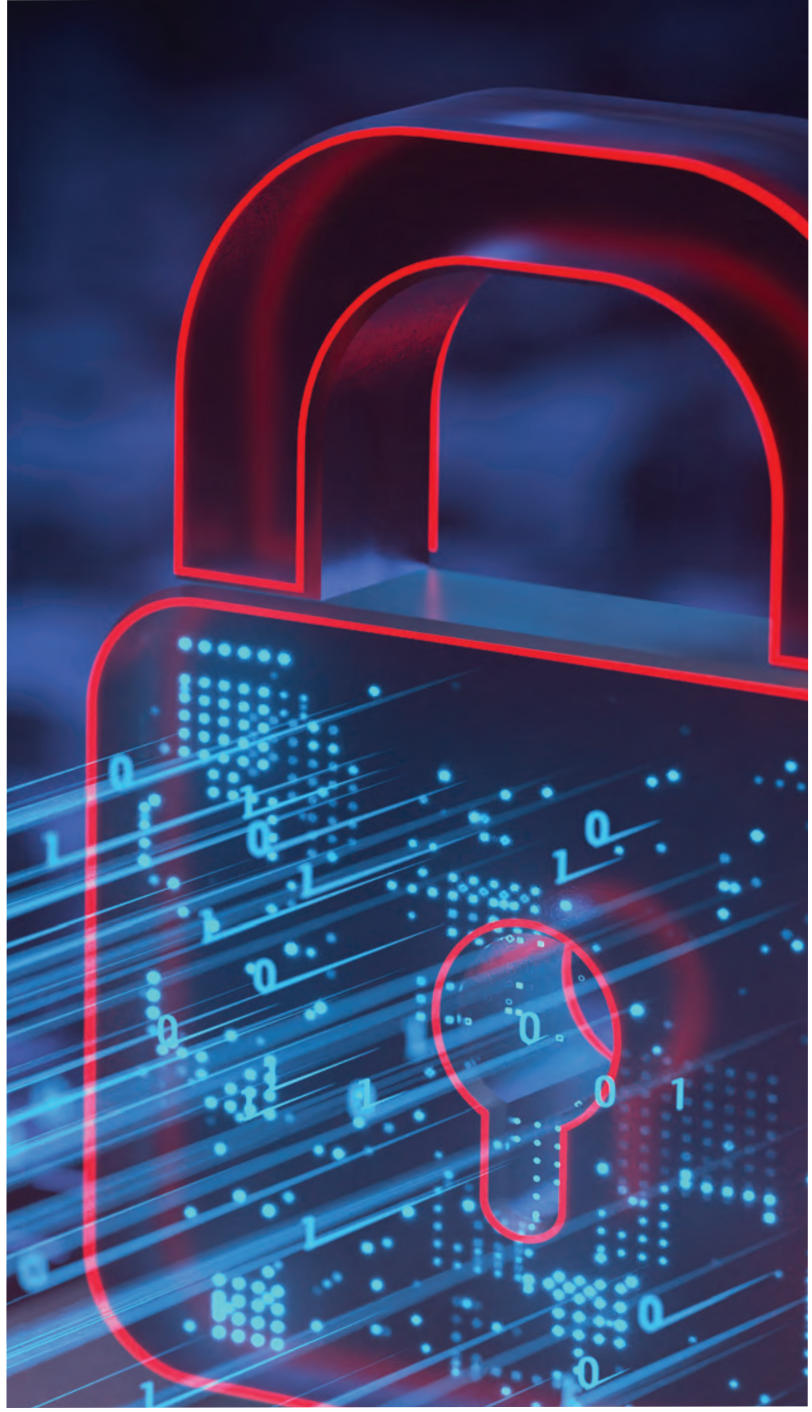
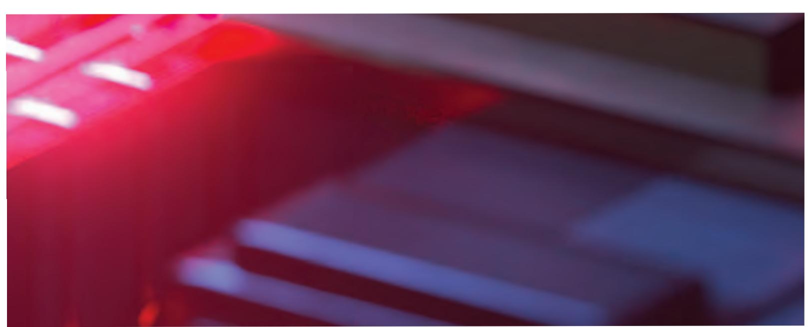
ArentFox Schiff



Trade Secrets, Noncompetes & Employee Mobility

2024 Trade Secrets End of Year Report



Contents

Key Case Summaries

Authors

Linda M. Jackson
Partner and Complex Litigation Practice Co-Leader, DC
202.775.5785
linda.jackson@afslaw.com

Matthew F. Prewitt
Partner, CHI
312.258.5583
matthew.prewitt@afslaw.com

Lauren C. Schaefer
Associate, BOS
617.973.6120
lauren.schaefer@afslaw.com

James D. Cromley
Associate, CHI
312.258.5616
james.cromley@afslaw.com

Contributors

Allan Anderson
Partner, LA
213.443.7683
allan.anderson@afslaw.com

Taniel E. Anderson
Partner, DC
202.857.6320
taniel.anderson@afslaw.com

Robert K. Carrol
Partner, SF
415.805.7973
robert.carrol@afslaw.com

Contributors

Adam Diederich
Partner, CHI
312.258.5686
adam.diederich@afslaw.com

Michael K. Molzberger
Partner, CHI
312.258.5871
michael.molzberger@afslaw.com

Nicholas J. Nesgos
Partner, BOS
617.973.6168
nicholas.nesgos@afslaw.com

Nadia Patel
Partner, DC
202.775.5716
nadia.patel@afslaw.com

Alexandra M. Romero
Partner, DC
202.828.3469
alexandra.romero@afslaw.com

Alexander H. Spiegler
Partner, NY
212.457.5454
alexander.spiegler@afslaw.com

Michael L. Stevens
Partner, DC
202.857.6382
michael.stevens@afslaw.com

Howard J. Susser
Partner, BOS
617.973.6119
howard.susser@afslaw.com

Laura Zell
Partner, DC
202.857.6032
laura.zell@afslaw.com

Andrew Baskin
Associate, DC
202.350.3772
andrew.baskin@afslaw.com

Nicholas L. Collins
Associate, NY
212.457.5430
nicholas.collins@afslaw.com

Nicole Curtis Martinez
Associate, DC
202.350.3614
nicole.curtis@afslaw.com

Contributors

Oscar A. Figueroa
Associate, LA
213.443.7525
oscar.figueroa@afslaw.com

Carol A. Girgis
Associate, SF
415.757.5910
carol.girgis@afslaw.com

J. Maxwell Heckendorn
Associate, NY
312.258.5651
max.heckendorn@afslaw.com

John M. Hindley
Associate, DC
202.350.3621
john.hindley@afslaw.com

Trevor M. Jorgensen
Associate, CHI
312.258.5621
trevor.jorgensen@afslaw.com

Roberto Martinez
Associate, CHI
312.258.5569
roberto.martinez@afslaw.com

Pascal Naples
Associate, DC
202.715.8569
pascal.naples@afslaw.com

Stella T. Oyalabu
Associate, CHI
312.258.5534
stella.oyalabu@afslaw.com

Brittany Trinidad
Associate, LA
202.350.3772
brittany.trinidad@afslaw.com

Mariam C. Weber
Associate, CHI
312.258.5613
mariam.weber@afslaw.com

Executive Summary

Executive Summary

Trade secrets, noncompetes, and other restrictive covenants continued to make headlines in 2024. Most notably, the Federal Trade Commission (FTC) published a final rule imposing a near total ban on employee noncompetes that was immediately — and successfully — challenged in court. The FTC's rulemaking and subsequent litigation challenge last year may have contributed in part to the slowdown of attempts to enact new noncompete legislation at the state level in 2024. By and large, the new legislation enacted in 2024 was relatively narrow in focus, with no new state statutory bans on noncompetes. Still, trade secrets and noncompetes continued to be the subject of a large volume of litigation, with significant verdicts — in the hundreds of millions of dollars — being handed down to cap out the year. Against this backdrop, and with a change of Administration adding to the in-flux legal landscape for employee restrictive covenants in the United States, companies should remain vigilant to ensure that they have trade secret protection plans that are accurate, agile, and enforced in 2025.

FTC Attempts to Ban Noncompetes – And Fails

In January 2023, the FTC issued a Notice of Proposed Rulemaking that would have essentially banned noncompete agreements for employees, independent contractors, and unpaid workers across the United States. On April 23, 2024, the FTC voted 3-2 to adopt its final rule, which would have (1) prohibited employers from entering into noncompete agreements with workers; (2) rendered prior worker noncompetes unenforceable except for a narrowly defined category of "senior executives;" (3) mandated individualized notice to workers that noncompetes are unenforceable; and (4) applied broadly to employees, independent contractors, paid, and unpaid workers.

Promptly following its publication, the final rule was challenged in multiple lawsuits — *ATS Tree Services v. FTC, Ryan LLC v. FTC, and Props. of the Villages, Inc. v. FTC.* On August 20, 2024, in *Ryan LLC v. FTC*, the US District Court for the Northern District of Texas entered an injunction on the eve of the effective date of the ban, holding that the FTC lacked statutory authority to create the rule and setting it aside on a nationwide basis. Notably, the court's decision turned on issues of administrative law and statutory interpretation and did not address the merits of the FTC's findings that employee noncompetes are methods of unfair competition. The decision is currently on appeal.

With the new Administration in 2025, Andrew Ferguson replaced Lina Khan as FTC chair. Ferguson voted against the noncompete rulemaking in April 2024, so it is very likely that the FTC may shift its focus away from again undertaking the sort of sweeping change in law attempted under the leadership of Chair Kahn. However, the FTC may continue to exercise its enforcement power under Section 5 of the Federal Trade Commission Act of 1914 against individual employers who attempt to restrain competition and limit employee mobility with overbroad noncompetes, particularly for the lower wage workers whose economic opportunities have been identified as a priority by the new president.

State Restrictive Covenant Legislation

Although the volume of state restrictive covenant legislation remained high in 2024, the focus was on specific limitations rather than on broad bans. For example, the **Illinois** legislature, effective on January 1, expanded the existing noncompete law to provide that noncompetes and nonsolicits of customers and employees are unenforceable if they would lead to a cost increase or reduction in availability of mental health services for veterans and first responders.

Pennsylvania, effective on January 1, banned noncompetes for certain medical professionals, with limited exceptions. Similarly, in **Louisiana**, limitations on the use of noncompetes for primary care physicians and certain other physicians went into effect on January 1. In **Maryland,** where noncompetes with low wage workers were already banned, noncompetes for veterinarians and vet techs were banned effective June 1, 2024, and those with physicians and other health care providers will also be banned effective July 1.

Washington also expanded its noncompete restrictions in 2024 by, among other things, changing the definition of a restricted noncompete to include "an agreement that directly or indirectly prohibits the acceptance or transaction of business with a customer."

Two states enacted legislation limiting remedies or penalties. **Colorado** amended its noncompete law to limit the remedies available to an employee when the attorney general brings an action on the employee's behalf, and **Iowa** removed penalties for employment agencies that violate the ban on noncompetes for certain health care workers.

One attempt at a full ban on noncompetes (with the exception of those made in connection with the sale of a business) in **Rhode Island** was vetoed by the governor in June 2024, primarily because it would make "Rhode Island an outlier as compared to other states." Rhode Island did succeed in banning noncompetes for advance practice nurses, effective June 14, 2024.

Finally, change is expected in **New York** in 2025. As a reminder, in 2023 a bill made it to Governor Kathy Hochul's desk, which would have effectively banned all noncompetes in the state. In connection with her veto of the bill, the governor indicated that she would consider enacting more targeted legislation allowing for the use of noncompetes in the sale of business context and for high-wage earners. Following the veto, in 2024, the New York City Council introduced three ordinances ranging from an outright ban on all noncompetes to restrictions on their use for low-income earners and freelance workers. The ordinances are currently in committee for consideration. Now, in 2025, it is anticipated that a new bill will be introduced at the state level, likely tracking the guidance provided in Governor Hochul's 2023 veto statement.

Case Law Developments

Trade secret litigation in 2024 continued to arise across industries, with noteworthy opinions issued across the full procedural spectrum.

Pleading and Proving a Legally Protectable Trade Secret

The fundamental requirement for any trade secret litigation is for the plaintiff to demonstrate that the information at issue is worthy of trade secret status. As a result, this topic is often the subject of significant litigation. For example, the US District Court for the Southern District of New York held in *Vogel v. TakOne Network Corp*. that an idea or concept, as opposed to a tangible product or business, may constitute a trade secret under the federal Defend Trade Secrets Act (DTSA), even though it fails to constitute a trade secret under New York common law, which provides that a product idea, plan, or design that will be evident to the public once marketed cannot meet the trade secret standard. (New York is the only remaining state that has not enacted the Uniform Trade Secrets Act (UTSA) or a similar statutory codification of trade secret law.) The case highlights the value in having the ability and knowledge necessary to navigate distinctions between federal and state protections and the potentially dispositive effect of choice of law or forum, particularly for New York.

In *Fiskars Finland Oy Ab v. Woodland Tools, Inc.*, the US District Court Western District of Wisconsin held that readily ascertainable processes for collecting and organizing third-party information using publicly available tools, such as open-source computer programming language, are not trade secrets and therefore are not protected.

In *Freedom Cap. Grp. LLC v. Blue Metric Grp.*, the US District Court for the Middle District of Tennessee held that when a company provided third-party independent contractors with "unfettered" access to confidential information without any documentary evidence of a confidentiality agreement or secrecy training, the company had not taken reasonable measures to protect trade secret information, even though it had controlled access and tracked it by using a two-factor identification password system.

Enforceability of Restrictive Covenants

Entering into restrictive covenants is one way that companies can protect their competitive and trade secret information, but ensuring their enforceability requires care and precision, in part because of the variation of judge-made precedent and statutory restrictions among states. Choice of law and forum provisions are critical strategic considerations, but employers also must remain vigilant against the risk that a court will disregard choice of law and choice of forum provisions, either because compelled by statute or because of countervailing public policy considerations. Choice of law and forum continue to be a key battleground.

For example, in *DraftKings v. Hermalyn*, the First Circuit upheld a Massachusetts choice of law provision in a noncompetition agreement, finding that joining a competitor based in California is standing alone not enough to require the application of California law or to exclude California from the scope of the noncompete's geographic restriction. If the court had determined that California law applied, the restriction would have been wholly unenforceable given California's blanket restriction on noncompetes in any context other than the sale of business.

Likewise, the question of whether there is adequate contract "consideration" to support an enforceable noncompete is one that has come under scrutiny this year. The Supreme Court of Connecticut, for instance, in *Dur-A-Flex, Inc. v. Dy.*, noted that although continued employment may serve as consideration for a noncompetition agreement or other restrictive covenants if the promise to continue working is explicit, without an explicit promise, mere continued employment could be insufficient consideration.

Finally, as noted in last year's Trade Secrets Year in Review, in 2023, Delaware courts issued a series of opinions making the previously pro-enforcement state less friendly to noncompetes. The Delaware Supreme Court capped 2024 off, however, with a decision altering this trend. In *LKQ Corporation v. Rutledge*, the court confirmed and clarified that forfeiture-for-competition provisions — those in which an employee chooses to give up a benefit voluntarily (typically equity awards for executives) in order to be able to compete — are enforceable in all contexts as a matter of contract and not subject to a "reasonableness" review.

Damages

Damages continued to be a high-profile issue in 2024. A few large verdicts marked the year, including an October 2024 judgment of more than $600 million against Phillips 66 for trade secret misappropriation in the renewable fuel space and a December 2024 judgment of more than $450 million against a South Korean company for misappropriating trade secrets relating to Insulet's wearable insulin pump. Notably, however, one of the largest trade secret damages awards in the country — a 2022 award of more than $2 billion in damages in the case of *Pegasystems Inc. v. Appian Corp*. — was overturned by the Virginia Court of Appeals (Virginia's intermediate appellate court) because Appian failed to fulfill its burden to prove that its damages were proximately caused by Pegasystem's misappropriation. This decision is currently on appeal to the Virginia Supreme Court.

Damages were also the focus of the First Circuit's decision in *BioPoint, Inc. v. Dickhaut*. There, although the court affirmed that BioPoint had proven misappropriation, the appeals court reduced the damages award on the grounds that there was no basis to award both lost profits and unjust enrichment damages because such an award would overcompensate the harmed party.

The question of how damages should be apportioned among trade secrets has been the focus of multiple cases over the past few years. In *EchoSpan, Inc. v. Medallia, Inc.*, the US District Court for the Northern District of California noted that whether a party must individually apportion trade secrets damages was an open question that has not been considered by the Ninth Circuit. The court there determined that if a party alleges the misappropriation of multiple trade secrets, does not prove in the entirety its allegations as to all alleged trade secrets, and does not apportion damages among trade secrets, then the party must have presented sufficient evidence of the assignment of value across multiple trade secrets for a jury to have a reasonable basis to award damages. If it does not, the court held that an "all-or-none" damages approach does not provide a jury a reasonable basis to award damages if all trade secrets claims are not proven.

And of course, the hallmark of trade secret litigation is often a party's ability to obtain an injunction. In *Applied Medical Distribution v. Jarrells*, while the California Court of Appeal for the Fourth Appellate District declined to award monetary damages due to the plaintiff's inability to demonstrate harm, it did impose a permanent injunction to protect against future harm.

Looking to 2025

The ambitious rulemaking attempted by the FTC in 2024 appears to have temporarily put new state legislation on hold, and now that the FTC's rulemaking seems certain to have failed, 2025 very likely will bring a new flurry of noncompete reform at the state level. As of this writing, at least six states already have active pending bills aimed at banning or reducing employers' use of noncompetition covenants, including Missouri, New Hampshire, New Jersey, New York, South Carolina, and Washington. In a departure from the others, Connecticut has a pending bill that actually would eliminate prohibitions on noncompetes.

Against this backdrop, and in light of continued case law focused on close scrutiny of the technical requirements for enforceability of restrictive covenants, identification of trade secrets, and specific support for damages awards, the new year brings with it the same need for companies to ensure that their trade secret protection programs are robust, vigilantly enforced, and aligned with changes in the law. Companies should be proactive in identifying their valuable trade secrets and ensure that they have put in place appropriate protective measures to support a claim in court if needed.

First Circuit

First Circuit

***DraftKings Inc. v. Hermalyn*, 118 F.4th 416 (1st Cir. 2024).**

Industry: Sports Gambling, Online Services

Takeaway: Joining a California competitor, alone, is insufficient to (1) require the application of California law to a noncompete governed expressly by Massachusetts law or (2) exclude California from the scope of the restrictive covenant.

Details:

- **Procedural Posture:** On appeal from grant of the plaintiff's motion for preliminary injunction.
- **Factual Background:** The dispute arose between DraftKings, a Massachusetts-based sports betting and online gaming company, and Michael Hermalyn, a former employee. Hermalyn, who was residing in New Jersey, left DraftKings to join a rival company, Fanatics, based in California. DraftKings alleged that Hermalyn's new job violated the noncompete agreement he had signed, which included a Massachusetts choice-of-law clause and a one-year noncompete provision.
- **Court's Decision:** DraftKings filed a lawsuit in Massachusetts federal court, claiming that Hermalyn breached the noncompete agreement by taking the job with Fanatics. The court granted DraftKings' preliminary injunction against Hermalyn. Hermalyn appealed, arguing that (1) California law, which generally prohibits noncompete agreements, should apply instead of Massachusetts law and (2) if Massachusetts law were to apply, the injunction should exclude California due to its public policy against noncompetes. The court disagreed with Hermalyn on both arguments, affirming the district court.

  First, the court held that Massachusetts law applied because Hermalyn had not shown that California has the most significant relationship to the transaction and the parties. Hermalyn relied on *Oxford Global Resources, LLC v. Hernandez*, 106 N.E.3d 556 (Mass. 2018), to support his position, but the defendant there executed and performed the contract with the Massachusetts plaintiff in California and had allegedly breached the covenant while living and working in California after joining a California-only competitor. Hermalyn, on the other hand, primarily worked for Massachusetts-based DraftKings from New Jersey and New York, traveled to Massachusetts for work dozens of times before leaving for Fanatics, and did not perform any of his work for DraftKings from California, and any harms from Hermalyn's likely noncompete breach would be felt by DraftKings in Massachusetts, not California.

  Second, the court made "quick work" of Hermalyn's back-up argument that California should be excluded from the scope of the agreement. It first reiterated that California's policy cannot override Massachusetts' before explaining that excluding California would undermine the effectiveness of the injunction because Hermalyn's role involved interacting with clients outside California, where online sports betting is legal.

***BioPoint, Inc. v. Dickhaut*, 110 F.4th 337 (1st Cir. 2024).**

Industry: Employment Staffing Agency

Takeaway: A party may not properly recover both lost profits and unjust enrichment damages based on the same misappropriation if doing so would overcompensate them for actual losses suffered.

Details:

- **Procedural Posture**: Appeal of motion for new trial; motion for judgment as a matter of law; motion for *remittitur*; motion to alter or amend judgment.
- **Factual Background:** BioPoint a life-sciences staffing firm, sued a competitor, Catapult, and Catapult's employee. BioPoint alleged that a senior executive at Catapult was engaged (and later married) to one of BioPoint's top salespeople. Over several years, the BioPoint employee allegedly funneled sensitive business information to her fiancé to help Catapult build and grow a competing business. Specifically, BioPoint alleged that the BioPoint employee provided her fiancé with information about five candidates for placement with life sciences companies, and one such placement resulted in Catapult winning a long-term contract with a company called Vedanta. BioPoint brought four claims: statutory trade secret misappropriation claims under the Massachusetts Uniform Trade Secret Act (MUTSA) and the DTSA, a tortious interference claim under Massachusetts common law, and an unfair and deceptive trade practices claim under the Massachusetts Consumer Protection Law.

  The jury found that Catapult had misappropriated BioPoint's trade secrets concerning three candidates recruited by BioPoint and two of BioPoint's prospective customers, the firms Vedanta and Shire/Takeda, and that Catapult tortiously interfered with BioPoint's business relationship with one candidate. The jury awarded BioPoint $312,000 in lost profits. Subsequently, the judge held a bench trial on the equitable claims and awarded BioPoint $5,061,444, the amount of Catapult's unjust enrichment attributable to its misappropriation of BioPoint's trade secrets, trebled because Catapult's conduct also constituted unfair and deceptive trade practices. The court also awarded BioPoint reasonable costs, attorneys' fees, and pre- and post-judgment interest. Catapult appealed.
- **Court's Decision:** Catapult argued that the district court erred in awarding BioPoint the entirety of Catapult's profits derived from the relationship with Vedanta as unjust enrichment. The appellate court disagreed with Catapult and concluded that but for Catapult's misappropriation of BioPoint's trade secrets, Catapult would not have had a relationship with Vedanta, and thus all the profits from the relationship were recoverable as unjust enrichment. The appellate court, however, reduced the award accordingly by $157,068, finding that the BioPoint could not recover both lost profits and unjust enrichment accruing to Catapult as a result of placement of one of the candidates.

***KPM Analytics N. Am. Corp. v. Blue Sun Scientific LLC*, 729 F. Supp. 3d 84 (D. Mass. 2024).**

Industry: Chemistry, Manufacturing

Takeaway: Even after a finding of liability for misappropriation, the plaintiffs still have the additional challenge of obtaining exemplary damages. The plaintiffs are entitled to exemplary damages if they present enough evidence showing that the defendants acted willfully and maliciously when they misappropriated the plaintiff's trade secrets. Obtaining exemplary damages is difficult given both the evidentiary burden and the court's discretion in awarding such damages.

Details:

- **Procedural Posture**: The plaintiff's post-trial motion for exemplary damages following a jury trial that found the defendants liable for misappropriation.
- **Factual Background:** KPM manufactured Near Infrared (NIR) analyzers, which are used to determine chemical composition of common substances found in consumer products. At a jury trial, the plaintiff proved that it owned three trade secrets related to the manufacturing of NIR analyzers. KPM's former president and CEO was working for its competitor, ITG. The former CEO and ITG created the defendant company, Blue Sun Scientific. The CEO worked for Blue Sun's benefit by recruiting several KPM-affiliated individuals and employees. All these employees had signed non-disclosure agreements (NDA) with KPM.

  After a nine-day trial, a jury found that Blue Sun and the several former employees that left to work for Blue Sun misappropriated KPM's trade secrets. It did not find ITG liable for misappropriation. The jury awarded damages as to each liable defendant ranging from $2,500-$1,500,000. The plaintiff moved for a finding of willful and malicious trade secrets misappropriation so that it could receive exemplary damages.
- **Court's Decision:** The court found that the defendants willfully and maliciously misappropriated KPM's trade secrets. The court came to this conclusion for a few reasons. First, Blue Sun supplied pseudonymous e-mails to various KPM-affiliated individuals as a means of helping them avoid detection and to create confusion in the marketplace that Blue Sun could exploit. Second, the court found that a few defendants had worked both for Blue Sun and KPM at the same time. Finally, Blue Sun also misrepresented to those in the NIR analyzer marketplace about KPM's business state, diverted customers from KPM to Blue Sun, and exploited KPM's customer information. The court also found that the former employees acted willfully by, for example, signing a letter recognizing their duty not to use KPM's trade secrets. The former employees' malicious conduct included forwarding customer information to personal email accounts and using KPM machines and software in the field even though they had a contractual obligation to return such material upon departing.

  The court, however, did not find that each of the liable defendants were required to pay exemplary damages. As to the Blue Sun, the court, in its discretion, did not award exemplary damages because it also awarded additional damages for KPM's state-law claim. The court also did not require some former employees to pay exemplary damages because the jury did not find that they misappropriated all the trade secrets at issue and because they were involved in the scheme for a shorter period. The court, however, did award exemplary damages for the former employees who had perpetuated the scheme. Exemplary damages ranged from $7,500-$10,000.

***Roller Bearing Company of America, Inc. v. Raytheon Co.*, No. 1:20-cv-10889-IT, 2024 WL 3927362 (D. Mass. Aug. 23, 2024).**

Industry: Manufacturing

Takeaway: Patenting prior art is relevant to establish that a trade secret is not obvious or not readily ascertainable. The court also will not exclude evidence of damages after the issuance of the patent as this is an issue of fact and cannot be resolved prior to the introduction of evidence.

Details:

- **Procedural Posture**: The defendant's motion *in limine.*
- **Factual Background:** The plaintiff developed an improved rod end bearing design for the defendant. This design had a combination of six features that were not in the public domain but were subsequently disclosed in part through the publication of the plaintiff's related patent. The plaintiff alleges that the defendant misappropriated the trade secret design. The defendant moved to exclude evidence of the plaintiff's damages following publication of the patent.
- **Court's Decision:** The court determined that the issue of whether to exclude evidence of damages after the issuance of the patent was a question of fact and could not be resolved before the introduction of evidence. The court explained that it will instruct the jury that the plaintiff must prove the defendant's alleged wrongful actions were the cause of the claimed damages and that the jury may not award damages for the period after the plaintiff proves by a preponderance of the evidence that: (1) but for the defendant's alleged misappropriation prior to the patent issuance, the plaintiff would have secured a long-term agreement that extended past the date the patent was issued; or (2) the alleged six-feature design has value despite the patent's disclosure of some of the design's features.

  The court also denied the defendant's motion to exclude evidence of the plaintiff's patent because patent evidence may be relevant to establish whether certain features were obvious and not readily ascertainable. For information to constitute a trade secret, it is required that the information not be readily ascertainable to others in the trade. To receive a patent, the inventor must show that their invention is (1) useful, (2) novel, and (3) non-obvious. The non-obvious attribute of a patent will be relevant to whether a trade secret was obvious and not readily ascertainable.

***Miele v. Foundation Medicine, Inc.*, No. 2184CV02722 (Mass. Sup. Ct. July 17, 2024).**

Industry: Health Care Technology

Takeaway: In Massachusetts, nonsolicitation, non-recruitment, and other restrictions on competition otherwise not considered "non-competition agreements" covered by the Massachusetts Noncompetition Agreement Act (MNAA) must meet the MNAA's statutory requirements for "non-competition agreements" where their restrictions are tied to a "forfeiture-for-competition" agreement where an employee agrees to give up monetary benefits for engaging in competitive activities.

Details:

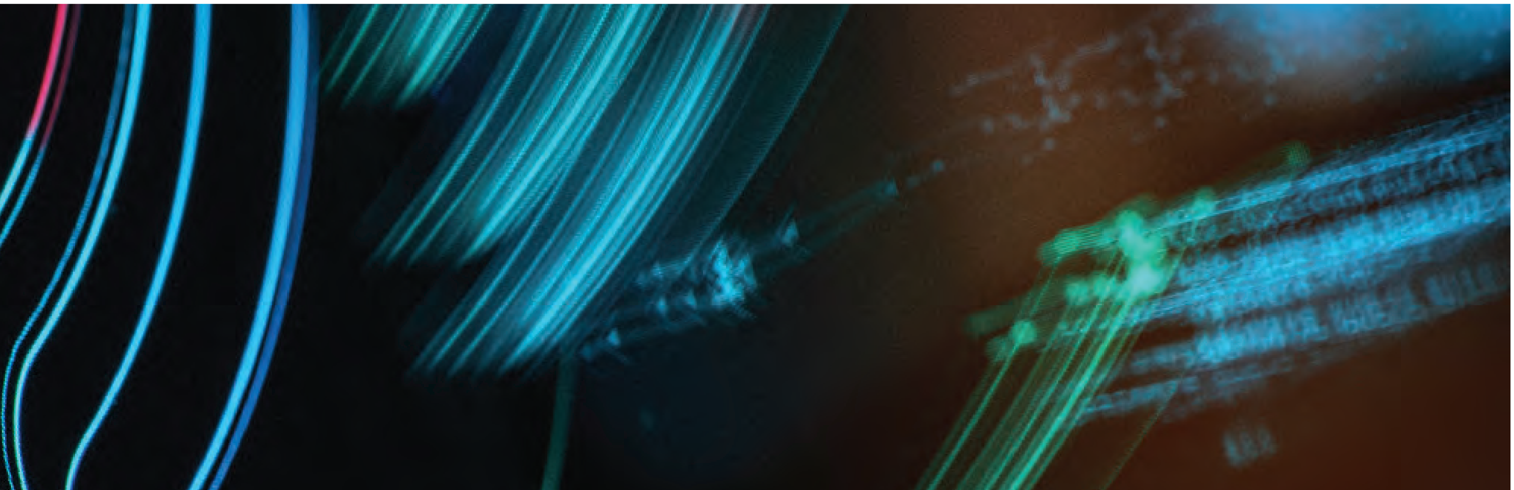
- **Procedural Posture**: The plaintiff's motion for judgment on the pleadings; cross motions for summary judgment.
- **Factual Background:** The plaintiff was the Head of Human Resources/Chief People Officer for the defendant. In 2017, she signed an employment agreement containing one-year post-employment noncompete, nonsolicit, and non-recruit covenants. In 2020, she was terminated and signed a transition agreement providing her with up to $1.2 million in transition benefits (including 12 months' salary and bonuses, continuing health care coverage, a prorated bonus, and equity acceleration) and reaffirming the 2017 restrictive covenants, which provided that she would forfeit the transition benefits if she breached the agreement. In 2021, she joined a new employer as its Chief People Officer. Within her first several months in that role, she contacted and hired several of the defendant's employees. The defendant determined the plaintiff violated the non-recruit obligations of the Transition Agreement and had forfeited her transition benefits.
- **Court's Decision:** The principal issue on summary judgment was whether the non-recruit restrictive covenant was unenforceable under the MNAA. The defendant argued that the MNAA did not apply to the restrictive covenant because (1) the MNAA applies to restrictive covenants signed after January 1, 2018, and the plaintiff agreed to the covenants in 2017, and (2) the MNAA expressly excludes nonsolicits and non-recruits, as well as separation agreements that give the employee seven business days to rescind acceptance, from its definition of noncompete agreements. The court rejected both arguments.

  First, the court held that the MNAA applies to the restrictive covenants as reaffirmed in the 2020 Transition Agreement. Though the court agreed that the MNAA applies only to agreements entered into after January 1, 2018, and does not cover the 2017 employment agreement, it held that the Transition Agreement's reaffirmation of the 2017 covenants constituted a new agreement covered by the MNAA, because the agreement "imposed obligations on both parties not found either expressly or impliedly in the 2017 Agreement."

  Second, the court held that the Transition Agreement was a "forfeiture for competition" agreement which is covered as a "non-competition agreement" that must follow specific statutory requirements to be enforceable under the MNAA. The court determined the Transition

Agreement was a “forfeiture for competition” agreement because it imposed adverse financial consequences on the plaintiff if she engaged in competitive activities following the termination of her employment. Though the court acknowledged that “noncompetition agreements” generally do not include nonsolicits and non-recruits or separation agreements meeting certain procedural requirements, it held that “forfeiture for competition” agreements did not have the same exceptions and instead applied broadly to any agreement imposing adverse financial consequences on an employee for engaging in competitive activities.

Second Circuit



Second Circuit

***TransPerfect Glob., Inc. v. Lionbridge Techs., Inc.*, No. 22-1348, 2024 WL 177726 (2d Cir. Jan. 17, 2024).**

Industry: Translation, Website Localization, and Litigation Support Services

Takeaway: At summary judgment, speculative inferences cannot establish triable issues of fact when assessing whether an alleged misappropriated trade secret was used or if the misappropriation damaged a plaintiff. Instead, a party opposing summary judgment must present specific evidence demonstrating the existence of a genuine dispute of material fact.

Details:

- **Procedural Posture**: Appeal.
- **Factual Background**: The plaintiff alleged that misappropriation of trade secrets occurred when the defendants obtained trade secrets revealed in confidence during a court-ordered sale of the plaintiff corporation and disclosed them in violation of a confidentiality agreement entered into with the third parties overseeing the sale. At the conclusion of fact discovery, the defendants moved for summary judgment on the basis that no evidence existed establishing it had improperly acquired the trade secrets or had used or improperly disclosed the trade secrets. The district court granted the motion on the grounds that the plaintiff failed to uncover sufficient evidence during discovery to support its allegations either of the acquisition of its trade secrets by improper means or of the disclosure or use of those secrets by the defendants without consent. The district court further reasoned that the plaintiff failed to uncover sufficient evidence establishing that it had suffered damages caused by the defendants' alleged misappropriation of its trade secrets. The plaintiff appealed, arguing: (1) the district court improperly drew inferences in favor of the defendants in rejecting its claims for misappropriation of trade secrets based on pricing and revenue misappropriation; (2) the district court did not properly consider evidence that the defendants misappropriated trade secrets related to the plaintiff's profit-driving business practices; and (3) the district court failed to properly credit evidence of damages contained in its expert report.
- **Court's Decision**: The Second Circuit affirmed the district court's decision and held that the plaintiff failed to produce sufficient evidence to survive summary judgment as its arguments only invited factfinders to engage in impermissible speculation. With respect to the argument regarding customer revenue and pricing data, the Second Circuit held that there was insufficient evidence to demonstrate that the defendants used the information in a manner beyond what was permitted to evaluate a potential bid to purchase. The court rejected the plaintiff's argument inferring that it should discredit uncontradicted sworn testimony which established the defendants' employee-witnesses did not share confidential information in a manner inconsistent with the confidentiality agreement between the parties. Further, the court held that there was insufficient evidence to permit a jury to find that the defendants' business practices evidenced

any connection to any misappropriated trade secret. Lastly, the court reasoned that the plaintiff failed to produce any evidence that established damages and thus, only invited the factfinder to engage in speculation.

***Beijing Neu Cloud Oriental Sys. Tech. Co. v. Int'l Bus. Machines Corp.*, 110 F.4th 106 (2d Cir. 2024).**

Industry: Technology

Takeaway: *Res judicata* bars a party from bringing a DTSA claim in a federal court when it could have raised the claim in a prior state court action.

Details:

- **Procedural Posture**: On appeal from dismissal of amended complaint.
- **Factual Background:** Neu Cloud (joint venture between IBM and two non-parties) alleges that IBM misappropriated its trade secret information in violation of the DTSA. These allegations stem from IBM's investment in Neu Cloud to develop and sell certain IBM products in China, and IBM's subsequent creation of a second joint venture, INSPUR Power, to do the same. Neu Cloud asserts that it submitted 89 special bids to IBM containing confidential customer information that IBM later disclosed to INSPUR Power, without authorization, to boost that joint venture's nascent business.

  Neu Cloud filed suit against IBM in federal court, asserting a cause of action for trade secret misappropriation under the DTSA. Days later, Neu Cloud sued IBM in state court under various state-law causes of action. Neu Cloud's state court complaint was dismissed. Shortly after, the district court dismissed Neu Cloud's amended complaint for three reasons: (1) the DTSA claim was time-barred under either of two different contractual two-year statute of limitations provisions; (2) Neu Cloud failed to state a plausible DTSA claim; and (3) there was no basis to exercise personal jurisdiction over IBM China in New York. However, the district court declined to dismiss on the ground, advanced by IBM, that the earlier judgment from the concurrent state-court proceeding barred Neu Cloud's DTSA claim. On appeal, Neu Cloud challenges both the district court's stated bases for dismissal and the alternative ground of *res judicata*, arguing as to the latter that the distinct "facts and evidence" involved in each cause of action render *res judicata* inapplicable. IBM seeks affirmance of the judgment either on the basis of *res judicata* or the grounds adopted by the district court.
- **Court's Decision:** The court concluded that the state court judgment satisfies each of the requirements under New York law for *res judicata* to apply: the state court judgment was on the merits, the state court would have had jurisdiction to hears the DTSA claim, the parties are the same, and the claims in each action involve the same factual predicate. The court affirmed judgment of the district court dismissing Neu Cloud's amended complaint and declined to address the other grounds on which the district court dismissed the amended complaint.

***Syntel Sterling v. Trizetto*, No. 15 Civ. 211 (LGS), 2024 WL 1116090 (S.D.N.Y. Mar. 13, 2024).**

Industry: Software

Takeaway: Reasonable royalty damages under New York law must bear a reasonable relation to the actual harm suffered.

Details:

- **Procedural Posture:** Post-trial motion for judgment as a Matter of Law. *Note*: On October 23, 2024, the court granted TriZetto's motion for a new trial on compensatory damages.
- **Factual Background:** In October 2020, after a six-day trial, a jury returned a verdict for TriZetto on all counts, finding that Syntel had misappropriated TriZetto's trade secrets in violation of the DTSA and New York law. The jury awarded more than $284 million in avoided development costs, and $142 million as a reasonable royalty under New York law. In 2023, the Second Circuit found on appeal that TriZetto was not entitled to recover avoided costs because the trade secrets were not diminished in value, it had retained their profitable use, and Syntel was permanently enjoined from all future use. On remand, the Southern District of New York considered, among other things, the propriety of the reasonable royalty damages under New York law.
- **Court's Decision:** The court vacated the award of reasonable royalties under New York law because the amount awarded bore no reasonable relation to the actual harm TriZetto suffered, as required by New York law.

  Reasonable royalties may be recovered when measuring the defendant's profits or the plaintiff's losses is too hard or speculative. However, given that the goal of compensatory damages is to restore the injured party, to the extent possible, to the position that would have been occupied had the wrong not occurred, damages in a misappropriation case should be measured by the loss of the plaintiff's commercial advantage, which may not correspond to what the defendant has wrongfully gained. The court therefore found that, whether labeled as unjust enrichment or reasonable royalty, the damages must align with the plaintiff's actual losses. To award a reasonable royalty award based on avoided development costs would not meet this goal.

***Vogel v. TakeOne Network Corp.*, No. 22-CV-3991 (AS), 2024 WL 870442 (S.D.N.Y. Feb. 29, 2024).**

Industry: Technology

Takeaway: An idea or concept, as opposed to a tangible product or business, may constitute a trade secret under the DTSA, even though it fails to constitute a trade secret under New York state law.

Details:

- **Procedural Posture:** The defendant's motion to dismiss.
- **Factual Background:** The plaintiff entered into a partnership and shared with his business partners that he had an idea concerning software that would manage hiring, payroll, budgeting,

and expenses in the television and film industries. The plaintiff purportedly shared marketing material, business plans, and the source code for his idea, which he believed were trade secrets. However, his other business partners removed him as a partner, dissolved the partnership, and formed a separate company allegedly using his trade secrets. The plaintiff sued his former business partners for trade secret misappropriation of his business ideas. The defendant subsequently filed a motion to dismiss, arguing that general business ideas could not constitute a trade secret.

- **Court's Decision:** Although New York state law does not consider trade secrets to encompass ideas, plans, or designs that will be evident to the public once marketed, the court determined that Vogel's claim survived under federal law, which defines trade secrets as information that "derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by another person who can obtain economic value from the disclosure or use of the information." Thus, the court determined that a confidential idea can be a trade secret if it has any potential economic value from not being disclosed to the public. Based on the facts alleged in the complaint, Vogel's allegations were sufficient under the DTSA to allow the trade secret misappropriation claim to proceed forward.

***OmniProphis Corp. v. Vanteon Corp.*, No. 23-CV-6617-FPG, 2024 WL 3443900 (W.D.N.Y. July 17, 2024).**

Industry: Telecommunication, Public Safety

Takeaway: Circumstantial evidence is sufficient for pleading a claim for misappropriation of trade secrets.

Details:

- **Procedural Posture:** The defendant's motion to dismiss for failure to state a claim under FRCP 12(b)(6).
- **Factual Background:** In April 2018, OmniProphis and Vanteon entered a business relationship to develop the "Phoenix Project," a confidential Software Defined Radio (SDR) program. OmniProphis intended to market the technology to detect and block unauthorized cell-phone use in prison facilities. OmniProphis intended for Vanteon to develop the technology, and throughout the course of their relationship entered multiple agreements governing their relationship and their respective confidential information and trade secrets. Vanteon failed to complete a finished product, which lead to litigation. "Within several months" after the start of litigation, Vanteon began selling a finished product called "vProtean." The capabilities of vProtean "closely mirror[ed]" the Phoenix Project. OmniProphis then filed a second lawsuit that alleged Vanteon improperly used the block diagram of the Phoenix Project product, the computer code used to modify the "channelizer," and hundreds of hours of research knowledge to develop vProtean. Vanteon moved to dismiss under FRCP 12(b)(6).
- **Court's Decision:** The court held that, at the pleading stage, OmniProphis included sufficient circumstantial evidence in its complaint that Vanteon used its trade secrets to develop vProtean.

The court emphasized that at the pleading stage, circumstantial evidence is acceptable, especially when direct evidence is within the opposing party's knowledge.

Here, OmniProphis alleged that Vanteon had no prior knowledge with respect to the development of this type of SDR and it would require significant and time-consuming work to develop such an idea into a finished product. The complaint alleged that Vanteon was able to develop its vProtean quickly. Taken together, these allegations were sufficient to plausibly suggest that Vanteon relied on its Project Phoenix work to accelerate the development of its vProtean product.

Although Vanteon offered alternative reasons why it could develop the technology in the limited time frame, at the pleading stage, the court was required to take all OmniProphis allegations as true and could not simply accept Vanteon's alternative explanations.

***Toptal, LLC, v. Andela Inc.*, No. 1:24-cv-04027-JHR (S.D.N.Y. Sept. 13, 2024).**

Industry: Freelance Agency for Technical Workers

Takeaway: During the discovery phase, courts tasked with analyzing whether an alleged trade secret has been adequately identified will utilize a flexible reasonable particularity standard when assessing whether trade secret information provided by the plaintiff during discovery sufficiently put a defendant on notice of the plaintiff's claims and allowed the defendant to assess the relevancy of discovery requests. This standard is within the court's discretion and favors plaintiffs because they may not know which parts of its trade secrets have been misappropriated.

Details:

- **Procedural Posture:** Discovery.
- **Factual Background:** The plaintiff alleged that its competitor, the defendant Andela Inc., deliberately hired numerous employees, including the defendant Machi, from the plaintiff in violation of Machi's confidentiality, nonsolicitation, and noncompete agreements. Further, the plaintiff stated that Andela Inc. improperly extracted its trade secrets and confidential information from the poached employees to create an identical product used to unfairly compete with the plaintiff. During the course of discovery, the plaintiff produced a 50-page trade secret disclosure, which identified trade secrets believed to have been misappropriated by the defendants and further identified the specific documents produced to the defendants during discovery that represented those trade secrets. Despite initially agreeing that the trade secret disclosure was adequate, the defendants subsequently requested a discovery conference to discuss its intent to file a motion to compel the plaintiff to further identify its trade secrets.
- **Court's Decision:** The court denied the defendants' request, holding that the plaintiff's discovery responses identified its trade secrets with reasonable particularity. The court reasoned that during the course of discovery, a plaintiff alleging a misappropriation of its trade secret(s) must provide enough information about the alleged trade secret(s) to (1) put the defendants on notice of the nature of its claims and (2) allow defendants to discern the relevancy of any

discovery requests. The court found the plaintiff's trade secret disclosure to be sufficient at the discovery phase and noted that the defendants had already relied on the disclosure to produce a large number of documents. Finally, the court noted that more specificity may be required post-discovery when a court evaluates the merits of the misappropriation claims at issue, but the discovery phase itself does not create a procedural device to determine, as a matter of law, whether a trade secret actually exists.

***Dur-A-Flex, Inc. v. Dy*, 321 A.3d 295 (Conn. 2024).**

Industry: Process Industries, Manufacturing, and Chemical

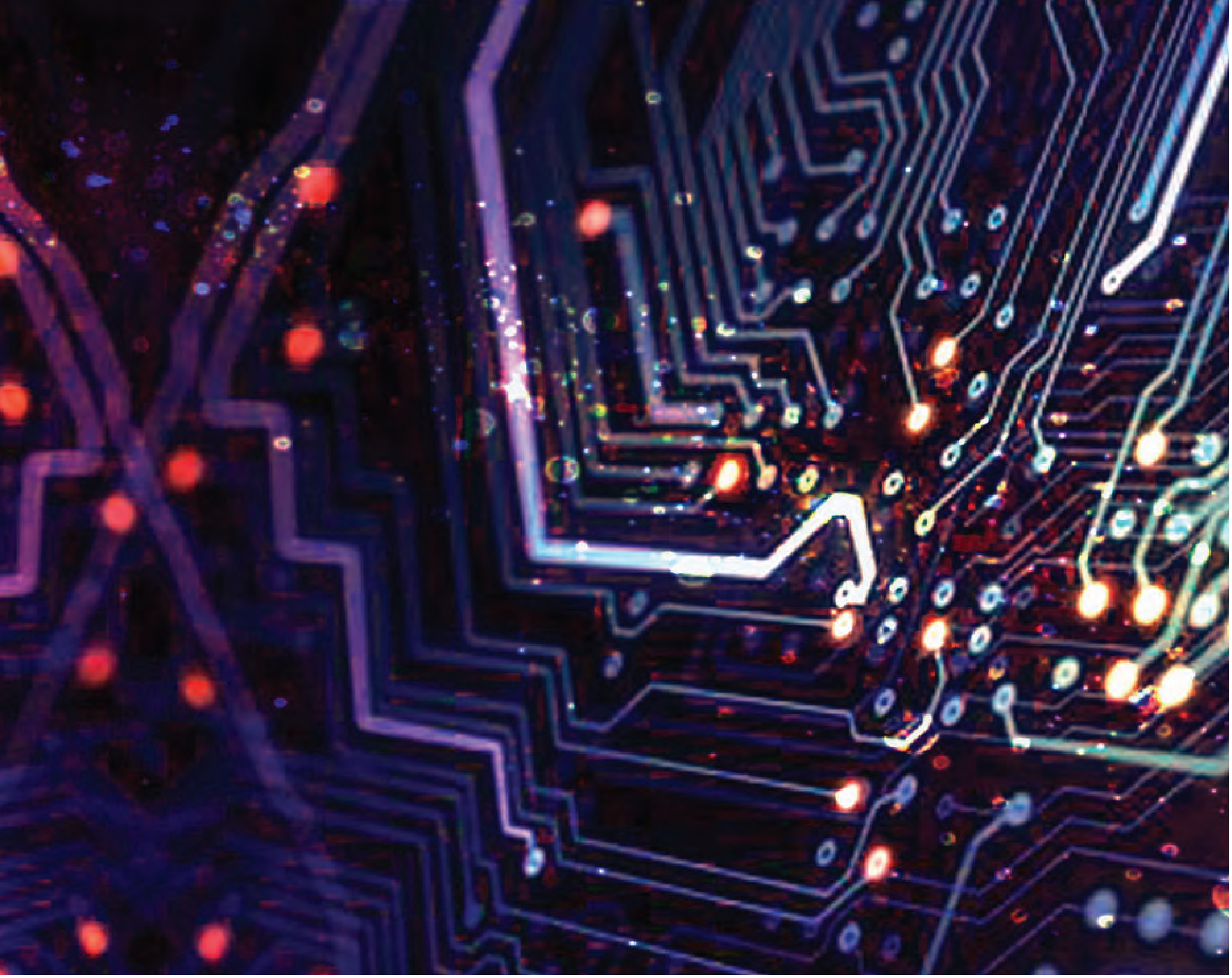
Takeaway: Although the Supreme Court of Connecticut reaffirmed that continued employment *may* serve as consideration for a noncompetition agreement or other restrictive covenant, it suggested that, under different circumstances, mere continued employment, without an express promise of such, could be insufficient consideration.

Details:

- **Procedural Posture:** On cross-appeals to the Supreme Court of Connecticut following bench trial.
- **Factual Background:** The dispute arose between Dur-A-Flex, a company specializing in commercial and industrial flooring systems, and Samet Dy, a former employee. Dy, a research chemist, had signed a noncompete agreement in 2011. He resigned in 2013 and secretly started A&E ProCoat, developing flooring products using Dur-A-Flex's trade secrets. Dy also collaborated with other companies creating products similar to Dur-A-Flex's Poly-Crete. Dur-A-Flex sued for trade secret misappropriation and breach of the noncompete agreement.
- **Court's Decision:** Among other things, the Supreme Court held that the trial court incorrectly determined that continued employment could never constitute consideration for a noncompete agreement such that the defendant's was unenforceable. The court relied primarily on *Roessler v. Burwell*, 176 A. 126 (Conn. 1934), as controlling on "the determination as to whether continued employment may be consideration for a noncompete agreement."

  But the court remanded for further proceedings to determine whether Dy received sufficient consideration because — unlike the defendant in *Roessler*, who received a promise that he would be employed "indefinitely" — Dy received no express promise of continued employment for any particular period.

  The court then further muddied the waters in a footnote, explaining "the noncompete agreement did not expressly require the plaintiff to employ [Dy] for any specific duration, and, therefore, it would appear that he continued to be an at-will employee after the agreement was executed. . . . It therefore seems unlikely that there was adequate consideration for the agreement." This opinion is unlikely to clear up the existing uncertainty under Connecticut law.



Third Circuit

Third Circuit

***Elmagin Capital, LLC v. Chen*, No. 22-2739, 2024 WL 2845535 (3d Cir. Mar 21, 2024).**

Industry: Finance

Takeaway: Prevailing party fee shifting provisions under the DTSA and Pennsylvania Uniform Trade Secrets Act (PUTSA) are an equitable remedy, so a judge (rather than a jury) is to determine whether a fee award should be awarded because of a "bad faith" filing of claims.

Details:

- **Procedural Posture:** Appeal of the plaintiff's denied motions for judgment as a matter of law and a new trial; cross-appeal of the defendant's denied request for an award of attorneys' fees.
- **Factual Background:** The plaintiff, Elmagin Capital, LLC, brought claims against its former employee and co-founder, Chen, for allegedly misappropriating the plaintiff's trade secret trading strategies to start a competing business. After a trial, the jury found that although the plaintiff's trading strategies were trade secrets, Chen did not misappropriate those trade secrets to develop the trading strategies for his competing business. Chen accused the plaintiff of bringing the lawsuit in bad faith and sought attorneys' fees under the DTSA and PUTSA. The trial court posed the question of bad faith to the jury, which found that the plaintiff had acted in bad faith. The court, however, ultimately considered the jury's bad faith determination as advisory and declined to award Chen attorneys' fees, reasoning that the plaintiff had at least some evidence in support of its claims.
- **Court's Decision:** On appeal, the Third Circuit affirmed the jury's finding that Chen did not misappropriate one of the plaintiff's trade secrets to develop Chen's own trading strategies. The panel reasoned that the jury could have reasonably relied on evidence presented that the plaintiff's trading strategies and Chen's were different. Further, the court rejected the plaintiff's contention that independent development of a technique is only relevant to acquisition of a trade secret and not use of a trade secret. The court clarified that, under Pennsylvania law, if there is proof that a defendant independently developed a technique that resembles a trade secret, then the defendant did not misappropriate the trade secret.

  In addition, the Third Circuit affirmed the trial court's refusal to accept the jury's bad faith finding and denial of attorneys' fees. The panel held that parties do not have a Seventh Amendment right to a jury in determining whether statutory attorneys' fees should be awarded because statutory fee awards have been historically regarded as equitable remedies. The Third Circuit also held that even if it is for a jury to determine bad faith under the statutes, there was sufficient evidence for the trial judge to hold as a matter of law that Chen failed to carry his burden of proving such bad faith.

***West Shore Home, LLC v. Chappell*, No. 1:22-CV-00204, 2024 WL 2963426 (M.D. Pa. June 12, 2024).**

Industry: Construction

Takeaway: While the court may award various categories of reasonable attorney fees for civil contempt for a party's violation of a trade secret injunction, including disgorgement of ill-gotten profits if that is a proxy for the measure of plaintiff's actual loss, unjust enrichment disgorgement of profits damages is not an appropriate contempt sanction absent such loss in the Third Circuit.

Details:

- **Procedural Posture:** After finding the defendant in contempt of a consent preliminary injunction as to competition and use of trade secrets, the court awarded several categories of reasonable attorneys' fees and costs, but not unjust enrichment disgorgement of profits.
- **Factual Background:** The plaintiffs sued the defendant for breach of contract and misappropriation of trade secrets after the defendant allegedly violated a covenant not to compete and retained commercially valuable proprietary information. The court entered a consent preliminary injunction that enjoined the defendant from competing with the plaintiff and from possessing the plaintiffs' confidential and trade secret information and directed the defendant to return all confidential and trade secret information. The plaintiffs later learned that the defendant had immediately surreptitiously violated the injunction in all respects and sought a hearing for civil contempt. The court found the defendant violated the preliminary injunction as a result of his business dealings with the plaintiffs' competitor and for possessing the plaintiffs' confidential information and trade secrets.
- **Court's Decision:** The court awarded reasonable attorneys' fees and costs on a variety of categories after finding the same were caused by the contempt, but it denied the plaintiffs' request for disgorgement of profits. The fees awarded included those for investigating the contempt, preparing for the contempt hearing, and preparing for and attending a settlement conference the defendant attended in bad faith. The plaintiffs also sought the profits the defendant gained by violating the preliminary injunction in the amount of $91,565.33. Following US Supreme Court and Third Circuit precedent, the court held that disgorgement of profits could be available as a compensatory remedy for the violation of injunction if such damages are held to be a measure of the plaintiffs' actual out-of-pocket losses from the violation. However, the plaintiffs conceded that there was no directly competitive conduct such that they suffered a direct loss because of the defendant's contempt. The court likewise denied the plaintiffs' request for such disgorgement of profits as a sanction for the contempt absent a loss, as disallowed by the Third Circuit.

***ATS Tree Servs., LLC v. Fed. Trade Comm'n*, No. 24-CV-1743, 2024 WL 3511630 (E.D. Pa. July 23, 2024).**

Industry: Agriculture

Takeaway: The FTC has authority to promulgate rule largely banning noncompete agreements.

Details:

- **Procedural Posture:** On April 23, 2024, the FTC enacted a rule banning nearly all noncompete agreements in employment contracts (the Rule). In May 2024, ATS filed suit seeking a preliminary injunction preventing enforcement of the Rule.
- **Factual Background:** ATS, a tree care company with 12 employees, required its employees to sign noncompete agreements, prohibiting them from working for direct competitors within the same geographic area where they worked for one year after the end of their employment. ATS did not want to lose the return on its investment of specialized employee training.

  ATS challenged the Rule under the Administrative Procedure Act (APA), arguing: (1) the FTC lacked statutory authority to promulgate rules about noncompete agreements; (2) if the FTC had such authority, a ban on all noncompetes exceeded that authority; (3) the Rule was arbitrary and capricious under the APA; and (4) the FTC Act unconstitutionally delegated legislative power to the FTC.
- **Court's Decision:** The court denied the request for preliminary injunctive relief. It applied a four-factor test, looking at: (1) the probability of success on the merits; (2) the likelihood of irreparable injury to ATS; (3) whether relief would result in greater harm to the FTC; and (4) the public interest. The court found no irreparable harm and no reasonable probability of success.

  Regarding irreparable harm, ATS pointed to the costs associated with compliance with the Rule, including notifying employees of the Rule and modifying its business strategy. The court noted that the Third Circuit did not find that monetary losses and business expenses alone justified injunctive relief. And the harm associated with a change in business strategy was too attenuated to be an irreparable injury. Similarly, the risk of employees leaving to go work for a competitor was not sufficiently particular or immediate to warrant injunctive relief.

  Regarding likelihood of success on the merits, the court found that the FTC had authority under Sections 5 and 6 of the FTC Act to promulgate the Rule. Section 5 granted the FTC the power to prevent unfair methods of competition, and Section 6 granted the authority to promulgate rules under that provision. This authority extended to preventing "incipient" threats of unfair competition, such as noncompete agreements. The court declined to apply the Major Questions Doctrine because the FTC issued rules in the past about unfair competition, and the Rule was consistent with those past actions which had been upheld.

***LKQ Corp. v. Rutledge*, No. 110, 2024, 2024 WL 5152746 (Del. Dec. 18, 2024).**

Industry: Auto Salvage and Recycling

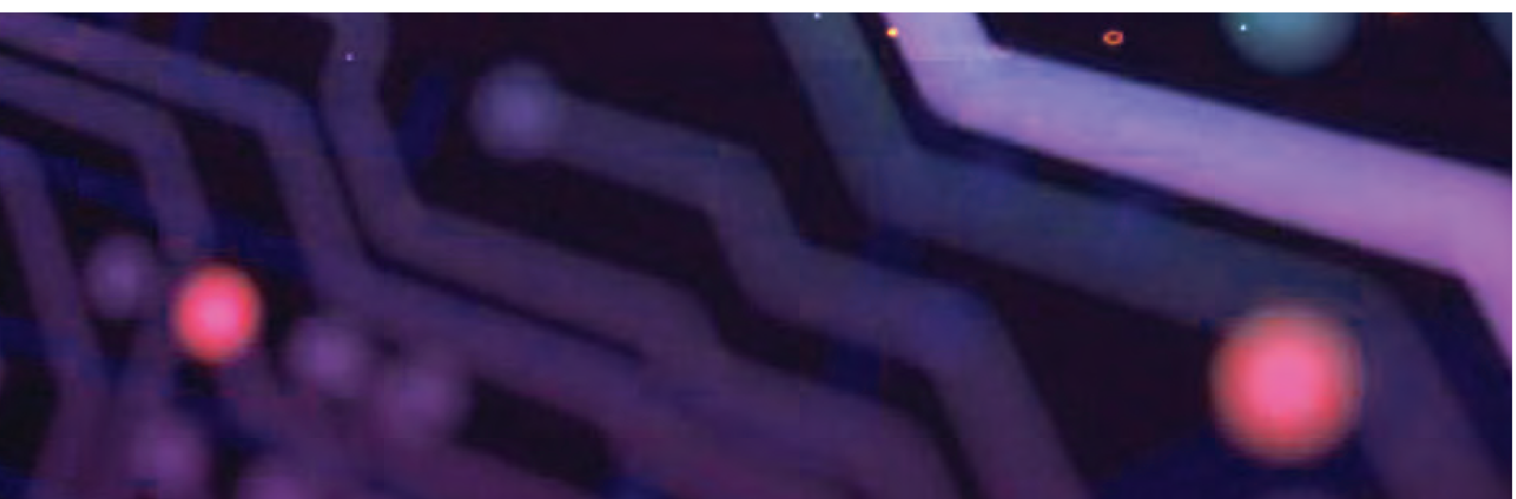
Takeaway: An employee who voluntarily leaves and proceeds to compete against a former employer may be obligated to forfeit previously granted benefits, including restricted stock units (RSUs), subject to a forfeiture-for-competition clause, without judicial review of the clause's reasonableness.

Details:

- **Procedural Posture:** On question certified to the Delaware Supreme Court by the Seventh Circuit Court of Appeals.
- **Factual Background:** The defendant, Rutledge, worked as a plant manager for the plaintiff, LKQ Corporation. During his employment, Rutledge signed several RSU agreements in which he agreed, as a condition of his receipt of the RSUs, (1) not to compete with LKQ if he left, and, if he competed within nine months of his departure, (2) to forfeit the RSUs and any stock issued through them and (3) to repay proceeds from any stock underlying the RSUs. In 2021, Rutledge voluntarily resigned and began working for a competitor almost immediately. LKQ filed suit against Rutledge in Illinois federal court for breaches of contract and unjust enrichment.

  The Seventh Circuit certified two questions to the Delaware Supreme Court, following a few volleys of procedural ping-pong, in which the N.D. Ill. followed a Delaware Chancery Court opinion (*Ainslie v. Cantor Fitzgerald, L.P.*, No. 9436-VCZ, 2023 WL 106924 (Del. Ch. Jan. 4, 2023) that was subsequently reversed by the Delaware Supreme Court (*Cantor Fitzgerald, L.P. v. Ainslie*, 312 A.3d 674 (Del. 2024)) while the N.D. Ill. decision was on appeal to the Seventh Circuit. Ultimately, the question certified was whether *Cantor Fitzgerald* precludes reviewing forfeiture-for-competition provisions for reasonableness in circumstances outside the limited partnership context.
- **Court's Decision:** The Delaware Supreme Court answered that *Cantor Fitzgerald* applies beyond the limited partnership context, including in forfeiture-for-competition provisions tied to RSU grants. The court explained that forfeiture-for-competition provisions should be viewed under freedom of contract principles rather than as restraints on trade. Further, the court reiterated that under the employee choice doctrine, courts need not review forfeiture-for-competition provisions for reasonableness so long as the employee voluntarily terminated her employment. Finally, unlike restrictive covenants, forfeiture-for-competition provisions are not enforceable through injunctive relief and do not deprive the public of the employee's services, which mitigates and restraint of trade policy concerns.

Fourth Circuit



Fourth Circuit

***Williamson v. Prime Sports Mktg., LLC*, 101 F.4th 302 (4th Cir. 2024).**

Industry: Sports Marketing Agency

Takeaway: Under North Carolina law, a sport agent's marketing materials comprising a compilation of endorsement offers obtained from various brands is not a trade secret where the offers were readily ascertainable by independent development by a competing agency.

Details:

- **Procedural Posture:** The Fourth Circuit affirmed the District Court's summary judgment dismissal of a misappropriation of trade secrets claim.
- **Factual Background:** As part of a larger lawsuit, National Basketball Association star Zion Williamson was sued by his former marketing agent, Prime Sports Marketing, after he fired that agent in favor of another and shared the former's marketing strategy documents with the latter, for, among other claims, misappropriation of trade secrets. The District Court granted Williamson summary judgment on Prime's trade secret claim because Prime failed to establish a protectible trade secret in the marketing materials. The Fourth Circuit affirmed.
- **Court's Decision:** Prime claimed its marketing materials, including a compilation of endorsement offers that Prime's president obtained from various brands, were trade secrets. The Fourth Circuit found that the compilation of endorsement offers was too nebulous to qualify for trade secret protection because they contained minimal information and lacked concrete offer amounts. Rather, the endorsement offers represented nothing more than "unrealized invitations to negotiate." Moreover, even if the endorsement offers were concrete, such offers were readily ascertainable by other agents through independent development where the brand companies described in the marketing materials independently initiated deals with the second agent.

***Recon Group LLP v. Lowe's Home Centers, LLC*, No. 5:23-cv-00163-KDB-DCK, 2024 WL 3658846 (W.D.N.C. Aug. 5, 2024).**

Industry: Technology

Takeaway: A trade secrets claim will not be preempted by the Copyright Act if the allegations concern non-expressive information or nonliteral elements such as ideas, processes, procedures, and methods of operation, which are excluded from copyright protection.

Details:

- **Procedural Posture:** The defendant's motion to dismiss.
- **Factual Background:** The plaintiff is a reverse logistics and technology company that provides retailers and manufacturing businesses solutions for merchandise returns. The defendant is a

chain home improvement store. The defendant retained the plaintiff to run its merchandise return operations. The plaintiff claims that using its knowledge of the plaintiff's software proprietary information, the defendant created and implemented its own application and then terminated the agreement between the parties.

- **Court's Decision:** In analyzing whether the plaintiff's breach of contract claim was preempted by the Copyright Act, the court applied the two-prong test from *United States ex rel. Berge v. Bd. Of Trs. Of the Univ. of Ala.*, 104 F.3d 1453 (4th Cir. 1997): evaluating if the work falls within the subject matter of copyright and if the claim protects rights equivalent to exclusive rights under federal copyright. The court determined that the claim did not fall within the scope of copyright because the claims concerned non-expressive information, like ideas, processes, procedures, and methods of operation, which are excluded from copyright protection. As such, the court determined that the plaintiff's breach of contract allegations did not fall entirely into the scope of copyright. The second prong of the preemption test also was not satisfied because a promise to pay provision in the contract was an extra element that set the breach of contract claim apart from a traditional copyright claim.

  The court also determined that the plaintiff's trade secret claims under the North Carolina Trade Secrets Protection Act (NCTSPA) and the DTSA were not preempted by the Copyright Act. The defendant argued that the misappropriation allegations were based on "use" not "disclosure." Although misappropriation based on use is typically preempted, the court held that certain nonliteral elements relating to the trade secrets allegations such as "channel allocation and pricing strategy, computational algorithms, sortation tools, techniques, and processes, and database of inventory item data," are beyond the scope of copyright. Thus, the NCTSPA and DTSA claims were not preempted by the Copyright Act.

***Pegasystems Inc. v. Appian Corp.*, 904 S.E.2d 247 (Va. Ct. App. 2024).**

Industry: Business Process Management

Takeaway: Under the Virginia Uniform Trade Secrets Act (VUTSA), the plaintiff must prove that misappropriation of a trade secret *proximately caused* a competitor unjust enrichment.

Details:

- **Procedural Posture:** The defendant-appellant Pegasystems appealed the jury verdict and evidentiary rulings.
- **Factual Background:** Appian and Pegasystems sell business process management (BPM) platforms to other businesses who want to automate internal processes, such as fulfilling orders or opening new customer accounts. Appian accused Pegasystems of misappropriating its trade secrets by hiring a consultant with access and knowledge of Appian's platform to "spy" on Appian's software. Pegasystems paid the consultant for 200 hours of work, including creation of videos identifying Appian's features and shortcomings. Appian alleged that Pegasystems used this information to copy Appian's user-friendly software. The jury awarded Appian over $2 billion in damages.

- **Key Trial Court Decisions in Dispute:** Jury Instruction 14 said that Appian could prove damages for unjust enrichment by establishing Pegasystems' total sales during the relevant period. The burden then shifted to Pegasystems to prove which sales were unrelated to its wrongdoing.

  Based on an interrogatory answer, the court prohibited Pegasystems from introducing evidence about its "total sales." The trial court misunderstood Pegasystems' answer to mean that it could not segregate revenue based on lines of business. Thus, the court excluded "other lines of business" damages evidence that Pegasystems proffered to reduce damages.

- **Court's Decision:** The court reversed the judgment on the VUTSA claims and remanded for a new trial because the trial court (1) erred in granting a jury instruction that did not require Appian to prove proximate causation and (2) wrongly excluded Pegasystems' damages evidence.

  Jury Instruction 14 failed to place the burden of proving proximate causation on Appian and impermissibly "shifted the burden" to Pegasystems to prove that sales were unrelated to the wrongdoing.

  VUTSA places the burden of proving unjust enrichment damages caused by misappropriation on the plaintiff. In contrast to 48 other states that enacted the UTSA, VUTSA makes it clear the "complainant" must "prove" unjust enrichment damages.

  More generally, Virginia caselaw places the burden on plaintiffs "in any case" to prove with reasonable certainty the amount of damages and causation.

  VUTSA has no burden-shifting framework. The trial court misconstrued the burden-shifting from the Restatement (Third) of Unfair Competition that applies after plaintiffs prove the share of sales caused by misappropriation.

  The trial court erred by excluding Pegasystems evidence relevant to damages and causation based on a "skewed" reading of an interrogatory response.

  In an interrogatory answer, Pegasystems stated that it could not determine revenue for different *versions* of its software, but the court misunderstood that to mean that Pegasystems could not determine revenue for its *products*. Thus, the trial court excluded evidence of Pegasystems' other lines of business, over "50 percent" of which are derived from sales of non-competing products.

  This was a reversible error, made particularly consequential because under the burden-shifting framework, Pegasystems was precluded from reducing its damages by introducing evidence of revenue derived from other business streams unrelated to the BPM product at issue.

***Jennings-Dill, Inc. v. Israel*, 897 S.E.2d 201 (Ct. App. S.C. 2024).**

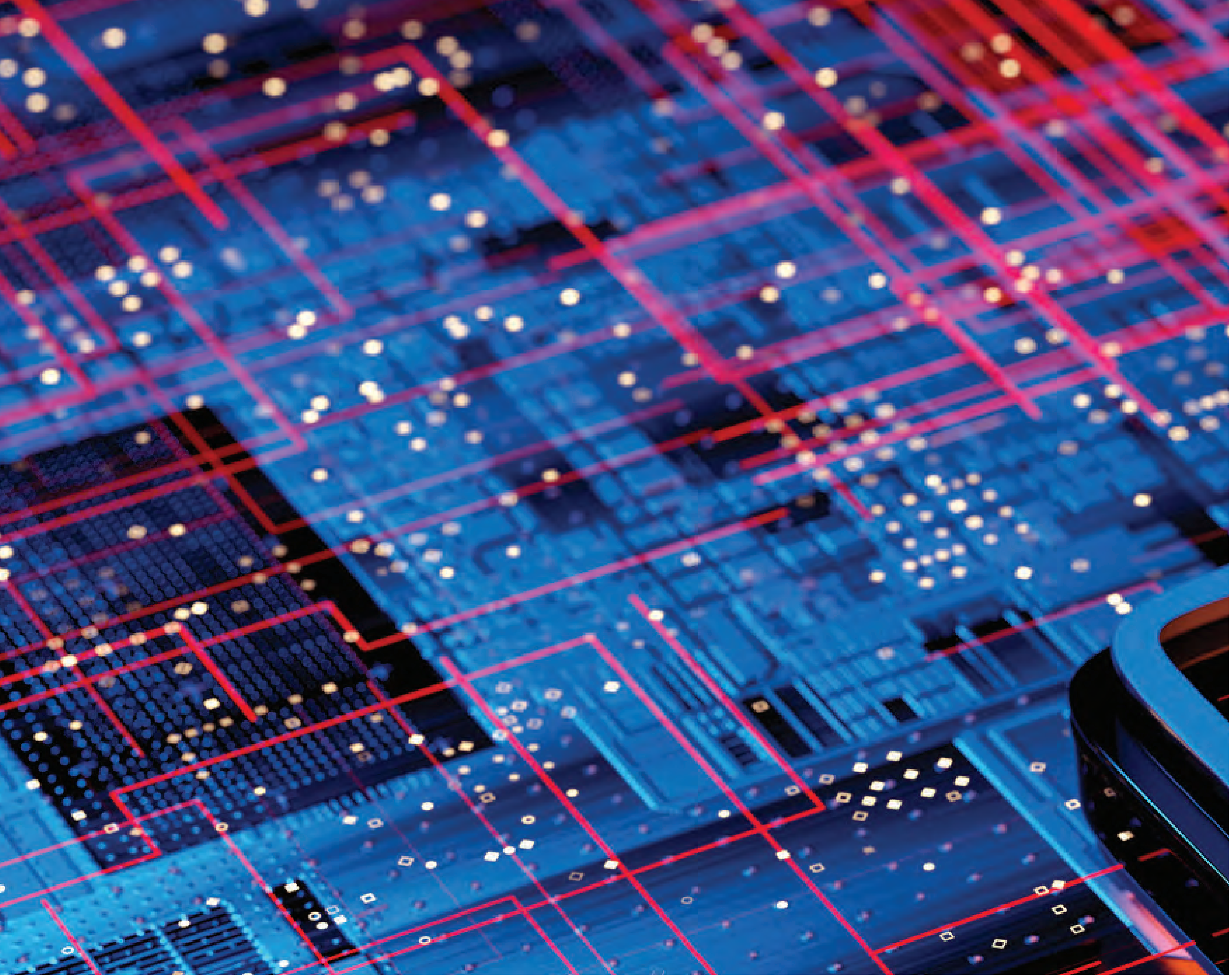
Industry: Plumbing and Gas Piping

Takeaway: A court may rely on circumstantial evidence and affidavits containing hearsay evidence when deciding a motion for preliminary injunction.

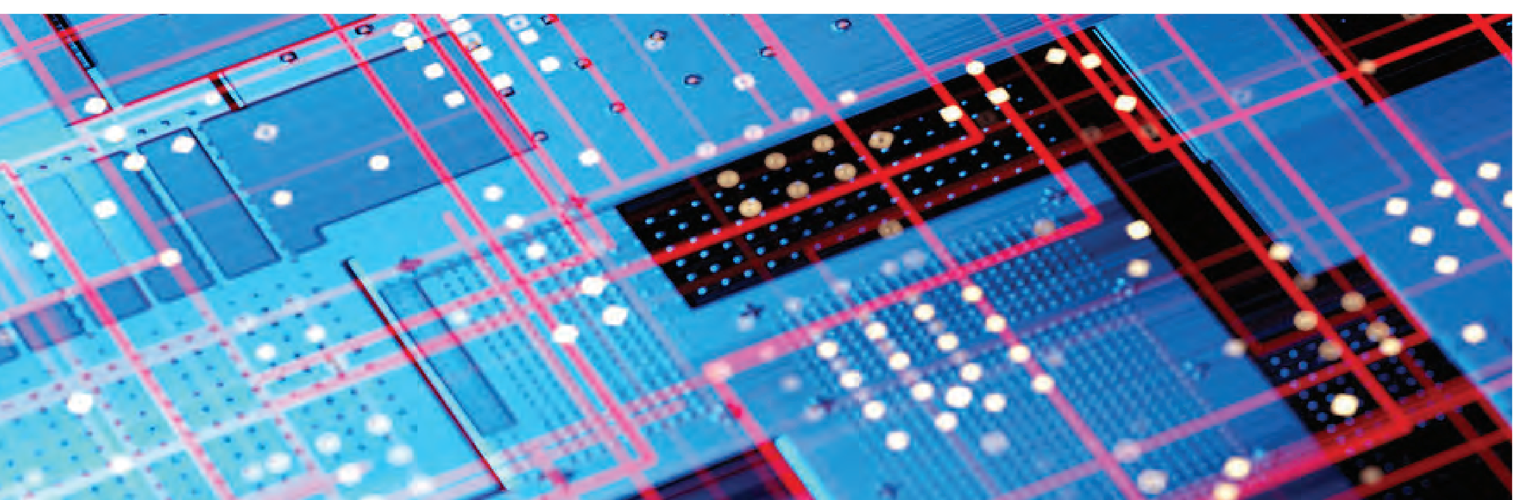
Details:

- **Procedural Posture:** Appeal affirming lower court preliminary injunction prohibiting the defendant's use of confidential information based on the plaintiff's trade secret misappropriation claim.
- **Factual Background:** The plaintiff alleged the defendant's former employee conspired with others to poach the plaintiff's employees using misappropriated confidential employee wage information to lure them away. Prior to leaving, data showed that the defendant downloaded alleged trade secrets including the monthly employee headcounts through July 2021, personnel changes (including new hires and terminations), and the personal contact information and pay rates for all the plaintiff's employees. Within three weeks of his departure, 12 other employees left the plaintiff.

  In support of its motion for preliminary injunction to prohibit the defendant's use of the plaintiff's information, the plaintiff submitted affidavits of two officers addressing the trade secret downloads, as well as potential hearsay about contacts to other employees now employed by the defendant's new employer.
- **Court's Decision:** On appeal, the defendant challenged the fact that the lower court's decision was based on the two affidavits, which contained hearsay and speculative statements. Although finding no South Carolina law on the issue, the court found the purpose of the temporary preliminary injunction that addresses alleged facts and exigent circumstances, reliance on hearsay and speculative statements is permissible to determine whether a movant meets the likelihood of success standard, relying on opinions from the Fourth and First Circuits as well as the Western District of North Carolina.



Fifth Circuit



Fifth Circuit

***Ryan, LLC v. Fed. Trade Comm'n*, No. 3:24-CV-00986-E, 2024 WL 3879954 (N.D. Tex. Aug. 20, 2024).**

Industry: Professional Services

Takeaway: The FTC lacked statutory authority to create a substantive rule banning essentially all noncompete agreements and the rule as adopted was arbitrary and capricious. The rule is set aside and shall not be enforced or otherwise take effect as scheduled.

Details:

- **Procedural Posture**: Cross motions for summary judgment following imposition of limited preliminary injunction.
- **Factual Background:** Noncompetes have historically been regulated by states through caselaw and statute. No federal law broadly addresses the enforceability of noncompetes. On April 23, 2024, the FTC voted 3-2 to adopt a final rule that would prohibit employers from entering into noncompete agreements with workers; render prior noncompetes unenforceable except for "senior executives;" mandate individualized notice to workers that noncompetes are unenforceable; and apply broadly to employees, independent contractors, paid, and unpaid workers.

  Immediately after the Rule was passed, Ryan LLC (among others) brought an action against the FTC challenging its promulgation of the Rule. Specifically, Ryan asserted the FTC's actions were unlawful because (1) the FTC acted without statutory authority; (2) the Rule is the product of an unconstitutional exercise of power; and (3) the FTC's acts, findings, and conclusions were arbitrary and capricious.

  In July 2024, the Northern District of Texas granted the plaintiff's motion to stay and preliminarily enjoin the FTC from enforcing the Rule, with the ruling reaching the named plaintiffs in the case only. Soon thereafter, both Ryan LLC and the FTC cross moved for summary judgment.
- **Court's Decision:** Section 6(g) of the FTC Act authorizes the FTC to make rules and regulations for the purpose of carrying out the provisions of the Act. The FTC asserts that it is therefore empowered to make substantive rules related to unfair methods of competition, including the Rule at issue. "[T]he Rule essentially provides that it is an unfair method of competition – and therefore a violation of [the FTC Act] – for persons to enter or enforce noncompete agreements."

  The APA was enacted in 1946 as a check on legislative power, providing that courts may set aside agency actions that are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." Ryan asserts that the Rule violates the APA because "(i) it exceeds the

FTC's statutory authority; (ii) it is patently unconstitutional; and (iii) it is arbitrary and capricious—thus entitling Plaintiffs to summary judgment."

The court first found, based on the text, structure, and history of the FTC Act, that the FTC did not have the authority to promulgate substantive rules regarding unfair methods of competition. In particular, the court concluded that Section 6(g) is a "housekeeping statute," authorizing what the APA terms "rules of agency organization procedure or practice" as opposed to "substantive rules." The court also determined that the lack of a statutory penalty for violating rules under Section 6(g) demonstrates its lack of substantive rulemaking power. The location of the section, seventh in a list of 12 investigative powers, further supported this finding.

Next, the court found that the rule itself is arbitrary and capricious under the APA standard because it is "unreasonably overbroad without a reasonable explanation." In particular, "[t]he Rule imposes a one-size-fits-all approach with no end date, which fails to establish a 'rational connection between the facts found and the choice made.'" Moreover, the FTC failed to sufficiently address less disruptive alternatives to the rule, as it was required to do. The decision is currently under appeal.

***Providence Title Co. v. Truly Title, Inc.*, No. 4:21-cv-147-SDJ, 2024 WL 3927229 (E.D. Tex. Aug. 22, 2024).**

Industry: Title Insurance

Takeaway: (1) An employee's actions exceed lawful preparations to compete if employee solicits other employees while still working for the company or sends confidential information to the competing company. (2) A noncompete covenant will be found unenforceable where the agreement did not contain any promises relating to the employer's legitimate protectable interests. (3) Under the Texas Covenants Not to Compete Act, the primary purpose of the agreement to which the covenant is ancillary must be to obligate the promisor to render personal services.

Details:

- **Procedural Posture:** On cross motions for summary judgment.
- **Factual Background:** The plaintiff and the defendant are competitors in the title insurance market. Two years after the defendant's failed acquisition of the plaintiff, two of the plaintiff's employees, also defendants, resigned to join the defendant's company. After the two employees' resignation, at least two dozen of the plaintiff's employees also left the company to join the defendant. The plaintiff claims that the two former employees solicited other employees to join the defendant's company. The plaintiff also allege that the former employees provided confidential information to the defendant and scouted locations to establish an office for the defendant's expansion. One of the former employees was also a shareholder of the plaintiff, owning 11% of the company. As part of the Shareholders' Agreement, this employee signed a noncompete covenant.

- **Court's Decision:** On the breach of fiduciary issue, the shareholder defendant argued that her actions amounted only to lawful preparation to compete against the plaintiff. The law provides that a fiduciary relationship does not preclude a fiduciary from making preparations for a future competing venture nor do such preparations constitute a breach of fiduciary duty. However, an at-will employee may not (1) appropriate the company's trade secrets; (2) solicit his employer's customers while still working for his employer; (3) solicit the departure of other employees while still working for his employer; or (4) carry away confidential information. The court determined that this employee's actions exceeded lawful preparations where the evidence showed that before receiving her offer letter to join the defendant competitor's company, she shared financial performance data and negotiated the terms of another employee's employment while she was still working for the plaintiff. The court denied the defendant's motion for summary judgment on this breach of fiduciary duty claim.

  The court considered whether the noncompete provision of the Shareholders' Agreement was an unenforceable restraint on trade. The shareholder defendant, who was one of the two former employees, alleged that the noncompete was unenforceable because it was not "ancillary to or a part of an otherwise enforceable agreement."

  To meet this requirement, the employer must establish that (1) the consideration given by the employer in the agreement is reasonably related to an interest worthy of protection and (2) the covenant not to compete was designed to enforce the employee's consideration or return promise in the agreement. Both elements of the test must be satisfied for the covenant to be ancillary to or part of an otherwise enforceable agreement.

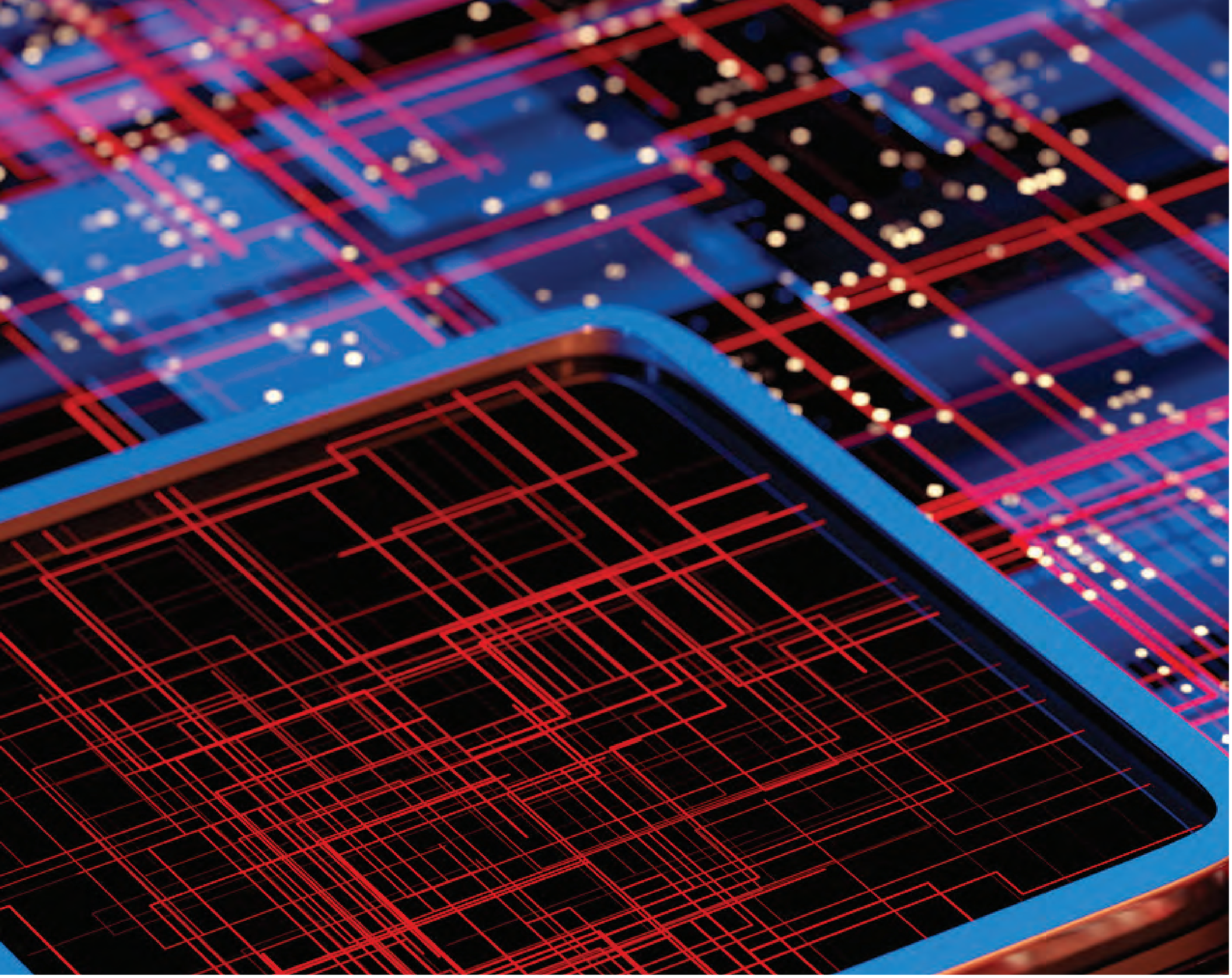
  In applying this test, the court determined the following:

  - The employee's ownership interest was reasonably related to the protection of the plaintiff's goodwill, which was an interest worthy of protection. Interests worthy of protection includes trade secrets, confidential information, and goodwill. Because the employee acquired stock from the plaintiff, she was an owner of the plaintiff and in a position to enjoy the benefits of the plaintiff's goodwill.
  - The noncompete was not designed to enforce the employee's consideration or promises. The court found that the Shareholders' Agreement (which included the noncompete provision) plus the First Amendment did not contain any promises from employees concerning trade secrets, confidential information, specialized training, or other interests related to the plaintiff's competition with the employer. The only promises related to employee's obligations to buy or sell stock. The court determined that the second prong of the test was not met.

  The court held that the noncompete provision was unenforceable as a naked restraint of trade. The court granted the defendant's motion for summary judgment on the plaintiff's claim that she breached the noncompete provision.

  The court determined that the defendants were not entitled to summary judgment on their counterclaim for attorney's fees and costs pursuant to the Texas Covenants Not to Compete Act.

Based on the statutory language, the primary purpose of the agreement must be to obligate the promisor to render personal services. The defendants failed to establish that this was the primary purpose of the Shareholders' Agreement.



Sixth Circuit

Sixth Circuit

***Prof'l Investigating & Consulting Agency, Inc. v. SOS Sec., LLC*, No. 23-3344, 2024 WL 2106223 (6th Cir. May 10, 2024).**

Industry: Security Services

Takeaway: To survive a motion for summary judgment, a trade secret misappropriation plaintiff lacking direct evidence of actual use may rely on circumstantial evidence and inferences, but the plaintiff must adduce sufficient specific evidence of *use* of the trade secrets. Access to the trade secrets, similarities of services, employee poaching, and growth in a defendant's business are insufficient, standing alone without connecting such facts to *use* of the underlying trade secrets.

Details:

- **Procedural Posture:** The plaintiff, a private security company, appealed the district court's decision granting the motion for summary judgment filed by the defendant, another private security company.
- **Factual Background:** The plaintiff, a relatively small security company, worked with the defendant, a significantly larger security company, on a number of projects. The companies engaged in extensive negotiations, during which the defendant considered acquiring the plaintiff, and the plaintiff shared years of financial data, customer and vendor lists, salary and pricing schedules, anticipated growth opportunities, and a catalog of services. Ultimately, negotiations fizzled, and the plaintiff began to struggle as a company, while the defendant's successes grew after hiring away two employees from the plaintiff. The plaintiff alleged that this occurred due to misappropriation of the trade secrets shared during acquisition negotiations.
- **Court's Decision:** At summary judgment, the only dispute was whether there was use of the trade secrets, and the plaintiff admitted it had no direct evidence of such use. The court acknowledged that circumstantial evidence may suffice (citing Ohio law, the UTSA, and the Restatement (Third) of Unfair Competition, *inter alia*), but that the plaintiff failed to adduce sufficient evidence tied to use of the secrets. The plaintiff's conjecture that the defendant lacked the capacity to perform the security services it performed after the acquisition negotiations without relying on the secrets was just that — conjecture — whereas the defendant produced countervailing evidence to show that it earlier had such capacity. The similarities between the parties' types of services post-merger negotiations were insufficient circumstantial evidence absent evidence that specific aspects of the secrets were used by the defendant. That the defendant hired two employees from the plaintiff was insufficient, standing alone, because there was no evidence defendant adopted practices known only by the employees. Finally, the plaintiff's argument that the defendant misappropriated the plaintiff's customer list was flawed because the defendant had a preexisting relationship with every customer that dropped the plaintiff in favor of the defendant.

***Total Quality Logistics, LLC v. EDA Logistics LLC*, No. 23-3713, 2024 WL 4372312 (6th Cir. Oct. 2, 2024).**

Industry: Freight/Trucking Logistics

Takeaway: Under Ohio law, a customer list organized into a compilation is presumptively protected as a trade secret. However, the identity of the customers must not be "readily ascertainable through ordinary business channels" and "must contain information not generally known to or readily ascertainable by the public." Pricing policies can rise to the level of a protectable trade secret under Ohio law. Unlike a general market price determinable by price discovery, margin expectations or pricing strategies might not be "readily ascertainable by proper means." Additionally, to support an award of money damages, a plaintiff must show how the alleged unlawful competition, rather than an employee's mere departure and the plaintiff's failure to meaningfully pursue its customers, caused lost profits.

Details:

- **Procedural Posture:** Appeal from the US District Court for the Southern District of Ohio decision after bench trial finding the plaintiff had not proved its trade secret misappropriation claims.
- **Factual Background:** The defendant's employment agreement included a noncompete and nonsolicitation clause. He started a competing logistics firm and serviced some of the same customers he had serviced during his prior employment with the plaintiff. After a bench trial, the district court ruled the defendant breached the noncompete agreement but refused to enjoin the defendant's participation in the logistics industry generally, concluding that the noncompete was enforceable only to the extent that it prevented solicitation of customers that he knew through his prior employment with the plaintiff.
- **Court's Decision:** The Sixth Circuit affirmed the trial court ruling that the plaintiff had failed to prove a trade secret claim based on customer and pricing information. The plaintiff failed to prove the defendant had taken any customer information database or compilation and, though he retained some customer information for customers he directly serviced, this information (*e.g.*, phone numbers) was easily discoverable by cold calling. While customer lists are presumptively entitled to trade secret protection under Ohio law, and the defendant surely "hit the ground running" by using the retained information, phone numbers retained on a cell phone do not rise to the level of a master customer list, and the former information was readily ascertainable by the public. As to "pricing information," the plaintiff failed to "articulate precisely what concrete" information had been misappropriated. The court found that pricing information in the logistics industry was volatile and highly discretionary, and that the plaintiff had failed to prove a concrete policy or practice regarding their pricing or margins.

  The Sixth Circuit also affirmed the district court's decision not to award damages because the plaintiff had failed to produce concrete evidence that the unlawful competition (rather than the defendant's departure and the plaintiff's failure to meaningfully pursue its customers) caused the plaintiff's lost profits. The Sixth Circuit also affirmed the district court's rejection of the plaintiff's inferential leap tying the profits that the defendant earned for his new employer to the profits lost by the plaintiff.

***James B. Oswald Co. v. Neate*, 98 F.4th 666 (6th Cir. 2024).**

Industry: Insurance

Takeaway: Injunctions cannot incorporate terms of controverted noncompetition agreements and instead must provide clear notice to the parties about what actions are prohibited.

Details:

- **Procedural Posture:** Appeal of grant of preliminary injunction in favor of James B. Oswald Company.
- **Factual Background:** The case centers around Dennis Neate, a former employee of the James B. Oswald Company, an insurance firm. Neate had developed a substantial client base during his time at Oswald's predecessor company, Hoffman Insurance Agency. At the time Oswald acquired Hoffman, Neate signed a noncompete and nonsolicitation agreement that prevented him from competing or soliciting customers. The restrictive covenants lasted five years from date of signature. Neate also signed an NDA and a separate nonsolicit (NDNSA) that prevented him, for two years following the end of his employment, from soliciting clients or employees away from Oswald. After some restructuring, Neate was unhappy and went to work for Hylant, an Oswald competitor. When one-third of Neate's clients and several Oswald employees followed him to Hylant, Neate also allegedly took client information, including customer lists, pricing strategies, and customer preferences, that Oswald alleged constituted trade secrets. Oswald sued Hylant, Neate, and the other former Oswald employees that joined Hylant. Oswald's claims included claims for breach of contract and misappropriation of trade secrets under the DTSA and the Ohio Uniform Trade Secrets Act (OUTSA). Oswald sought a temporary restraining order (TRO) and preliminary injunction to prevent further dissemination of confidential information and solicitation of clients and employees. After an evidentiary hearing, the court granted the preliminary injunction, specifically incorporating terms from the NDNSA.
- **Court's Decision:** On appeal, Neate argued that the NDNSA was unenforceable under Ohio law. When Ohio courts evaluate noncompetition agreements, they compare the reasonableness of the restrictions on the employee with the "employer's legitimate interests" using three *Raimonde* factors.[1] Neate argued, and the appellate court agreed, that the district court failed to analyze the *Raimonde* factors and thus committed reversible error.

  On the trade secrets claim, the Sixth Circuit found the lower court had correctly concluded that the relevant client information (customer lists, pricing strategies, and customer preferences)

[1] The *Raimonde* factors are used by Ohio courts to evaluate the reasonableness of noncompetition agreements.

allegedly misappropriated constituted a trade secret. The information had economic value and Oswald demonstrated that it tried to keep the information secret by "standard security systems, such as by using passwords, firewalls, different employee authorization depending on his or her role within the company, and [r]obust IT security." In conclusion, the court agreed that Oswald had shown a likelihood of prevailing on the merits on its misappropriation claims.

However, the Sixth Circuit also found that the injunction was impermissibly vague because it failed to meet the specificity requirements of Federal Rule of Civil Procedure 65(d)(1). The injunction repeatedly referenced the NDA and NDNSAs between Oswald and the defendants, leaving too much up to the interpretation of these agreements, which were central to the lawsuit. This incorporation by reference violated Rule 65(d)(1)(C), which prohibits describing the restrained or required conduct by referring to other documents. Additionally, the injunction's broad prohibitions, such as preventing defendants from "committing further violations of their Agreements with Oswald," did not provide clear, specific guidance on what conduct was prohibited. This lack of clarity could result in contempt citations based on a decree too vague to be understood and posed challenges for appellate review, necessitating the Court of Appeals to vacate and remand the case.

***In re Island Indus., Inc.*, No. 23-5200, 2024 WL 869858 (6th Cir. Feb. 29, 2024).**

Industry: Technology, Process Industries

Takeaway: A plaintiff's complaint must sufficiently allege that the plaintiff took reasonable measures to protect its trade secrets. It is insufficient that a plaintiff simply relies on allegations that the defendant did not have access to "all" of the company's proprietary information or was "not authorized" to disclose certain information.

Details:

- **Procedural Posture:** On appeal from the district court's dismissal at pleading stage for failure to state a claim.
- **Factual Background:** The plaintiff sued the defendant for trade secret misappropriation under federal and state law, alleging that the defendant obtained the plaintiff's supplier list, along with other information, from a former employee of the plaintiff. The district court dismissed the plaintiff's claims, finding that the plaintiff had failed to adequately allege that it took reasonable steps to protect its trade secrets.
- **Court's Decision:** The Sixth Circuit affirmed because the plaintiff had failed to allege that it took any measures, let alone reasonable measures, to protect its trade secrets. The plaintiff claimed it had adequately protected its proprietary information by restricting access on a "need-to-know" basis. The plaintiff argued that (1) the disclosing employee had a fiduciary duty to keep the information confidential; (2) the employee was unauthorized to share trade secrets with the defendants; and (3) according to the defendant's own testimony, he lacked access to all trade secrets.

- The Sixth Circuit rejected each argument. First, the Sixth Circuit found insufficient the argument about the employee's fiduciary duty, noting that the plaintiff still needed to impose its own protective measures to prevail. The court also pointed out the lack of evidence that the plaintiff informed the employee of this duty, undermining its claim that it was a reasonable protection. Second, the court found the claim that the employee was "not authorized" to disclose secrets equally insufficient, as there was also no evidence the plaintiff had communicated this restriction to the employee. Third, the court dismissed the claim based on the employee's testimony about limited access to trade secrets, holding that it did not prove restricted access to the information that the employee *did* have. The court further criticized the plaintiff's vague allegations regarding "partial restriction" for lacking details on enforcement and access.

***Metron Nutraceuticals, LLC v. Cook*, No. 23-3596, 2024 WL 3877388 (6th Cir. Aug. 20, 2024).**

Industry: Dietary Supplements

Takeaway: The OUTSA does not preempt breach of contract claims. The written content of unpublished patent applications kept confidential may contain trade secrets, which, if copied, can support a finding of misappropriation.

Details:

- **Procedural Posture:** Appeal to the Sixth Circuit of the lower court's decision to grant the defendants' motion for summary judgment on all claims.
- **Factual Background:** The case involved a complex chronology and web of individuals, companies, confidentiality agreements, patent applications, and product offerings for nutritional supplements containing zeolite clinoptilolite fragments. The plaintiff sued numerous parties for trade secret misappropriation and breach of contract, *inter alia*, stemming from their alleged copying of information in confidential patent applications for their own later patent applications and launching of competing products developed through misappropriation. According to the plaintiff, 72 sections of the defendants' patent application were copied verbatim or nearly verbatim from the plaintiff's confidential patent application.
- **Court's Decision:** The Sixth Circuit reversed the district court, finding that the OUTSA does not preempt breach of contract claims, such as the plaintiff's claims for breach of the defendants' confidentiality agreements, which share the same operative facts as the trade secret claims. The Sixth Circuit held that the protection of contractual remedies from preemption must allow for contract claims, otherwise the statute would allow contractual remedies without the means by which to obtain those remedies.

  The Sixth Circuit also reversed the district court's finding that the plaintiff failed to establish existence of a trade secret under the OUTSA. The district court concluded that although the copied unpublished patent application was confidential, the plaintiff had failed to demonstrate that the contents derived independent value from not being generally known or readily ascertainable. The district court relied on the existence of similar products in the field to conclude that the patent application's underlying information was known to those in the industry. The Sixth Circuit held summary judgment was in error due to disputed facts, finding that the presence of other competing *products* on the market did not establish that the plaintiff's *processes* described in the patent applications were widely known.

***Campfield v. Safelite Grp., Inc.*, 91 F.4th 401 (6th Cir. 2024).**

Industry: Vehicle Glass Repair/Replacement

Takeaway: The statute of limitations on a trade secret claim under the OUTSA does not begin to run until the plaintiff learns facts that would lead a reasonable person to investigate whether misappropriation of trade secrets had occurred.

Details:

- **Procedural Posture:** Cross-appeal of cross-motions for summary judgment.
- **Factual Background:** Ultra Bond, a supplier of proprietary bonding resin to repair windshield cracks, brought an action against Safelite, a provider of windshield repair and replacement services, alleging Safelite violated the Lanham Act by falsely advertised that windshield cracks longer than six inches could not be safely repaired and instead required replacement of the entire windshield. Safelite counterclaimed alleging that Ultra Bond stole trade secrets in violation of state and federal law, including tortious interference with contract, misappropriation of trade secrets, civil conspiracy, conversion, unfair competition, and violation of the Computer Fraud and Abuse Act. On cross-motions for summary judgment, the district court granted summary judgment to Safelite on Ultra Bond's Lanham Act claim and granted summary judgment to Ultra Bond on Safelite's trade secrets claims. In dismissing Safelite's OUTSA claim, the district court determined that the claims were barred by the statute of limitations. The parties cross-appeal the district court's order.
- **Court's Decision:** The appellate court reversed the district court's grant of summary judgment on Safelite's OUTSA claim because it found that the claim is not time-barred. The OUTSA has a four-year statute of limitations that begins to run when the misappropriation is discovered or should have been discovered through reasonable diligence. The district court held that Safelite should have been on notice of a potential misappropriation in April 2010 when Ultra Bond's owner sent a letter to Safelite informing it that he had planned to initiate litigation against Safelife and had documents "from a trash dumpster" to utilize in his suit. The appellate court disagreed because nothing in the letter indicated that there had been misappropriation, and a reasonable person would not assume trade secrets would be discarded in a trash dumpster. Moreover, Safelite claimed it first learned about the alleged misappropriation during the deposition of Ultra Bond's owner in 2018, and Ultra Bond provided no evidence to the contrary.

***Allergan, Inc. v. Revance Therapeutics, Inc.*, 711 F. Supp. 3d 873 (M.D. Tenn. 2024).**

Industry: Pharmaceuticals

Takeaway: If an employee, in anticipation of an imminent departure to a competitor, downloads a large amount of confidential information, then that act, in connection with that employee's recruitment by the competing employer, can constitute the acquisition by improper means by the competing employer in addition to the departing employee. Once the case proceeds through discovery, however, a plaintiff has to meet its burden to prove that, indeed, the defendant competitor misappropriated the trade secrets. At trial, the plaintiff cannot rely on inferences.

Details:

- **Procedural Posture:** Motion to dismiss.
- **Factual Background:** The plaintiff, Allergan, sells Botox and Juvederm, a botulinum neurotoxin (BoNT) injectable product and dermal filler product, respectively. The defendant, Revance Therapeutics, operates in the same space and developed its own US Food and Drug Administration- (FDA) approved injectable BoNT product, "Daxxify," that competed with Botox. It also launched a line of dermal filler products call the "RHA Collection" that competed with Allergan's Juvederm products. Revance was seeking FDA approval for its dermal filler product as well as its Botox biosimilar that would have competed with Allergan's Botox products.

  Allergan alleged that its development of confidential know-how concerning BoNT regulatory, technical, and manufacturing efforts were trade secrets. The success of its Botox and Juvederm products were dependent on Allergan's customer lists and market analyses. It allegedly took Allergan "substantial time, labor, and money" to develop its trade secrets by, for example, conducting extensive research and large-scale clinical trials and sponsored studies to develop and obtain regulatory approval for Botox.

  Allergan alleged that Revance successfully recruited several of Allergan high-level executives. This included a former director of Global Affairs for Chemistry Manufacturing and Controls Biologics, who allegedly downloaded documents containing Allergan's trade secrets at a higher rate than what was typical; a former executive director of Facial Aesthetics Marketing, who allegedly sought access to Allergan's trade secrets under false pretenses; and a senior business development manager, who worked on Botox and Juvederm sales efforts, had access to customer lists and internal sales data, sent a PowerPoint containing Allergan's trade secrets to her personal email, sent additional trade secret documents to her personal email, and then deleted files on her work computer.
- **Court's Decision:** The court denied the defendant's motion to dismiss. The court found that Allergan sufficiently alleged that Revance acquired Allergan's trade secrets through the former Allergan employees that it hired. The court also accepted Allergan's allegations that Revance was in possession of Allergan's trade secrets, given the former employees' access to and transmission of them. It relied specifically on the fact that the information downloaded related specifically to the reason the employees had been hired by Revance.

  As to Revance's Botox biosimilar, though Allergan failed to make a direct comparison between Botox and Revance's biosimilar, the court found that Allergan sufficiently alleged facts demonstrating the similarity between Allergan's trade secrets to which the former executives had access and the information Revance needed for FDA approval. The court inferred that such information derived from Allergan's trade secrets based on its allegations. The court found that Allergan did not allege that Revance used its trade secrets concerning Allergan's sales and marketing approach, concluding that it could not infer their use based on Revance's mere access to them.

The court also found that Allergan sufficiently alleged that Revance used Allergan's trade secrets with knowledge. Allergan alleged that Revance was aware of the former employees' duty of loyalty to Allergan, given that Revance received a letter from Allergan informing it of their duty. Revance also allegedly recognized the litigation risk in hiring the former employees. Based on this, the court found that Allergan sufficiently stated a claim for trade secrets misappropriation.

***Univ. of Tenn. Research Foundation v. Caelum Biosciences, Inc.*, No. 3:19-CV-508, 2024 WL 4101911 (E.D. Tenn. Aug. 7, 2024).**

Industry: Life Sciences

Takeaway: Ownership of trade secrets, although not necessary, is nonetheless sufficient to confer standing to bring a trade secret misappropriation claim under Tennessee law.

Details:

- **Procedural Posture:** The defendant's motion for summary judgment.
- **Factual Background:** Dr. Alan Solomon, who was a researcher at the University of Tennessee Research Foundation (UTRF), discovered an antibody that could potentially treat Amyloidosis. Dr. Solomon ultimately assigned the rights to the discovery to UTRF. To develop a chimeric version of this antibody for human testing purposes, Dr. Solomon collaborated with various third-party entities, which included the transfer of an Investigational New Drug Application to Dr. Suzanne Lentzsch at Columbia University. The two universities eventually reached an agreement, granting Columbia a license to utilize methods associated with the antibody. The defendant's parent company eventually became interested in the antibody, which led to a licensing agreement with Columbia. The defendant subsequently claimed licensing rights related to the antibody, which led to the UTRF filing suit for trade secret misappropriation. The defendant moved for summary judgment, claiming that UTRF's ownership rights associated with the antibody did not confer any standing for a trade secret misappropriation claim.
- **Court's Decision:** The court determined that the ownership of trade secrets is sufficient to support a plaintiff's standing to bring a trade secret misappropriation claim. Despite the defendant's attempt to cite various case law that emphasized the need for possession (as opposed to ownership) for trade secret misappropriation claims, the court found that none of the cases negated ownership as a basis for standing. Further, UTRF could claim ownership of the antibody and related methods based on Dr. Solomon's prior assignment of the rights to UTRF.

***Freedom Cap. Grp. LLC v. Blue Metric Grp., LLC*, No. 3:24-cv-00369, 2024 WL 3331641 (M.D. Tenn. July 8, 2024).**

Industry: Real Estate

Takeaway: The compilation of publicly available information without more does not constitute a trade secret. Additionally, providing third-party independent contractors with "unfettered" access to confidential information without any documentary evidence of a confidentiality agreement or secrecy training is contrary to the requirement that a party take reasonable measures to protect trade secret information, even though access was controlled and tracked by a two-factor identification password system.

Details:

- **Procedural Posture:** Motion for preliminary injunction.
- **Factual Background:** Freedom Capital Group LLC operates a business that identifies and researches potential recreational vehicle (RV) parks to acquire as part of its ownership portfolio. In order to assess which RV parks to pursue, Freedom Capital conducts extensive research and gathers information on target RV parks, including RV parks' owners' contact information, the owners' initial asking prices and deal terms, and park-specific factors such as proximity to tourism hubs or popular destinations, anticipated renovation costs, operating expenses, net operating income, and guest facilities and amenities. The information is gathered from public records, site visits, negotiations, and an internal call center. All of this information is compiled into a Customer Relationship Management (CRM) system. Freedom Capital also uses its "Just Call" call center to contact RV park owners and adds all information gathered from these calls to the CRM. Freedom Capital also works with independent contractors that are part of its "Acquisition Team" to conduct the site visits and park-specific research that is used to expand on the CRM information. The Acquisition Team is able to access all information gathered by Freedom Capital by accessing the information electronically using multi-factor authentication. Freedom Capital takes all of the information that is compiled and analyzes it to create an "Investment Book." Freedom Capital's Investment Book catalogs investment-grade properties and ranks them in accordance with its own criteria for determining potential value and whether to pursue or not. According to Freedom Capital, the CRM information, the Just Call information, and the Investment Book all constitute trade secrets.

  One of the defendants, Chris Haynes, worked as an independent contractor on the Acquisition Team for about a year before he terminated his working relationship with Freedom Capital. Another defendant, John Cascarano, served as Freedom Capital's outside counsel for about a year in the acquisitions of several RV Parks. In late 2022, Cascarano informed Freedom Capital that he would create an entity named Blue Metric Group, LLC that would purchase and manage RV parks as well. Freedom Capital did not object to Cascarano's creation of Blue Metric Group because it was designed to acquire properties that Freedom Capital did not pursue and paid Freedom Capital an acquisition fee on those acquisitions. However, Freedom Capital claims that in early 2023, the defendants accessed and downloaded its confidential proprietary information derived from its call list, Just Call account, CRM, and Investment Book.

- **Court's Decision:** The court denied Freedom Capital's motion for preliminary injunction because it would be unlikely to be able to show the existence of a trade secret.

  In analyzing the merits of Freedom Capital's motion for preliminary injunction, the court considered the following:

  - **Existence of a Trade Secret:** The court held that Freedom Capital's CRM and Just Call account did not constitute trade secrets because they served only as repositories of publicly available information. The court did not see evidence demonstrating that Freedom Capital conducted any independent analysis of the information in those repositories. However, the court noted that the Investment Book could potentially be considered a trade secret because it conveys information that is not purely publicly available information — *i.e.*, it contains Freedom Capital's analysis of the publicly available information.

  - **Efforts to Maintain Secrecy:** Noting that the "mere existence of *some* efforts to maintain secrecy is not enough," the court was unconvinced on the record before it that Freedom Capital made adequate efforts to maintain the secrecy of the CRM, Just Call account, or the Investment Book. In particular, the court expressed concern that giving Acquisition Team members unfettered access to all information was not reasonable. The court noted that the Acquisition Team were independent contractors as opposed to employees of Freedom Capital subject to duties of loyalty under Tennessee law. There was also no evidence presented demonstrating that the Acquisition Team members signed a confidentiality agreement of any sort or that they were trained on the confidentiality of the information. Thus, providing Acquisition Team members broad access to confidential information was fatal to Freedom Capital's likelihood of success on the merits.

Seventh Circuit

Seventh Circuit

***Motorola Solutions, Inc. v. Hytera Communications Corp. Ltd.*, 108 F.4th 458 (7th Cir. 2024).**

Industry: Electronics, Technology

Takeaway: A plaintiff seeking redress for trade secret misappropriation under the DTSA may recover damages attributed to the worldwide sales of a product incorporating the misappropriated trade secrets. Comparatively minor actions occurring in the United States can open the door to liability for substantial damages when coupled with more substantial violations of the DTSA overseas. Liability for misappropriation can accrue for acts committed wholly abroad if "some act in furtherance of the misappropriation" occurred in the United States.

Details:

- **Procedural Posture:** Appeal of damages award to the plaintiff.
- **Factual Background:** The plaintiff and the defendant compete globally as manufacturers for two-way radio systems. The plaintiff developed trade secrets embodied in its high-end digital mobile radio (DMR) products. The defendant struggled to develop similar products until it hired three engineers working for the plaintiff in Malaysia, one of whom downloaded thousands of documents and computer files containing the trade secrets and copyrighted source code. These files were downloaded from the plaintiff's primary servers in Illinois, or a mirrored server in Sri Lanka, Bangladesh, Malaysia, or China. The defendant used these trade secrets to produce its own line of DMR products, which it sold globally, including at trade shows in the United States. The plaintiff sued for trade secret misappropriation under the Copyright Act and the DTSA. Following a trial, a jury found that the defendant misappropriated the plaintiff's trade secrets. The district court awarded the plaintiff $543.7 million, including $135.8 million in unjust profits under the DTSA based on the defendant's global sales of its infringing product.
- **Court's Decision:** In a case of first impression, the Seventh Circuit held that the DTSA applies to misappropriation that occurs outside of the United States, so long as an act in furtherance of the misappropriation took place in the United States.

  The court held that the DTSA was intended to have extraterritorial reach and to apply to trade secret theft that occurs outside of the United States, based on Congress's clear intent to curb "actions taking place outside of the United States in relation to the misappropriation of U.S. trade secrets . . ."

  In this case, the court determined that the marketing of DMR products constituted a "use" of a trade secret and thereby amounted to complete domestic act of "misappropriation." Moreover, the defendant's marketing in the United States was an act "in furtherance of" the misappropriation.

There was not sufficient evidence that the downloaded documents and files were taken from a server in the United States because the employee who stole the materials was located in Malaysia and the documents could have been downloaded from mirrored servers located in Asia. However, because the marketing of these products in the United States alone was an act "in furtherance of" the misappropriation, the global sales of the misappropriated product were an appropriate measure for damages.

***My Fav Electronic, Inc. v. Currie*, No. 24 C 1959, 2024 WL 4528330 (N.D. Ill. Oct. 18, 2024).**

Industry: Electronics Resale

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

Details:

- **Procedural Posture:** The plaintiff's motion for a preliminary injunction.
- **Factual Background:** The defendant was the vice president of Procurement for the plaintiff, a company that acquires used Apple devices from third parties and resells them through wholesale and retail channels. The defendant signed an NDA upon hire. In 2024, the defendant was hired as the senior vice president of Procurement and Education for one of the plaintiff's primary competitors. Four days later, she tendered her resignation to the plaintiff. In the interim, she downloaded a trove of documents, including databases containing every deal the company had closed in 2023, customer lists, "win/loss" records by territory, leads for prospective "high value" customers, and strategic forecasts for 2024. The defendant downloaded the information to an external hard drive.
- **Court's Decision:** The parties did not dispute that the defendant downloaded and took with her documents from the plaintiff's servers. Instead, the court's decision primarily concerned whether the documents-at-issue were properly considered as trade secrets or whether they were instead publicly available information. The court ruled that the documents were identifiable trade secrets.

  The defendant claimed that the information in the documents was readily ascertainable by the plaintiff's competitors through independent means, including through the plaintiff's sharing of pricing model information with potential customers. The court held that though certain individual pieces of client or pricing information may have been publicly available, their compilation and organization can constitute a trade secret where the "compiled form is not easily obtained or accessible to the public."

  Even if no individual piece of data would itself constitute a trade secret, the compilation of that material can be treated as a trade secret if the compilation was reasonably well-guarded.

  The plaintiff's use of NDAs and password protection of databases showed reasonable measures to protect the information. The fact that the plaintiff disclosed some of the information to school districts in its bids did not render the collection of information as a whole publicly available.

***Fiskars Finland Oy Ab v. Woodland Tools Inc.*, No. 22-cv-540-jdp, 2024 WL 3936444 (W.D. Wis. Aug. 26, 2024).**

Industry: Consumer Products

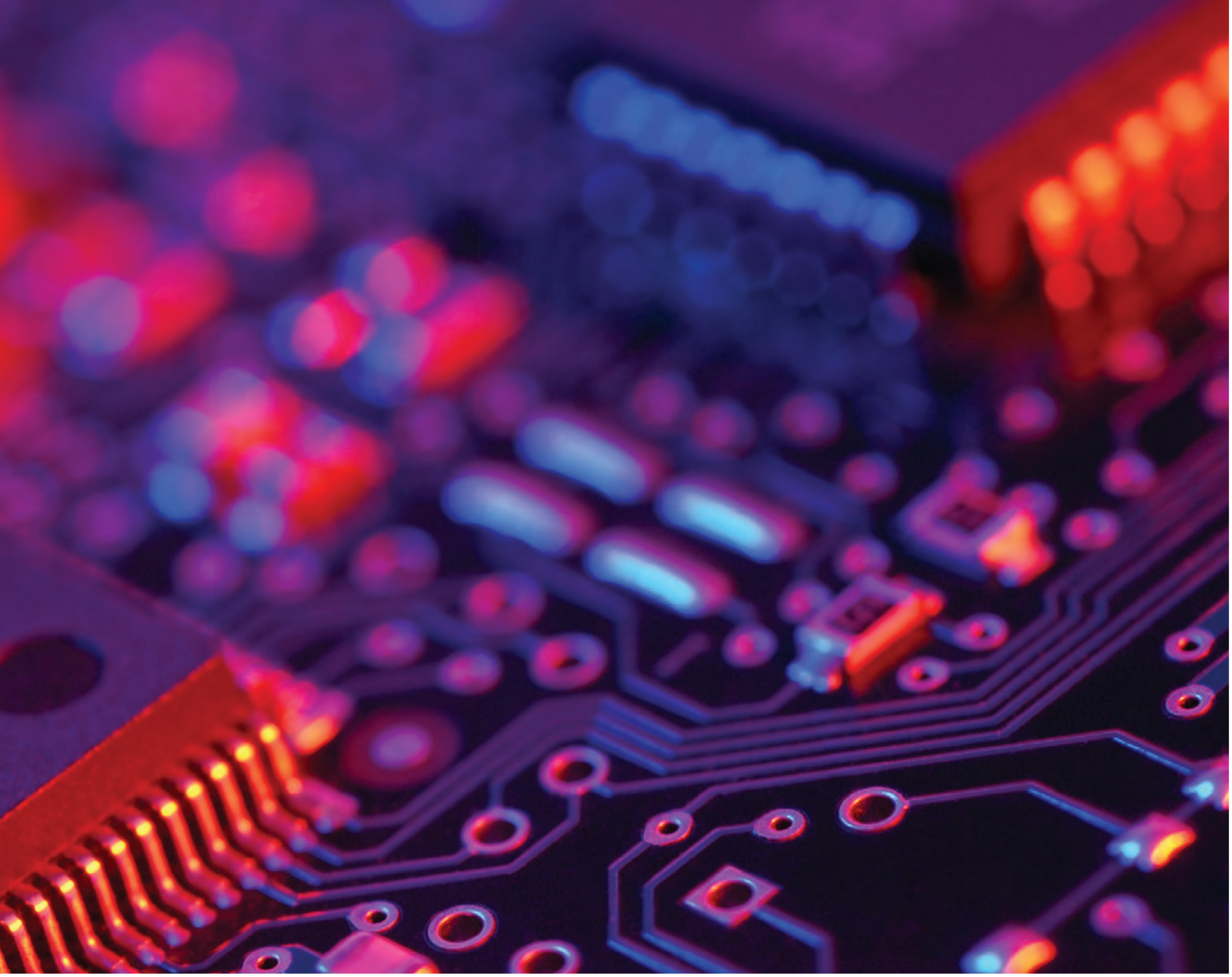
Takeaway: Readily ascertainable processes for collecting and organizing third-party information using publicly available tools, such as open-source computer programming language, do not qualify as trade secrets. As a result, trade secret misappropriation claims based on this activity will not survive summary judgment. Additionally, a confidentiality provision in an employment agreement containing an overly broad definition of confidential information can be found unenforceable pursuant to Wisconsin Statute section 103.465.

Details:

- **Procedural Posture:** Summary judgment.
- **Factual Background:** The plaintiff, Fiskars, and the defendant, Woodland Tools Inc., are competitors in the hand-held gardening tool market. Woodland was founded by two individuals that includes one of Fiskars' former employees. The other founder also owned another defendant, Lumino Inc., a company specializing in window treatments. According to Fiskars, Lumino was an alter ego of Woodland, which Woodland denied. Fiskars claimed that between 2021-2022 Lumino poached three of its employees (also defendants). These employees had signed an employment agreement containing a "Confidentiality" provision requiring that the employees not disclose any of Fiskars' non-public business information and included a final catchall category of "any other information pertinent to the products or operations of [the Fiskars] entities." Fiskars alleged that one of its former employees, Koch, had written computer code using open-source Python programming language that automated the download and formatting of point-of-sales data from Fiskars' retail distributors. Fiskars claimed that Koch emailed the code to himself prior to leaving his job with Fiskars and downloaded the code on a Lumino computer. In spring 2022, Fiskars discovered that Woodland was selling similar products at some of the same retailers as Fiskars. According to Fiskars, the former Fiskars employees used their knowledge gained from their time at Fiskars to create copycat products to compete with Fiskars. Both parties filed motions for summary judgment seeking dismissal of the other's claims.
- **Court's Decision:** The court granted summary judgment in favor of the defendants on Fiskars' misappropriation of trade secrets claims under the Wisconsin Uniform Trade Secrets Act (WUTSA) and the DTSA. The court also granted summary judgment in favor of the defendants on Fiskars' claims of breach of contract of the employment agreement.
- In analyzing these claims, the court focused on the below facts and issues:
    - **Python Code:** The court determined that the Python code that Koch developed to automate downloading and organizing Fiskars sales data from retailers is not a protectable trade secret. In particular, the court held that the Python code Koch developed was not a trade secret because it was readily ascertainable to anyone familiar

with Fiskars' business and capable of conducting basic programming. Fiskars also failed to rebut expert opinions that ChatGPT is now capable of replicating the same process Fiskars claims is a trade secret.

- **Employment Agreement:** Wisconsin Statute section 103.465 limits the use of restrictive covenants in employment agreements. The Wisconsin Supreme Court has held that the statute applies to confidentiality, or non-disclosure, provisions. Pursuant to Section 103.465, a non-disclosure provision in an employment agreement that is overbroad can result in the entire provision being unenforceable even if the provision includes some reasonable restrictions. The court found that the "Confidentiality" provision in the former employees' employment agreements, by including a catchall provision, was overbroad and unenforceable "Confidential Information." According to the court, that definition, which prohibits employees from disclosing any non-public information regarding Fiskars' operations was facially overbroad because it was so expansive that it swept in information that it had no reason to keep confidential. Because the employment agreement contained an unreasonable restriction, it was found to be unenforceable pursuant to Section 130.456.



Eighth Circuit

Eighth Circuit

***Jacam Chem. Co. 2013, LLC v. Shepard*, 101 F.4th 954 (8th Cir. 2024).**

Industry: Energy & Cleantech

Takeaway: The case highlights the importance of ensuring employment agreements are supported by valid and executed consideration to be enforceable.

Details:

- **Procedural Posture:** Appeal of district court's grant of summary judgment.
- **Factual Background:** Jacam Chemical Company brought suit against a former employee, Arthur H. Shepard Jr., and GeoChemicals, Shepard's new employer and Jacam's competitor. Shepard had initially signed an employment agreement with Jacam's predecessor, which included nonsolicitation and non-disclosure obligations, in exchange for the opportunity to participate in an equity plan (though he never participated). After Jacam's acquisition by CES Energy Solutions Corp., Shepard continued his employment under similar terms but was later terminated and subsequently joined GeoChemicals. While at GeoChemicals, Shepard allegedly used Jacam's customer proposals and pricing information (which he obtained from former Jacam employees that now worked at the customer) to underbid Jacam. Shepard also allegedly solicited three Jacam employees to come work at GeoChemicals. Jacam sued Shepard and GeoChemicals, alleging that Shepard violated restrictive covenants and misappropriated trade secrets and that GeoChemicals tortiously interfered. Shepard counterclaimed, seeking declaratory judgment that there was no enforceable agreement. GeoChemicals counterclaimed for tortious interference, alleging that Jacam told a GeoChemicals' customer that Shepard and GeoChemicals were violating a noncompete agreement that Jacam had with Shepard. The district court granted Shepard a declaratory judgment and then dismissed all of Jacam and GeoChemical's claims against one another. Jacam and Geochemical both appealed.
- **Court's Decision:** The Eighth Circuit affirmed the district court order in all respects. The Eighth Circuit held that Shepard's employment agreements were unenforceable due to a lack of valid consideration, as the promised equity plan was never offered and continued employment was insufficient due to the at-will nature of the employment. On the trade secret misappropriation claim, the court found that Jacam failed to take reasonable steps to protect its pricing information, which disqualified it from trade secret protection under the North Dakota UTSA. The court also upheld the grant of summary judgment on Jacam's and GeoChemicals' tortious interference claims. As to the former, the court said that Shepard and GeoChemicals' actions were justified as legitimate business competition. The court noted that the solicitation of at-will employees did not constitute tortious interference. As to GeoChemicals' tortious interference claim, the court found that GeoChemicals' had not presented any evidence that the Jacam employee who told a customer that Shepard and Geochemical were under restrictive covenant knew his statement to be false.

***Cigna Corp. v. Bricker*, 103 F.4th 1336 (8th Cir. 2024).**

Industry: Pharmaceutical, Health Care

Takeaway: At the preliminary injunction stage, it is critical to present evidence — rather than purely argument — to avoid enforcement of a noncompete on the grounds that the new employer does not "compete" directly with the old one. Physically different business models (online vs. brick-and-mortar) may still be found to compete directly for the same customers where the companies themselves are directly competitive.

Details:

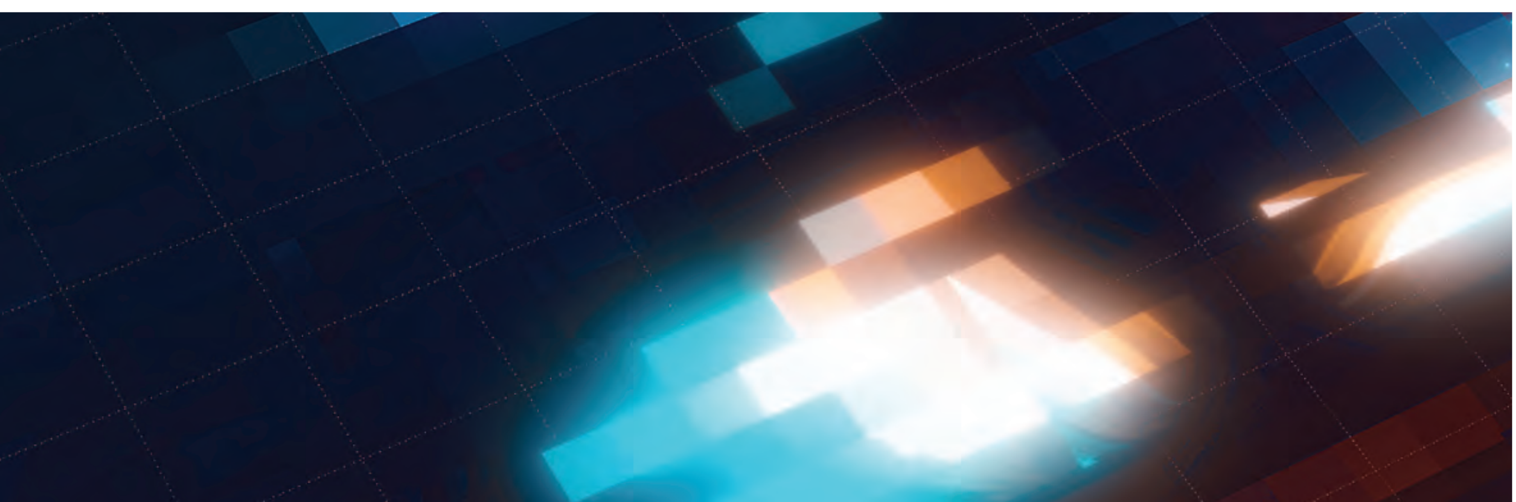
- **Procedural Posture:** On appeal from grant of the plaintiff's motion for preliminary injunction.
- **Factual Background:** The dispute arose between Cigna Corporation and Amy Bricker, a former senior executive. Bricker worked at Express Scripts, a pharmacy benefits manager acquired by Cigna, from 2010 to 2023. As a senior vice president, she had access to Cigna trade secrets and strategic information. In 2020, Bricker signed a new noncompete agreement with Cigna, extending the restricted period to two years and broadening the scope to cover the entire health care sector. In 2023, Bricker departed for CVS Pharmacy, a competitor of Cigna, after CVS offered Bricker a senior leadership position with better compensation and potential for career advancement, including a future CEO role. CVS guaranteed Bricker's compensation during the two-year restricted period of Cigna's noncompete, even if Bricker did no work for CVS. Cigna then filed suit to enforce Bricker's noncompete agreement, resulting in a TRO and preliminary injunction preventing Bricker from working at CVS. Bricker and CVS appealed, arguing the agreement was overbroad and unenforceable under Missouri law.
- **Court's Decision:** The primary issue on appeal was whether the noncompete agreement was overbroad, unreasonable, and unenforceable. The defendants primarily contended that the plaintiff's home-delivery pharmacy and the defendant's brick-and-mortar pharmacies, where CVS wanted to place Bricker, were not business competitors.

  The court affirmed the district court's entry of the preliminary injunction, finding Cigna and CVS were sufficiently competitive, notwithstanding CVS's plan to place Bricker over brick-and-mortar pharmacies. In reaching this decision, it considered the following:

  - Both CVS and Cigna have competing pharmacy benefits managers, pharmacies, specialty pharmacies, health insurance companies, and healthcare clinics.
  - Both CVS and Cigna compete for access to drugs, pharmaceutical discounts and rebates, retail advantages, better rates and terms with drug manufacturers, and clinical programs sold to clients.
- The court distinguished a case relied upon by the defendants where an executive left a department store business to become COO of another clothing retailer because there was only 3% overlap between the two companies' sales. Here, the court agreed that CVS and Cigna

competed in “virtually every aspect” such that CVS’s brick-and-mortar pharmacies also compete directly with Cigna’s home-delivery pharmacy for the same customers.

Ninth Circuit



Ninth Circuit

***H&H Pharms., LLC v. Chattem Chemicals, Inc.*, No. 23-15055, 2024 WL 1734134 (9th Cir. Apr. 23, 2024).**

Industry: Technology, Medicinal Compounds

Takeaway: While Nevada's UTSA displaces any conflicting tort, restitutionary, or other law (or common law) of Nevada that provides civil remedies for misappropriation of trade secrets, it does not displace contractual remedies. Whether a defendant breached a contractual promise to maintain the secrecy of a plaintiff's trade secrets is relevant to whether the defendant misappropriated them and is relevant to whether the plaintiff adequately pled a violation of a UTSA claim.

Details:

- **Procedural Posture:** Appeal from grant of summary judgment.
- **Factual Background:** The plaintiff alleged that the defendant had misappropriated the plaintiff's confidential information, which included the plaintiff's conversion methods for converting raw opium and concentrate of poppy straw into opiate-based raw materials. In its complaint, the plaintiff expressly defined these conversion methods as "trade secrets, as defined in the Nevada Uniform Trade Secrets Act."

  On appeal, the plaintiff asked the court to evaluate whether the district court had erred when it granted summary judgment to the defendant on the breach of contract and breach of the implied covenant of good faith and fair dealing claims on the basis that the plaintiff failed to present any probative evidence on the element of damage.
- **Court's Decision:** The Ninth Circuit affirmed in part and vacated in part. It held that while the UTSA expressly displaces conflicting tort, restitutionary, and other law of Nevada providing civil remedies for misappropriation of a trade secret, it does not displace contractual remedies even if they are based upon misappropriation of a trade secret. Such contractual remedies include those that may arise from contractual breaches of the implied covenant of good faith and fair dealing.

  Given that proof of damages caused by a contractual breach is an essential element of the plaintiff's contract causes of action under Nevada law, the Ninth Circuit agreed with the district court that the plaintiff had failed to present a triable issue of fact on the required element of damage to withstand summary judgment on its standalone contract claims against the defendant. However, whether the defendant had breached a contractual promise to maintain the secrecy of the plaintiff's trade secrets or to limit their use by a third party was relevant to whether the defendant had misappropriated them, so on remand, the district court was directed to consider such allegations of breach when determining whether the plaintiff adequately had pled a statutory UTSA claim, and if not, whether the plaintiff should be granted leave to replead such a claim.

***Perrin Bernard Supowitz, LLC v. Morales*, No. 23-55189, 2024 WL 411714 (9th Cir. Feb. 5, 2024).**

Industry: Consumer Products

Takeaway: A preliminary injunction against misappropriation of customer list trade secrets must protect live customer information to preserve the movant's rights in view of the competing policies favoring competition.

Details:

- **Procedural Posture:** The plaintiff, a food service company, appealed the district court's ruling denying a preliminary injunction sought against two former employees under the DTSA and the California Uniform Trade Secrets Act (CUTSA).
- **Factual Background:** The former employees retained the plaintiff's customer list, contact information, and customer order history after departing the plaintiff's employ and starting their own competing food service company.
- **Court's Decision:** The Ninth Circuit acknowledged that customer lists can qualify as trade secrets if they contain customer facts previously unknown to the competitor, which consist of sophisticated information beyond mere customer identity. The defendant did not dispute that the plaintiff's customer order history was a trade secret. The Ninth Circuit held that the district court did not abuse its discretion in denying the preliminary injunction to prevent ongoing use of the trade secrets, however, due to the absence of any risk of irreparable harm, citing evidence showing that the trade secrets were old and stale at that point. The court further held that the district court did not abuse its discretion in denying an injunction to prevent the former employees from doing business with the customers they serviced while employed by the plaintiff, citing the same conclusion about staleness, recognizing such an injunction would conflict with California's public policy interest in promoting competition, and would be punitive. Finally, the Ninth Circuit affirmed denial of an injunction to prevent poaching the plaintiff's employees under the CUTSA because there was no evidence the former employees ever had or would use the trade secrets to do so.

***Proofpoint, Inc. v. Vade USA, Inc.*, No. 23-16085, 2024 WL 4003096 (9th Cir. Aug. 30, 2024).**

Industry: Cybersecurity

Takeaway: The Ninth Circuit left untouched the N.D. Cal.'s holding that an award of exemplary damages under the DTSA is for a judge, not jury to decide, but affirmed the trial court's denial of exemplary damages because the underlying damage ruling in the case was equitable (disgorgement), not legal, and as such, the Seventh Amendment did not extend to guarantee a jury for the exemplary damages in that case.

Details:

- **Procedural Posture**: The plaintiffs, affiliated cybersecurity companies, appeal the district court's denial of their request for a jury trial on exemplary damages, related to a misappropriation claim against the defendant, a rival cybersecurity company, and its former chief technology officer.

- **Factual Background:** The jury found evidence of willful and malicious misappropriation and awarded $13.5 million in disgorgement for unjust enrichment, but zero dollars for actual damages. The plaintiff's request for a jury trial on exemplary damages under the DTSA was denied by the judge.
- **Court's Decision:** The trial court interpreted the DTSA to not require a jury trial on exemplary damages despite some ambiguity of the statute. The appellant argued that if the trial court was correct, such an interpretation would violate the Seventh Amendment right to a jury. The Ninth Circuit bypassed these issues, by holding that even if the Seventh Amendment required a jury trial for exemplary damages for actual loss, the jury awarded no legal damages (only disgorgement, an equitable remedy), so there was no Seventh Amendment issue in that case.

Group14 Techs., Inc. v. Nexeon Ltd., **No. C22-1354 TSZ, 2024 WL 1283530 (W.D. Wash. Mar. 26, 2024).**

Industry: Technology, Renewable Energy

Takeaway: Unless a trade secret plaintiff can first identify the allegedly misappropriated trade secrets with reasonable particularity, the court will not compel discovery into the defendant's sensitive business information.

Details:

- **Procedural Posture:** The plaintiff's renewed motion to compel discovery.
- **Factual Background:** The plaintiff was the assignee and/or applicant on numerous US patents for rechargeable batteries and energy storage systems and applications. The plaintiff alleged that the defendant had misappropriated the plaintiff's trade secrets in applying for its own patents.

  The plaintiff alleged that the defendant acquired information from the plaintiff under the terms of an (NDA) and then breached the NDA by using the acquired information to apply for patents, promote the plaintiff's products as being the defendant's own products, and induce a third party to invest in the defendant's production capability of the plaintiff's patented products.

  The plaintiff brought the instant motion to compel the defendant to respond to interrogatories describing its products that violate the plaintiff's trade secret rights. The defendant opposed, arguing that the plaintiff never sufficiently defined what it contends its trade secrets are.
- **Court's Decision:** The court agreed with the defendant, applying principles and guidelines from the Sedona Conference, and denied the plaintiff's motion to compel. The court examined 36 pages of images, diagrams, charts, graphs, tables, bulleted presentation slides, and verbiage supplied by the plaintiffs but determined that they did not identify any trade secrets with the requisite level of particularity to provide the defendant with the information necessary to mount

a defense. The court declined to allow the plaintiff to go on a "fishing expedition" to look for evidence of wrongdoing.

***Fujikura Composite Am., Inc. v. Dee*, No. 24-CV-782 JLS (MSB), 2024 WL 3261214 (S.D. Cal. June 28, 2024).**

Industry: Consumer Products

Takeaway: Design concepts, such as ideas for new products or technologies, are protectable as trade secrets.

Details:

- **Procedural Posture:** Motion for preliminary injunction.
- **Factual Background:** The plaintiff, Fujikura Composite America, Inc., is a well-known golf club shaft designer and manufacturer. From 1998-2023, the defendant, Alexander Dee, worked for Fujikura as a design engineer and vice president of engineering. Dee signed an agreement prior to starting work for Fujikura where he agreed to assign all of his rights in employment-related intellectual property to Fujikura, prohibiting him from disclosing Fujikura's confidential information outside the scope his employment. During his time at Fujikura, Dee led successful development and launches of golf shafts that generated significant popularity and market share for Fujikura in the golf space. Between 2018-2020, Dee led the development of a particular high-end line of golf shaft called the "Axiom." The Axiom line of golf shafts used spread tow carbon material to a greater extent than any other golf shaft on the market, which made up between 45% and 60% of the weight of the shaft. However, Fujikura decided to shelf the Axiom line after nearly completing development to avoid impacting the sales of its Ventus line of golf shafts that Fujikura already had on the market. Despite shelving the Axiom line, Fujikura maintained the secrecy of the Axiom line by locking its building with an alarm, requiring visitor sign-in and employee supervision, limiting access to its research and development (R&D) area, and limiting access to R&D secure file servers.

  After resigning from Fujikura, Dee created a competing golf shaft company called Aretera. Dee revealed Aretera's initial product launch of golf shafts called the "A1" and "Alpha," comprising spread tow material that would make up more than half the weight of the shafts and that it would be present entirely in the core of the shaft. Upon learning of the Aretera golf shafts, Fujikura acquired an Aretera shaft to reverse engineer it and determined that Aretera was using similar technology as the Axiom in its golf shafts. As a result, Fujikura sued Dee and Aretera. It sought a preliminary injunction enjoining the defendants from further disclosure of Fujikura's confidential golf shaft technology and further use of Fujikura's branding concepts.
- **Court's Decision:** The court granted in part and denied in part Fujikura's motion for preliminary injunction. In analyzing the merits of Fujikura's motion for preliminary injunction, the court considered the following:
  - **Protectable Trade Secret:** The court found that Fujikura adequately described its trade

secret. The defendants disputed that Fujikura met this element in part because the description of the trade secret was narrower in Fujikura's complaint than it was in its motion for preliminary injunction. The court rejected the defendants' argument and noted that plaintiffs in trade secret misappropriation cases can proceed under a theory that the defendant misappropriated multiple concepts. The court also explained that Fujikura's "idea" of placing specific material in the core of a golf shaft was a protectable trade secret. Therefore, it was of no moment that the Axiom line of golf shafts was not yet fully developed or currently on the market. The court emphasized that, in California, ideas are protectable as trade secrets.

- **Secrecy:** The court also found that Fujikura adequately kept the secrecy of the Axiom technology. The court rejected the defendants' arguments that the trade secret was generally known in the golf shaft industry based on Dee's prior comments that the Axiom technology had never been used before. The court also rejected the defendants' arguments that the Axiom technology was readily ascertainable because in California, information can still be considered a trade secret regardless of whether it is readily ascertainable as long as it has not yet been ascertained by others in the industry. The evidence considered by the court confirmed that the Axiom technology was still unknown in the industry, so the requisite secrecy was still intact.

***EchoSpan, Inc. v. Medallia, Inc.*, No. 22-CV-01732-NC, 2024 WL 3431337 (N.D. Cal. July 2, 2024).**

Industry: Technology

Takeaway: Whether a party must individually apportion trade secrets damages is an open question that has not been considered by the Ninth Circuit. In a decision relying on persuasive authority and "basic logic," a Northern District of California court reasoned that if a party alleges the misappropriation of multiple trade secrets, does not prove them all, and does not apportion damages among each trade secret, then the party must have presented sufficient evidence of the assignment of value across multiple trade secrets for a jury to have a reasonable basis to award damages. Otherwise, an "all-or-none" damages approach does not provide a jury a reasonable basis to award damages if all trade secrets claims are not proven.

Details:

- **Procedural Posture:** The defendant's motion for judgment as a matter of law on liability and damages; the defendant's motion for a new trial.
- **Factual Background:** The plaintiff, EchoSpan, makes employee feedback software. The defendant, Medallia, provides customer and employee survey software and analytics. EchoSpan alleged that the defendant accessed a free trial of the plaintiff's software to misappropriate the plaintiff's trade secrets and accelerate the defendant's progress in providing 360-degree software itself. In particular, the plaintiff alleged that that the defendant misappropriated nine trade secrets. One trade secret, "Trade Secret 6," was considered the core of the plaintiff's products that enabled all other features of the plaintiff's systems to operate. Additionally, the plaintiff's expert did not apportion its damages separately among each of the trade secrets and

acknowledged that if the jury were to find only a portion of the trade secrets were misappropriated, then they would have no way of determining damages for trade secret misappropriation of that one trade secret.

After an eight-day trial, the court granted the defendant's motion for judgment as a matter of law for two of the trade secret claims, and the remaining seven claims went to the jury. Of those seven, the jury found that the defendant misappropriated one trade secret: Trade Secret 6. The jury awarded EchoSpan $11.7 million for Medallia's unjust enrichment and $14 million in exemplary damages.

- **Court's Decision:** Following the trial, the defendant challenged the jury's findings on liability, the basis for the jury's damages award, and the amount awarded. The court denied the defendant's judgment as a matter of law on liability, granted the defendant's judgment as a matter of law on damages, and conditionally denied the defendant's motion for a new trial.

  As to the motion for judgment as a matter of law on liability, the defendant argued that the plaintiff did not prove that Trade Secret 6 was a trade secret. The court rejected the defendant's arguments, concluding that there was sufficient evidence that supported the jury's liability findings.

  As to the motion for judgment as a matter of law on damages, the defendant argued that the plaintiff's damages model failed because the plaintiff failed to prove all the alleged trade secrets and did not apportion damages between each trade secret. The court agreed with the defendant, concluding that the plaintiff did not give the jury a reasonable basis for its award.

  The court rejected the plaintiff's reliance on a Sixth Circuit case that affirmed a jury's calculation of trade secrets damages that were not separately appropriated by the plaintiff's expert's modeling. There, the Sixth Circuit determined that the expert-provided testimony gave the jury enough information to reasonably determine damages attributable to one trade secret (*i.e.*, the plaintiff's expert testified that all the plaintiff's research and development expenses went toward one trade secret, and the jury awarded far less than the total amount requested). The *EchoSpan* court distinguished the Sixth Circuit decision from the one at hand, noting that the plaintiff here did not supply the jury with enough necessary information to determine the damages for an individual trade secret. The court highlighted that the plaintiff's expert did not caution the jury that findings against the plaintiff might reduce damages, did not testify that all of one expense category went toward one trade secret, and did not testify to the financial importance of Trade Secret 6 to the plaintiff. Thus, the plaintiff did not give the jury enough information or "options" because the plaintiff's case relied on proving all nine trade secret claims.

  The court also recounted that the jury's award did not logically follow from the evidence, as the jury awarded the plaintiff its entire requested damages even when the plaintiff did not prove eight out of the nine trade secrets alleged. As such, even weighing the evidence in the light most favorable to the plaintiff, the court determined that the jury did not have a reasonable basis for its damages award.

***Beijing Meishe Network Tech. Co. v. TikTok Inc.*, No. 23-CV-06012-SI, 2024 WL 3522196 (N.D. Cal. July 23, 2024).**

Industry: Technology, Social Media

Takeaway: The DTSA may cover foreign acts of misappropriation.

Details:

- **Procedural Posture:** The defendant's, TikTok, motion to dismiss.
- **Factual Background:** The plaintiff, Chinese company Beijing Meishe Network Technology Co., Ltd., sued TikTok for copyright infringement, violation of the Digital Millenium Copyright Act, misappropriation of trade secrets, and Lanham Act false advertising. Meishe alleged that TikTok, through a former Meishe employee, misappropriated its source code and then used that code in several competing apps, which copied several functions of Meishe apps.
- **Court's Decision:** The court dismissed the Lanham Act claim but denied the rest of the motion, including dismissal of the trade secrets claim under DTSA.

  Regarding the trade secrets claim, TikTok argued that the alleged actions took place entirely in China, and the DTSA required "acts in furtherance of the offense" be committed in the United States. Meishe argued that acquisition, disclosure, or use of a trade secret constituted misappropriation — not just the original taking — and that these acts occurred in the United States. The court agreed with Meishe, finding that it had sufficiently pleaded that TikTok used Mieshe's trade secrets in the United States.

***Zunum Aero, Inc. v. The Boeing Co.*, No. C21-0896JLR, 2024 WL 3822780 (W.D. Wash. Aug. 14, 2024).**

Industry: Commercial Aviation

Takeaway: The Washington Uniform Trade Secret Act (WUTSA) requires that plaintiffs at trial adduce specific, concrete trade secret information, beyond mere conclusory testimony, with required precision that separates the alleged trade secrets from other information known or ascertainable by the industry.

Details:

- **Procedural Posture:** Following an eight-day jury trial, to which the jury returned a finding for the plaintiff in the amount of $72 million on numerous trade secret claims, the District Court granted the defendants' Rule 50(a) motion for judgment as a matter of law and dismissed the trade secret claims.
- **Factual Background:** The plaintiff, a commercial aviation start-up, entered into a proprietary information agreement with the defendants, under which the defendants agreed to keep the plaintiff's information confidential, and the plaintiff agreed to share some of its proprietary documents with the defendants. The defendants loaned the plaintiff money through note

purchase agreements, and the parties executed an investment rights letter, under which the plaintiff shared more propriety information with the defendants for limited purposes. The plaintiff sued the defendants for violation of the WUTSA, among other claims. The defendants countersued for breach of contract and declaratory judgment claims and prevailed on a number of its claims pre-trial. The case progressed to a jury trial where a jury heard the plaintiff's claims for trade secret misappropriation, breach of two agreements, and tortious interference. The jury returned a mixed verdict and found that the defendants had willfully misappropriated 11 of the 19 alleged trade secrets. The defendants filed a motion for judgment as a matter of law, or in the alternative, for a new trial.

- **Court's Decision:** The District Court painstakingly examined the record evidence and testimony as to each of the asserted technical aircraft trade secrets and granted the defendants' motion for judgment as a matter of law, dismissing the entire trade secret misappropriation claim with prejudice. The court held that the plaintiff failed at trial to identify its alleged trade secrets with required precision to demonstrate by substantial evidence that its alleged trade secrets derived value from not being generally known to or readily ascertainable by others. The WUTSA requires trade secret plaintiffs to provide specific, concrete examples illustrating that the trade secret information meets the requirement of a trade secret as separate from other information known or readily ascertainable by the industry. Here, the court held, the plaintiff's witnesses offered only "vague and amorphous descriptions" of its alleged trade secrets, comprising "bare, conclusory assertions," and as a result, the plaintiff fell short of providing the required precision under the WUTSA ("conclusory expert testimony does not qualify as substantial evidence" – citations omitted). The plaintiff's appeal of the court's trade secret decision is pending before the Ninth Circuit at the time of this writing.

***Applied Med. Distribution Corp. v. Jarrells*, 100 Cal. App. 5th 556 (2024).**

Industry: Medical Devices

Takeaway: Under California law, damages are not an affirmative element of a claim for misappropriation of trade secrets; attorneys' fees may be awarded even when a plaintiff has not proven it was damaged by the misappropriation.

Details:

- **Procedural Posture:** On appeal from trial court's grant of permanent injunction and award of attorneys' fees following jury trial finding that misappropriation had caused no damages.
- **Factual Background:** In January 2011, the defendant, Jarrells, was hired by the plaintiff, Applied Medical, a medical device manufacturer, and signed an agreement to keep Applied's proprietary and trade secret information confidential. He also agreed that if any breach of the agreement resulted in the grant of equitable relief, he would reimburse Applied for the reasonable attorney's fees, costs, and expenses incurred to secure the relief.

  In December 2018, Jarrells accepted a new position at a competing medical device company. Before leaving Applied in January 2019, Jarrells transferred confidential information from

Applied to a computer issued by his new employer and deleted the data from Applied's systems. Applied discovered this unauthorized data transfer and filed a lawsuit against Jarrells for misappropriation of trade secrets, breach of contract, and breach of fiduciary duty, as well as against Jarrells' new employer for misappropriation and interference with the contract. The jury found that both Jarrells and his new employer misappropriated Applied's trade secrets but determined that this caused neither financial harm to Applied nor unjust enrichment to the defendants. Despite the jury's finding, the trial court granted a permanent injunction to prevent further misappropriation and awarded a portion of the attorneys' fees, costs, and expenses.

- **Court's Decision:** On appeal, Jarrells claimed that because the jury had found the misappropriation caused Applied no damages, Applied had failed to prove a necessary element of its trade secret misappropriation claim. Jarrells argued that Applied should not have won its claim without proving damages and that, as a result, the injunctive relief and related attorney's fees were improper.

  The Court of Appeal rejected Jarrells' argument, holding that the CUTSA does not require proof of damages for a misappropriation claim. The essential elements are simply (1) the existence of a trade secret and (2) its improper acquisition, use, or disclosure. The court explained that damages are a remedy, not a requirement, under CUTSA, and that if damages are unproven, the court can award reasonable royalties and injunctive relief. The court further rejected Jarrells' reliance on *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658 (2003) which suggested that damages were necessary under CUTSA. The court clarified that this was merely *dicta* and unsupported by law.

  Because the jury found that Jarrells had misappropriated Applied's trade secrets, the court affirmed the issuance of the injunction. On attorney's fees, the court held that Applied was entitled to costs and fees based on its agreement with Jarrells, which allowed for such awards in injunction-related cases. And since Applied had prevailed on its misappropriation claim and the trial court had correctly granted a permanent injunction, the court affirmed the granting of Applied's reasonable costs and fees.

***Samuelian v. Life Generations Healthcare, LLC*, 104 Cal. App. 5th 331 (2024).**

Industry: Health Care

Takeaway: Under California law, when a business owner sells a portion of its interest in a business and retains some ownership interest, a noncompetition covenant is evaluated under the reasonableness standard and may be enforceable.

Details:

- **Procedural Posture:** Appeal of confirmation of arbitrator award.
- **Factual Background:** Robert and Stephen Samuelian co-founded Life Generations Healthcare, LLC, owning nearly half of the company together. The two later sold a portion of their interest,

and in connection with this transaction, the company adopted a new operating agreement that included certain noncompetition obligations for the Samuelians.

The Samuelians initiated arbitration and, among other claims, challenged the enforceability of the noncompete. The arbitrator held that the *per se* standard applied because (1) the noncompetition provision was the product of a sale of the Samuelian's interest in the company and (2) the *Ixhel* exception to the general rule of *per se* invalidity applied only to business-to-business contracts that actually promote competition. As such, the arbitrator found the noncompete *per se* invalid and unenforceable. Upon petition for confirmation of the arbitration award, the trial court confirmed the arbitrator's award. The company appealed.

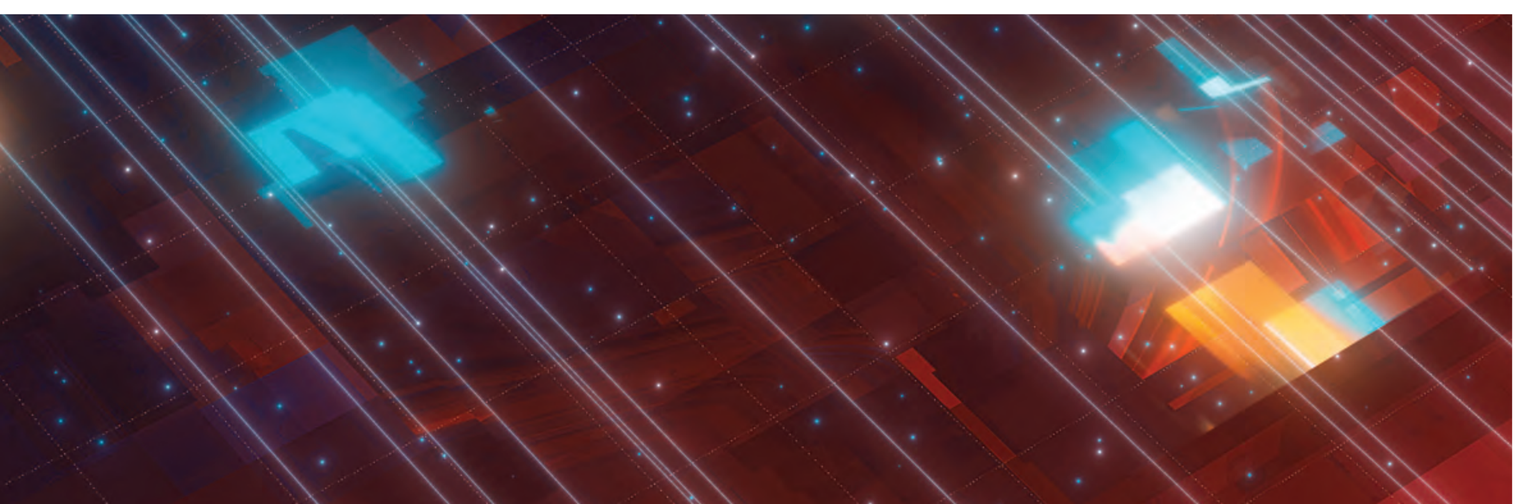
- **Court's Decision:** In its 2020 opinion, *Ixchel Pharma, LLC v. Biogen, Inc*., 9 Cal.5th 1130, the California Supreme Court clarified that one of two standards applies to determine whether noncompetition agreements are void under section 16600. Restraints are either void *per se* or evaluated under a reasonableness test. The former standard applies to restraints arising from "termination of employment or the sale of interest in a business," while the latter applies to "agreements limiting commercial dealings and business operations."

  Here, the court noted that a sale of a partial business interest differs drastically from the sale of an entire business interest (which would fall under the *per se* standard) because following a partial sale, the seller remains an owner of the company and may still exercise some degree of control over its operations. As such, a noncompetition provision arising from a partial sale cannot be deemed inherently anticompetitive and invalidated *per se*, but instead should be scrutinized under the reasonableness standard to determine whether it has procompetitive benefits given the nature of the selling owner's continuing connection to the business. In support of this finding, the court noted "[t]he public policy behind Section 16600 is to ensure 'that every citizen shall retain the right to pursue any lawful employment and enterprise of their choice' and to encourage 'open competition and employee mobility'; it is not to immunize employees who undermine their employer by competing with it while still employed."

  The court also emphasized that, following a partial sale, selling owners may owe their company a duty of loyalty that prohibits them from competing with it. Adopting a *per se* standard to noncompetition restraints following partial sales would therefore unnecessarily interfere with those fiduciary duties, just as it would the duties owed by a member in a member manager company.

  Note that the court's holding does not disturb the statutory sale of a business exception under Section 16601. Cal. Bus. & Prof. Code § 16601.

Eleventh Circuit



Eleventh Circuit

***Compulife Software, Inc. v. Newman*, 111 F.4th 1147 (11th Cir. 2024).**

Industry: Technology, Insurance

Takeaway: While some uses of data "scraping" may be perfectly legitimate, the use of a company's copyrighted code to run a scraping attack can constitute the "improper means" of trade secret acquisition necessary for a claim of misappropriation.

Details:

- **Procedural Posture:** On appeal from both parties following second bench trial.
- **Factual Background:** The dispute arose among Compulife Software, which develops software for generating life insurance quotes, and several competitors, including David and Binyomin Rutstein, Aaron Levy, and Moses Newman. Compulife's software uses a proprietary database of insurance rates. This database is encrypted and used to generate quotes. David Rutstein, previously barred from being an insurance agent, created websites using Compulife's software (without a license), registering them under his son Binyomin's name. Aaron Levy later owned one of these sites. Rutstein had deceived Compulife to access the software, using Binyomin's agent license number. Under Levy and Rutstein's direction, Moses Newman supervised a "scraping" attack on Compulife's website, extracting millions of quotes for their own use and impacting Compulife's sales.
- Compulife sued for copyright infringement and trade secret misappropriation. The district court ruled against Compulife on copyright but in favor on trade secret misappropriation, leading to appeals from both sides.
- **Court's Decision:** The court affirmed the district court's finding that the defendants misappropriated Compulife's trade secrets. In so holding, the court determined that the defendants misappropriated Compulife's trade secrets by acquiring its database through "improper means." The court reasoned that the defendants' use of scraping here was improper, but it also explained that in some circumstances scraping could be "*perfectly legitimate*," such as when used for targeted advertising, price aggregation, budgeting apps, website preservation, academic research, and journalism.

  Here, however, the scraping was improper because the defendants did not take innocent screenshots of a publicly available site but instead copied the order of Compulife's copyrighted code and used that code to commit a scraping attack that acquired millions of variable-dependent insurance quotes. The court explained that such deceptive behavior was akin to the acquisition of a trade secret through surreptitious aerial photography, which has previously been held to be misappropriation.

***Cap. City Home Loans LLC v. Darnell*, No. 23-12066, 2024 WL 4534567 (11th Cir. Oct. 21, 2024).**

Industry: Residential Mortgages

Takeaway: The DTSA and the Florida Uniform Trade Secrets Act (FUTSA) permit damages recovery of pre-litigation attorney fees incurred investigating the scope of trade secret misappropriation as proximately caused "actual loss."

Details:

- **Procedural Posture:** Eleventh Circuit appeal from entry of default judgment and ruling on trade secret damages that included pre-litigation attorney fees.
- **Factual Background:** The defendant worked as a mortgage consultant assistant with access to confidential customer data. Before her abrupt resignation, she sent hundreds of pages of documents to her personal email addresses. The plaintiff sued and served the defendant's son at their home. The defendant failed to appear, leading to a default judgment confirming theft of trade secrets and ordering a hearing to address damages.

  The plaintiff initially contended actual loss damages based on 120 hours of personal time spent addressing the breach and customer concerns, which the trial court rejected because the plaintiff was compensated based on sales commissions, not time-based wages or salary. But the plaintiff later successfully advanced a new theory of actual loss; the amount it paid attorneys in pre-litigation investigation to determine the scope of the trade secret misappropriation. The trial court held that because the misappropriation was malicious, an award of attorney fees was appropriate.
- **Court's Decision:** The Eleventh Circuit affirmed the default judgment over challenges to service of process, as well as the damages holding, in a case of first impression in the Circuit under the DTSA and FUTSA.

  The defendant argued that the pre-litigation attorney fees could not be "actual loss" damages and equated to an award of attorney fees after judgment, which would be a double recovery. Rejecting this, the court held that the plaintiff's legal expenses were proximate enough to the defendant's misappropriation to count as actual losses as they were incurred as part of the natural and immediate response to the data breach with potential legal ramifications under various privacy and financial regulations. Keeping these pre-litigation "actual damages" separate from an award of litigation attorney fees prevented any double recovery.

***Props. of the Villages, Inc. v. FTC*, No. 5:24-CV-316-TJC-PRL, 2024 WL 3870380 (M.D. Fla. Aug. 15, 2024).**

Industry: Real Estate

Takeaway: The FTC is enjoined from enforcing the rule banning noncompetes *against the plaintiff* as without clear congressional authorization for rule; however, the district court's decision is pending appeal before the Eleventh Circuit.

Details:

- **Procedural Posture:** The plaintiff, a retirement community in Florida, sought to enjoin the FTC's rule banning noncompetes.
- **Factual Background:** A group of realtors who formerly worked for the plaintiff challenged the enforceability of a two-year noncompete agreement, at which point the plaintiff sued the FTC to block enforcement of the rule.
- **Court's Decision:** The FTC is enjoined from enforcing the rule against noncompetes. The plaintiff is likely to succeed on the merits because, under the major questions doctrine, the FTC's rule is without clear congressional authorization and would affect a significant portion of the American economy, concerns an area of substantial policy debate previously limited to state governments, and represents a consequential expansion of regulatory authority. The plaintiff also is likely to suffer irreparable harm given the substantial compliance costs that would be incurred and then rendered unrecoverable absent injunctive relief. Finally, since the FTC likely is acting outside the bounds of its authority and would not be harmed by the issuance of an injunction, injunctive relief is appropriate.

***N. Am. Senior Benefits, LLC v. Wimmer*, 906 S.E.2d 373 (Ga. 2024).**

Industry: Insurance

Takeaway: Under Georgia law, a restrictive covenant that lacks a defined geographic scope is not necessarily unenforceable if all other terms are reasonable. Requiring an express geographic scope does not align with the "reality of the modern business world in which an employee's 'territory' knows no geographic bounds."

Details:

- **Procedural Posture:** The Supreme Court of Georgia granted the plaintiff's petition for writ of *certiorari* for review of trial and appellate decisions favoring defendant.
- **Factual Background:** North American Senior Benefits, LLC (NASB) filed a lawsuit against former employees, Ryan and Alisha Wimmer, to enforce a restrictive covenant that prohibited them from recruiting NASB employees for two years post-employment. The restrictive covenant did not specify a geographic area, rather, it prohibited solicitation of any NASB employee, agent, or independent contractor. The Wimmers argued that the lack of an express description of a geographic area makes the restrictive covenant unenforceable under the Georgia Restrictive Covenants Act (GRCA), OCGA § 13-8-50 *et seq*. The Georgia Statewide Business Court agreed and granted the defendants' motion for judgment on the pleadings.
- **Court's Decision:** The Supreme Court of Georgia held that the restrictive covenant did not violate the GRCA despite lacking an express geographic limitation. The decision emphasized that the reasonableness of a restrictive covenant's geographic scope should be assessed based on

the facts and circumstances of each case, rather than requiring an explicit geographic term in an agreement.

Based on statutory interpretation of OCGA § 13-8-53 (a), the subsection describing the enforcement of contracts restricting competition, the Supreme Court of Georgia held that GRCA did not require restrictive covenants to expressly state a geographic area.

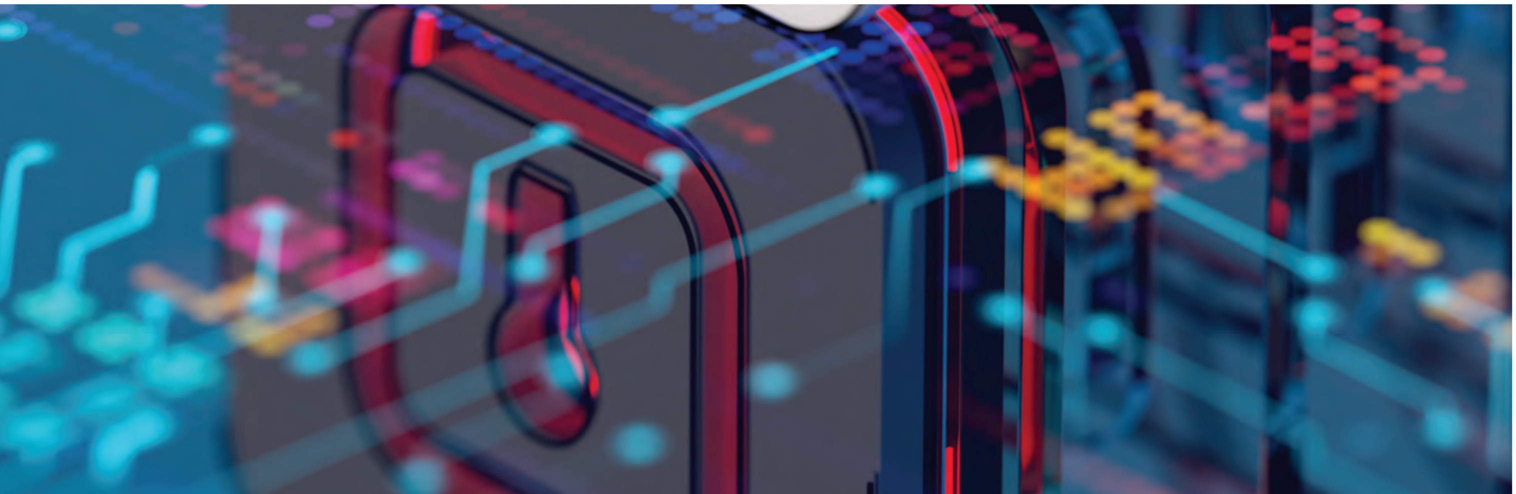
The plain text of subsection (a) only requires that the geographic restrictions on competition be reasonable, regardless of whether the restriction is expressly stated or implied.

Other sections of the GRCA, such as OCGA § 13-8-53 (c) only require that the terms of the restrictive covenant provide "fair notice of the maximum reasonable scope of the restraint." Here, the employment contract framed the post-employment restrictions by specifying the employees the Wimmers may not recruit, specifically, NASB's employees. That provision sufficiently describes the scope of the restriction.

The court's interpretation comports with the GRCA's "permissive and flexible approach" to restrictive covenants.

The Georgia Supreme Court's decision overruled the Georgia Court of Appeal's prior decision in *CarpetCare Multiservices v. Carle*, 347 Ga. App. 497, 819 S.E.2d 894 (2018), which interpreted GRCA's provision on competition restrictions, OCGA § 13-8-53 (a), as requiring an express geographic term based on a reading of another GRCA section regarding customer non-solicitation provisions, OCGA § 13-8-53 (c)(1).

Federal Circuit



Federal Circuit

***Insulet v. EOFlow, Co. Ltd.*, 104 F. 4th 873 (Fed. Cir. 2024).**

Industry: Health Care, Life Sciences

Takeaway: Neither a generalized fear of a larger competitor nor any theoretical sale that can be remedied with damages constitutes a cognizable irreparable harm.

Details:

- **Procedural Posture:** Appeal from grant of preliminary injunction in favor of Insulet Corp.
- **Factual Background:** The case involves two medical device manufacturers, Insulet Corp. and EOFlow, Co. Ltd., both of which produce insulin pump patches. Insulit's flagship product received FDA approval in 2005. EOFlow was founded in 2011 and received regulatory approval in South Korea in 2017. Around the time EOFlow's product received approval, four former Insulet employees joined EOFlow. In early 2023, Insulet learned that Medtronic might acquire EOFlow. Insulet filed suit against EOFlow alleging violations of the DTSA and seeking a preliminary injunction to prevent EOFlow from using Insulet's trade secrets and communicating them to Medtronic as part of the acquisition. Insulet argued that the injunction was necessary because a potential acquisition would exacerbate competitive harm caused by the alleged misappropriation. The district court agreed and granted Insulet a preliminary injunction that enjoined EOFlow "from manufacturing, marketing, or selling any product that was designed, developed, or manufactured, in whole or in part, using or relying on the Trade Secrets of Insulet." EOFlow appealed the decision, arguing that the district court erred by "failing to consider factors relevant to Insulet's likelihood of success on the merits and failing to meaningfully evaluate the balance of harms and the public interest."
- **Court's Decision:** On appeal, the Federal Circuit agreed with EOFlow and reversed the district court's injunction. The appellate court found that the district court abused its discretion in several ways. First, the district court failed to consider the statute of limitations in the context of evaluating Insulet's likelihood of success on the merits. This was a "material factor deserving significant weight." Second, the district court also abused its discretion by defining "trade secret" in the order granting the preliminary injunction more broadly than the DTSA's definition of "trade secret." Additionally, the district court did not assess whether the alleged trade secrets were in fact deserving of trade secret protection, including whether Insulet had taken reasonable measures to protect the alleged trade secrets, whether the alleged trade secrets were generally known or reasonably ascertainable through proper means, and whether the alleged trade secrets had independent economic value. Third, the court found the district court abused its discretion in finding that the potential commercial transaction would cause irreparable harm.

  The appellate court found the district's court's conclusion was grounded in "conjecture" and "surmise" because there was no record evidence to support the conclusions. The court explained, "neither a generalized fear of a larger competitor nor any theoretical sale that can be remedied with damages constitutes a cognizable irreparable harm." Fourth, the court took issue with the lower court's "cursory" analysis of public interest. In sum, the appellate court took issue with nearly every step of the district court's analysis and reversed the grant of the preliminary injunction and remanded for further proceedings.

***Celanese Int'l Corp. v. Int'l Trade Comm'n*, 111 F.4th 1338 (Fed. Cir. 2024).**

Industry: Food Production

Takeaway: The Leahy-Smith America Invents Act (AIA) did not fundamentally change the statutory on-sale bar provision found in 35 U.S.C. § 102(a)(1) that would permit patenting a process used to make products more than one year before a patent's critical date. Precedent under the pre-AIA on-sale bar provision established that the sale of products made using a secret process before the critical date bars the patentability of that process.

Details:

- **Procedural Posture:** Appeal.
- **Factual Background:** The plaintiff filed a petition with the US International Trade Commission (USITC) alleging that several foreign entities violated Section 337 of the Tariff Act of 1930 by importing an artificial sweetener made using a process that infringed on the plaintiff's patents. The respondents moved for a summary determination of no violation on the basis that the plaintiff sold its own product, which used the alleged patented process, more than one year before it applied for the patents and thus, triggered an on-sale bar that precluded the patentability of the process. Factually, the plaintiff did not dispute that the patented process was in secret use in Europe over one year before it filed for patents in the United States or that it sold artificial sweetener using the patented process in the United States before it filed for patents. The plaintiff did not dispute that under pre-AIA precedent, sales of products made using a secret process triggered the on-sale bar. Rather, the plaintiff argued that the AIA changed pre-AIA precedent such that its sales of the artificial sweetener did not trigger the on-sale bar. The USITC granted the respondents' motion for summary determination, concluding that the plaintiff's prior sales did trigger the on-sale bar. It rejected the plaintiff's argument and concluded that the AIA did not overturn settled pre-AIA precedent. The plaintiff subsequently challenged the USITC's decision granting a summary determination.
- **Court's Decision:** The question before the court was whether the AIA changed Section 102(a)(1) such that the plaintiff's sales of artificial sweetener made using its secret process would not invalidate its patent claims. The court held that it previously answered this question in a decision that was subsequently affirmed by the Supreme Court in *Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, 586 U.S. 123 (2019). In relying on this precedent, the court held that under long-settled pre-AIA precedent, pre-critical date sales of products made using a secret process would trigger the on-sale bar to patentability and render invalid later-sought patent claims on that process. It further opined that textual changes, statutory structure, and legislative history

failed to show that Congress intended to upend Section 102's on-sale bar when it enacted the AIA. The court affirmed the USITC's decision.

***Vanda Pharms., Inc. v. United States*, 169 Fed. Cl. 196 (2024).**

Industry: Life Sciences

Takeaway: The government's duties, which are authorized by Congress, that may reveal a company's trade secrets or confidential information to others can allow the company to bring a viable claim against the government for unlawful taking under the Fifth Amendment.

Details:

- **Procedural Posture:** The defendant's motion to dismiss.
- **Factual Background:** Vanda Pharmaceutical is an international biopharmaceutical company that researches, develops, and markets medications to address unmet medical needs. To market certain drugs or new products in the United States, Vanda sought approval from the FDA. Federal government officials that obtain information in the course of their official duties are expressly prohibited from unauthorized disclosure of trade secrets and/or confidential information. Ultimately, Vanda was able to receive approval of two brand name drugs based on adopting an alternative specification proposed by the FDA. Subsequent to Vanda receiving approval of the brand name drugs, the FDA official purportedly disclosed Vanda's confidential trade secret information to competitors that had filed Abbreviated New Drug Application forms, which are submissions to seek FDA approval of a generic drug that is equivalent in quality, efficacy, and safety to a previously approved drug. As part of the competitors' application to seek approval, the FDA official had consulted reports that were part of Vanda's reports and provided specification information that it had previously approved and/or information as to what was necessary to obtain FDA approval. Vanda subsequently filed suit against the FDA under the Fifth Amendment for unlawfully disclosing its trade secrets and confidential information. The government filed a motion to dismiss, claiming that Vanda lacked standing because it had not demonstrated a *per se* taking or the necessary harm for a regulatory taking.
- **Court's Decision:** The court denied the government's motion to dismiss and allowed Vanda's claim for unlawful taking to proceed. The court emphasized that for a takings claim to be viable against the government, the government's action must be authorized by Congress. Even if the government's action is unlawful, it can still be considered authorized if it falls within the scope of the agency's duties. The court found that the FDA's actions, even if unlawful, clearly fell within its authorized duties. As such, Vanda's claim for takings could proceed against the government.

About Us

Your goals define our mission. Whether an immediate need or a long-term objective, ArentFox Schiff helps you reach your full potential. As industry insiders, we partner with you to develop practical business strategies and sophisticated legal solutions to achieve today's targets and anticipate tomorrow's problems. We get you across the finish line.