
2024 Trade Secret Update: A Look at Recent Trade Secret Developments and Trends

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WilmerHale lawyers advise clients on every aspect of trade secret law, from contracts to complex litigation. Below is our second annual update on trade secrets.¹ It includes (1) a summary of the latest trends in trade secret filings, (2) recent significant trade secret cases and decisions, and (3) the notable policy developments of the past year.

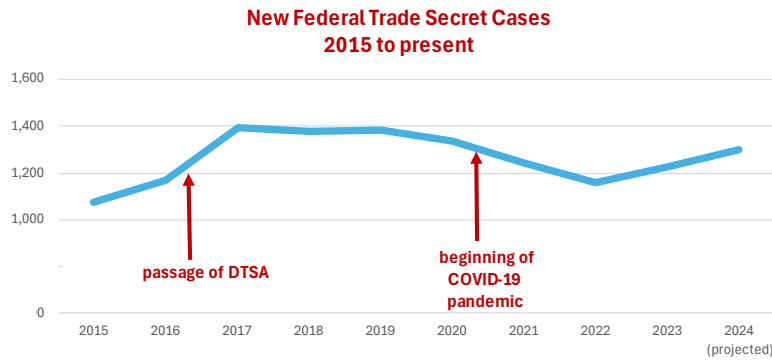
Trends in Trade Secret Case Filings

The Post-DTSA Era Shows a Significant Increase in Federal Trade Secret Litigation

On May 11, 2024, the Defend Trade Secrets Act (DTSA) celebrated its eight-year anniversary. The DTSA's enactment in 2016 marked a turning point in US trade secret protection. It gave parties seeking redress for misappropriation a choice between commencing an action in federal or commencing it in state court, even in the absence of diversity jurisdiction.

Since the DTSA became law, the number of trade secret cases filed in district court each year has consistently remained above pre-DTSA levels. In 2015 (i.e., pre-DTSA), 1,075 trade secret cases were filed in federal district court. The following year, with the enactment of the DTSA in May 2016, that number ticked up to 1,168. But by 2017, the number had increased 30% to 1,394 (the current high-water mark) from pre-DTSA numbers. The number of federal trade secret cases remained stable from 2017 through 2020 before declining in 2021 and hitting a post-DTSA low of 1,158 in 2022. Last year, the figure rebounded, with 1,227 trade secret cases filed in district court.

¹ To read last year's update, please visit WilmerHale's [Insights & Events](#) page to access [2023 Trade Secret Update: A Look Back at Recent Trade Secret Developments](#), published June 12, 2023.

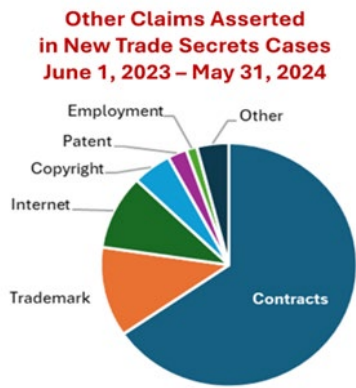


As of the publishing of this alert, 2024 is on track to see that number grow further to just over 1,300 cases. This forecast is likely conservative in view of the Federal Trade Commission’s recent nationwide ban on non-

competes (see more on that in the policy discussion below). The number of trade secret case filings could easily surpass this forecast as companies increasingly turn to trade secret claims for protection, rather than other IP or contract claims.

The most popular venues for commencing trade secret litigation are the Central District of California (C.D. Cal.), Southern District of New York (S.D.N.Y.) and Northern District of Illinois (N.D. Ill.)—each accounting for at least 5% of federal trade secret complaints filed between May 11, 2016 (i.e., the DTSA’s enactment) and the present. In the past 12 months, this trend has remained consistent with S.D.N.Y., C.D. Cal. and N.D. Ill. comprising the top three venues and combining for over 15% of DTSA complaints filed.²

Trade Secret Misappropriation Claims Are Often Accompanied by Other Claims



Recent statistics on federal case filings show that claims of trade secret misappropriation are commonly accompanied by other claims. For example, the circumstances giving rise to trade secret misappropriation claims often involve breach of contract allegations where the contract involved is an employment agreement, license or other partnership contract. Other companion claims frequently include patent, copyright and trademark claims, as demonstrated by the adjacent summary of accompanying claims asserted in trade secret cases over the past year.

² Notably, the International Trade Commission (ITC) instituted only two investigations of trade secret misappropriation claims in 2023. This is down from six investigations in 2022 and a further decline from a height of nine ITC trade secret investigations in 2021. As of the publication date for this alert, the ITC has not instituted any investigation in 2024 alleging trade secret misappropriation. See www.usitc.gov/intellectual_property/337_statistics_types_unfair_acts_alleged_active.htm.

Trade Secret Damages Remain Variable With Upper Bound Increasing

In May 2016, days after the DTSA was enacted, a Massachusetts jury in *CardiaQ Valve Technologies, Inc. v. Neovasc Inc. et al.*, No. 1:14-cv-12405-ADB (D. Mass.), awarded CardiaQ \$70 million in damages—later enhanced to \$91 million—for Neovasc’s misappropriation of six trade secrets related to CardiaQ’s transcatheter mitral heart valve design. The \$91 million in damages—the largest trade secret damages award in 2016—was awarded pursuant to Massachusetts trade secret law and common law, not the newly enacted DTSA. Accordingly, this damages award serves as a useful benchmark in comparing trade secret damages awards for the pre- and post-DTSA era.

Early damages awards resulting from DTSA claims were relatively modest sums. In 2017, the largest DTSA damages award was \$500,000, awarded by a jury in *Dalmatia Import Group, Inc. v. Foodmatch, Inc. et al.*, No. 2:16-cv-02767 (E.D. Pa.). Comparatively, the largest award relying on state and common trade secret law that same year was \$10 million, awarded in *Wal-Mart Stores, Inc. v. Cuker Interactive, LLC*, No. 5:14-cv-05262 (W.D. Ark.).

In 2024, the trend of sizable damages awards resulting from DTSA claims has continued. In January, \$71.2 million was awarded to material solutions provider Trinseo for theft of its trade secrets related to polycarbonate manufacturing, including design drawings of manufacturing plants, process flow diagrams and equipment specifications. See *Trinseo, S.A. v. Harper et al.*, No. 4:20-cv-00478 (S.D. Tex.). More recently, in May, North Carolina-based connectivity and power solutions provider Qorvo was awarded \$31 million in compensatory damages and an additional \$7 million in exemplary damages for Akoustics, Inc.’s misappropriation of Qorvo’s trade secrets related to its bulk acoustic wave resonator filters, key components for accomplishing radio frequency filtering for wireless devices. See *Qorvo, Inc. v. Akoustis Technologies, Inc. et al.*, No. 1:21-cv-01417 (Del.).

Notably, even in the absence of an accompanying DTSA claim, trade secret claims based on state and common law continue to result in large damages awards. On May 30, 2024, a federal jury in *Zunum Aero Inc. v. The Boeing Company et al.*, No. 2:21-cv-00896 (W.D. Wash.), awarded Zunum Aero—an electric aircraft startup—over \$81 million in trade secret damages and \$11.5 million for tortious interference (then jointly reduced by \$20.82 million for failure to mitigate) for Boeing’s misappropriation of trade secrets related to hybrid-electric and all-electric aircraft technology (discussed in more detail below).

In the past few years, the Federal Circuit has vacated several large damages awards in patent cases due to methodological flaws that resulted in overvaluing the technology at issue. See, e.g., *Apple Inc. v. Wi-LAN Inc.*, 25 F.4th 960 (Fed. Cir. 2022), and *California Inst. of Tech. v. Broadcom Ltd.*, 25 F.4th 976 (Fed. Cir. 2022) (vacating awards of \$85.2 million and \$1.1 billion, respectively). Trade secret defendants may find similar success in pressing courts for rulings that reject a plaintiff’s damages theories and require plaintiff to appropriately tailor the demand to the value of the misappropriated trade secrets.

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2023–Midyear 2024 Case Review

When Projects Fail

Boeing Company et al. v. Virgin Galactic, LLC, No. 1:24-cv-00456 (E.D. Va. June 20, 2024)

Virgin Galactic operates suborbital space flights for tourists using a rocket-powered plane and a jet carrier sometimes referred to as a “mothership.” While developing a new mothership, Virgin hired Boeing subsidiary Aurora Flight Sciences to provide engineering services. After performing work for which it invoiced \$25 million, Aurora concluded that the project could not be performed on the timeline and budget Virgin hoped. When Virgin allegedly failed to pay Aurora’s invoices for the work already performed, Boeing and Aurora filed suit in March 2024.

In addition to their claims relating to the purportedly unpaid invoices, Boeing and Aurora sued for misappropriation of trade secrets under the DTSA and Delaware Uniform Trade Secrets Act. Their claims are premised on Virgin’s alleged failure to return or destroy (1) proprietary equations used to design and model aircraft that Aurora inadvertently disclosed during the parties’ collaboration and (2) a set of proprietary test data reflecting thousands of tests of the material properties of a particular composite. Virgin contends that, in fact, the parties’ contracts vest Virgin with rights in the alleged trade secrets such that it cannot be liable for misappropriation.

Plaintiffs followed their complaint with a request for a preliminary injunction, claiming that because Virgin “acknowledges that it is developing a replacement for the Mothership it previously sought to develop with Aurora,” they were being irreparably harmed by “Virgin Galactic’s ongoing, unauthorized retention and use of [plaintiffs’] trade secrets,” which creates “irreparable harm by risking exposure to other competitors.” On June 20, 2024, the court issued its order on plaintiffs’ preliminary injunction. The court ordered Virgin not to publicly disclose the trade secrets at issue but allowed Virgin to “use the Disputed IP within Virgin Galactic for the purpose of developing a new mothership so long as Virgin Galactic safeguards the confidentiality of the Disputed IP and does not share it with any third parties, other than those under contract with Virgin Galactic for the mothership development program under a non-disclosure agreement.”

Federal Circuit Reverses Preliminary Injunction

Insulet Corp. v. EOfFlow, Co. Ltd. et al., No. 2024-1137 (Fed. Cir. June 17, 2024)

The Federal Circuit recently reversed a Massachusetts district court’s decision granting Insulet Corp.—a medical device company—a preliminary injunction against a South Korean competitor in the insulin pump manufacturing space.

Insulet developed its flagship wearable insulin pump, called the OmniPod, in 2006; EOfFlow did not begin developing its flagship EOPatch product until 2011 and did not receive regulatory approval in South Korea until 2017, around the time four former Insulet employees joined EOfFlow. In early 2023, Medtronic—a larger medical device company—was reported to have interest in acquiring EOfFlow. Shortly after these reports surfaced, Insulet sued EOfFlow in Massachusetts district court alleging trade secret misappropriation under the DTSA. Insulet obtained a preliminary injunction halting EOfFlow's communications with Medtronic about the potential acquisition.

A Federal Circuit panel comprising Judges Lourie, Prost and Stark determined that the district court erred in granting the preliminary injunction against EOfFlow on multiple bases. Key issues are discussed below.

First, the district court abused its discretion in not assessing the statute of limitations in the context of evaluating Insulet's likelihood of success on the merits of its trade secret misappropriation claim. The Federal Circuit determined this was an error because "if the three-year statute of limitations for filing a DTSA claim had expired, Insulet's claims would be time-barred and therefore would have no chance of success."

Second, the district court's order granting the injunction contained a "severely overbroad" and "inaccurate" definition of what constitutes a trade secret. Per the district court's order, "trade secret" included "any and all Confidential Information of Insulet" and "any information that contains, derives from, or incorporates such Confidential Information." The injunction further specified that Confidential Information "shall mean (a) any and all information or materials that were marked 'confidential' by Insulet and (b) any and all CAD files, drawings, or specifications created by Insulet, whether or not they were marked 'confidential.'"

Third, the Federal Circuit found the district court's required analysis to determine which of Insulet's alleged trade secrets EOfFlow misappropriated and whether Insulet took reasonable measures to protect that information's secrecy to be "too general to support the preliminary injunction."

Fourth, the Federal Circuit determined the district court erred in finding that even though there was evidence that portions of the OmniPod could be reverse engineered, "any and all depictions or descriptions of those components [could] be trade secrets." In the circuit court's words, "[t]o be clear: if information is readily ascertainable through proper means such as reverse engineering, it is not eligible for trade secret protection." The Federal Circuit considered the district court's finding erroneous, "particularly given the evidence of the public availability of the OmniPod, multiple tear-down videos available on the internet, and Insulet's own publications providing '[a] look under the hood, featuring core components of the OmniPod.'"

Fifth, the district court erred in declining to assess whether Insulet's patent filings disclosed some or all of its trade secrets to the public. The Federal Circuit noted: "If particular components of the OmniPod are not novel because they have become matters of public knowledge either through a

patent disclosure or otherwise, then the specifications for those components are unlikely to merit trade secret protection.”

Defendants’ Access to Alleged Trade Secrets

***Jane Street Group v. Millennium Management*, No. 1:24-cv-02783, 2024 WL 3318218
(S.D.N.Y. June 12, 2024)**

Jane Street sued two of its former traders, Douglas Schadewald and Daniel Spottiswood, and their new employer, hedge fund Millennium Management, in April 2024 under the DTSA and New York trade secret law claiming misappropriation of a confidential trading strategy regarding options trading in India (the Trading Strategy). The trade secrets that Jane Street alleges are involved in the development and deployment of the Trading Strategy are generally described as (1) “validated trading methods” based on “key signal information and insights” and “methods and heuristics” to interpret signal information and optimize profits; (2) results of time and capital investment from [a] 2023 trading investigation; and (3) “intra-day models” used to “inform and trigger trading.”

Before answering Jane Street’s amended complaint, defendants demanded a particularized trade secret disclosure. Jane Street pushed back, offering instead to make such a disclosure only in response to an interrogatory within the timing set forth under the Federal Rules of Civil Procedure and S.D.N.Y. Local Rule 33.3(a), which purportedly allowed plaintiff to postpone the disclosure.

On May 16, the court ordered Jane Street to provide a “detailed identification of all alleged trade secrets” in advance of the interrogatory deadlines. The parties subsequently disputed *who* may have access to that disclosure and the accompanying documents. Counsel for defendants proposed that AEO documents, including Jane Street’s required trade secret disclosure, be provided to the individual defendants, certain in-house counsel and other designated “business professionals.” Defendants argued that withholding the disclosure from these individuals would deprive defendants of “fair notice and their ability to effectively defend this case, and impinge[] on their outside counsel’s ethical obligation to inform and advise their clients.” Defendants also argued that, because Millennium in-house counsel “are not involved in competitive decision-making or trading decision,” “any remote theoretical risk of inadvertent disclosure is heavily outweighed.”

On June 12, the court issued an order allowing the individual defendants access to Jane Street’s trade secret disclosure. The court determined that “[i]t would be unreasonable for Jane Street to allege that the individual defendants ‘misappropriated information, then deny [them] access to the information allegedly misappropriated.’” The court further reasoned that because the disclosure “(1) consists solely of information allegedly known to and exploited by the individual defendants, and (2) is of central importance to allowing the individual defendants to mount an adequate defense,” it was “appropriate” for those defendants to have access.

The court stopped short of giving defendants access to “all documents containing ‘information to which [they] had access while at Jane Street,’” finding that request “difficult to administer and overbroad.” The court instead expressed its preference for allowing the individual defendants access to only documents they *received or authored* if such language were included in a jointly submitted protective order.

Scrutiny of Trade Secret Disclosures

***Alifax Holding SpA et al. v. Alcor Scientific LLC et al.*, No. 22-1641, 2024 WL 2932910
(Fed. Cir. June 11, 2024)**

Alifax makes instruments that automate analysis of blood samples to diagnose inflammation. In October 2014, Alifax sued competitor Alcor Scientific after Alcor hired Alifax’s former vice president of research and development, Francesco Frappa. Alifax alleged that hiring Mr. Frappa (and obtaining access to Alifax’s trade secrets) allowed Alcor to launch a new blood sampling tool comparable to the Alifax device—the Alcor “iSED” device—on an accelerated schedule. Alifax alleged trade secret misappropriation under the Rhode Island Uniform Trade Secrets Act among other claims.

Alifax asserted two trade secrets in the litigation:

- (1) the “conversion algorithm” trade secret, which comprised “portions of computer program source code concerning the conversion of photometric measurements, including source code containing four specific conversion constants; and
- (2) the “signal acquisition” trade secret, which Alifax described in a required trade secret disclosure as “the manner in which the software used in Alifax’s ESR analyzers initiates an ESR measurement from a blood sample loaded in the ESR analyzer, handles a blood sample to introduce it into the capillary container, instructs the ESR analyzer to obtain photometric data, and handles and converts the photometric data to calculate the ESR of the blood sample.”

At the charge conference, the court struck the alleged “signal acquisition” trade secret from the jury verdict form, determining that there was no record evidence to support it as a trade secret. The jury returned a verdict for Alifax on the “conversion algorithm,” finding Alcor liable for misappropriation and \$6.5 million in damages. The court, however, granted defendants’ motion for a new trial on both liability and damages based on its determination that the jury’s verdict was against the clear weight of the evidence. The court also ordered, among other things, that at the new trial, Alifax’s misappropriation theory for the alleged “signal acquisition” trade secret be excluded.

Alifax appealed, arguing, among other things, that the district court erred in withholding the “signal acquisition” trade secret from the jury.

The Federal Circuit determined that Alifax had “failed to describe the alleged signal acquisition trade secret with sufficient detail” and “identify its proper scope.” The Federal Circuit explained that “failing to clarify the existence and scope of the alleged trade secret[] mak[es] it impossible to ascertain whether certain elements of the alleged trade secret have been established,” such as whether the alleged trade secret derived independent economic value from not being generally known. The panel further found that Alifax’s trial evidence—including a technical document authored by Mr. Frappa for Alcor—did not provide the necessary disclosure. According to the Federal Circuit, neither this technical document nor any of Alifax’s other evidence enabled a jury to distinguish between the aspects of the purported trade secret that were “known to the trade” and those that were not.

Ultimately, the Federal Circuit reinstated the jury verdict on liability for misappropriation of the “conversion algorithm” trade secret but remanded for a new trial on damages.

When Negotiations Break Down

Zunum Aero v. The Boeing Company et al., No. 2:21-cv-00896 (W.D. Wash. May 30, 2024)

Zunum was founded as a stealth-mode startup in 2013, with the goal of developing hybrid-electric and all-electric aircraft. In 2016–2017, following several months of discussions under a confidentiality agreement, Boeing invested \$5 million in Zunum through a newly created Boeing venture arm called HorizonX. The parties’ relationship subsequently broke down. Zunum claimed that Boeing covertly withdrew its support and encouraged other potential partners not to invest, while developing its own competing aircraft.

In its complaint, Zunum alleged possession of numerous trade secrets, describing in general terms “dozens of separate tangible and intangible devices and tools.” The parties disputed the sufficiency of Zunum’s identification of trade secrets throughout the course of the litigation, culminating in a request from the court that each party provide definitions of the trade secrets at issue, for the jury’s consideration at trial. The court was “disappointed” with the resulting proposals—Zunum’s 550-page compilation was too voluminous, and Boeing’s proposal was too vague. Instead, the court drafted its own categorical definitions.

Zunum also contended that Boeing had misappropriated Zunum’s trade secrets by incorporating them into Boeing’s patent applications. Boeing counterclaimed for declaratory judgment of inventorship with respect to those applications. The court granted summary judgment in Boeing’s favor. Based on that decision, Boeing contended that certain trade secret claims—those that related to the alleged secrets in Boeing’s patent applications—were now preempted by the court’s inventorship decision. The court, however, rejected the argument as untimely.

On May 30, 2024, the jury awarded Zunum damages of over \$90 million, which the court reduced to just over \$70 million for failure to mitigate. The court entered judgment on June 4, and the case is currently in the post-trial briefing stage.

Claims Following SVB's Collapse

First Citizens Bank v. HSBC Holdings et al., No. 3:23-cv-02483 (N.D. Cal.)

About two weeks after Silicon Valley Bank (SVB) collapsed in March 2023, First Citizens Bank purchased its deposits and loans out of FDIC receivership. Roughly two weeks after that, 42 former members of SVB's technology and life sciences department left First Citizens to join a former SVB executive at HSBC. First Citizens filed a \$1 billion suit in the US District Court for the Northern District of California for breach of contract, a variety of torts, and misappropriation of trade secrets under the DTSA and California's Uniform Trade Secrets Act (CUTSA).

Defendants moved to dismiss, raising numerous issues. In a pair of rulings issued January 10, 2024 and July 9, 2024 (the latter addressing an amended complaint), the court dismissed most claims, but allowed some to proceed:

1. The court held that California law does not render the non-solicitation provision of the relevant agreements per se unenforceable, at least because “the claims here turn on ***use of confidential and trade-secret information*** to solicit others,” rather than the solicitation itself standing alone. (emphasis added).
2. The court permitted First Citizens' trade secret claims to proceed as to employee “salary, markets, skills, and business relationships,” reasoning that the “tethering” together of such information is what makes it “protectible and valuable.” However, the court dismissed First Citizens' trade secret claims in relation to valuations and growth metrics regarding specific clients because that information belonged to the clients, not to First Citizens.
3. The court held that First Citizens' tort claims—principally, breach of the duty of loyalty, breach of fiduciary duty and tortious interference—were preempted by California's Uniform Trade Secrets Act, which “provides the exclusive legal remedy for conduct falling within its terms,” because each of the tort claims is premised on alleged misuse of confidential information.

In its May 30 order, the court permitted First Citizen the opportunity to file a further-amended complaint to address certain jurisdictional issues.

Sanctions

***Motorola Sols., Inc. v. Hytera Commc'ns Corp.*, No. 1:17-cv-01973, 2024 WL 1254127 (N.D. Ill. Mar. 25, 2024) (and related rulings)**

Motorola and Hytera compete in the market for digital mobile radio products. After a trial lasting more than three months—beginning in November 2019 and ending in February 2020—a jury awarded Motorola almost \$765 million (later reduced to \$544 million) for trade secret misappropriation and copyright infringement. The court denied Motorola's request for a permanent injunction, but in July 2022 ordered Hytera to pay ongoing royalties on products adjudicated at trial to infringe.

One month before the court issued its order on royalties, in June 2022, Hytera filed suit in Shenzhen, China, seeking a declaratory judgment that H-Series products do not incorporate Motorola's trade secrets or infringe Motorola's copyrights. The H-Series products had not been adjudicated to infringe in the N.D. Ill. trial, having not yet been released at that time. Hytera did not inform either Motorola or the N.D. Ill. court of the Shenzhen suit, and Motorola was not served with that complaint until November 2023.

On January 20, 2024, Motorola moved to open contempt proceedings, arguing that it is owed royalties on Hytera's H-Series sales. The court granted Motorola's request to open contempt proceedings. The court also granted Motorola's request for an antisuit injunction barring Hytera from proceeding with the Shenzhen declaratory judgment suit. Dissatisfied with Hytera's efforts to comply, the court enjoined all Hytera sales (both foreign and domestic) of two-way digital radios and imposed a daily fine of \$1 million.

Hytera appealed the antisuit injunction and filed an emergency motion requesting that the Seventh Circuit Court of Appeals stay the contempt sanctions pending appeal. On April 16, 2024, the Seventh Circuit "commend[ed] the district court for its close attention and careful work" and expressed understanding of "the district court's skepticism" given that "Hytera has amassed a record of theft of intellectual property, spoliation of evidence, and other litigation misconduct." However, the Seventh Circuit concluded that since its "initial foot-dragging," Hytera had done everything within its power to terminate the Shenzhen suit, such that the sales injunction, notice requirement and daily fine—all of which were originally "properly coercive"—had become "only punitive." Accordingly, the Seventh Circuit stayed those aspects of the district court's sanctions order while also setting a schedule for expedited briefing on Hytera's appeal of the antisuit injunction.

Contempt proceedings are ongoing, and the parties' Seventh Circuit briefing is in progress.

Extraterritorial Damages Under the DTSA

***Motorola Sols., Inc. v. Hytera Commc'ns Corp. Ltd.*, --- F.4th ---, No. 22-2370, 2024 WL 3268954 (7th Cir. July 2, 2024)**

On July 2, the Seventh Circuit rendered its decision in Hytera's appeal and Motorola's cross-appeal regarding the district court's damages award and denial of Motorola's request for a permanent injunction. In doing so, the Seventh Circuit addressed a number of noteworthy issues relating to interpretation and application of the DTSA.

First, the court held that the DTSA rebuts the presumption against extraterritoriality because it is expressly intended and crafted to remedy the problem of foreign misappropriation of U.S. trade secrets. Having reached that conclusion, the court further concluded that damages arising from Hytera's foreign sales were appropriate in this case because even though Hytera had improperly **acquired** Motorola's trade secrets outside the United States, it had improperly **used** Motorola's trade secrets (and therefore committed acts of misappropriation) in the United States in its "marketing of products embodying Motorola's stolen trade secrets. The court rejected a number of counter-arguments, including that the DTSA's extraterritorial reach is limited to criminal offenses, that an act "in furtherance of" misappropriation must itself constitute a completed act of misappropriation, and that extraterritorial damages under the DTSA must be specifically caused by domestic acts.

Second, the court held that although the district court had erred in failing to apportion the damages award, the error was harmless. The damages award was based on Hytera's profits; accordingly, Hytera argued – and the Seventh Circuit agreed – that the district court should have factored out Hytera's own contributions to its profits in order to limit the award to the contribution of the misappropriated trade secrets. However, the Seventh Circuit concluded that the error was harmless because Motorola was entitled to recover the **greater of** (1) Hytera's profits; and (2) the sum of Motorola's own lost profits and Hytera's avoided R&D costs, which amounted to more than Hytera's profits and is not subject to the apportionment requirement.

Third, the court rejected Hytera's argument that the district court's punitive damages award violated due process. As the DTSA requires, the district court found that Hytera's conduct was willful and malicious, and the Seventh Circuit observed that "[t]here is no doubt that Hytera's conduct falls squarely within the statutory prohibitions." Further, the district court followed the DTSA's express limit on punitive damages – twice compensatory damages.

In affirming the punitive damages award, the Seventh Circuit distinguished its decision in *Epic Systems Corp. v. Tata Consultancy Services Ltd.*, No. 22-2420, 2023 WL 4542011 (7th Cir. 2023). There, the Seventh Circuit had reduced a punitive damages award from a two-to-one ratio to compensatory damages award to a one-to-one ratio. The primary difference between the two cases

was that *Epic Systems* was decided under state law, and the state’s two-to-one punitive damages cap applies to nearly all state law claims, rather than reflecting a “precise, reasoned legislative judgment with respect to the particular claims” at issue like the DTSA. In addition, the court noted that Hytera’s misconduct was far worse – and Motorola’s harm much greater – than the misconduct and harm it issue in *Epic Systems*.

Fourth, the Seventh Circuit instructed the district court to revisit Motorola’s request for a permanent injunction, which had been denied based on the view that an ongoing royalty would suffice. The Seventh Circuit observed that Hytera’s subsequent litigation misconduct called into question whether it would be able – or could be forced – to pay an ongoing royalty, and whether an ongoing royalty would suffice to remedy the harm to Motorola.

Trade Secret Protection vs. Patent Protection

***Celanese Int’l Corp. v. Int’l Trade Comm’n*, No. 22-1827 (Fed. Cir. 2024)**

On March 4, 2024, the Federal Circuit heard oral arguments in *Celanese Int’l Corp. et al. v. Int’l Trade Comm’n*, No. 22-1827 (Fed. Cir. 2022), an appeal bearing on the question of whether a patentee’s sale of an unpatented product made according to a secret method triggers the on-sale bar to patentability.

The Federal Circuit has not yet issued its decision. For additional discussion and background on this case, please visit WilmerHale’s [Insights & Events](#) page to read our prior alert: [A Secret On Sale: When Trade Secrecy and Invention Disclosure Collide](#), published March 21, 2024.

Importance of Sufficiently Identifying Trade Secrets

***Equate Media, Inc. et al. v. Suthar et al.*, No. 22-55681, 2023 WL 7297328 (9th Cir. Nov. 6, 2023)**

Equate Media and its co-plaintiffs run a marketing business providing customer leads to moving and relocation companies. After former employees, including its former IT manager, started a competing company, Equate Media sued for breach of contract and misappropriation of trade secrets, alleging that defendants used a variety of Equate Media confidential information—including data relating to Google Ads such as conversion rates and quality scores—to launch their competing business. *Equate Media, Inc. et al. v. Suthar et al.*, No. 2:21-cv-00314-RGK (C.D. Cal.). At trial in 2022, a jury decided for plaintiffs, awarding \$1.4 million to Equate Media (and lower amounts to two co-plaintiffs). In its complaint and at trial, plaintiffs had identified their alleged trade secrets as:

“(1) Plaintiffs’ Marketing Data, including [Google] Keywords, Themes, and Conversion Rates that Plaintiffs have gathered over 15 years,

(2) proprietary source code developed by Plaintiffs that created multiple systems working together that allowed Plaintiffs to run their online business, and

(3) confidential customer and pricing information.”

After trial, however, the district court granted judgment as a matter of law in defendants' favor based on the conclusion that plaintiffs had not clearly identified any trade secrets. For example, the district court observed plaintiffs had not identified specific quality scores.

In a short opinion issued on November 6, 2023, the Ninth Circuit Court of Appeals determined that plaintiffs “presented sufficient evidence to permit the jury to conclude that they possessed trade secrets in Google ad data.” The court reasoned that, although the keywords an advertiser uses on Google are themselves publicly discernible, conversion rates and quality scores “reflect Google’s assessment of how relevant a particular keyword is to users.” Because these rates/scores are not publicly discernible, they constitute “examples of a ‘formula’ or ‘compilation’” qualifying for trade secret protection under both California law and the Defend Trade Secrets Act. The Ninth Circuit reversed the district court’s grant of judgment as a matter of law and ordered that the jury verdict be reinstated.

Following the appeal, on March 20, 2024, the district court entered an injunction barring defendants from further use or disclosure of plaintiffs’ trade secrets.

Update on a Key Damages Case

***Syntel Sterling Best Shores Mauritius Ltd. v. The TriZetto Grp., Inc.*, 68 F.4th 792 (2d Cir. 2023)**

In 2010, health insurance software developer TriZetto subcontracted Syntel to provide support to TriZetto customers. Through that work, Syntel obtained access to TriZetto trade secrets. After Syntel competitor Cognizant Technology Solutions acquired TriZetto in 2014, the parties’ relationship disintegrated, and Syntel filed suit for breach of contract (and other claims). TriZetto counterclaimed for misappropriation of trade secrets in violation of the DTSA (and other claims).

At trial, as a sanction for destruction of evidence during discovery, the district court instructed the jury that Syntel had misappropriated (at least) two of TriZetto’s 104 alleged trade secrets. TriZetto presented evidence that Syntel’s misappropriation had caused TriZetto to lose \$8.5 million in profits and Syntel to gain \$0.8 million in profits, and that it had allowed Syntel to avoid \$285 million in research and development costs. The jury found for TriZetto on all claims, concluding that a reasonable royalty amounted to \$142 million and compensatory damages amounted to \$285 million. To avoid double-counting, the jury awarded only the latter, in addition to \$570 million in punitive damages.

On appeal, the Second Circuit vacated the compensatory damages awarded (for avoided costs) and remanded for consideration of the propriety of the reasonable royalty amount of \$142 million. According to the court, “Syntel never developed or sold a competing software product using TriZetto’s trade secrets.” Thus, “Syntel’s unjust gain was fully ‘addressed in computing damages for [TriZetto’s] actual loss,’” and TriZetto “suffered *no compensable harm* beyond that actual loss.” The Second Circuit observed that avoided costs awarded “where a trade secret owner suffers *no compensable harm* beyond its lost profits or profit opportunities. . . . are more punitive than compensatory.”³

The Second Circuit’s decision conflicts with the Seventh Circuit’s decision in *Epic Systems I* “insofar as [the Seventh Circuit’s decision] can be seen to endorse a view that avoided costs are available as compensatory damages under the DTSA *whenever* there is misappropriation of any trade secret relating to the owner’s product.” That view, the Second Circuit reasoned, “unhinges avoided costs from the DTSA’s compensatory moorings and overlooks the remedial benefits . . . of a timely injunction that prevents the dissemination and use of a trade secret.”

On October 30, 2023, the Supreme Court denied TriZetto’s petition for certiorari. On remand, the district court vacated the jury’s reasonable royalty award because it was incongruent with TriZetto’s actual loss of \$8.5 million in lost profits. As a result, TriZetto is left without compensatory damages. However, the punitive damages award of \$285 million remains in place because Syntel did not directly challenge it on appeal, and the district court further awarded attorneys’ fees totaling almost \$15 million. *Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Group, Inc.*, No. 15-cv-211, 2024 WL 1116090 (S.D.N.Y. Mar. 13, 2024).

Policy and Practice Tips

A series of recent policy decisions and developments have put a spotlight on trade secret litigation. WilmerHale routinely advises clients on how these issues impact corporate practices and litigation risks.

FTC’s Ban of Non-Competition Agreements

On April 23, 2024, the Federal Trade Commission (FTC) announced its Non-Compete Clause Rule ([Final Rule](#)), which purports to (1) ban most new post-employment non-competition restrictions and (2) invalidate most existing ones. The Final Rule takes effect on September 4, 2024.

³ The court noted that, in some circumstances, awarding avoided costs compensates for losing “the value of the[] misappropriated trade secrets”—for example, where “the defendant has used the secret in developing its own competing product.” But defendant never developed a competing product here.

The Final Rule prohibits:

- entering, or attempting to enter, into a non-compete clause with any worker;
- enforcing, or attempting to enforce, a non-compete clause; and
- representing that a worker is subject to a non-compete clause.

The Final Rule also requires that—no later than the effective date of the Final Rule—employers notify all current and former workers (including independent contractors, volunteers and sole proprietors) who have entered into a non-compete that the non-compete is no longer effective.

The Final Rule includes corner-case exceptions for:

- a non-compete entered into by a person pursuant to a bona fide sale of a business entity, of the person's ownership interest in a business entity, or of all or substantially all of a business entity's operating assets; and
- a non-compete entered into with a "senior executive" (a worker who is in a "policy-making position" and received at least \$151,164 in total compensation the preceding year) before the Final Rule comes into effect. Fewer than 1% of workers are estimated to fall into this category.

Litigation to invalidate the Rule is currently underway in federal district courts in Texas, Pennsylvania, and Florida. On July 3, a Northern District of Texas court granted a motion brought by Plaintiff and Plaintiff-Intervenors Ryan LLC, US Chamber of Commerce, Business Roundtable, Texas Association of Business, and Longview Chamber of Commerce to preliminary enjoin the non-compete rule, though the Court's order limited relief to the named plaintiffs. In the absence of a nationwide injunction, it remains prudent for employers to start (or continue) preparing for the law to take effect as planned.

For additional discussion on the FTC's ban on non-competes, please visit WilmerHale's [Insights & Events](#) page to read our prior alerts: [FTC Bans Non-Competes: What's at Stake and What Happens Next](#), published April 25, 2024, and [Understanding the FTC's Non-Compete Clause Rule and Its Impact on NDAs](#), published May 30, 2024.

Whistleblower Protections in the Northern District of California

On March 3, 2024, the US Attorney's Office for the Northern District of California (USAO)—one of the most popular districts for trade secret litigation—announced a pilot program that could change protections for whistleblowers. In order “to encourage individuals to voluntarily report criminal conduct to the [USAO] and to provide actionable and timely information regarding other culpable parties,” the USAO will enter into non-prosecution agreements with individuals who report, among other things, “criminal conduct undertaken by or through public or private entities or organizations, including corporations, partnerships, non-profits, exchanges, financial institutions, investment advisers, or investment funds involving ... **intellectual property theft** and related violations,” provided that certain conditions are met. These conditions include:

- the misconduct has not already been made public or reported to the DOJ;
- the whistleblower reports the conduct voluntarily and not in response to an inquiry or as the result of an existing obligation to report;
- the whistleblower provides “substantial assistance” to the government in its investigation; and
- the whistleblower “truthfully and completely discloses all criminal conduct in which the [whistleblower] has participated and of which the [whistleblower] is aware.”

The program took effect on March 14, 2024. Although the implications of the new program are still unclear, we suggest trade secret owners take the following steps:

1. Adopt a policy of regularly auditing intellectual property assets to ensure that information in the company's possession is accurately treated and protected as a trade secret. This will allow trade secret owners to quickly identify key and potentially exculpatory information in the event the purported whistleblower has implicated the owner in criminal activity.
2. Adopt a policy of encouraging the internal reporting of issues. With increased whistleblower protections, it is even more important for companies to have a strong culture of reporting—that is, employees should (1) feel empowered to internally report issues on a timely basis and without fear of retaliation and (2) feel confident that corrective action will be taken when necessary.

For additional discussion, please visit WilmerHale's [Insights & Events](#) page to read our prior alert, [2024 Trade Secret Update: Whistleblower Protections in the Northern District of California](#), published June 4, 2024.

Artificial Intelligence and Trade Secrets

Inventors are increasingly using generative AI tools to assist in the development of new technologies. Given the current uncertainty surrounding patenting AI innovations, patent protection may not suffice for IP owners. But can trade secret law provide a better option?

Partners Josh Lerner and Nora Passamaneck discussed the unique issues and requirements for trade secret law and AI in a recent analysis published by *Law360*. To read their analysis, please visit WilmerHale's [Insights & Events](#) page to access [Untangling the Legal Complexities of Trade Secrets and AI](#), published March 29, 2024.

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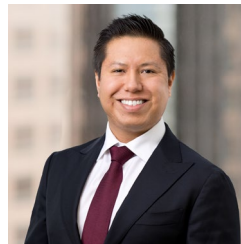
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