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INSIGHT: 2018 Trade Secrets Litigation Roundup

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Gibson Dunn & Crutcher LLP attorneys review 2018 trade secrets developments and say the Trump administration will continue to protect trade secrets in 2019. In addition, watch for appellate courts to have their first meaningful chance to interpret the Defend Trade Secrets Act, setting the stage for important trade secrets rulings on a federal level.

2018 marked an exciting year of trade secret developments and demonstrated the federal government's increased involvement in protecting trade secrets, a trend we expect to continue in 2019.

Courts continued to construe the Defend Trade Secrets Act (DTSA)—including first-impression rulings under the whistleblower and attorneys' fees provisions—and juries doled out significant damages awards in trade secrets cases. Massachusetts passed a new trade secrets bill. The Trump administration imposed tariffs on China in response to the theft of trade secrets, and also charged nine Iranian nationals for a series of coordinated cyber intrusions.

Below we highlight these and other notable trade secrets developments from 2018.

Civil and Statutory Developments

Defend Trade Secrets Act Developments

In 2018, we saw courts solidifying trends that emerged soon after the DTSA's May 2016 enactment. For instance, district courts continued to uniformly apply the DTSA to pre-enactment conduct if the defendant continued to misappropriate trade secrets after the date of enactment. See Teva Pharm. USA Inc. v. Sandhu, 291 F. Supp. 3d 659, 674-75 (E.D. Pa. 2018); Vendavo Inc. v. Price f(x) AG, No. 17-cv-06930-RS, at 6 (N.D. Cal. Mar. 23, 2018). Mere possession of a trade secret after enactment, however, was held insufficient to apply the DTSA to pre-enactment conduct. Camick v. Holladay, —- F. App'x ——, No. 18-3605, at 8 (10th Cir. Dec. 18, 2018) (affirming dismissal of complaint that alleged post-enactment possession of trade secrets but failed to allege post-enactment "acquisition, disclosure, or use of trade secrets").

Also, while early DTSA commentators suggested that the inevitable disclosure doctrine would be inapplicable under the DTSA given that any conditions placed on employment must be based on "evidence of threatened misappropriation and not merely on the information the person knows," 18 U.S.C. §1836(b)(3)(A)(i)(I), in 2018, at least one court continued to breathe life into that doctrine. See Jazz Pharms. Inc. v. Synchrony Grp. LLC, —- F. Supp. 3d ——, No. 18-602, at 12 & n.52 (E.D. Pa. Dec. 3, 2018) (applying "inevitable disclosure" doctrine and holding that plaintiff plausibly alleged a DTSA claim based on "threatened misappropriation of trade secrets").

2018 also saw courts weighing in on other aspects of the DTSA for what appears to be the first time. For example, a court applied the DTSA's whistleblower provision, which immunizes individuals who disclose trade

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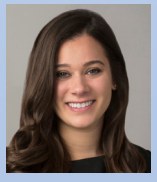

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secrets "in confidence to . . . an attorney . . . solely for the purpose of reporting or investigating a suspected violation of law." 18 U.S.C. § 1833(b)(1)(A).

In *Christian v. Lannett Co. Inc.*, No. 16-963 (E.D. Pa. Mar. 29, 2018), an employee who brought employment discrimination claims and provided her attorney with documents in discovery that allegedly contained trade secrets was not liable on a DTSA counterclaim because the disclosure "falls within the immunized disclosure parameters" of the DTSA. Id. at 9.

In 2018, courts also tackled the DTSA's fee-shifting provision, which allows a "prevailing party" to recover attorneys' fees if a DTSA claim is filed in "bad faith," a term the DTSA does not define. 18 U.S.C. § 1836(b)(3)(D). As an initial matter, the Fifth Circuit held that a defendant is not a "prevailing party," and is therefore ineligible to recover fees, if the plaintiff obtains a dismissal without prejudice, regardless of whether the plaintiff brought it in bad faith. *Dunster Live, LLC v. LoneStar Logos Mgmt.* Co. LLC, 908 F.3d 948, 951-53 (5th Cir. 2018).

And two lower court fleshed out the "bad faith" requirement. In *Farmer's Edge Inc. v. Farmobile LLC*, No. 8:16-cv-191 (D. Neb. Aug. 7, 2018), the court rejected the defendant's request for attorneys' fees but held that a party seeking attorneys' fees "must show (1) the objective speciousness of [the] opposing party's claim, and (2) the subjective bad faith of the opposing party in bringing or maintaining the action for an improper purpose." Id. at 14, 17–21. The following month, the Northern District of California adopted the Farmer's Edge two-part test and, for what appears to be the first time, granted attorneys' fees under the DTSA. *Swarmify v. Cloudflare*, No. C 17-06957 WHA, at 7–8 (N.D. Cal. Sept. 28, 2018) (holding that a plaintiff who learned of and confirmed information during mediation that plaintiff "conceded" would preclude its trade secrets claim engaged in "bad faith" by continuing to seek settlement of the claim for two more weeks).

State Legislative Developments

Massachusetts became the forty-ninth state to adopt some version of the Uniform Trade Secrets Act (UTSA). See H.B. 4868, §19 (Oct. 1, 2018); Mass. Gen. Laws Ch. 93, §§ 42–42G. Notably, Massachusetts is also the only state requiring so-called "garden leave" in connection with certain non-competes. Under a new Massachusetts law, employers enforcing restrictive non-compete covenants must pay workers half their salary or other negotiated compensation while they are not allowed to compete. Mass. Gen. Laws Ch. 149, § 24L(b)(vii)

New York is now the only state that has not adopted some version of the UTSA. Two bills, SB 4688 and AO 6419, are stuck in committee.

Litigation Issues

Defining a Trade Secret. In 2018, courts continued to grapple with what constitutes a trade secret and how information may lose its status as a trade secret.

In the technology sector, a Florida state court held that Uber's aggregate data regarding the total number and costs of trips to and from a local airport was not a protectable trade secret and was thus subject to a cab company's open records request, even though a county official to whom Uber provided the aggregate information pursuant to a licensing agreement's self-reporting requirement promised to keep it confidential. More granular information about "the longitude and latitude and the specific dates and times" of trips, however, were trade secrets. *Rasier-DC LLC v. B&L Serv. Inc.*, 237 So. 3d 374, 376–77 (Fla. Dist. Ct. App. 2018).

The Fourth Circuit reaffirmed the principle of combination trade secrets when it held that the plaintiff software developer's flowcharts created out of data that "anyone with a subscription" could access were protected trade secrets because the plaintiff applied his expert knowledge to create the flowcharts and tried to keep access to the flowcharts restricted to those who needed it. *AirFacts Inc. v. de Amezaga*, 909 F.3d 84, 96-97 (4th Cir. 2018).

But, the Eleventh Circuit held that information that would otherwise be a trade secret may lose that status if the employer keeps the information on a password-protected system but also encourages an employee to store the information on his personal cell phone and does not mark the documents as confidential. *Yellowfin Yachts Inc. v. Barker Boatworks LLC*, 898 F.3d 1279, 1300 (11th Cir. 2018) (rejecting "implicit understanding" that information should be kept confidential).

One court made clear that attorneys must be careful not to try to stretch the definition of a trade secret too far. A court imposed a $500 sanction per attorney involved in what the court declared a frivolous motion to seal emails that were "[m]ere[ly] embarrass[ing] to [the] corporation" but not trade secrets. *Nevro Corp. v. Boston Sci. Corp.*, 312 F. Supp. 3d 804, 805 (N.D. Cal. 2018).

Damages. 2018 continued a trend of large damages awards in trade secrets litigation.

HouseCanary Analytics Inc. won a $706 million jury verdict against a Quicken Loans affiliate after the jury found that the defendant misappropriated HouseCanary's real estate valuation technology under the Texas Uniform Trade Secrets Act. (Disclosure: Gibson, Dunn & Crutcher LLP is representing the defendant in post-trial proceedings.)

A jury awarded semiconductor design company ASML $223 million after it found that a rival company maliciously induced ASML employees to reveal trade secrets about ASML's lithography technology. And Lumileds LLC was awarded $66 million after a California jury found that a former Lumileds scientist worked with the CEO of Elec-Tech to develop Elec-Tech's LED technology.

Meanwhile, the New York Court of Appeals, in a split 4-3 decision, held that compensatory damages for trade secrets claims are limited to the actual amount lost by the plaintiff and cannot include the amount of money saved by the infringing defendant on research and development. *E.J. Brooks Co. v. Cambridge Sec. Seals*, 31 N.Y.3d 441, 454 (N.Y. 2018). The dissent argued that the court's ruling "disregards the widespread use of avoided-cost damages" in other jurisdictions, id. at 460, prompting concerns about forum shopping.

And finally, the Federal Circuit held that the court, not the jury, must decide whether to award disgorgement for a trade secrets misappropriation claim. *Tex. Advanced Optoelectronic Sols. Inc. v. Renesas Elecs. Am. Inc.*, 895 F.3d 1304 (Fed. Cir. 2018). The Federal Circuit rejected the plaintiff's argument that the Seventh Amendment confers a right to a jury decision on disgorgement. Id. at 1319–26. The plaintiff has filed a petition for certiorari in the Supreme Court.

Executive & Criminal Developments

In 2017, we reported that the Trump administration was continuing to aggressively pursue criminal actions to address and deter trade secret theft and economic espionage. This continued in 2018 as the Trump administration took aim at China and Chinese nationals through both tariffs and criminal prosecutions. We highlight these developments and other notable prosecutions below.

China

In 2018, federal prosecutors issued several indictments against Chinese companies and Chinese nationals, including government-owned companies and government employees. In September, the U.S. charged a government-funded Chinese company, its Taiwanese partner, and three individuals with crimes related to an alleged conspiracy to steal, convey, and possess trade secrets for memory-chip technology from U.S. company Micron Technology Inc. *See United States v. United Microelectronics Corp.*, No. 18-cr-465 (N.D. Cal.).

In October, Chinese intelligence officer Yanjun Xu was arrested and charged with conspiring and attempting to commit economic espionage and steal trade secrets from U.S. aviation and aerospace companies. *See United States v. Xu*, No. 18-cr-43 (S.D. Ohio). Days after Vice President Pence gave a speech accusing China of overseeing the "wholesale theft of American technology," Xu was extradited from Belgium to the U.S., the first time a Chinese intelligence official has been extradited to the U.S.

Finally, in December, two hackers associated with the Chinese Ministry of State Security were charged with conspiracy to commit computer intrusions, conspiracy to commit wire fraud, and aggravated identity theft in connection with alleged campaigns targeting managed service providers around the world. See United States v. Hua, No. 18-cr-891 (S.D.N.Y). Deputy Attorney General Rod Rosenstein commented that "[t]his is outright cheating and theft, and it gives China an unfair advantage at the expense of law-abiding businesses and countries that follow the international rules in return for the privilege of participating in the global economic system."

In response to the alleged theft of trade secrets by Chinese government-sponsored companies or actors, the Trump

administration has imposed (or threatened to impose) a series of tariffs on Chinese goods.

On March 22, 2018, the administration released a report outlining how China has engaged in unfair trade practices, specifically noting that "[f]or over a decade, the Chinese government has conducted and supported cyber intrusions into U.S. commercial networks targeting confidential business information held by U.S. firms," gaining "unauthorized access to a wide range of commercially-valuable business information, including trade secrets."

Throughout May and June, delegations from the U.S. and China met to discuss unfair trade acts, policies, and practices. As a result of China's failure to respond to U.S. concerns, the U.S. imposed tariffs on billions of dollars of Chinese imports. In response, China has instituted its own tariffs on U.S. goods. On November 22, 2018, the Trump administration released an updated report finding that "China fundamentally has not altered its acts, policies, and practices related to technology transfer, intellectual property, and innovation, and indeed appears to have taken further unreasonable actions in recent months." Plans to escalate tariffs were put on hold at the end of the year as President Trump and Chinese President Xi Jinping agreed to trade negotiations in 2019.

Other Notable Prosecutions

In other criminal trade secrets developments, in February 2018, the U.S. indicted nine Iranian nationals for conspiracy to commit computer intrusions and other related offenses connected to a "massive, coordinated cyber intrusions" into the computer systems of 144 U.S.-based universities, universities located in foreign countries, at least five U.S. federal and state government agencies, at least 36 private sector companies, and at least two NGOs. *See United States v. Rafatnejad*, No. 18-cr-94 (S.D.N.Y.).

The indictment alleges that the individuals—under the direction of the government of Iran and for the benefit of the Islamic Revolutionary Guard Corps and other Iranian customers, including Iran-based universities—targeted and stole academic data and intellectual property, which cost the U.S.-based universities $3.4 billion to procure and access.

In July, a jury returned a guilty verdict against Jared Dylan Sparks for theft and transmission of trade secrets related to several technologies being developed for the U.S. Navy. See United States v. Sparks, No. 16-cr-198 (D. Conn.). Mr. Sparks has moved for a new trial on the grounds that the government violated its obligations to provide exculpatory evidence, prior statements of witnesses, and evidence of promises, inducements, and rewards.

Looking to 2019

2018 demonstrated the federal government's increased involvement in protecting trade secrets, a trend we expect to continue in 2019. We saw trial courts develop the law under the DTSA—and state trade secrets laws—by issuing first-impression decisions and applying the law to new contexts, which they will continue to do in 2019.

We also expect appellate courts soon will have their first meaningful chance to interpret the DTSA, setting the stage for important trade secrets rulings on a federal level in the next year.

Finally, we witnessed the Trump administration take a hard line with China through both criminal indictments and tariffs, which we anticipate will continue to make headlines in 2019.

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