Exclusivity Loss Holds Power In Trade Secret Damages Claims

By **Christopher DeBaere and Julia Bloch** (September 26, 2023)

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Plaintiffs may struggle to quantify damages in trade secret cases when commercial use of the misappropriated information has not yet occurred. This issue often arises in disputes between businesses and their former employees, particularly when a former employee has acquired or retained a company's trade secret information but has not yet started competing with the plaintiff.

In the U.S. District Court for the Western District of Pennsylvania's Sept. 2 Elite Transit Solutions LLC v. Cunningham decision, U.S. District Judge Cathy Bissoon concluded that the improper acquisition of trade secret information alone may be sufficient for claiming damages because the misappropriation changed the exclusive nature of the trade secret ownership, resulting in a compensable loss to the plaintiff.[1]

Multiple Paths to Liability in Trade Secret Matters

The Defend Trade Secrets Act does not require commercial use of a trade secret to bring a claim for misappropriation. Specifically, the DTSA contemplates three paths through which misappropriation can occur — through the improper: (1) acquisition; (2) use; or (3) disclosure of a trade secret. Under the DTSA, any one of these circumstances can constitute misappropriation.[2]

In practice, courts have consistently held that there are multiple paths to trade secret misappropriation under the DTSA, including improper acquisition alone.

For example, in the 2017 Brand Energy & Infrastructure Services Inc. v. Irex Contracting Group decision involving an ex-employee's misappropriation of trade secret business plans, the U.S. District Court for the Eastern District of Pennsylvania reiterated that under the DTSA, "'acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means' constitutes a misappropriation."[3]

More recently, the U.S. District Court for the Northern District of California determined, in the 2021 Payward Inc. v. Runyon decision, that the defendant's alleged copying of Payward's confidential board meeting minutes sufficiently constituted a violation of the DTSA.[4]

Trade Secret Misappropriation Damages in the Absence of Established Commercial Use

Historically, courts have found that trade secret owners may claim damages when a defendant has used their trade secrets to compete or has publicly disclosed the trade secret such that its value becomes destroyed. However, less straightforward is the question of whether the improper acquisition of trade secret information alone is sufficient to claim damages.

The recent Elite decision offers insight into how courts might address this issue.

In this matter, Elite, a logistics company that provides third-party delivery services, asserted that former employees Alphonso Cunnigham and Nafisa Mitrecic retained confidential information following their termination in 2020. In late 2020, Mitrecic began working at a competitor in the logistics industry but was terminated from this position shortly thereafter.

In their motion for summary judgment, the defendants asserted that neither Cunningham nor Mitrecic were currently employed in the logistics industry, and Elite had no evidence that its confidential information had been used for the benefit of the defendants or a third party.

According to the defendants, these facts precluded Elite from recovering compensatory damages as a matter of law.

However, Judge Bissoon disagreed with the defendants' assertion that Elite was precluded from recovering damages. In particular, the court found that while Elite "concedes that it has no evidence that Mitrecic used the information she took … for her own benefit or for a competitor's benefit," Elite "lost exclusive ownership of confidential information" when it was disclosed to and retained by an ex-employee.

The decision further states that Elite had "suffered the potential that its confidential information could be used by an unauthorized individual or entity," and thus had sustained a compensable loss under the DTSA.

Judge Bissoon's opinion is consistent with the independent economic value of a trade secret. The DTSA defines a trade secret as information that "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."[5]

Judge Bissoon's decision focuses on the value of secrecy that is referenced in the DTSA and suggests that the mere loss of this secrecy is "a redressable harm, independent of proof of lost sales."

The opinion in Elite is consistent with the U.S. Court of Appeals for the Third Circuit's 2021 Oakwood Laboratories LLC v. Thanoo decision. In Oakwood, the plaintiff alleged that Dr. Bagavathikanun Thanoo had used its trade secrets to accelerate Thanoo's own product development.

The Third Circuit vacated the U.S. District Court for the District of New Jersey's dismissal of Oakwood's suit for trade secret misappropriation and concluded that the defendants' lack of a commercialized competing product did not mean that Oakwood had not been harmed. According to the court, the loss of the secrecy of Oakwood's trade secrets resulted in Oakwood losing the exclusive use of this information, which represents a "real and redressable harm." As the Third Circuit put it, "trade secret misappropriation is harm."[6]

Takeaways

The Elite and Oakwood decisions provide insight into how courts are evaluating plaintiffs harm in trade secret disputes in which only improper acquisition has occurred. These opinions highlight that a plaintiff may suffer damages solely due to the loss of the

exclusivity of a trade secret.

Notably, in Elite, Judge Bissoon reasoned that even the potential for Elite's confidential information to be used by a competing party is a compensable loss under the DTSA. While courts have previously established that actual commercial sales are not a prerequisite for damages, the decision in Elite shows that a defendant's acquisition of a trade secret may be sufficient for claiming damages when there exists a potential for competition.[7]

This is particularly relevant, for example, in trade secret disputes in which the defendant is a startup business or an individual who has not yet begun to compete or develop a competing product. Applying the reasoning in Elite, plaintiffs may be harmed in these instances by the loss of the exclusive control of the trade secret and the potential for the information to be used by a competitor.

An important issue that remains is how to measure the value of the loss of secrecy. In disputes involving the potential commercialization of trade secrets by the defendant, experts may be able to measure damages based on the costs to develop the trade secret information.

The cost approach is a well-established method for determining the value of an asset — it essentially suggests that the value of an asset is the cost to create or replace it. In a trade secret matter, the cost approach may compensate the trade secret owner based on the value of the costs saved by the misappropriating party if it had to develop the trade secret on its own.

A cost-based damages approach can account for the lack of revenue or profit generated from the trade secret in precommercial disputes like Elite. In certain circumstances, courts have viewed plaintiffs' development costs as a measure of damages resulting from misappropriation where the value of the trade secret has been diminished or destroyed.[8]

In cases in which a plaintiff has lost the exclusive use of its trade secret information, such an approach may be appropriate.

For practitioners, these developments further highlight the ability of plaintiffs to recover monetary damages in the absence of injunctive relief even when commercialization of a trade secret has not occurred.

While the extent of use may be a relevant consideration for evaluating trade secret damages, the Elite and Oakwood decisions show that as a matter of law, a lack of established commercial use by a defendant does not necessarily preclude a plaintiff from recovering damages.

Although not the only possible approach, the cost of developing the trade secret information may be a measure of damages in these cases.

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should not be taken as legal advice.

[1] Elite Transit Solutions, LLC v. Cunningham, No. 20-1549 (W.D. Pa. Sep. 2, 2023) (adopting Magistrate Judge Maureen P. Kelly's recommendation which addressed Plaintiff's claims under the Defend Trade Secrets Act of 2016 and the Pennsylvania Uniform Trade Secrets Act of 2004 as the Opinion of the Court).

[2] 18 U.S. Code § 1839(5)(A-B).

[3] Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp., No. 16-2499 (E.D. Pa. Mar. 23, 2017).

[4] Payward, Inc. v. Runyon, No. 20-cv-02130-MMC (N.D. Cal. Jan. 25, 2021).

[5] 18 U.S. Code § 1839(3)(B).

[6] Oakwood Labs v. Thanoo, 999 F.3d, 892, 910 (3rd Cir. 2021).

[7] See, for example: Oakwood Labs v. Thanoo, 999 F.3d, 892, 910 (3rd Cir. 2021).

[8] See, for example: W.L. Gore & Assoc., Inc. v. GI Dynamics, Inc. 872 F. Supp. 2d 883 (D. Ariz. 2012) (citing Universal Pictures Co. v. Harold Lloyd Corp., 162 F.2d 354, 370 (9th Cir. 1947).