2023 Trade Secret Update: A Look at Recent Trade Secret Developments

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WilmerHale lawyers advise clients on every aspect of trade secret law from contracts to complex litigation. Below is a short update on important cases and developments.

IDENTIFYING A TRADE SECRET

Trade secret identification remains a hot button issue. Notwithstanding years of commentary and a statutory framework for trade secret identification in some states, including California, courts across the country continue to take differing approaches to trade secret allegations.

— *REXA, Inc. v. Chester*, 42 F.4th 652 (7th Cir. 2022)—**Insufficiently alleging a trade secret**

In 1993, Koso America purchased the assets of Rexa Corporation. In 1998, Koso hired Defendant Mark Chester but did not enter into a formal employment agreement with Chester. In 2002, Chester participated in a project to investigate potential "alternate valves" for an actuator that would enable Koso to cease having to pay royalties to a third party. For several weeks, Chester and a colleague sought to create a replacement "flow matching valve" for an actuator, but they did not succeed. Instead, they succeeded in creating a prototype of a new actuator. Within months, Koso terminated the project, and no information was used for any later product or plan. Chester resigned from Koso in July 2003. In 2014, Koso underwent a reorganization, which created REXA, Inc.

Chester later joined MEA Inc. as a senior engineer. At MEA, Chester worked on a new actuator prototype, and MEA eventually filed a related patent application. In December 2017, REXA filed suit against Chester and MEA alleging "misappropriation of REXA's trade secret designs for solenoid-based electro-hydraulic actuators, which Defendants improperly, and without REXA's consent, disclosed and claimed in U.S. Patent Application No. 14/511,463." The parties filed cross motions for summary judgment. The Northern District of Illinois court ruled for Chester and MEA. REXA appealed those rulings to the Seventh Circuit.

At the core of REXA's appeal was the dispute over whether REXA adequately identified a trade secret. REXA contended that its "2002 Designs," including the actuator prototype, qualified as trade secrets. Chester and MEA, on the other hand, argued that "2002 Designs" is vague and that several aspects of the 2002 actuator prototype were well known in the industry. REXA countered that the trade secret was the use of solenoid valves "in conjunction with other components to create a previously unknown actuator." The Seventh Circuit held that "a high level of specificity [is required] when a plaintiff makes a claim for misappropriation of a trade secret." The court added that "[w]hen a plaintiff presents complex or detailed descriptions of methods and processes but fails to isolate the aspects that are unknown to the trade, no trade secret has been identified . . . a plaintiff must do more than just identify a kind of technology and then invite the court to hunt through the details in search of items meeting the statutory definition." The court further held that REXA failed to provide information sufficient to enable the court to determine "which aspects are known to the trade, and which are not."

— *Coda Dev. s.r.o. v. Goodyear Tire & Rubber Co.*, 2023 WL 2734684 (N.D. Ohio Mar. 31, 2023)—**Insufficiently alleging a trade secret**

In the August 2015, Plaintiff Coda Development s.r.o.—a Czech company— filed suit against Goodyear Tire and Rubber Company. Coda alleged that it disclosed its trade secrets relating to "self-inflating tire" or "SIT" technology to Goodyear during two meetings in 2009 organized to discuss a potential partnership. Coda alleged that it "fully educated Goodyear about its SIT technology," including:

— Trade Secret 24: "Coda's knowledge regarding the optimal location for placement of a pump in a tire for tire manufacturers, namely, in the sidewall close to, and above, the rim where the tire cyclically deforms in response to deformation."

— Trade Secret 7: "Coda's design and development of a multi-purpose interface for transporting air in a self-inflating tire that can [1] connect to the air source, [2] connect to the tire interior, [3] connect to the peristaltic pump, [4] serve as an end to the peristaltic pump, [5] connect to the regulator, [6] carry the regulator, [7] go around or through the bead, [8] go around or through the tire layers, [9] click to the bead and [10] [hold] the filter."

The case went to trial in September 2022. After Goodyear moved for judgment as a matter of law (JMOL), the court cut five of Coda's trade secrets, and expressed doubts about the remaining trade secrets, including "whether these are definite enough to really even be trade secrets." The jury found for Coda on five of the remaining trade secrets, and Goodyear renewed its JMOL motion.

The court held that "[c]ase law is clear that one cannot claim as a trade secret an entire body of knowledge without articulating at least the boundaries within which the secret lies." Further, it found that "courts have made clear that 'a trade-secrets plaintiff must defin[e] the information for which protection is sought with sufficient definiteness to permit a court to apply the [statutory] criteria for protection[.]" With respect to the alleged trade secrets quoted above, the court held that: (1) Trade Secret 24 was based only on "Coda's knowledge" and "was susceptible to too many interpretations regarding the so-called 'optimal location' and shed no light on which interpretation might be the one Coda claimed as secret"; and (2) Trade Secret 7 was identified using "vague, functional terms (i.e., an interface 'that can' accomplish certain ends)" but with "no detail as to how the functions are to be carried out and, importantly" with "no articulation of the actual 'design and development' of any such interface that is the actual subject of the trade secret." Ultimately, the court set aside the entire $64 million jury award.

— *XpandOrtho, Inc. v. Zimmer Biomet Holdings, Inc.*, 2022 WL 801743 (S.D. Cal. Mar. 15, 2022)—**Sufficiently alleging trade secret**

Reflecting a contrasting approach to that discussed in the *REXA, Inc.* and *Goodyear* cases summarized above, *XpandOrtho* allowed a relatively general description of the alleged trade secret to suffice.

XpandOrtho, a start-up medical device company, developed new technology "to address the problem of inaccurate soft tissue balancing during total knee arthroplasty." In 2015, XpandOrtho allegedly shared confidential information with Zimmer Biomet Holdings, a third party purportedly interested in acquiring XpandOrtho. When Zimmer did not proceed with the acquisition, XpandOrtho filed suit against Zimmer, alleging, among other claims, misappropriation of XpandOrtho's trade secrets under the California Trade Secrets Act (CUTSA). Specifically, XpandOrtho accused Zimmer of never having any legitimate intent to acquire XpandOrtho and that Zimmer secretly filed two patent applications relating to XpandOrtho's intellectual property. In its amended complaint, XpandOrtho listed thirteen general trade secrets and added brief descriptions to certain of these. For example, XpandOrtho identified the following as trade secrets:

— "Geometry, dynamics, and kinematics of the XO device" with the description "Detailed three-dimensional geometry of the XO, determined from examining, handling, and measuring the XO device"
— "The designs of sensors for soft tissue balancing devices"
— "Source Code" with the description "Source code for the trial implant firmware version 0.6"

Zimmer challenged the sufficiency of the trade secrets XpandOrtho had identified. The court disagreed with Zimmer, highlighting XpandOrtho's description of "[g]eometry, dynamics, and kinematics of the XO device" as a sufficiently plead trade secret when viewed in conjunction with the "specific examples" that XpandOrtho provided, i.e., "[d]etailed three-dimensional kinematics of the XO as the knee moves through its range of motion, determined from examining, handling, and measuring the XO device."

The court's finding that XpandOrtho's general description of its alleged trade secrets was sufficient to survive the pleading stage offers a reminder that the sufficiency of a trade secret claim is fact dependent and can vary based on jurisdiction.

— *Bureau Veritas Commodities & Trade, Inc. v. Cotecna Inspection SA,* 2022 WL 912781 (S.D. Tex. Mar. 29, 2022)—**Sufficiently alleging trade secret**

Bureau Veritas Commodities offers an additional datapoint on how jurisdiction may materially affect the level of detail with which an alleged trade secret needs to be described. In this case, a court in the Southern District of Texas ruled that plaintiffs need not divulge the specifics of their trade secrets in a complaint.

Bureau Veritas specializes in providing inspection and certification services to commodities traders. Beginning in early 2020, BV faced a series of senior employee departures, including its most senior leader within its minerals & metals division, Stefanus Nel, to competitor Cotecna Inspection. BV sued Cotecna alleging that it had conspired with Nel to hire away the senior employees and to misappropriate BV's trade secrets. According to BV's complaint, when its former employees joined Cotecna, they served in nearly identical roles to those they had served at BV and began pursuing business from BV customers, in part, by relying on information taken from BV:

> its profits and loss information, financial information, business plans, strategic growth strategies, sales information, operational weaknesses, marketing strategies, customer information, pricing, pricing strategies, sales volume, operational plans, employee compensation, vendor and contractor information, testing procedures, certificates, and laboratory technology.

Cotecna filed a motion to dismiss, calling the categories "vague and broad," and contending that BV was required to plead greater specificity with respect to the descriptions of its alleged trade secrets. The court disagreed with Cotecna, noting that "Bureau Veritas met its burden at the pleading stage" and that "[t]he idea that a plaintiff must disclose detailed descriptions of trade secrets in a public complaint—without any protective order in place would likely defeat the entire purpose of attempting to protect the trade secret in the first place."

SUFFICIENCY OF ALLEGATIONS

— *Ahern Rentals, Inc. v. EquipmentShare.com, Inc.*, 59 F.4th 948 (8th Cir. 2023)—**Pleading conspiracy 'on information and belief'**

Ahern is one of the largest equipment rental companies in the United States. EquipmentShare is one of Ahern's top competitors.

In November 2020, Ahern sued EquipmentShare and EZ Equipment Zone, companies that assisted rental equipment owners with renting out their equipment. Ahern contended that EquipmentShare and EZ conspired to misappropriate Ahern's "customer lists, rental information, pricing information, and marketing strategies."

The Western District of Missouri court granted EZ's motion to dismiss. The court took issue with several paragraphs in Ahern's complaint that alleged EZ's involvement and knowledge, which were all pled "upon information and belief." "Adding 'upon information and belief' does not make the facts Ahern advances likely."

Ahern appealed, and the Eighth Circuit reversed, finding that "to state a claim for misappropriation, Ahern must plausibly allege that EZ 'knew or had reason to know' that [the] trade secrets were improperly acquired by EquipmentShare." The court found Ahern's "information and belief" allegations sufficient because "[t]he rest of Ahern's detailed allegations, taken as true, make clear that EquipmentShare's programs were at the core of EZ's operations . . . it is entirely plausible to infer that EZ knew it was using programs developed through the exploitation of trade secrets . . . In other words, Ahern has provided enough factual material to make the inference of culpability plausible."

REASONABLE EFFORTS

Recently, a number of cases have focused greater attention on this essential element of a trade secret claim. The case below highlights the importance of contracts that require confidentiality as to all potential users of the alleged trade secrets.

— *Turret Labs USA, Inc. v. CargoSprint, LLC*, 2022 WL 701161 (2d Cir. 2022)—**Insufficient efforts**

Turret Labs developed a logistics management software called Dock EnRoll that was designed to facilitate "payment of fees and scheduling of shipments based on synchronized real-time United States Customs release notifications." In 2008, Turret entered into an exclusive licensing agreement that gave third-party Lufthansa, a cargo airline, complete control over who could access and use Dock EnRoll.

Turret later alleged that CargoSprint, a third party to the licensing agreement between Turret and Lufthansa, had improperly gained "expansive" and "unfettered" access to DockEnRoll "through a

Lufthansa employee" to "technical information and [ ] algorithms[,]" proprietary to Turret, leading CargoSprint to "reverse engineer[] this technical information to develop an identical, competing software[.]" The court dismissed Turret Labs' trade secret misappropriation claims because Turret failed to allege reasonable measures in place to protect Dock EnRoll's secrecy. Turret appealed.

On appeal, the Second Circuit affirmed, holding that "where an alleged trade secret consists primarily, if not entirely, of a computer software's functionality—functionality that is made apparent to all users of the program—the reasonableness analysis will often focus on who is given access, and on the importance of confidentiality and nondisclosure agreements to maintaining secrecy." The Second Circuit was unconvinced by Turret's argument that its protective measures included that "Dock EnRoll's physical servers were kept in monitored cages within a data center with restricted access and that access to the software was limited to those with usernames and passwords approved by Lufthansa." The Second Circuit pointed to the notable absence in Turret's complaint of "any specific allegation that Lufthansa or any other user of DockEnRoll was required to keep Turret Labs' information confidential . . . [a]nd without confidentiality or nondisclosure agreements in this context, it is not apparent from the [complaint] that any user could not simply replicate the software after using it."

Turret Labs provides useful guidance to licensors, particularly of software trade secrets, that it is prudent to consider whether the restrictive measures in place to protect a trade secret are appropriately tailored to the pertinent business or industry.

— *GateGuard, Inc. v. Amazon.com Inc.*, 2023 WL 2051739 (S.D.N.Y. Feb. 16, 2023)—
Sufficient reasonable measures

GateGuard manufactures and sells AI Doorman—an internet-enabled intercom device that allows authorized users to unlock entrances remotely and to monitor all incoming and outgoing activity. In January 2022, GateGuard expanded ongoing litigation against Amazon, alleging misappropriation of trade secrets. According to GateGuard "only authorized GateGuard agents are permitted access to the devices for repairs and troubleshooting."

Amazon sells "Key for Business," a "small device that can be inserted into existing intercom systems and remotely controlled to provide Amazon deliverers [with] building access on a '24/7' basis." Amazon moved to dismiss on the basis that the "physical components of GateGuard's devices cannot be trade secrets because they were sold and installed in the public forum," making them "readily accessible" to third parties. Further, Amazon contended that any information "divined" from GateGuard's product was obtained through nonactionable "reverse engineering" of GateGuard's publicly placed intercoms.

The court rejected Amazon's arguments: "GateGuard plausibly alleges that it takes reasonable measures to protect the secrecy of each device's inner workings and features, such that those claimed trade secrets can be obtained only through improper means . . . GateGuard 'protects its proprietary rights in its devices through [its] Service Agreement and its Terms and Conditions,'. . .

[and] ‘only authorized GateGuard agents [are] permitted access to [installed] devices for repairs and troubleshooting’ . . . GateGuard customers and third parties can access the purported trade secrets here only if they break open the casing of a GateGuard device without authorization, defying the various protections that GateGuard has employed to prevent such a result. Thus, the mere fact that third parties can access the exterior shell of a GateGuard device does not compel a conclusion that GateGuard has placed its trade secrets in the ‘public domain.’” The court found “[t]he design features at issue here are not of the sort that become easily ascertainable upon inspection once the product is placed on the market.”

Finally, the court found that a product may be permissibly “reverse engineered” only after the product’s creator “has ceded ownership of that product—by, for example, selling the product on the open market.”

MISAPPROPRIATION

— *Caudill Seed & Warehouse Co. v. Jarrow Formulas, Inc.*, 53 F.4th 368 (6th Cir. 2022)—
Misappropriations allegations sufficient

For years, Caudill Seed engaged in research and development focused on developing nutritional compounds from seed and seed sprouts, including broccoli seed. Kean Ashurst served as Caudill’s director of research from 2002-2011 with specific responsibility for the R&D in the area of the extraction, isolation, and development of compounds from broccoli seed. Notably, Caudill’s research in this area preceded Ashurst’s arrival. However, after his arrival, Caudill entrusted most of the memorialization of its broccoli seed science solely to Ashurst.

Jarrow Formulas, a former customer of Caudill, sought to become a manufacturer of broccoli extract and moved to hire Ashurst away from Caudill. Jarrow began its negotiations with Ashurst before his departure from Caudill, including executing a consulting agreement with Ashurst the day before his resignation from Caudill. Within mere months of hiring Ashurst, and without any prior R&D in the area of broccoli extract production, Jarrow was able to develop a profitable broccoli seed extract product. Caudill sued Jarrow in the Western District of Kentucky for, among other things, misappropriation of a trade secret under the Kentucky Uniform Trade Secrets Act (KUTSA). Caudill described its trade secret as “research and development on supplements, broccoli, and chemical compounds.” The case was tried before a jury who found in favor of Caudill and awarded over $6 million in total damages and fees.

On appeal, Jarrow contended, in part, that Caudill “never satisfied the legal requirement of showing that Jarrow acquired and used the entire combination of trade secret.” Jarrow contended that such a finding was necessary because, in the alternative, “a defendant could be liable for acquiring or using only a component of a combination trade secret that is readily discernible from general industry knowledge.” The Sixth Circuit framed the issue as “whether trade-secret law requires a plaintiff to show acquisition and use of the entirety of a combination trade secret.” While it acknowledged that there is authority on both sides of the debate, the court disagreed with Jarrow's interpretation of the law that a defendant must acquire "each atom of a combination trade secret." Further, the court held that there is no requirement in the law that demands that a plaintiff show that a "mirror-image between the misappropriated secrets and the eventual product derived from them" exists to maintain a misappropriation claim. That is, the acquisition and use of even just a portion of a combination trade secret rises to the level of misappropriation under KUTSA.

This case highlights courts' differing approaches to finding misappropriation, particularly in cases where the plaintiff falls short of showing acquisition or use of the entire secret.

— *CAE Integrated, LLC V. Moov Techs., Inc.*, 44 F 4th 257 (5th Cir. 2022)—**Allegations of threatened misappropriations insufficient**

As we enter an era when non-competition agreements are subject to increasing scrutiny (more on this below), the issue of threatened misappropriation under the DTSA, and, relatedly, the inevitable disclosure doctrine or theory, will take on greater importance. In the case below, the court denied a plaintiff's request for a preliminary injunction.

In *CAE Integrated, LLC. v. Moov Techs*., the Fifth Circuit clarified that a company alleging trade secret misappropriation by a former employee must provide proof of "threatened misappropriation" and may not rely on a general fear of misuse based solely on the information that the former employee knows.

CAE, a semiconductor company, sued its former employee Nicholas Meissner and his current employer, Moov, claiming trade secret misappropriation and moving for a preliminary injunction to prevent Moov from contacting its key customers. Meissner's employment contract included a non-disclosure agreement protecting CAE's "proprietary information" including its "customers and suppliers and any other nonpublic information that has commercial value." After Meissner left the company, CAE alleged that Meissner and Moov misappropriated transactional documents and customer lists. However, Meissner had wiped his personal storage drive from containing any transactional documents by the time he started at Moov.

The district court found Meissner's testimony credible, and forensics confirmed that no transactional documents existed in Meissner's storage drive by the time he started at Moov. Thus, both the district court and the Fifth Circuit held that CAE failed to show that Meissner and Moov had access to trade secrets in the first place. Because no transactional documents or customer lists existed in Meissner's storage drive, the only remaining potential source of customer identities was Meissner's own "personal knowledge" about who he worked with while at CAE. However, the Fifth Circuit held that Meissner's own knowledge of his CAE coworkers, absent other evidence, was insufficient to support a finding that he misappropriated trade secrets. Denying CAE's injunction, the court cited the relevant provision of the DTSA prohibiting injunctions against an individual unless based on actual behavior that indicates a threat of misappropriation: "any injunctions placing conditions on 'employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.'"

While the court in this case took a relatively rigorous approach, we continue to see differing rulings based on the relevant provision of the DTSA relating to "threatened misappropriation."

DAMAGES

Below are a few examples of cases involving relatively new damages theories**.**

- *PPG Indus v. Jiangsu Tie Mao Glass Co.,*47 F .4th 156 (3d Cir. 2022)—**Saved cost recoverable**

In *Jiangsu Tie Mao Glass*, the Third Circuit looked to the amount of money that the defendant saved by misappropriating the trade secret.

PPG is a Pittsburgh-based company that manufactures specialized windows, windshields, and "transparent armor" for uses in automobiles, trains, and aircrafts. The company heavily invested in the development of a new plastic for airplane windows, calling the new technology "Opticor." TMG, a China-based competitor that makes the same type of products for similar customers, wanted the Opticor technology. It hired a former PPG employee who had worked on Opticor, Thomas Rukavina, and asked him to share PPG's proprietary information. Rukavina met with TMG's CEO and emailed him a "treasure trove of trade secrets" regarding Opticor.

Using this report, TMG made plans to produce Opticor-quality windows. PPG became aware of this when TMG emailed a PPG subcontractor about making "the same [Opticor] molds" that it did for PPG. The subcontractor alerted PPG instead, and PPG sued under the Pennsylvania Uniform Trade Secrets Act (PUTSA).

TMG made no effort to participate in litigation. Well over a year after TMG should have appeared, the district court finally entered an entry of default. PPG then moved for default judgment, asking for a permanent injunction, damages, and attorneys' fees. PPG calculated its damages using the creation and research and development costs for the Opticor technology. Although TMG eventually appeared in the case, the trial court did not set aside the entry of default and granted PPG's motion for default judgment. It awarded PPG damages based on its proposed calculation: the amount that it spent on its own R&D in developing Opticor. According to the court, this calculation was a permissible inference for the amount that TMG saved by skipping the R&D process to develop its own Opticor-like product.

On appeal, TMG did not dispute the district court's ruling on liability but argued that PPG had not provided sufficient evidence to establish actual damages. TMG averred that, since it never won any contracts to use the misappropriated information, it was not unjustly enriched, and PPG had not suffered any loss. The Third Circuit rejected this argument because, under PUTSA, a plaintiff can recover damages for both actual loss and for unjust enrichment caused by misappropriation. The court agreed with PPG's claim—and the district court's ruling—that TMG was unjustly enriched because of the money it saved by not researching and developing the technology itself.

— *Genasys Inc. v. Vector Acoustics, LLC*, 2022 WL 16577872 (S.D. Cal. Nov. 1, 2022)—**Preemption**

Genasys "develops and manufactures large-scale communication systems," for example, "emergency warning systems and public safety mass notification systems that are used by various governmental and commercial organizations." Marcel Naujok worked for Genasys as Vice President of Business Development from 2013 to 2018. After ending his formal employment with Genasys, Naujok continued providing "various consulting services" to Genasys until May 2021. Hernan Lopez worked for Genasys as Vice President of Product Development until his departure in June 2019. In January 2020, Lopez established defendant Vector Acoustics and contracted with Naujok for his assistance with the new venture.

In February 2022, Genasys sued Vector, Lopez, and Naujok alleging that Vector's products appear to be a "mere reproduction of Legitimate Genasys Products with the addition of the Proposed Product Modifications and/or superficial alterations."

Naujok moved to dismiss, among other reasons, on the ground that Genasys' unjust enrichment claim was preempted by the California Uniform Trade Secret Act ("CUTSA"). The court found that CUTSA preempts "common law tort claims when they do not genuinely allege 'alternative legal theories' but are a transparent attempt to evade the strictures of CUTSA by restating a trade secrets claim as something else," and that plaintiff's enrichment claim was preempted because it relied on "the same nucleus of facts" as its trade secret misappropriation.

— *Versata Software, Inc. v. Ford Motor Co.*, 2023 WL 3175427 (E.D. Mich. May 1, 2023)—**Failure to apportion damages**

Versata licensed its "Automotive Configuration Manager" or "ACM" software (including a software program called "MCA") to Ford through a Master Subscription and Services Agreement ("MSSA") for nearly $15 million. In the months leading up to the MSSA's expiration in 2014, the parties were unable to reach agreement on an extension of the MSSA. Instead, Ford developed and deployed a proprietary automotive configuration software program to replace ACM and named it "PDO." Ford claimed it had been working on PDO for several years before the MSSA expired.

In 2015, Ford sought declaratory judgment that its PDO software did not infringe on Versata's intellectual property. Versata counterclaimed, alleging breach of the MSSA and that Ford had misappropriated four of Versata's trade secrets in developing the PDO software. Versata's four asserted trade secrets were referred to as (1) the Grid, (2) Buildability, (3) Workspaces, and (4)

MCA. The jury found that Ford misappropriated “the Grid,” “Buildability,” and “Workspaces” trade secrets and awarded Versata more than $22 million.

On February 17, 2023, Ford filed a renewed motion for judgment as a matter of law. The court set aside the jury’s award on the trade secret misappropriation claim “because Versata did not introduce evidence that would enable the jury to calculate damages if it found, as it did, that Ford had misappropriated ***less than all*** of Versata’s trade secrets.” (Emphasis added.) The court found that Versata did not provide the jury with the “essential evidence” allowing them to calculate damages based on “the amount of time [the jury] decide[d] it would have taken Ford to independently develop the alleged combination trade secrets [it] found were misappropriated.” It further found that “[w]ithout this information, the jury had no way to reliably determine how long it would have taken Ford to develop the three (out of four) trade secrets that it found to have been misappropriated.” Therefore, “any development-time figure used by the jury – after it found that Ford misappropriated the Grid, Buildability, and Workspaces, but not MCA – would necessarily have been pure speculation.”

In reaching its decision on Versata’s misappropriation claim, the court relied on *O2 Micro Int’l Ltd. v. Monolithic Power Sys., Inc.*, 399 F.Supp.2d 1064 (N.D. Cal. Nov. 10, 2005): “[A]s in *O2 Micro*, Versata was on notice that pursuing an all-or-nothing approach [instead of a trade-secret-by-trade-secret basis] on damages questions could fatally undermine an award of damages if the jury found that Ford misappropriated less than all of Versata’s trade secrets. Second, like the expert in *O2 Micro*, [Versata’s expert] provided the jury an ‘all or nothing’ model that left the jury without any evidence from which it could determine how long it would have taken Ford to develop just the three misappropriated trade secrets.”

FTC FOCUS ON NON-COMPETITION AGREEMENTS

WilmerHale also has extensive FTC experience, including advising on the complex issues that arise from non-compete agreements. Our lawyers have also litigated high-stakes criminal cases involving allegations tied to alleged non-competition agreements.

In January, the FTC announced a notice of proposed rulemaking that would ban employers from entering non-compete agreements with their employees. Under proposed rule 16 CFR § 910, it would be an unfair method of competition in violation of Section 5 of the FTC Act for an employer to enter, or attempt to enter, a non-compete clause with paid or unpaid staff or independent contractors. The proposed rule is a significant step in the FTC’s plans to use its rulemaking authority against conduct it views as harmful to workers and the economy. As written, the proposed rule would effectively ban non-competes in most employment circumstances, a radical departure from current federal antitrust law, which focuses on analysis of competitive effects to determine whether a non-compete clause is unlawful. The proposed rule would create substantial challenges for employers seeking to protect proprietary information or their investment in training employees.

Moving forward, companies may have to rely on other avenues for protection, such as non-disclosure agreements or trade secret law.

The FTC expressly calls out employers' ability to use trade secret litigation—and the inevitable disclosure doctrine—to protect employers' intellectual property. We will closely follow developments in this area as we note that not all states recognize inevitable disclosure; California, for example, rejects the doctrine. Furthermore, federal district courts around the country have taken different approaches to allowing plaintiffs to use the inevitable disclosure doctrine to establish "threatened" misappropriation as required for injunctive relief under the DTSA.

In March, the FTC extended the comment period on the proposed rule, and more recently it was reported that the FTC will not vote until April 2024, delaying any proposed ban on non-competition agreements for at least a year. Notably, the FTC continues to announce enforcement actions related to non-compete agreements with employees. More recently, the General Counsel of the NLRB released a memorandum setting forth her position that non-competition agreements violate the National Labor Relations Act absent special circumstances. She stated that "[n]on-compete provisions reasonably tend to chill employees in the exercise of Section 7 rights when the provisions could reasonably be construed by the employees to deny them the ability to quit or change jobs by cutting off their access to other employment opportunities that they are qualified for based on their experience, aptitudes, and preferences as to type and location of work." The memorandum also notes that the General Counsel is committed to an interagency approach to addressing these issues.

NEW SANCTIONS LEGISLATION TARGETING FOREIGN TRADE SECRETS THEFT

Congress unanimously passed the Protect American IP Act ("PAIP Act") in December 2022, and President Biden signed it into law in January 2023. The PAIP Act requires the President to submit annual reports to Congress identifying (1) any foreign persons who have "knowingly engaged in, or benefitted from, significant theft of trade secrets of United States persons, if the theft occurred on or after such date of enactment and is reasonably likely to result in, or has materially contributed to, a significant threat to the national security, foreign policy, or economic health or financial stability of the United States"; and (2) any foreign persons who have provided significant support for such theft. The report must also identify entities owned or controlled by such foreign persons, as well as their CEOs and members of the board of directors. No litigation of any kind is required prior to the reports.

The PAIP Act requires the President to impose sanctions with respect to persons identified in the report. It specifies that the sanctions may include blocking of property, inclusion on the Department of Commerce's Entity List (an export controls blacklist), denial of Export-Import Bank assistance, a prohibition on loans from U.S. financial institutions, a ban on U.S. Government procurement from such entities, a prohibition on banking transactions, and so on.

The PAIP Act responds to longstanding, bipartisan concerns that foreign corporations and foreign governments – particularly China – systematically steal U.S. trade secrets, weakening U.S. economic and national security. However, the law breaks new ground by giving the President unilateral authority to determine whether the relevant type of trade secrets theft has occurred, and by requiring the imposition of sanctions in response to such theft. By contrast, traditionally, intellectual property theft has been adjudicated and remedied through judicial and/or administrative proceedings.

The PAIP Act raises a host of important questions, including how "significant" and "theft" will be interpreted—the Act does not define either term. In addition, it remains to be seen how aggressively the President will use the new authority under the PAIP Act. The first annual report to Congress is due by July 4, 2023.

Conclusion

If you have any questions or would like more information on the issues discussed in this update, please contact any of the following:

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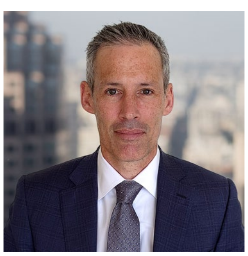

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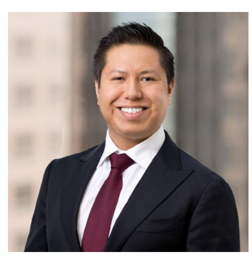

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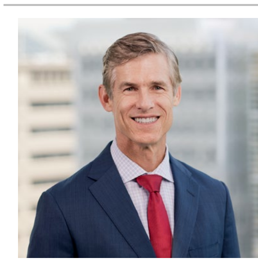

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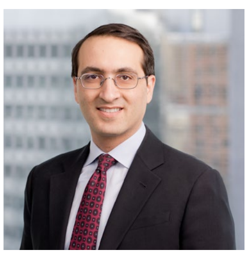

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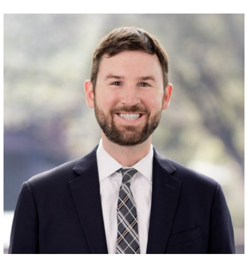

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