

Litigation Webinar

Trade Secrets Developments in 2018

February 21, 2019



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Topics You'll Hear About

- ***Ex Parte* Seizures – A Drastic Provision**
- **Trade Secret Identification – What do Courts Want?**
- **Damages – Show Me the Money!**

Ex Parte Seizures A Drastic Provision

***Ex Parte* Seizures – A Drastic Remedy**

**The Defend Trade Secrets Act authorizes
Courts to seize**

“property necessary to prevent the propagation
of or dissemination of the trade secret.”

-18 U.S.C. Section 1836 (b)(2)

***Ex Parte* Seizures – A Drastic Remedy**

Due to the drastic nature of the remedy, the statute provides the following useful guideline:

“only in extraordinary circumstances”

***Ex Parte* Seizures – An Uphill Climb**

A plaintiff must:

- **describe with reasonable particularity what is to be seized and where it is located;**
- **not publicize the requested seizure; and**
- **provide security for any damages the defendant or related third parties may suffer if the Court later determines that the seizure was wrongfully granted.**

-18 U.S.C. § 1836(b)(2)

***Ex Parte* Seizures – An Uphill Climb**

Pre-filing steps:

- **Arrange for a U.S. marshal to do the seizing**
- **Arrange for an independent technical expert to accompany the U.S. marshal (i.e., not plaintiff or plaintiff's counsel)**
- **Arrange for locksmith, transportation service, substitute custodian, etc.**
- **Prepare contracts between the Court and experts**
- **Schedule pre-seizure briefing**

***Ex Parte* Seizures – What's New?**

- **Only a handful of *ex parte* seizure orders have been issued since the law went into effect**
- **No federal appellate decisions have addressed *ex parte* seizures**

***Ex Parte* Seizures – What’s New?**

***Mission Capital Advisors LLC v. Romaka* (S.D.N.Y. July 29, 2016) continues to be the most widely cited *ex parte* seizure order.**

- **Court had previously issued a Rule 65 TRO**
- **Romaka evaded service of the TRO five times and failed to appear for the preliminary injunction hearing**
- **Court found that Romaka had previously lied about deleting the trade secret data, only for it to appear later in a forensic review**
- **Court found that each of the eight requirements for seizure under the DTSA were met**
- **Court found that Romaka intended to misuse the plaintiff’s trade secret information**

***Ex Parte* Seizures – What’s New?**

Other *ex parte* seizure orders also seem to emphasize that a history of “bad acts” by the defendant is necessary

- ***Axis Steel Detailing, Inc. v. Prilex Detailing LLC* (D. Utah June 29, 2017): defendants had previously attempted to delete information from computers, and showed “a willingness to provide false and misleading information”**

***Ex Parte* Seizures – Ongoing Debates**

- **Can *ex parte* seizures actually be implemented?**
- **Are *ex parte* seizures constitutional?**

Ex Parte Seizures – Can They be Implemented?

CONCEPT:

A thief sneaks into a facility, steals a trade secret, and heads directly to an airport to flee to a foreign country.

REALITY:

It's logistically impossible to use the DTSA *ex parte* provision to stop a thief from heading to the airport.

Ex Parte Seizures – Can They be Implemented?

CONCEPT:

A thief neatly maintains all of the stolen electronic trade secrets on one laptop.

REALITY:

The very nature of the Internet renders it impossible to maintain all secrets on one device and/or in one location.

***Ex Parte* Seizures – Are they Constitutional?**

Greater risk of error in *ex parte* seizure applications under the DTSA than in *ex parte* Rule 65 TROs due to the fact-intensive nature of trade secret litigation and the difficulty in deciding whether a trade secret exists without a counter-narrative.

***Ex Parte* Seizures – Are they Constitutional?**

The physical seizure of computers, servers, or other data storage equipment increases the risk of catastrophic and cascading harm to defendants and third-party vendors:

- It's difficult to isolate allegedly misappropriated trade secret data from non-offending data.**
- We've become dependent on the “always-on” connectivity of modern, high-tech companies.**
- Customer information may be subject to privacy considerations.**

***Ex Parte* Seizures – What Lies Ahead?**

Keep your eyes open for:

- **more debate as to whether this provision belongs in the DTSA;**
- **an opportunistic questioning of whether the DTSA should be amended (though few seem to be harmed by its existence); and**
- **even if more seizure orders are issued, expect them to be narrow.**

Trade Secret Identification

What do Courts Want?

Trade Secret Id - California

California Code of Civil Procedure requires:

“before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.”

- CCP § 2019.210

Trade Secret Id - Massachusetts

Massachusetts General Law requires:

“Before commencing discovery relating to an alleged trade secret, the party alleging misappropriation shall identify the trade secret with sufficient particularity under the circumstances of the case to allow the court to determine the appropriate parameters of discovery and to enable reasonably other parties to prepare their defense.”

- **Mass. G.L. C. 93, Sec. 42(D)**

Trade Secret Id – Sedona Conference

Sedona Conference WG12 Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Lawsuit (Oct. 2018 ver.)

“by the outset of discovery...identify in writing and serve on the parties, at a level of specificity that is reasonable under the circumstances each asserted trade secret”

Trade Secret Id – Sedona Conference

- The identification “shall be sufficient to allow the other party to compare it meaningfully to information that is generally known or readily ascertainable and to permit the parties and the court to understand what information is claimed to be a secret”
- “Documents may be appended as a supplement to the identification, but may not be used as a substitute for the identification. In such cases where an entire document or portion thereof constitutes the trade secret, the written description shall so identify the content in such documents or portions of such documents in language sufficient to meet the standards”

Trade Secret Id – Sedona Conference

“A party that has provided an initial identification... may amend that identification if it is in the interest of justice to permit such amendment”

- Whether the party seeking amendment was diligent
- Whether the party opposing the amendment will be unduly prejudiced
- Whether amendments are based on facts that were newly learned in discovery
- The stage of the litigation, including whether the amendment will delay trial
- Whether the amendment adds, modifies, or removes trade secrets
- Whether the amended claim is a combination or compilation claim

Trade Secret Id – Be Ready at the Outset

irth Solutions, LLC v. Apex Data Solutions & Servs., LLC (W.D.N.Y. Jan. 22, 2019)

- Plaintiff sought to protect the "unique combination" of its system, architecture, and user interface: "the way that DigTrack's robust suite of features are configured, organized, and presented for users in the DigTrack platform, and the way that such features interact and can be cross-utilized to provide a unique user experience and commercially successful end product."
- This includes DigTrack's "source code, system architecture, and user interface. . . . [and] individually or in combination, the DigTrack system's unique functionalities, graphical display and design, system architecture, various components and modules, logic flows, databases, access methods, supporting programs and systems, and related data and software schemas and models, methods and properties, and any scripts developed in conjunction with software customizations."

Trade Secret Id – Be Ready at the Outset

Swarmify, Inc. v. Cloudflare, Inc. (N.D. Cal. May 31, 2018)

- Court conditionally granted post-motion for preliminary injunction trade secret identification amendment
 - “the new disclosure would be the final definition of Swarmify's alleged trade secrets for this case. No further amendments would be permitted. Cloudflare, however, would still be able to reference the original disclosure in its arguments — for example, to show the jury the shifting-sands nature of Swarmify's case.”
 - “Swarmify would pay Cloudflare its reasonable attorney's fees for defending the motion for a preliminary injunction premised on a defunct list of alleged trade secrets.”
 - “Cloudflare would be entitled to additional expedited discovery, including repeat depositions if necessary, to rebuild its defenses with the new disclosure in mind.”

Trade Secret Id – Provide Metes & Bounds

Caudill Seed & Warehouse Co. v. Jarrow Formulas, Inc. (W.D.Ky. Oct. 24., 2017)

Identified Trade Secrets

- (1) research and development on supplements, broccoli, and chemical compounds
- (2) general manufacturing process detailed in Caudill Seed's provisional patent application
- (3) the precise process for spray-drying Myrosinase
- (4) vendor information for Caudill Seed's glucoraphanin and activated products
- (4) customer pricing and sales information
- (5) the hard drive and research notebook as described herein.

Trade Secret Monetary Relief

- **Compensatory Damages, e.g. Lost Profits**
- **Unjust Enrichment, e.g. Disgorgement**
- **Reasonable Royalty**
- **Special Damages**
 - Plaintiffs: Exemplary Damages and Attorneys' Fees
 - Defendants: Attorneys' Fees

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UTSA Compensatory Damages

Section 3 (a) :

Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss . . .

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Compensatory Damages & But-For Rule

- The **but-for rule**—that the fundamental principle of damages is to restore the injured party, as nearly as possible, to the position [they] would have been in had it not been for the wrong of the other party—is the essence of compensatory damages.

-Douglas Laycock, Remedies (4th ed. 2010)

The Wrong: Misappropriation

“Misappropriation” means:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
 - A. used improper means to acquire knowledge of the trade secret; or
 - B. at the time of disclosure or use, knew or had reason to know that his [or her] knowledge of the trade secret was
 - I. derived from or through a person who had utilized improper means to acquire it;
 - II. acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - III. (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - C. before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

The But-For World

The Nearest Possible World

- A world without the wrong
- The Butterfly Effect

Applied to Trade Secrets

- Design Around?
- License?
- Exit Market?
- Disadvantage?



E.J. Brooks Co. v. Cambridge Sec. Seals (N.Y.)

Trade Secret:

Fully-Automated
Process for
Manufacturing Plastic
Indicative Security
Seals



E.J. Brooks Co. v. Cambridge Sec. Seals (N.Y.)

Federal Case

- **Trial**
 - Claims Under New York Law
 - Plaintiff Wins on the Merits
 - Avoided Cost Damages
- **Appeal**
 - Certified Three Questions

E.J. Brooks Co. v. Cambridge Sec. Seals (N.Y.)

Majority

- Narrow But-For Rule
- Avoided Costs = Benefit to Defendant
- Avoided Costs Cannot Measure But-For World

E.J. Brooks Co. v. Cambridge Sec. Seals (N.Y.)

Dissent

- Broad But-For Rule
- Avoided Costs = Measure of Trade Secret's Value
- Avoided Costs Can Measure the But-For World

E.J. Brooks Co. v. Cambridge Sec. Seals (N.Y.)

Dissent

“In other words, if the defendant could have independently developed the trade secrets at a cost of \$X in a period of Y years, and the plaintiff recovers \$X plus the profits lost during the Y years due to the defendant’s early entry made possible by the theft, the plaintiff will be put exactly into the position it would have been in had the defendant not stolen the secrets”

Questions:



Thank You!



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