

Professional Perspective

# Trade Secrets: 2022 Year in Review

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# Trade Secrets: 2022 Year in Review

Contributed by [John Lanham](#), [Fitz Collings](#), and [Charles Provine](#), Morrison & Foerster

Nearly seven years have passed since the enactment of the federal Defend Trade Secrets Act (DTSA), and virtually every state has adopted a version of the Uniform Trade Secrets Act. Yet trial and appellate courts continue to grapple with the nuances of trade secrets law, creating both splits of authority and refinements in application of existing doctrine.

This article focuses on three areas in which courts were particularly active over the past year.

## Sufficiency of Pleadings & Trade Secret Identification

A frequently disputed issue is whether a plaintiff has adequately identified its trade secrets at the outset of the litigation. Although some jurisdictions explicitly require identification of the asserted trade secrets with reasonable particularity, such as California's § CCP 2019.210, others approach the issue through Rule 12 precedent.

### **Beijing Neu Cloud**

Courts in the Second Circuit were particularly active in requiring specific identification of trade secrets over the past year. For example, in *Beijing Neu Cloud Oriental Sys. Tech. Co. v. IBM*, Case No. 21 Civ. 7589 (AKH), [2022 BL 102887](#), (S.D.N.Y. Mar. 25, 2022), the court granted IBM's motion to dismiss Neu Cloud's complaint under Rule 12(b)(6) without prejudice. Neu Cloud's complaint identified "customer information" as a trade secret and recited the statutory elements of the claim, without further detail.

In dismissing the claim, the court noted that the Second Circuit "typically require[s] that allegations of misappropriation plead the existence of trade secrets with sufficient specificity to inform the defendants of what they are alleged to have misappropriated" and that "a complaint that 'only claims general categories of information and data as trade secrets' does not state a claim under the DTSA because it 'does not adequately put [the defendant] on sufficient notice of the contours of [the] claim for misappropriation.'"

Neu Cloud was given leave to amend, but its amended complaint fared no better. The court held that the amended complaint did not allege plausibly that Neu Cloud had transmitted trade secrets because there were "no allegations that the information was identified with a restrictive legend or identified at the time of disclosure, as required under the Confidentiality Agreement." See, *Beijing Neu Cloud Oriental Sys. Tech. Co. v. IBM*, Case No. 21 Civ. 7589 (AKH), [2022 BL 402170](#), (S.D.N.Y. Nov. 9, 2022).

### **Medidata Solutions**

Failure to identify trade secrets with specificity during litigation can also have repercussions at trial. In *Medidata Solutions, Inc. v. Veeva Systems Inc. et al.*, [No. 1:17-cv-00589](#) (S.D.N.Y. July 15, 2022)—after more than four years of litigation and a four-day jury trial—the court granted Veeva's Rule 50(a) motion for judgment as a matter of law on Medidata's trade secret claims.

Medidata had identified 113 asserted trade secrets—including source-code, product-development, and business trade secrets—with sufficient specificity to survive summary judgment. But after Medidata presented its case at trial, the court ruled from the bench that the trade secrets had been presented "in only the most general terms" and thus "lack[ed] specificity." Medidata reportedly sought as much as \$450 million in damages. The case is now on appeal to the Federal Circuit.

## **Turret Labs USA**

Courts also examined the pleading sufficiency of the plaintiff's reasonable measures to maintain secrecy. In *Turret Labs USA, Inc. v. CargoSprint, LLC*, No. 21-952, [2022 BL 78591](#), (2d Cir. Mar. 9, 2022), the Second Circuit affirmed the Eastern District of New York's dismissal of Turret Labs' complaint pursuant to Rule 12(b)(6). Turret Labs had alleged that CargoSprint and its CEO were improperly given access to its "air cargo ground handling control" software by Lufthansa and reverse-engineered it to make their own competing software.

The district court dismissed these claims, not because Turret Labs failed to identify the trade secrets themselves, but because Turret Labs failed to plead that CargoSprint was under any obligation to keep Turret Labs' information confidential. The court found that although Turret Labs took some measures to secure its physical servers, it failed to plead that it took reasonable measures to prevent access to the allegedly misappropriated software.

## **Altman Stage Lighting**

Similarly, in *Altman Stage Lighting, Inc. v. Smith*, [2022 U.S.P.Q.2d 136](#) (S.D.N.Y. Feb. 8, 2022), the court granted Smith's motion for judgment on the pleadings under Rule 12(c) that the alleged facts failed to establish reasonable measures to maintain secrecy. There, Altman accused Smith of misappropriating technical information about a prototype "Grow Light" product.

Missing from Altman's complaint was any allegation that Altman took any security measures regarding the prototype beyond instructing its employees not to discuss the prototype with anyone. The court noted that, "[w]hile advising employees that certain information is a trade secret can be an example of a reasonable measure . . . the Court has found no case in which this measure alone was sufficient to state a [Defend Trade Secrets Act] claim."

## **Valmarc**

It was not all bad news for trade secret owners, however, particularly those in the Ninth Circuit. In *Valmarc Corp. v. Nike, Inc.*, No. 3:21-cv-01556-IM, [2022 BL 223196](#) (D. Ore. June 28, 2022), the District of Oregon denied Nike's motion to dismiss under Rule 12(b)(6) because Valmarc not only described the categories of information allegedly misappropriated, but also described specific component parts of its technology in "great detail."

Here, Valmarc and Nike had been engaged in confidential discussions regarding Valmarc's anticounterfeiting system but never entered into an agreement. The court found that Valmarc had sufficiently alleged that Nike had notice of the confidentiality of that information despite not pleading the existence of an NDA or other agreement to keep the information secret.

## **Moement, Inc.**

Similarly, in *Moement, Inc. v. Groomore, Inc.*, No. 2:22-cv-02871-MWF (JEMx), [2022 BL 428409](#), (C.D. Cal. Nov. 29, 2022), the Central District of California denied Groomore's Rule 12(b)(6) motion to dismiss because Moement "adequately alleged it took sufficiently reasonable steps to keep its trade secrets confidential," including the source code underlying them.

The court further held Moement's circumstantial evidence of use of the alleged trade secrets—Groomore's launch of "a comparable online platform and mobile applications within months after its founding and with minimal resources, which would not have been possible if Groomore had independently developed its own code"—was sufficient for pleading purposes to support an inference of misappropriation.

## Inevitable Disclosure Under DTSA

The doctrine of inevitable disclosure allows an employer to prove misappropriation by showing that subsequent employment will inevitably result in reliance upon the employer's trade secret. This doctrine has become a lightning rod for the tension between employee mobility and protection of businesses' secret information.

Courts have split on the application of inevitable disclosure to the DTSA. For example, courts in the Southern and Northern Districts of California have noted that the inevitable disclosure doctrine does not apply to the DTSA, while the Eastern and Western Districts of Pennsylvania have found the opposite. In 2022, courts generally shied away from applying the inevitable disclosure doctrine to claims under the DTSA, with federal courts in Maine and Oregon refusing to do so. Additionally, the Fifth Circuit affirmed denial of a preliminary injunction seeking to prevent a plaintiff's competitor from contacting key customers where the injunction would be based off mere personal knowledge.

### ***Kinship Partners***

In *Kinship Partners, Inc. v. Embark Veterinary, Inc.*, No. 3:21-cv-01631-HZ, [2022 BL 4909](#) (D. Or. Jan. 3, 2022), the court concluded that the plain text of the DTSA precludes application of the inevitable disclosure doctrine. The DTSA allows a court to "grant an injunction to prevent any actual or threatened misappropriation ... provided the order does not prevent a person from entering into an employment relationship." It also provides that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.

The court reasoned that the plain language of the DTSA forecloses use of the inevitable disclosure doctrine because relief under the doctrine—enjoining an employee from working for a competitor—restrains employment.

### ***Idexx Laboratories***

In *Idexx Lab'ys v. Bilbrough*, No. 2:22-cv-00056-JDL, [2022 BL 267758](#), (D. Me. Aug. 2, 2022), the court followed suit. The court recognized the lack of consensus on whether the DTSA permits application of the inevitable disclosure doctrine but followed the plain language argument laid out in *Kinship Partners*.

The court agreed with the District Court of Oregon that the plain language of the DTSA foreclosed application of the doctrine and noted that the Act's legislative history suggests Congress did not intend for the inevitable disclosure doctrine to apply to the DTSA.

### ***CAE Integrated***

In *CAE Integrated, L.L.C. v. Moov Techs., Inc.*, [44 F.4th 257](#) (5th Cir. 2022), the Fifth Circuit affirmed a refusal to grant a preliminary injunction where the plaintiff could not demonstrate actual misappropriation.

At the district court level, CAE sued its former employee, Nicholar Meissner, and his current employer, Moov, for trade secret misappropriation and sought a preliminary injunction to prevent Moov from contacting 200 of CAE's key customers. The district court denied the preliminary injunction, and CAE appealed. The Fifth Circuit noted that CAE presented no evidence that Moov or Meissner had access to customer lists, so the only remaining sources of customer identities were in public record or Meissner's personal knowledge.

Because issuing an injunction based "merely on the information the person knows" is impermissible, the court determined that "Meissner's knowledge of whom he worked with while at CAE, absent other evidence, is insufficient to support a finding that he misappropriated trade secrets."

## Remedies for Misappropriation

The last year also included significant developments in trade secret remedies. For example, one state court jury awarded over \$2 billion in damages, several courts addressed available damage measures, and another pair of cases addressed the availability of injunctive relief.

### **Appian Corp.**

*Appian Corp. v. Pegasystems Inc. et al.*, No. 2020-07216 (Fairfax Cnty Cir. Ct. May 10, 2022) captured headlines last year with a jury award of more than \$2 billion for misappropriation involving the defendant corporation's use of a government contractor it referred to as a "spy" to provide information about a competing software product.

The case is now on appeal and will likely be the largest-ever trade secrets damages award if it stands. A central focus of that appeal is expected to be whether the plaintiff has the burden to show a nexus between the defendants' misappropriation and its product sales, or whether the defendant instead must prove that its sales are not attributable to misappropriation.

### **PPG Industries**

Although lacking the eye-popping damages figure of *Appian*, several 2022 decisions from federal appellate courts provided useful guidance on the flexibility with which many courts approach trade secrets damages, including the use of the trade secret plaintiff's own development expenses as a measure of damages.

For example, in *PPG Industries, Inc. v. Jiangsu Tie Mao Glass Co., Ltd.*, [47 F.4th 156](#) (3d Cir. 2022), PPG sued its competitor for misappropriation of trade secrets relating to airplane window plastic through hiring a former PPG employee. PPG filed suit in 2015 under the Pennsylvania UTSA, among other causes of action. The defendant did not appear until after the district court entered a default judgment. The court declined to set aside the default and awarded unjust enrichment damages of \$8.8 million—trebled to \$26.4 million—and a permanent injunction.

The defendant appealed only on the issue of damages and challenged PPG's reliance on its own R&D costs as a damages metric. The Third Circuit rejected that argument, holding that although development costs are not themselves recoverable, they can be informative as a proxy for the amount of unjust enrichment. The court also held that awarding both damages and an injunction did not amount to "double recovery," as each remedy related to a different period of time.

### **Caudill Seed & Warehouse**

In *Caudill Seed & Warehouse Co., Inc. v. Jarrow Formulas, Inc.*, [53 F.4th 368](#) (6th Cir. 2022), Caudill sued Jarrow under the Kentucky UTSA for misappropriation of trade secrets relating to a nutritional supplement ingredient. As with in *PPG*, the defendant obtained the trade secrets in *Caudill* by hiring away a key R&D employee from Caudill.

Caudill identified six trade secrets. The jury found four were both trade secrets and misappropriated, but it only found damages on one, consisting of \$2 million in compensatory damages—Caudill's R&D costs for the relevant period—and \$404,605 in unjust enrichment. The district court further awarded \$1 million in exemplary damages and \$3.25 million in attorneys' fees. Jarrow challenged virtually all aspects of the damages award on appeal, but two aspects of the Sixth Circuit's decision are particularly notable.

First, the court found that an award of Caudill's R&D expenses as "actual loss" was appropriate because both "benefit-to-defendant" and development costs can be considered, and the jury was properly instructed on the distinction between actual loss and unjust enrichment. The court did not, however, discuss whether or how the \$2 million award was tied to Caudill's actual losses.

Second, the court distinguished Federal Circuit and Northern District of California cases that limited recovery where the plaintiff had prevailed on only a subset of trade secrets but the expert's damage analysis concerned loss arising from *all* asserted trade secrets. The court emphasized the need for flexibility in trade secrets damages and found that expert testimony that "all" R&D expenses went to the ingredient research gave the jury a sufficient basis to distinguish between the trade secrets.

### **Citcon USA**

Another pair of appellate decisions remind us that injunctions are a powerful tool in trade secrets litigation, but must not be taken for granted. In *Citcon USA, LLC v. RiverPay, Inc.*, No. 20-16929, [2022 BL 31461](#), (9th Cir. Jan. 31, 2022), Citcon sued RiverPay and two former employees for misappropriation of trade secrets.

Although Citcon prevailed on its trade secrets claims and obtained a \$1.5 million damages award, it appealed the district court's denial of a permanent injunction. In a non-precedential decision, the Ninth Circuit rejected Citcon's argument that injunctive relief automatically flows from a successful misappropriation claim and cited to Supreme Court caselaw requiring irreparable injury for injunctions in other contexts.

### **Matthews International**

In *Matthews Int'l. Corp. v. Lombardi et al.*, [2022 U.S.P.Q.2d 947](#) (3d Cir. 2022), Matthews brought claims for trade secrets misappropriation and breach of contract against former employees and the company that hired them. The district court issued an agreed preliminary injunction prohibiting the defendants from using Matthews' information or providing services to current Matthews customers, and also requiring defendants to take remediation steps on their computer systems. But the district court declined to further enjoin defendants from competing with Matthews "absent [d]efendants' agreement or an enforceable non-compete."

Matthews appealed, arguing that its trade secrets claims entitled it to the requested relief. The Third Circuit affirmed, emphasizing that injunctive relief should be narrowly tailored and should prohibit competition entirely only in extraordinary circumstances. Because the agreed relief was already sufficient to prevent irreparable harm, further restrictions were not necessary.