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TECHNOLOGY MARATHON

IDENTIFYING TRADE SECRETS IN
DEFEND TRADE SECRETS ACT CASES

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Presenters



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Trade Secrets Are Big Business

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How big?

- Economists estimate that trade secrets in the U.S. are worth trillions of dollars.
- In 2017, The Commission on the Theft of American Intellectual Property estimated the value of the theft of trade secrets to be between 1%-3% of US GDP, or between \$180 billion and \$540 billion, per year.
 - This does not include the costs of patent infringement, trademark infringement, or the costs of IP protection – or failure to protect IP.

The Defend Trade Secrets Act (DTSA)

- In 2016, Congress enacted the DTSA, which created a federal private right of action for trade secret misappropriation. 18 U.S.C. §§ 1836-1839.
 - As of March 2022, over 7,700 lawsuits have been filed in federal court since DTSA's effective date of May 11, 2016
 - Over 1200 were filed in 2021 alone
 - In 2020, 72.9% of trade secret cases included a DTSA claim

DTSA Claims Have Resulted in Large Verdicts

- *Resman, LLC v. Karya Prop. Mgmt. LLC* (E.D. Tex.) – In March 2021, a Texas jury awarded \$152 million, including \$90 million in exemplary damages. The court issued a final judgment awarding \$62 million.
- *Motorola Solutions, Inc. v. Hytera Communications Corp. Ltd.* (N.D. Ill.) – In March 2020, an Illinois jury awarded the plaintiff \$764.6 million (including \$418 million in punitive damages). This verdict is being appealed.
- *Syntel Sterling Best Shores Mauritius Ltd. v. The TriZetto Group Inc.* (S.D. NY) – In October 2020, a New York jury awarded \$284.8 million in damages and \$569.7 million in punitive damages. The trial court reduced the punitive damages award to \$285 million.

Identification Of Trade Secrets Is Key

- Proper identification of the trade secrets at issue is a crucial component to trade secret litigation—without precise identification the parties would not be able to differentiate between what is public information, general know-how, and trade secret.
 - The identification of the trade secrets often leads to disputes between the parties.
 - The DTSA is silent on the requirements for identification of trade secrets and courts have not articulated a clear set of guidelines.
- In this presentation, we will review the importance of and strategies behind plaintiffs identifying trade secrets in Defend Trade Secrets Act cases in federal courts across the United States, and defendants seeking to compel early identification of the trade secrets that were allegedly misappropriated.

Background on the DTSA

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The DTSA

- Federal civil private right of action
- Does not preempt state law; complements state laws and can be brought simultaneously

Elements of a DTSA Claim

- The elements of a DTSA claim:
 - The plaintiff owned a trade secret;
 - The defendant misappropriated the trade secret; and
 - The defendant's actions damaged or will damage the plaintiff.

Definition of a trade secret - 18 U.S.C. § 1839(3)

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

- (A) the owner thereof has taken **reasonable measures** to keep such information **secret**; and
- (B) the information 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.

What does “reasonable measures” mean?

- No bright-line rule or definition of what a “reasonable measure” is.
- Reasonable does not mean perfect.
- A court will conduct a fact-specific inquiry to determine whether a company has enacted reasonable measures.
- Ensuring reasonable measures to protect trade secrets prior to any litigation is important—failure to take reasonable measures before there is an issue can prevent a claim from being brought.

Examples of Reasonable Measures

- Nondisclosure/Confidentiality Agreements
- Marking confidential and trade secret documents
- Using heightened protections beyond what applies to confidential information
- Restricting disclosure or access based on need-to-know
- Restricting how and where access is granted, prohibiting access on personal devices and accounts
- Employee training regarding data security and confidentiality obligations
- Audit and inspection rights
- Facility security measures (e.g., locked cabinets, clean desk policy, etc.)
- Contractual obligations on employees, including post-employment obligations (return of all confidential information, return of computers and cell phones, etc.)

Examples Where Courts Have Not Found A Party Used Reasonable Measures

- In *Abrasic 90 Inc. v. Weldcote Metals, Inc.*, 364 F. Supp. 3d 888 (N.D. Ill. 2019), the court focused on the plaintiff's failure to:
 - Use confidentiality and non-disclosure agreements;
 - Have policies concerning confidentiality of its business information;
 - Train or instruct employees regarding confidentiality obligations; and
 - Limit access to the information on a need-to-know basis.

The Court noted the plaintiff acted with benign neglect when employees left the company.

Examples Where Courts Have Not Found A Party Used Reasonable Measures (Cont.)

- In *RV Horizons, Inc. v. Smith*, No. 18-CV-02780-NYW, 2020 WL 6701119, at *26 (D. Colo. Nov. 13, 2020), the court focused on plaintiff's failure to:
 - Provide any specific evidence regarding the limited number of individuals who had access to the software containing the trade secrets;
 - Provide evidence that the trade secrets were segregated in the software from materials that were not trade secrets;
 - Provide evidence that the defendants were informed that the information contained was the plaintiff's trade secret; and
 - Provide evidence of written materials, such as a confidentiality agreement, handbook, or training, regarding access to or protection of the trade secrets.

Examples Where Courts Have Not Found A Party Used Reasonable Measures (Cont.)

- In *Yellowfin Yachts, Inc. v. Barker Boatworks, LLC*, 898 F.3d 1279, 1299-1300 (11th Cir. 2018), the Eleventh Circuit found that the plaintiff did not take reasonable measures because it:
 - Encouraged employees to store information on a personal laptop and phone;
 - The defendant refused to sign the employment agreement which required employees to maintain plaintiff's trade secrets;
 - Did not mark the information as confidential; and
 - Did not ask the defendant to delete the information once he left the company.

Definition of “improper means” - 18 U.S.C. § 1839(6)

- DTSA defines “improper means” as:
 - (A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and
 - (B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

When and How Trade Secrets Should be Identified

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Identifying Trade Secrets at Issue

- A key to DTSA cases is the proper identification of the trade secret(s) at issue.
- However, the DTSA itself is silent on the requirements for trade secret identification at pleading and discovery stages.

Identifying Trade Secrets At Various Stages of a Case

- “The identification of an asserted trade secret during a lawsuit is not an adjudication of the merits and is not a substitute for discovery.”
 - The Sedona Conference, Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases, 22 Sedona Conf. J. 223, 231 (2021).
- The requirements for identifying a trade secret may vary depending on the stage of the case and the venue.
- California and Massachusetts have enacted state statutes that require pre-discovery identifying the trade secrets at issue with reasonable or sufficient particularity. A plaintiff in California or Massachusetts cannot seek discovery until it has identified its trade secrets with reasonable or sufficient particularity.
- There is a growing consensus amongst federal district courts inside and outside these states to follow California and Massachusetts and require a trade secret plaintiff to identify its trade secrets with reasonable particularity before discovery on trade secrets can be had. However, not all courts have adopted this requirement.

California – Cal. Code Civ. Proc. § 2019.210

- “In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), **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.” (emphasis added).

Massachusetts - Mass. Gen. Laws Ann. Ch. 93 § 42D(b)

- “In an action under sections 42 to 42G, inclusive, in alleging trade secrets misappropriation a **party must state with reasonable particularity** the circumstances thereof, including the nature of the trade secrets and the basis for their protection. **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.” (emphasis added).

A Growing Consensus

- District courts have noted a “growing consensus” to require a trade secret plaintiff to identify the trade secrets at issue with reasonable particularity before discovery. *Kalencom Corp. v. Shulman*, No. CV 17-5453, 2018 WL 1806037, at *2 (E.D. La. Apr. 17, 2018) (gathering cases).
- These districts include:
 - Northern District of Texas
 - Northern District of Georgia
 - Western District of Texas
 - District of Connecticut
 - District of Nevada
 - Western District of North Carolina
 - Eastern District of Louisiana
 - Northern District of Illinois

So When Is “Reasonable Particularity” Required?

- At the pleading stage, “a plaintiff need not ‘spell out the details of the trade secret.’” But, “the plaintiff **must** ‘describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.’”
 - *Alta Devices Inc. v. LG Electronics Inc.*, 343 F. Supp. 3d 868, 881 (N.D. Cal. 2018).

Proper Identification is a Fact-Specific Inquiry

- Determining “whether a plaintiff has sufficiently disclosed its trade secrets is a fact-specific question to be decided on case-by-case basis.” *Oakwood Labs. LLC v. Thanoo*, 999 F.3d 892, 907 (3d Cir. 2021).
- The misappropriated trade secrets “must be identified with **enough specificity to place a defendant on notice of the bases for the claim being made against it**. But a plaintiff need not ‘spell out the details of the trade secret to avoid dismissal. Rather, the subject matter of the trade secret must be described with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.” *Id.* (citations and quotations omitted).

Guidance for What is Required

- The Ninth Circuit has offered guidance as to what is required regarding the proper identification of trade secrets. The plaintiff:
 - “should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons ... skilled in the trade.”
 - “must clearly refer to tangible trade secret material instead of referring to a system which potentially qualifies for trade secret protection.”
 - “may not simply rely upon ‘catchall’ phrases or identify categories of trade secrets they intend to pursue at trial.”
 - May not merely “cite and incorporate by reference hundreds of documents that purportedly reference or reflect the trade secret information.”
 - *InteliClear, LLC v. ETC Glob. Holdings, Inc.*, 978 F.3d 653 (9th Cir. 2020).

Filing Under Seal – An Additional Consideration

- Courts have permitted, with leave of court, the filing the complaint under seal to protect trade secrets. *See, e.g., Molon Motor & Coil Corp. v. Nidec Motor Corp.*, No. 16 C 03545, 2017 WL 1954531, at *4 (N.D. Ill. May 11, 2017).
- If trade secrets are not filed under seal, they lose protection as trade secrets. *E.g. Littlejohn v. Bic Corp.*, 851 F.2d 673, 680 (3d Cir. 1988).

A Proposed Format

- The Sedona conference has proposed a three-part format for identification of trade secrets:
 - A short introductory description of the general subject matter (e.g. a formula for, a program to, a design of...);
 - A transitional term (e.g. comprising, consisting of, for, of); and
 - Specific, identifying information, such as the trade secret elements, components, or ingredients.
 - The Sedona Conference, Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases, 22 Sedona Conf. J. 223, 257-58 (2021).

Identification If Seeking an Injunction

- “Rule 65(d) is satisfied if the injunction ‘fairly inform[s] defendants of the restrained acts relating to plaintiff’s trade secrets,’ and its terms need not disclose trade secrets.”
 - *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677, 684 (7th Cir. 1983).
- When a plaintiff seeks preliminary injunctive relief, the alleged trade secret should be identified as part of this process, though the extent and scope of the identification will depend upon the relief sought.
- Failure to properly identify trade secrets can render a preliminary injunction unenforceable.
 - *See Union Home Mortg. Corp. v. Cromer*, 31 F.4th 356, 364 (6th Cir. 2022); *Mallet & Co. Inc. v. Lacayo*, 16 F.4th 364 (3d Cir. 2021); *Patriot Homes, Inc. v. Forest River Hous., Inc.*, 512 F.3d 412, 415 (7th Cir. 2008).

Pre-Discovery Identification

There are three key policy reasons why courts have supported allowing a trade secret plaintiff to take discovery before identifying its trade secrets:

1. Plaintiffs have a broad right to discovery under the federal rules.
2. Plaintiffs, particularly large companies or those with lots of trade secrets, may not know what has been misappropriated until discovery.
3. Plaintiff could be placed in a “Catch-22” if forced to identify without knowing what has been misappropriated.
 - *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 679 (N.D. Ga. 2007); *see also* Kevin R. Casey, Identification of Trade Secrets During Discovery: Timing and Specificity, 24 AIPLA Q.J. 191, 219 (1996).

Pre-Discovery Identification

Conversely, there are four policies that support delaying trade secret discovery until the trade secrets have been sufficiently described:

1. Trade secret litigation may become fishing expeditions of competitors.
2. Until the trade secrets are identified with some particularity, there is no way to know whether information sought in discovery is relevant.
3. Defendant cannot mount a defense until it has some indication of the trade secrets it has allegedly misappropriated.
4. Requiring the plaintiff to state its claimed trade secrets will prevent it from molding a cause of action around discovery it receives.
 - *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 679 (N.D. Ga. 2007); *see also* Kevin R. Casey, Identification of Trade Secrets During Discovery: Timing and Specificity, 24 AIPLA Q.J. 191, 219 (1996).

Different Approaches to Discovery

- Require a plaintiff to specify trade secrets
- Require a trade secret statement
- Defer defendants' responses
- Fashion a discovery order under Rule 26(c)(1)(g)
- Bifurcation of discovery
- Order simultaneous discovery
- Assign a neutral expert to control discovery
- Examine the materials, then decide
- Grant plaintiff discovery

Supplementing Disclosures and Discovery Responses

- There is tension between a plaintiff's right to supplement discovery responses and preventing shifting sands in litigation.
- Courts will often require good cause to supplement discovery responses to prevent a plaintiff from having free rein to amend its trade secrets.
 - *Par Pharm., Inc. v. QuVa Pharma, Inc.*, No. CV 17-6115 (BRM), 2019 WL 959700, at *3 (D.N.J. Feb. 27, 2019); *Neothermia Corp. v. Rubicor Medical Inc.*, 345 F. Supp. 2d. 1042, 1045 (N.D. Cal. 2004); *see also AgroFresh Inc. v. Essentiv LLC*, No. CV 16-662-MN-SRF, 2019 WL 563900, at *4 (D. Del. Feb. 4, 2019), *opinion adopted*, No. CV 16-662 (MN), 2019 WL 9514501 (D. Del. Apr. 23, 2019).

Key Takeaways

- Plaintiffs
 - Important to take reasonable measures to protect trade secrets well before litigation
 - Important to be able to identify and articulate trade secrets
 - Decide when and how to identify trade secrets
- Defendants
 - Decide whether to press plaintiff to identify trade secrets early, ideally before discovery on trade secrets
 - Decide whether to object to designation as lacking requisite specificity

Biography



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David J. Levy is a partner in the Litigation Practice. David's practice concentrates on high-stakes commercial and intellectual property disputes. He also counsels clients on litigation avoidance and crisis management. With over three decades of experience as a trial and appellate lawyer, he has represented technology, financial services, energy, insurance, manufacturing, and retail clients in US federal and state courts, and before US and international arbitration tribunals. In several of these cases, billions of dollars were at stake. David leads Morgan Lewis's litigation practice in Houston, and co-leads its international arbitration team.

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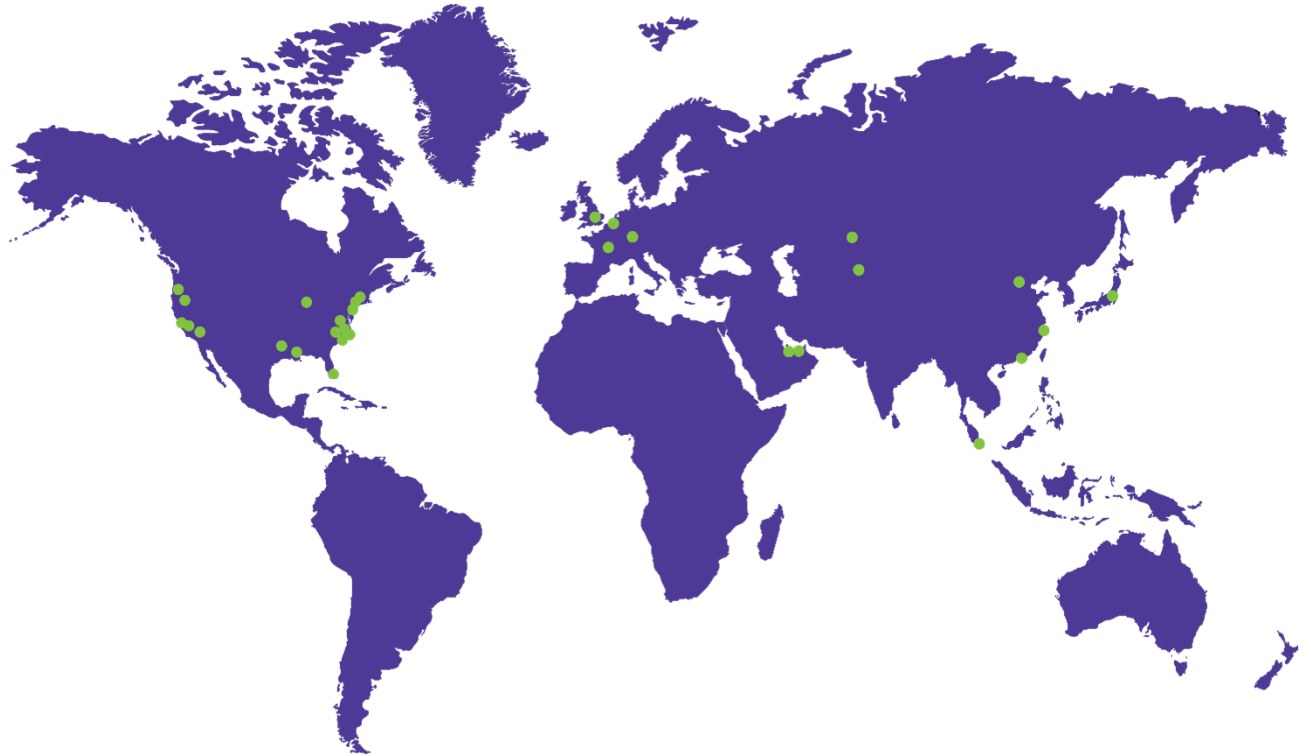
Veronica J. Lew is an associate in the litigation practice group. Her practice focuses on domestic and global complex commercial litigation and arbitration. Veronica represents energy, healthcare, technology, oil and gas, and banking clients in a wide range of matters including consumer class actions, misappropriation of trade secrets, unfair competition, and employment disputes. She also has experience in assisting clients with government investigations.

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