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PERSPECTIVE

The Law of Unintended Consequences at Federal Circuit

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The Law of Unintended Consequences, which “decrees that the resolution of current problems will create or reveal new ones,” is familiar to learned historians. The unintended consequences of the law are equally familiar to learned attorneys. This is not the product of anyone’s fault, but an inescapable result of our legal system’s complexity. The U.S. Court of Appeals for the Federal Circuit’s opinion in *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, 895 F.3d 1304 (Fed. Cir. 2018) (“TAOS”), is no exception.

TAOS’s Holding

In *TAOS*, the Federal Circuit held that a plaintiff is not entitled to a jury trial on the issue of disgorgement in trade secret misappropriation cases. *Id.* Before addressing the unintended consequences of that holding, we should unpack the holding layer-by-layer.

The Seventh Amendment, which defines the civil jury trial right, is the court’s foundation. That Amendment is frozen in time — preserving the jury trial right that existed in 1791, i.e., a right only for cases at law. *Id.* at 1319. So in determining whether a jury must resolve an issue, the Federal Circuit predicts whether courts in 1791 would have considered that issue to be a legal one. Accordingly, the court “consider[s] the nature of the issues involved and the remedy sought, with emphasis on the latter.” *Id.* at 1319. If an issue did not exist in 1791, courts consider analogous issues.

In *TAOS*, the court first framed the issue — trade secret misappropriation — and the remedy — disgorgement. Under then-applicable Texas law, a trade secret was “any formula, pattern, device or compilation of information, which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know or use it.” And misappropriation of a trade secret occurs when someone “discloses or uses another’s trade secret,” if that trade secret was

“discovered by improper means” or that “disclosure or use constitutes a breach of confidence.” Disgorgement is a remedy requiring the defendant to relinquish all profits relating to its improper conduct.

After framing the question, the court examined whether disgorgement was available at law in trade secret misappropriation cases in 1791. As expected, there was no clear answer: Disgorgement was only

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available at law in certain cases. And, adding to the confusion, trade secret misappropriation did not exist as a cause of action in 1791. So the court dug deeper, considering post-1791 case law and analogous causes of action. Nineteenth century case law suggested that trade secret misappropriation was a cause of action in equity, not law. Moreover, disgorgement was not available in legal actions for patent infringement — a close analog of trade secret misappropriation. Thus, the nature of the issue involved and the remedy sought *both* suggested that *TAOS* had no jury trial right.

Unintended Consequence

While *TAOS* answered one question, it may pose others. Two particular results come to mind: First, courts may give *TAOS* too much authority and second, *TAOS* allows a judge to strip a defendant of twice its profits, unilaterally. Moreover, the first result exacerbates the second.

The False Breadth of TAOS’s Holding

The Federal Circuit is a unique beast: Its jurisdiction is topical, not geographic. Because of this eccentricity, decisions from the Federal Circuit can have more, or less, influence than decisions of sister circuits. On topics essential to the Federal Circuit’s exclusive jurisdiction, the court applies its own law, binding all district courts. *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 855 (Fed. Cir. 1991). But on other topics, the Federal Circuit

applies the law of the regional circuit to which an appeal would ordinarily lie. *Id.* On regional questions of first impression, the Federal Circuit attempts to divine how the regional circuit would decide that question. *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1575 (Fed. Cir. 1984). Decisions resulting from this hypothetical inquiry can bind district courts — but only if the decision does not conflict with regional circuit law. And the regional

circuit is free to overrule the Federal Circuit.

With this background, *TAOS*’s holding is severely limited. Trade secret issues are not essential to the Federal Circuit’s jurisdiction, so regional circuit law governs any federal law questions relating to trade secrets. Because the 5th Circuit has never addressed whether trade secret misappropriation claims that seek disgorgement are entitled to a jury, the Federal Circuit was merely conducting a hypothetical inquiry. In other words, *TAOS* binds 5th Circuit district courts — unless and until the 5th Circuit weighs in — but does not bind any other court.

Though the Federal Circuit did briefly acknowledge that Fifth Circuit law controlled, the court does not clearly admit the true narrowness of its holding. Without any explicit limitation, sister circuits are likely to read *TAOS* as controlling because the Federal Circuit is often viewed as the “intellectual property” circuit. Even if sister circuits do not read *TAOS* as binding, they may defer to the Federal Circuit as highly persuasive. After all, the Federal Circuit has extensive intellectual property experience. Thus, *TAOS* may have far-reaching impacts — beyond the narrowness of its true holding.

Broad District Court Discretion

Disgorgement — which most trade secret statutes provide for as “unjust enrichment”—is only one piece of the trade-secret-remedies mosaic.

Beyond simple damages, the Uniform Trade Secrets Act, the Defend Trade Secrets Act, and most state trade secret acts allow double recovery when a defendant’s misappropriation was willful or malicious. In a way, this doubling is punitive relief: Courts are punishing defendants for their willful or malicious conduct.

Combining this statutory language with *TAOS*, a judge may unilaterally award a trade secret plaintiff double the defendant’s profits. That is extraordinary. And it may conflict with sister circuit precedent that holds that the Seventh Amendment provides a jury trial right for punitive damages. See *Defender Industries, Inc. v. Northwestern Mutual Life Insurance Co.*, 938 F.2d 502 (4th Cir. 1991).

Unfortunately, the first unintended consequence — over-extending the Federal Circuit’s holding — will magnify this extraordinary result. If courts treat *TAOS* as binding or exceedingly persuasive, they will likely follow the Federal Circuit’s decision. Thus, more judges will be free to award double profits without the protections of a jury.

Moving Forward

Knowledge is power. Through knowledge, we morph unintended consequences into realized implications, allowing us to maximize benefits and minimize harms. Going forward, the knowledge that *TAOS* has unintended consequences will allow courts and parties to account for those consequences. Still, the Law of Unintended Consequences persists. By solving problems relating to *TAOS*’s implications, we have likely created or implicated additional problems. The cycle continues.

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