would toll the statute of limitations for misappropriation.

***Intertek Testing Services NA, Inc. v. Eastman*, No. 22-853-LWW, 2023 WL 2544236 (Del. Ch. Mar. 16, 2023).**

Industry: Software

Takeaway: The Delaware Chancery Court made clear that it will decline to blue pencil geographically overbroad non-competition provisions, even in the sale of business context.

Details:

- **Procedural Posture:** Motion to dismiss.

- **Factual Background:** Intertek purchased a business cofounded by Defendant Eastman. The acquired business provided workforce training, management, compliance, and consulting services through a proprietary platform. In connection with the sale, Eastman received $10 million. He also agreed not to compete with the business that was sold anywhere in the word for a period of five years.

  Three years after the sale, Eastman joined the board of a startup formed by his son. The startup provides educational/training, safety, and compliance services to the cannabis industry workforce. Customers of the startup use a platform that is competitive with the one sold by Defendant Eastman to Intertek.

  Intertek filed suit against Eastman, along with a motion for preliminary injunction, arguing that Eastman's role of the board of his son's startup violated his non-compete. Eastman moved to dismiss.

- **Court's Decision:** Eastman argued that the plain terms of the non-compete preclude a claim for breach because his company did not conduct business in the cannabis business as of closing, and his son's company operates solely in that industry. Because the companies operate in different industries, Eastman argued that Intertek's attempt to enforce the non-compete was an unlawful restraint of trade. Eastman also argued that the non-compete was facially unenforceable due to its unreasonable geographic scope.

Focusing on Eastman's final argument, the court noted that although relatively broad restrictive covenants have been enforced in the sale of business context, such covenants must nevertheless be tailored to the competitive space reached by the seller and serve the buyer's legitimate economic interests. The non-compete restriction here extends to markets untouched by the business being acquired. Because the legitimate economic interests of Intertek extend only to the goodwill and competitive space it purchased in the market served by the acquired business, a world-wide restriction is facially unreasonable.

The court also declined to blue pencil the provision because "revising the non-compete to save Intertek – a sophisticated party — from its overreach would be inequitable."

***Frontline Technologies Parent LLC v. Brian Murphy*, No. 2023-0546, 2023 WL 5424802 (Del. Ch. Aug. 23, 2023).**

Industry: Software

Takeaway: Non-competition agreements must be clear, or else courts may not enforce them.

Details:

- **Procedural Posture:** Defendants moved to dismiss.

- **Factual Background:** Plaintiffs were Frontline Technologies Group LLC and its parent company (collectively, Frontline). Frontline develops and sells software for education administration. Defendants were two former Frontline employees who worked in sales roles.

  Defendants each signed agreements with Frontline's parent company as well as the parent company's then-owner, a private equity firm called Thomas Bravo. The Frontline subsidiary was not a party to these agreements. The agreements granted defendants equity interests. They also included non-competition provisions.

  Defendants subsequently left the subsidiary and began working for a competing company called Linq, Inc., which similarly develops and sells software for education administration.

  Frontline sued claiming breach of contract and breach of the non-competition provisions. Frontline also sought an injunction to stop defendants from working for Linq. Defendants moved to dismiss.

- **Court's Decision:** In an efficient decision, Vice Chancellor Lori W. Will granted defendants' motion to dismiss. She found that the equity agreements containing the non-competition provisions did not apply to either defendant, who were employed by the Frontline subsidiary rather than the Frontline parent.

  Their agreements did not mention the subsidiary. Plaintiffs' lawsuit therefore failed because nothing prevented defendants from working for Linq.

  As the court summarized: "This case presents a textbook example of why parties should ensure their contracts say what they mean and mean what they say."

***Centurion Serv. Grp., LLC v. Wilensky,* No. 2023-0422-MTZ, 2023 WL 5624156 (Del. Ch. Aug. 31, 2023).**

Industry: Medical Equipment, Life Sciences

Takeaway: Delaware courts will not always enforce choice-of-law provisions in non-competes where another state has a materially greater interest in the issues presented in the litigation of the agreement. Further, courts are wary of enforcing overly broad restrictive covenants, particularly where they restrict former employees from working in fields in which the former employer is not yet operating but merely planned to enter.

Details:

- **Procedural Posture:** Defendant's motion to dismiss.

- **Factual Background:** Defendant Eric Wilensky was the former Vice President of Marketing and Operations for Plaintiff Centurion Service Group (Centurion). After he left Centurion, he acquired a business that Centurion claimed was a direct competitor. Centurion sued Wilensky to enforce his non-compete, seeking a preliminary injunction. Wilensky moved to dismiss on the grounds that the non-compete was unenforceable because it was overly broad, was impermissibly vague, and failed to advance a legitimate economic interest.

- **Court's Decision:** Before analyzing the enforceability of the non-compete, the court first considered whether the choice-of-law provision (selecting Delaware) should govern. The court held that the provision was not binding and found that Illinois had a materially greater interest in the matter because plaintiff is an Illinois LLC with a principal place of business in Illinois, defendant is an Illinois resident, the employment agreement was executed in Illinois, the alleged breaches appeared to be centered in Illinois, and defendant's relevant business license is from the State of Illinois. Since Illinois had a greater interest in the matter, its law would apply over Delaware law — notwithstanding the choice-of-law provision — if enforcement of the restrictive covenants would conflict with a fundamental policy of Illinois. The court found, however, that Illinois and Delaware law were largely "in step" as to restrictive covenants except for an additional, and inapplicable, Illinois statutory provision. Thus, the court applied Delaware law.

  The court next evaluated the geographic and temporal scope of the non-compete alongside its claimed business interest. In essence, defendant's non-compete restricted him for two years from competing nationwide, and in any additional "area" in which plaintiff conducts, solicits, or plans to conduct or solicit any actual activity or activity planned at any time during defendant's 17-year employment. The court found that, holistically, this geographic and temporal scope was unreasonable and impermissibly vague in that it banned defendant from "areas" Plaintiff might have thought about entering and any field plaintiff planned to enter.

  Given this incredibly broad scope, the court explained that plaintiff would need an even greater interest to enforce the non-compete. But the court held that plaintiff's stated interest — i.e., "lip service" paid to Defendant's finding deals, fostering relationships, and access to plaintiff's confidential information—was woefully insufficient. The court explained that plaintiff's interests were "vague and everyday concerns," falling well short of the "particularly strong economic interest" necessary to enforce its broad non-compete. The court granted the motion to dismiss and declined to blue pencil the agreement.

***FinancialApps, LLC, v. Envestnet, Inc.*, No. 19-1337-GBW-CJB, 2023 WL 6037242 (D. Del. Sept. 13, 2023).**

Industry: Technology

Takeaway: Admissibility of an expert's report on trade secrets value does not require apportionment of damages between different trade secrets, and an expert does not need to have technical expertise in a particular trade secret to make an opinion on a trade secret's value.

Details:

- **Procedural Posture:** Motion to exclude opinions and testimony of plaintiff's damages expert.

- **Factual Background:** The plaintiff (FinApps) developed a software product, Risk Insight, that the defendant Yodlee marketed and sold. The plaintiff alleged that the defendants, Yodlee and Envestnet, misappropriated the plaintiff's related trade secrets to develop a different product. The plaintiff obtained an expert, DeForest McDuff, to opine on damages, and the defendants moved to exclude the expert's opinions and testimony. Importantly, the defendants argued that the expert's opinion on trade secret values should be excluded.

- **Court's Decision:** The court determined that with respect to the plaintiff's trade secret misappropriation claims, the plaintiff's expert's opinion on value should not be excluded. Under Delaware law, the plaintiff must prove that its purported trade secrets had economic value that derived from its secrecy. The plaintiff's expert opined that the plaintiffs' technology does have value — at least a "nonzero value." The defendants argued that the expert's opinion on the value of the alleged trade secrets should be excluded because (1) the expert provided no means by which to value the trade secrets (the expert did not assign a dollar value at all), and (2) the expert conceded that he was not qualified to determine whether the alleged trade secrets were important to the Risk Insight product because he did not have technical expertise in the trade secret.

  The court determined that the expert's nonzero value opinion should not be excluded given that the expert sufficiently explained the basis behind his opinion. As such, it was sufficient for the expert to provide a nonzero value to the trade secrets. Further, the court found that the expert's opinion should not be excluded for failing to isolate what portion of damages are attributable to the purported trade secrets — the court highlighted that experts are not required to apportion damages among different trade secrets. Finally, the court found that an expert was not required to have "technical expertise" in particular trade secrets to provide an opinion that, from an economic perspective, trade secrets as a whole have nonzero value. Accordingly, the court denied the portion of the defendants' motion as to the expert's opinion on trade secret value.

Pennsylvania

***West Short Home, LLC v. Graeser,* 661 F. Supp. 3d 356 (M.D. Pa. 2023).**

Industry: Construction

Takeaway: In Pennsylvania, a confidentiality agreement signed five months after an employee was hired was enforceable, even though the employee received no consideration other than continued employment.

Details:

- **Procedural Posture:** Plaintiff West Shore Home, LLC (West Shore) sued its former employees, Michael Graeser (Graeser) and Joshua Penn (Penn), in the Court of Common Pleas in Cumberland County, Pennsylvania. Graeser and Penn removed the action to federal court, and West Shore filed an Amended Complaint adding Graeser and Penn's new employer, P.J. Fitzpatrick (Fitzpatrick and collectively with Graeser and Penn, defendants). Each defendant moved to dismiss the case on different grounds. The district court granted Penn's motion to dismiss for lack of subject matter jurisdiction and denied Graeser and Fitzpatrick's motions to dismiss.

- **Factual Background:** West Shore is a privately held home-remodeling company, and competes with Fitzpatrick for the same vendors, materials, and skilled laborers. West Shore acquires and develops confidential information and trade secrets, including details about its vendors, material costs, utilization methods, and procurement strategies, though substantial time, effort, and money. West Shore limits access to its confidential information and trade secrets, utilizes non-solicitation and non-disclosure agreements, and requires its employees to review and acknowledge its confidentiality rules on a yearly basis, among other measures.

  Graeser was a procurement manager for West Shore where he oversaw the sourcing of materials for installation projects. He had access to confidential and trade secret information, such as vendor information and capacities, strategies for sourcing materials and supply chain optimization, purchasing trends, pricing information for materials, locations for and stock of company remodeling materials, material utilization rates, market research, and expansion plans and strategies. Five months into his tenure at West Shore, Graeser executed an employment agreement that contained non-solicitation and confidentiality provisions that were effective during and after his employment. The agreement was executed "in consideration of their mutual promises hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged."

  After resigning from West Short, Graeser became Fitzpatrick's director of procurement and inventory management. Before Graeser resigned, he forwarded three emails with West Shore's confidential information and trade secrets to his personal e-mail accounts, including: (1) a strategic warehouse distribution plan that contained locations of West Shore's product warehouses and distribution centers, measurements and square footage necessary to successfully operate each location, and locations for new warehouses and distribution centers; (2) a spreadsheet with the tool list for West Shore's installation trucks, including product numbers, costs, and quantities for all tools maintained; and (3) confidential pricing information from a vendor. Upon receiving a cease-and-desist letter from West Shore, Graeser informed West Shore that he destroyed the documents and would honor his employment agreement. Fitzpatrick received a similar letter, and allegedly continued to use or disclose the information Graeser had.

  Penn was a lead installer for West Shore and oversaw home renovation projects and supervised less-experienced installers on job sites. Penn had access to confidential information, including employees' names, contact information, and capabilities, customer contracts and contact information, installation policies and procedures, and training programs and materials.

  Penn was fired for a "policy violation" and then rehired two weeks later. When he was rehired, Penn signed an employment agreement with confidentiality requirements and a provision that prohibited him from soliciting West Shore employees for a two-year period following termination. Penn was fired again for a policy violation, and Penn went to work as a lead bath installer for Fitzpatrick. Penn texted some of West Shore's employees "come join the team" accompanied by a picture of himself in Fitzpatrick attire. Upon learning that Penn was soliciting West Shore employees, West Shore sent Fitzpatrick and Penn cease-and-desist letters.

– **Court's Decision:** Graeser's Motion to Compel Arbitration: West Shore charged Greaser with five counts, including violation of his employment agreement, unlawfully converting the same for his own benefit, breach of duty of loyalty, and misappropriation of West Shore's trade secrets in violation of state and federal law. Graeser filed a motion to compel arbitration, or in the alternative that the claims should be dismiss because the restrictive covenants in the employment agreement he agreed to five months into his tenure at West Shore were unenforceable for a lack of consideration.

  Greaser's motion to compel arbitration failed because his employment agreement specifically exempted from arbitration "any non-solicitation or non-disclosure provisions, rights, and legal remedies contained elsewhere in this agreement."

  Greaser's alternative argument — that the restrictive covenants were unsupported by adequate consideration — likewise failed because the district court found West Shore satisfied the pleading requirements of an enforceable contract, including adequate consideration. Upon a survey and review of precedential law and relevant federal decisions, the court found that "continued employment is sufficient consideration based upon distinctions the Commonwealth's courts historically have drawn between discrete non-disclosure agreements and non-compete or non-solicitation covenants" given an employer's interest and need to protect their confidential and trade secret information. Here, West Shore sufficiently pled adequate consideration, and the district court pointed to West Shore's allegations that Graeser executed the employment agreement in recognition of his access to West Shore's confidential and trade-secret information and the agreement stated Graeser's desire to work for West Shore and its successors, the parties' mutual promises, and their exchange of other good and valuable consideration.

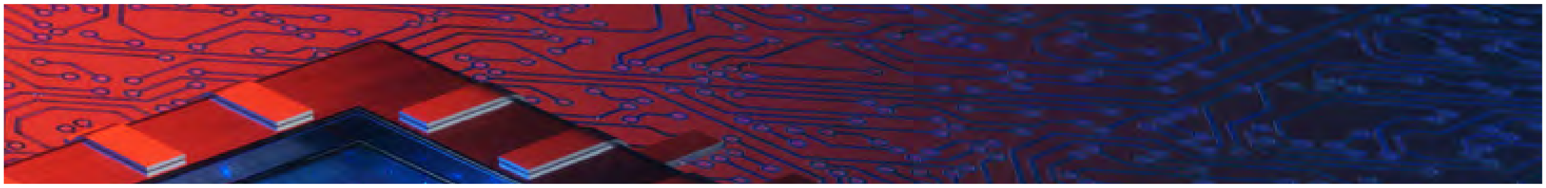
  Fitzpatrick's Motion to Dismiss for Failure to State a Claim: West Shore sued Fitzpatrick for misappropriation of trade secrets in violation of state and federal law and tortious interference with West Shore's contractual relations with Graeser and Penn. Fitzpatrick moved to dismiss all four counts for failure to state a claim, and the district court found that West Shore sufficiently pled all four of its claims against Fitzpatrick.

  Fitzpatrick challenged whether West Shore sufficiently alleged trade secrets. Utilizing the factors set forth in *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 109 (3d Cir. 2010), the court found that West Shore adequately pled that the information contained in the e-mails Graeser sent to himself constituted trade secrets. For example, the information alleged to be trade secret information was not generally known outside of West Shore's business and it was shared on a need-to-know basis within West Shore. The alleged trade secret information was valuable to West Shore's competitors, including information that gave Fitzpatrick a heard start in developing its own methods and strategies, and as a result "provide[d] unparalleled insight into [West Shore's] business." West Shore undertook reasonable precautions to protect the information, including utilizing passwords and non-solicitation and non-disclosure provisions, limiting access, requiring employees to review and acknowledge West Shore's handbook, and monitoring e-mail accounts, among other things.

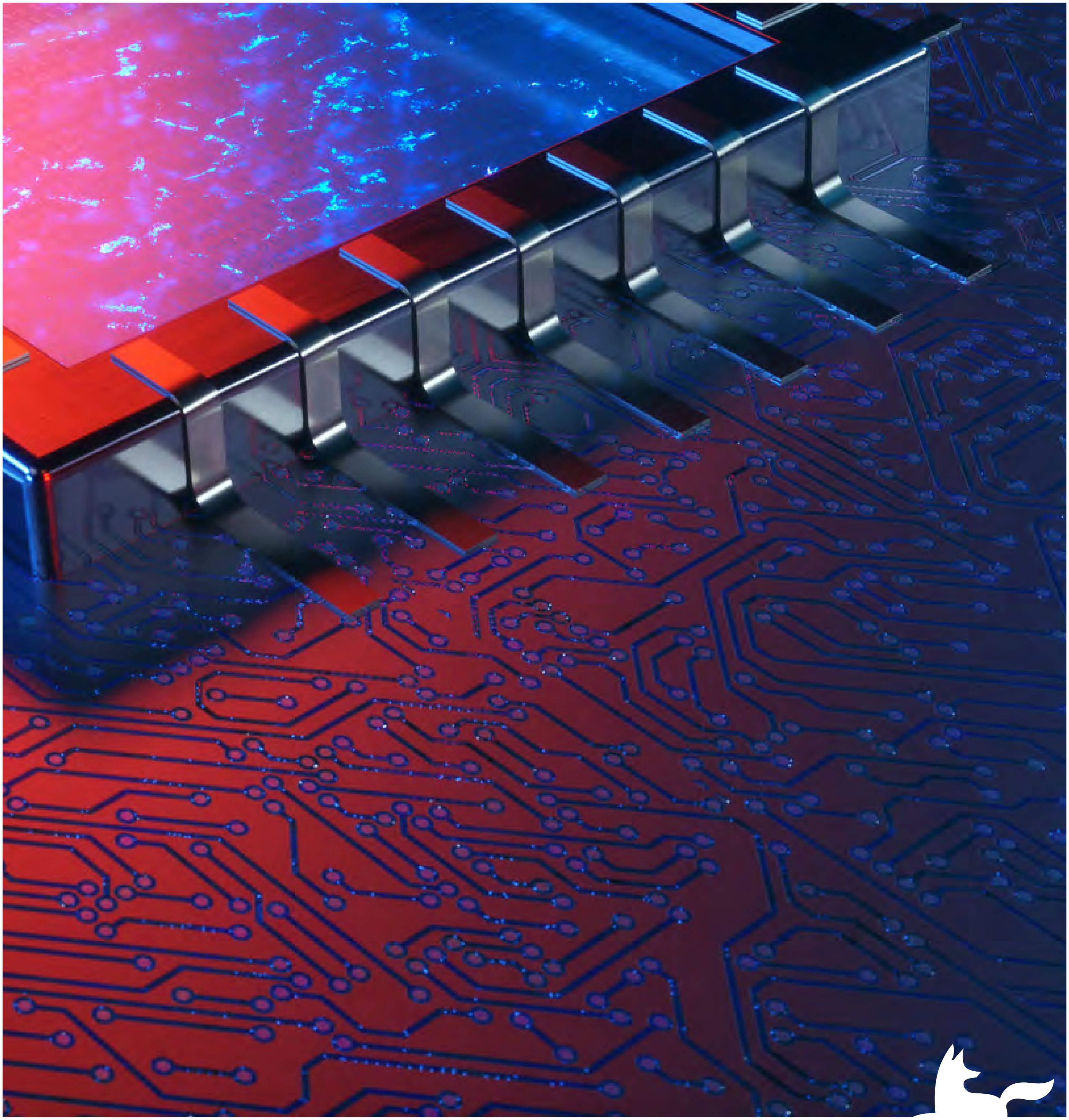
  Fitzpatrick also unsuccessfully argued that West Shore failed to plead any specifics regarding how it misappropriated West Shore's trade secrets. The court found that West Shore alleged Graeser took its trade secrets for Fitzpatrick's benefit, and "there is no reason to think Graeser undertook these efforts solely with his own pecuniary interests in mind, as opposed to with Fitzpatrick's blessing or at its direction."

Fitzpatrick moved to dismiss the tortious interference claims for West Shore's alleged failure to draw a connection between its business and the three emails Graeser forwarded to himself. The court found that West Shore adequately alleged that Fitzpatrick directed or acquiesced in Graeser's improper use of West Shore's trade secrets because Graeser referenced West Shore's trade secrets while communicating with vendors on Fitzpatrick's behalf and discussed developing strategic methods, which he was unlikely to do without knowledge of or permission from Fitzpatrick.

Penn's Motion to Dismiss for Lack of Jurisdiction: West Shore sued Penn for breach of contract, and Penn moved to dismiss for lack of jurisdiction. The court agreed that it lacked supplemental jurisdiction over West Shore's breach-of-contract claim against Penn because the Amended Complaint drew no connection between Penn and Graeser, except that they overlapped at West Shore and now work at Fitzpatrick. Compared to West Shore's case against Graeser and Fitzpatrick for misappropriation of its trade secrets, Penn's sole connection to the case — the text message he sent to West Shore's employees to work for Fitzpatrick — were "the factual nucleus of a different atom."



Fourth Circuit



Fourth Circuit

***Adnet, Inc., v. Rohit Soni*, 66 F.4th 510 (4th Cir. 2023).**

Industry: Technology

Takeaway: Under Virginia law, employers can demonstrate an employee's breach of duty of loyalty not only by showing that the employee misappropriated trade secrets, misused confidential information, or solicited employer's clients or employees, but also through other circumstances to be determined on a case-by-case basis. Employers may have a common law remedy against a disloyal employee even in the absence of a non-compete agreement.

Details:

- **Procedural Posture:** Plaintiff's appeal of district court's grant of defendants' motion for summary judgment.

- **Factual Background:** The U.S. Army awarded plaintiff a contract to develop computer software. The contract was set to expire, and the U.S. Army chose a third party to take over the software development work. Plaintiff planned to submit a bid to the third party to work as a subcontractor. defendants, a group of plaintiff's employees, learned of the subcontract through the course of their employment with plaintiff, and separately, submitted a bid for the subcontract and won.

  Plaintiff filed a lawsuit alleging a breach of the duty of loyalty, tortious interference with a business relationship, and business conspiracy. The district court granted defendants' motion for summary judgment, concluding: (1) defendants did not compete against plaintiff, (2) plaintiff did not have a business expectancy in the subcontract, and (3) there was no business conspiracy.

  Court's Decision: On appeal, the Fourth Circuit reversed the district court's opinion, holding that the district court erred in limiting the circumstances where a duty of loyalty can occur. The court ruled that the district court had incorrectly limited the holding in *Williams v. Dominion Tech. Partners, L.L.C., 576 S.E.2d 752,757* (Va. 2003), which set forth three circumstances where an employee can breach their duty of loyalty: (1) misappropriation of trade secrets; (2) misuse of confidential information; and (3) solicitation of the employer's client. The district court misapplied the case by assuming this was an exhaustive list. The Fourth Circuit found the list was "by no means exhaustive," and that a breach of employee loyalty can be demonstrated on a "case by case" basis.

  Here, a jury could find defendants' actions breached the duty of loyalty by (1) approaching plaintiff's customer and causing them to enter the subcontract; (2) submitting a competitive proposal to the customer, thus "compet[ing] against [Plaintiff] in the most direct sense of the word," and (3) doing so while still employed before the employment terminated.

  Finally, the court found that as to plaintiff's tortious interference claim, the court found that there was more than a possibility that plaintiff established a likelihood of a future economic relationship with the third-party customer, and thus there was triable question.

***dmarcian, Inc. v. dmarcian Eur. BV*, 60 F.4th 119 (4th Cir. 2023).**

Industry: Software

Takeaway: The federal DTSA may properly extend extraterritorially to apply to actions taken by a foreign entity when that entity reaches into the United States to wrongfully acquire trade secret source code from a computer server.

Details:

- **Procedural Posture:** Appeal from contempt sanctions.

- **Factual Background:** Plaintiff dInc is a software company with its headquarters in North Carolina. dInc's software helps users authenticate incoming emails, to guard against phishing attacks. Beginning in 2016, dInc entered into a handshake agreement licensing its software to defendant, dBV, a Dutch company and authorizing dBV to sell the software in Europe and Africa. The agreement was never reduced to writing.

  Throughout the relationship, dInc and dBV employees corresponded regularly, including meetings and trainings hosted by dInc employees in North Carolina. In 2019, the partnership soured when dBV asserted ownership over portions of software source code that had been written by dBV developers. As a result of the dispute, dBV twice filed litigation in the Netherlands. Following the litigation, dBV apparently continued selling dInc software without permission while restricting dInc access to customers and setting up multiple websites with the dInc logo. In short, dInc and dBV went from partners to competitors.

  In March 2021, dInc filed suit against dBV in federal court in North Carolina accusing dBV of directly competing for customers using dInc's trade secret information, including its source code, customer lists, sales leads and general market intelligence. dInc sought an injunction. In response, dBV filed a motion to dismiss for lack of personal jurisdiction. The district court exercised personal jurisdiction over dBV, issued a preliminary injunction, held dBV in contempt, and ordered contempt sanctions. dBV appealed.

- **Court's Decision:** Relevant here, in defense to the application of the DTSA to its actions, dBV invoked the DTSA's presumption against extraterritoriality unless "an act in furtherance of the offense" took place in the United States. The court, however, agreed with the district court's holding that two of dBV's acts in the United States would satisfy this requirement. First, dBV had originally gained access to dInc's trade secrets through "data stored on servers within the United States." Second, dBV had likely facilitated the trade secrets' use or disclosure within the United States. dBV's argument that it only received the alleged trade secrets under an agreement reached in the Netherlands was unavailing. dInc needed only show that "an act" occurred in the United States, not the entire "offense." That dBV retrieved the trade secrets from dInc's North Carolina servers was enough to establish a domestic nexus.

***Synopsys, Inc. v. Risk Based Security, Inc.*, 70 F.4th 759 (4th Cir. 2023).**

Industry: Software

Takeaway: The plaintiff in a misappropriation of trade secrets action must establish that the trade secret derives independent economic value from being secret, as opposed to the information merely being valuable.

Details:

- **Procedural Posture:** Appeal from grant of summary judgment.

- **Factual Background:** Plaintiff Synopsys and defendant Risk Based Security, Inc. (RBS) both identify vulnerabilities in the source code of software and share information about those vulnerabilities so that the vulnerabilities can be remedied before nefarious individuals exploit them. RBS acquired a publicly available database about vulnerabilities and then used that data to develop its own private database, VulnDB, which it licensed to certain competitors. One such competitor, Black Duck Software, Inc., allegedly used VulnDB to create its own databases, and RBS filed a separate suit against Black Duck alleging breach of the license agreement and misappropriation. Synopsys eventually acquired Black Duck Software, Inc. When Synopsys later became a government-sponsored entity with the authority to publish information about source code vulnerabilities, RBS contended that Synopsys would automatically engage in trade secret misappropriation through the use of the VulnDB database and 75 purported trade secrets. Plaintiff Synopsys filed a declaratory judgment action against defendant RBS seeking a declaration that no misappropriation had occurred. RBS contended that because VulnDB constituted approximately 90% of its revenues, RBS's mid-litigation sale price to another entity sufficed as proof of its trade secrets' economic value. The district court granted summary judgment in plaintiff's favor, and defendant appealed.

- **Court's Decision:** The Fourth Circuit affirmed the grant of summary judgment to plaintiff. For information to constitute a trade secret, it must derive independent economic value from its secrecy; this requires proof not just of value of the trade secrets, but of value specifically tied to secrecy. The Fourth Circuit affirmed because defendant had not established that the purported trade secrets derived economic value by virtue of their secrecy. The court noted that defendant's reliance on RBS's mid-litigation acquisition price and revenue was insufficient to prove the value of the purported trade secrets because RBS had not endeavored to connect the total company's value with that of the at issue trade secrets. The court held that allowing "evidence of the value of the whole entity to substitute as value of a particular component part (the trade secrets) would defeat the obligation of proving that the alleged trade secrets themselves have independent economic value."

Maryland

***United Source One, Inc. v. Frank,* No. JKB-22-2309, 2023 WL 2744459 (D. Md. Mar. 31, 2023).**

Industry: Food and Beverage

Takeaway: Plaintiffs must sufficiently allege the existence of a trade secret, even when a defendant does not appear.

Details:

- **Procedural Posture:** Plaintiff's motion for default judgment.

- **Factual Background:** Plaintiff US1 supplies, distributes, imports, and exports Halal meat and food products. Plaintiff maintains four documents that it alleges are trade secrets. Defendant Frank began working for US1 as a purchaser, which required him to have access to the documents. Defendant Frank signed a non-disclosure and non-compete agreement. While at work, Frank put the four purported "trade secret" documents into an electronic format and then accepted employment with a competitor. US1 commenced an action for misappropriation of trade secrets under the DTSA and the Maryland Uniform

Trade Secrets Act, as well as for breach of contract. Frank failed to answer or defend the action, so US1 moved for entry of default, which was granted. US1 moved for entry of a Default Judgment.

- **Court's Decision:** The court held that even though the defendant had not appeared, the plaintiff failed to plausibly allege that the four documents at issue were actually trade secrets. As to the first two documents, document A was described as a confidential compilation report regarding U.S.-based processors, and document B was a similar compilation that bore extensive annotations. Documents C and D allegedly dealt with import requirements of two specific countries and contained non-public lists of US-based vendors whose Halal beef products meet each country's respective regulatory requirements. The court held that there was no plausible allegation that the purported trade secret documents contained information that was not readily ascertainable through proper means and no allegation that substantial effort was needed to transform any ascertainable information into a confidential compilation that could potentially constitute a trade secret.

North Carolina

***MarketPlace 4 Insurance, LLC v. Vaughn*, 22 CVS 7588, 2023 WL 2229694 (N.C. Super. Ct. Feb. 24, 2023).**

Industry: Insurance

Takeaway: Compilation information of detailed records collected over a significant period of time and with particular value as a "compilation or manipulation of information" may be considered protectable trade secret information even where the underlying record data may be "ascertainable by anyone in the business" sufficient to withstand a motion for judgment on the pleadings.

Details:

- **Procedural Posture:** Motion for judgment on the pleadings (motion to dismiss).

- **Factual Background:** Plaintiff owns and operates independent insurance agencies in the United States, and acquired Mike Gilliam Agency, Inc., and its customer lists and other property, in an asset purchase in November 2020. Defendant was employed by the Gilliam Agency, and then by plaintiff, until he resigned in June 2021. The Gilliam Agency used an online database system containing confidential and trade secret information, including customer lists. Following the asset purchase, plaintiff transferred operations to its own system, but the Gilliam Agency online database was unintentionally maintained. Plaintiff alleges defendant used his login credentials and access to the Gilliam Agency database following his separation to submit forms on behalf of plaintiff's clients (without customer authorization) requesting a transfer of their business to defendant's new employer. Plaintiff alleges defendant's new employer had knowledge of his misappropriation of plaintiff's trade secret information and did not stop him.

- **Court's Decision:** The principal trade secret dispute at issue was whether the information defendant accessed constituted trade secrets under the North Carolina Trade Secrets Protection Act. Plaintiff identified the misappropriated trade secrets as "documents and information which specify the insurance policies and financial products plaintiff has sold to its customers; the pricing and terms of specific policies for each of its customers; expiration dates of customer policies; policy application information; policy renewal information; sales and account maintenance practices; cost data; sales data; profit and loss statements; and profit margins." Plaintiff further alleged that it "maintains its trade secrets in unique compilations in one or more computer databases. These compilations include the relevant information for each of [the] customers and their respective policies. These databases in which plaintiff maintains its customer and other information are protectable trade secrets as well."

In analyzing whether the information constitutes a trade secret, the court stated that information, including application information, policy cost information, payment information, insurance schedules, and customer personally identifying information may constitute a trade secret. It also noted that "where an individual maintains a compilation of detailed records over a significant period of time, such that they have particular value as a compilation or manipulation of information, those records could constitute a trade secret even if similar information may have been ascertainable by anyone in the business." Because plaintiff had specifically pled categories of trade secret information that defendant allegedly misappropriated, and because plaintiff alleged that its customer database information was a "unique compilation" that may constitute protectable trade secret information, the court denied defendant's Rule 12 motion to dismiss as to the misappropriation claims.

***Software Pricing Partners, LLC v. Geisman*, 3:19-cv-00195-RJC-DCK, 2023 WL 3467768 (W.D.N.C. May 15, 2023).**

Industry: Technology

Takeaway: To determine reasonable attorneys' fees for willful and malicious misappropriation of trade secrets, the court follows a three-step process: (1) determine the lodestar figure by multiplying the number of reasonable hours expended times a reasonable rate; (2) subtract fees for hours spent on unsuccessful claims unrelated to successful ones; and (3) award some percentage of the remaining amount, depending on the degree of success enjoyed by the plaintiff.

Details:

- **Procedural Posture:** Plaintiff's motion for attorneys' fees and expenses.

- **Factual Background:** Plaintiff brought suit against defendant, alleging misappropriation of trade secrets, breach of contract, unfair and deceptive trade practices, and copyright infringement. After filing for bankruptcy, defendant indicated that he would no longer be able to defend the allegations in the lawsuit and agreed to an entry of default. After the court entered a default, plaintiff filed a Motion for Default Judgment requesting a permanent injunction, damages, and attorneys' fees. The court granted the Motion for Default Judgment and awarded plaintiff $779,114.60, which included a reasonable royalty, treble and statutory damages, and reasonable attorneys' fees and costs. The court directed plaintiff to submit an accounting of its reasonable attorneys' fees and costs.

- **Court's Decision:** The proper calculation of attorneys' fees for willful and malicious misappropriation of trade secrets involves a three-step process. First, the court must determine the lodestar figure by multiplying the number of reasonable hours expended times a reasonable rate. Next, the court must subtract fees for hours spent on unsuccessful claims unrelated to successful ones. Finally, the court should award some percentage of the remaining amount, depending on the degree of success enjoyed by the plaintiff. Here, after considering the 12 factors for determining the lodestar figure, the reasonable rate, reductions for time spent on unsuccessful claims, and plaintiff's degree of success, the court held plaintiff was entitled to all its calculated attorneys' fees for activities leading up to its Motion for Attorneys' Fees and Expenses and half its calculated attorneys' fees related to the preparation of that motion.

Fifth Circuit

Fifth Circuit

***Calsep A/S v. Dabral,* 84 F.4th 304 (5th Cir. 2023).**

Industry: Energy, Software

Takeaway: Litigation-ending sanctions are appropriate when a defendant purposefully deletes electronic evidence necessary for the plaintiff to prove its case in violation of multiple court orders.

Details:

- **Procedural Posture:** Appeal of sanction of default judgment.

- **Factual Background:** Pashupati Sah was one of the highest-ranking employees at the Danish company, Calsep A/S. Calsep is a leading provider of PVT software, which is used by oil and gas companies, through data-driven simulations of fluid behaviors, to assess the efficiency of both existing and potential oil wells. PVT software is difficult to design because it requires expertise in chemical engineering, fluid dynamics, and computer programming. For this reason, only a handful of companies sell it worldwide. Calsep's PVT software is called PVTsim.

  Ashish Dabral hired Sah away from Calsep to develop a PVT software program for one of his companies in exchange for an ownership stake. Sah developed the software program, called InPVT. Calsep investigated and found that Sah had copied hundreds of files containing Calsep trade secrets, including the source code repository for PVTsim, to three external hard drives. Calsep therefore sued Sah, Dabral, and Dabral's various companies for trade secret misappropriation in violation of state and federal law.

  Discovery was contentious. In June 2019, Calsep requested information related to the development of InPVT, including a copy of Dabral's complete source code control system. A source code control system is a mechanism that tracks changes and updates to source code. Calsep intended to use the information to determine whether data from PVTsim was used in the development of InPVT. Dabral refused to produce the information, and Calsep moved to compel. The court ultimately ordered production of the information. While Dabral did produce a source code system, Calsep argued that the productions were incomplete and had been manipulated. In September 2020, Dabral represented to the court that he had produced the entire source code control system, with the exception of files deleted in the regular course of business "long before this lawsuit."

  Calsep argued that Dabral had, in fact, deliberately made multiple deletions from his servers during the course of the litigation, including permanently deleting 39 entries in the source code control system. Eleven such deletions occurred after the court's order to produce the information. Believing the deletions to be intentional, Calsep filed a motion for sanctions. At the evidentiary hearing on the motion for sanctions, Dabral did not contest that the deletions happened but instead insisted that they did not prejudice Calsep and were not intentional. The court was unconvinced and found that Dabral (1) filed a false affidavit with the court, (2) purposely delayed discovery, (3) manipulated data, and (4) deleted electronic evidence from the source code control system. The court, therefore, entered sanctions of a default judgment against Dabral and awarded damages plus fees to Calsep. Dabral appealed.

- **Court's Decision:** The court considered the three different avenues for assessing sanctions in this case: (1) failure to comply with court orders under FRCP 37(b)(2)(A), (2) failure to preserve through "reasonable steps" electronic evidence for trial under FRCP 37(e), and (3) the inherent power of the federal courts to control and regulate the cases before them. In reviewing the record, the court found that Dabral ignored or violated several court orders, including a protective order, multiple orders compelling disclosure of information, and a preliminary injunction forbidding the destruction of evidence.

  Next, the court determined that Dabral acted in bad faith by delaying discovery, manipulating electronic data, and permanently deleting a significant amount of electronic data. The fact that any such actions were taken by Dabral's company, and not by Dabral directly, does not protect him. The court also noted that discovery delays are serious, especially when they are part of a pattern. Dabral admittedly deleted evidence, delayed discovery, and ignored court orders. And, when he was offered a chance to come clean, he instead deleted more evidence and produced an incomplete copy of the source code control system.

  Moreover, the prejudice to Calsep from Dabral's wrongful actions was significant. With the source code control system, Calsep could not perform the analyses necessary to prove its misappropriation claims. Finally, the court considered whether lesser sanctions could have been imposed. Of course, litigation-ending sanctions are reserved for the most heinous scenarios. Here, the court found that Dabral's actions were egregious because it involved willful and intentional attempts to manipulate the judicial system. Because Dabral destroyed evidence crucial for Calsep to prove its case and disregarded four separate court orders, lesser sanctions were insufficient.

***Direct Biologics L.L.C. v. McQueen,* 63 F.4th 1015 (5th Cir. 2023).**

Industry: Biotechnology

Takeaway: It is in the trial court's discretion to apply the Texas statutory presumption of irreparable harm for highly trained employees, and parties seeking preliminary injunction in trade secrets cases should (a) provide specific evidence of the irreparable harm caused by both actual and potential disclosures of trade secrets that has already occurred; (b) demonstrate the risk of potential injury during the lawsuit, and (c) use specific evidence to show the difficulty in quantifying monetary damages should trade secret disclosures occur.

Details:

- **Procedural Posture:** Orders denying the plaintiff's motion for preliminary injunction and dismissing the plaintiff's claims.

- **Factual Background:** The plaintiff, Direct Biologics, is a biotechnology company that manufactures two pharmaceutical products, AmnioWrap, an allograft skin substitute for tissue repair, and ExoFlo, a proprietary extracellular vesicle (EV) used in treatment of severe COVID-19. At the time of briefing to the Fifth Circuit, ExoFlo was undergoing the final phase of clinical trials to become the first of its kind EV to receive FDA approval for use in the United States. The plaintiff brought claims against two defendants: McQueen, a former employee, and Vivex Biologics, the former employee's new employer. The former employee signed an employment agreement and an operating agreement with the plaintiff, both of which contained a non-competition covenant and a confidentiality covenant. In his role at the plaintiff's company, the former employee was intimately involved in both product lines and knew about the company's formula and product specifications for ExoFlo. The defendant later joined Vivex, a direct competitor of the plaintiff, that also sells and markets allograft products and develops EV products.

- **Court's Decision:** The plaintiff filed claims for breach of the non-compete and non-disclosure agreements, as well as claims for trade secret misappropriation under state and federal trade secrets law against both the former employee and his new employer. The trial court denied the plaintiff's preliminary injunction, reasoning that the plaintiff failed to demonstrate irreparable harm. In doing so, the trial court refused to apply a presumption of irreparable harm under Texas law, which applies when a "highly trained employee is continuing to breach a non-competition covenant." The trial court ultimately dismissed the case, finding that the remaining claims were subject to arbitration.

  The Fifth Circuit vacated the district court's orders and remanded for further proceedings. Applying Texas law, the panel first concluded that the trial court did not abuse its discretion in declining to apply the presumption of irreparable harm. The panel explained that, in the absence of independent proof of harm, courts have discretion in declining to apply the presumption of irreparable harm.

  The panel further concluded, however, that the trial court incorrectly found that the plaintiff had not presented sufficient evidence of irreparable harm. In particular, the panel noted that the trial court failed to perform an individualized assessment of whether disclosure was likely to occur during the pendency of the lawsuit and failed to consider whether resulting money damages would be difficult to quantify. Thus, the Fifth Circuit vacated the orders dismissing the case and denying the preliminary injunction and the panel remanded the case with instructions to make particularized findings whether harm was likely to occur and whether money damages would be difficult to quantify. The court noted that although there was no dispute that the claims must ultimately be submitted to arbitration, a potential preliminary injunction cannot be entered unless the final judgment dismissing the claims was also vacated.

Louisiana

***Johnston v. Vincent*, 359 So.3d 896 (La. 2023).**

Industry: Manufacturing

Takeaway: A court must look at the "independent economic value" of the trade secret to both the entity that allegedly misappropriated the trade secret as well as the entity that it was misappropriated from. Further, a customer list does not qualify as a trade secret if the information contained in the list is "readily ascertainable."

Details:

- **Procedural Posture:** Post-trial appeal.

- **Factual Background:** The case involves two competing companies in the petrochemical equipment business. Plaintiffs, Lake Charles Rubber and Gasket (Lake) and its sole owner sued its former employee Bryan Vincent and his newly formed entity, Gulf Coast Rubber and Gasket (Gulf). Vincent was the husband of Lake's founder's daughter and had worked at Lake for more than 20 years. In 2014, after acrimonious proceedings involving the ownership of Lake, Vincent started Gulf. Many of the employees that worked at Lake moved on to Gulf. Gulf sued Lake for, *inter alia*, breach of contract, breach of fiduciary duties, unfair trade practices, and trade secret violations. As relevant to this appeal, the trial court found that some, but not all, Lake documents that were used by Gulf were trade secrets and were misappropriated. In particular, the trial court found that the Lake part numbering system that was taken, modified, and then used at Gulf was not a trade secret. The trial court awarded limited damages after heavily discounting plaintiff's expert's damages calculations. The trial court also refused to treble the trade secret misappropriation damages. The appellate court reversed in part all of these rulings. The parties appealed to the Louisiana Supreme Court. The issues presented to the Supreme Court were: (1)

whether and to what extent defendants violated LUTSA; (2) whether and to what extent the court of appeal erred in its changes to the awards for lost profits and unjust enrichment; (3) whether unjust enrichment must be trebled; and (4) whether Vesta Johnston may recover for diminution in value of her ownership interest in Lake.

- **Court's Decision:** On (1), the Supreme Court held that the appellate court erred in failing to apply the manifest error standard of review as to whether the defendants violated LUTSA. Specifically, the court agreed with the trial court that the parts numbering system was not a trade secret under LUTSA because it held no independent economic value. Even though Gulf took the parts numbering system from Lake, all it took was the numbering system itself and the descriptions of the parts; Gulf could not access the economically valuable information, such as purchase and sales history that existed in the Lake version of the system. The court further found that the customer lists were trade secrets, affirming the appellate court's ruling. The customer lists were extensive and not limited to "common knowledge" or readily ascertainable information. On (2), the court held that the trial court was correct in discounting the plaintiff's damages expert's opinions and that the appellate court erred in reinstating the damages calculations. On unjust enrichment, however, the court affirmed that it was an abuse of discretion to award no damages for unjust enrichment due to trade secret misappropriation. It was error to find no unjust enrichment when the court previously found there was trade secret misappropriation. On (3), the court said that unjust enrichment damages should not be trebled under Louisiana law because they are not "actual damages" under the plain language of the statute. Finally, on (4), the court held that the diminution in value claim also fails. The loss suffered by the sole owner of Lake was the same that would be suffered by others, and therefore the shareholder does not have a right to sue individually.

***Ring St., LLC v. Cypress Connects LLC*, No. 23-1486, 2023 WL 4825194 (E.D. La. July 27, 2023).**

Industry: Technology

Takeaway: Court may require plaintiffs in trade secret litigation to file trade-secret identification statements that identify the claimed trade secrets at issue with particularity so as to appropriately tailor discovery as necessary.

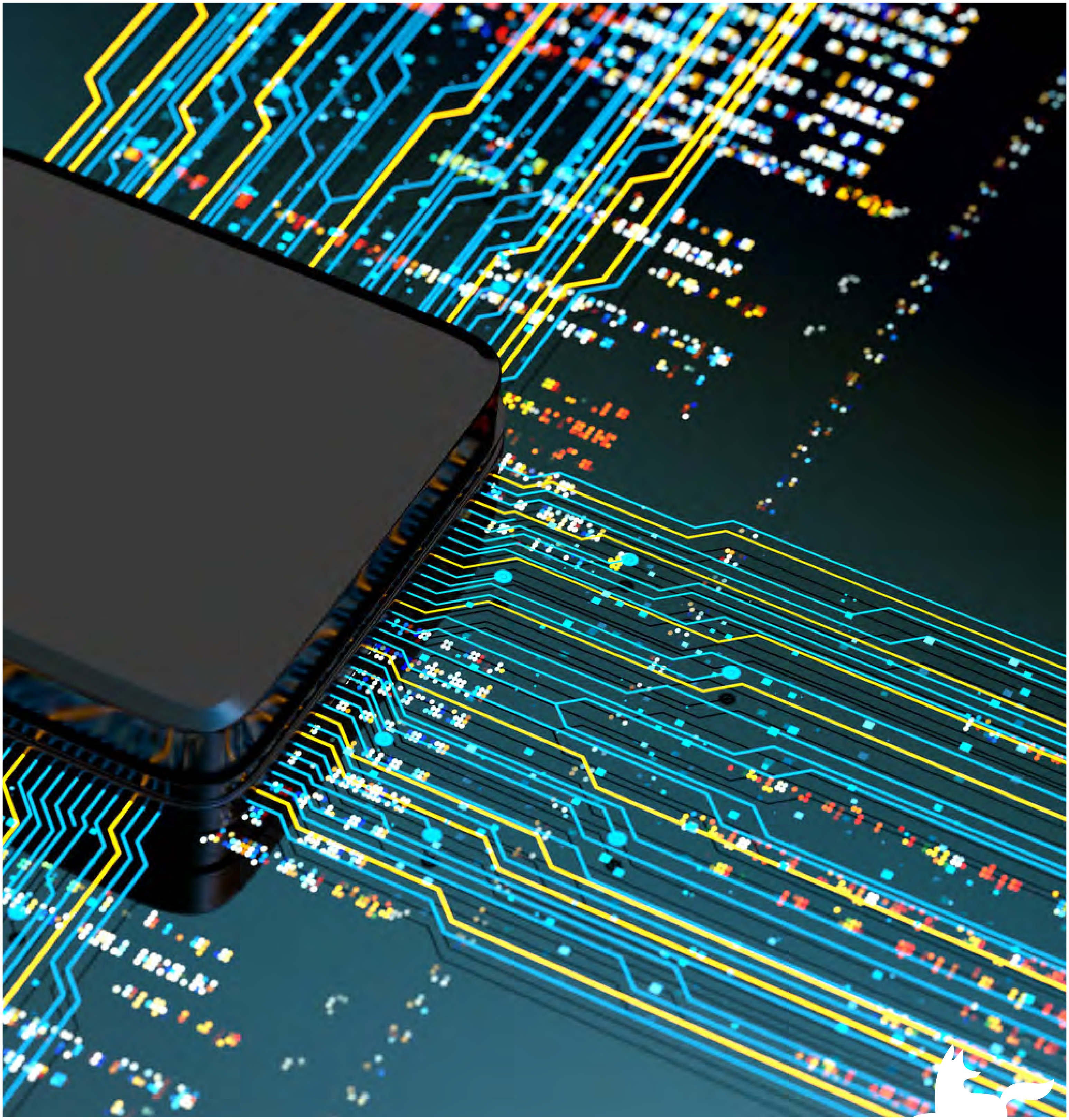
Details:

- **Procedural Posture:** Plaintiff's motion for further discovery under Federal Rule of Civil Procedure 56(d); defendant's motion for summary judgment under Federal Rule of Civil Procedure 56.

- **Factual Background:** IT and internet phone services provider alleged that former employees stole trade secrets in order to start their competing business. Defendants move for summary judgment after limited discovery conducted for purpose of preliminary injunction hearing.

- **Court's Decision:** Court denies motion for summary judgment and grants cross-motion under Rule 56(d), noting that the "trade-secret issue is paramount to this case and full discovery has not been completed." At the same time, the court orders the plaintiff to file a trade-secret identification statement that identifies the allegedly misappropriated trade secrets with sufficient particularity to "to meaningfully compare the asserted trade secret to information that is generally known or readily ascertainable and to permit the parties and the court to understand what information is claimed to be the trade secret."

Sixth Circuit



Sixth Circuit

***Novus Grp., LLC v. Prudential Fin., Inc.*, 74 F.4th 424, 426 (6th Cir. 2023).**

Industry: Insurance

Takeaway: Trade secret owners may not rely on a web of contracts to confer a confidential relationship, as required to support a claim of trade secret misappropriation.

Details:

- **Procedural Posture:** Appeal of grant of summary judgment.

- **Factual Background:** Novus Group developed a unique insurance annuity product that would guarantee that, following a life insurance policyholder's death, an insurance company would pay death-benefit proceeds to beneficiaries throughout their lifetimes. Novus Group contracted with Annexus, a financial product developer, to spearhead a pitch to Nationwide insurance. Novus Group's contract with Annexus included a confidentiality provision. In connection with the pitch, Nationwide was not asked to sign an NDA with Novus. Notably, however, prior to the inception of Novus Group, Nationwide had executed an NDA with a combined entity named AnnGen, of which Annexus was a member. Annexus delivered the pitch to Nationwide on behalf of Novus Group, but Nationwide chose not to pursue the concept.

  Following the pitch, two Nationwide employees left the company to join Prudential. When Prudential later launched an annuity product much like the one pitched to Nationwide by Annexus on behalf of Novus Group, Novus Group sued, alleging that Prudential engaged in trade secret misappropriation in violation of Ohio's Uniform Trade Secrets Act. The district court granted Nationwide's motion for summary judgment, and Novus timely appealed.

- **Court's Decision:** To state a claim for trade secret misappropriation, a plaintiff must show (1) the existence of a trade secret; (2) the acquisition of the trade secret as the result of a confidential relationship or through improper means; and (3) an unauthorized use of the trade secret. The court focused on prong (2) — whether Prudential acquired the information through a confidential relationship. To assess this, the court looked to whether Novus and the two departing Nationwide employees ever formed a relationship in which the pair had a duty to maintain the information received from Novus in the utmost secrecy. It found they had not. Although Novus had an agreement with Annexus, Nationwide was not a party to that agreement and was not bound by it. And, although Nationwide was a party to a separate agreement with AnnGen, Novus was not a signatory to that agreement. In other words, although Novus certainly knew how to create a confidential relationship, it failed to do so with Nationwide. As such, Novus failed to state a claim for trade secret misappropriation, and summary judgment was affirmed.

Michigan

***Broad-Ocean Technologies, LLC v. Bo LEI*, 649 F. Supp. 3d 584 (E.D. Mich. 2023).**

Industry: Automotive

Takeaway: At the summary judgment stage, a court may consider the extraordinary measures a defendant has taken to conceal misappropriated confidential information when determining the existence of a trade secret. This is because said conduct, when compared to the measures taken by a plaintiff to protect its information, may provide insight into the value of the information sought to be protected, and thus, its status as a trade secret.

Details:

- **Procedural Posture:** Motion for summary judgment.

- **Factual Background:** Plaintiff is an automotive supplier that specializes in designing and manufacturing electric drive motors. Defendant was formerly employed by plaintiff as a senior software engineer. As part of his employment, defendant signed an Employee Confidentiality and Assignment of Intellectual Property Agreement and a non-compete agreement.

  Prior to defendant's last day working for plaintiff, he signed a letter in which he acknowledged his obligations under the confidentiality agreement, agreed to maintain the confidentiality of plaintiff's trade secrets and other confidential information, and affirmed that he was not in possession of any of plaintiff's confidential information.

  Despite said representations, defendant used his superior technical knowledge and sophisticated means to copy and transfer company files, conceal their identity, and then attempt to cover his tracks. This included renaming company files, transferring them to external spaces (such as Google Drive), and attempting to wipe evidence of the file transfer from his hard drive. It also included using an "anti-forensic" program to further attempt to wipe any remaining "artifacts" or data that would reveal his activity.

  Plaintiff brought suit against defendant for alleged violation of the DTSA and Michigan Uniform Trade Secrets Act, as well as claims for breach of the common law duty of non-disclosure, breach of his employment contract and confidentiality agreement, and breach of fiduciary duty.

  A preliminary injunction was ordered shortly after the commencement of the lawsuit, and as part of the order, defendant was required to provide his personal laptop for forensic examination. The exam revealed that defendant downloaded the information taken from plaintiff to his laptop and then deleted any evidence of the transfer. Further, he was required to provide his new work laptop for forensic examination, and the examination determined that defendant had wiped any information related to recent files from the laptop. However, certain evidence existed that demonstrated that the laptop had contained several documents that were taken from plaintiff. The examiner ultimately concluded that "someone had engaged in uncommonly sophisticated anti-forensic activities to obstruct his review."

  Plaintiff broadly described the documents for which it sought trade secret protection. Largely, its description included a representation that the majority of the files taken were related to a product it made that was not known to competitors and several spreadsheets that contained the source file and path information of the aforementioned files.

- **Court's Decision:** The court granted in part, and denied in part, defendant's motion for summary judgment. In relevant part, the court denied defendant's motion with respect to plaintiff's trade secret-related claims. The court held that although plaintiff's description of its trade secrets was "sketchy," there was enough information in the record for it to withstand summary judgment.

  In analyzing whether plaintiff adequately established the existence of trade secrets, the court opined as to the following:

  > The court raised several points of concern regarding Plaintiff's lack of specificity when describing the alleged trade secret. However, it acknowledged that Plaintiff's reluctance to be more specific was understandable because, "the more precise the claim, the more a party does to tip off a business rival to where the real secrets lie and where the rival's own development efforts should be focused." The Court held that the analysis required the use of common sense and concluded that the Plaintiff's description of the trade secret survived the threshold at summary judgment based on the Court's determination that: (1) the type of information that Plaintiff described was inherently more secret than a business process or strategy or "low technology commodity product"; (2) the type of information that Plaintiff described as its trade secret was later found on Defendant's work computer in connection with a failed attempt by Defendant's new employer to mimic the technology; and (3) the extraordinary measures that the Defendant took to cover his tracks led to a reasonable inference that Defendant knew what he was taking from Plaintiff, and that its value was derived from unique properties that were not known outside Plaintiff's business.

***Versata Software Inc. v. Ford Motor Co.*, No. 15-cv-10628, 2023 WL 3175427 (E.D. Mich. May 1, 2023).**

Industry: Technology

Takeaway: A plaintiff alleging breach of contract must prove the measure of damages with reasonable certainty, meaning they are not speculative or based on conjecture and instead, based on a method by which damages can be calculated with reasonable certainty. It is critical for the entity seeking relief to identify the appropriate damages calculation approach early as well as introduce precise evidence that supports each element at trial.

Details:

- **Procedural Posture:** Defendant's motion for judgment as a matter of law.

- **Factual Background:** Ford hired Versata to develop computer software that would allow Ford to more efficiently configure the millions of cars it manufactures each year. Versata created the software called "ACM." Versata licensed ACM and other related software (including a software program called "MCA") to Ford through the Master Subscription and Services Agreement (MSSA). Instead of renewing the MSSA, Ford developed and implemented its own automotive configuration software program to replace ACM and MCA.

  Versata claimed that Ford breached the MSSA and misappropriated its trade secrets when Ford developed PDO. Versata claimed that Ford breached the MSSA in three ways: by misusing and disclosing Versata's confidential information, by reverse engineering ACM and MCA as part of the effort to develop PDO, and by denying Versata the right to enter Ford's premises to verify Ford's compliance with the provisions of the MSSA. The case proceeded to trial, and a jury awarded Versata $82,260,000 in breach of contract damages and $22,386,000 in trade secret misappropriation damages. Ford moved for judgment as a matter of law in its favor, arguing that the court must set aside the jury's contract damages awards and rule in its favor on the trade secret misappropriation claims.

– **Court's Decision:** There are two main issues before the court. First, whether Versata presented sufficient evidence to enable the jury to determine its contract damages with reasonable certainty. Second, whether it is entitled to judgment as a matter of law on Versata's trade secret misappropriation claims.

  The court held that Versata did not present sufficient evidence to permit the jury to quantify damages in compliance with Michigan law. A plaintiff alleging breach of contract must prove the measure of damages with reasonable certainty. It is not necessary that damages be determined with mathematical certainty. But damages that are speculative or based on conjecture are not recoverable. Simply put, a plaintiff must produce a method by which damages can be calculated with reasonable certainty. Versata failed to present sufficient evidence to quantify its damages as Versata's experts never explained to the jury how to calculate the amount of Versata's breach of contract damages. Further, instead of presenting testimony from a witness identifying the amount of contract damages, Versata presented its theory of contract damages to the jury in the closing argument by its attorney and offered two alternative models as well, which the court found were contrary to Michigan law and could not have been the basis of a proper contract damages award.

  As to the issue regarding whether Versata is entitled to judgment as a matter of law on Versata's trade secret misappropriation claims, Ford made several arguments to support its Motion. Ford successfully argued that the award could not stand because Versata did not introduce evidence that would enable the jury to calculate damages in the event that Ford had misappropriated anything less than all of the trade secrets. Versata failed to present evidence of the value of each of the trade secrets at issue. Instead, Versata pursued an award of damages based on an "avoided costs" basis; seeking to be made whole for the costs "avoided by Ford" by relying upon Versata's trade secrets rather than expending the resources to develop them on its own. The court then instructed the jury that any award of trade secret damages needed to reflect the amount of time it would have taken Ford to independently develop the alleged trade secrets that it misappropriated. Ultimately, the court found the lack of evidence presented by Versata forced the jury to rest its damages awards on nothing more than speculation. The court therefore granted Ford's motion for judgment as a matter of law, entering judgment in favor of Versata on its breach of contract claims in the amount of $3, and against Versata on its trade secret claims.

Ohio

***Coda Dev. s.r.o. v. Goodyear Tire & Rubber Co.*, No. 5:15-CV-1572, 2023 WL 2734684 (N.D. Ohio Mar. 31, 2023).**

Industry: Automotive

Takeaway: Not even a jury verdict can overcome insufficiently defined trade secrets. A jury verdict can, and should be, overturned where trade secrets are not defined with sufficient detail (including at trial) in a manner that allows the factfinder to separate the trade secrets from the other information that goes into a product. Owners of trade secrets should periodically review and catalog trade secrets proactively, not reactively. Finally, functional concepts already within the public domain are likely not to be afforded trade secret protection.

Details:

- **Procedural Posture:** Defendants' renewed Rule 50(b) motion for judgment as a matter of law.

- **Factual Background:** Both plaintiff Coda Development and defendant Goodyear Tire & Rubber Company manufacture tires for automotive applications. Following discussions between the two regarding a potential collaboration on the Chevrolet Volt, Coda sued Goodyear alleging that Goodyear had copied Coda's proprietary technology to keep tires inflated using self-inflating technology. In 2022, a jury found in Coda's favor on five of the 12 allegedly misappropriated trade secrets, awarding Coda $2.8 million in compensatory damages and $61.2 million in punitive damages. Following the jury's verdict, Goodyear renewed its motion for judgment as a matter of law.

- **Court's Decision:** The court evaluated primarily (1) whether plaintiff's trade secrets had been sufficiently defined with particularity and (2) if so, whether the punitive damages award was excessive under both Ohio and federal law.

  On the issue of misappropriation, the court found entirely in defendant's favor, holding that four of the five alleged trade secrets were insufficiently defined and that the fifth alleged trade secret was not even secret. With regard to the fifth alleged trade secret, testimony had showed that the concept of a self-inflating tire was not new even when plaintiff and defendant first began their business discussions in 2009. Thus, even if plaintiff had developed and successfully tested a functional version of the self-inflating tire, plaintiff's development could not confer trade secret status onto the already public concept.

  Finally, even though the court found defendant not liable for misappropriation, the court still addressed the punitive damages award. It held that the punitive damages ratio grossly exceeded both the Ohio statutory limit (3:1) and the federal constitutional limit (approximately 9:1) with a ratio of more than 21:1. Accordingly, the court set aside the jury verdicts and entered judgment for defendant.

  Note: This case is currently on appeal before the Court of Appeals for the Federal Circuit.

***Health Care Facilities Partners, LLC v. Diamond*, No. 5:21-CV-1070, 2023 WL 3847289 (N.D. Ohio June 5, 2023).**

Industry: Healthcare

Takeaway: Trade secret owners must provide sufficient evidence to establish the independent economic value of a trade secret misappropriation claim. The marking of documents as "confidential" does not transform them into protectable trade secrets.

Details:

- **Procedural Posture:** Plaintiff filed a lawsuit asserting causes of action for misappropriation of trade secrets under the DTSA and related common law torts. In this order, the court ruled on defendant's motion for summary judgment.

- **Factual Background:** The plaintiffs were 23 companies owned in part by the defendant. They engaged in the ownership, development, operation, and/or management of various medical facilities throughout the United States. Defendant was a member of most of the plaintiffs, which were governed by separate operating agreements that had similar terms. Importantly, the operating agreements did not contain specific restrictions on Members' duties with respect to company documents. In 2019 and 2020, defendant informed other Members that he was interested in disengaging from his membership status in plaintiffs, and so he began to discuss sale of his interests with a company called Value Health. Defendant eventually signed a Purchase and Sale Agreement for the transfer of those interests to Value Health and shared certain documents, including information relating to plaintiffs' existing management and investment businesses, the pipeline deals, and the joint venture. According to plaintiffs, they protected this information by entering into non-disclosure agreements with existing and prospective business partners. Plaintiffs argued that defendant misappropriated their trade secrets by sharing the documents with Value Health and that Value Health misappropriated their trade secrets by using the information for their own gain.

- **Court's Decision:** Plaintiffs submitted the declaration of one of their CEOs to describe the confidential materials and his opinion on the value of the materials as trade secrets. The court explained that the evidence submitted by plaintiffs merely described "truisms" regarding companies not wanting competitors to know information they consider proprietary, but that such truisms were insufficient to establish independent economic value of the alleged trade secrets. The court granted defendant's summary judgment motion against plaintiff on its claim for misappropriation of trade secrets under the DTSA.

Tennessee

***Sigma Corp. v. Island Industries, Inc*, No. 2:22-cv-02436-JPM-cgc, 2023 WL 2290793 (W.D. Tenn. Feb. 28, 2023).**

Industry: Manufacturing

Takeaway: A plaintiff's failure to plausibly allege that it took reasonable measures to keep the information secret will result in the dismissal of a misappropriation of trade secrets claim. An employee's fiduciary duty, standing alone, is insufficient to demonstrate that a plaintiff took "reasonable" measures to protect the secrecy of the information.

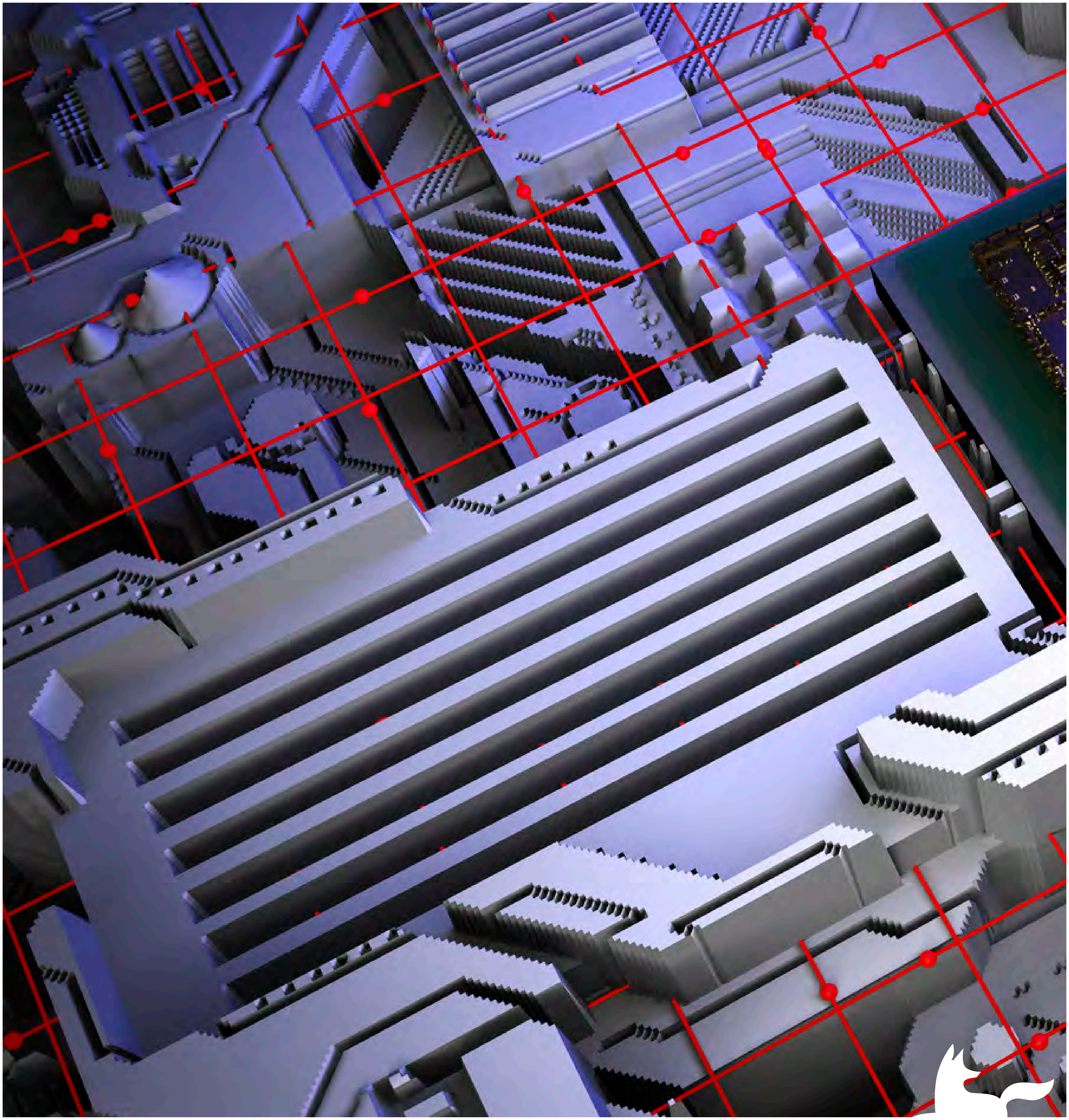
Details:

- **Procedural Posture:** Ruling on defendants' motion to dismiss.

- **Factual Background:** In an earlier False Claims Act litigation in California, Island Industries had alleged that a former Sigma Corp. employee had provided Sigma Corp.'s supplier list to Island Industries. During the course of discovery, Island Industries produced various documents that detailed Sigma Corp.'s suppliers, which were later entered as trial exhibits in the California case. Sigma Corp. did not move for these documents to be marked confidential under the court's protective order or for the publicly filed documents to be sealed. In the instant litigation, Sigma Corp. alleged that Island Industries misappropriated its trade secrets, including the supplier list, under the DTSA, the New Jersey Trade Secrets Act, and the Tennessee Uniform Trade Secrets Act.

- **Court's Decision:** Plaintiff Sigma Corp. failed to plausibly allege that it took any reasonable measures to protect its trade secret given that the documents were publicly filed and Sigma Corp. had not moved to seal the documents or have them designated as confidential under the protective order. The court also found that plaintiff's reliance on an employee's duty of loyalty, standing alone, was insufficient to show that plaintiff took reasonable measures to protect its purported trade secret. The court granted the defendant's motion to dismiss.

Seventh Circuit



Seventh Circuit

Epic Systems Corp. v. Tata Consultancy Services Ltd**., No. 22-2420, 2023 WL 4542011 (7th Cir. July 14, 2023).**

Industry: Software

Takeaway: 1:1 punitive damages awards in trade secret cases are justified when the misappropriating party acted with reprehensibility.

Details:

- **Procedural Posture:** Second appeal of punitive damages award.

- **Factual Background:** Epic and TCS are competitors in the electronic-health-record-software field. From 2012 to 2014, TCS employees accessed Epic's confidential customer web portal without authorization and downloaded thousands of documents containing Epic trade secrets, which they then used to create a comparative analysis outlining the differences in the competing software offerings. The comparative analysis convinced one of Epic's largest customers to abandon Epic in favor of TCS. TCS also failed to preserve relevant evidence, which resulted in an adverse inference sanction at trial. The jury held for Epic on all counts and awarded Epic $240 million in compensatory damages and $700 million in punitive damages. The district court reduced the award of compensatory damages to $140 million and reduced punitive damages to $280 million, reflecting Wisconsin's cap on punitive award at two times the award of compensatory damages.

  On the first appeal in 2020, the Seventh Circuit determined that $140 million in punitive damages was the maximum constitutionally permissible punitive award in this case. The decision was based on a finding that although TCS's conduct warranted punishment, it was not "reprehensible to a extreme degree." On remand, the district court reduced the punitive damages to $140 million.

- **Court's Decision:** The Seventh Circuit found that the $140 million punitive damages award was warranted. In particular, actions taken by TCS in deliberately and repeatedly accessing and downloading confidential information that Epic had spent years developing, and then using that information to compete with Epic, along with action taken in attempting to conceal the wrongful behavior, were "repeated, deliberate, and cynical" as required to satisfy a finding of reprehensibility. Moreover, the punitive damages were proportional to the compensatory damages and the harm Epic suffered. Because TCS is one of the largest companies in the world, only a significant punishment would have a deterrent effect.

<u>Illinois</u>

***Petrochoice LLC v. Amherdt,* No. 22-CV-02347, 2023 WL 2139207 (N.D. Ill. Feb. 21, 2023).**

Industry: Energy

Takeaway: To rely on the "inevitable disclosure" doctrine to prove a misappropriation of a trade secret claim, the party seeking to protect its confidential information must allege an intent or high probability that the prior employee will use the plaintiff's trade secret. Mere possession of trade secrets and a similar job position does not suffice to plausibly allege disclosure or use of those trade secrets.

Details:

- **Procedural Posture:** Defendant's motion to dismiss for failure to state a claim.

- **Factual Background:** Plaintiff is a distributor of petroleum products. Its business model depends on client relationships, proprietary sales tactics, confidential pricing schedules, and exclusive buying patterns. Defendant was a bulk fuel salesman and was employed by plaintiff for 26 years. In that role, defendant had access to and used the information provided by plaintiff. Defendant was subject to a non-compete and a confidentiality provision that he agreed to in exchange for a $1,000 signing bonus and continued at-will employment. Defendant advised plaintiff that he took another position with a competitor in its fuel sales department and ended his employment with plaintiff. After he started working for a competitor, plaintiff sued defendant, alleging misappropriation of trade secrets under the DTSA, as well as state law claims. Plaintiff claimed that defendant "cannot help but draw on his mentally retained" confidential information in his new role at the competitor.

- **Court's Decision:** The court decided that for purposes of this procedural stage, plaintiff sufficiently pled facts to establish an identifiable trade secret. Moreover, plaintiff alleged sufficient facts to establish that it took steps to keep that information secret. The main issue on defendant's motion to dismiss, however, is whether the plaintiff sufficiently pled that defendant "misappropriated" plaintiff's trade secrets by relying on the "inevitable disclosure" doctrine, which states that defendant's new employment would inevitably lead him to use the trade secret in the performance of his new job. In holding that the plaintiff did not prove that defendant misappropriated the plaintiff's trade secrets, the court looked at three factors.

  Plaintiff alleged that it and defendant's new employer are direct competitors in the fuel and lubricant products industry and serve the same geographical market. Plaintiff further alleged that defendant's new and former positions involved sales of the same type of products and are, therefore, similar. Plaintiff did not make further allegations about defendant's intent or a high probability that he will use plaintiff's trade secrets. Rather, plaintiff conclusively assumes that defendant's possession of the trade secrets will result in the use of that information. The court distinguished plaintiff's conclusory allegations to prior decisions relying on the inevitable disclosure doctrine where the prior employee was actively using, or took steps demonstrating his intent to use, trade secrets. Without more, the court declined to make a ruling that would prevent an employee from using his own level of performance and sales skills based on allegations that amounted solely to plaintiff's fears that its trade secrets would be misappropriated.

  The court concluded that plaintiff's allegations amounted solely to its own fears that its trade secrets would be misappropriated. For purposes of alleging a claim of trade secret misappropriation, this conclusory allegation is not enough to survive a motion to dismiss. The court dismissed the federal DTSA and parallel Illinois Trade Secrets Act claims. Because it dismissed the sole federal claim, the court also dismissed all state law claims against defendant.

***Aon PLC v. Alliant Ins. Servs., Inc.*, No. 23-CV-03044, 2023 WL 3914886 (N.D. Ill. June 9, 2023).**

Industry: Insurance

Takeaway: Defendants, through facially credible declarations and similar evidence, can rebut allegations of trade secret misappropriation in order to defeat a motion for a temporary restraining order.

Details:

- **Procedural Posture:** Plaintiff Aon moved for a temporary restraining order against nine former employees (the Individual Defendants) and Alliant Insurance Services, Inc. (Alliant), after the Individual Defendants left Aon in order to start a rival reinsurance brokerage group at Alliant. Aon sought to prevent the defendants from making use of trade secret materials allegedly misappropriated by the Individual Defendants.

- **Factual Background:** The Individual Defendants quit Plaintiff Aon's reinsurance division in order to join Defendant Alliant and launch a rival reinsurance brokerage group. Aon filed suit and sought a temporary restraining order against the Individual Defendants and Alliant, alleging misappropriation of trade secrets under the federal DTSA. As evidence of misappropriation, Aon alleged that, in the days immediately before their resignation, the Individual Defendants accessed trade secret information at Aon with no legitimate reason and emailed trade secret information to their personal email accounts. The Individual Defendants sought to rebut this assertion by submitting declarations attesting that their access to trade secret information was routine and part of their job duties at Aon and that they routinely emailed trade secret information to their personal email accounts with Aon's knowledge. The Individual Defendants also stated that they employed independent forensic experts to isolate and remove any Aon trade secret information from their personal devices. Alliant presented evidence that it employed onboarding procedures designed to prevent new employees from improperly utilizing trade secret information.

- **Court's Decision:** The court denied Aon's motion for a temporary restraining order because Aon was unable to show misappropriation of trade secrets by the Individual Defendants. The court found that the declarations submitted provided innocuous explanations for the Individual Defendants' access of trade secret information and demonstrated that their conduct was merely executing their job duties as employees of Aon. The Individual Defendants returned their work devices to Aon, employed forensic experts to remove trade secret information, and presented plausible explanations for their access of information prior to their departure from Aon. Aon, by contrast, was unable to show that the actions of the Individual Defendants were improper or that their declarations were false.

***Allstate Ins. Co. v. Ameriprise Fin. Servs., Inc.*, No. 17-CV-5826, 2023 WL 5334638 (N.D. Ill. Aug. 18, 2023).**

Industry: Insurance

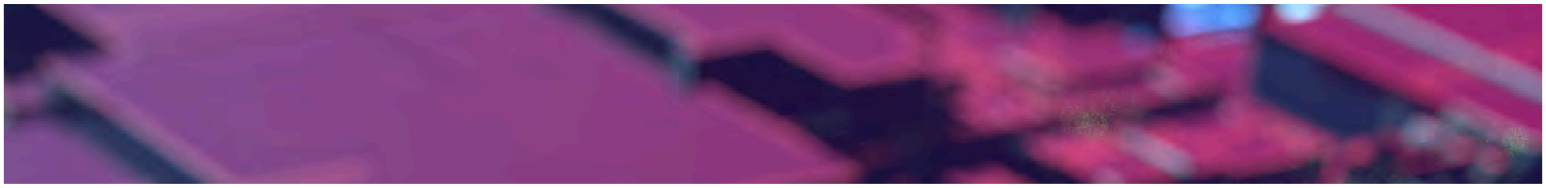
Takeaway: Compilation of publicly available information can be a protectable trade secret.

Details:

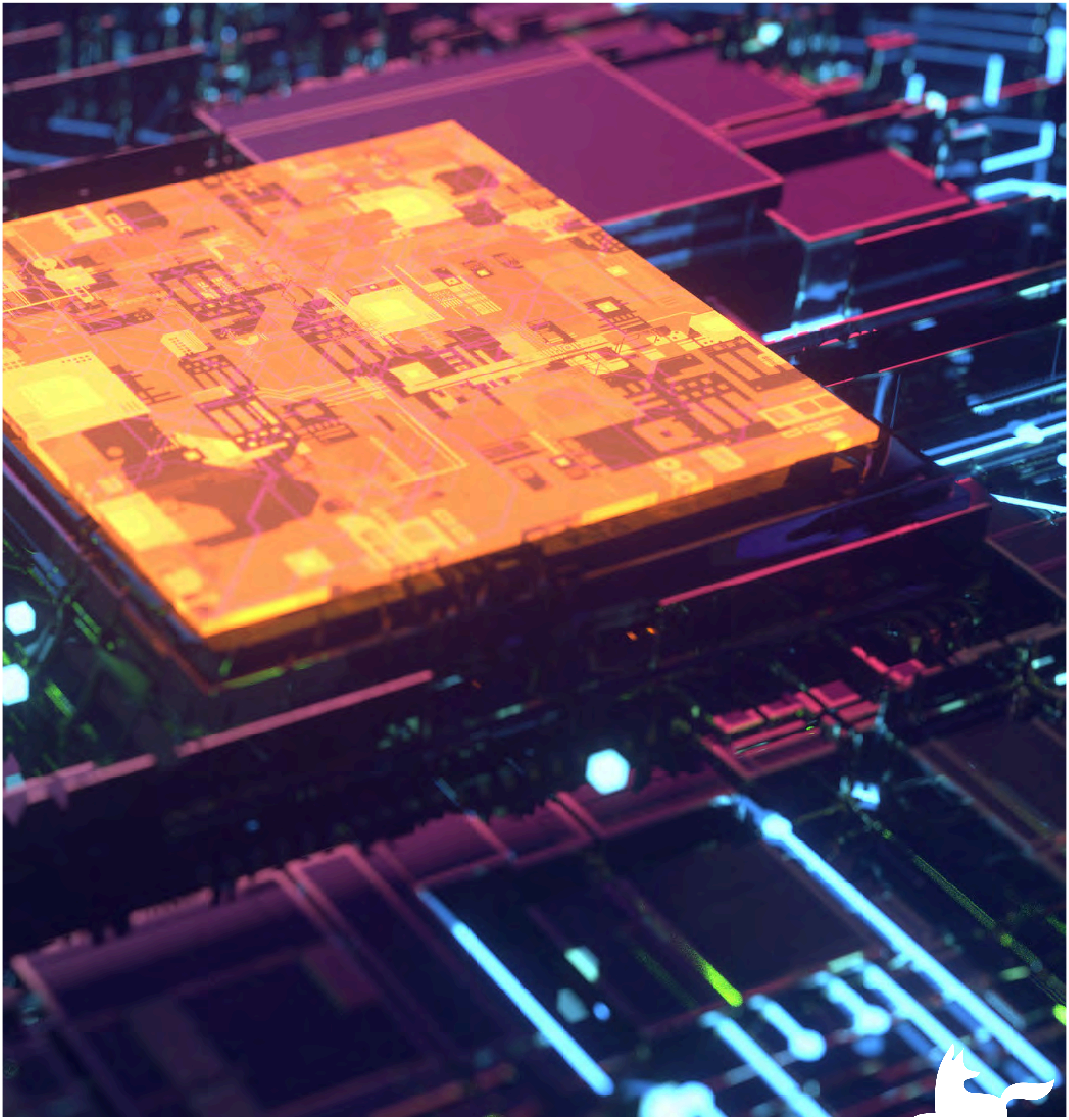
- **Procedural Posture:** Allstate Insurance Company, Allstate Life Insurance Company, and Allstate Financial Services LLC (collectively, Allstate) brought suit against Ameriprise Financial Services, Inc. (Ameriprise) alleging misappropriation of trade secrets. After discovery, the parties filed cross-motions for summary judgment.

- **Factual Background:** Allstate brought suit against Ameriprise for misappropriation of trade secrets after Ameriprise allegedly poached several Allstate insurance agents. One of the acts of misappropriation included alleged misappropriation of customer lists. A major dispute in the matter was whether the information at issue, customer lists containing customer contact and insurance policy data, was an identifiable trade secret with economic value. Allstate argued that the act of compiling the information rendered it a trade secret, while Ameriprise claimed that the information was publicly available and, therefore, did not have economic value.

– **Court's Decision:** The court ruled that Allstate's client lists, containing customer contact and insurance policy data, were an identifiable trade secret. Although much of the information was publicly available, including individual customer names that were posted on Allstate's public website, the court concluded that compilation of the data warranted trade secret protection. The court compared the compilation of such data to a recipe – some ingredients may be known, but the "secret lies in how it all comes together" and that secret has economic value that renders it a trade secret.



Eighth Circuit



Eighth Circuit

***Ahern Rentals, Inc. v. EquipmentShare.com, Inc.*, 59 F.4th 948 (8th Cir. 2023).**

Industry: Retail

Takeaway: The Eighth Circuit adopted the prevailing standard among circuit courts with respect to factual allegations pled "on information and belief," holding that a trade secret claim including such allegations should survive a motion to dismiss where the facts at issue were in the sole possession of defendants and the belief was based upon factual information that made the inference of wrongdoing plausible.

Details:

- **Procedural Posture:** Appeal from district court's dismissal of plaintiff's claims.

- **Factual Background:** Plaintiff is an independently owned equipment rental company. Defendants, EquipmentShare.com, Inc. and EZ Equipment Zone, LLC, are competitors. Plaintiff brought an action asserting claims against both defendants for (1) violations of the Computer Fraud and Abuse Act (CFAA), (2) misappropriation of trade secrets in violation of the DTSA, (3) misappropriation of trade secrets in violation of the Missouri Uniform Trade Secrets Act (MUTSA), (4) tampering with computer data, (5) civil conspiracy, and (6) unjust enrichment. In its complaint, plaintiff pleaded its allegations against defendant EZ Equipment Zone upon "information and belief."

  In its order, the district court dismissed defendant EZ Equipment Zone from the lawsuit finding that plaintiff's complaint failed to allege sufficient facts regarding EZ's involvement in EquipmentShare's misappropriation of trade secrets because each allegation concerning this matter was pleaded with "upon information and belief." It held plaintiff failed to "nudge the claim[s] across the line from conceivable to plausible." Plaintiff appealed.

- **Court's Decision:** The Eighth Circuit reversed the lower court's decision finding claims based on "information and belief" may be sufficient when (1) the proof supporting the allegation is within the sole possession and control of the defendant, or (2) the belief is based on sufficient factual material to make the inference of culpability plausible.

  The court ruled that plaintiff's allegations concerning defendants' misappropriation of trade secrets were sufficient. Plaintiff alleged that the information that was purportedly misappropriated — its customer lists, rental information, pricing information, and marketing strategies — qualified as trade secrets. Plaintiff further identified the steps that it took to keep this information secret, like requiring employees to sign detailed non-disclosure, non-solicitation, and non-competition agreements.

  To state a claim for misappropriation of trade secrets, plaintiff was required to plausibly allege that defendant EZ Equipment Zone "knew or had reason to know" that these trade secrets were improperly acquired by defendant EquipmentShare. As to this, plaintiff's allegations were pled only on "information and belief." The court found that because these allegations concerned information in the sole possession of defendants, and there was sufficient factual material that made such an inference plausible, the district court improperly dismissed the claims.

Minnesota

***Schwan's Company v. Cai,* No. 20-2157, 2023 WL 171882 *(*D. Minn. Jan. 12, 2023*)*.**

Industry: Manufacturing

Takeaway: Minnesota's trade secret statute does not establish a cause of action (e.g., counterclaim) for bringing a claim of misappropriation in bad faith; rather, it allows the prevailing party to file a motion to recover attorneys' fees. Further, recovery under this provision (by the prevailing party) requires both objective speciousness of the misappropriation claim and subjective misconduct in bringing the same.

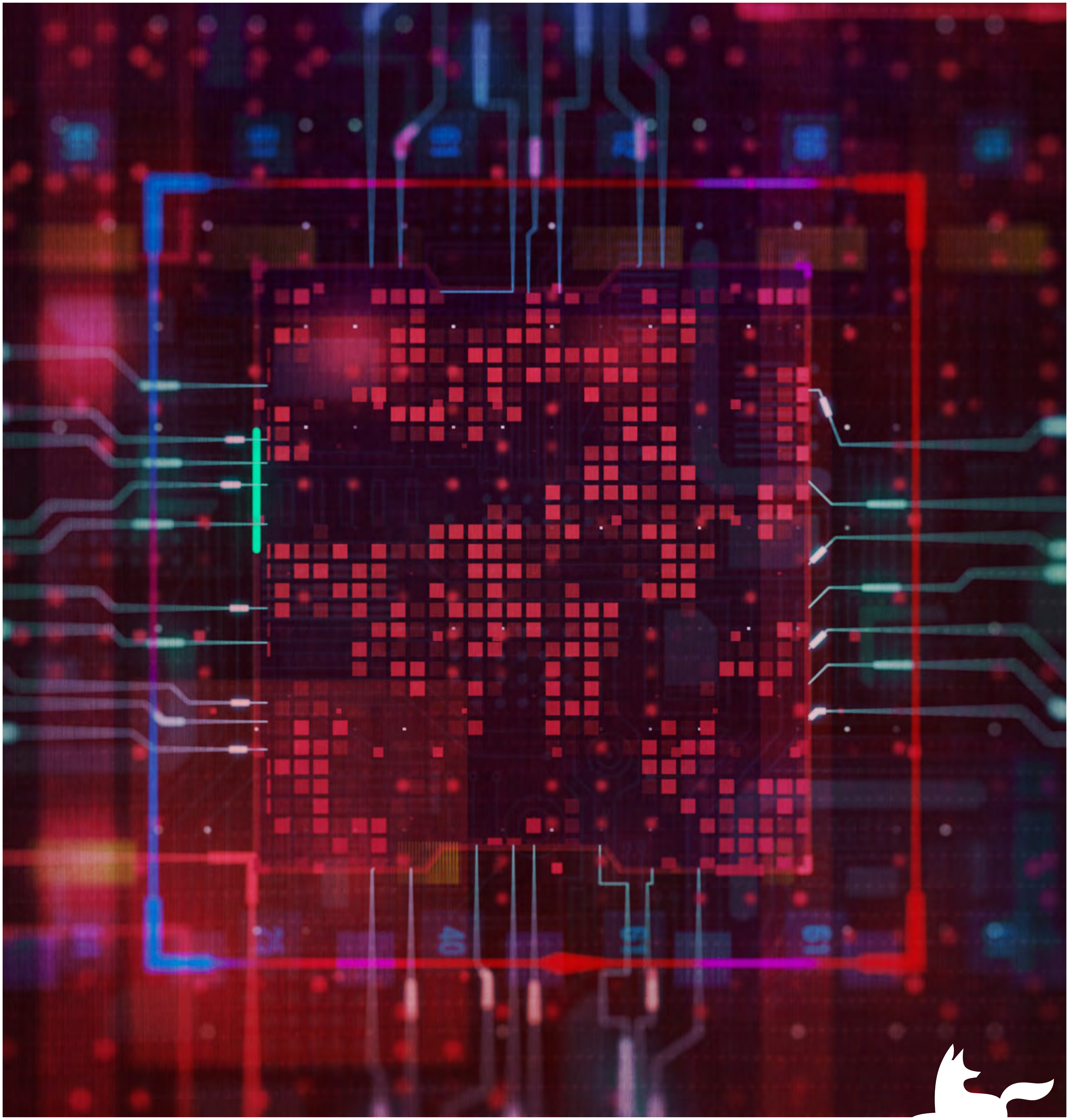
Details:

- **Procedural Posture:** Motion to dismiss counterclaim pursuant to Fed. R. Civ. P. 12(b)(6).

- **Factual Background:** Food manufacturer alleged that former employee joined competitor and allegedly disclosed confidential information and trade secrets to assist competitor in developing food products. Competitor filed a counterclaim for a bad faith misappropriation of trade secrets claim under Minn. Stat. § 325C.04.

Court's Decision: A claim for attorney's fees under Minn. Stat. § 325C.04 cannot be brought as a counterclaim and should instead be brought as a separate motion at the conclusion of litigation. Separately, the claim at issue was not brought in bad faith, given the plaintiff's sworn admission from its former employee that he used confidential information from the plaintiff in the scope of his employment with the competitor and the absence of any evidence of improper conduct during the course of litigation.

Ninth Circuit



Ninth Circuit

***United Aeronautical Corp. v. United States Air Force,* 80 F.4th 1017 (9th Cir. 2023).**

Industry: Technology, Government

Takeaway: The Contract Disputes Act (CDA) may vest exclusive jurisdiction in the Court of Federal Claims for trade secrets claims against a federal government agency when the claims involve a contract for the procurement of property other than real property.

Details:

- **Procedural Posture:** Appeal of dismissal for lack of subject-matter jurisdiction.

- **Factual Background:** Beginning in 1980, a company created the Mobile Airborne Firefighting System which converts cargo planes so that they can combat fires. The company contracted with the U.S. Forest Service to develop an updated prototype. Plaintiff Aero acquired the IP for this system in a foreclosure sale and then provided the Forest Service with the system's data so it could continue using it. In exchange for this data, a data rights agreement was executed. However, the Forest Service developed an updated system and marketed it internationally. Plaintiff Aero filed suit in district court against the U.S. Air Force and National Guard for its receipt and use of the system data, alleging that the U.S. Air Force and National Guard violated federal procurement regulations and the DTSA. The U.S. Air Force and National Guard moved to dismiss, arguing that exclusive jurisdiction over federal-contractor disputes is in the Court of Federal Claims

- **Court's Decision:** The court held that the Court of Federal Claims had exclusive jurisdiction over the trade secrets claims because (1) the trade secrets claims related to whether the Forest Service was authorized to disclose the system's data to the U.S. Air Force and National Guard, (2) the data rights agreement constituted a procurement contract because it dealt with intangible property and the usage rights regarding it, and (3) the plaintiff was a "contractor."

Arizona

***Carlisle Interconnect Techs. Inc. v. Foresight Finishing LLC,* No. CV-22-00717-PHX-SPL, 2023 WL 2528324 (D. Ariz. Mar. 15, 2023).**

Industry: Technology

Takeaway: Before a plaintiff may obtain discovery regarding a defendant's alleged misappropriation of its technology, the plaintiff must identify its own trade secrets with particularity — not just the specific steps/components of the process/technology but also what makes those steps/components unique compared to other technologies generally known or publicly available. The best practice is to periodically review and catalog trade secrets proactively, not reactively.

Details:

- **Procedural Posture:** Parties' joint motion for discovery resolution.

- **Factual Background:** Plaintiff and defendants are companies in the interconnect solutions industry, who design and produce, among other things, cables, and connectors for use in various markets. Plaintiff claimed trade secret protection over a "Selective Plating Process," which uses less gold than traditional plating methods resulting in significant savings. Plaintiff terminated four employees who had access to information regarding the Selective Plating Process. Defendants then hired those employees and began to advertise a new and proprietary capability to selectively gold plate contacts, including a photograph of defendants' new plating machinery, which plaintiff claims utilizes a process nearly identical to plaintiff's Selective Plating Process. After filing suit and asserting claims under the DTSA and Arizona Uniform Trade Secrets Act (AUTSA), plaintiff sought discovery into defendants' plating technology, and defendants refused on the grounds that plaintiff had not yet identified its own trade secrets with sufficient particularity. The parties jointly moved the court for resolution of the discovery dispute.

- **Court's Decision:** The primary issue was whether plaintiff had identified its alleged trade secrets with sufficient particularity to allow plaintiff's discovery into defendants' allegedly misappropriated technology. The court held that plaintiff had not.

  The court explained that there was no question as to whether the discovery sought by plaintiff was relevant — the only issue was whether plaintiff was yet entitled to such discovery. The court then detailed the competing policies at issue when determining whether to allow plaintiff's discovery into defendants' technology. The policies in support of refusing discovery before a plaintiff's identification of its trade secrets include:

  1. Preventing "fishing expeditions" to discover a competitor's trade secrets;
  2. Helping the court to define the outer permissible bounds of discovery to prevent needless exposure of a defendant's trade secrets;
  3. Enabling a defendant to properly mount a defense with some indication of the trade secrets allegedly misappropriated; and
  4. Ensuring that a plaintiff is not able to mold its cause of action around the discovery it receives.

  On the other hand, the policies in support of allowing discovery into a defendant's technologies before a plaintiff's identification of its trade secrets include:

  1. Plaintiffs have a broad right to discovery under the Federal Rules;
  2. A trade secret plaintiff has no way of knowing what trade secrets may have been misappropriated until it receives discovery on how the defendant is operating; and
  3. Forcing plaintiffs to identify trade secrets without knowing which may have been misappropriated places plaintiffs in a "Catch-22" because if the list is too general, then the defendant can claim it is not a trade secret, but if the list is too specific, then the list may miss what the defendant is actually misappropriating.

  Ultimately, the court held that plaintiff's identification was inadequate to allow it discovery into defendants' technologies because plaintiff's trade secrets disclosure failed to identify or explain the steps in its process or how any of those steps make the process unique. And although plaintiff's disclosure came close to satisfying the "reasonable particularity" standard, it also had failed to describe what components or combination of components make plaintiff's design novel or unique. Thus, plaintiff's disclosure failed to put defendants on notice of the nature of plaintiff's trade secret misappropriation claims. The court concluded, however, that plaintiff was free to amend or supplement its disclosure, which could change its decision.

California

***Beluca Ventures LLC v. Einride Aktiebolag*, 660 F. Supp. 3d 898 (N.D. Cal. 2023).**

Industry: Automotive

Takeaway: Allegations that describe purported trade secrets in broad, categorical terms that are merely descriptive of the types of information that generally may qualify as protectable trade secrets are insufficient to state a claim. However, such categories of information become sufficiently particularized for purposes of stating a claim where the complaint alleges that these categories of information are contained within specific documents.

Details:

- **Procedural Posture:** Motion to dismiss.

- **Factual Background:** Einride, an autonomous electric vehicle manufacturer hired McKinsey & Company to prepare a report that analyzed Einride's market position, potential competitors, and opportunities for growth. Einride claims that the report contained trade secret information. The report was circulated to Einride's board members, including defendant Christian Lagerling, who was also a principal and sole owner of Beluca Ventures LLC and a managing partner of Core Finance. After being removed from Einride' board, Lagerling shared the report with his colleagues at Core Finance. Einride alleged, on information and belief, that Lagerling, Beluca Ventures, and Core Finance used Einride's trade secrets in the report to create a business plan for Einride's competitor, National Electric Vehicle Sweden (NEVS). Beluca filed suit against Einride based on an alleged oral contract whereby Einride would pay Beluca to lead fundraising efforts. Einride counterclaimed based on Beluca's alleged misappropriation of Einride's trade secrets. Beluca filed a motion to dismiss arguing, among other things, that Einride's claims for misappropriation of trade secrets under the DTSA and the California Uniform Trade Secrets Act (CUTSA) should be dismissed for failure to identify any purported trade secret with sufficient particularity because Einride "merely provide[s] a high-level generalization of Einride's purported trade secrets."

- **Court's Decision:** The court denied Beluca's motion to dismiss the DTSA and CUTSA claims. To state a claim for trade secret misappropriation under the DTSA and the CUTSA, a plaintiff must allege that the plaintiff owned a trade secret. To prove ownership of a trade secret, plaintiffs must identify the trade secrets and carry the burden of showing they exist. Although allegations that set out purported trade secrets in broad, categorical terms generally are insufficient to state a claim for misappropriation, such allegations may be sufficient if the complaint identifies and describes particular documents containing the information.

  Here, the complaint identified particular McKinsey documents including a Mckinsey report analyzing Einride's product development and business strategies and describing Eiride's technology stack. These allegations plausibly identified information beyond that of general knowledge and — by specifying that this information is found within the McKinsey report — were sufficiently particularized to put Beluca on notice of the alleged misappropriation.

***Blockchain Innovation, LLC v. Franklin Resources, Inc.,* No. 21-Cv-08787-AMO, 2023 WL 4045234 (N.D. Cal. Jun. 15, 2023).**

Industry: Technology

Takeaway: Unlike some state trade secrets laws, the DTSA does not require sequenced discovery where a plaintiff must first identify and describe the trade secrets at issue before being able to receive discovery from the defendant.

Details:

- **Procedural Posture:** Motion for protective order.

- **Factual Background:** Plaintiff brought suit against defendant for alleged breach of fiduciary duty, violation of the DTSA, copyright infringement, aiding and abetting breach of fiduciary duty, breach of contract, and for injunctive relief.

  In a joint discovery letter filed with the court, defendant argued that California Code of Civil Procedure § 2019.210 applied to the plaintiff's DTSA claim, which requires sequenced discovery and generally bars discovery relating to a trade secret until the plaintiff has identified the trade secret with reasonable particularity. Accordingly, defendant sought a protective order from discovery on any trade secret causes of action until the alleged defect was cured.

- **Court's Decision:** The court held that California Code of Civil Procedure § 2019.210 was inapplicable because, although the amended complaint alleged a cause of action under the DTSA, it did not allege any causes of action under the CUTSA. Accordingly, the court reasoned that discovery would proceed in compliance with the Federal Rules of Civil Procedure, which presumptively bars sequenced discovery.

  In denying defendant's motion for a protective order, the court opined as to the following:

  1. The DTSA itself does not require sequencing of discovery such that the trade secrets at issue must be disclosed before discovery about trade secret misappropriation may proceed.
  2. Defendant's conclusion that plaintiff had failed to sufficiently respond to discovery requests seeking the identity of the trade secret could be addressed with a motion to compel.

***UAB Planner5D d/b/a Planner 5D,* No. 3-19-cv-03132, 2021 WL 1405482 (N.D.C.A. Sep. 26, 2023).**

Industry: Technology

Takeaway: Where files are maintained on secret web addresses, browse wrap Terms of Service prohibit website users from using page scrapers or robots to access or copy protected files, and even experienced technologists have difficulty figuring out how to surreptitiously download the information, a trade secret owner has asserted sufficient reasonable measures to keep the information secret in order to survive a motion for summary judgment.

Details:

- **Procedural Posture:** Defendant's motion for summary judgment.

- **Factual Background:** Plaintiff operates a home design website that allows users to create virtual interior design scenes using a library of virtual objects. Plaintiff claims trade secret protection on the confidential data files underlying the publicly available images and compilations of objects. Plaintiff alleges that researchers at Princeton University used software to obtain secret internet addresses where those files were hidden and scraped the website to download a complete set of plaintiff's files without detection. After surreptitiously downloading the files, Princeton spent over six months decoding the files to make them usable for their own project and sharing the data with Facebook.

- **Court's Decision:** The principal trade secret dispute at issue on summary judgment was whether the measures plaintiff took to protect its files collectively constituted reasonable measures under the circumstances, as required to establish the existence of a trade secret under both Federal and California law.

  In analyzing whether the protective measures were reasonable under the circumstances, the court considered the following:

  1. The difficulty defendants experienced in accessing and using the files. Princeton used crawling and scraping technology to access and download the files at issue. Plaintiff alleges that, despite their specialized skills and sophisticated knowledge of computer science, it took Princeton weeks or months to access and decode the files, which plaintiff maintained in a proprietary file format, demonstrating that the information was subject to reasonable protections.

  2. Plaintiff's use of browse-wrap Terms of Service that prohibited the methods used by defendant to download the files. Plaintiff alleged, and the court agreed, that a reasonably prudent user would be on inquiry notice of the prohibitions in the Terms of Service, and that by using robot software to scrape the information, which deliberately bypasses the website's intended interface, Princeton was deemed to have inquiry notice of the restrictions.

  3. Plaintiff's use of encrypted connections to transmit files, alongside its regular review of its code for vulnerabilities.

  These protections, taken together, were sufficient to create a genuine dispute of material fact as to whether plaintiff took reasonable measures to protect the information, and the motion for summary judgment was therefore denied.

Washington

***RealD Spark LLC v. Microsoft Corp.*, No. 2:22-CV-00942-TL, 2023 WL 3304250 (W.D. Wash. May 8, 2023).**

Industry: Technology

Takeaway: At the discovery stage, plaintiffs bringing a misappropriation of trade secrets claim must specifically identify the trade secret it seeks to protect, which may include divulging the trade secret. This disclosure provides notice to defendant of the claim it must defend and permits the court to determine the tangible trade secret material at issue in the claim.

Details:

- **Procedural Posture:** Defendant's motion to compel discovery response.

- **Factual Background:** Plaintiff developed an innovative technology that enhanced video conferencing interaction. It entered into an NDA with defendant to share confidential high-level information about its product, including datasets, advanced algorithms, and results from its research and development. Defendant ceased discussions with plaintiff and subsequently hired several former employees of plaintiff. In turn, plaintiff sued defendant alleging that it incorporated the plaintiff's technology into one of defendant's computer products. As part of its interrogatories, defendant asked plaintiff to "describe with particularity each and every alleged trade secret" that it contended defendant misappropriated. Plaintiff initially objected to the response, and later supplemented its reply by pointing defendant to the four categories of trade secrets listed in its Complaint and further directed defendant to almost 3,000 pages worth of discovery pertaining to the trade secret categories.

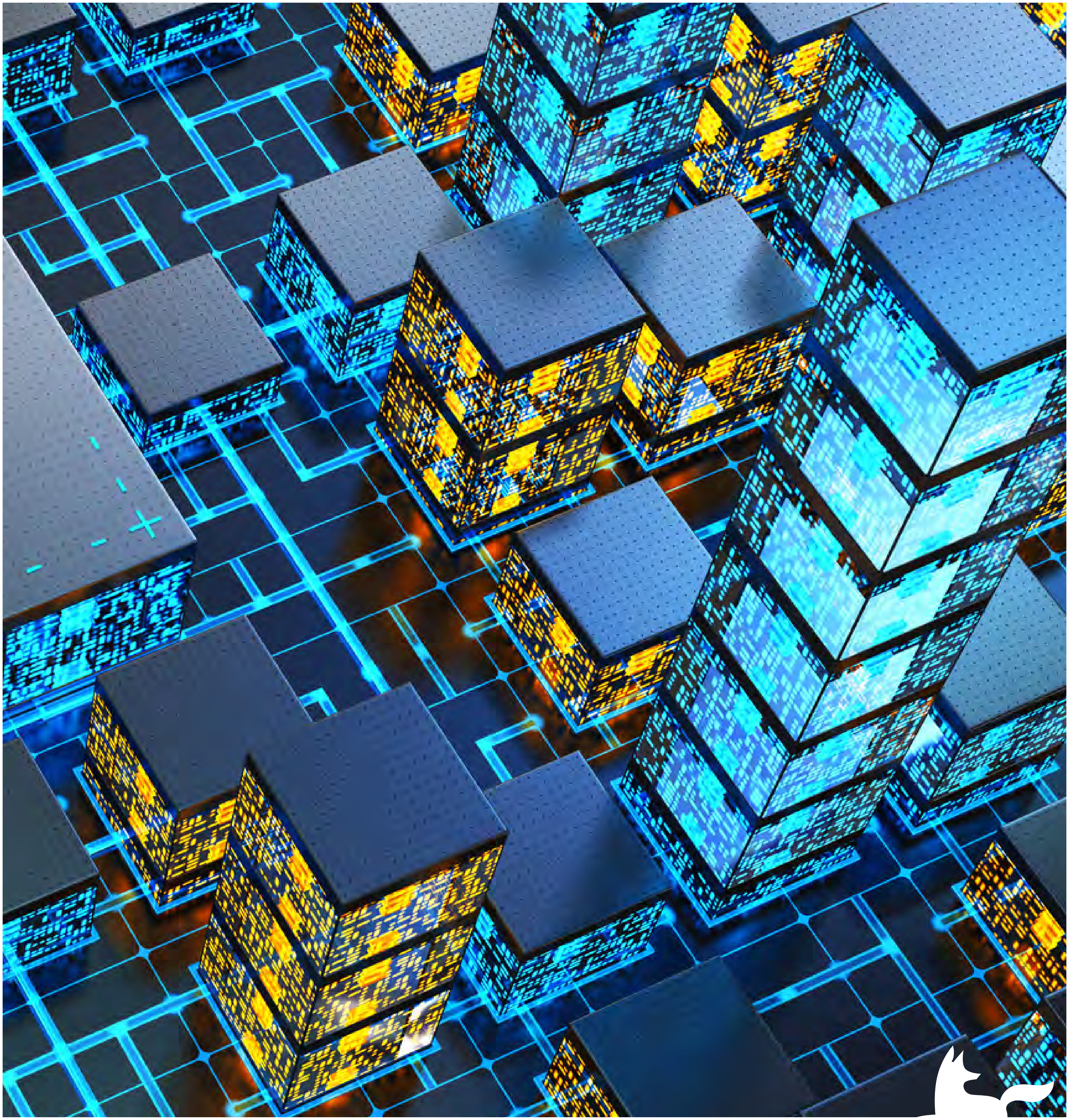
- **Court's Decision:** The main issue on defendant's motion to compel discovery response is whether plaintiff sufficiently responded to defendant's interrogatory asking to describe each alleged trade secret by listing the categories of trade secrets and stating that the response is contained in almost 3,000 produced documents.

  The court first distinguished the burden of a plaintiff to specify the trade secret at the motion to dismiss stage to a discovery response. In the former, the plaintiff does not need to divulge with specificity all its trade secrets and risk placing its confidential information on a public document. In contrast, at discovery and with the benefit of a protective order, the plaintiff must specifically identify the trade secret to provide the defendant notice of the claimed trade secret. Disclosing the specific trade secret provides the defendant notice sufficient to defend against the claim and permits the court the capacity to determine whether a trade secret has been misappropriated.

  The court then proceeded to analyze the specific information that plaintiff is required to disclose based on the category of information. Plaintiff must disclose its proprietary algorithm so that the court may distinguish its "tangible trade secret material" from publicly known information. Plaintiff may rely on its nearly 3,000-page range of documents in response to a discovery request for datasets, but it must specify which pages contain the datasets. Plaintiff must reveal the "know-how" knowledge derived from its research and development by specifying the pages in its 3,000-page production containing such information. Plaintiff must precisely identify the source code or portions of its source code that it alleges were misappropriated by defendant.

  The court acknowledged that trade secrets have commercial value and plaintiff would be reluctant to specifically divulge this information. The court noted, however, that the burden to identify the trade secret is on the plaintiff and that protective orders can shield that proprietary information. After reviewing the plaintiff's interrogatory response and document production, the court held that the plaintiff's response was insufficient to give notice to the defendant and the court of the alleged specific trade secrets and ordered the plaintiff to produce the specific algorithms, datasets, and know how requested.

Tenth Circuit



Tenth Circuit

Colorado

***SGS Acquisition Co. Ltd. v. Linsley,* No. 16-CV-02486-CMA-KLM, 2023 WL 2681946 (D. Colo. Jan. 9, 2023).**

Industry: Manufacturing

Takeaway: Colorado courts would likely adopt the test developed in *Gemini Aluminum Corp. v. Cal. Custom Shapes, Inc*., 116 Cal. Rptr.2d 358, 369 (Cal. Ct. App. 2002) to establish that a claim was brought in bad faith in trade secrets misappropriation cases, which requires proving both objective speciousness of the misappropriation claim and subjective misconduct in bringing the same in order to recover fees, as opposed to that used by Colorado courts for other bad faith attorney fee awards, and which requires conduct that is arbitrary, vexatious, abusive, stubbornly litigious, aimed at unwarranted delay, or disrespectful of truth or advocacy. And claim may be considered brought in bad faith, even after denial of summary judgment.

Details:

- **Procedural Posture:** Motion for attorneys' fees following grant of motion for directed verdict.

- **Factual Background:** Plaintiff alleged that defendant misappropriated "concept to operate mine in a manner that would extract zinc reserves close to the processing buildings in order to operate in a more profitable manner than was previously done." Court granted motion for directed verdict.

- **Court's Decision:** Plaintiff's claim was brought in bad faith given absence of evidence that "mining concept" in fact constituted a trade secret or that defendant in fact used the concept in its operations. Court further emphasized that the plaintiff brought case to trial without such evidence despite warning the plaintiff of deficiencies of its case in summary judgment order.

***Warming Trends, LLC v. Stone,* No. 19-CV-03027-PAB-STV, 2023 WL 2716652 (D. Colo. Mar. 30, 2023).**

Industry: Manufacturing

Takeaway: When a party brings a claim for misappropriation of trade secrets, that party must sufficiently identify the information it believes is protected or present evidence that the information was secret. Additionally, material that is commonly used and known throughout an industry or trade cannot constitute a trade secret. Lastly, if a party asserting trade secret fails to describe what measures it has taken to keep the information secret and also fails to cite any evidence showing that the information is not easily ascertainable, it will not be able to survive a motion for summary judgment.

Details:

- **Procedural Posture:** Defendants' and plaintiff's motion for summary judgment.

- **Factual Background:** Plaintiff owns a company that manufactures gas burners. Plaintiff claims defendants, made up of two companies owned by the previous president and owner of plaintiff's company, misappropriated three trade secrets regarding plaintiff's burners. Specifically, the design, type of brass, and the thread pattern of the burners. Plaintiff alleges that the type of brass is not commonly used and that the specific thread pattern was kept a secret by plaintiff and provided them with a competitive advantage. The type of brass used is referred to as cutting brass and is commonly used in the plumbing and gas industries because it is cost-effective and appropriate for cutting or machining. Additionally, 27 threads per inch is a common thread density. Defendants also moved for summary judgment on all the other claims brought against them by plaintiff, including (1) patent infringement, (2) breach of contract (against defendants' owner), (3) intentional interference, (4) false marketing, (5) false advertising under the Lanham Act, (6) false advertising under the Colorado Consumer Protection Act (CCPA), and (7) Unfair Competition.

- **Court's Decision:** The trade secret dispute at issue on summary judgment was whether the design process, type of brass, and thread pattern constituted trade secrets. The court analyzed each alleged trade secret separately.

  The court first looked at whether the design process allegations were too vague to be actionable. Plaintiff did not address this argument or assert any facts related to the alleged design process trade secret. Thus, the court granted summary judgement on the design process allegation due to defendant's inability to adequately identify the information it thought was protected or to provide evidence showing that the information was secret.

  The court next analyzed whether the type of brass used in the burners constituted a trade secret. Ultimately, the court ruled the brass did not constitute a trade secret and granted summary judgment for defendants, relying on the undisputed fact that the type of brass was commonly used in the relevant industry. The type of brass in question is cost-effective and suitable for cutting and machining, and thus commonly used in the plumbing and gas industry.

  Finally, the court looked at whether the specific threading pattern would be considered a trade secret. Defendant argued 27 threads per inch is a common thread density and is observable, thus the thread pattern could not be a trade secret. The court found that plaintiff failed to cite any evidence demonstrating that they kept the specific threading a secret or that it gave them a competitive advantage. Additionally, the court determined plaintiff also failed to cite to any evidence showing that the thread pattern was not easily ascertainable. In fact, the only evidence plaintiff cited demonstrated that the thread pattern could be measured. The court awarded summary judgement to defendants since plaintiff failed to show a genuine issue for trial regarding whether the thread pattern was a trade secret.

Utah

***John Bean Technologies Corp. v. B GSE Group LLC,* No. 1:17-cv-00142-RJS, 2023 WL 6164322 (D. Utah Sept. 21, 2023).**

Industry: National Security

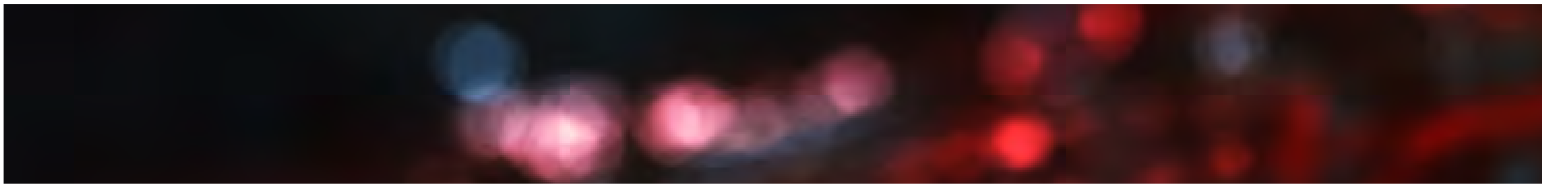
Takeaway: In order for a court to enhance jury-awarded damages under the DTSA and Utah Trade Secrets Act (UTSA), the jury must specifically identify the damages attributable to the trade secret misappropriation.

Details:

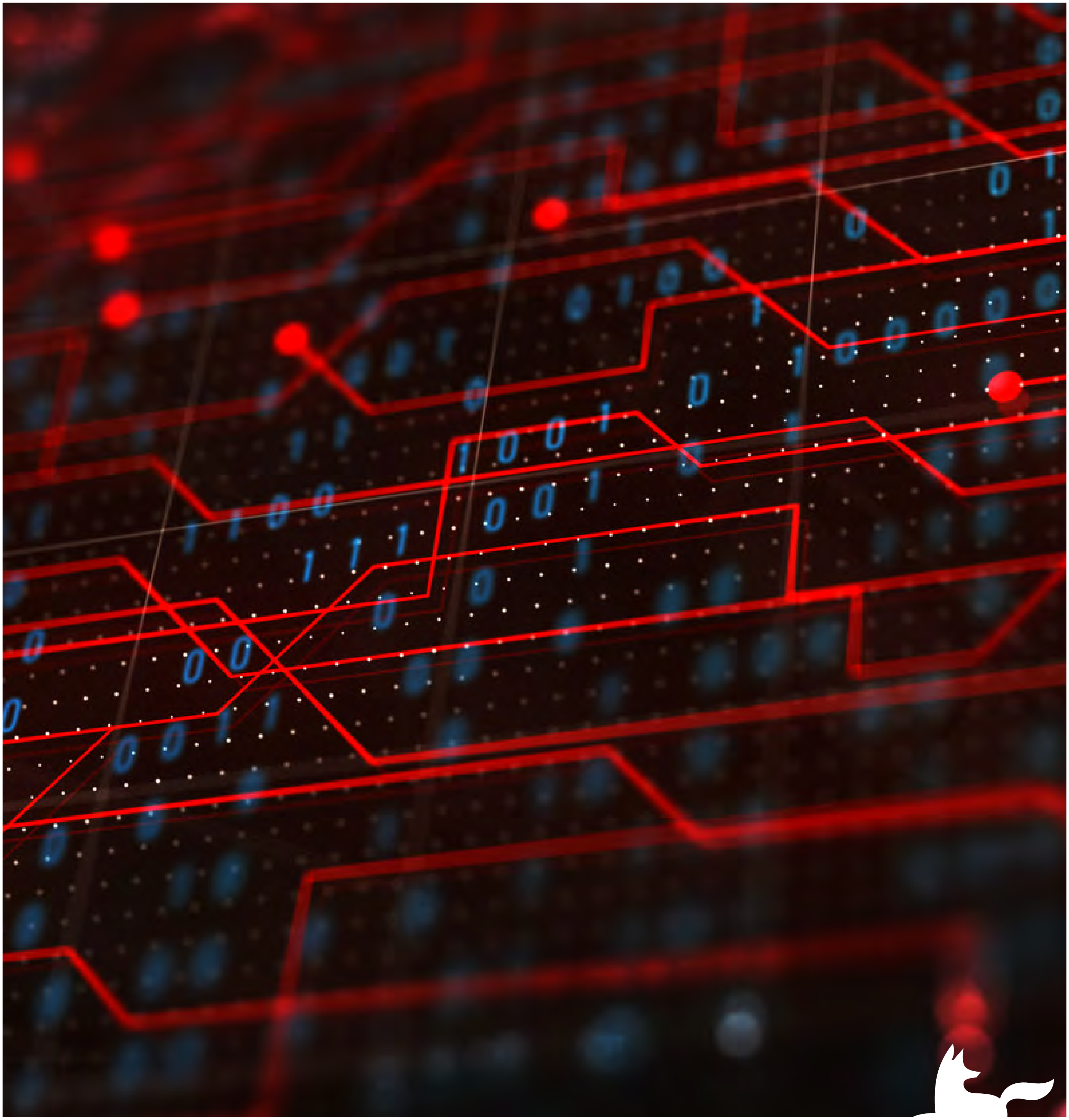
- **Procedural Posture:** Post-trial motions for, *inter alia*, enhanced, or exemplary damages for trade secret misappropriation and Lanham Act claims.

- **Factual Background:** The action arose out of a failed business relationship between John Bean Technologies Corp. (JBT) and defendants who once worked together to provide support and equipment for the F-35 fighter jet. JBT claimed that defendants used its confidential and proprietary materials and trade secrets to bolster its position while also harming JBT. After a six-day trial, the jury returned a verdict in favor of plaintiff JBT, assessing total damages of $1.1 million. The jury clarified its verdict that for plaintiffs' trade secret misappropriation claims (two claims), Lanham Act claim (one claim), and breach of contract claims (three claims), it awarded $323,256. JBT moved for an award of exemplary damages on its trade secret misappropriation claims and its Lanham Act claim.

- **Court's Decision:** The court denied the motion for exemplary damages because "the consolidated nature of the jury's damages award leaves it unable to properly ascertain exemplary or enhanced damages for specific claims." Under the Utah and federal trade secret statutes, exemplary damages are awarded for twice the actual loss caused by the misappropriation if the misappropriation is willful and malicious. But because the jury did not attribute specific damages to the specific claims, any enhancement would be speculation, which is "never permitted."



Eleventh Circuit



Eleventh Circuit

Georgia
***Motorsports of Conyers, LLC v. Burbach*, 317 Ga. 206, 892 S.E.2d 719 (2023).**

Industry: Automotive

Takeaway: Despite recent changes in Georgia law that require a more flexible and permissive approach to enforcing restrictive covenants, including passage of the Georgia Restrictive Covenants Act (GRCA), Georgia law remains the touchstone for determining whether a given restrictive covenant is enforceable in Georgia courts, even when the contract says another state's law applies.

Details:

- **Procedural Posture:** Review of appeal of motion for expedited temporary interlocutory injunction.

- **Factual Background:** Burbach was hired to work for a group of Harley-Davidson dealerships. In connection with his promotion to Chief Operating Officer, he signed two employment agreements, each containing identical non-competition provisions that would prohibit him from accepting competitive employment for a period of three years. The agreements contained Florida choice of law provisions. When Burbach left his employment and joined a competitor, Motorsports initiated litigation against him.

  The trial court applied the Florida choice-of-law provision in the agreement, without first determining whether the restrictive covenants in the agreement complied with the GRCA and issued an injunction against Burbach. The Court of Appeals reversed, ruling that applying the GRCA is the first step in the analysis of whether the public policy exception should override the parties' contractual choice of law. The Georgia Supreme Court granted review to clarify the framework for deciding whether to apply the contracting parties' choice of foreign law to govern the enforceability of a restrictive covenant in an employment agreement.

- **Court's Decision:** The court began its analysis by recognizing that, as a general rule, when parties agree to have foreign law govern their contractual relations, Georgia courts must honor their choice and apply the foreign law as a matter of comity. However, the court notes that court may not apply foreign law if that course would be contrary to the public policy of the state.

  Litigant generally may try to show that applying foreign law would be contrary to Georgia public policy by showing that the foreign law is significantly different from the corresponding Georgia law. However, no such comparison-based inquiry is necessary in the context of restrictive covenants because, in this context, Georgia's public policy is set by statute. In particular, the GRCA deems "contracts in general restraint of trade," which includes unreasonable restrictive covenants, as contrary to public policy. And, although the GRCA scheme for construing and enforcing restrictive covenants is more permissive, it still preserved the settled understanding that restrictive covenants that are unreasonable are against public policy.

For these reasons, a Georgia court that is asked to apply foreign law to determine whether to enforce a restrictive covenant must first apply the GRCA to determine whether the restrictive covenant complies with it. If so, the court can honor the choice-of-law provision and apply foreign law to determine enforceability of restrictive covenant, but if not, the restrictive covenant is against public policy, and court may not apply foreign law to enforce it.

***Card Isle Corp. v. Farid,* No. 1:21-CV-1971-TWT, 2023 WL 5618246 (N.D. Ga. Aug. 30, 2023).**

Industry: Software

Takeaway: Information may not be protected as trade secret if it is readily accessible, or if the description offered of the information is too vague and inclusive.

Details:

- **Procedural Posture:** Motion for summary judgment.

- **Factual Background:** Card Isle is a technology company that supplies online retailers with coding systems, infrastructure, and support to sell personalized greeting cards on their websites. To do so, Card Isle creates a customized block of source code that a retailer then plugs into its existing e-commerce platform. To guide customers through the integration process, Card Isle prepares an E-Commerce Integration Blueprint for each customer, which contains a description of the relevant components of the technology and a unique block of code written for the specific retailer's website.

  In 2019, Card Isle began exploring a business relationship with Edible Arrangements and its founder, Tariq Farid. Edible Arrangements ultimately hired Card Isle to integrate its software into Edible Arrangement's e-commerce platform. The parties entered into three different contracts relating to the business relationship. However, Edible Arrangements backed out of the deal before the program launched and chose to work with a different vendor who offered similar functionality.

  Card Isle brought suit, alleging that Edible Arrangements and its new vendor improperly copied Card Isle's copyrighted code and misappropriated its trade secret information. Edible Arrangements moved for summary judgment, in part on the grounds that the alleged trade secret information was available to the public and therefore not protectable as trade secret.

- **Court's Decision:** Card Isle asserts three trade secrets as the basis of its claim for misappropriation: (1) the E-Commerce Integration Blueprint, (2) the underlying functionality referred to by Card Isle's JavaScript libraries, and (3) a "combination of unique pieces," including technical know-how, approach to solving problems, and organization of individual pieces of technology.

  As to the E-Commerce Integration Blueprint, defendants argue that the code for integrating Card Isle's product into a client's website is accessible via a "right click" on any web browser, because it can be accessed and inspected using the developer tools built into most modern web browsers. Because the code is therefore public and readily ascertainable, it cannot qualify as trade secret. The same analysis applies to the second bucket of alleged trade secret information. The "underlying functionality referred to by Card Isle's JavaScript libraries" was available both in a link included in a technical document published on Card Isle's website, and in the retailer-specific block of code created for Edible Arrangement's website.

With respect to the third alleged bucket of trade secret information, the court found that Card Isle failed to identify with “reasonable particularity” what the trade secret information actually was, because it was not “defined with enough particularity ‘to separate the trade secret from matters of general knowledge in the trade of special knowledge of persons skilled in the trade.’” This “reasonable particularity” standard takes on a special importance in the context of combination trade secrets. “In essence, Card Isle is claiming trade secret protection for all information about its software and business, but that makes it impossible to distinguish secret information from matters that may be known in the industry.” The court ultimately held that, both alone and in combination, Card Isle’s identified pieces were both too vague and too inclusive to warrant trade secret protection.

Federal Circuit

Federal Circuit

Teradata Corp. v. SAP SE, **No. 2022-1286, 2023 WL 4882885 (Fed. Cir. Aug. 1, 2013).**

Industry: Technology

Takeaway: First, a party relying upon a non-disclosure agreement to protect its trade secrets must ensure that the requirements of the non-disclosure agreement are complied with (e.g., marking documents as "Confidential"). Second, the Federal Circuit has jurisdiction to hear compulsory counterclaims arising under any act of Congress related to patents, but where the claim is one of trade secret misappropriation and the counterclaim is one of patient infringement, a court may find that the patent infringement claim is not compulsory, and therefore not within the jurisdiction of the Federal Circuit.

Details:

- **Procedural Posture:** Appeal to the Federal Circuit following Summary Judgment.

- **Factual Background:** Defendant/plaintiff-in-counterclaim, SAP, produces software used to deliver business applications. Plaintiff/defendant-in-counterclaim, Teradata, produces software that analyzes to improve business intelligence, and has a product with parallel processing capabilities. The two parties decided to collaborate so that their types of systems may work together. SAP soon after created its own software similar to that created by the two parties together, to which Teradata claims misappropriation of technical trade secrets. SAP moved for permission to file counterclaims alleging that Teradata was infringing on patents, but it did not claim that the counterclaims were compulsory. Teradata opposed the counterclaims saying that they were not compulsory. The district court allowed the counterclaims. Teradata moved to sever the counterclaims — the district court severed one patent-infringement claim but did not sever the others. The district court granted SAP summary judgment on the technical trade secret claims because Teradata did not mark the method confidential per an agreement and also irrevocably licensed the method to SAP. The district court then entered final judgment on those claims under Rule 54(b) and stayed further proceedings on the business trade secret claim and the patent counterclaims. Teradata appealed to the Federal Circuit, and SAP moved to transfer to the Ninth Circuit.

- **Court's Decision:** The Federal Circuit held that it lacked jurisdiction to hear the appeal because the patent infringement counterclaim was not compulsory under the Federal Circuit's three tests. The Federal Circuit transferred the appeal to the Ninth Circuit, where it remains pending.

Well Cell Glob LLC v. Calvit, **No. H-22-3062, 2022 WL 16857060 (S.D. Tex. Nov. 10, 2022), rev'd and remanded, No. 2023-1229, 2023 WL 6156082 (Fed. Cir. Sept. 21, 2023).**

Industry: Healthcare

Takeaway: The Federal Circuit reversed entry of a preliminary injunction where plaintiff/appellee relied on speculation to prove a likelihood of irreparable harm and conclusory and speculative allegations to prove a likelihood of success on the merits and failed to identify the precise trade secrets at issue, outside of publicly disclosed information.

Details:

- **Procedural Posture:** The U.S. District Court for the Southern District of Texas granted Well Cell Global LLC and Well Cell Support LLC's (collectively, Well Cell) motion for a preliminary injunction that enjoined Shawn Calvit, Marc Desgraves, Charles Elliott, Insulinic of Lafayette LLC, Insulinic of Hialeah LLC, and Insulinic of Hawaii, LLC from, inter alia, infringing certain patents owned by Well Cell and using Well Cell's alleged trade secrets. Appellants successfully sought an emergency motion to stay the preliminary injunction pending appeal. The Federal Circuit found that the district court abused its discretion in granting the preliminary injunction because Well Cell failed to show irreparable harm and a likelihood of success on the merits. The Federal Circuit reversed the district court's order and remanded.

- **Factual Background:** Well Cell is a Texas healthcare company that conducts research and development related to treating individuals with diabetes and other metabolic disorders. Well Cell received the patent and copyrights at issue pursuant to an asset purchase agreement with Diabetes Relief LLC, including U.S. Patent No. 10,533,990 (the '990 Patent), which pertains to an individualized therapy for infusing insulin intravenously to a patient. Well Cell licenses its intellectual property to healthcare facilities and clinics, and in 2021, Well Cell and Appellants entered into a license agreement. In June 2022, Well Cell sent Appellants a "notice of default" that alleged that Appellants' billing practices breached the license agreement. A few months later Well Cell filed: (1) a complaint alleging infringement of Well Cell's patents and copyrights and misappropriation of trade secrets; (2) a motion for a temporary restraining order; and (3) a motion for a preliminary injunction.

- **Court's Decision:** The Federal Circuit reviewed the district court's grant of a preliminary injunction for an abuse of discretion and reversed.

  The Federal Circuit found that the district court erred in finding Well Cell sufficiently established a likelihood of irreparable harm. As the party seeking the preliminary injunction, Well Cell had to prove that it likely would be irreparably harmed absent an injunction. Here, the Federal Circuit found that Well Cell's argument that its reputation was at risk of being damaged if appellants performed the claimed methods illegally or improperly and that Well Cell would be blamed was, at best, evidence of speculative harm. Well Cell failed to demonstrate why there was a reason to believe that appellants would misuse Well Cell's intellectual property, and if appellants did, why the public would then assume Well Cell was at fault.

  The Federal Circuit also found that Well Cell failed to demonstrate a likelihood of success on the merits because Well Cell's infringement theory rested on assumptions and was too conclusory. For example, Well Cell did not identify any particular claim of the patent at issue and never established on the record what particular steps and procedures appellants perform when providing insulin therapy. Instead, Well Cell and the district court assumed that appellants must have performed at least one of the claimed methods during the license and that appellants continued practicing the same procedures without a license but did not actually compare one of the patent claims to appellants' established procedures.

  Additionally, Well Cell and the district court filed to identify the alleged trade secrets at issue. Well Cell attempted to identify the precise trade secrets during the preliminary injunction hearing, but what Well Cell identified in the '990 Patent had been publicly disclosed and could not constitute a trade secret.

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