

Trends in Trade Secret Litigation Report 2020



The background features a low-angle photograph of a modern building with a glass and steel facade, viewed from below. The image is divided into three main color regions: a bright blue sky at the top, a vibrant green triangle on the left, and a dark blue triangle on the right. The title 'Table of Contents' is centered in the dark blue area.

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Introduction



For decades, companies have turned to federal courts to protect valuable business assets, such as trade secrets. Legal action has expanded over the years, and recent trends have set the foundation for a continuing surge in federal trade secret litigation.

From beverage recipes and manufacturing processes, to computer algorithms and customer lists, trade secrets often play a vital role in successful business operations. But exposure of these important assets to an unwanted party can be detrimental to a company, whether it be a small startup or a Fortune 500 company.

With the digitization of intellectual property (IP) and ongoing competition across industries – among other macro trends – companies are at elevated risk of trade secret theft. In addition, shifts in patent law, which have generally weakened that form of protection, may influence how companies protect these assets and pursue remedies. Given these conditions, businesses are increasingly engaging in legal proceedings specific to trade secrets.

Trade secret litigation has been on the rise for a number of years and will likely continue this upward trajectory. Three factors are particularly evident when considering this increase in activity:

- 1 | Litigation activity will continue to expand due to the Defend Trade Secrets Act of 2016 (DTSA). The DTSA not only provides business owners the opportunity to leverage stronger, more consistent rules of procedure, protections, and enhanced remedies, but the ability to seek remedies in federal court, state court, or both.¹
- 2 | Based on recent decisions in patent litigation, we expect more companies will opt to protect certain business assets through established trade secret practices as opposed to patenting.
- 3 | Expanding workforce mobility, as well as technological advances and the digitization of information, are expected to continue to drive the increased trade secret-related litigation associated with labor and employment matters.

As a result of these factors, attorneys and industry experts alike must be increasingly mindful of the nuances impacting where a trade secret case is filed, the damage remedies available in that venue, and emerging precedents available to practitioners for determining damages.

This report presents Stout's comprehensive research on trade secret litigation, spanning three decades. It details our observations and analyses on the types of trade secrets at issue, certain case-specific matters, and a discussion of trends since the enactment of the DTSA.

The insight we have gathered into certain trends paints a clear picture of the far-ranging effects that the DTSA, changing patterns in patent litigation, and the labor and employment landscape will have on trade secret litigation going forward. We have highlighted a number of key findings, which we will discuss in greater detail.

¹ Tony Dutra, "New Trade Secret Law: More to Consider in Patent Trade-Off," *Bloomberg BNA*, May 31, 2016.

REPORT BACKGROUND

Following the enactment of the DTSA in 2016, Stout conducted an independent analysis of federal trade secret cases decided over the 27-year period from 1990 through the summer of 2017, studying the historical impact of these matters. This report, originally published in 2017, has been updated to include federal trade secret cases decided through the summer of 2019. Stout's research methodology has not changed from the original report. Our research methodology is detailed in Appendix I.

We have observed numerous trends in trade secret litigation via continual research, monitoring, and marketplace exposure. We discuss our findings throughout this report, and our research and results have been summarized to highlight notable observations.

This analysis – presented in the context of defining a trade secret, the DTSA's impact on the legal environment, and the growth of trade secret litigation – is valuable to businesses seeking remedies for the misappropriation of trade secrets through the federal courts, as well as to attorneys and practitioners focused on trade secret litigation.

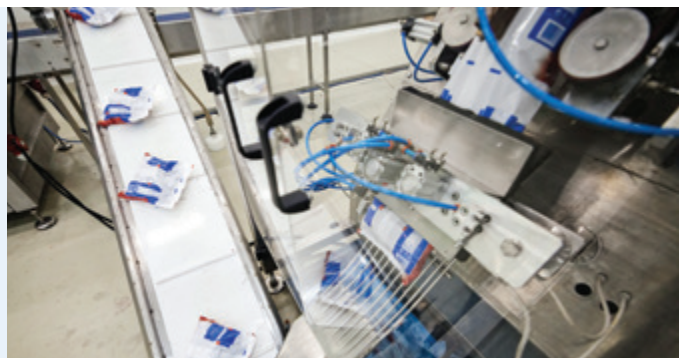
Key Findings

Our research uncovered a number of interesting findings in trade secret litigation between 1990 and 2019.

TRENDS

Understanding the nature of the companies or other entities involved in trade secret litigation can illuminate what industries are generating the most trade secret disputes, and how these trends have changed over time. For instance:

- Over 22% of all trade secret cases originated within the industrials sector
- 46% of the cases included multiple types of trade secrets as part of the allegedly misappropriated information
- The information technology, consumer discretionary, and healthcare sectors have experienced steep increases in trade secret litigation



22% of all cases originated within the industrials sector

46% included multiple types of trade secrets

What constitutes a trade secret and what constitutes confidential information can vary between organizations. All trade secrets are confidential information, but not all confidential information is a trade secret.

PATENTS

Based on the decisions in several high-profile patent cases we discuss later in this report, we expect to see more companies opt to protect their business assets through established trade secret practices as opposed to patenting.

EMPLOYEE MOBILITY

Additionally, certain types of trade secret cases appear to have increased due in part to the notable employee turnover that occurred as a result of the Great Recession. Coupled with an increasingly service-based economy, strategic recruiting by competitors, and the ease of which information can be obtained and copied in an electronic environment — many cases pertaining to the theft of trade secrets emanate from the employee workplace.

FUTURE FILINGS

As an increasing number of companies and outside counsel opt to pursue trade secret litigation and protection more frequently in the federal courts, we anticipate that innovations and confidential/proprietary processes and information will be protected more frequently via trade secret rather than patents, especially in certain industry segments. This shift from state to federal courts is likely to result in:

- 1 | Increased trade secret litigation filings as business owners leverage stronger protections and enhanced remedies against unwarranted exposures of their trade secret information
- 2 | Greater influence from other IP areas in the determination of trade secret damages under the DTSA
- 3 | A more established and broader set of precedents to work with in evaluating damages

CONFIDENTIAL INFORMATION

There has also been a significant influx of cases involving trade secrets and/or confidential information related to:

- Computer technology, programing, methods, and source code
- Customer lists
- Proprietary pricing
- Supplier relationships
- Designs/blueprints

However, what constitutes a trade secret and what constitutes confidential information can vary between organizations. All trade secrets are confidential information, but not all confidential information is a trade secret. Often, the categories of financial information and business relationships overlap, resulting in matters in which customer lists, proprietary pricing, and other marketing and financial records are at issue, and have contributed to the increase in trade secret litigation.

CASE RESOLUTIONS

A striking data point was the proportion of rulings in favor of plaintiffs. Of the cases that ultimately resulted in a verdict, plaintiffs received a favorable ruling 68% of the time, while defendants/counterclaimants received a favorable ruling in only 24% of cases, with split decisions occurring in the other 8%.

Favorable Rulings

68%
Plaintiffs

24%
Counterclaimants

Federal cases:

52%
awarded damages



\$3B
approximate damages

5 Five largest awards each
\$100+M

DAMAGES

Damages were awarded in 52% of federal cases. Monetary damages totaled approximately \$3 billion,² and the five largest awards were each over \$100 million. When reviewing the damage awards by state, a clear trend emerged between the number of cases adjudicated in a particular district or circuit, and the average size of the awards.

FORUM PREFERENCES

Many factors affect which forum a plaintiff will select to file a case, including speed-to-trial rates, the court's experience with the type of litigation at issue, and the perception of probable outcomes. It appears certain courts have been favored with regard to federal trade secret matters, prior to the advent of the DTSA. Plaintiffs often favored certain jurisdictions, such as the Eastern District of Texas, the Northern District of Illinois, and the District of Colorado. For example:

- Over half of the cases in our research were in just four federal circuits
- Federal district courts in Texas alone were responsible for nearly 20% of trade secret case decisions
- California, Illinois, Colorado, Florida, and Massachusetts rounded out the top 50%, each with between 6% and 9% of total cases

Now that the DTSA is in place, given the expected increase in trade secret litigation resulting from changes in patent case law and the dynamic of labor and employment litigation, we anticipate more cases will be filed in the federal courts.

² The damages award amounts are inclusive of compensatory and punitive damages, as well as attorney's fees.



The remainder of this report focuses on these issues in greater depth, and details a number of statistical findings from our research of 29 years of data. But we start with the initial question that must be determined in all trade secret litigation – what is a trade secret?



DTSA and the Expected Increase in Trade Secret Litigation

Historically, trade secret assets have been protected at both the federal and state court levels, yet the definition of “trade secret” has varied. For several decades, litigators have looked to the Uniform Trade Secrets Act [UTSA] as a framework for trade secret proceedings. With the introduction of the DTSA, the trade secret landscape and related protections have become even more enhanced. The DTSA broadened the definition of a trade secret, and we have observed an increase in litigation in the first year following its enactment.

How the UTSA Defines Trade Secrets

The Uniform Trade Secrets Act, published by the Uniform Law Commission in 1979 and amended in 1985, was a uniform act of the United States promulgated in an effort to provide a legal framework to better protect trade secrets for U.S. companies operating in multiple states. The UTSA aimed to codify and harmonize standards and remedies regarding misappropriation of trade secrets that had emerged in common law on a state-to-state basis.³

Under UTSA § 1.4, “a ‘trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁴

³ Uniform Trade Secrets Act with 1985 Amendments, Section 1.4.

⁴ *Ibid.*

How the DTSA Defines Trade Secrets

The Defend Trade Secrets Act of 2016, which was signed into law on May 11, 2016, by President Obama, amended the earlier-enacted Economic Espionage Act of 1996, which designated trade secret misappropriation as a federal crime, bringing it more in line with the UTSA. However, the DTSA differs from the UTSA in that it is the first federal U.S. law to create a federal civil cause of action for the misappropriation of trade secrets. The new law allows businesses to choose to sue for theft of trade secrets and seek remedies in either federal or state court.⁵

The DTSA's definition of trade secrets is broad, allowing a wide range of proprietary information to fall within the purview of trade secret protection under the statute. The DTSA defines trade secrets as: "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."⁶

The DTSA places the original jurisdiction for trade secret actions in federal district courts. However, the DTSA does not conflict with, replace, or preempt state laws. Rather, it works alongside state laws, providing victims of trade secret misappropriation easier access to federal courts, which are better equipped to handle cross-state and international cases, as well as complex technological issues. For example, a federal court could still enjoin an employee through the existing state law, and companies can still choose to file suits in state court and use the DTSA in the same federal lawsuit for strategic purposes.⁷

For more information on how the DTSA compares with the UTSA, see **Appendix II**.

LITIGATION IN FIRST YEARS OF THE DTSA

In the years following the enactment of the DTSA, several trends were noteworthy. California and Texas saw the most DTSA filings, with each having over 5% of the total case filings in the United States. In 2016, DTSA filings saw an uptick in May and June – immediately after the enactment – followed by a dip during the summer months and then a steady pace of

filings until March 2017, when there was a significant spike.⁸ In the five years preceding the DTSA, 2010 through 2015, approximately 1,100 federal trade secret cases were filed per year. From 2017 through 2019, after the enactment of the DTSA, approximately 1,400 cases were filed per year demonstrating the increase in federal trade secret litigation.

5 Tony Dutra, "New Trade Secret Law: More to Consider in Patent Trade-Off," *Bloomberg BNA*, May 31, 2016.

6 Bret A. Cohen, Michael T. Renaud, and Nicholas W. Armington, "Explaining the Defend Trade Secrets Act," *American Bar Association: Business Law Today*, September 2016.

7 David L. Newman and Christina O. Alabi, "The Federal Gates Are Open: Defense of Trade Secrets Act 2016," *Gould & Ratner, LLP*, May 2016.

8 David Opferbeck, "DTSA Statistics," *The Cybersecurity Lawyer*, May 10, 2017.

One case of particular note is the first jury verdict returned under the DTSA. On February 27, 2017, a federal jury in Pennsylvania returned an award of \$500,000 to the plaintiff, the creator and owner of a proprietary fig spread, for theft of trade secrets, an injunction preventing future use of the trade secrets at issue, and another \$2 million for other claims. Although this case is not particularly groundbreaking, it is a reminder of one of the DTSA's hallmark provisions – the ability to “move quickly to federal court, with certainty of the rules, standards, and practices to stop trade secrets from winding up being disseminated and losing their value.”⁹

Another high-profile case filed under the DTSA is *Waymo v. Uber*.¹⁰ Waymo (a subsidiary of Google's parent, Alphabet) filed a trade secret misappropriation claim alleging theft of over 14,000 files by former Waymo employee and then-Uber employee Anthony Levandowski and improper solicitation of Google employees by Uber. In May 2017, the Northern District of California court awarded a preliminary injunction against Uber, including a bar on Levandowski further working on the technology at issue in the case. Subsequently, Uber fired Levandowski. Additionally, the court ruled that Levandowski's employment agreement does not require arbitration in this case. Five days into the trial, the parties reached a settlement in which Uber granted Waymo stock valued at \$245 million. While the first jury verdict is currently being appealed, these cases will continue to be a bellwether for DTSA jurisprudence.¹¹

In another exemplary case, *BladeRoom v. Emerson Electric*, a jury found that Emerson misappropriated trade secrets from BladeRoom in order to win Facebook's bid for a \$200 million data center. BladeRoom's trade secrets consisted of a method for manufacturing and installing prefabricated data centers, which it had pitched to both Facebook and

One of the DTSA's hallmark provisions – the ability to “move quickly to federal court, with certainty of the rules, standards, and practices to stop trade secrets from winding up being disseminated and losing their value.”

Emerson. BladeRoom claimed the two larger companies had secretly worked together to steal BladeRoom's proprietary techniques for the project. In 2019, a jury found in favor of BladeRoom awarding it \$30 million. Additionally, a California federal judge awarded prejudgment interest, attorneys fees, and \$30 million in exemplary damages.¹²

The DTSA is likely to result in increased trade secret litigation filings as business owners leverage stronger, more consistent rules of procedure, protections, and enhanced remedies against unwarranted exposure of their trade secret information. We also anticipate that federal case law from other IP areas will increasingly influence the determination of trade secret damages under the DTSA. By consolidating cases to federal courts, the DTSA may, over time, provide trade secret litigators with a more established and broader set of precedents to work with in evaluating damages. Similarly, a correlation exists between the steady increase in trade secret claims in both state and federal courts in recent years.

Perhaps the biggest impact the DTSA will have is the creation of a uniform body of federal common law on trade secret litigation, in the same vein as trademark or patent law. Federal courts may provide a more efficient litigation process and more consistent decisions compared with state courts.

9 Thomas A. Muccifori and Daniel DeFiglio, “Jam Recipe Yields 1st DTSA Verdict,” *Law360*, March 28, 2017.

10 *Waymo, LLC v. Uber Technologies, Inc., et al.*, United States District Court for the Northern District of California, 3:17-cv-00939.

11 Josh Rychlinski, “Waymo v. Uber: An Update on the Ongoing Trade Secret Dispute,” *Trade Secrets Trends*, May 22, 2017; Dennis Crouch, “Waymo and Uber at the Federal Circuit – Round 2,” *Patently-O*, June 7, 2017.

12 Dorothy Atkins, “Emerson's IP Loss To BladeRoom Rises To \$77M With Interest,” *Law360*, August 12, 2019.



Why Patent Trends May Lead to More Trade Secret Litigation

In addition to the DTSA, another likely influence on trade secret litigation is courts' treatment of patents. As the patent law landscape has shifted, we anticipate an increase in assets being protected as trade secrets.



Traditionally, inventors have used patents to protect innovations that, by their nature, cannot be kept secret or hidden. However, this appears to be changing amid recent patent case law and the fact that courts are finding certain types of previously patentable inventions to be invalid. Thus, inventors and companies may decide against patenting and instead opt to

protect innovations and confidential/proprietary processes and information via trade secrets. Federal trade secret law, they believe, will help them in the event their invention is used without authorization, especially in instances where the products are less readily-able to be copied.¹³ However, it remains unclear to what extent the DTSA will serve as an impetus for such strategies.

¹³ Tony Dutra, "New Trade Secret Law: More to Consider in Patent Trade-Off," *Bloomberg BNA*, May 31, 2016.

Recent decisions in the patent space have invalidated the patentability of certain types of subject matter as a means to protect corporate assets. These cases include *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* (“Mayo”); *The Association for Molecular Pathology v. Myriad Genetics* (“Myriad”); and *Alice Corporation Pty Ltd. v. CLS Bank International* (“Alice”).

MAYO¹⁴

Mayo Collaborative Services and Mayo Clinic Rochester argued that processes claimed by patents exclusively licensed by Prometheus Laboratories, Inc. were basically natural laws or natural phenomena, and therefore unpatentable. In response, Prometheus contended that the patents did not cover basic and unalterable natural laws, such as the law of gravity. Rather the company asserted that, because its patents specified particular processes, the patents were valid under the machine-or-transformation test. Ultimately, the court ruled in favor of Mayo, providing that certain Prometheus claims of patents were invalid because they did not constitute patent-eligible subject matter. The court held that the patent claims recited a “law of nature,” which is not itself patentable.

The court’s rulings implied that certain types of items previously patented may now be invalid. In fact, in numerous cases since this ruling, the findings of *Mayo* have been applied to companies in the healthcare and life sciences industries.

MYRIAD¹⁵

Myriad Genetics, a genomic research firm, was granted certain patents related to its discovery of the BRCA1 and BRCA2 genes, and associated assets. The company claimed exclusivity over various tests and other items related to the genes in question.¹⁶ However, claimed exclusivity on the part of Myriad was problematic for many reasons. If valid and comprehensive, the patents essentially would have meant that Myriad “owned” the genes for most practical purposes and applications. This ownership could have been used to thwart scientific progress and healthcare efforts. Thus, a coalition of petitioners from interested groups eventually filed suit seeking to have Myriad’s patents invalidated so that research, tests, and treatments related to the genes could be pursued in an unrestrained manner.¹⁷

The U.S. Supreme Court agreed with the petitioners, to a limited extent, indicating that the claims of patents were invalid because merely isolating genes that are found in nature does not make them patentable. Healthcare providers applauded the court’s decision, viewing it as removing certain barriers to increase access, reduce costs, and allow for innovation.¹⁸ The court’s decision may also remove barriers that precluded research into new tests and treatments for genetic diseases.

14 *Mayo Collaborative Services, DBA Mayo Medical Laboratories, et al. v. Prometheus Laboratories, Inc.*, Supreme Court of the United States, March 20, 2012, No. 10–1150.

15 *Association for Molecular Pathology v. Myriad Genetics*, Supreme Court of the United States, June 13, 2013, No. 12–398.

16 Washington University School of Law, July 2014.

17 *Ibid.*

18 Ryan Jaslow, “Supreme Court’s gene patent ruling could boost patient care, experts say,” *CBS News*, June 13, 2013.

ALICE¹⁹

Alice was another groundbreaking case. A financial markets technology innovator, Alice Corp. was the assignee of several patents that disclosed a process for mitigating “settlement risk.” CLS Bank, which operated a global network facilitating currency transactions, filed suit against Alice Corp., arguing that the patent claims at issue were invalid, unenforceable, or not infringed. Alice Corp. counterclaimed, alleging infringement. The court found the patents were directed to an abstract idea and therefore invalid because implementing those claims on a computer was insufficient to transform the idea to a patentable invention. The court’s ruling preserves software patentability but requires “an inventive concept” beyond computer implementation of an abstract idea.

Since the federal court and Supreme Court rulings were delivered in *Alice*, numerous issued patents have been found invalid under the new 35 USC §101 standard as found by *Alice* and applied in district courts. Specifically, patents related to software and business methods are being labeled as “abstract ideas” and therefore constitute patent-ineligible subject matter under *Alice*. The recent decisions that rely on *Alice* leave inventors and patent owners questioning how to avoid the uncertainties of *Alice* and whether the adoption of *Alice* will result in a decline in patent applications filed. As these are all credible concerns, the U.S. Patent and Trademark Office has issued guidelines on subject-matter eligibility for the purpose of educating present and future inventors and patent owners on how to avoid an *Alice* rejection and filing a patent application that lacks patentable subject matter.²⁰

We discuss these cases in further detail in **Appendix III**.

¹⁹ *Alice Corporation Pty Ltd. v. CLS Bank International*, Supreme Court of the United States, June 19, 2014, No. 13–298.

²⁰ *Ibid*.



A SHIFT IN IP PROTECTION

Mayo, *Myriad*, and *Alice* illustrate an evolution of patent law that may lead to a shift wherein companies opt to protect what were once patent-eligible materials via trade secret protection. A number of cases involving patent subject-matter eligibility remain before the Supreme Court and federal circuit courts in the wake of the decisions in these and similar cases. Additionally, given the high invalidation rate of patents on Section 101 grounds at the Supreme Court, federal circuit courts, U.S. district courts, and the Patent Trial and Appeal Board, interested stakeholders have justifiable concerns regarding the future value of patents involving software and life sciences and the potential fallout on U.S. investment in these important industries. For further detail, see **Appendix III**.

Developing strategies for ensuring that software and processes remain protectable as trade secrets offer an alternative path to safeguard innovations, which in turn may drive additional trade secret litigation as protection shifts from patents to trade secrets.



Trade Secrets Trends in Labor and Employment

Labor and employment litigation has significantly increased during the past several decades. While companies are being more proactive in protecting their trade secrets and confidential information, they're also proactively pursuing claims following an employee's departure or termination. Frequently, companies immediately seek a temporary restraining order should it become known that a former employee took confidential information. Often, these cases resolve themselves with the employee returning the information combined with the implementation of a cease and desist agreement. However, many cases proceed to litigation.

An observable increase in litigation related to alleged breaches of confidentiality agreements and restrictive covenants, including noncompete and nonsolicitation agreements, has also occurred. Often, underlying claims related to the alleged misappropriation of trade secrets in these cases are imbedded or pled separately, depending on case strategy.

INCREASE OF CLAIMS OF MISAPPROPRIATION OF TRADE SECRETS IN LABOR AND EMPLOYMENT LITIGATION

This increased interrelation of trade secret-related claims within the context of labor and employment litigation appears to be linked to a confluence of factors. These factors include the rapid pace and advent of new technologies, greater workforce mobility, the growing consistency and awareness of trade secret law, and increased risk to companies of international exposure.

One of the most significant factors affecting trade secret-related litigation is the diversity and speed to market of new technologies, which are making the misappropriation of trade secret information easier. As companies become more reliant on digital media for the storage and creation of information, shifting away from physical forms, the barriers to stealing this protected information are also shifting. Instead of key locks and safes, companies use firewalls and encryption.

This change, geared toward reducing external theft, has left companies more exposed to internal theft from employees who have the appropriate levels of access to otherwise-secure systems. And once an employee gains access to protected trade secrets, it is far easier in the modern digital world of social media and ubiquitous smartphones and tablets to duplicate and disseminate this information rapidly, drastically minimizing the trade secret owner's ability to identify and mitigate the theft. This new environment for the storage and creation of trade secret information, as well as the potential ease of theft, has led to an increase in the discovery of alleged theft and the filing of trade secret-related claims within labor and employment litigation.

In addition to new technologies, the emergence of a more highly mobile U.S. workforce, in part linked to the Great Recession, has direct implication on the theft of trade secrets within an employment environment. As job mobility increases, the opportunity for individuals to misappropriate trade secrets also rises. Given this reality, businesses are striving to determine how to best protect their trade secrets. Companies have increasingly sought to protect their proprietary information through broader, more encompassing measures.

PROTECTABLE TRADE SECRETS COMPARED WITH CONFIDENTIAL INFORMATION

Trade secret claims identify specific confidential information that is to be protected, while noncompete and nonsolicitation agreements attempt to prevent a former employee from competing in a position that could potentially use the trade secrets/confidential information. As discussed previously, however, the definition of trade secrets is quite broad. Many companies will define what specifically constitutes a trade secret of the business, and often this information is incorporated into employees' restrictive covenant agreements, such as confidentiality, nondisclosure, and noncompete agreements. Most of these agreements will also incorporate IP, such as patents, trademarks, and copyrights in addition to trade secrets and

confidential information.

In labor and employment litigation, there is a distinction between what constitutes a trade secret and what constitutes confidential information. Reiterating a previous point, all trade secrets are confidential information, but all confidential information is not necessarily a trade secret. Confidential information is much broader, and can constitute any information about the business that is not generally known to the public. This varies from organization to organization.

For example, a company may determine its trade secrets consist of manufacturing know-how, processes, formulae, customer lists, and pricing information. To recognize these items, they may be defined as trade secrets in the company's employee confidentiality agreements. However, the confidentiality agreement is broader and covers not only the trade secrets but any information the company deems to be confidential, nonpublic information. In this example, confidential information could include the company's financial position, its business plan, volumes purchased by customers, and key suppliers.

It is important, therefore, to recognize that an alleged theft of trade secrets may also involve the theft of separate confidential information. There are significant legal issues to address in determining whether to pursue litigation pertaining to theft of trade secrets and/or confidential information, such as the specificity in employment agreements, arbitration provisions, whether to pursue a claim against the new employer of the former employee via trade secrets, jurisdiction and case law, and other considerations. While these legal issues are outside our purview, the legal position and claims of the parties may impact the computation of alleged damages.

The diversity and speed to market of new technologies are making the misappropriation of trade secret information easier.

ADDITIONAL OBSERVATIONS PERTAINING TO TRADE SECRETS AND LABOR AND EMPLOYMENT LITIGATION

Many cases over the past number of years have involved the departure or termination of sales personnel. This is an area ripe for theft of trade secret claims because these employees are responsible for revenue generation and have often spent years if not decades cultivating, maintaining, and growing customer relationships.

Should these employees depart for a competitor, or be terminated based on at-will employment or for cause and subsequently join a competitor, the potential for companies to experience damages due to the theft of trade secrets significantly increases. This would include items, such as customer lists and contacts, volumes, pricing, and supplier information, among others, that could possibly result in the company experiencing loss of business and/or price erosion, as well as other damages. As a result, more companies are proactively pursuing claims to protect their marketplace position and customer base, as any such departure has the potential to cause a substantive reduction in revenue and profits.

Thus, companies are actively pursuing trade secret claims as soon as it becomes apparent that former employees have breached their confidentiality agreements and/or restrictive covenants. Often, these companies also want to set a tone for the employed workforce, indicating that a disregard for their employment agreements will not be tolerated.

Additionally, in response to wrongful termination or similar matters filed by a plaintiff, the defendant companies are more frequently including counterclaims for breach of contract pertaining to confidentiality agreements and restrictive covenants, as well as claims for misappropriation of trade secrets.

Noncompete law is also evolving. Certain states, such as Illinois and New York, have pursued action or changed laws related to the enforceability of noncompete clauses for low-level employees, limiting the applicable population of employees in which noncompetes are enforceable.²¹ Other states have enacted legislation to limit the restrictiveness of noncompetes, particularly related to geographical and time-duration limitations.²² California, North Dakota, and Oklahoma generally prohibit all forms of noncompetes.²³ Furthermore, certain industries have been the target of similar noncompete legislation. Hawaii enacted a law in 2015 that banned most noncompetes in technology positions, while Rhode



Island enacted a law in 2016 that prevents restrictions of any kind related to the ability of a physician to practice medicine.²⁴

Starting in 2018, several states have passed laws which limit noncompete agreements. Illinois, Maine, Maryland, New Hampshire, Rhode Island, and Washington have all enacted laws which ban noncompetes for workers who do not meet income requirements.²⁵ Further, in January 2019, Sen. Marco Rubio (R-FL) introduced the Freedom to Compete Act, which would prohibit employers from enforcing noncompete agreements for entry level, low wage workers.²⁶ Additionally, in January 2020 the FTC held a public workshop to examine the legal basis and economic support for restricting noncompete agreements. Participants in the workshop agreed that more empirical evidence is needed regarding an outright ban of non-compete agreements. As such, public comments on the topic were left open until early March 2020.²⁷

The DTSA is potentially in conflict with noncompetes. The act states a federal court may grant an injunction to prevent actual or threatened misappropriation of trade secrets. However, it forbids injunctions that restrain the practice of a lawful profession, trade, or business that are in conflict with an applicable state law that prohibits such restraints. The DTSA also forbids injunctions that prevent a person from entering into an employment relationship.²⁸ For instance, it is possible that a plaintiff could be successful on the merits of the trade secret claim under the DTSA, but the breach of contract claim related to an employment agreement with restrictive covenants could fail under state law. Therefore, it appears that underlying state laws surrounding the use and enforceability

of noncompete agreements will still be relevant even when filing a theft of trade secret claim under the DTSA.

Notably, the enactment of the DTSA, and the UTSA before it, has contributed to the increased link between trade secret law and labor and employment litigation. As the landscape of trade secret law becomes more consistent and well-developed, companies will be more accustomed to, and comfortable with, relying on these avenues for protecting their IP. Prior to the advent of the UTSA, individual states had a patchwork of disparate and inconsistent trade secret regulations and case law, leading to a cumbersome and vexing litigation environment for those attorneys tasked with navigating the landscape. The enactment of the DTSA is poised to establish a framework for consistent legal remedies that companies can rely on to litigate trade secret misappropriation claims.

Finally, as the business world becomes increasingly global, U.S. companies are finding themselves progressively more integrated into multinational supply chains and agreements. Along with this increased connectivity to foreign entities, companies are more exposed to foreign misappropriation of trade secrets. Unlike the established trade secret protections that exist in the U.S., certain countries approach the theft of trade secrets as an opportunity for economic development. In addition to countries that disregard the providence of trade secret rights, U.S. companies also experience difficulty with enforcement of trade secret claims internationally. This is due to jurisdictional issues and a vastly uneven international landscape of trade secret laws and protections, leading to expensive efforts and inconsistent results.

21 James Witz and Abiman Rajadurai, "What Employers Should Know About New Ill. Noncompete Law," *Littler Mendelson PC, Law360*, September 2016.

22 David S. Almeling and Tony Beasley, "The Shifting Junction of Trade Secret Law and Noncompetes," *O'Melveny & Myers LLP*, August 2016.

23 John Skelton, James Yu and Dawn Mertineit, Webinar: "Enforcing Trade Secret and Noncompete Provisions in Franchise Agreements," *Seyfarth Shaw LLP*, June 2016.

24 David S. Almeling and Tony Beasley, "The Shifting Junction of Trade Secret Law and Noncompetes," *O'Melveny & Myers LLP*, August 2016; Erik Weibust and Andrew Stark, "Two New England States Pass Legislation Restricting Physician Noncompetes," *Seyfarth Shaw LLP*, August 2016.

25 Andrew Boling, William Dugan and Colton Long, "The Delicate Nuances In New State Noncompete Laws," *Baker McKenzie, Law360*, December 2019.

26 S.124 - Freedom to Compete Act 116th Congress [2019-2020] [<https://www.congress.gov/bills/116th-congress/senate-bill/124>]

27 <https://www.ftc.gov/news-events/events-calendar/non-competes-workplace-examining-antitrust-consumer-protection-issues>; <https://blogs.orricks.com/trade-secrets-watch/tag/federal-trade-commission/>

28 Defend Trade Secrets Act of 2016.

In-Depth Research and Analysis of Trade Secret Litigation Trends

Given the expected impact of the DTSA, patent law, and labor and employment issues on trade secret litigation, we conducted a comprehensive study of the historical impact of trade secret matters in federal court.



As the DTSA was enacted in 2016, we performed substantive in-depth research into 257 federal matters covering the prior 29-year period, from 1990 to 2019. We focused our research on only those trade secret cases that had advanced to a verdict or settlement and had a measurable outcome. The ensuing discussion on the data is a result of this set of cases exclusively. For more information on our research methodology, see **Appendix I**.

In addition, we discuss our insights on certain trends in trade secret litigation during the past few years that we have observed through research, monitoring, and marketplace exposure. These include litigation-related trends, a broad assessment of the types of trade secrets at issue, industry trends, and case-specific matters through the summer of 2019.

TYPES OF TRADE SECRETS AT ISSUE

One informative element of this study is the nature of the trade secrets themselves. Unlike patent litigation, federal trade secret laws cover any type of information that constitutes a trade secret to a particular business, so long as it meets the requirements of independently derived value and reasonable efforts to maintain secrecy. For the purposes of this study, we categorized the information at issue in each case into six classifications of trade secrets:

Business Relationships	Designs
Methods/Processes	Products
Financial Information	Marketing Information

While the types of trade secrets at issue have varied over time, there has been an influx of cases involving trade secrets and/or confidential information that coincide with a data-driven society.

Many of these trade secrets are steeped heavily in technology, including source code and methods, and are typically documented and maintained in electronic fashion. The information is often stolen via email, jump drives, data scraping, or other electronic means, such as improper access to company information maintained on cloud platforms. Source code, algorithms, and programing processes and interrelated connectivity technologies are also being protected as trade secrets more frequently, especially given the *Alice* ruling.

Customer lists, supplier relationships, and proprietary pricing strategies are also typically maintained electronically and represent data in its truest form. This company-specific information has typically been

protected as a trade secret, though the increased frequency in employee turnover that began during the Great Recession²⁹ has led to the theft of trade secrets being more actively pursued through the litigation process.

Designs and blueprints have also been litigated more frequently in recent years. This relates primarily to architectural designs for the construction of residential and commercial properties. Based on filings and claims, both builders and architects are seeking to protect their designs as trade secrets, in addition to copyrighted and/or trademarked material.

Although claims involving know-how and manufacturing processes are still being filed, data-driven trade secrets, such as those cited above, have begun to play a more significant role in trade secret litigation. Given the evolution of patent law and other issues discussed throughout in this report, it appears that companies developing and maintaining know-how and manufacturing innovations may opt to protect their information via trade secrets as opposed to, or in conjunction with, patents. This will likely lead to an increase in litigation for these types of trade secrets in the future.

29 The economic recession officially began in December 2007 and ended in June 2009. The Financial Crisis Inquiry Commission, "Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States," January 2011.

Examples of these trends and the results of our research pertaining to the type of trade secrets are summarized in **Figure 1**.

FIGURE 1:
Case Activity by Type of Trade Secrets at Issue

TYPE OF TRADE SECRETS	NO. OF CASES	% OF TOTAL*	EXAMPLES
Business Relationships	94	37%	Customer Information, Vendor Information, Employee Information, Supplier Information, Subscriber Information, Client Information, Reseller Lists, Policy Holder
Design	91	35%	Designs, Drawings, Products in Development , Engineering , Formulas, Recipe, Instructions, Source Code, Programming, Research and Development, Mold Designs, Plans, Ingredients, Diagrams
Methods and Processes	87	34%	Data Processing, Manufacturing, Development , Training, Policies, Business Practices, Construction Supplies, Company Handbook, Training, Operation Manuals, Technology Information, Techniques, Business Models
Product	74	29%	Software, Hardware, Purchasing Inventories, Equipment, Computer Files, Parts Lists, Tools, Technology
Financial Information	38	15%	Price Lists, Sales , Project Quotes, Business Forecasts, Financial Data, Material Costs, Cost of Goods, Compensation Plans
Marketing Information	39	15%	Strategies, Trends, Industry Trends

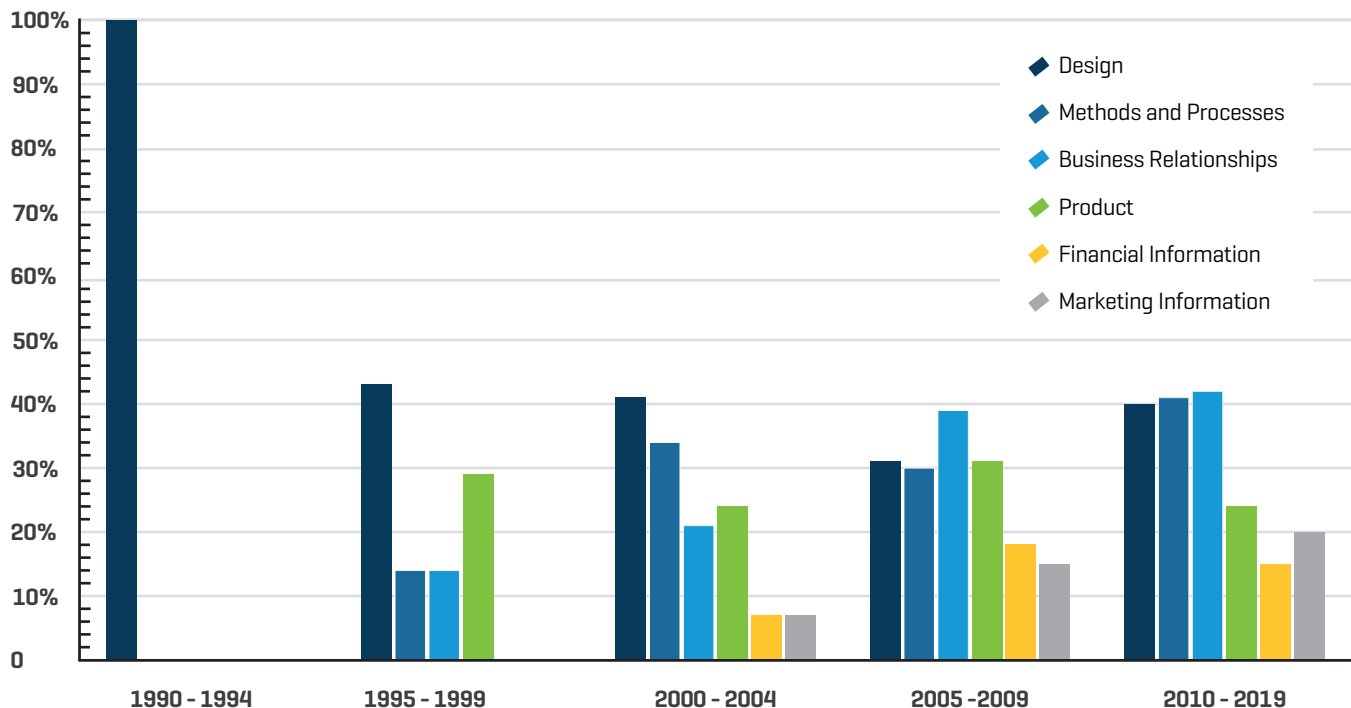
46% of the cases studied included multiple types of trade secrets as part of the allegedly misappropriated information

Business relationships represented the largest type of trade secrets at issue, occurring in 37% of all cases studied. These metrics align with our experience in trade secret litigation. Business relationship trade secret cases were followed closely by those pertaining to designs at 35% and methods/processes at 34%.

Also of note, in 46% of the cases studied, multiple types of trade secrets were included as part of the allegedly misappropriated information. Often, the categories of financial information and business relationships overlap, resulting in matters in which customer lists, proprietary pricing, and other marketing and financial records are at issue in some combination,

and have contributed to the increase in litigation in these categories. Additionally, certain types of trade secret cases are on the rise, partially due to the trend of increasing employee mobility and reliance on technology (**Figure 2**). This distribution over time is consistent with the general assumption that most trade secret owners have historically chosen to protect their technical and clearly definable information through trade secrets. However, the various types of information being protected as trade secrets have significantly expanded during the last decade as companies shifted to greater reliance on electronically stored information.

FIGURE 2:
Portion of Cases by Type of Trade Secrets Over 29-Year Period



*Years grouped because of low volume of cases to be comparable with subsequent five-year intervals.

**Nine-year period.

TRENDS IN TRADE SECRET CLAIMS

Among other observations, misappropriation claims increasingly have not been the only claims at issue. Nearly all trade secret misappropriation claims we reviewed were accompanied by other claims, whether it be breach of contract (such as confidentiality agreements and restrictive covenants), tortious interference, conversion, or other claims. Frequently, the plaintiff is also actively seeking a temporary restraining order, leading to additional initial filings. As revealed in **Figure 3**, the accompanying causes of action that most frequently appeared in these cases were contract claims, tortious interference, unfair/deceptive practices, fraud, and other IP-related claims.

We are also seeing trade secret claims being brought as companion claims more frequently in certain types of litigation beyond those related to breach of contract and/or labor and employment suits. One such area is franchisor/franchisee litigation. As discussed previously, certain states have pursued action or changed laws related to the enforceability of noncompetes for low-level employees, and in many instances franchises were the basis for such actions.³⁰ However, beyond this specific noncompete issue, when a franchisor terminates its franchisee or when a franchisee decides to leave the franchised system due to nonrenewal or other reasons, the opportunity for theft of trade secrets arises.

The trade secrets and confidential information identified in the franchisee and respective employees' employment agreements typically survive the end of the franchisor/franchisee relationship. Franchisees potentially have possession of operational systems and methods, site-selection processes, pricing, customer lists, training manuals, IT infrastructure, supplier information, brand and promotion strategies, and other items. While this information is generally protected as trade secrets, often within the confines of noncompete

or confidentiality agreements, the franchisee can easily violate these provisions.

Recently, a number of franchisors have aggressively pursued former franchisees relative to these issues, to protect their legitimate business interests. Frequently, this has occurred in instances where the franchisee has opened or is pursuing opening a competing platform.³¹

There have also been several instances where theft of trade secret claims are brought in conjunction with other IP-related claims, such as patent, trademark, and copyright infringement. The fact that this seems to occur most often in the technology and software industries is not a new phenomenon. With the DTSA now in place, we expect it to occur more frequently in other industries, as well. While each instance is case-specific, it should be noted that the measure of damages may be different.

30 James Witz and Abiman Rajadurai, "What Employers Should Know About New Ill. Noncompete Law," Littler Mendelson PC, *Law360*, September 2016.

31 John Skelton, James Yu, and Dawn Mertineit, Webinar: "Enforcing Trade Secret and Noncompete Provisions in Franchise Agreements," Seyfarth Shaw LLP, June 2016. Of note, the presenters indicated that the franchisor will likely need to demonstrate actual competition with the former franchisee, as if the franchisor has no intent to reestablish a franchised location, there may not be a legitimate business interest to protect.



FIGURE 3:

Frequency of Other Claims Accompanying Trade Secret Misappropriation
[Out of 257 cases researched]

ACCOMPANYING CAUSE OF ACTION	NO. OF CASES	PERCENTAGE OF TOTAL
Contract Claims	179	69.6%
Tortious Interference	117	45.5%
Unfair/Deceptive Practices	110	42.8%
Fraud Claims	78	30.4%
Breach of Responsibility / Fiduciary Duty	78	30.4%
Conversion	73	28.4%
Infringement	60	23.3%
Unjust Enrichment	49	19.1%
Conspiracy	40	15.6%
Defamation/Disparagement	11	4.3%
Trespass	5	1.9%
Emotional/Mental Distress	1	0.4%
Other	100	38.9%

INDUSTRY TRENDS IN TRADE SECRET LITIGATION

Certain industries have experienced a higher degree of litigation pertaining to trade secrets than others. The nature of the companies involved in the lawsuit can illuminate the industries that are generating the largest quantity of trade secret litigation and resulting changes in trends. To assess this aspect of the population of cases, we used the Global Industry Classification Standard (GICS) codification system coupled with our research.³²

³² Definitions as of February 28, 2014.



The following is a brief snapshot of trends in different sectors over the period studied.

Medical Device/Pharma Development

Companies developing medical device technology and pharmaceuticals are likewise experiencing an increase in claims of trade secret theft. These are often filed in conjunction with breach of restrictive covenants claims and frequently seek temporary restraining orders, as employees with deep technical knowledge and research are lured away by competitors.

Computer Technology/ Programmers/Developers

The same scenario applies with designers of computer technology platforms, programmers, and the like. Additionally, depending on when the theft of a trade secret is identified, the suit may only commence when it becomes known that the alleged thief has used similar source code in a product available in the marketplace. The suit then may be filed in conjunction with a patent or copyright claim.

Use of Outside Consultants

Additionally, a broader trend affecting multiple industries is the continued increase in matters related to the hiring of outside consultants. These are instances wherein a consultant advises a company on a specific proprietary project, then uses the information and trade secrets garnered from that project to consult with a completely unrelated company, often a direct competitor.

Automotive

In the automotive industry, there has been a significant increase in both trade secrets and breach of contract (for example, nondisclosure, nonuse, and noncompete agreements) litigation involving foreign suppliers to Tier 1 U.S. auto-parts manufacturers. Similarly, foreign-owned suppliers have been establishing U.S. sales and research and development centers that hire away talent (with the individuals' inherent knowledge of protected information and trade secrets) from domestic suppliers.

Professional Services Industries

The largest increase in theft of trade secret claims is among professional services. Often these are companion claims to breach of contract claims related to restrictive covenants dealing with nonsolicitation of customers, suppliers, or employees. Frequently, customer pricing, volume, and other proprietary information is also involved. Within these industries, sales personnel are the most common alleged offenders.

The healthcare industry has experienced many claims relative to sales professionals in the medical equipment and supplies, medical devices, and pharmaceuticals sectors, as well as physicians. Outside of the healthcare industry, other service professions subject to frequent trade secret claims include insurance brokers (involving multiple types of insurance), wealth managers/financial advisors, marketing and advertising professionals, engineers, and architects.

As illustrated in Figure 4, 26% of trade secret cases reviewed involved companies in the industrials sector. This is not unexpected, as the GICS codification system includes many diverse industry groups under the industrials sector code, such as aerospace and defense, building products, construction and engineering, machinery, and transportation infrastructure.³³ Other notable industries with high percentages of the overall caseload included the information technology, consumer discretionary, and healthcare sectors.

The information technology, consumer discretionary, and healthcare sectors also experienced steep increases in the number of cases since 2000 (see Figure 5). Certain types of trade secrets within these particular industry sectors will result in increased federal trade secret litigation in upcoming years.

FIGURE 4:
Case Activity by Industry Sector

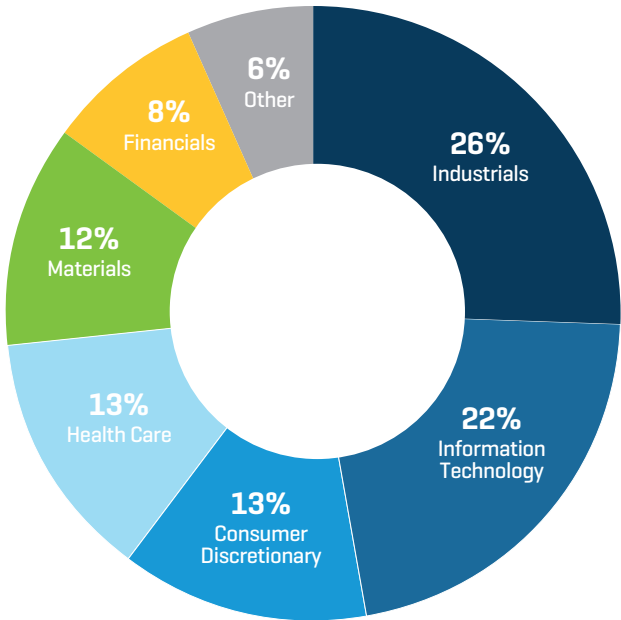
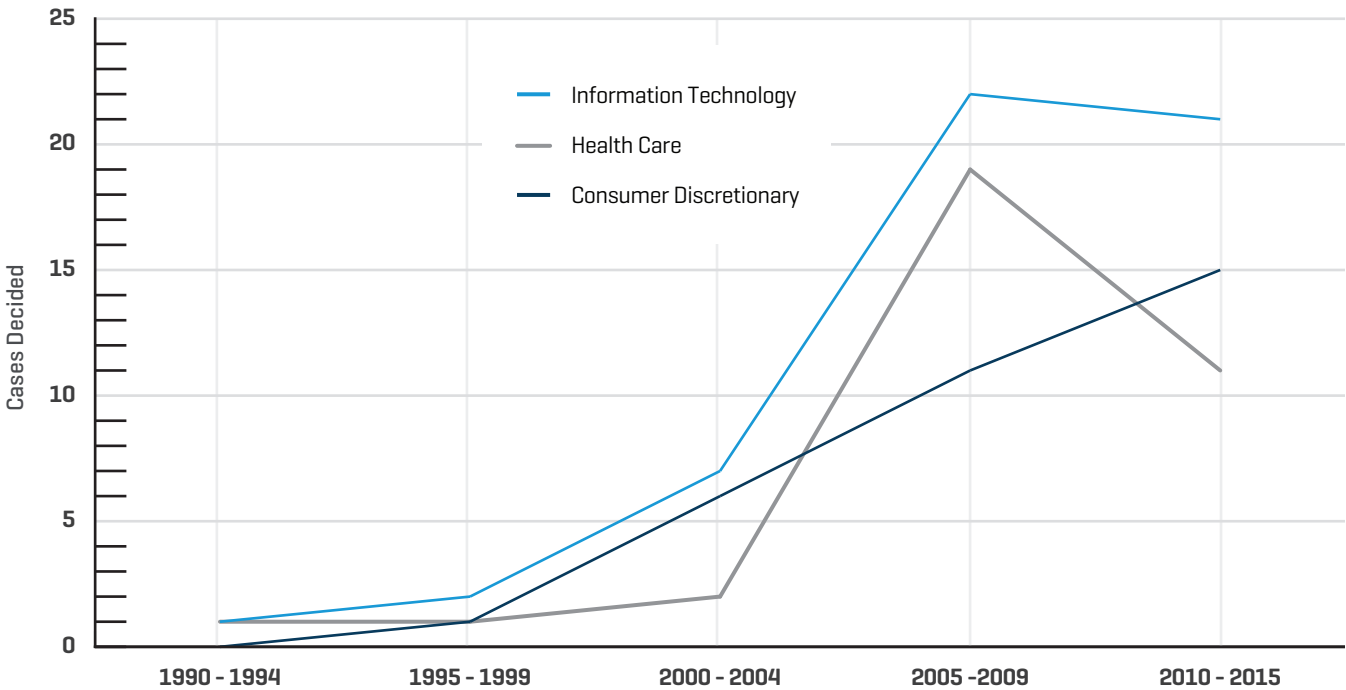


FIGURE 5:
Growth of Selected Industry Sectors Over 25-Year Period



*2016 through 2019 excluded due to limited sample size.

33 These include capital goods, commercial and professional services, and transportation companies.

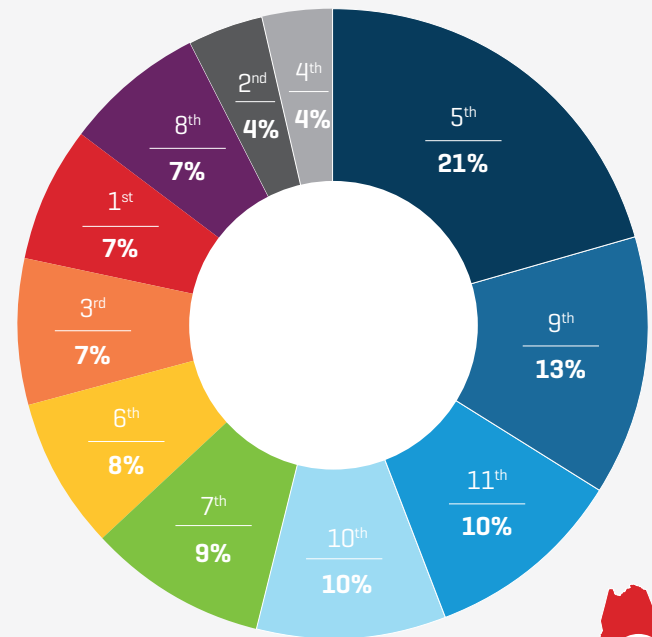
*Certain types of trade secret cases
are on the rise, partially due to the
trend of increasing employee mobility
and reliance on technology.*

TRENDS IN FILING JURISDICTIONS

When examining the jurisdictions of claims, trade secret verdicts and settlements have historically been somewhat top-heavy. For example, over half of the cases in our research came out of just four circuits, the 5th, 9th, 10th, and 11th (see **Figure 6**).

FIGURE 6:

Case Activity by Court Circuit



GEOGRAPHIC LOCATION OF CIRCUIT COURT

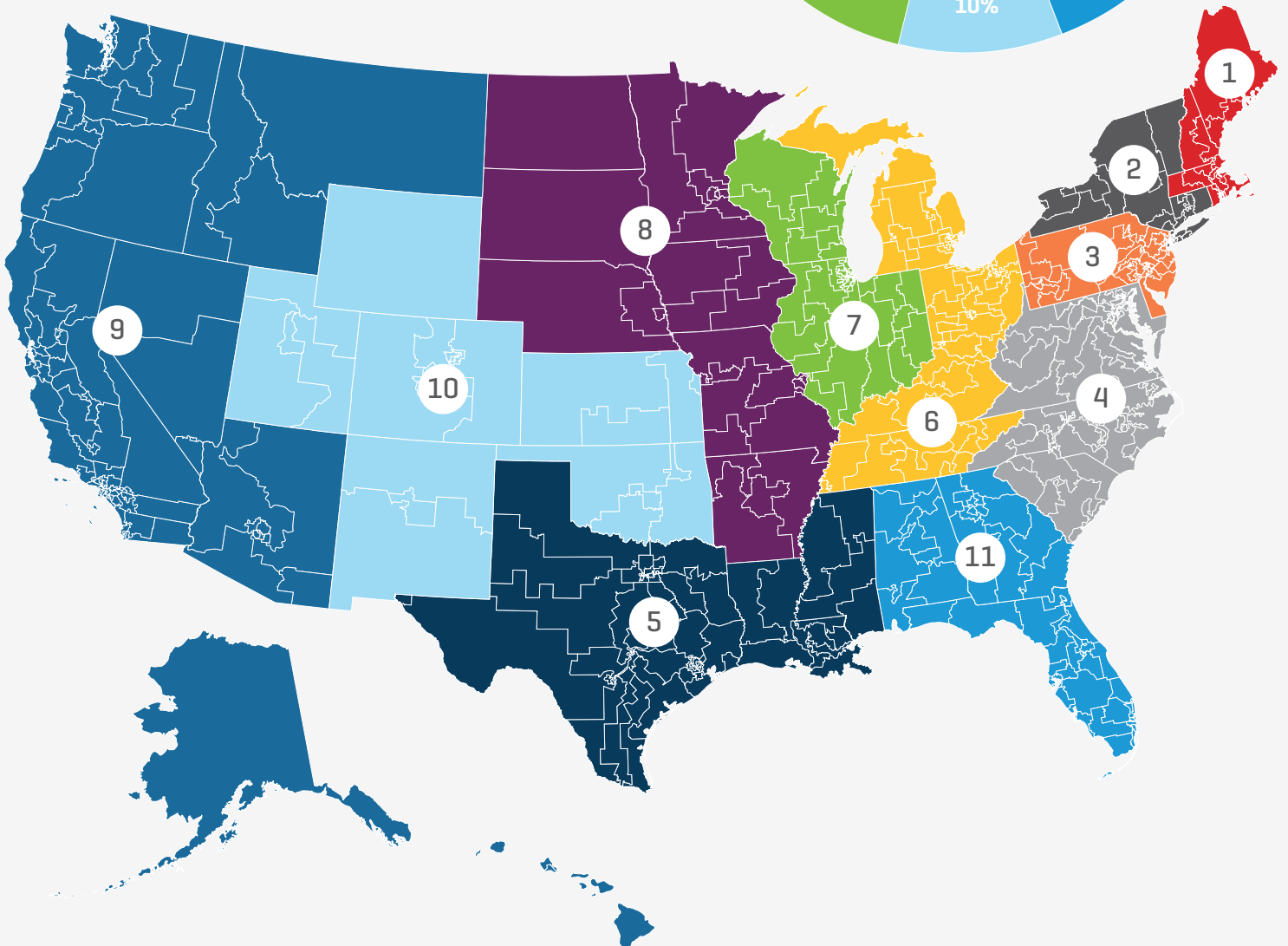

















Figure 7 further breaks down jurisdiction into district courts and identifies the top 15 district courts by published case resolution. The results reinforce the perception that the vast majority of federal trade secret cases are decided in a concentrated group of district courts. For instance, 32% of the cases were handled by just five individual district courts. The state of Texas alone was responsible for nearly 19% of trade secret case decisions, with California, Illinois, Colorado, Florida, and Massachusetts rounding out the top 50%, each with between 5% and 9%.

Similar to patent cases, plaintiffs in federal trade secret cases are perhaps favoring certain jurisdictions, such as the Eastern District of Texas, Northern District of Illinois, and the District of Colorado. This apparent targeting of certain venues is called “forum shopping,” which also occurs frequently in other IP-related matters, including patent, trademark, and copyright cases. Many factors affect which forum a plaintiff selects, including speed to trial, the court’s experience with trade secret litigation, and the perception of probable outcomes. Based on our analysis, it is possible that forum shopping may have historically occurred in federal trade secret matters.

FIGURE 7:
15 Most Active District Courts [Trade Secret Decisions]

DISTRICT COURT		CIRCUIT	NO. OF CASES	% OF TOTAL
Northern District of Illinois		7th	20	7.8%
Eastern District of Texas		5th	20	7.8%
District of Colorado		10th	17	6.6%
District of Massachusetts		1st	15	5.8%
Northern District of Texas		5th	11	4.3%
Southern District of Florida		11th	11	4.3%
Western District of Texas		5th	11	4.3%
Northern District of California		9th	9	3.5%
Eastern District of Pennsylvania		3rd	7	2.7%
Southern District of Texas		5th	6	2.3%
Southern District of California		9th	6	2.3%
Southern District of Iowa		8th	6	2.3%
Eastern District of Michigan		6th	6	2.3%
District of Minnesota		8th	6	2.3%
District of New Jersey		3rd	6	2.3%
All Other Districts			100	38.3%
Total Cases			257	

TRENDS IN TRADE SECRET DAMAGES

Our analysis of damages revealed a number of significant findings. Notably, damages were awarded in 52% of the cases, with monetary damages totaling approximately \$3.4 billion³⁴ and the five largest awards at more than \$100 million each.³⁵

We also found extensive trade secret damages awarded between 1990 and 2019. The \$3 billion in total damages resulted from just 141 monetary award rulings, with an average damage award of \$21.4 million.³⁶ However, as illustrated in **Figure 8**, the 10 largest damage awards accounted for \$2.3 billion, nearly two-thirds of the total damages awarded during the 29-year analysis period. This dichotomy is apparent when considering the median award of our study was \$2.2 million.³⁷

The top damages awards were derived from eight states: Virginia, Wisconsin, California, Missouri, Texas, Florida, Delaware, and Utah. Among these states, California had the most decisions with three, followed by Virginia with two – one of which is by far the largest damage award to date in the *E.I. duPont v. Kolon Industries* (“*E.I. duPont*”) ruling, totaling nearly \$1 billion.³⁸ Additionally, we found that the largest awards have come since 2000, with a cluster in 2002 (**Figure 8**).

When reviewing the damage awards by state, we observed a trend between the number of cases adjudicated in a particular district or circuit and the average size of the awards. Generally, those states with higher volumes of trade secret decisions tended to have smaller-than-average damages awards compared with states that have relatively few trade secret decisions. For example, in Texas, the most frequent trier of cases, the average damage award is less than half the size of the overall national average. While this is an interesting trend, it is necessary to recognize that certain states have a limited sample size.

Among the top 10 states hearing trade secret cases, only California, the second most active trade secret court, had an average damages award above the national average; at more than 50% larger, the average award was well in excess of the national average (**Figure 9**). Overall, this suggests that, with some exceptions, the districts with increased trade secret activity tended to have more moderate awards than those districts with less activity.

34 The damages award amounts are inclusive of compensatory, punitive, and attorney’s fees damages.

35 Of the 248 unique cases reviewed, 76 cases resulted in a settlement between the parties. This is both a notable finding as well as a limiting factor, as for most of the settled cases, no award information was attainable, resulting in a population of 172 cases making up the damages and nonmonetary awards section of our analysis.

36 This includes eight cases in which nonmonetary awards were given. If these are removed, the average damages award increases to \$22.5 million.

37 For our analysis, we focused on average awards, which better reflect overall trends in trade secret litigation than median awards.

38 *E.I. duPont de Nemours and Co. v. Kolon Industries, Inc. and Kolon USA, Inc.*, U.S. District Court for the Eastern District of Virginia, November 22, 2011.

FIGURE 8:

Top 10 Damage Awards

CASE	DAMAGES AWARDED	STATE (DISTRICT)	YEAR
<i>E. I. duPont de Nemours and Co. v. Kolon Industries, Inc. and Kolon USA, Inc.</i>	\$919,990,000	Virginia [Eastern]	2011
<i>Epic Systems Corporation v. Tata Consultancy Services Limited and Tata American International Corp.</i>	\$420,000,000	Wisconsin [Western]	2017
<i>Cadence Design Systems, Inc. v. Avant! Corp., et al.</i>	\$265,000,000	California [Northern]	2002
<i>Bancorp Services, LLC v. Hartford Life Insurance, et al.</i>	\$118,338,000	Missouri [Eastern]	2002
<i>X-IT Products, LLC v. Walter Kidde Portable Equipment, Inc.</i>	\$116,000,000	Virginia [Eastern]	2002
<i>Brocade Communications Systems, Inc. v. A10 Networks, Inc.</i>	\$112,373,822	California [Northern]	2013
<i>Texas Advanced Optoelectronic Solutions, Inc. v. Intersil Corp.</i>	\$88,856,662	Texas [Eastern]	2015
<i>Mattel, Inc. v. MGA Entertainment, Inc.</i>	\$88,500,000	California [Central]	2011
<i>Alphamed Pharmaceuticals Corp. v. John, Jarrett, Noreen, and Darren Lezdey</i>	\$78,000,001	Florida [Southern]	2006
<i>XpertUniverse, Inc. v. Cisco Systems, Inc.</i>	\$70,034,383	Delaware	2014
<i>Farm Bureau Life Insurance Co. v. American National Insurance</i>	\$69,934,214	Utah	2009

FIGURE 9:
Average Damage Awards by Most Active States

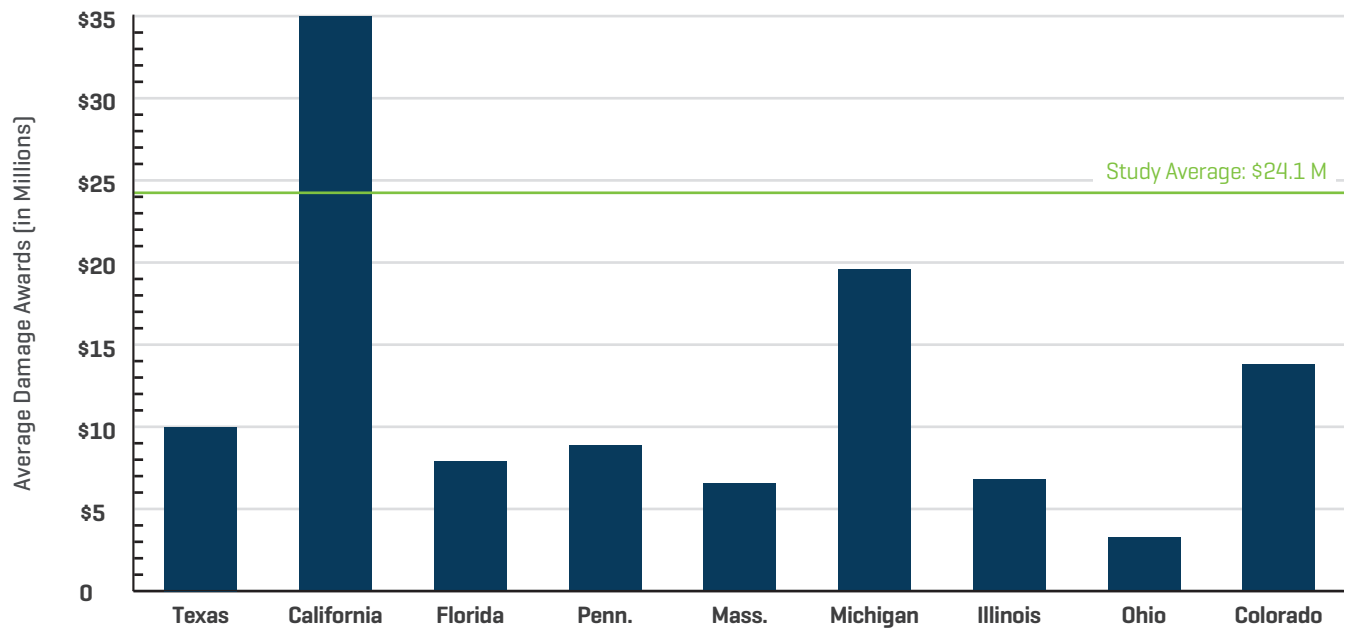
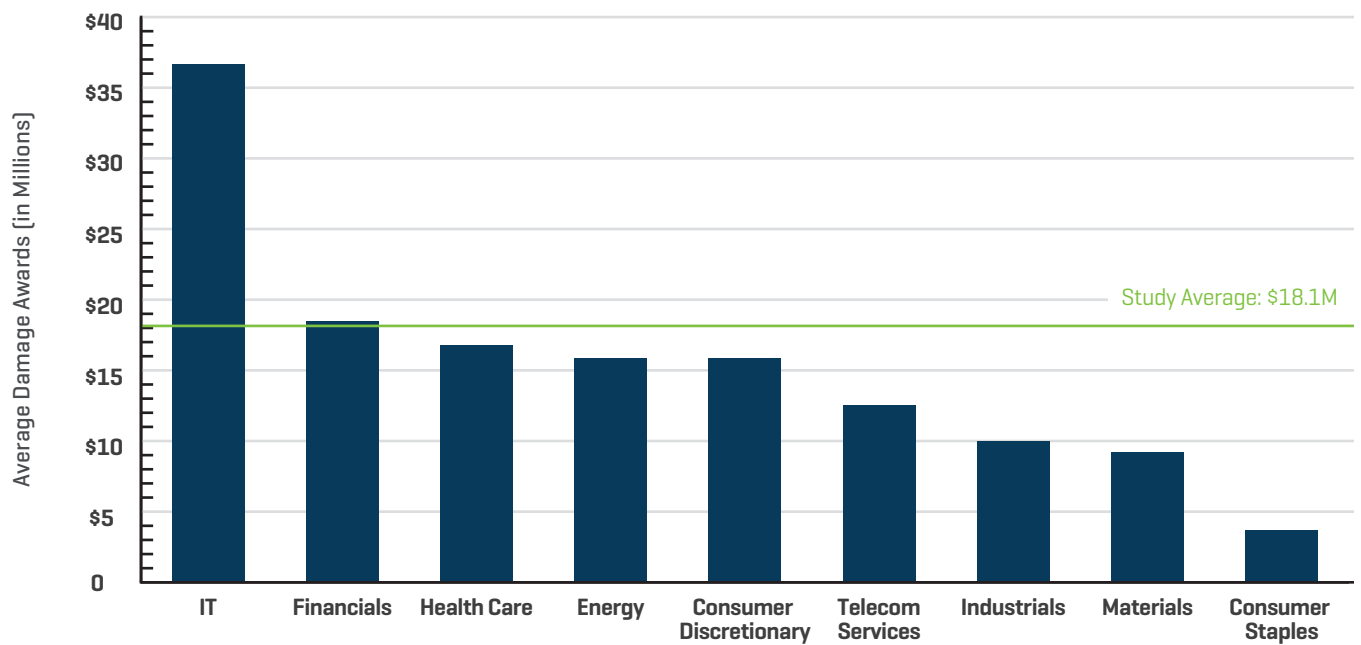


FIGURE 10:
Average Damage Awards by Industry*



*Excluding *E.I. duPont v. Kolon Industries*

Other than geographical stratification, we also assessed the damages based on industry sector. As illustrated in **Figure 10**, the average damages award across all sectors was \$18.1 million, excluding the award in the *E.I. duPont* matter.³⁹ The sector with the largest average damages award, at just under \$36 million, was information technology, which was also one of the most frequently litigated sectors, as discussed previously.

Following information technology, a cluster of industries, with average awards between \$15 million and \$18 million, includes financials, healthcare, energy, and consumer discretionary. The consumer staples sector had substantially smaller average damages awarded than the other sectors, at approximately 20% of the average across industries.

Our examination of the average damages awards by industry aligns with our experience that rapidly growing industries, particularly information technology, healthcare, and financial services, have also seen increasing damages awards. As these sectors have gradually favored trade secret litigation as a means to preserve their private business information over other forms of IP protection, more trade secret lawsuits are filed. Consequently, high-profile, high-stakes cases arise out of the increased filings, leading to higher damages awards. The continued success of companies in these sectors to claim sizable trade secret victories, coupled with the promise of a simplified and more consistent litigation process via the DTSA, will likely spur even further growth in trade secret litigation in these sectors in the coming years.

³⁹ The materials industry sector results were heavily skewed by the *E.I. duPont* case, which had an award of \$920 million. With such a large award in that case and a relatively small population of cases from the materials sector – only 19 in total – the average damages award is artificially inflated, especially considering that the judgment was later vacated and remanded on appeal with the parties settling for a payment of \$275 million. When omitting just the one result from the *E.I. duPont* case, the average damages award for trade secret cases relating to the materials industry is only \$9.2 million, down from \$60.3 million [see **Figure 10**].



TRENDS IN TIME TO RESOLUTION

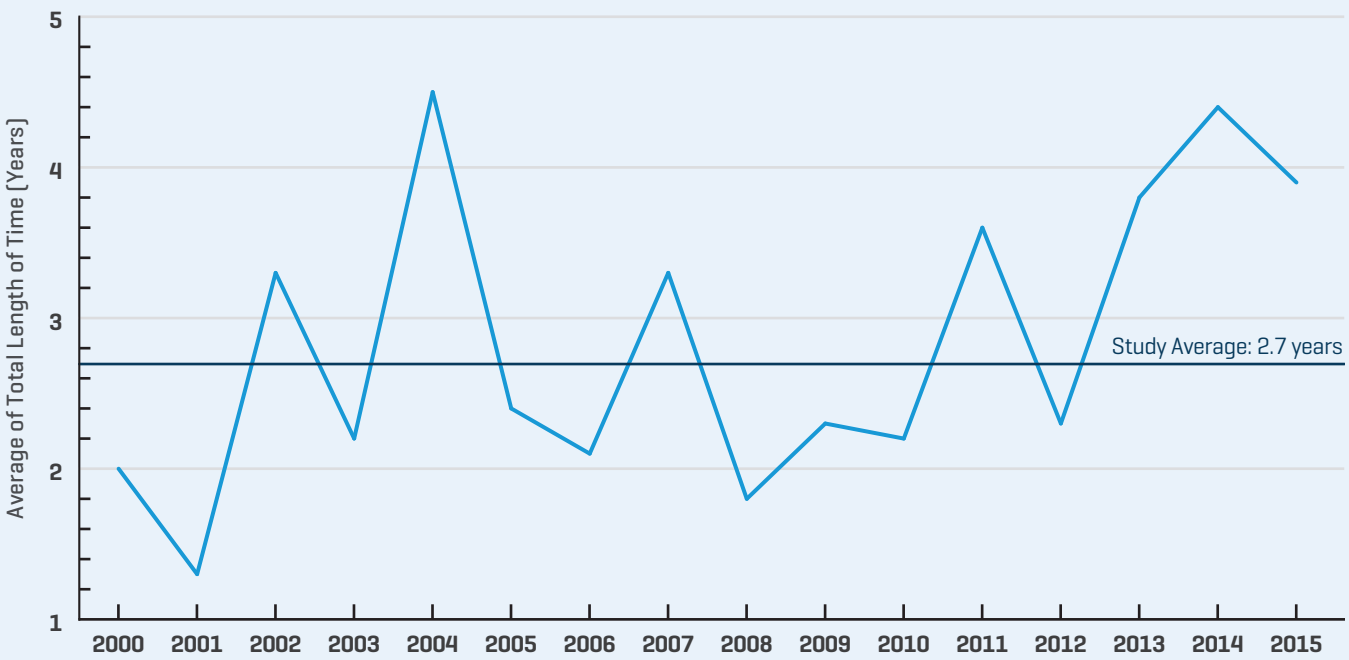
One area of interest was the mean time to resolution (MTTR) for the process (**Figure 11**). Based on the cases studied, the time required to resolve federal trade secret lawsuits averaged 2.7 years from the initial filing of a complaint to the eventual outcome at trial.⁴⁰ This MTTR was rather consistent through 2012, with the yearly average varying between two years and three-and-a-half years from 2005 through 2012. However, since 2013, the average has spiked to over four years, reaching its peak of nearly four and a half years in 2014. This recent increase in the length of cases may be due to the continually rising number of trade secret cases filed in federal court each year, or perhaps, the increasing complexity of the trade secret issues being adjudicated. It is important to note that the MTTR declined slightly toward the average in 2015.

This is an area to watch in the coming years to determine if there will be a return to the three-year norm, or if trade secret litigators should expect four or more years to be the new standard. One of the hallmarks of the DTSA is to have readily applicable and consistent federal court decisions, which should theoretically shorten the MTTR of matters.

From state to state, the time to resolution varies widely, ranging from an average of 1.1 years in New Hampshire to 6.8 years in Louisiana. Unlike the damage awards analysis, there does not appear to be a clear link between caseload and MTTR. In our study, many of the states with the largest caseloads had shorter averages than the national mean, implying that even when a court handles a disproportionate number of cases, time to trial is not adversely affected. For example, as illustrated in **Figure 12**, trade secret cases tried in Texas, were resolved 5% faster, 2.3 years on average, than the national average of 2.7 years. Illinois had an average of 2.6 years, and Colorado had an average of about 2.2 years. Florida's average time to trial was only 1.6 years. In fact, of the five most active districts, only California, at 3.3 years, experienced a longer average than the national mean. However, when looking at the next tier of states, all four are above the national mean.

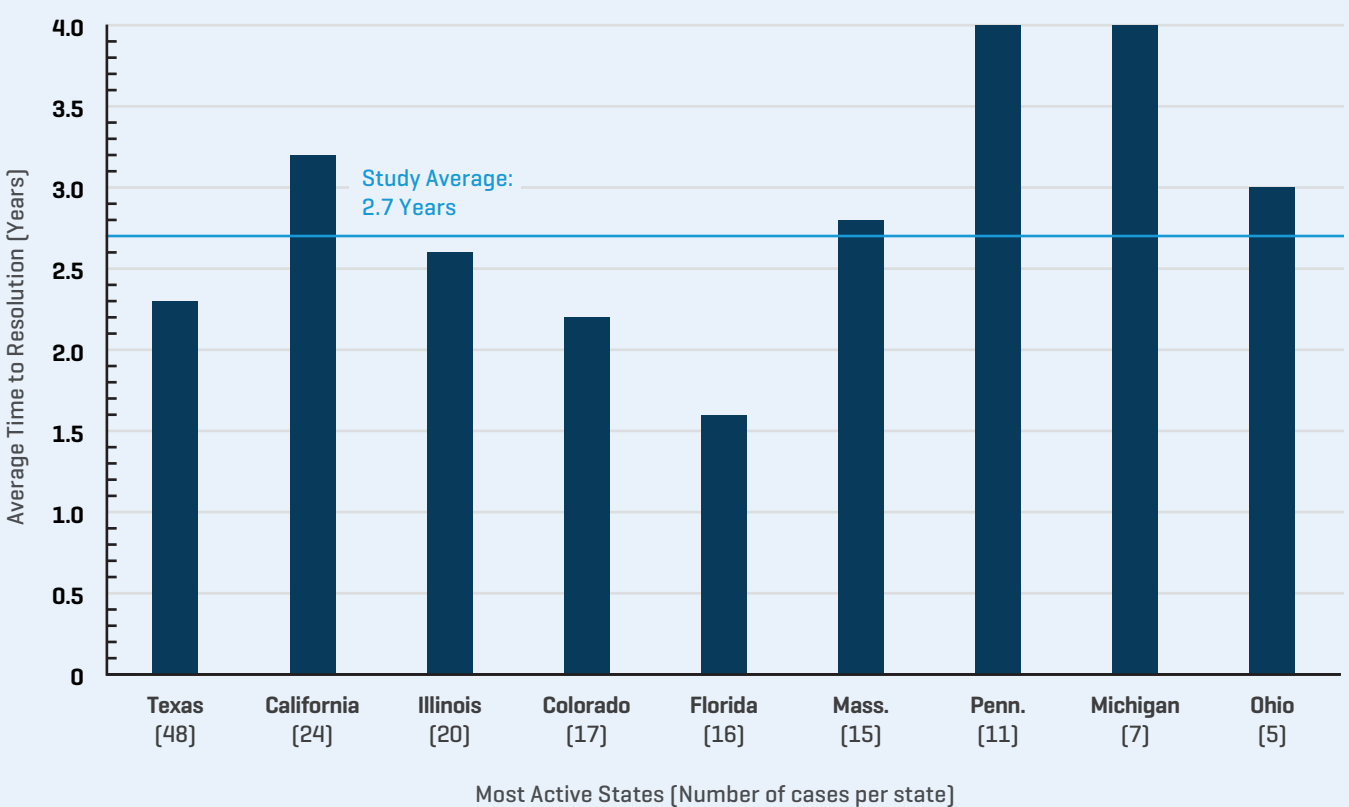
⁴⁰ This analysis does not incorporate additional time due to appeals.

FIGURE 11:
Average Length of Case by Year



*2016 through 2019 excluded due to limited sample size.

FIGURE 12:
Average Time to Resolution for Most Active States



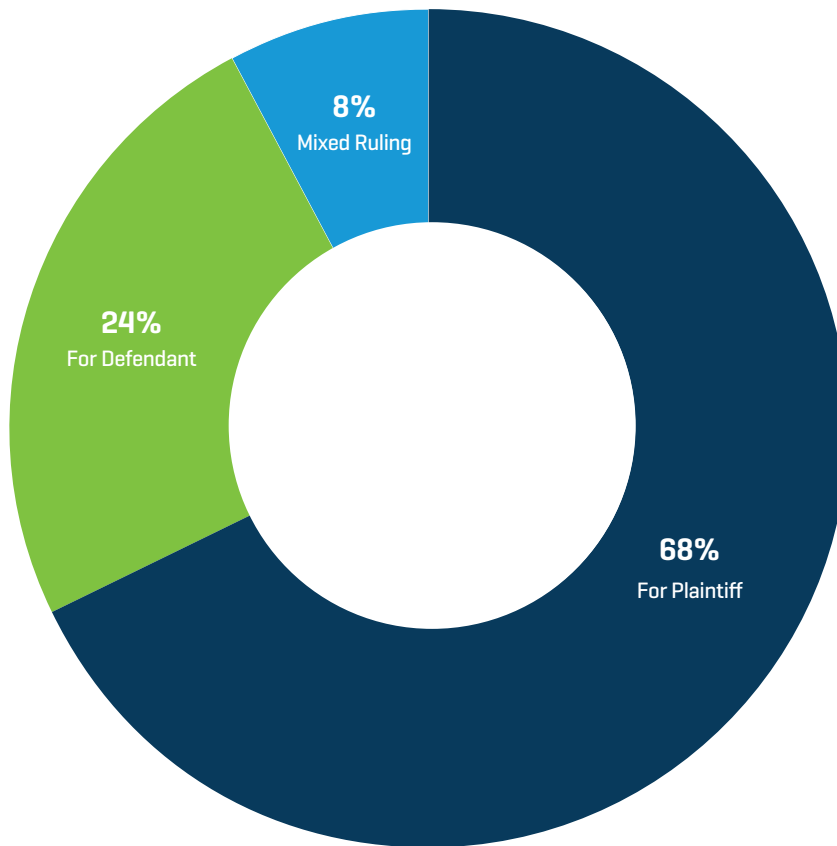
TRENDS IN CASE RESOLUTIONS

One of the more interesting findings to emerge from this study was the proportion of rulings in favor of the plaintiffs. As portrayed by **Figure 13**, plaintiffs fared well when bringing trade secret claims to trial, earning a ruling in their favor 68% of the time. Defendants received a favorable verdict in only 24% of cases, with split decisions occurring in the other 8%. This ratio did not seem to be affected by time (i.e. when the case was heard) or the jurisdiction in which the lawsuit was filed. Of the states with the most active trade secret dockets, all but California (44%)

and Pennsylvania (43%) had findings in favor of plaintiffs in more than 70% of cases that resulted in a decision.

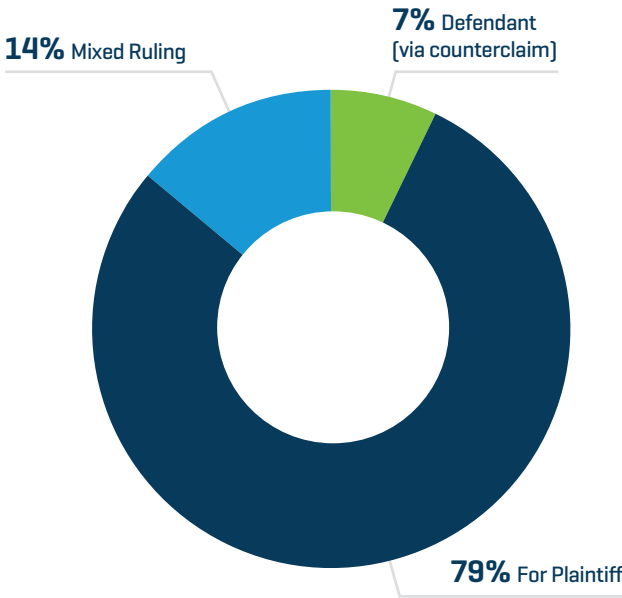
Furthermore, plaintiffs were also favored with larger damages awards. When assessing the damages outcomes by prevailing party, the awards were clearly dichotomous. When a court or jury ruled in the plaintiff's favor, average damages awarded were nearly \$25 million, 2.5x larger than cases decided in the counterclaimant's favor, which had an average award of less than \$10 million (**Figures 14 and 15**).

FIGURE 13:
Proportion of Court Rulings by Prevailing Party*



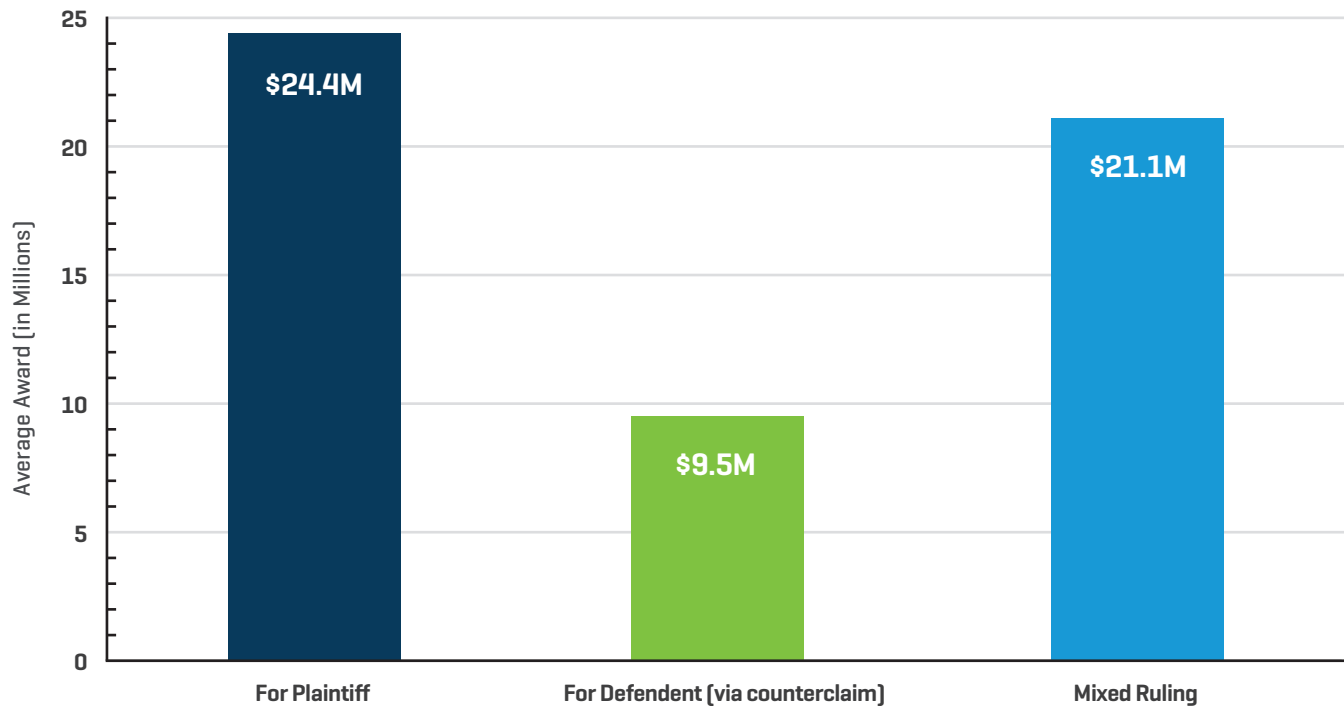
*This figure excludes cases resulting in a settlement.

FIGURE 14:
Total Damages Awarded to Prevailing Party*



*This figure excludes monetary results from settlements.

FIGURE 15:
Average Award by Prevailing Party*



*This figure excludes monetary results from settlements.

**Mixed rulings can include nonmonetary awards.

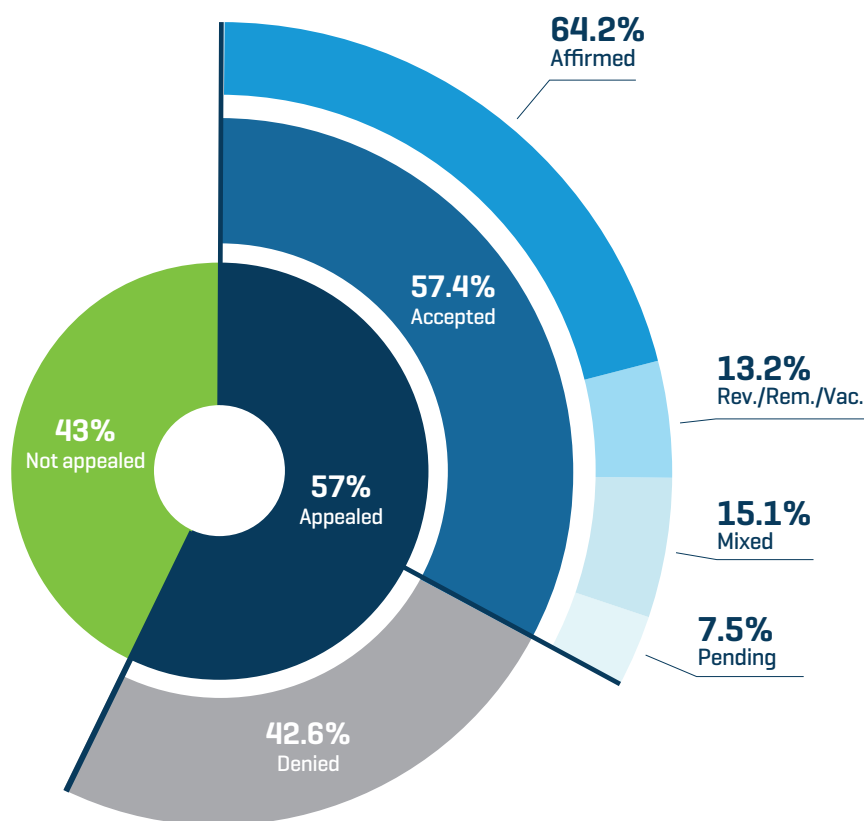
APPEALS TRENDS

The decision of the district court is rarely the final stage of a trade secret case. More often than not, trade secret decisions are appealed. Of the trial cases that resulted in a ruling in the district courts, over 57% were later appealed. However, the appellate courts denied a large portion of those appeals, notably 43%. When the appellate courts agreed to hear a trade secret case, they affirmed the decision of the district court nearly two-thirds of the time; they reversed, remanded, or vacated the decision of the lower court in only 13% of cases. Another 15% of the cases resulted in a mixed ruling, with some aspects of the appeal being affirmed and others being reversed, remanded, or vacated, as illustrated in **Figure 16**.

EXPERTS WITNESSES AND EXCLUSION CHALLENGES

Expert witnesses are widely used across many different types of litigation, but they are particularly significant in trade secret disputes, where both technical and financial experts are key contributors. In order to analyze the role of expert witnesses in the cases reviewed, we recorded whether an expert was disclosed, the type of expert(s) used, whether any expert testimony was challenged, and the outcome of those challenges. Across all matters reviewed, experts were disclosed in 62% of cases. When narrowing the field to only those proceedings that reached a decision by the court, experts were disclosed 78% of the time. These metrics demonstrate the complex nature of trade secret litigation and the frequent need for expert input on both financial and technical issues.

FIGURE 16:
Appellate Court Actions on Trade Secret Cases Heard [1990 – 2019]





Over the past 29 years, the highest number of challenges to experts in federal trade secret cases occurred in the 3rd, 5th, 6th, and 9th circuits (**Figure 17**). However, when assessing the rate of expert challenges to the total trade secret cases in each circuit, the circuits with the highest frequency of expert challenges were the 1st, 3rd, and 6th, all with challenges in 50% or more of their respective cases.

FIGURE 17:
Number and Rate of Expert Challenges by District

DISTRICT	TOTAL CASES	# OF CHALLENGES	RATE OF CHALLENGES
● 1st	8	4	50%
● 2nd	18	3	17%
● 3rd	19	11	58%
● 4th	11	5	45%
● 5th	53	22	42%
● 6th	20	10	50%
● 7th	23	6	26%
● 8th	18	6	33%
● 9th	34	13	38%
● 10th	27	3	11%
● 11th	26	8	31%

The use of an expert in such cases appears to relate to the type of trade secrets in dispute. Litigation involving design-related trade secrets had the highest instance of expert disclosure at 73%, closely followed by both methods/processes and product trade secrets at 72%. These traditional categories of trade secrets appear to have necessitated an expert (and frequently more than one expert) more often than the modern categories (i.e., business relationships, financial information, and marketing information). This observation is evidenced by expert disclosure rates between 51% and 61% for cases in these modern types of trade secrets (**Figure 18**). However, when looking at expert disclosure rates for cases decided since 2010, the traditional categories of trade secret cases remained around 76%, while the modern categories have caught up to the same 71% rate of expert disclosure (**Figure 19**).

Another metric linked to expert witness use is damages awards. In cases where one or more experts were disclosed, the average damages were approximately \$24 million versus \$4 million when no expert was disclosed. This disparity highlights and supports several important notions and conclusions. First, in the preparation stages for litigation and trial, experts are frequently used more often in complex and higher-valued trade secret matters. Second, in the process of calculating the monetary value of the trade secret damages at issue, financial experts specifically can identify elements or areas of damages often overlooked when no expert is consulted or retained.

Financial experts tended to be engaged slightly more often than technical experts; among cases that reached a court ruling, financial experts were disclosed 63% of the time compared with 54% for technical experts. Overall, it was common for both financial and technical experts to be used in a single dispute; we found this occurred in 41% of the cases.

It is important to note that with the use of an expert witness comes the risk of an exclusion challenge. Of the cases where a financial expert was disclosed, 58% were challenged through either limine or Daubert motions.⁴¹ However, 68% of those challenges were unsuccessful and denied by the judge. Only 20% of the exclusion challenges were granted in full, while the other 12% resulted in mixed rulings, granted and denied in part. Ultimately, the data suggests that financial experts were successfully excluded, in whole or part, in only 5% of the cases in total.⁴²

⁴¹ A motion in limine is a motion made before a trial begins, asking the court to decide whether particular evidence will be admissible. A motion in limine is most often made to exclude evidence by a party who believes that evidence would prejudice the jury against him or her. A Daubert motion is a specific type of motion in limine, raised before or during trial, to exclude the presentation of unqualified evidence to the jury and/or used to exclude the testimony of an expert witness who does not possess the requisite level of expertise or used questionable methods to obtain data.

⁴² Regarding the percentages discussed in this paragraph, in cases that involved multiple experts, a challenge or exclusion against a single expert was tallied as a positive result regardless of the number of experts involved in the case. Therefore, the percentage of individual experts challenged and/or excluded is likely substantially less than the percentage of cases involving a challenge and/or exclusion.

FIGURE 18:
Rate of Expert Disclosure by Type of Trade Secrets at Issue
Full Study [1990-2019]

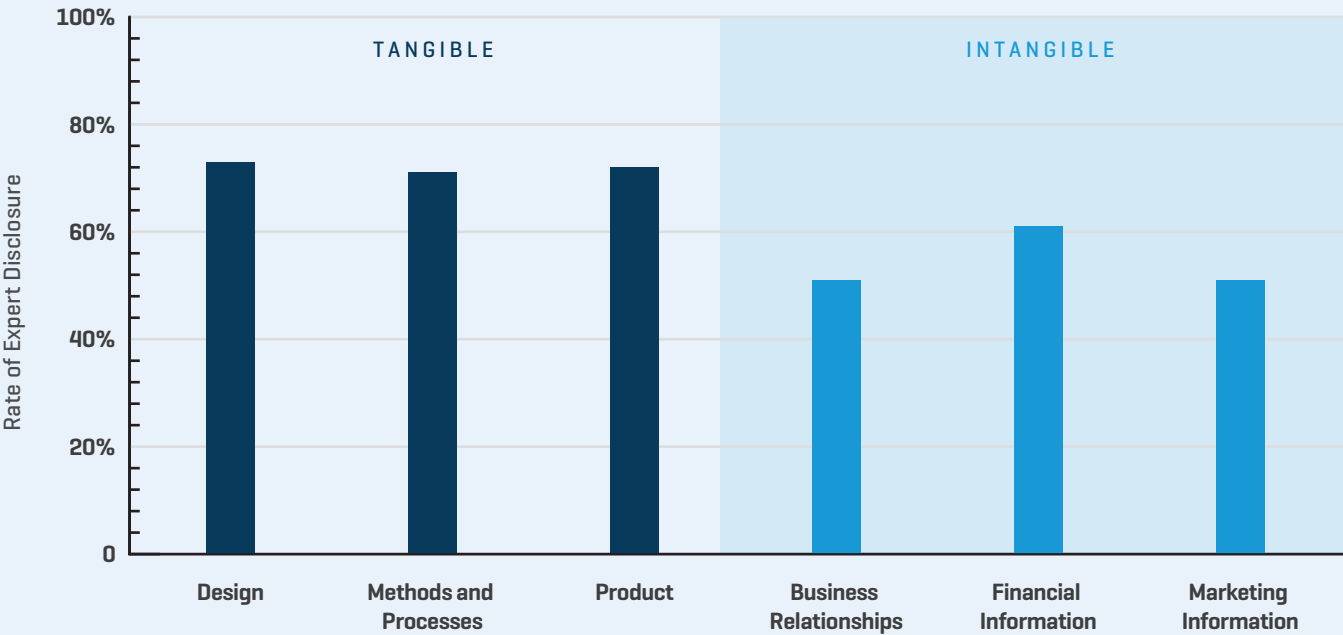
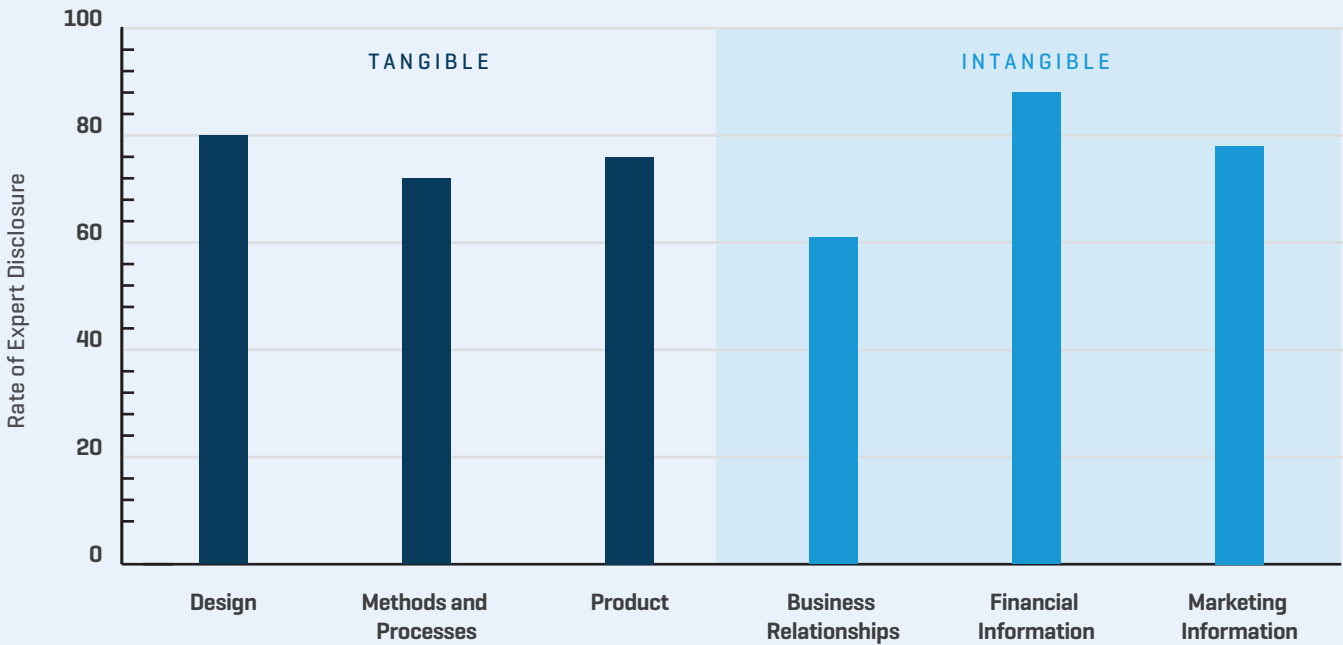


FIGURE 19:
Rate of Expert Disclosure by Type of Trade Secrets at Issue
Last 9 Years [2011-2019]



Conclusion

The trade secret landscape continues to expand at an increasingly rapid pace – a trend likely to continue due to the implementation of the DTSA, patent case law findings, and the evolution of labor and employment litigation. Increased globalization, advancements in technology, and continued domestic concentration of service-based industries will also play a role.

Multiple trends and observations are noteworthy, including the following:

- Due to the passage of the DTSA, we expect to continue to see an increase in federal trade secret claims, despite the fact that the UTSA, or a variant thereof, was adopted in 47 states prior to the enactment of the DTSA.⁴³
- The federal courts' findings in the *Mayo*, *Myriad*, and *Alice* matters will possibly lead to companies protecting more information as trade secrets (as opposed to patents), resulting in the potential for increased trade secret litigation.
- Labor and employment/restrictive covenant litigation is on the upswing as individuals increasingly change jobs for a variety of reasons, and the Millennial generation is expected to change jobs even more frequently.⁴⁴
- Alleged breach of contract matters pertaining to confidentiality agreements and restrictive covenants are expected to continue to form a basis for increasing trade secret litigation.
- Likewise, trade secret litigation has also increased in certain industries such as franchisor/franchisee disputes. We have seen a significant jump in litigation since 2000 among the information technology, consumer discretionary, and healthcare sectors, and we expect this trend to continue.
- While the types of trade secrets are varied, certain trends coincide with an increasingly data-driven marketplace and economy. There has been an influx of cases involving trade secrets and confidential information relative to computer technology, programming, methods and source code, as well as designs and blueprints.
- Other protectable trade secrets frequently at issue include customer lists, supplier relationships, and proprietary pricing.

We are closely monitoring new cases filed weekly in the federal courts under the DTSA, including several seeking remedies under the ex parte seizure provision. To date, only a minimal number of orders have been granted for the application of ex parte seizure. As intended, it appears that the ex parte seizure provision will only be granted in extraordinary cases.

We will continue to watch for ongoing developments in trade secret cases and rulings. Commercial, labor and employment, and IP litigators, as well as corporate counsel, will benefit from fully understanding these aforementioned conditions and all of the factors that may influence future litigation.

⁴³ New York, Massachusetts, and North Carolina are the three states that have not adopted a variant of the UTSA. Beck Reed Riden LLP, "Trade Secrets Laws and the UTSA: 50 State and Federal Law Survey," October 30, 2016.

⁴⁴ Heather Long, "The new normal: 4 job changes by the time you're 32," *CNN Money*, April 2016.



APPENDIX I:

RESEARCH METHODOLOGY AND LIMITATIONS

We conducted a search using the Lexis Advance® database for U.S. district court⁴⁵ cases identified by Lexis as those pertaining to trade secret claims.⁴⁶ This resulted in a population of over 10,800 cases filed in the 29-year period between January 1, 1990, and June 30, 2019. As this population contained cases at every stage of the litigation process from initial complaint filing to final court rulings, we narrowed the study to only those cases that had advanced far enough to have a measurable outcome.

We used Lexis Advance's Jury Verdicts and Settlements database, a comprehensive summary of reported judicial decisions, resulting in 639 cases, and focused on this set of cases to examine. Our analysis was performed on a standardized and comparable basis, demonstrating observable trends and unique findings in federal court trade secret litigation for matters in which a verdict or publicly available settlement information was found over the 29-year period.

For each of the 639 matters, we reviewed corresponding dockets in order to eliminate duplicate cases and those cases that did not truly relate to trade secret claims or counterclaims, resulting in 257 unique trade secret cases in the final study. Of the 257 unique cases reviewed, 77 cases resulted in a settlement between the parties. This is both a notable finding as well as a limiting factor, as for most of the settled cases, no award information was attainable, resulting in a population of 180 cases making up the damages

and nonmonetary awards section of our analysis.

This remaining group of 180 cases constitutes approximately 2% of the total federal trade secret cases filed from 1990 to 2012, which is in line with national averages for the portion of all civil cases that ultimately result in a ruling.⁴⁷

CASE STATISTICS

For each case in the study, we identified and tracked over 45 different characteristics across multiple informational categories of the lawsuit. This includes items such as jurisdictional information, background of the parties, the nature of the trade secret(s) at issue, and related causes of action or counterclaims. Our research also captured information pertaining to the use of experts, settlements and judgments, damages and other awards, and posttrial results. In this report, our research and results have been summarized to highlight notable observations and augment our ongoing monitoring of the trends in trade secret litigation.

⁴⁵ Although there have historically been some significant trade secret decisions made at the state level, the current condition of the state court databases and availability of complete information varies widely state to state and is not consistent. Our focus on federal court cases allowed for a more uniform and comparable review than inclusion of cases on state court dockets.

⁴⁶ As the dataset is an extract from the third-party LexisNexis databases, the findings herein are limited to any inherent limitations on LexisNexis regarding identifying cases and attributing them as relating to trade secrets.

⁴⁷ Marc Galanter, *Journal of Dispute Resolution* [Vol. 2006, Issue 1, Article 5], "A World Without Trials." For this analysis, we applied a cutoff of cases filed in or prior to 2012, as the average federal trial takes three years to reach a decision.



APPENDIX II:

COMPARING THE UTSA AND DTSA

Much has been written about the DTSA and its specific provisions since its introduction in 2016. Our focus is not to reiterate what has already been published on the topic, but to provide insight into how the DTSA is, and can be, used by companies seeking trade secret remedies. We have summarized certain key differences between the UTSA and DTSA below.⁴⁸

- The DTSA is less specific than the UTSA regarding the “proper means” to obtain a trade secret
- Damages can be trebled under the DTSA, as opposed to doubled under the UTSA
- Preliminary Injunction can occur under both the DTSA and UTSA, but under the DTSA it cannot prevent someone from entering into an employment relationship and cannot be in conflict with state law
- Ex parte civil seizure rights are available under the DTSA in extraordinary circumstances; they are not available under the UTSA
- Under the DTSA, attorney’s fees can be awarded based on “circumstantial evidence” that the trade secret litigation was filed in bad faith; the UTSA does not reference “circumstantial evidence”

STATE VS. FEDERAL JURISDICTION

Prior to the UTSA, trade secret law had been primarily governed by state law. However, the UTSA was adopted (in some form) by 47 states in addition to the District of Columbia and Puerto Rico.⁴⁹ Thus, differing historical state governing laws and UTSA adoption at the state level have resulted in varying interpretations of trade secret law between jurisdictions.

For the three states that have not adopted the UTSA in some form, New York trade secret law is based on case law, court decisions, and precedents, rather than by statute. In Massachusetts, trade secrets are protected by a blend of statutory and common law. North Carolina enacted its own trade secret statute in July 1981 – the North Carolina Trade Secrets Protection Act (NCTSPA), which is based largely on the UTSA.⁵⁰ The NCTSPA defines trade secret misappropriation as “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.” As with the DTSA, reverse engineering is lawful under the North Carolina statute. In contrast to the DTSA, the NCTSPA does not make “knowledge or reason to know that the information is a trade secret” an element of misappropriation. However, “knowledge or reason to know” significantly impacts the remedies available under the state’s statute.⁵¹

Additionally, while both the NCTSPA and federal statutes provide for injunctive relief to prevent the use or disclosure of trade secrets, the NCTSPA states: “If the court determines that it would be unreasonable to enjoin use after a judgment finding misappropriation, an injunction may condition such use upon payment of a reasonable royalty for any period the court may deem just.”⁵²

48 For additional comparison and contrasts between the DTSA and UTSA, see John Carson and Cameron Cushman, Lewis Roca Rothgerber Christie, “DTSA Versus UTSA: A Comparison of Major Provisions,” *Law 360*, 2016; “Trade Secrets Laws and the UTSA: 50 State and Federal Law Survey,” Beck Reed Riden LLP, October 30, 2016.

49 Massachusetts, New York, and North Carolina did not adopt the UTSA in any form; “Trade Secrets Laws and the UTSA: 50 State and Federal Law Survey,” Beck Reed Riden LLP, October 30, 2016.

50 N.C. GEN. STAT. §§ 66-152 to -157 [Supp. 1981].

51 Bob Meynardie, “Comparing Federal and North Carolina Trade Secret Protection,” Meynardie & Nanney, PLLC, May 9, 2016.

52 North Carolina Trade Secrets Protection Act; Article 24, § 66-154.

The “knowledge or reason to know” requirement under the NCTSPA also impacts potential damages. For instance, no damages are available for use prior to the time the defendant knew or had reason to know it was a trade secret. If the defendant has materially changed its position prior to knowledge, then it cannot be enjoined, but it may be required to pay a royalty.⁵³

While these are just a few examples comparing the law in a state that did not follow the UTSA, these differences attest to the continued relevancy of state law and the important role the UTSA and individual state laws continue to play in determining what constitutes a trade secret and remedies regarding the misappropriation of trade secrets. It is also worth noting that in many states, trade secret case law differs by county, creating increased complexity.

TRADE SECRET MISAPPROPRIATION

Another subtle, but noteworthy difference between the UTSA and DTSA concerns the misappropriation of trade secrets. While the definitions of trade secret misappropriation under the UTSA and the DTSA are substantively identical,⁵⁴ with both defining “improper means” as “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means,”⁵⁵ they differ when it comes to which actions are included under improper means.

Section 1(1) of the UTSA provides that *proper means* include:

- 1 | Discovery by independent invention
- 2 | Discovery by “reverse engineering,” that is, by starting with the known product and working backward to find the method by which it was developed; the acquisition of the known product must, of course, also be by a fair and honest means, such as the purchase of the item on the open market for reverse engineering to be lawful
- 3 | Discovery under a license from the owner of the trade secret
- 4 | Observation of the item in public use or on public display
- 5 | Obtaining the trade secret from published literature

Whereas DTSA § 2(b)(6) is broader, it is also less specific, providing that improper means “does not include reverse engineering, independent derivation, or any other lawful means of acquisition.”⁵⁶

53 Bob Meynardie, “Comparing Federal and North Carolina Trade Secret Protection,” Meynardie & Nanney, PLLC, May 9, 2016.

54 “Trade Secrets Laws and the UTSA: 50 State and Federal Law Survey,” Beck Reed Riden LLP, October 30, 2016.

55 UTSA § 1(1); DTSA § 2(b)(6)[A].

56 James Morrison, “Comparing the Defend Trade Secrets Act and the Uniform Trade Secrets Act,” Baker & Hostetler, LLP, May 17, 2016.

APPENDIX III:

NOTABLE PATENT CASES

MAYO COLLABORATIVE SERVICES V. PROMETHEUS LABORATORIES, INC.

For more than a century, the U.S. Supreme Court (“the court”) has made clear that a patent claim fails under 35 U.S.C. § 101 if it preempts all practical use of an abstract idea, natural phenomenon, or mathematical formula.⁵⁷ The court has explained that these fundamental tools of discovery must be available to all for use in developing new and better inventions. In *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*,⁵⁸ the petitioners asked the court to reaffirm that basic principle in the context of medical patents covering natural phenomena.

Mayo Collaborative Services and Mayo Clinic Rochester (petitioner) argued that processes claimed by patents exclusively licensed by Prometheus Laboratories, Inc. (respondent) were basically natural laws or natural phenomena, and therefore unpatentable. Mayo asserted that its arguments against Prometheus’ patent claims rested squarely on the language of Section 101 of the U.S. Patent Act of 1952, which requires that a patentable claim be “new” and “useful.” According to Mayo, because Prometheus was situating a natural correlation within steps constituting a pre-existing, widespread medical practice, Mayo argued that Prometheus’ patents were not a new and useful process as required under Section 101.⁵⁹ In Mayo’s view, it also did not reach the subsequent patentability requirements of novelty and nonobviousness under Sections 102 and 103 of the Patent Act.

In response, Prometheus contended that the patents did not cover basic and unalterable natural laws, such

as the law of gravity or the Pythagorean Theorem. The company claimed the patents concerned the manipulation of physical material for a calculated end – thus involving concrete applications rather than mere abstract principles. Prometheus asserted that, because its patents specified particular processes, the patents were valid under the machine-or-transformation test. Prometheus claimed that the first two steps in its patents were not mere “data-gathering,” but must be analyzed in the context of the patents as a whole.

Furthermore, Prometheus contended that the questions raised by Sections 102 and 103 were not currently present before the court, and therefore the court’s analysis must focus solely on whether Prometheus’ patents constituted a “process.” Prometheus asserted that to reach Sections 102 and 103 at that time would be premature, and would not give the company a chance to fully present its evidence that the patents met statutory standards. Thus, Prometheus argued that its patents were valid under Section 101 because they delineated a process for improving patient health based on metabolic transformations.

Ultimately, the court ruled in favor of Mayo, providing that certain Prometheus claims of patents related to the use of thiopurine drugs in the treatment of autoimmune diseases were invalid because they did not constitute patent-eligible subject matter. The court held that the patent claims recited a “law of nature,” which is not itself patentable. The court also found that the various steps in the method claim were insufficient to transform an unpatentable law of nature into a patent-eligible application of such a law.

⁵⁷ *Mayo Collaborative Services, DBA Mayo Medical Laboratories, et al. v. Prometheus Laboratories, Inc.*, Supreme Court of the United States, March 20, 2012, No. 10–1150.

⁵⁸ *Ibid.*

⁵⁹ Cornell University Law School, Legal Information Institute; *Mayo Collaborative Services v. Prometheus* 628 F. 3d 1347, reversed. Prepared by Cheryl Blake and Jennifer Uren.

In addition, the court found that there was no evidence that the inventors ever considered patenting these natural correlations on their own. Well before the patents at issue were filed, the inventors freely disclosed the related general chemical association in a paper in an academic journal. The inventors' publication caught the eye of Prometheus, and in fact, Prometheus licensed the research from the inventors and their employer hospital. Apart from consulting fees, the inventors were to be compensated only if Prometheus successfully commercialized their research. Within a few weeks of the execution of this license, Prometheus filed "provisional" patent applications on the inventors' research at the United States Patent and Trademark Office (USPTO), from which the two patents at issue ultimately derived.⁶⁰

We discuss this case in a fair amount of detail because the court's rulings implied that certain types of items previously patented may now be invalid. In fact, in numerous cases since this ruling, the findings of *Mayo* have been applied to companies in the healthcare and life sciences industries.

⁶⁰ The patents are U.S. Patents 6,355,623 ("the '623 patent") and 6,680,302 ("the '302 patent"), reproduced at 2JA 1-35.

ASSOCIATION FOR MOLECULAR PATHOLOGY V. MYRIAD GENETICS

Similarly, the ruling in the *Association for Molecular Pathology v. Myriad Genetics*⁶¹ provided that certain claims of patents related to the use of isolated DNA sequences and gene modification were invalid because merely isolating genes that are found in nature does not make them patentable.

Myriad Genetics, Inc. (respondent), a genomic research firm, made an extraordinarily useful discovery in 1994 – two genes now known as BRCA1 and BRCA2. The influence of these genes can elevate the risk of a woman developing cancer at some point in her life. Soon thereafter, the company began offering screening tests to members of the public able to afford them, and filed for patents related to the discovery and associated assets. Certain patents were granted, and Myriad claimed exclusivity over various tests and other items related to the genes in question.⁶²

Claimed exclusivity on the part of Myriad was controversial and problematic for many reasons. If valid and comprehensive, the patents essentially would have meant that Myriad “owned” the genes for most practical purposes and applications. This ownership could have been used to thwart scientific progress and healthcare efforts that included, but were not limited to, preventing related academic research, lab testing options, and medically appropriate treatment options.

Thus, a coalition of petitioners (petitioners) from interested groups eventually filed suit seeking to have Myriad’s patents invalidated so that research, tests, and treatments related to the BRCA1 and BRCA2 genes could be pursued in an unrestrained manner.⁶³

The Supreme Court agreed with the petitioners, to a limited extent. Per the court, “A naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated.”⁶⁴ However, the justices also ruled that synthetic DNA sequences – known as complementary DNA (cDNA) – are eligible for patent protection, leaving room for biotech firms to profit from genetics research, according to the National Institutes of Health (NIH).⁶⁵

Healthcare providers applauded the court’s decision, viewing it as removing certain barriers to increase access, reduce costs, and allow for innovation.⁶⁶ The court’s decision may also remove barriers that precluded research into new tests and treatments for genetic diseases.

However, it is also important to recognize that the court did uphold Myriad’s patent claims with respect to cDNA, so any test that involves the creation of cDNA for BRCA1 and BRCA2 testing might infringe on Myriad’s patents. In fact, the court’s decision only invalidated five of Myriad’s 520 patent claims.⁶⁷

61 *Association for Molecular Pathology v. Myriad Genetics*, Supreme Court of the United States, June 13, 2013, No. 12–398.

62 Washington University School of Law, July 2014.

63 *Ibid.*

64 *Association for Molecular Pathology v. Myriad Genetics*, Supreme Court of the United States, June 13, 2013, No. 12–398.

65 National Institutes of Health; *The NIH Catalyst Newsletter*, Vol. 22, Issue 2, March–April 2014. The report stated: “At first glance, it seems to allow more genetic testing providers to offer BRCA1/2 tests, which should make them more widely available and less expensive.” NIH concluded that providers other than Myriad will now be able to segment DNA containing the specified nucleotide sequences to search for mutations in the genes. “As noted previously, competing testing providers began advertising less expensive BRCA1/2 tests immediately after the Supreme Court’s ruling. The decision is expected to increase access and reduce cost for a wide variety of genetic tests, far beyond BRCA1.”

66 Ryan Jaslow, “Supreme Court’s gene patent ruling could boost patient care, experts say,” *CBS News*, June 13, 2013.

67 M. Cho, S. Illangasekare, M.A. Weaver, D.G. Leonard, J.F. Merz, “Effects of patents and licenses on the provision of clinical genetic testing services,” *The Journal of Molecular Diagnostics*, 2003; 5:3–8.



ALICE CORPORATION PTY LTD. V. CLS BANK INTERNATIONAL

*Alice Corporation Pty Ltd. v. CLS Bank International*⁶⁸ (“Alice”) is another groundbreaking case heard by the Supreme Court.⁶⁹ The question raised in *Alice* was whether Alice Corp.’s (petitioner) claims were patent-eligible under 35 U. S. C. § 101, or were instead drawn to a patent-ineligible abstract idea.

A financial markets technology innovator, Alice Corp. was the assignee of several patents that disclosed a process for mitigating “settlement risk,” i.e., the risk that only one party to an agreed-upon financial exchange will satisfy its obligation. The patent claims in question were designed to facilitate the exchange of financial obligations between two parties by using a computer system as a third-party intermediary. The patents in suit claimed: 1) a method for exchanging financial obligations; 2) a computer system configured to carry out the method for exchanging obligations; and 3) a computer-readable medium containing program code for performing the method of exchanging obligations.

CLS Bank (respondent), which operated a global network facilitating currency transactions, filed suit against Alice Corp., arguing that the patent claims at issue were invalid, unenforceable, or not infringed. Alice Corp. counterclaimed, alleging infringement. The court found the patents were directed to an abstract idea and therefore invalid because implementing those claims on a computer was insufficient to transform the idea to a patentable invention. The court further explained that if a patent’s recitation of a computer amounts to a mere instruction to implement an abstract idea on a computer, then that addition cannot impart patent eligibility.

In deciding *Alice Corp.*, the court looked to the framework set forth in its 2012 ruling on *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts. Ultimately, the 2014 Supreme Court ruling in *Alice Corp. v. CLS Bank International* preserves software patentability but requires “an inventive concept” beyond computer implementation of an abstract idea.

⁶⁸ *Alice Corporation Pty Ltd. v. CLS Bank International*, Supreme Court of the United States, June 19, 2014, No. 13–298.

⁶⁹ Gregory N. Brescia, Robert P. Feinland, and Jura Christine Zibas, “Hope for Computer-Related Patents – *Alice Corp. v. CLS Bank*,” *The National Law Review*, June 24, 2015.

Since the federal court and Supreme Court rulings were delivered in *Alice*, numerous issued patents have been found invalid under the new 35 USC §101 standard as found in *Alice* and applied in district courts. Specifically, patents related to software and business methods are being labeled as “abstract ideas” and therefore constitute patent-ineligible subject matter under *Alice*. For example:

- *Planet Bingo, LLC v. VKGS, LLC*, No. 13-1663 [Fed. Cir. 2014]: the Federal Circuit rejected a patent that claimed the concept of running a bingo game on a computer. The court held that “managing the game of bingo consists solely of mental steps which can be carried out by a human using pen and paper and converting that process into a computer program does not lead to a patentable invention.”⁷⁰
- *CMG Financial Services, Inc. v. Pacific Trust Bank*, F.S.B., 2014 WL 4922349 [C.D. Cal.]: the Central District Court of California struck down a patent on a method of linking a mortgage line of credit to a checking account. The court said that the generic computer functions mentioned in the patent were not enough to merit protection.
- *Tuxis Technologies, LLC v. Amazon.com, Inc.*, No. 1:2013cv01771 - Document 31 [D. Del. 2015]: a Delaware District Court invalidated a patent on the concept of using a computerized system to “upsell” customers who buy one product into buying other products that might interest them. The District Court pointed out that upselling is as old as commerce itself.⁷¹

While these are just a few examples, the recent decisions that rely on *Alice* leave inventors and patent owners questioning how to avoid the uncertainties of *Alice* and whether the adoption of *Alice* will result in a decline in patent applications filed. As these are all credible concerns, the USPTO has issued guidelines on subject-matter eligibility for the purpose of educating present and future inventors and patent owners on how to avoid an *Alice* rejection and filing a patent application that lacks patentable subject matter.⁷²

It should be noted that while district courts have frequently applied the *Alice* standard, there have been a number of reversals on appeal wherein district and/or appellate courts did in fact find that the patent was something significantly more than an abstract idea. For instance, in *Bascom Global Internet Services v. ATT Mobility, LLC*, 827 F.3d 1341 (Fed. Cir. 2016), the appellate court found that certain internet filtering patents were not invalid under *Alice*. In another closely watched case, the appellate court in *McRO, Inc. v. Bandai Namco Games America, Inc.*, No. 15-1080 (Fed. Cir. 2016), found that patents related to lip syncing with facial expressions in 3D animation were claimed via “rules” that described the invention in a patent-eligible manner.⁷³

70 Gregory N. Brescia, Robert P. Feinland, and Jura Christine Zibas, “Hope for Computer-Related Patents – *Alice Corp. v. CLS Bank*,” *The National Law Review*, June 24, 2015.

71 *Ibid.*

72 *Ibid.*

73 *McRO, Inc. v. Bandai Namco Games America, Inc., et al.*, United States Court of Appeals for the Federal Circuit, September 13, 2016, No. 15-1080.





Stout's Trade Secret Experience

At Stout, we focus on the damages aspects of trade secret litigation, which includes ongoing analysis of the trade secrets landscape with particular attention to current and evolving trends. Stout experts are leading authorities on quantifying financial damages related to violations of restrictive covenants and trade secret misappropriation. We bring an independent point of view, deep technical expertise, and a track record of credible and compelling testimony in such matters. Our experts regularly work with in-house and outside counsel, government agencies, and courts and mediators to provide analysis and expert testimony on issues including:

- Lost profits resulting from lost sales, convoyed sales, and price erosion
- Financial gains due to alleged misappropriation
- Application of appropriate costs to a calculation of alleged damages
- Reasonable royalties, including the determination of the proper royalty base and rate
- Forensic accounting and analysis pertaining to causational issues
- Economic market analyses
- Irreparable harm analyses
- Corrective advertising
- Mitigation assessments

To learn more about our experience with Trade Secrets, visit
stout.com/en/services/trade-secrets-restrictive-covenants





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