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THIRD CIRCUIT COURT OF APPEALS ADDRESSES FEDERAL TRADE SECRET STANDARDS

To Our Clients and Friends:

On June 8, 2021, in *Oakwood Laboratories LLC v. Thanoo*, the Third Circuit "endeavored to clarify the requirements for pleading a trade secret misappropriation claim under the Defend Trade Secrets Act" (the "DTSA").[1] Enacted in 2016, the DTSA for the first time created a federal private cause of action for civil litigants seeking to protect trade secrets, allowing plaintiffs to seek injunctive relief and/or damages in the event of misappropriation. While other federal Courts of Appeal have previously commented on the DTSA's similarity to various state trade secret laws,[2] as well as differences between the federal statute and certain state regimes,[3] it remains to be seen whether any will adopt *Oakwood*'s analyses. In the meantime, *Oakwood* is an important decision in this fast-evolving field of federal law of which those prosecuting and defending DTSA claims should be aware.

I. Background Concerning the Defend Trade Secrets Act

Prior to the relatively recent enactment of the DTSA, parties seeking to protect their trade secrets via civil litigation were limited to rights provided by various state laws. Through the DTSA, which provides that the "owner of a trade secret that is misappropriated may bring a civil action . . . if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce,"[4] Congress sought to create uniform national standards for trade secret misappropriation.

Courts have generally required plaintiffs to allege three elements to bring a claim under the DTSA: (1) the existence of a trade secret, (2) that is related to interstate or foreign commerce, and (3) misappropriation of that trade secret.[5] The DTSA defines "trade secrets" as a wide variety of "information" for which "reasonable measures" have been taken "to keep [the information] secret," and which "derives independent economic value . . . from not being generally known" nor "readily ascertainable through proper means" to others "who can obtain economic value from [its] disclosure or use."[6] The statute defines "misappropriation" as the "improper" "acquisition," "disclosure" or "use" of such a trade secret.[7]

Plaintiffs who prevail on a trade secret misappropriation claim under the DTSA may obtain an injunction against further "actual or threatened misappropriation," and recover damages calculated based upon (i) the plaintiff's "actual loss," (ii) "any unjust enrichment" derived by the defendant, or (iii) "a reasonable royalty" for the misappropriation.[8] If the misappropriation was willful and malicious, plaintiffs may also be entitled to reasonable attorney's fees and "exemplary damages" of up to twice the damages they could otherwise receive.[9]

II. The Facts of *Oakwood*

The dispute in *Oakwood* pits Oakwood Laboratories, a pharmaceutical company, against its former senior scientist, Dr. Bagavathikanun Thanoo, and his new employer, Aurobindo Pharma U.S.A., Inc. After working for Oakwood for nearly twenty years, Dr. Thanoo left to take a new job with Aurobindo. Oakwood alleged that Dr. Thanoo misappropriated trade secrets in his new role regarding its "Microsphere Project," which focused on a particular pharmaceutical technology.[10] In addition, Oakwood and Aurobindo had previously engaged in ultimately unsuccessful negotiations regarding a possible collaboration on the Microsphere Project, in connection with which Oakwood had shared certain proprietary information with Aurobindo pursuant to a confidentiality agreement.[11]

Oakwood alleged that, over the course of nearly 20 years, a team of 20-40 full-time Oakwood employees spent countless hours and approximately $130 million on the Microsphere Project.[12] Accordingly, Oakwood alleged that "the Microsphere Project is not something that could have been replicated" by Aurobindo in under four years "absent misappropriation of Oakwood's trade secrets."[13] Aurobindo nevertheless claimed to have done just that, while Oakwood alleges that Aurobindo's apparent success necessarily reflects the misappropriation of Oakwood's trade secrets.

The parties' dispute reached the Third Circuit following four dismissals of various iterations of Oakwood's complaint by the district court, with each complaint adding additional details not pleaded in earlier versions. The district court initially found that Oakwood failed to identify a specific trade secret,[14] while it subsequently held that later versions of the complaint sufficiently alleged a trade secret but did not adequately plead misappropriation nor how Oakwood had suffered any harm as a result thereof.[15] Rather than amend its complaint for a fourth time, Oakwood appealed from the dismissal of its third amended complaint.

III. The Third Circuit's Interpretation of the Defend Trade Secrets Act

The parties in *Oakwood* primarily disagreed on the meaning and application of the first and third elements of a DTSA claim: identification of a trade secret and misappropriation thereof.[16] Accordingly, the Third Circuit first clarified the level of specificity required to plead a trade secret before discussing the definition of misappropriation under the statute. The Court also addressed the defendants' argument that Oakwood had alleged only speculative harms because Aurobindo had not yet launched any products based on allegedly misappropriated trade secrets. As to each issue, the Third Circuit disagreed with the district court's reasoning and held that Oakwood's third amended complaint was sufficient to state a trade secret claim under federal law.

In addressing the level of specificity required to plead a trade secret, the Third Circuit relied on California state law in explaining that while a "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,'" plaintiffs nevertheless "need not 'spell out the details of the trade secret' to avoid dismissal."[17] In doing so, the Third Circuit joined its sister circuits in noting that the DTSA is

"substantially similar as a whole" to many states' trade secret statutes,[18] the interpretation of which can inform federal courts' interpretation of the DTSA.

Next, the Court explained that "[t]here are three ways to establish misappropriation under the DTSA: improper acquisition, disclosure, or use of a trade secret without consent."[19] Although Oakwood had alleged misappropriation via improper acquisition and disclosure, the Third Circuit limited its analysis to "the 'use' of a trade secret" because each of the underlying facts relating to acquisition and disclosure concerned events that took place prior to the DTSA's effective date of May 11, 2016.[20] In interpreting the term "use," *Oakwood* turned to Texas state authority, under which "use" was "broadly defined" to mean "any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant," including "marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through [its] use."[21] In other words, the Court deemed a trade secret "used" through any way in which one "take[s] advantage" of it "to obtain an economic benefit, competitive advantage, or other commercial value."[22] In particular, the Third Circuit rejected the district court's equating of the term "use" with the term "replicate," noting that the latter term is used elsewhere in the DTSA and thus the two words could not have been intended as synonyms.[23] The Third Circuit thus held that Oakwood could state a DTSA claim without expressly alleging that Aurobindo had copied its trade secret.

Lastly, the Third Circuit held that a plaintiff need not allege harm separate and apart from misappropriation because "misappropriation *is* harm."[24] Trade secrets derive "'economic value . . . from not being generally known'" or "'readily ascertainable through proper means,'" such that their "economic value depreciates or is eliminated altogether upon its loss of secrecy when a competitor obtains and uses that information without the owner's consent."[25] Accordingly, the Third Circuit in *Oakwood* reasoned that even where defendants "have not yet launched a competing product, that does not mean that [a plaintiff] is uninjured" so long as it "has lost the exclusive use of trade secret information," which is a "real and redressable harm,"[26]

Conclusion

The Third Circuit's interpretation of elements of the DTSA will be instructive for litigants based within that Court's jurisdiction, and may also have an impact in its sister circuits. Given the differing state trade secret regimes that have developed over many decades, as well as the developing case law regarding the DTSA, parties will be well-served by promptly consulting with experienced trade secret counsel when evaluating actual or potential trade secret claims.

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[1] 2021 WL 2325127, at *1, -- F.3d --- (3d Cir. 2021).

[2] *See*, *e.g.*, *InteliClear, LLC v. ETC Glob. Holdings, Inc.*, 978 F.3d 653, 657 (9th Cir. 2020); *Akira Techs., Inc. v. Conceptant, Inc.*, 773 F. App'x 122, 125 (4th Cir. 2019).

[3] *See*, *e.g.*, *Compulife Software Inc. v. Newman*, 959 F.3d 1288, 1311 (11th Cir. 2020) (noting "one important difference" between DTSA's definitions of "misappropriation" and "improper means" and the definitions under Florida law).

[4] 18 U.S.C. § 1836(b)(1).

[5] *Oakwood*, 2021 WL 2325127, at *8.

[6] 18 U.S.C. § 1839(3).

[7] 18 U.S.C. § 1839(5).

[8] 18 U.S.C. § 1836(3).

[9] *Id.*

[10] *Oakwood*, 2021 WL 2325127, at *2.

[11] *Id*.

[12] *Id*.

[13] *Id*.

[14] *Oakwood Labs., LLC v. Thanoo*, No. 17 Civ. 5090, 2017 WL 5762393, at *4 (D.N.J. Nov. 28, 2017).

[15] *Oakwood Labs., LLC v. Thanoo*, No. 17 Civ. 5090, 2019 WL 5420453, at *3–4 (D.N.J. Oct. 23, 2019).

[16] *Oakwood*, 2021 WL 2325127, at *8.

[17] *Id*. (quoting *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 252-53 (Cal. Ct. App. 1968)).

[18] *Oakwood*, 2021 WL 2325127, at *8.

[19] *Id.* at *10.

[20] *Id*. at n.16.

[21] *Id.* at *11 (quoting *Gen. Universal Sys., Inc. v. HAL, Inc.*, 500 F.3d 444, 450-51 (5th Cir. 2007)).

[22] *Id*.

[23] *Id*.

[24] *Id.* at *16.

[25] *Id.* at *15 (quoting 18 U.S.C. § 1839(3)(B)).

[26] *Id.*

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