

Speaker 1 ([00:05](#)):

Hi everybody. Welcome to episode 69 of the podcast. We're going to talk about two cases and three issues today. The issues are whether proof of causation and damages are necessary to be the prevailing party in a trade secret case. Second one is defining actual loss for purposes of damages, and the third one is our old favorite, trade secret identification. So as to proof of causation and damages and defining actual loss, this was a recent case out of my home state, California, which addressed what it meant to be the prevailing party in a trade secret misappropriation case and addressed a new issue about what actual loss, which is language from the statute that sets forth the monetary remedies for misappropriation includes for purposes of damages. This case was actually from March. Frankly, I'm usually better about updating these faster, but this one caught my eye in connection with a case where this was an issue and I thought it was worth discussing.

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So this case was a court of appeal decision and the plaintiff was a medical device company and the defendant was a former employee. The defendant signed a contract with typical confidentiality provisions and had access to trade secrets. The contract also had a prevailing party attorney fee clause. That means that there's a lawsuit over the contract, the winning party gets attorney's fees. Before starting work for a competitor, he downloaded certain plaintiff trade secrets and took them to the defendant, his new company, the competitor. Plaintiff sued for trade secret misappropriation under the California Uniform Trade Secret Act and asserted related claims. This case went all the way to a jury trial. The jury found the defendant misappropriated trade secrets, but awarded no damages on any claim. The plaintiff still moved for attorney's fees under the contract seeking approximately \$3.3 million and costs of approximately \$562,000. The court granted the motion but only awarded \$514,000 in fees and approximately \$40,000 in costs. Not surprisingly, both sides appealed.

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The monetary remedies under trade secret law are actual loss or unjust enrichment, or if neither can be proven, the court may award a reasonable royalty and of course, double damages and attorney's fees and costs also can be recoverable if the misappropriation was willful or if a claim was made in bad faith or like here, if the party's contract has a prevailing party attorney fee clause.

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And of course a court can enjoin actual or threatened misappropriation. Here the defendant argued that because the jury found the misappropriation caused no damage, the plaintiff couldn't have been the prevailing party for purposes of attorney's fees. Thus, the court addressed whether the plaintiff must prove causation and damages to be considered the prevailing party in a trade secret misappropriation case. The court said its analysis "begins and ends with the plain language of the statute." The court said, "As defined by the plain language of the statute, misappropriation of a trade secret under the California Uniform Trade Secrets Act consists of only two elements. One, existence of a trade secret and two, improper acquisition use or disclosure of that trade secret. By its terms, the California Uniform Trade Secrets Act does not require proof of causation or damages as elements of a claim for misappropriation. To the contrary, the California Uniform Trade Secrets Act identifies damages as a remedy that is available once the misappropriation has been established."

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The court reasoned, "A jury finding that neither damages nor unjust enrichment has been proven does not end the remedy inquiry. The California Uniform Trade Secrets Act provides that if neither actual loss nor unjust enrichment can be proven, the trial court may award a reasonable royalty as a remedy for the misappropriation. California Uniform Trade Secrets Act also authorizes the court to enjoin actual or

threatened misappropriation." Thus, "Based on the plain language of the statutory definition of misappropriation, we conclude causation and damages are not elements of a claim for misappropriation of trade secrets under the California Uniform Trade Secrets Act."

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The court rejected the defendant's argument that a certain jury instruction, which addresses the issue of damages and unjust enrichment, means that proof of causation and damages is required. First, the court said statutory language trumps language in a jury instruction. Second, the court said, "The instruction addresses the issue of damages and unjust enrichment because by definition, those are the only remedies a jury could consider or award for an adjudicated misappropriation. The other remedies available to a plaintiff whose trade secrets have been misappropriated, reasonable royalty and injunction, may be awarded only by the trial court. Thus, and I'm bracketing the language here, (the jury instruction) simply instructs the jury that for plaintiff to succeed on its claim for an award of damages or unjust enrichment, it must prove not only the two statutory elements of misappropriation, but also that it's suffered damages or that defendants have been unjustly enriched."

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Finally, the court said, "The interpretation the defendant urges us to adopt would fly in the of both the statute and common sense. Under the defendant's view, a jury could find as it did here, a defendant improperly acquired, used or disclosed trade secrets. But if the legal remedies available to plaintiff damages or unjust enrichment could not be proven, the trial court would be divested of its express statutory authority to award a reasonable royalty or enjoin continued misappropriation leaving the defendant free to continue its misappropriation. We cannot rewrite the statute to reach that result. Moreover, under the defendant's view, a plaintiff that acts quickly and successfully to stop misappropriation of trade secrets before any commercial harm has been done would be precluded from obtaining an injunction to get its stolen trade secrets back and prevent their future unauthorized use. We decline to ascribe such an intent to the legislature."

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The court also addressed whether the plaintiff's damages can include the fees incurred by its forensic computer expert to stop or mitigate misappropriation. This was a new issue. Court said, "No California case addresses whether actual loss misappropriation includes the cost of investigating trade secret misappropriation. The California Uniform Trade Secrets Act allows the trial court to award as recoverable costs a reasonable sum to cover the services of expert witnesses who are not regular employees of any party actually incurred and reasonably necessary in either or both preparation for trial or arbitration or during trial or arbitration of the case by the prevailing party. But those costs may be awarded only if there is a finding that a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith or willful and malicious misappropriation exists."

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Thus, "The fact that civil code section 3426.4 and that is part of the California Uniform Trade Secrets Act permits an award of cost to include fees paid to retained experts to prepare for or testify at trial after a willful and malicious finding is a strong indication that the legislature did not intend such fees to be awarded as actual losses caused by misappropriation."

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But the court said, "A number of courts and other jurisdictions applying the Uniform Act, and again, 48 of our states apply the Uniform Act and the other two are quite similar, have drawn a distinction between expenses incurred to investigate a possible misappropriation and expenses incurred to stop or mitigate the misappropriation and have held that only the latter, that is expenses incurred or mitigate

the misappropriation are recoverable damages." I paraphrased part of that paragraph even though I stated quote.

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After analyzing several cases from different jurisdictions, the court held, "We hold a plaintiff may recover as damages on a claim of misappropriation under the California Uniform Trade Secrets Act, the cost of stopping or mitigating the misappropriation, but not the costs of investigating to determine whether and how any misappropriation occurred." In other words, actual loss includes expert costs incurred to find out where the trade secrets ended up and to "enable plaintiff to take steps to get them back."

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Now to the issue of trade secret identification, I'm going to be talking about a case out of the Federal District of New Jersey from September 5th of this year. This involved a motion to dismiss a trade secret misappropriation claim under the Federal Defend Trade Secrets Act and the state New Jersey Trade Secrets Act, which is based on the Uniform Trade Secrets Act. The issue worth discussing here is trade secret identification, which as we know arises a lot in these cases. Here, "Plaintiff identifies the following as its trade secrets. A, formulation of inks, B, formulations of paints, C, research and design of nibs for the application of plaintiff's inks and paints, D, research and design for marker bodies and bottles for the storage and application of inks and paints, and E, research and design for ink and paint manufacturing processes. The Plaintiff asserts such information was only available to a select number of individuals at the plaintiff's company. While defendants argue that plaintiff fails to sufficiently identify the trade secrets at issue, the listing of relatively broad categories of information can be acceptable at the pleading stage, particularly if these lists are linked to the circumstances by which the information is stolen."

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For example, in one case, the court analogized, "The court held that lists of confidential information, including notes, analyses, compilations, and other categories of documents were sufficient to plead specific trade secrets as this information was linked to materials plaintiff provided to defendant." Thus, the court held, "Here, the trade secrets described by the plaintiff and their link to a claim of potential misappropriation are sufficiently specific."

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Onto the takeaways. One, causation and damages are not elements of a claim for misappropriation of trade secrets under the California Uniform Trade Secrets Act. And again, as we've discussed before, cases from all the jurisdictions interpreting the Uniform Act can be used as persuasive authority in other jurisdictions adopting the Uniform Act. This case can be considered persuasive authority in all of those states.

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Two, under the California Uniform Trade Secrets Act, "A plaintiff may recover as damages on a claim of misappropriation, the costs of stopping or mitigating the misappropriation, but not the costs of investigating to determine whether and how any misappropriation occurred." That was a new holding by a California court.

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Third and finally, in some courts like in the District of New Jersey case that we just discussed, "The listing of relatively broad categories of information can be acceptable at the pleading stage, particularly if these lists are linked to the circumstances by which the information is stolen." I suppose the logic there

is that if the defendant got the materials, then more specificity at this stage, the pleading stage anyway, shouldn't be required to identify them.

[\(12:58\)](#):

Hope that was helpful. We will see you in a few weeks. Thanks everybody.