

## An Update On DTSA And Trade Secret Damages

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The Defend Trade Secrets Act became law two years ago, bringing a new federal cause of action for companies seeking to protect their trade secrets. Since then, there have been more than 800 DTSA cases filed in federal district courts. News of cybersecurity breaches, a more mobile workforce and improved visibility associated with DTSA cases in federal courts highlight the importance and value of trade secrets. In this article, we provide a brief update on DTSA cases and discuss two recent cases trade secrets litigators need to be aware of relating to damages.

### Two-Year DTSA Filing Overview

In total, there have been 828 new cases filed with DTSA claims in the two years since the DTSA became law.[1] Figure 1 shows the monthly filing history of DTSA claims, with a significant uptick in monthly DTSA filings occurring in 2017 and continuing in 2018.

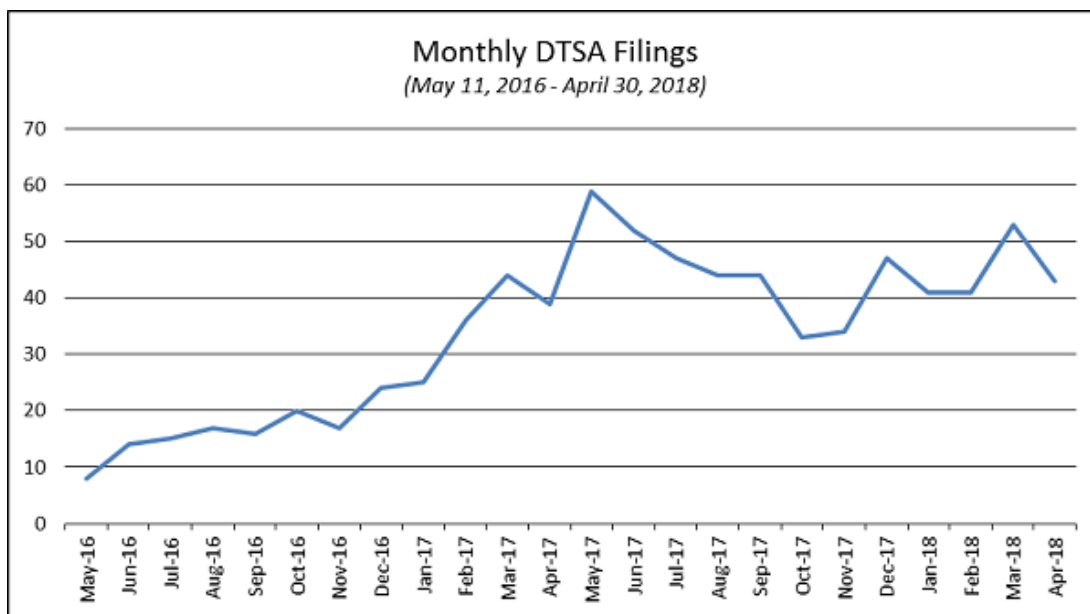


Figure 1- Monthly DTSA Filings[2]



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DTSA claims have been filed in 77 of the 94 federal district courts in the U.S. (approximately 82 percent), with the Northern District of Illinois (ILND), Northern District of California (CAND), Central District of California (CACD), Southern District of New York (NYSD) and Eastern District of Pennsylvania (PAED) being the most popular districts to date, as shown in Figure 2. This comports well with historic venues for trade secret cases heard in federal courts under state or common law, as indicated in a study of trade secret cases heard in federal courts from 1950 to 2008. In that study, five of the top districts were: the Northern District of Illinois, Southern District of New York, Eastern District of Pennsylvania, District of Minnesota and Northern District (MND) of California.[3]

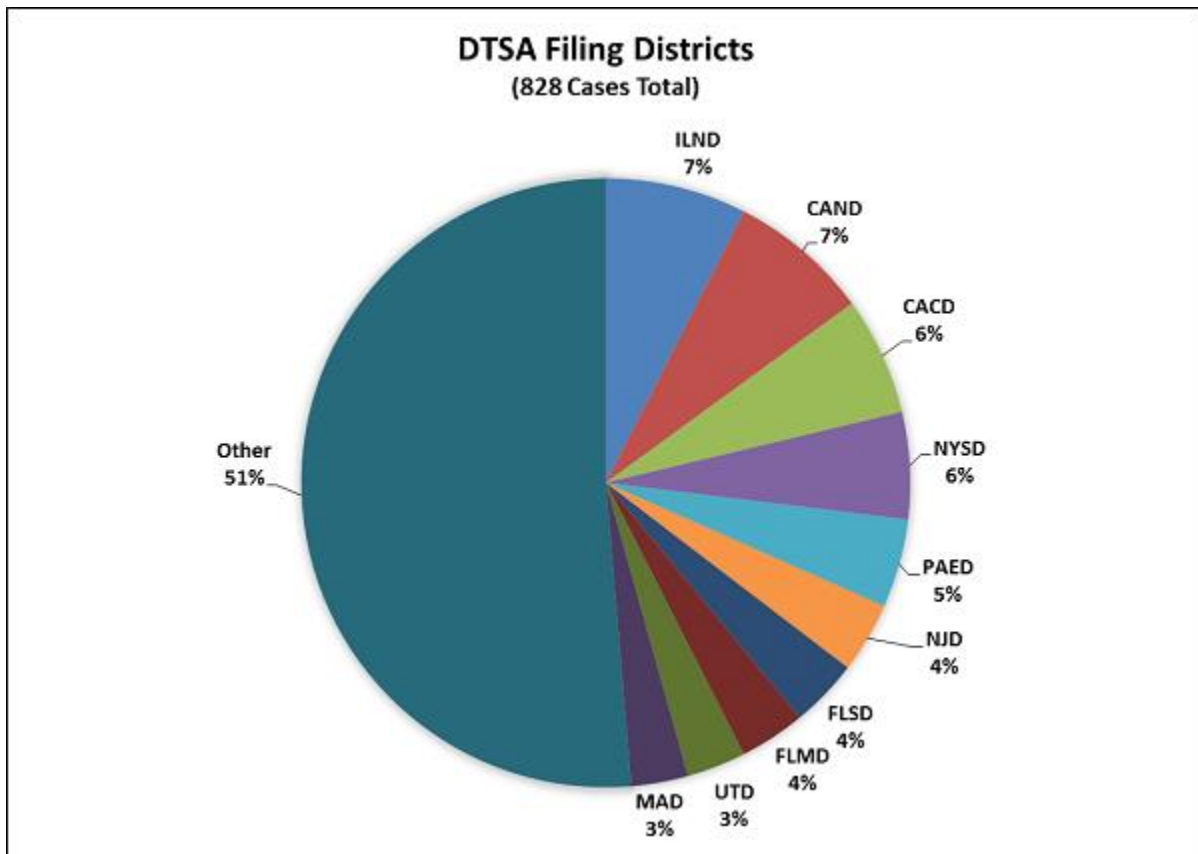


Figure 2 – Federal District DTSA Filing Activity (May 11, 2016 – May 10, 2018)[4]

Of the 828 DTSA cases filed, 400 (48 percent) have already terminated, with 225 of those (56 percent) terminating within six months, as shown in Figure 3. In terms of tracking damages outcomes under the DTSA, there have been few DTSA cases in which a damages verdict was reached in district court, and some of those have remaining questions of law. For example, in *Dalmatia v. FoodMatch*, the case with the “first DTSA damages award,” there was a post-trial dispute over whether the \$500,000 jury award for trade secret damages was for the DTSA or Pennsylvania Uniform Trade Secrets Act claim.[5] Thus, it is too early in the life of the DTSA to begin to understand if, and how, damages trends may be impacted.

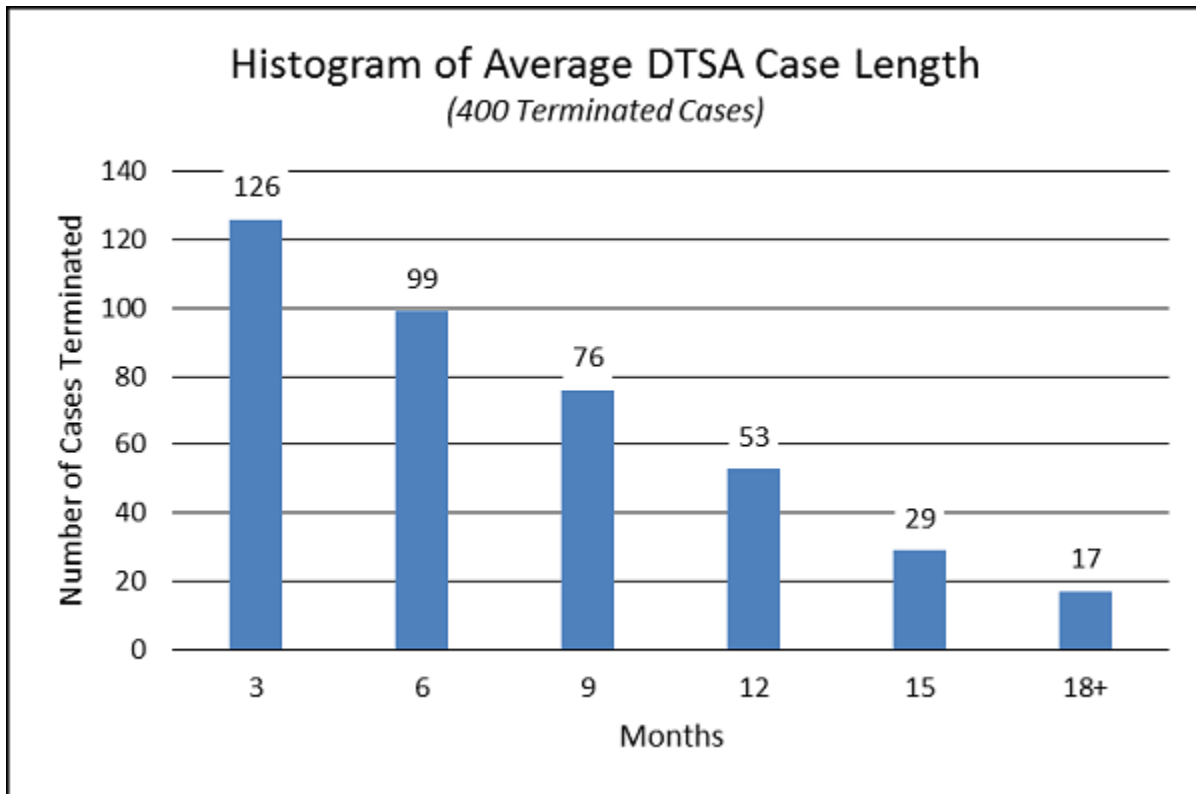


Figure 3 – Length of Terminated DTSA Cases[6]

### Trade Secret Damages — Recent Case Law Developments

Damages remedies available under the DTSA are similar to those under the Uniform Trade Secrets Act, or UTSA. According to the DTSA, economic remedies include: (1) damages for actual loss caused by the misappropriation of the trade secret; and (2) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or (3) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.[7]

The DTSA provides another layer of federal protection over the existing patchwork of state laws but does not preempt state law. As such, a trade secret owner may bring a claim under the DTSA, existing state law or both. Therefore, it is important to monitor and understand both DTSA and state law case developments in developing case filing and management strategies. The remainder of this article will focus on two very recent and notable appellate decisions on the subject of trade secret damages.

### Disgorgement of Defendant's Profits: TAOS v. Intersil

Texas Advanced Optoelectronic Solutions Inc., or TAOS, and Renesas Electronics America Inc., f/k/a Intersil Corporation both develop and sell ambient light sensors used in electronic devices to adjust screen brightness in response to incident light. The parties shared confidential technical and financial information during negotiations for a potential merger which never materialized. In November 2008, TAOS sued Intersil in the Eastern District of Texas for trade secret misappropriation (under Texas law), and other matters.[8] For the trade secret misappropriation claims, the jury in the April 2015 trial awarded TAOS \$48.8 million in disgorgement of Intersil's profits.

On appeal to the Federal Circuit, Intersil argued, among other arguments, that the district court erred in relying on the jury's verdict on disgorgement damages for the trade secret misappropriation claim, since this was an equitable issue for the court to decide, not the jury. The parties disputed whether TAOS has a Seventh Amendment right to a jury decision on its request for disgorgement of Intersil's profits. "The Seventh Amendment, ratified in 1791, provides that, '[i]n suits at common law, where the value in controversy shall exceed twenty dollars, the right of a trial by jury shall be preserved.'" [9] The Federal Circuit's decision rested on answering the following question: "Did the law courts award the defendant's profits as a remedy for this kind of wrong [in 1791]?"

Ultimately, the Federal Circuit determined that while in some cases disgorgement of the defendant's profits could be considered a "proxy" measure of damage to the plaintiff, such was not the case here. As such, disgorgement in this case was a matter of equity to be determined by the court, not a matter of law to be determined by a jury ("From all we have seen, no disgorgement remedy was available at law in 1791 for the former claims. We conclude that no such remedy would have been available at law for the trade secret misappropriation here, either." [10]) The case was remanded on other grounds, but the Federal Circuit provided this opinion to be considered on remand.

A key takeaway is that parties should consider how to present their damages case for trade secret misappropriation cases where damages are based on a disgorgement of the defendant's profits. Unless the defendant's profits are a proxy for the plaintiff's actual damages, this case suggests the amount of disgorgement is properly determined by the court, not the jury.

#### **Avoided Cost Theory: E.J. Brooks (d/b/a TydenBrooks) v. Cambridge Security Seals**

The TydenBrooks trade secret misappropriation case filed in New York is important as it follows common law (versus a form of the UTSA). As presented above, New York is one of the top states for filing trade secret misappropriation suits.

TydenBrooks and Cambridge Security Seals, or CSS, manufacture plastic security seals. In 2012, TydenBrooks filed a federal suit in the Southern District of New York against CSS, asserting common law misappropriation of trade secrets, unfair competition and unjust enrichment. [11]

TydenBrooks measured its injury by CSS' avoided costs (a "type of disgorgement") as a result of the misappropriation — it did not provide any evidence of its own losses or argue that the avoided costs of CSS were a proxy for its own losses. The damages expert for TydenBrooks estimated that CSS avoided a minimum of \$6.1 to \$12.2 million in development costs.

The court charged the jury only on the avoided cost theory. The jury found CSS liable, and assessed \$1.3 million against CSS for the misappropriation claim. The trial court denied the CSS post-trial motion that avoided costs was an improper measure of damages.

On appeal, the Second Circuit noted that neither New York courts nor the Second Circuit have approved the specific type of damages (defendant's avoided costs). The Second Circuit certified the question to the New York Court of Appeals as to whether, under New York law, a plaintiff asserting misappropriation of a trade secret can recover damages measured by the avoided costs of the defendant.

In a 4-3 split decision, the New York Court of Appeals determined that under New York common law, "compensatory damages must return the plaintiff, as nearly as possible, to the position it would have

been in had the wrongdoing not occurred — but do no more. Accordingly we answer this question in the negative.”[12] The court indicated that courts may award a defendant’s unjust gains to the extent those profits are evidence of the plaintiff’s own losses, but that was not the case here. The court also acknowledged that there are other damages regimes that permit recovery of unjust gains (presumably, UTSA and DTSA regimes), but not under New York common law.

The dissenting opinion is sharply critical of the majority’s opinion, stating that “[t]he approach provided by nearly all other jurisdictions and the restatement (third) of unfair competition explicitly allows plaintiffs in trade secret cases to recover the plaintiff’s cost of development or the defendant’s avoided costs. That is of no moment to the majority. The suggestion that our court — the court that, in Judge [Benjamin] Cardozo’s time and thereafter, led the nation in advancing the laws that govern civil wrongs in contract, tort and equity — should turn a blind eye and disregard our duty ... is most perplexing.”[13]

A key takeaway from this case is that plaintiffs filing trade secret misappropriation claims in New York must carefully consider the now important differences in the types of recoverable damages between New York common law and the DTSA since a defendant’s avoided costs cannot be claimed as damages under New York common law.

## **Conclusion**

With very few DTSA cases having returned damages verdicts, there is not much evidence to point to the act’s overall impact on damages. Will DTSA cases begin to follow a more consistent procedural process and damages case law framework similar to patent cases? For example, given the impact of trade secret definition on both liability and damages, will a standard procedural process to define the trade secrets early in a litigation emerge (similar to claim construction hearing in a patent case)? Will courts have an enhanced gatekeeper role regarding damages experts as it did in the *Waymo v. Uber* case? Will there be an increased focus on apportionment for trade secret cases similar to the trend in patent cases?

The answers to these questions should become more evident as more cases filed under the DTSA proceed to trial and return damages verdicts. Whether a trade secret misappropriation case is asserted under state law, common law or the DTSA, it is important to remember that evaluation of trade secret damages is highly case- and fact-specific, and should be aligned with sound economic and valuation principles.

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[1] Docket Navigator search conducted on May 22, 2018, and includes cases filed between May 11, 2016 and May 10, 2018 with DTSA claims or counterclaims.

[2] CRA analysis, based on Docket Navigator search conducted on May 22, 2018, and includes cases filed between May 11, 2016 and April 30, 2018.

[3] David S. Almeling, et al., "A Statistical Analysis of Trade Secret Litigation in Federal Courts," *Gonzaga Law Review* 45, no. 2 (2010) at 310.

[4] CRA analysis, based on Docket Navigator search conducted on May 22, 2018, and includes cases filed between May 11, 2016 and May 10, 2018.

[5] Law 360: "Corrected: Food Cos. Dispute Trade Secrets Verdict in Fake Jam Suit," April 5, 2017.

[6] CRA analysis, based on Docket Navigator search conducted on May 22, 2018, and includes terminated cases filed between May 11, 2016 and May 10, 2018.

[7] Defend Trade Secrets Act of 2016, §2(b)(3)(B).

[8] *Texas Advanced Optoelectronic Solutions Inc., v. Renesas Electronics America Inc., f/k/a Intersil Corporation*, Fed. Cir., 2016-2235, May 1, 2018.

[9] *Ibid*, pp. 23-24.

[10] *Ibid*, p. 35.

[11] *E.J. Brooks Company v. Cambridge Security Seals*, State of New York Court of Appeals, No. 26, May 8, 2018.

[12] *Ibid*, p. 2.

[13] *Ibid*, p. 25.