



# THE SEDONA CONFERENCE JOURNAL®

Volume 23 ❖ 2022 ❖ Number Two

## ARTICLES

- The Sedona Conference Commentary on Equitable Remedies in Trade Secret Litigation** ..... The Sedona Conference
- The Sedona Conference Commentary on Protecting Trade Secrets in Litigation About Them**..... The Sedona Conference
- The Sedona Conference Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle**..... The Sedona Conference
- The Sedona Conference Framework for Analysis on Trade Secret Issues Across International Borders: Extraterritorial Reach**..... The Sedona Conference



ANTITRUST LAW, COMPLEX LITIGATION, INTELLECTUAL PROPERTY RIGHTS,  
AND DATA SECURITY AND PRIVACY LAW

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# THE SEDONA CONFERENCE JOURNAL®

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VOLUME 23



2022

NUMBER 2



The Sedona Conference Journal® (ISSN 1530-4981) is published on an annual or semi-annual basis, containing selections from the preceding year's conferences and Working Group efforts. A PDF copy of The Journal is available on a complimentary basis and can be downloaded from the Publications page on The Sedona Conference website: [www.thesedonaconference.org](http://www.thesedonaconference.org). Check our website for further information about our conferences, Working Groups, and publications.

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The Sedona Conference Journal® cover designed by MargoBDesignLLC at  
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Cite items in this volume to "23 Sedona Conf. J. \_\_\_\_ (2022)."

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## PUBLISHER'S NOTE

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Welcome to Volume 23, Number 2, of The Sedona Conference Journal (ISSN 1530-4981), published by The Sedona Conference, a nonprofit 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way through the creation and publication of nonpartisan consensus commentaries and advanced legal education for the bench and bar.

The various Working Groups in The Sedona Conference Working Group Series (WGS) pursue in-depth study of tipping-point issues, with the goal of producing high-quality, nonpartisan consensus commentaries that provide guidance of immediate and practical benefit to the bench and bar. The Sedona Conference conducts a “regular season” of limited-attendance conferences that are mini-sabbaticals for the nation’s leading jurists, lawyers, academics, and experts to examine cutting-edge issues of law and policy. The Sedona Conference also conducts continuing legal education programs under The Sedona Conference Institute (TSCI) banner, an annual International Programme on Cross-Border Data Transfers and Data Protection Laws, and webinars on a variety of topics.

Volume 23, Number 2, of the Journal is a special compilation of four nonpartisan consensus commentaries from The Sedona Conference Working Group on Trade Secrets (WG12). I hope you find the commentaries to be thought-provoking, and that they stimulate further dialogue and ultimately serve to move the law forward.

For more information about The Sedona Conference and its activities, please visit our website at [www.thesedonaconference.org](http://www.thesedonaconference.org).

Craig Weinlein  
Executive Director  
The Sedona Conference  
July 2022

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THE SEDONA CONFERENCE COMMENTARY ON EQUITABLE  
REMEDIES IN TRADE SECRET LITIGATION

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*A Project of The Sedona Conference Working Group (WG12) on  
Trade Secrets*

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We thank all of our Working Group Series Annual Sponsors, whose support is essential to our ability to develop Working Group Series publications. For a listing of our sponsors, just click on the “Sponsors” navigation bar on the homepage of our website.

This publication may be cited as follows:

The Sedona Conference, *Commentary on the Equitable Remedies in Trade Secret Litigation*, 23 SEDONA CONF. J. 591 (2022).

## PREFACE

Welcome to the final, March 2022 version of The Sedona Conference *Commentary on Equitable Remedies in Trade Secret Litigation* (“*Commentary*”), a project of The Sedona Conference Working Group on Trade Secret Law (WG12). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The mission of WG12, formed in February 2018, is “to develop consensus and nonpartisan principles for managing trade secret litigation and well-vetted guidelines for consideration in protecting trade secrets, recognizing that every organization has and uses trade secrets, that trade secret disputes frequently intersect with other important public policies such as employee mobility and international trade, and that trade secret disputes are litigated in both state and federal courts.” The Working Group consists of members representing all stakeholders in trade secret law and litigation.

The WG12 *Commentary* drafting team was launched in 2018. Earlier drafts of this publication were a focus of dialogue at the WG12 Annual Meeting, Online, in November 2020, the WG12 Annual Meeting in Charlotte, North Carolina, in November 2019, the WG12 Inaugural Meeting in Los Angeles, California, in November 2018. The *Commentary* was published for public comment in May 2021. The editors have reviewed the comments received through the Working Group Series review and comment process and, where appropriate, incorporated them into this final version.

This *Commentary* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular Victoria Cundiff, currently the Chair of WG12, and James Pooley, now the Chair Emeritus of WG12, who serve as the Editors-in-Chief of this publication, and Victoria Cundiff and Elizabeth Rowe, who serve as the Senior Editors of this publication. I also thank everyone else involved for their time and attention during this extensive drafting and editing process, including our Contributing Editors Jennifer A. L. Battle, Michael P. Elkon, Jeffrey D. Feldman, Mindy Morton, and Patrick J. O'Toole Jr. In addition, I thank volunteer Jean Marie Gutierrez for her special assistance and contributions to this effort.

The Working Group had the benefit of candid comments by the Judicial Advisors designated to this *Commentary* drafting team effort—the Honorable Laurel Beeler, the Honorable Donald F. Parsons, Jr. (ret.), and the Honorable Joseph R. Slights III. The statements in this *Commentary* are solely those of the nonjudicial members of the Working Group; they do not represent any judicial endorsement of any recommended practices.

The drafting process for this *Commentary* also was supported by the Working Group 12 Steering Committee.

We encourage your active engagement in the dialogue. Membership in The Sedona Conference Working Group Series is open to all. The Series includes WG12 and several other Working Groups in the areas of electronic document management and discovery, cross-border discovery and data protection laws, international data transfers, data security and privacy liability, patent remedies and damages, and patent litigation best practices. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be. Information on

membership and a description of current Working Group activities is available at <https://thesedonaconference.org/wgs>.

Craig W. Weinlein  
Executive Director  
The Sedona Conference  
March 2022

## FOREWORD

Obtaining or resisting some form of equitable relief is a key component of many trade secret disputes, both at an early stage and following trial on the merits. This *Commentary on Equitable Remedies in Trade Secret Litigation* is designed to be a resource to assist parties and decisionmakers in conducting this analysis. The *Commentary* reminds readers that equitable relief in trade secret disputes does not stand apart from general principles of equity and explores how those principles have been applied to trade secret disputes. Given the nature of equitable relief, the *Commentary* does not, and by definition, could not, urge a one-size-fits-all approach to equitable relief in trade secret disputes. Rather, it focuses on exploring the key factors courts consider in assessing any equitable relief and considers how courts have applied these basic equitable factors to evaluating and fashioning equitable relief in trade secret disputes.

Trade secret disputes often arise on an emergency basis before either party has developed a full evidentiary record. The perceived “need for speed” can lead to a number of problems that the *Commentary* works to address. The *Commentary* offers suggestions for assessing how an early remedy can be calibrated to the availability of evidence and whether targeted expedited discovery may assist the parties and the court in evaluating early requests. It also emphasizes that equitable relief, or its denial, must always be tied to the direct and circumstantial evidence presented to the court and the reasonable inferences therefrom and not rely simply on oft-cited mantras or invocations of presumptions. The *Commentary* further offers examples of how such assessments have been made in a variety of cases in jurisdictions across the country. Finally, it gives guidance for selecting, scoping, and drafting a variety of equitable remedies to suit the needs of a variety of disputes.

Victoria Cundiff

James Pooley

Editors-in-Chief and Working Group 12 Steering Committee

Chair and Chair Emeritus

Victoria Cundiff

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Senior Editors



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## I. INTRODUCTION

Some form of equitable relief is often sought as a critical component in litigated trade secret disputes, whether in lieu of or in addition to a request for money damages at trial. Equitable relief may be sought both at an early stage, for example to preserve evidence or prevent the actual or threatened misappropriation of trade secrets prior to final judgment, and after trial to attempt to prevent further harm and to undo the effects of prior misappropriation. Violation of an order granting equitable relief is punishable by contempt of court.

Whether equitable relief is appropriate and, if so, in what form, is committed to the sound discretion of the courts. This judgment may be set aside on appeal only for abuse of discretion. Abundant case law and commentary caution, however, that “discretion is not whim.”<sup>1</sup>

The fact that a request for equitable relief is made in a trade secret case does not override more general equitable principles but may affect how these principles are applied. Equitable remedies in trade secret disputes, as in other cases, must always be gauged against the purposes of the underlying substantive law as well as the overall rules and principles governing equitable relief and must consider the impact of the proposed order not only on all of the parties but also on the public and third parties.

In addition, special rules and practices have evolved in the trade secret arena. Both the Defend Trade Secrets Act (DTSA) and the Uniform Trade Secrets Act (UTSA) contemplate that equitable relief may be available against actual or threatened misappropriation. It may include affirmative measures to protect trade secrets as well as prohibitory injunctions, which are

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1. For a thoughtful discussion of judicial review of decisions to grant or deny equitable relief generally, see Henry J. Friendly, *Indiscretion About Discretion*, 31 EMORY L.J. 747, 773–78 (1982) (preliminary injunctions).

limited under the DTSA when sought against a trade secret owner's former employees. Equitable relief to address misappropriation can also include discretionary monetary remedies to be established by the court, not a jury, including accountings, disgorgement of unjustly gained profits (viewed as an equitable remedy in some jurisdictions and as a legal remedy in others), or royalties to be paid by a so-called "innocent misappropriator" as a condition of continuing to use the trade secret where the court determines that injunctive relief would be unfair. Much of the *Commentary* is directed to considering how courts have applied basic equitable principles in determining whether to grant relief in the trade secret context and what any such relief should look like.

Requests for equitable relief often require careful case management both while the request is pending and once any order is entered. Applications often require the evaluation of evidence at the outset of the dispute in a highly compressed time frame before critical facts are equally available to the parties. A court asked to enter equitable relief at the outset of a trade secret dispute faces difficult challenges in assessing the facts and balancing the claimed need for immediate relief against the need for a more robust evidentiary record. In some but not all cases, the court may determine that the earliest equitable relief should be directed solely to preserving the *status quo ante* (as it existed prior to the dispute) until discovery, often on an expedited basis, can shed greater light on the equities. The *Commentary* offers guidelines for managing such early requests.

Once the parties have more fully developed relevant evidence, the court may again be called upon to determine whether, and what kind of, equitable relief may be appropriate. This *Commentary* offers guidance to aid the parties and courts in making such evaluations over the course of the dispute and in crafting and managing any equitable relief that is granted both prior to and following trial.

This *Commentary* draws on case law from throughout the United States illustrating various, often creative, ways, that courts have addressed recurring issues. While the *Commentary* relies primarily on federal decisions applying both federal and state trade secret law, it is informed by and cites some decisions and practices from state courts as well. The *Commentary* cites numerous cases to illustrate the importance of factual nuances in evaluating requests for relief, but it is not exhaustive. Readers should also keep in mind that while the language used in decisions and statutes throughout the country may be similar or even identical, different courts may have developed differing interpretations of the same language. Readers considering equitable relief in specific jurisdictions will need not only to consult current reported case law, but also to engage with lawyers practicing in that jurisdiction to understand the actual practice and nuances in that forum.<sup>2</sup>

**An important note on terminology used in this *Commentary*:** Different jurisdictions at times use different terminology to describe similar phases of the dispute. This *Commentary* follows the terminology of Federal Rule of Civil Procedure 65 and uses the term “temporary” equitable relief or “temporary” injunctive relief to refer to relief sought most typically at the first stage of a lawsuit that is designed to be of very limited duration, often seven to ten days. This *Commentary* uses the term

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2. Subject to the caveats noted, decisions and orders of “out-of-jurisdiction” courts, although not controlling, can often offer helpful guidance and spark suggestions for thoughtful equitable remedies to similar disputes arising in other jurisdictions. In the same vein, a number of the decisions this *Commentary* cites illustrating thoughtful approaches to recurring issues have been designated by the issuing courts as “not for publication” or “unpublished.” Whether out- of-jurisdiction or unpublished decisions can be cited varies according to the rules of the relevant jurisdiction. Their analysis may nonetheless be useful to lawyers throughout the country in helping fashion arguments and approaches to similar issues.

“preliminary” equitable relief to refer to relief that is typically sought before trial at a later stage and that often, but not always, is anticipated to endure through trial. Following Rule 65, this *Commentary* uses the term “permanent” to refer to relief following trial, recognizing, however, that such orders may not be perpetual, may have specific time limitations, or may be subject to modification due to changed circumstances. At times as the context requires, this *Commentary* uses the terms “interim” or “pre-trial” as a broad term to address guidance relating to all pretrial equitable relief, whether temporary or preliminary. Readers considering actions brought in state courts will want to understand and use the terminology appropriate in the jurisdiction of interest.

## II. BACKGROUND PRINCIPLES OF EQUITABLE RELIEF

A request for injunctive relief under the UTSA and DTSA as well as under common law is subject to the general rules of equity.<sup>3</sup> While state procedural rules vary, and even in the federal system there is some variation across circuits as to the formulation and weighing of factors for entry of equitable relief, cases across the country emphasize that injunctive relief is an extraordinary remedy, never awarded as of right.<sup>4</sup> Courts considering injunctive relief generally focus on the following four factors:

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3. See, e.g., *JTH Tax, Inc. v. Freedom Tax, Inc.*, No. 3:19-cv-00085-RGJ, 2019 WL 2062519, at \*13 (W.D. Ky. May 9, 2019) (collecting cases); *Capstone Logistics Holdings, Inc. v. Navarrete*, No. 17-cv-4819 (GBD), 2018 WL 6786338, at \*33–34 (S.D.N.Y. Oct. 25, 2018), *aff'd in part and remanded for entry of revised order*, 796 F. App'x 55 (2d Cir. 2020) (summary order). See also the detailed discussions of the application of these factors in trade secret cases throughout this *Commentary*.

4. *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008). See, e.g., *Mazurek v. Armstrong*, 520 U.S. 968, 972 (1997) (requiring that movant by a “clear showing” carries the burden of persuasion); *Chlorine Inst., Inc. v. Soo Line R.R.*, 792 F.3d 903, 914 (8th Cir. 2015); *McNeilly v. Land*, 684 F.3d 611, 615 (6th Cir. 2012), *cited in*, *JTH Tax*, 2019 WL 2062519, at \*4 (trade secret case); *Nichols v. Alcatel, Inc.*, 532 F.3d 364, 372 (5th Cir. 2008) (“A preliminary injunction is an ‘extraordinary remedy’ and should only be granted if the plaintiffs have clearly carried the burden of persuasion in all four requirements”), *cited in*, *inter alia*, *McAfee LLC v. Kinney*, No. 4:19-CV-463, 2019 WL 4101199 (E.D. Tex. Aug. 29, 2019) (trade secret case); *JBR, Inc. v. Keurig Green Mountain, Inc.*, 618 F. App'x 31, 33 (2d Cir. 2015) (summary order); *Overstreet v. Lexington-Fayette Union Cty. Gov't*, 305 F.3d 566, 573 (6th Cir. 2002), *cited in*, *Radiant Global Logistics, Inc. v. Furstenau*, 368 F. Supp. 3d 1112, 1123–24 (E.D. Mich. 2019), *appeal dismissed*, 951 F.3d 393 (6th Cir. 2020) (trade secret case); *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115 (D. Md. 2020) (trade secret case); *MicroStrategy, Inc. v. Motorola, Inc.*, 245 F.3d 335, 339 (4th Cir. 2001) (trademark case); *Packing Corp. of Am., Inc. v. Croner*, 419 F. Supp. 3d 1059, 1072 (N.D. Ill. 2020) (trade secret case); *Admor HVAC Prods., Inc. v. Lessary*, Civ. No. 19-00068 SOM-KJM, 2019 WL 2518105 (D. Haw. June 18, 2019) (trade secret case); *In re Document Techs. Litig.*, 275 F. Supp. 3d 454, 460–61 (S.D.N.Y. 2017) (trade secret case).

- Whether the moving party has established a sufficient likelihood of success on the merits.<sup>5</sup>
- Whether the moving party has established that absent relief, it will suffer immediate (or imminent) and irreparable harm.<sup>6</sup> As part of this assessment, case law focuses on whether in the particular circumstances monetary relief will “make the movant whole,” a consideration that is sometimes phrased as whether the movant has “an adequate remedy at law.”
- Whether the balance of the hardships favors (some jurisdictions say “strongly” favors) the moving party and the impact of particular proposed relief on the nonmoving party.
- Whether the public interest will “not be disserved.” Some jurisdictions phrase this factor as whether the public interest will be harmed by reason of the grant or denial of the injunction.

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5. See discussion *infra* Part V.A. (Evaluating the Movant’s Likelihood of Success on the Merits). If a request for equitable relief is made after trial, this prong generally has been satisfied, although the scope of the determinations at trial as well as the other enumerated factors will be relevant to assessing a request for ongoing equitable relief.

6. See *Winter*, 555 U.S. at 20 (holding that when a plaintiff who demonstrates a strong likelihood of prevailing on the merits shows only a possibility of irreparable harm, a preliminary injunction may not issue). See discussion *infra* Part V.B. (Evaluating Evidence of Irreparable Harm).

The same standards apply in the federal system to requests for temporary,<sup>7</sup> preliminary,<sup>8</sup> and permanent<sup>9</sup> relief. State courts often follow similar rules,<sup>10</sup> but with some instructive variation.<sup>11</sup> The specific current formulations followed in the jurisdiction of interest should always be assessed.

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7. See, e.g., *New Motor Vehicle Bd. v. Orrin W. Fox Co.*, 434 U.S. 1345, 1347 n.2 (1977); *Lockheed Missile & Space Co. v. Hughes Aircraft Co.*, 887 F. Supp. 1320, 1323 (N.D. Cal. 1995), cited in, *Maxlite, Inc. v. ATG Elecs.*, No. 8:20-cv-01056-JLS-ADS, 2020 WL 6260007, at \*1 (C.D. Cal. July 13, 2020) and *Earthbound Corp. v. MiTek USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013, at \*7 (W.D. Wash. Aug. 19, 2016).

8. See *Winter*, 555 U.S. at 20.

9. The Supreme Court has reframed these factors in respect to permanent injunctions as requiring a demonstration by movant (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. *Monsanto Co. v. Geertson Seed Farms*, 561 U.S. 139, 156–57 (2010), quoting *eBay v. MercExchange, LLC*, 547 U.S. 388, 391 (2006). This formulation has been followed in trade secret cases at the permanent injunction stage. See discussion *infra* Part VIII (Additional Factors to Consider in Connection with Permanent Injunctions).

10. See, e.g., *C.G. Riverview, LLC v. 139 Riverview, LLC*, 98 Va. Cir. (2018) (following *Winter* in evaluating request for temporary injunction); *Tex. R. Civ. P.* 693 (“The principles, practice and procedure governing courts of equity shall govern proceedings in injunctions when the same are not in conflict with these rules or the provisions of the statutes.”).

11. See, e.g., Minnesota’s five factor test, which considers, on requests for interim equitable relief, (1) the nature and background of relationship; (2) the harm to be suffered by one party if the temporary restraint is denied compared to that inflicted on other party if an injunction issues pending trial; (3) the likelihood that one party will prevail on the merits when facts are viewed in light of established precedents; (4) aspects of the fact situation which permit or require consideration of public policy expressed in statutes; and (5) the administrative burdens involved in judicial supervision and enforcement



Recognizing that an “improvidently granted” early-stage injunction may damage the enjoined party, under the Federal Rules of Civil Procedure and the rules of many states, a court granting temporary or preliminary equitable relief must assess a bond, or security, to protect the enjoined party against the damage an improper injunction may have inflicted.<sup>12</sup>

How these common rules play out in particular cases varies across jurisdictions and responds to particular factual showings. As examples of the variations in formulating and applying these traditional principles, many cases emphasize that the single most important factor in assessing requests for provisional or interim injunctive relief is the imminent likelihood of irreparable harm and that in its absence the other requirements will not be considered.<sup>13</sup> Other cases state that the likelihood of success is the most important factor.<sup>14</sup> Some cases hold that “[n]o single factor in itself is dispositive; rather, each factor must be considered to determine whether the balance of equities weighs toward granting the injunction.”<sup>15</sup> There is also variation as to

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of temporary decree. *Dahlberg Bros., Inc. v. Ford Motor Co.*, 272 Minn. 264, 274 (1965).

12. See discussion *infra* Part VII (Establishing an Injunction Bond to Protect the Interests of the Nonmoving Party).

13. See, e.g., *Winter*, 555 U.S. at 20; *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1143 (10th Cir. 2017) (stating, in a trade secret case: “No Showing of Irreparable Harm, No Preliminary Injunction”); *Siegel v. LePore*, 234 F.3d 1163, 1176 (11th Cir. 2000); *Direx Israel, Ltd. v. Breakthrough Med. Corp.*, 952 F.2d 802, 816 (4th Cir. 1991), *as amended* (Jan. 7, 1992), *abrogation recognized on other grounds in Sarsour v. Trump*, 245 F. Supp. 3d 719, 729 n.6 (4th Cir. 2017) (reversing preliminary injunction because the trial court had failed to take into account that movant was not suffering imminent irreparable harm).

14. See, e.g., *Home Instead, Inc. v. Florance*, 721 F.3d 494, 497 (8th Cir. 2013).

15. *United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1179 (8th Cir. 1998).

what level of “likelihood of success” must be shown. On a request for a temporary restraining order, for example, where the court is primarily focusing on the as yet unchallenged claims and evidence of the movant and generally no discovery has occurred, the court may focus less on the merits of the movant’s claims than upon the threatened injury to the movant and the possible injury to defendant if the remedy is improvidently granted.<sup>16</sup> Some jurisdictions apply various sliding scales to the assessment of the first three factors, such that, for example, a stronger showing of irreparable harm and a balance of hardships decidedly in favor of the movant will require a lesser need to establish a likelihood of success on the merits.<sup>17</sup> Whether litigating in federal or state courts, litigants are cautioned to assess the specific formulations used in the relevant jurisdictions.

Regardless of the precise formulation adopted by the specific court, the movant bears the burden of persuasion as to all four elements.<sup>18</sup>

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16. *See, e.g., American Messag. Svcs., LLC v. DocHalo, LLC*, No. 10761-VCN, 2015 WL 1726536, at \*at \*2 (Del. Ch. Apr. 9, 2015) (finding that on a request for a temporary restraining order, the existence of a colorable claim is required but “[t]he essential predicate for issuance of the remedy is a threat of imminent, irreparable injury” (citations omitted)).

17. *See, e.g., Abrasic 90 Inc. v. Weldcote Metals, Inc.*, 364 F. Supp. 3d 888, 896 (7th Cir. 2019) (trade secret case citing cases discussing a “sliding scale” approach and requiring that as a threshold movant show that its chances to succeed on its claims are “better than negligible”).

18. *See, e.g., Honeywell, Inc. v. Brewer-Garrett Co.*, 145 F. 3d 1331 (6th Cir. 1998), cited in *Millenium Health, LLC v. Roberts*, No. 1:19CV2381, 2020 WL 2814440, at \*8 (N.D. Ohio March 4, 2020), *report and recommendation granted*, 2020 WL 2812871 (N.D. Ohio May 29, 2020), *appeal dismissed*, 2020 WL 7585827 (6th Cir. Nov. 18, 2020); *P.C. Yonkers, Inc. v. Celebrations! the Party & Seasonal Superstore, LLC*, 428 F.3d 504, 508 (3d Cir. 2005). Some decisions suggest or hold that movant must establish each element by clear and convincing evidence. *See, e.g., Reco Equip., Inc. v. Wilson*, No. 2:20-CV-3556, 2020 WL 6823119, at \*6 (S.D. Ohio Nov. 20, 2020) (citation omitted), *aff’d in*

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*part, vacated in part as to non-compete claim and remanded for determination of security, 2021 WL 5013816 (6th Cir. Oct. 28, 2021). See also Arthur J. Gallagher & Co. v. Marchese, 946 N.Y.S. 2d 243, 244 (2d Dep't. 2012) (same).*

### III. AN OVERVIEW OF EQUITABLE REMEDIES IN TRADE SECRET DISPUTES

**Affirmative Acts to Protect Trade Secrets.** The UTSA and the DTSA both provide that “[i]n appropriate circumstances, *affirmative acts to protect a trade secret* may be compelled by court order” (emphasis added).<sup>19</sup> This possibility can afford both courts and litigants flexibility, for example, in developing court-ordered procedures to forensically identify and quarantine documents allegedly containing trade secrets and to establish auditing, reporting, and monitoring procedures to protect trade secrets, whether at an early stage<sup>20</sup> or after trial.<sup>21</sup> The early use of such affirmative measures can at times resolve problems and eliminate the need for prohibitory injunctive relief or a full trial.

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19. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 § 3(A)(ii) [hereinafter Defend Trade Secrets Act]; Unif. Trade Secrets Act § 2(c) [hereinafter Unif. Trade Secrets Act]. The Official Commentary to the UTSA explains that Section 2(c) “authorizes mandatory injunctions requiring that a misappropriator return the fruits of misappropriation to an aggrieved person, *e.g.*, the return of stolen blueprints or the surrender of surreptitious photographs or recordings.” As described in the UTSA Commentary, courts have in fact ordered additional kinds of affirmative measures to protect trade secrets including inspections, certifications, monitoring, and other measures.

20. *See, e.g.*, *Amphenol Corp. v. Paul*, No. 3:12CV543 (AVC), 2012 WL 5471857, at \*3 (D. Conn. Nov. 9, 2012) (establishing “fire wall[]” procedure and certification obligations to prevent disclosure of trade secrets), *amended and superseded by* 2013 WL 12250880 (D. Conn. Jan. 8, 2013); *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 569–70 (S.D.N.Y. Dec. 30, 2016) (directing forensic review and remediation process but denying broader activity restraints once affirmative preservation and remediation measures had been completed); *Huawei Techs. Co., Ltd. v. Motorola, Inc.*, No 11-cv-497, 2011 WL 612722 (N.D. Ill. Feb. 22, 2011) (order detailing forensic and training procedures).

21. *See, e.g.*, *Allergan, Inc. v. Merz Pharm., LLC*, No. SACV-11-446 AG (Ex) (C.D. Cal. filed Mar. 9, 2012) (permanent injunction order detailing forensic remediation requirements); *Epic Sys. Corp. v. Tata Consultancy Servs. Ltd.*, No. 14-cv-748-wmc, 2016 WL 6477011, at \*3 (W.D. Wisc. Nov. 2, 2016).

Conversely, early relief may lead to the discovery of evidence showing that additional equitable relief and ultimately monetary relief is warranted.

**Prohibitory Injunctive Relief.** The UTSA and the DTSA also provide that “actual or threatened misappropriation may be enjoined.”<sup>22</sup> The scope of such prohibitory injunctions can vary widely. For example, an injunction order may simply prohibit the defendant from using or disclosing specified information that has been shown to be (or in the case of a request for early injunctive relief, has been shown likely to be) a trade secret. How even that basic concept is operationalized, however, may vary dramatically depending on the needs of the dispute. Such prohibitions may require in some cases merely that the defendant be prohibited from retaining or accessing particular documents containing the trade secret. Other injunctions may prohibit the defendant from using or disclosing trade secrets (“use” injunctions) or from engaging for a time in activities that put the trade secrets at risk.

After trial, and occasionally earlier, if the trade secrets are found to have become intertwined with the defendant’s processes and systems, the court may enter a “production” injunction requiring the defendant to limit or even exit participation in the field for a period of time. In unusual circumstances on a strong factual showing, a production injunction has even led to a final order directing the dismantling of the defendant’s production line or sales process incorporating the misappropriated trade secrets.<sup>23</sup>

**Mandatory vs. Prohibitory Injunctions.** Some courts have spoken of a heightened burden on parties seeking mandatory

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22. Unif. Trade Secrets Act, *supra* note 19, § 2(a); Defend Trade Secrets Act, *supra* note 19, § 2(3)(A)(i).

23. See discussion *infra* Guideline Nos. 11 and 15–17.

injunctions that force the opposing party to take certain actions as opposed to prohibitory injunctions that prevent it from engaging in particular activities.<sup>24</sup> How orders under the UTSA or DTSA directing affirmative measures to protect trade secrets relate to this general case law varies according to the specific relief requested, the evidence that has been assembled and the procedural posture of the case. For example, the impact on an ongoing operation of an order to preserve or segregate particular documents at the start of a dispute may be relatively modest. At a later phase, however, the information at issue may have become intertwined with information independently developed by or rightfully in the possession of defendant. At that point, assessment of the mandatory vs. prohibitory distinction may require more nuanced scrutiny.<sup>25</sup> Courts may require a greater showing by the movant that the information at issue is indeed a trade secret at risk of misappropriation, or by the defendant that the information has been independently developed, is readily

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24. See, e.g., *Schrier v. Univ. of Colo.*, 427 F.3d 1253, 1260 (10th Cir. 2005); *Tom Doherty Assocs., Inc. v. Saban Entm't, Inc.*, 60 F.3d 27, 34 (2d Cir. 1995) (trademark case). See also *SRS Acquiom Inc. v. PNC Fin. Servs. Grp., Inc.*, No. 1:19-CV-02005-DDD-SKC, 2020 WL 3256883, at \*3 (D. Colo. Mar. 26, 2020); *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115, 128 (D. Md. 2020) (preliminary injunction decision; trade secret case).

25. See, e.g., *SRS Acquiom Inc.*, 2020 WL 3256883, at \*3 (observing that “[t]he Court admits that in many cases trying to resolve what constitutes a mandatory injunction versus a prohibitory one, or which side is seeking to alter the status quo feels more metaphysical than legal or factual,” but concluding that the party’s request for a preliminary injunction enjoining defendant’s continued possession and use of documents more than one year after their departure from plaintiff’s employ “undermines whatever argument [plaintiff] might have had that it was on the side of preserving, rather than upsetting, the status quo”; holding, therefore, that plaintiff must make a “particularly strong” showing that it is likely to succeed on the merits and that the balance of harms is in its favor).

ascertainable, or is otherwise available for the defendant to use without restriction.

**The DTSA's Special Limitations on Injunctive Relief Affecting Former Employees.** Trade secret disputes arise most often against former employees who know them. Recognizing the potential impact of some injunctions on the ability of employees to work for new employers, the DTSA includes three important limitations on equitable relief against former employees. First, state statutes concerning the enforceability of restrictions on competitive employment must be respected.<sup>26</sup> Second, the DTSA prohibits injunctions to “prevent a person from entering into an employment relationship.”<sup>27</sup> And third, the statute specifies that “conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.”<sup>28</sup> As discussed in some detail below, these rules have not prevented the grant of injunctions placing conditions on engaging in particular competitive employment where courts are presented with sufficient evidence demonstrating threatened misappropriation and imminent irreparable harm.<sup>29</sup>

**Monetary Equitable Relief.** The court may also order monetary equitable remedies. Both the UTSA and the DTSA expressly contemplate that in exceptional circumstances an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for

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26. 18 U.S.C. § 1836(3)(A)(i)(II). Thus, for example, the DTSA does not preempt or alter California's strong statutory prohibitions on many forms of noncompete agreements embodied in Cal. Bus. & Prof. Code § 16600.

27. 18 U.S.C. § 1836(3)(A)(i)(I).

28. *Id.*

29. *See, e.g.,* Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560, at \*1–2 (N.D. Cal. May 11, 2017), discussed *infra*.

which use could have been prohibited.<sup>30</sup> This royalty is to be determined by the court sitting in equity, rather than by the finder of fact. Certain other monetary remedies, including an accounting of profits and disgorgement of amounts unfairly gained by the misappropriation, have been held by some courts to be equitable remedies to be awarded by the court.<sup>31</sup> A jury may render an advisory verdict on such claims. The parties and the court should focus at an early stage on whether particular remedies the trade secret owner seeks are “legal” remedies, to be determined by the trier of fact, or “equitable” remedies.<sup>32</sup>

**The Duration of Equitable Relief.** The duration of both injunctive and monetary equitable relief may vary according to the needs of the particular dispute, even at early stages. The duration of interim orders may range from a fixed period of time

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30. Unif. Trade Secrets Act, *supra* note 19, § 2(b); Defend Trade Secrets Act, *supra* note 19, § 2(3)(A)(iii); 18 U.S.C. § 1836(b)(3)(A)(iii).

31. For example, the Federal Circuit has concluded that an award of unjust enrichment damages is an equitable remedy to be determined by the court where it is not a substitute for plaintiff’s lost profits. *Texas Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304 (Fed. Cir. 2018), *cert. denied*, 139 S. Ct. 2741 (2019). *Accord*, *GSI Tech., Inc. v. United Memories, Inc.*, 721 F. App’x 591, 594 (9th Cir. 2017); *Motorola Solutions, Inc. v. Hytera Communication, Inc.*, No. 1:17-CV-1973, 2020 WL 6554645 (N.D. Ill. Oct. 19, 2020), and Dkt. No. 1099 (N.D. Ill. filed Jan. 8, 2021). *Cf.* *Epic Sys. Corp. v. Tata Consultancy Servs. Ltd.*, No. 3:14-cv-00748-wmc, 2017 WL 4357993 (W.D. Wis. Sept. 29, 2017), *reconsideration denied*, 2019 WL 1320297 (W.D. Wisc. Mar. 22, 2019) (affirming a jury’s determination of an award of \$140 million in avoided development costs as unjust enrichment rather than as a proxy for lost profits), *damages award affirmed; exemplary damages award reversed and remanded*, 980 F.3d 1117 (7th Cir. 2020).

32. Considerations relating to the proper calculation of equitable monetary remedies are discussed in the *The Sedona Conference Commentary on Monetary Remedies in Trade Secret Litigation*, Public Comment Version (May 2022), available at [https://thesedonaconference.org/publication/Commentary\\_on\\_Monetary\\_Remedies\\_in\\_Trade\\_Secret\\_Litigation](https://thesedonaconference.org/publication/Commentary_on_Monetary_Remedies_in_Trade_Secret_Litigation).



(i.e., through a specific date or event or the completion of particular tasks) to the interval between an order granting relief and trial on the merits. After trial, courts have entered injunctions of a fixed duration and injunctions that are specified to be “permanent” but which, like other orders granting equitable relief, can be vacated for good cause shown. The duration of some permanent injunction orders, as well as some monetary relief, can be tied to a “head start” period found to approximate the unfair lead time the misappropriator gained by the misappropriation. However, as discussed below, some orders granting permanent injunctive relief leave the duration indefinite, allowing the enjoined party to seek modification if warranted by the facts.<sup>33</sup>

**The Geographic Scope of Equitable Relief.** Given the nature of the trade secret right, Congress when enacting the DTSA expressed as the “Sense of Congress” that “trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies.”<sup>34</sup> Both before and after the passage of the DTSA, some courts have entered extraterritorial or even worldwide preliminary or permanent injunctions where found to be warranted.<sup>35</sup>

Finally, it should be noted that some equitable orders, both before and after trial, have also imposed verification or reporting procedures apprising the parties and the court of compliance.<sup>36</sup>

**Equitable Relief May Also Be Available Under Other Legal Theories.** Trade secret disputes may be entwined with other

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33. See discussion *infra* Guideline Nos. 15–17.

34. Defend Trade Secrets Act, Pub. L. 114-153, § 5 (uncodified).

35. See discussion *infra* Part VIII (Additional Factors to Consider in Connection with Permanent Injunctions).

36. See discussion *infra* Guideline Nos. 23 & 24.

claims. For example, many trade secret owners couple their claims for trade secret misappropriation with claims seeking to enforce noncompete or nonsolicitation agreements. Given the variation in the state laws concerning noncompete and nonsolicitation agreements, this *Commentary* does not specifically address injunctive relief that is focused solely on enforcing non-competition and nonsolicitation contract claims.

Similarly, a finding that the trade secrets have become part of defendant's patent application or issued patent may lead the trade secret owner to request an order compelling the transfer or licensing of the patent or application. Some case law has held that this relief is not available under trade secret law since the information disclosed in the patent or application is no longer a trade secret and the Uniform Trade Secrets Act does not expressly provide for this remedy.<sup>37</sup> A plaintiff faced with this situation will want to consider all avenues for equitable relief.<sup>38</sup>

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37. See, e.g., *B. Braun Medical, Inc. v. Rogers*, 163 F. App'x 500 (9th Cir. 2006) (observing, however, that this relief may be available under other legal theories, such as constructive trust or in accordance with the terms of a contract); *OmniGen Research, LLC v. Wang*, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*23 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018). Cf. *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1250 (Fed. Cir. 1989) (ordering assignment of a patent as a remedy for misappropriation of trade secrets under pre-UTSA authority), *superseded by statute on other grounds*, Cal. Civ. Code § 3426.3, *as stated in B. Braun Med.*, 163 F. App'x at 509. See also *New Lenox Indus., Inc. v. Fenton*, 510 F. Supp. 2d 893 (M.D. Fla. 2007) (recognizing that a number of states courts have entered as a remedy an assignment of patents to the party from whom confidential information underlying the patent had been misappropriated).

38. See, e.g. *Agilent Techs., Inc. v. Kirkland*, C.A. No. 3512-VCS, 2010 WL 610725 (Del. Ch. Feb. 18, 2010) (unpublished) (directing defendants to withdraw the patent application, or, if they refused to do so, assigning the patent to plaintiff, who would be entitled to charge defendants a royalty for practicing the patent); 35 U.S.C. §256 (permitting an application to correct inventorship at the United States Patent Office); *CODA Dev. S.R.O. v. Goodyear*

This *Commentary* focuses exclusively on equitable relief available under trade secret law. The reader should understand that in cases involving multiple theories for injunctive relief, the court will apply many of the same overarching equitable principles described in this *Commentary*, but in the context of differing substantive laws.

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Tire & Rubber Co., 916 F. 3d 1350, 1359 (Fed. Cir. 2019) (finding that claim for correction-of-inventorship pled along with trade secret claims stated a plausible additional claim for relief).

#### IV. EQUITABLE RELIEF AND RELATED REQUESTS AT PRETRIAL PHASES OF A TRADE SECRET CASE

The trade secret owner may seek equitable relief at different phases of a case.

**Principle 1. What constitutes an appropriate equitable remedy may change over the course of the dispute given the evidence available to the parties and the reasonable inferences to be drawn from the evidence.**

As the record becomes more fully developed, the appropriateness of particular relief may change. Applicable substantive law suggests a variety of potential equitable tools, summarized below and discussed at greater length throughout this *Commentary*. Determination of an appropriate remedy must always, however, be tied to the evidence presented and not be awarded simply on the basis of conventions or “standard operating procedures.”<sup>39</sup>

**Guideline 1. A party should not move for temporary equitable relief without notice to the nonmoving party except as permitted by and in accordance with applicable law.**

Most requests for early relief in trade secret cases are made through an application under Federal Rule of Civil Procedure 65 or comparable state law. They are virtually always made after giving some notice to the other side, although in the face of an urgent threat, the movant often seeks to shorten the

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39. See *Stella Sys., LLC v. Medeanalytics, Inc.*, No. C 14-00880 LB, 2014 WL 5828315, at \*11 (N.D. Cal. Nov. 10, 2014) (rejecting counsel’s argument that “TROs (and preliminary injunctions) are issued all the time in cases like this,” observing that such an assertion is applicable only to cases where there are demonstrated thefts of trade secrets).

initial notice period. Many states follow similar rules, although there is variation.

In some cases, however, trade secret claimants contend that absent judicial intervention, trade secrets will be secretly removed from their owner, such as via the use of thumb drives, emails, or cloud storage accounts or other similar devices or means, and broadly disseminated or used without ready detection. In such cases, a trade secret owner might assert, if the accused wrongdoers are given advance notice of any effort to prevent this misappropriation, they will only accelerate their efforts to transfer or use the trade secrets. This *Commentary* addresses two kinds of requests for equitable relief made without notice to the responding party,<sup>40</sup> not to suggest that they are or should be common—they are not—but because consideration of whether they are warranted may engage the early attention of lawyers and their clients when planning case strategy.

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40. The *Commentary* addresses claims for ex parte seizure orders under the DTSA, see discussion *infra* Guideline No. 2, and requests for relief brought without notice in accordance with Fed. R. Civ. P. 65 (b)(1), see discussion *infra* Guideline No. 3, and similar state statutes. Readers should be aware of the terminology used in the jurisdiction of interest and not assume that the terms “ex parte” or “notice” have a uniform meaning. For example, the California Rules of Court provide that “[a] party seeking an ex parte order must notify all parties no later than 10:00 A.M. the court day before the ex parte appearance, absent a showing of exceptional circumstances that justify a shorter time for notice.” CAL. RULES OF COURT, rule 3.1203. Some other jurisdictions refer to urgent requests seeking to shorten the time for response as “orders to show cause.” The court may direct the means and timing of giving notice of the application in the order itself. See N.Y. C.P.L.R. § 2214 (McKinney 2014); CONN. GEN. STAT. ANN. § 52-473(a) (West 2019). Except when referring to “ex parte” orders as specifically provided under the DTSA, this *Commentary* uses the term “without notice” as provided in Fed. R. Civ. P. 65 (b) to refer to applications that are both made and initially presented to the court without notice to the other side.

### A. Requests for Ex Parte Seizure Orders under the DTSA

Congress enacted as part of the DTSA a self-contained “civil seizure” provision permitting the trade secret owner to seek an ex parte seizure order with no notice to the other side in “extraordinary circumstances.”<sup>41</sup> Notwithstanding the significant attention Congress and the public gave to the ex parte seizure order provisions in the years leading to the enactment of the DTSA, to date few such orders have been granted or even sought. Courts have granted them only on a showing that the defendants were unlikely to comply with a noticed request for a temporary restraining order, such as may be evidenced by prior lies, evasions, exportation of data to the cloud or other devices, and efforts to conceal prior bad acts.<sup>42</sup>

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41. 18 U.S.C. § 1836(b)(2)(A).

42. *E.g.*, *Solar Connect, LLC v. Endicott, et al*, No. 2:17-cv-01235, 2017 WL 11309521 (D. Utah Dec. 4, 2017), *amended and superseded*, 2018 WL 8786166 (D. Utah Feb. 16, 2018), *amended and superseded*, 2018 WL 2386066 (D. Utah Apr. 6, 2018); *Axis Steel Detailing, Inc. v. Prilex Detailing LLC*, No. 2:17-cv-00428, 2017 WL 11309520 (D. Utah May 23, 2017), *amended and superseded* 2017 WL 8947964 (D. Utah June 29, 2017) (where the defendants had previously provided false and misleading information, hidden information and moved computer files, and were shown to have sophisticated computer technology skills they could use to thwart a Rule 65 order or other equitable remedy); *Blue Star Land Servs. v. Coleman*, No. 5:17-cv-00931, 2017 WL 11309528 (W.D. Okla. Aug. 31, 2017) (where defendants had previously downloaded thousands of company files to their Dropbox, deleted emails and other files to cover their tracks, and lied about their actions to solicit other employees); *AVX Corp. v. Kim*, Civil Action No. 6:17-00624-MGL, 2017 WL 11307180 (D.S.D. Mar. 8, 2017) (where defendant had downloaded trade secret information, accessed a coworker’s computer, and lied in the company’s investigation); *Mission Capital Advisors LLC v. Romaka*, No. 16 Civ. 05878 (LLS), 2016 WL 11517104 (S.D.N.Y. July 29, 2016) (where defendant had previously failed to appear at a court hearing to show cause why he should not be restrained from accessing, disclosing, or copying his prior employer’s client and contact lists).

The statutory requirements for obtaining such relief are exacting. They do not by their terms permit deviations. The applicant must present sworn evidence before conducting formal discovery sufficient to satisfy each of the four equitable relief factors at the outset of the case and to comply with additional requirements.<sup>43</sup> Any seizure order must “provide for the narrowest seizure of property necessary” to achieve the purposes of the order and to minimize any interruption of the business operations of third parties and, to the extent possible, the legitimate business operations of the person accused of misappropriating the trade secret. The seized property is to be protected from disclosure until the parties have an opportunity to be heard in court, no later than seven days after entry of the order.<sup>44</sup> At the hearing, the movant has the burden to prove all facts supporting the findings of fact and conclusions of law necessary to support the order. If the movant fails to meet its burden, the seizure order shall be dissolved or modified. Any person who suffers damages by reason of a wrongful or excessive seizure may recover damages that, unlike bonds issued under Federal Rule 65, are not limited by the security posted as a condition to receiving the order.<sup>45</sup>

**Guideline 2. Before moving for an ex parte seizure order under the DTSA, the trade secret owner and the court should consider whether an application to preserve evidence is warranted and will satisfy the immediate needs of the case.**

Recognizing the demanding showing and procedural requirements the DTSA’s ex parte seizure provisions impose,

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43. 18 U.S.C. § 1836(b)(2)(A).

44. 18 U.S.C. § 1836(b)(2)(B).

45. 18 U.S.C. 1836 §§(b)(2)(F) and (G).

some courts have denied requests to enter an ex parte seizure order under the DTSA because the movant failed to show why a Rule 65 injunction would not be adequate to protect trade secrets or how an ex parte seizure order could help.<sup>46</sup> Some courts have addressed requests for such ex parte seizure orders by requiring the movant to serve the defendant with a noticed application and order directing the defendant to preserve evidence<sup>47</sup> or turn over electronic devices to a special master or the court,<sup>48</sup> a third-party expert,<sup>49</sup> or counsel for safekeeping pending further court order at an early date rather than directing seizure by the U.S. Marshal.

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46. See, e.g., *ARB Labs, Inc. v. Woodard*, No. 2:19-cv-00116-JAD-PAL, 2019 WL 332404 (D. Nev. Jan. 25, 2019); *Dazzle Software II, LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM (E.D. Mich. filed June 15, 2016) (denying an ex parte seizure order where, among other things, the court found that “the relief that’s sought here isn’t going to solve the problem because [plaintiff’s attorney] candidly acknowledged that there are so many questions, so even if he grabbed every single computer I don’t think that would give assurance that there wouldn’t be continued misappropriation” and that the balance of interests did not favor the moving party).

47. See, e.g., *OOO Brunswick Rail Mgmt. v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017) (directing corporate defendants to preserve evidence); *Pfizer, Inc. v. Amann*, No. 2:17-cv-00911-ER (E.D. Pa. filed Mar. 1, 2017) (directing individual defendant to preserve evidence).

48. See, e.g., *Balearia Caribbean Ltd v. Calvo*, No. 16-23300-CIV-WILLIAMS (S.D. Fla. Filed Aug. 5, 2016); see *OOO Brunswick Rail Mgmt.*, 2017 WL 67119 at \*12 (directing individual defendant to produce devices in court); *Magnesita Refractories Co. v. Mishra*, No. 2:16-CV-524-PPS-JEM, 2017 WL 655860 (N.D. Ind. Feb. 17, 2017).

49. See, e.g., *Earthbound Corp. v. MiTek USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013 (W.D. Wash. Aug. 19, 2016). Cf. *Pfizer, Inc. v. Amann*, No. 2:17-cv-00911-ER (E.D. Pa. Mar. 1, 2017) (after court’s entry of a preservation TRO, individual consented to turn over personal devices to forensics expert for inspection; new employer agreed to separate protocol for devices of new employer).



Other courts have denied urgent applications for preservation, observing that absent a showing of irreparable harm, early court intervention is not warranted to protect computer files alleged to be in the custody of defendant.<sup>50</sup>

*B. Requests for Temporary Equitable Relief without Notice Under Rule 65*

In some trade secret disputes the trade secret owner may choose not to proceed under the DTSA's ex parte seizure order procedures but may nonetheless have legitimate concerns that if the defending party becomes aware that litigation is about to begin, it will destroy evidence or transfer trade secrets or evidence to others. If the movant contends that it is entitled to a temporary restraining order without notice under Federal Rule of Civil Procedure 65(b)(1) (rather than under the DTSA), it must provide an affidavit or verified complaint clearly showing that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition. Further, the movant's attorney must certify in writing any efforts made to give notice and the reasons why notice should not be required.<sup>51</sup> Situations warranting relief without notice are the exception.<sup>52</sup> Litigants seeking relief in state court

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50. *Henry Schein, Inc. v. Cook*, 191 F. Supp. 3d 1072 (N.D. Cal. 2016) (denying request for ex parte temporary restraining order directing defendant to preserve evidence and permit plaintiff to obtain mirrors of data on defendant's personal devices).

51. FED. R. CIV. P. 65 (b) (1). *Cf.* Uniform Rules of Trial Cts., 22 NYCRR] § 202.7 (similar requirements under New York court rules); CONN. GEN. STAT. ANN. § 52-473(b) (West 2019) (similar requirements under Connecticut rules).

52. *See, e.g., Globalization Partners, Inc. v. Layton*, No. 19-CV-01990-BAS-LL, 2019 WL 5268657 (S.D. Cal. Oct. 16, 2019) (denying request for temporary restraining order under Rule 65 without notice to enjoin use or disclosure of alleged trade secrets, order return of documents, and direct review by

should determine and follow applicable rules concerning notice.<sup>53</sup> In all events, the urgent circumstances and the reasons for seeking any relief without notice must be clearly explained.

*C. Noticed Requests for Temporary Equitable Relief to Preserve, Quarantine, or Inspect Documents and Other Materials*

Many cases commence, often on shortened notice, with the trade secret owner's presentation of evidence that documents, often in digital form, appear to have been accessed, downloaded, emailed, uploaded, transferred, or destroyed without authorization, or that prototypes or electronic data storage devices believed to contain the movant's property have been removed. Apart from any further or broader relief it may seek, the trade secret owner may choose to seek immediate relief directing the preservation, quarantine, and, in some cases, early inspection by one or more forensic examiners of the materials preserved.<sup>54</sup>

**Guideline 3. On motions for a temporary restraining order, the parties should address whether a litigation hold or regular discovery obligations will avoid the alleged immediate harm.**

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forensic examiner where plaintiff had not shown that providing notice would undermine prosecution of the action).

53. *Cf., e.g.,* 231 PA. CODE § 1531(d) (2004) (providing that an injunction granted without notice shall be deemed dissolved unless a hearing on the continuance of the injunction is held within five days after the grant of the injunction or as agreed by the parties or directed by the court).

54. *See, e.g.,* H & E Equip. Servs., Inc. v. Comeaux, Civil Action No. 20-225-BAJ-EWD, 2020 WL 4364222 (M.D. La. July 30, 2020) (finding threat of irreparable harm based on plaintiff's initial forensic review and entering temporary restraining order directing the preservation of documents and devices, but directing that absent agreement of the parties, forensic review of defendant's devices would not take place until the discovery phase of the case).

At the inception of a lawsuit, the trade secret owner's paramount concern may include ensuring that documents concerning the dispute or containing alleged trade secrets do not disappear. Some such concerns can be effectively addressed simply by verifying that appropriate litigation hold notices are in place in accordance with the document preservation obligations pertaining to every federal case and applicable under many state laws. Concern may be further alleviated if the trade secret owner provides the other party with specific, nonexclusive, guidance on documents to be preserved.

Where the moving party requests further court intervention at an early stage, it should present evidence to justify its request and explain the foreseeable harm the requested order would avoid.<sup>55</sup> If further court intervention is determined to be appropriate, as may be the case, for example, when defendants are shown to have previously destroyed documents and attempted to cover their tracks,<sup>56</sup> an early order directing an accused party to submit digital devices for examination by a forensic expert can preserve evidence and prevent the unauthorized transfer and use of information.<sup>57</sup> It may also potentially lead to early

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55. *First Option Mortg., LLC v. Tabbert*, No. 2:12-CV-00600-KJD-VCF, 2012 WL 1669430, at \*4 (D. Nev. May 11, 2012) (denying request for preservation order as being duplicative of the obligations already imposed on litigants by the Federal Rules of Civil Procedure).

56. *See, e.g., Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198 (E.D. Cal. 2020).

57. *See, e.g., ARB Labs, Inc. v. Woodard*, No. 2:19-cv-00116-JAD-PAL, 2019 WL 332404 (D. Nev. Jan. 25, 2019) (ordering preservation of the information at issue and turnover of an identified computer to plaintiff's counsel); *Earthbound Corp. v. MiTek, USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013, at \*11 (W.D. Wash. Aug. 19, 2016) (issuing a TRO compelling defendants to turn over devices and account passwords to forensic experts—some to a “mutually acceptable neutral” and others to plaintiff's forensic expert—for analysis, while prohibiting defendants from accessing or deleting such data until

resolution of key issues.<sup>58</sup> However, both the parties and the court should proceed with caution. Allowing forensic experts, particularly those engaged by a party, to engage in an unguided search through files that may include personal information or trade secrets of the defendant or third parties unrelated to the matters in dispute may be an unwarranted and expensive intrusion, especially at the early stages of a dispute.<sup>59</sup>

**Guideline 4. In requesting an order to quarantine documents or material or to require immediate forensic inspection, the movant must offer evidence that some or all of the materials at issue likely contain its trade secrets or property and that the movant will likely suffer harm absent limited relief.**

As The Sedona Conference *Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases* concludes, each asserted trade secret for which interim relief is

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further order of the court); *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 569 (S.D.N.Y. Dec. 30, 2016) (granting an interim injunction requiring ongoing inspection of forensic images of relevant devices and files). For a discussion of other relief entered in connection with directing defendant to return data and devices, see *Fitspot Ventures, LLC v. Bier*, No. 2:15-cv-06454-ODW(RAO), 2015 WL 5145513, at \*3 (C.D. Cal. Sept. 1, 2015) (entering a TRO directing defendant to return all access codes and previously deleted data and requiring the employee to reconnect the company's network with its cloud-based development platform).

58. See, e.g., *Henry Schein, Inc. v. Cook*, No. 16-cv-03166-JST, 2016 WL 3418537 (N.D. Cal. June 22, 2016) (denying an activity restriction, in light of entry of earlier order prohibiting use of plaintiff's downloaded documents); *Free Country Ltd.*, 235 F. Supp. 3d at 559 (denying activity restriction after completion of forensic review and remediation, finding that following remediation plaintiff had not established a likelihood of success on the merits or irreparable harm); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 109 F. Supp. 3d 1009, 1023–24 (W.D. Tenn. 2015) (same).

59. See, e.g., *First Option Mortg.*, 2012 WL 1669430, at \*4.

sought should be identified with a level of particularity that is reasonable under the circumstances.<sup>60</sup> The extent and scope of the required identification may vary based on the nature of the relief sought, the urgency of the claimed need for relief, and the timing of the request.

One exception to this general principle is that a trade secret owner seeking early injunctive relief is not required to provide a particularized identification of the asserted trade secret when there is evidence that a defending party downloaded or otherwise took documents or information and the plaintiff seeks a court order only requiring the defending party to 1) preserve evidence, or 2) return the documents or information alleged to have been taken. Before ordering early forensic quarantine, imaging, or review, however, the court will want to be satisfied that the plaintiff has established a likelihood that the defendant possesses some information or files belonging to the movant that are likely to include the movant's property or trade secrets and that absent early relief, the movant is subject to potential risk.

**Guideline 5. Orders directing forensic review should, where time permits, be drafted in conjunction with forensic specialists and should give due regard to proportionality and to legitimate privacy or other interests of the nonmoving party.**

An order simply directing the quarantine, return, or inspection of "files containing the plaintiff's trade secrets" gives the

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60. The Sedona Conference, Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases, 22 SEDONA CONF. J. 223 (2021) [hereinafter Sedona WG12 Identification of Trade Secrets Commentary], available at: [https://thesedonaconference.org/publication/Commentary\\_on\\_Proper\\_Identification\\_of\\_Trade\\_Secrets\\_in\\_Misappropriation\\_Cases](https://thesedonaconference.org/publication/Commentary_on_Proper_Identification_of_Trade_Secrets_in_Misappropriation_Cases).

parties little guidance. Consistent with the nature and urgency of the dispute and any time constraints, the parties and the court should consider obtaining recommendations and agreement by a fixed deadline on points that may include:

- appointing a forensic specialist or directing how the forensic specialist will be selected and supplying a date certain for completion of this task or a return to the court for further direction;
- directing to whom the specialist will be accountable, including, in some cases, directly to the court;
- identifying the information, accounts, or devices that are the object of the inspection;
- specifying the objective of the exercise (such as, to locate and quarantine or remove exact duplicates of particular documents; to search for variants of particular aspects of specific documents; or to search more broadly according to specific parameters such as document source, subject matter, creation date, or otherwise);
- specifying a work plan or provisions for having the work plan reviewed, including a focus on methodologies and tools to be used;
- specifying the scope of review;
- specifying a timetable for conducting and reporting on the review;
- specifying the nature of any reports to be rendered, on what schedule, and to whom;

- specifying provisions for protecting personal information and other information of the defendant or third parties that are not at issue in the suit;<sup>61</sup>
- specifying who is to be given access to materials located by and any reports rendered by the forensic examiner;
- specifying an end point for the forensic work;
- allocating or imposing limitations on financial costs, including who is responsible for paying the forensic specialist, when and how; and
- considering whether costs incurred will be awarded as recoverable costs after trial.

Other segregation and protection techniques, such as requiring the erection of firewalls within a defendant organization to prevent access to information that may have emanated from the plaintiff, may also be appropriate on a proper showing.<sup>62</sup>

**Guideline 6. Courts may be able to address the need for urgent relief concerning electronic files by appointing an expert to make and retain a forensic image of specified devices and accounts, pending further court order.**

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61. *Cf.* Lee v. Stonebridge Life Ins. Co., No. 11-cv-43 RS, 2013 WL 3889209, \*2 (N.D. Cal. July 30, 2013) (denying order requiring plaintiff to turn over her computer to forensic expert and ordering an alternative process for avoiding a “fishing expedition”).

62. *See, e.g.,* Amphenol Corp. v. Paul, No. 3:12CV543(AVC), 2012 WL 5471857 (D. Conn. Nov. 9, 2012), *amended and superseded by* 2013 WL 12250880 (D. Conn. Jan. 8, 2013) (appointing an information technology professional to search corporate defendant’s computer system for evidence of improper transfers of the former employer’s data, establishing a word filter to “fire wall[]” the employee from certain communications, restricting the physical locations in which the employee would perform services, and requiring periodic certifications of compliance).

Arriving at a complete and optimal order should not, however, delay relief where the movant has established a need for urgent relief to image particular devices, such as if there is concern that digital files may otherwise be overwritten or disappear. Courts may be able to address the need for urgent relief by appointing or authorizing the appointment of an expert to make and retain a forensic image of identified devices, accounts, and drives and establishing a more complete protocol thereafter.<sup>63</sup>

Early directions for forensic review should be distinguished from general case discovery and from more extensive mandatory “quarantine and remediation” remedies that may be imposed at a later stage of litigation. Quarantine and remediation remedies to protect trade secrets may also be imposed following trial.<sup>64</sup>

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63. *Cf. Sandvik, Inc. v. Mecca C & S, Inc.*, 38 Pa. D & C. 5th 332, at \*7 (Pa. Com. Pl. May 21, 2014) (describing protocol for appointing a forensic expert from a list of proposed experts submitted by the parties to review the objecting party’s digital files in order to identify relevant and responsive material); *H & E Equip. Servs., Inc. v. Comeaux*, Civil Action No. 20-225-BAJ-EWD, 2020 WL 4364222 (M.D. La. July 30, 2020) (entering temporary restraining order directing the preservation of documents and devices but directing that absent agreement of the parties forensic review would not take place until the discovery phase of the case); *Precigen, Inc. v. Zhang*, No. GJH-20-1454, 2020 WL 3060398, at \*2–3 (D. Md. June 9, 2020) (after movant showed that defendant had previously transferred company information to new employer, gave “evasive and incomplete answers” and attempted to make forensic review difficult, ordering production to a forensic ESI consultant retained by plaintiffs for bit-by-bit imaging of all digital storage devices and accounts in defendant’s possession, custody, or control that had ever contained or been used to transmit or store information related in any way to defendant’s employment with plaintiff or to plaintiff’s confidential information or trade secrets).

64. *See* discussion *infra* Part VIII (Additional Factors to Consider in Connection with Permanent Injunctions).



#### *D. Expedited Discovery*

Requests for equitable relief in trade secret cases often arise before either party or the court is fully versed in the material facts, some of which may be subject to significant dispute. Yet a trade secret claimant often asserts that without immediate equitable relief its trade secret will be forever compromised. How can the parties and the court reconcile the need for presentation of evidence relating to essential facts with the asserted need for early intervention?

**Principle 2. On all motions for interim equitable relief, the court should consider the nature and urgency of the harm alleged and the extent to which material facts are undisputed, are known or accessible to either or both parties, or require further discovery to resolve.**

At the outset of most trade secret disputes, the plaintiff has knowledge of its own trade secrets and at least some reasons for its specific concerns. It often lacks access to detailed or direct evidence sufficient to fully establish (or perhaps even to fully evaluate) its case. The defendant may lack knowledge of what the plaintiff claims its trade secrets to be and whether they in fact qualify as such under the law. In responding to a request for urgent interim relief, including temporary and preliminary injunctive relief, a court should take into account the extent to which both sides have access to the necessary evidence and whether specific limited discovery on an expedited basis may be required or helpful.<sup>65</sup>

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65. See *Centrifugal Acquisition Corp., Inc. v. Moon*, No. 09-C-327, 2009 WL 1249294 (E.D. Wis. May 6, 2009) (where undisputed allegations demonstrated that plaintiff had some probability of success on the merits, permitting expedited discovery into truth of defendants' assertion that they were not utilizing plaintiff's trade secrets since otherwise plaintiff's "attempts to obtain preliminary injunctive relief cannot get off the ground"); *First Option*

**Principle 3. On motions for preliminary equitable relief, the parties and the court should consider whether targeted expedited discovery is appropriate.**

While a request for expedited discovery on particular issues is common in connection with applications for preliminary relief<sup>66</sup> (but rarely made in connection with applications for temporary relief), in most jurisdictions courts and parties should not presume that there will be such discovery. Expedited discovery is not the norm, and, therefore, the moving party typically “must make some prima facie showing of the *need* for the expedited discovery.”<sup>67</sup> Under the Federal Rules of Civil Procedure, courts may apply a “good cause” standard in determining

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Mortg., LLC v. Tabbert, No. 2:12-CV-00600-KJD-VCF, 2012 WL 1669430, at \*4 (D. Nev. May 11, 2012) (permitting limited expedited discovery where undisputed facts pointed to need for evidence from individual defendant regarding circumstances of movement of customers from plaintiff to defendant organization).

66. The Advisory Committee Note to the 1993 amendments to Rule 26(d) expressly states, for example, that expedited discovery may be appropriate in cases “involving requests for a preliminary injunction.” See *Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, No. 20-CV-3375, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020); *ALARIS Grp., Inc. v. Disability Mgmt. Network, Inc.*, Civil No. 12-446 (RHK/LIB), 2012 WL 13029504, at \*2 (D. Minn. May 30, 2012) (citation omitted). Cf. *Renco Group, Inc. v. MacAndrews AMG Holdings LLC*, C.A. No. 7668-VCN, 2013 WL 209124, at \*1 (Del. Ch. Jan. 18, 2013) (unpublished) (“A party’s request to schedule an application for a preliminary injunction, and to expedite the discovery related thereto, is normally routinely granted. Exceptions to that norm are rare.” A plaintiff need only articulate a “sufficiently colorable claim and show a sufficient possibility of a threatened irreparable injury, as would justify imposing on the defendants and the public the extra (and sometimes substantial) costs of an expedited preliminary injunction proceeding.”) (citations omitted).

67. See, e.g., *Merrill Lynch, Pierce, Fenner & Smith v. O’Connor*, 194 F.R.D. 618, 623 (N.D. Ill. 2000) (emphasis in original).

whether to allow expedited discovery.<sup>68</sup> As further described below in connection with Guideline No. 7, factors to be considered include the breadth of the discovery requests; the purpose for requesting the expedited discovery; the burden on the party responding to the proposed discovery; and how far in advance of the typical discovery the request is made. “Good cause exists when the need for expedited discovery . . . outweighs the prejudice to the responding party.”<sup>69</sup>

Courts may conclude, especially when a temporary restraining order to preserve the status quo is in place, that discovery on a regular timetable combined with a preliminary injunction hearing to be held in the future is more appropriate in a particular case.<sup>70</sup> Expedited discovery also has been denied when the

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68. See FED. R. CIV. P. 26(d), 33(a), 34(b); *Dimensions Data North America v. Netsar-1, Inc.*, 226 F.R.D. 528 (E.D.N.C. 2005) (collecting cases). While to protect defendants from unfairly expedited discovery some courts have applied a more demanding standard that tracks the requirements for establishing entitlement to injunctive relief, including requiring a showing that the discovery sought is necessary to avoid irreparable harm, see, e.g., *Notaro v. Koch*, 95 F.R.D. 403, 405 (S.D.N.Y. 1982); *Forcex Inc. v. Technology Fusion, LLC*, No. 4:11cv88, 2011 WL 2560110 (E.D. Va. June 27, 2011), the more flexible standard of reasonableness and good cause is widely followed in federal courts. See, e.g., *Ciena Corp. v. Jarrard*, 203 F.3d 312, 320 (4th Cir. 2000); *R.R. Donnelley & Sons Co. v. Marino*, No. 6:20-CV-06722 EAW, 2020 WL 7213762, at \*10 (W.D.N.Y. Dec. 8, 2020) (observing that the majority of courts in the Second Circuit apply the more flexible “good cause” standard when evaluating motions for expedited discovery); *Intel Corp. v. Rais*, No. 1:19-CV-20-RP, 2019 WL 164958, at \*7 (W.D. Tex. Jan. 10, 2019) (citing cases); *Sheridan v. Oak Creek Mortg., LLC*, 244 F.R.D. 520, 521 (E.D. Wis. 2007) (citing cases)). Some courts follow a third approach and apply the “reasonableness” test unless the circumstances are such that the *Notaro* factors apply. See, e.g., *Centrifugal Acquisition*, 2009 WL 1249294.

69. *American LegalNet, Inc. v. Davis*, 673 F. Supp. 2d 1063, 1066 (C.D. Cal. 2009) (internal quotations and citations omitted).

70. See, e.g., *Cambria Co. LLC v. Schumann*, No. 19-CV-3145 (NEB/TNL), 2020 WL 373599, at \*9 (D. Minn. Jan. 23, 2020) (denying motion for expedited

court has found that evidence does not warrant entry of a temporary restraining order<sup>71</sup> or that the movant has failed to establish irreparable harm.<sup>72</sup>

**Guideline 7. Expedited discovery is not a substitute for full discovery and should be narrowly tailored to the issues to be addressed at the preliminary injunction hearing.**

The purpose of expedited discovery in advance of the resolution of a motion for interim relief is to further develop the record before the court.<sup>73</sup> The parties should not seek to use it to obtain full case discovery into all the relevant facts related to the claims and defenses. A party seeking expedited discovery is well-advised to present specific proposed requests to the court in connection with the application. Courts granting expedited discovery may constrain the discovery by techniques such as limiting the number of narrowly drawn requests for documents or interrogatories or by permitting a limited number of depositions not to last longer than a specified period of time.<sup>74</sup>

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discovery where court determined that the parties had already created a robust record without discovery and there was no evidence that litigation holds were insufficient to prevent destruction of evidence); *Midwest Sign & Screen Printing Supply Co. v. Dalpe*, 386 F. Supp. 3d 1037, 1057–58 (D. Minn. 2019).

71. *See, e.g., Corelogic Sols., LLC v. Geospan Corp.*, No. SACV 20-01500-CJC(KESx), 2020 WL 7786537, at \*4 (C.D. Cal. Aug. 21, 2020) (finding that the court's denial of a temporary restraining order weighed heavily against expedited discovery).

72. *See, e.g., Southeast X-Ray, Inc. v. Spears*, 929 F. Supp. 2d 867, 878 (W.D. Ark. 2013).

73. *Edudata Corp. v. Scientific. Computs., Inc.*, 599 F. Supp. 1084, 1088 (D. Minn.), *aff'd in part, appeal dismissed*, 746 F.2d 429 (8th Cir. 1984).

74. *See, e.g., Citizens Bank, N.A. v. Margolis*, No. 20-CV-12393, 2020 WL 5505383, at \*3–4 (E.D. Mich. Sept. 11, 2020) (rejecting proposed expedited discovery requests that were not narrowly tailored to the issues for the

Proportionality concerns may loom particularly large in the context of expedited discovery.<sup>75</sup>

Properly tailored expedited discovery may generally be sought by the defending party as well as by the movant where it is shown to be warranted in light of the issues and scope of the preliminary injunction proceeding.<sup>76</sup>

Where the requested discovery will likely elicit information that the other party will claim to be its own trade secrets or confidential information, the movant should be prepared with a

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preliminary injunction hearing and permitting only limited expedited discovery); *Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, No. 20-CV-3375, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (holding that any expedited discovery should be targeted to matters that will be addressed in a preliminary injunction hearing and not duplicative of investigations that already have been made; directing forensic review of particular devices as a logical starting point for the particular dispute); *Intel Corp. v. Rais*, No. 1:19-CV-20-RP, 2019 WL 164958, at \*7 (W.D. Tex. Jan. 10, 2019) (authorizing limited expedited discovery but denying request for forensic inspection as imposing an undue and greater burden on defendant); *Synthes USA, LLC v. Davis*, No. 4:17-CV-02879-RBH, 2017 WL 5972705, at \*10 and n.16 (D.S.C. Dec. 1, 2017) (granting limited expedited discovery in light of the issuance of a limited preliminary injunction); *First Option Mortg., LLC v. Tabbert*, No. 2:12-CV-00600-KJD-VCF, 2012 WL 1669430, at \*4 (D. Nev. May 11, 2012) (limiting scope of expedited discovery both temporally and in scope). Cf. *Corelogic Sols.*, 2020 WL 7786537, at \*4 (expressing skepticism that the broad discovery plaintiff requested, including multiple depositions, forensic examination, and document requests, could be done in an expedited manner without undue burden on the defendants).

75. *Aon PLC v. Infinite Equity, Inc.*, No. 19 C 7504, 2020 WL 1954027, at \*2 (N.D. Ill. Apr. 23, 2020, *objections overruled* at 2020 WL 10459742 (N.D. Ill. Aug. 7, 2020)).

76. See, e.g., *Ciena Corp. v. Jarrard*, 203 F.3d 312, 320 (4th Cir. 2000); *Inventus Power*, 2020 WL 3960451, at \*14 (holding that any expedited discovery should be mutual); *Aon PLC*, 2020 WL 1954027; *R.R. Donnelley & Sons Co. v. Marino*, No. 6:20-CV-06722 EAW, 2020 WL 7213762, at \*10 (W.D.N.Y. Dec. 8, 2020).

proposed form of protective order for handling the documents and information disclosed. Suggested approaches to this issue may be found in The Sedona Conference Working Group 12's *Commentary on Protecting Trade Secrets in Litigation About Them*.<sup>77</sup>

#### *E. Requests for Interim Injunctive Relief*

Trade secret owners often contend that ongoing or threatened imminent irreparable harm can be avoided only by an order prohibiting the nonmoving party from engaging in particular acts alleged to place trade secrets at risk. Requests for substantive preliminary relief, as opposed to orders directed to preserving documents or to preserving the status quo for a limited period, are generally heard after the parties have had the opportunity to conduct some discovery into facts relevant to deciding the request.

Trade secret owners making vague assertions that unspecified trade secrets are at risk of threatened misappropriation in speculative ways are generally found not to have justified interim relief. Rather, the trade secrets alleged to be at risk must be defined with specificity to the extent appropriate to the phase of the case. As one court recently pointed out, a court cannot begin to evaluate irreparable harm “without any idea of what a movant is talking about when it declares something to be a trade secret.”<sup>78</sup> As observed above, a less comprehensive

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77. The Sedona Conference, *Commentary on Protecting Trade Secrets in Litigation About Them* (2022), 23 SEDONA CONF. J. 741, available at [https://thesedonaconference.org/publication/Commentary\\_on\\_Protecting\\_Trade\\_Secrets\\_in\\_Litigation\\_About\\_Them](https://thesedonaconference.org/publication/Commentary_on_Protecting_Trade_Secrets_in_Litigation_About_Them).

78. Titan Mfg. Sols., Inc. v. National Cost., Inc., No. 19-CV-1749-WJM-SKC, 2019 WL 3205955, at \*2 (D. Colo. July 16, 2019). See also Mallet and Co., Inc. v. Lacayo, 16 F. 4th 364, 381–398 (3d Cir. 2021) (vacating and remanding order granting preliminary injunction because order, and plaintiff, had not adequately described the trade secrets at issue in the case permitting

identification of the trade secrets may be appropriate at the earliest stage of the case, when the key objective is simply to obtain an order directing the return or segregation of particular materials. But where broader relief is sought, the information at issue will ordinarily need to be described with greater specificity and the evidentiary showing concerning misappropriation will generally need to be stronger.<sup>79</sup>

### 1. The movant's burden

The movant bears the burden of presenting evidence of misappropriation, some of which may be circumstantial.<sup>80</sup> To obtain interim equitable relief, the movant must present a *prima facie* case based on available evidence that the information at issue is a trade secret and that absent relief there is reason to believe that it is at risk of imminent irreparable harm through

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defendant to understand what she was enjoined from using or disclosing and permitting appellate court to review the order).

79. See, e.g., *Spark Connected, LLC v. Semtech Corp.*, No. 4:18-cv-748-ALM-KPJ, 2019 WL 4305735, at \*5 (E.D. Tex. Sept. 10, 2019) (finding that movant's specification of trade secrets in connection with a request for preliminary injunction, as drafted was overbroad, vague, and lacked "the specificity required to support injunctive relief"). See also *Integrated Process Sols., Inc. v. Lanix LLC*, No. 19-CV-567 (NEB/LIB), 2019 WL 1238835, at \*4 (D. Minn. Mar. 18, 2019); *Radiant Glob. Logistics, Inc. v. Furstenau*, 368 F. Supp. 3d 1112, 1130 (E.D. Mich. 2019), *appeal dismissed*, 951 F.3d 393 (6th Cir. 2020)); *CPI Card Grp., Inc. v. Dwyer*, 294 F. Supp. 3d 791, 809 (D. Minn. 2018); *Digital Mentor, Inc. v. Ovivo USA, LLC*, No. C17-1935-RAJ, 2018 WL 993944, at \*2 (W.D. Wash. Feb. 21, 2018); *Horner Int'l Co. v. McKoy*, 754 S.E.2d 852, 858-59 (N.C. Ct. App. 2014); *Guy Carpenter & Co., Inc. v. John B. Collins & Assocs., Inc.*, No. 05-1623(JRT/FLN), 2006 WL 2502232, at \*2 (D. Minn. Aug. 29, 2006) (same). See also *Sedona WG12 Identification of Trade Secrets Commentary*, *supra* note 60.

80. See, e.g., *Procter & Gamble Co. v. Stoneham*, 747 N.E.2d 268, 273 (Ohio Ct. App. 2000); *AtriCure, Inc. v. Meng*, 842 Fed. App'x 974, 981 (6th Cir. Jan. 21, 2021) (not for publication).

misappropriation. However, courts have also observed that given the urgencies, “a preliminary injunction is customarily granted on the basis of . . . evidence that is less complete”<sup>81</sup> Once plaintiff has made out a prima facie case, the parties and court should focus on the evidence the accused party likely knows or controls.<sup>82</sup> If the party opposing relief does not come forward with credible evidence within its control rebutting the plaintiff’s showing, courts may conclude that actual or threatened misappropriation has been established for purposes of deciding the request for interim relief.<sup>83</sup> Conversely, the opposing party’s

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81. *Univ. of Tex. v. Camenisch*, 451 U.S. 390, 395 (1981).

82. *See* *SPBS, Inc. v. Mobley*, No. 4:18-cv-391, 2018 WL 4185522, at \*7–8 (E.D. Tex. Aug. 31, 2018), discussed in *McAfee v. Kinney*, No. 4:19-CV-463, 2019 WL 4101199, at \*7–8 (E.D. Tex. Aug. 29, 2019).

83. *See, e.g., AtriCure*, 842 Fed. App’x at 974; *Reco Equip., Inc. v. Wilson*, No. 2:20-CV-3556, 2020 WL 6823119 (S.D. Ohio Nov. 20, 2020), (granting preliminary injunction, finding defendant’s bare denials and failure to testify at hearing for cross-examination were insufficient to overcome plaintiff’s initial showing of likelihood of success on the merits and irreparable harm), *aff’d in part, vacated in part as to non-compete claim and remanded for determination of security*, 2021 WL 5013816 (6th Cir. Oct. 28, 2021); *Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, No. 20-CV-3375, 2020 WL 3960451 (N.D. Ill. July 13, 2020) (finding that defendants’ bare and incomplete denials of whether employees had taken trade secrets did not overcome plaintiffs’ showing that employee defendants had downloaded 100,000 confidential technical documents prior to departing and filed three utility patent applications allegedly containing plaintiff’s trade secrets shortly after employee defendants joined corporate defendant); *WeRide Corp. v. Huang*, 379 F. Supp. 3d 834, 848–49 (N.D. Cal. 2019), *modified in part*, 2019 WL 5722620 (N.D. Cal. Nov. 5, 2019) (granting preliminary injunction where defendant did not come forward with evidence supporting alleged defense of independent development), terminating sanctions entered against defendants at 2020 WL 1967209 (N.D. Cal. Apr. 16, 2020)). *Cf. Eldorado Stone, LLC v. Renaissance Stone, Inc.*, No. 04cv2562 JM(CAB), 2007 WL 460826 (S.D. Cal. Jan. 23, 2007) (denying preliminary injunction where defendant came forward with evidence raising genuine factual issues, concluding that credibility and weight



evidence may rebut the movant's prima facie case, and the movant may need to present further evidence in response.<sup>84</sup>

2. Evidence to be considered in assessing a claim of misappropriation

a. Fears alone are not evidence

Most misappropriation does not take place in public. The movant may not have full access to evidence bearing on misappropriation. Mere speculation, however, is insufficient to satisfy the movant's burden. Cases throughout the country caution that "[a]n injunction should not issue merely to allay fears and apprehensions or to soothe the anxieties of a party."<sup>85</sup> Where "[a]ll

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of the evidence was best left to trier of fact given fact that case had been pending for more than a year and trial would occur shortly).

84. *See, e.g.,* *Wisk Aero LLC v. Archer Aviation Inc.*, No. 3:21-CV-02450, 2021 WL 4073760, at \*19 (N.D. Cal. Aug. 24, 2021) (denying preliminary injunction where plaintiff offered no evidence to rebut defendant's direct showing of independent invention). In *Wisk*, the court discussed shifting burdens once defendant offers evidence of independent development and noted that fast development is not necessarily "implausibly fast" if the evidence shows the rapid development was not related to the use of the trade secrets. *Id.* at \*22.

85. For examples of cases denying interim injunctive relief on grounds that the evidence was overly speculative, *see, e.g.,* *E.R. Squibb & Sons, Inc. v. Hollister, Inc.*, Civ. A. No. 91-203 (JCL), 1991 WL 15296, at \*9 (D.N.J. Feb. 5, 1991), *aff'd*, 941 F.2d 1201 (3d Cir. 1991) (frequently cited thereafter); *Continental Grp., Inc. v. Amoco Chem. Corp.*, 614 F.2d 351, 359 (3d Cir. 1980) (vacating order); *Premier Rides, Inc. v. Stepanian*, Civil Action No. MJG-17-3443, 2018 WL 1035771, at \*10 (D. Md. Feb. 23, 2018) (denying injunction, holding that "[m]ere speculation is insufficient for the Court to find irreparable harm"); *Cortez, Inc. v. Doheny Enters., Inc.*, No. 17 C 2187, 2017 WL 2958071, at \*12 (N.D. Ill. July 11, 2017) (finding that "[i]t is well-established, however, that an 'employer's fear that its former employee will use the trade secrets in his new position is insufficient to justify application of the inevitable disclosure doctrine"); *Avery Dennison Corp. v. Juhasz*, 924 F. Supp. 2d

that is alleged, at bottom, is that defendants could misuse plaintiff's secrets, and plaintiffs fear they will," courts have found that the party seeking relief has not made an adequate showing.<sup>86</sup> Rather, the movant must generally come forward with a detailed and specific showing, consistent with applicable time constraints and access to evidence, to support its claims rather than simply making "broad generalizations" devoid of any evidentiary support.<sup>87</sup>

Some courts have concluded that where the misappropriation of trade secrets is "merely threatened" the party moving for

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893, 901 (N.D. Ohio 2013) (holding that mere conjecture that "it is impossible to believe [that the former employee] won't use the Confidential Information or trade secrets he was exposed to" in a new job is not sufficient to establish a likelihood of success on the merits absent any evidence to support a claim of actual or threatened misappropriation); *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 870 (D. Minn. 2015); *International Bus. Machs. Corp. v. Seagate Tech., Inc.*, 941 F. Supp. 98, 101 (D. Minn. 1992); *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 267–68 (E.D. La. 1967); *United Prods. Corp. of Am., Inc. v. Cederstrom*, No. A05-1688, 2006 WL 1529478, at \*4 (Minn. App. Ct. June 6, 2006) (unpublished); *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 455 (N.C. Ct. App. 2003) (citation omitted); *Travenol Labs., Inc. v. Turner*, 228 S.E.2d 478, 486 (N.C. Ct. App. 1976), *superseded by statute*, N.C. Trade Secrets Protection Act, N.C.G.S.A. § 66-152, *as recognized in Eli Research, Inc. v. United Commc'ns. Grp., LLC*, 312 F. Supp. 2d 748, 758–59 (M.D.N.C. 2004).

86. *Teradyne, Inc. v. Clear Commc'ns. Corp.*, 707 F. Supp. 353, 357 (N.D. Ill. 1989).

87. *See, e.g., CleanFish, LLC v. Sims*, No. 19-cv-03663-HSG, 2019 WL 2716293, at \*3–4 (N.D. Cal. June 28, 2019) (denying request for temporary restraining order where plaintiff's evidence "contrasts sharply with the type of detailed and specific showing courts have found sufficient to find that defendants were misappropriating trade secrets" and where evidence in the record did not support plaintiff's "broad generalizations"); *Convergen Energy LLC v. Brooks*, No. 20-CV-3746 (LJL), 2020 WL 5549039, at \*21 (S.D.N.Y. Sept. 16, 2020) (denying injunction in aid of arbitration where plaintiff did not demonstrate impending harm or a risk that defendants will or were in a position to exploit information but merely offered speculative scenarios).

injunctive relief has a *heightened* burden and must establish a “substantial threat” of impending injury before an injunction will be issued.<sup>88</sup> In considering the potential impact of injunctive relief in the departing employee context, some courts have gone even further and held that, at least where the employee is not subject to an enforceable noncompete covenant, the movant must demonstrate a “high degree of probability” that disclosure is “inevitable.”<sup>89</sup>

- b. Circumstantial evidence can be probative if it is reliable and supports a reasonable inference as to a relevant fact

Against the need for something more than “fear” or “speculation” in assessing whether actual misappropriation has occurred or future misappropriation is threatened, however, courts have expressed sensitivity to the fact that much trade secret misappropriation takes place in secret, and a party seeking to protect its trade secrets through litigation may not have full access to evidence as to what actions the accused party is actually taking, especially at the early stages of a dispute. Courts have observed, as in the frequently-cited case *Greenberg v. Croydon Plastics Co., Inc.*,<sup>90</sup> that

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88. See, e.g., *United Healthcare Servs., Inc. v. Louro*, No. 20-2696 (JRT/ECW), 2021 WL 533680, at \*5 (D. Minn. Feb. 12, 2021); *Lexis-Nexis v. Beer*, 41 F. Supp. 2d 950, 958 (D. Minn. 1999); *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654 (E.D. Mich. 1966); *Dutch Cookie Mach. Co. v. Vande Vrede*, 286 N.W. 612, 615 (Mich. 1939).

89. See *Pkg. Corp. of Am., Inc. v. Croner*, 419 F. Supp. 3d 1059, 1070 (N.D. Ill. 2019); *Katch*, 143 F. Supp. 3d at 869; *International Bus. Machs.*, 941 F. Supp. at 101; *Surgidev Corp. v. Eye Tech., Inc.*, 648 F. Supp. 661, 695 (D. Minn. 1986), *aff'd*, 828 F.2d 452 (8th Cir. 1987). See also discussion *infra* Guideline No. 9.

90. 378 F. Supp. 806, 814 (E.D. Pa. 1974).

Plaintiffs in trade secret cases, who must prove by a fair preponderance of the evidence disclosure to third parties and use of the trade secret by the third parties, are confronted with an extraordinarily difficult task. Misappropriation and misuse can rarely be proved by convincing direct evidence. In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.

In developing circumstantial evidence, the moving party will want to focus on gathering and understanding the evidence it *does* have—such as evidence of the unauthorized removal or transfer of information containing trade secrets to an organization that is likely to use it or an unexpected “leap forward” announced by a business counterparty whose authorized access to trade secrets has terminated or that has recently hired plaintiff's employees who have taken trade secrets. The moving party may need to augment the evidence it does have through specific discovery or at the injunction hearing and should be prepared to explain what evidence the opposing party controls and can be expected to produce.

### 3. Evidentiary hearings on requests for interim equitable relief

In many cases, evidence pertinent to a request for interim equitable relief can be put before the court effectively and efficiently through sworn statements, deposition transcripts, and

documentary evidence. In some cases, however, there may be credibility disputes on material factual issues. The parties may want to arrange a pre-argument conference with the court to determine what contested issues must be resolved on an application for equitable relief and what evidence on those issues will be presented, and to help the court determine whether it needs to hear testimony on these issues.

**Guideline 8. Where material facts are contested or credibility issues are important, if the court's standard procedures do not provide for evidentiary hearings, then one or both parties may present a request for an evidentiary hearing on specific contested issues.**

To the extent consistent with the needs and resources of the court, "a trial court should conduct an evidentiary hearing when 'consideration of the injunction motion [will be] influenced in some significant degree by credibility issues and factual disputes.'"<sup>91</sup> Conducting live or virtual evidentiary

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91. *Fres-Co Sys. USA, Inc. v. Hawkins*, No. 16-3591, 690 F. App'x. 72, 80 (3d Cir. 2017) (citations omitted) (trade secret case); *see also Kos Pharm., Inc. v. Andrx Corp.*, 369 F.3d 700, 719 n.16 (3d Cir. 2004) (trademark case) (noting the "rule that it may be improper to resolve a preliminary injunction motion on a paper record alone" and that "where the motion turns on a disputed factual issue, an evidentiary hearing is ordinarily required"); *Cobell v. Norton*, 391 F.3d 251, 261 (D.C. Cir. 2004) (holding that "when a court must make credibility determinations to resolve key factual disputes in favor of the moving party, it is an abuse of discretion for the court to settle the question on the basis of documents alone, without an evidentiary hearing"). For examples of trade secret cases expressly commenting on the use of evidentiary hearings on requests for preliminary injunctive relief, *see, e.g., WHIC LLC v. NextGen Labs., Inc.*, 341 F. Supp. 3d 1147 (D. Haw. 2018) (holding a multi-hour evidentiary hearing on merits and on the likelihood of irreparable harm in a trade secret dispute); *AirFacts, Inc. v. de Amezaga*, Civil Action No. DKC 15-1489, 2017 WL 3592440, at \*12 (D. Md. Aug. 21, 2017) (holding a five day evidentiary hearing, after which court credited defendant's explanations

hearings on those specific issues can help resolve credibility or other critical factual disputes<sup>92</sup> and may also assist the court in

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regarding why he had retained company documents and denied the requested injunction), *aff'd in part, vacated in part*, 909 F.3d 84 (4th Cir. 2018); *In re Document Techs. Litig.*, 275 F. Supp. 3d 454, 461 (S.D.N.Y. 2017) (referencing a 3-day evidentiary hearing on request for injunction); *Intertek USA, Inc. v. AmSpec, LLC*, No. 14 CV 6160, 2014 WL 4477933, at \*6 (N.D. Ill. Sept. 11, 2014) (granting preliminary injunction after evidentiary hearing at which defendants “had an opportunity to rebut [movant’s] inferences at the preliminary injunction hearing,” observing that one defendant failed to take the stand at all to explain his actions); *PLC Trenching Co., LLC v. Newton*, No. 6:11-CV-0515 (GTS/DEP), 2012 WL 1155963 (N.D.N.Y. Apr. 6, 2012) (emphasizing the value of witness testimony that is subject to cross-examination as opposed to declarations that have not been subject to cross examination and commenting on a defendant’s failure to testify); *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1265 (7th Cir. 1995) (referencing an evidentiary hearing conducted over a ten day period); *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 117–18 (3d Cir. 2010) (referencing the defendant’s failure to testify at evidentiary hearing); *see also Heil Trailer Int’l Co. v. Kula*, 542 F. App’x 329, 334 (5th Cir. 2013) (citations omitted) (trade secret case); 11A CHARLES ALAN WRIGHT & ARTHUR R. MILLER, *FED. PRAC. & PROC. CIV.* § 2949 (2d ed.), cited in *Heil Trailer* (stating: “If there is a factual controversy, . . . oral testimony is preferable to affidavits because of the opportunity it provides to observe the demeanor of the witnesses”). *Cf. United Healthcare Ins. Co. v. AdvancePCS*, 316 F. 3d 737, 744 (8th Cir. 2002) (“An evidentiary hearing is required prior to issuing a preliminary injunction only when a material factual controversy exists.”).

92. Recognizing the potential utility of evidentiary hearings, some local rules or state statutes expressly authorize such hearings where warranted by the papers. *See, e.g.*, N.Y. C.P.L.R. § 6312(c) (McKinney 2019), which altered prior New York case law requiring preliminary injunctions to be denied where there were material disputes of fact by providing that where plaintiff demonstrated the elements required for the issuance of a preliminary injunction, defendant’s presentation of evidence sufficient to raise an issue of fact as to any of such elements should not in itself be grounds for denial of the motion. Rather, “In such event the court shall make a determination by hearing or otherwise whether each of the elements required for issuance of a preliminary injunction exists.” *Id.* *See also* N.D. R. Civ. P. 65(d)(2) (West 2021),

evaluating, among other things, such matters as whether a witness who submits a contrite affidavit has in fact “learned their lesson” from prior, now corrected, improper acts such that further relief is not warranted.<sup>93</sup>

#### 4. Consolidation of the preliminary injunction hearing with the trial on the merits

Federal Rule 65(a)(2) provides that “before or after beginning the hearing on a motion for a preliminary injunction,” the court may advance the trial on the merits and consolidate it with the hearing. Even when consolidation is not ordered, evidence that is received on the motion and that would be admissible at trial becomes part of the trial record and need not be repeated at trial. However, the court must preserve the parties’ right to a jury trial on issues triable to a jury. Some courts require the parties to advise the court of their decision to request consolidation before the preliminary injunction hearing, when they do not yet know the outcome of the request for relief. In some cases after considering the issues and the evidence to be presented, the court may find that it is appropriate in the interest of efficiency to consolidate the preliminary injunction hearing with trial on the merits.<sup>94</sup> The court should provide clear and unambiguous

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providing that “[u]nless the court directs otherwise, evidence on a motion for a preliminary injunction may be by oral testimony.”).

93. See, e.g., *Intertek USA*, 2014 WL 4477933, at \*8 (finding, having observed the individual defendants’ testimony at the hearing, that “the court is confident that [the defendants] have learned their lesson and will not further disclose Intertek’s trade secrets”).

94. See, e.g., *Maxum Petroleum, Inc. v. Hiatt*, No. 3:16-CV-01615 (VLB), 2016 WL 5496283 (D. Conn. Sept. 28, 2016) (denying temporary restraining order where plaintiff had not established irreparable harm but granting expedited discovery and ordering expedited trial on the merits to be consolidated with a hearing on a motion for preliminary injunction in light of showing of urgency); *D.P. Dough Franchising, LLC v. Southworth*, No. 2:15-CV-

notice of its intention to do so in time for the parties to present evidence at the hearing; otherwise a reviewing court may decide to remand the case for trial.<sup>95</sup>

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2635, 2017 WL 4315013 (S.D. Ohio Sept. 26, 2017) (consolidating preliminary injunction hearing with trial on the merits on consent of the parties; denying permanent injunction).

95. *See, e.g.,* *Attorneyfirst, LLC v. Ascension Entm't, Inc.*, 144 Fed. Appx 283, 287 (4<sup>th</sup> Cir. 2005) (following the “now-settled” principle that before consolidation of a trial on the merits with a hearing on a motion for preliminary injunction, the parties should normally receive clear and unambiguous notice to that effect either before the hearing commences or at a time which will still afford the parties a full opportunity to present their respective cases; reversing trial court order entering judgment on the merits and remanding for further proceedings) (citations omitted). *See* *Total Garage Store, LLC v. Moody*, No. M2001901342-COAR-3CV, 2020 WL 6892012 (Tenn. Ct. App. Nov. 24, 2020) (remanding in light of the fact that notice of consolidation was given only after the conclusion of the hearing).



## V. APPLYING EQUITABLE PRINCIPLES TO REQUESTS FOR INTERIM RELIEF

### A. *Evaluating the Movant's Likelihood of Success on the Merits*

#### 1. Evidence of prior actual misappropriation

Evidence that defendant has already engaged in misappropriation obviously raises concern that absent injunctive relief, further misappropriation will occur. Where the court determines that actual misappropriation is not ongoing or does not pose an imminent risk of irreparable harm, however, it may conclude that equitable relief is not warranted to prevent irreparable harm.<sup>96</sup>

#### 2. Evidence of threatened misappropriation

Under both the UTSA and the DTSA, both actual and “threatened” misappropriation can be enjoined. While statutes and case law do not give a hard and fast definition of “threatened” misappropriation, reported decisions make clear that while an overt, expressed threat to misappropriate trade secrets is evidence of threatened misappropriation, such a showing is not required.<sup>97</sup> This section discusses case law evaluating claims

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96. *See, e.g., DTC Energy Grp., Inc. v. Hirschfeld*, 912 F.3d 1263, 1271 (10th Cir. 2018) (“Not all plaintiffs who have already suffered lost customers, stolen trade secrets, or intangible injury can show a sufficient probability of future irreparable harm to warrant a preliminary injunction”); *see also McAfee v. Kinney*, No. 4:19-CV-463, 2019 WL 4101199, at \*11 (E.D. Tex. Aug. 29, 2019) (finding that any breach the former employee may have committed in the past did not demonstrate a significant threat of impending further misappropriation and can instead be remedied by money damages).

97. *See, e.g., Lasen, Inc. v. Tadjikov*, No. A-1-CA-34744, 2018 WL 6839454, at \*6 (N.M. Ct. App. Dec. 21, 2018) (“Despite Lasen’s failure to help us on this point, we conclude that Tadjikov’s interpretation of ‘threatened misappropriation’ is too narrow. First, the plain meaning of the word ‘threat’ is

that future misappropriation is threatened and that the threat warrants equitable relief.

3. Some remarks on threatened misappropriation and “inevitable disclosure”

The term “inevitable disclosure” has been used in some cases as a shorthand way of expressing the conclusion that without court intervention the evidence establishes a serious threat that particular information will be disclosed or used without the owner’s authorization. The term is used particularly, but not exclusively, when the threat is alleged to come at the hands of an employee who learned trade secrets at one organization and plans to join a competing organization in a similar capacity.<sup>98</sup> Often the primary concern is that the employee will “use” the information in the new position. While the term has most commonly been used when addressing a request for a court-imposed activity restriction against an accused party who is not subject to a noncompete agreement,<sup>99</sup> some cases have used the

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broader than Tadjikov admits. To be sure, the term includes the communication of an explicit intent to harm, but it is also defined as ‘[a]n indication of approaching menace; the suggestion of an impending detriment,’ and as ‘[a] person or thing that might well cause harm.’ Second, other courts have not limited the term to situations in which a defendant explicitly threatens to disclose trade secrets to others.”) (alterations in original, citation omitted), *cert. denied*, 2020 WL 7640855 (N.M. Jan. 7, 2020).

98. See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). Cf. *Huawei Techs. Co., Ltd. v. Motorola, Inc.*, No 11-cv-497, 2011 WL 612722 (N.D. Ill. Feb. 22, 2011) (finding a risk of inevitable disclosure in connection with defendant’s plan to transfer assets and employees who had learned Huawei trade secrets to a joint venture with plaintiff’s competitor).

99. See *Earthweb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999), *aff’d*, No. 99-9302, 2000 WL 1093320 (2d Cir. May 18, 2000) (referring to “inevitable disclosure” arguments in the absence of a pre-dispute noncompete agreement as the “purest” application of the argument).

term “inevitable disclosure” when determining whether to enforce noncompete agreements.<sup>100</sup>

Judicial decisions and commentary abound debating whether the terms “inevitable disclosure” and “threatened misappropriation” are synonymous.<sup>101</sup> Complicating the discussion, some cases have evaluated the facts before them and found that they support a finding of *both* “threatened” and “inevitable” disclosure.<sup>102</sup>

WG12 agrees with the observation made by the court in *Molon Motor and Coil Corporation v. Nidec Motor Corporation*<sup>103</sup> when

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100. See, e.g., *Polymet Corp. v. Newman*, 2016 WL 4449641, at \*4 (S.D. Ohio 2016) (noting that Ohio’s appellate courts have not granted injunctive relief under the “inevitable disclosure” doctrine in the absence of a restrictive covenant). See also *Berardi’s Fresh Roast, Inc. v. PMD Ent., Inc.*, No. 90822, 2008 WL 4681825, at \*4 (Ohio Ct. App. Oct. 23, 2008); *Payment Alliance v. Ferreira*, 530 F. Supp. 2d 477, 481 (S.D.N.Y. 2007); *International Bus. Machs. Corp. v. Papermaster*, No. 08-CV-9078 (KMK), 2008 WL 4974508 (S.D.N.Y. Nov. 21, 2008); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 631 (E.D.N.Y. 1996); *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 297–98 (D. Mass. 1995) (all considering “inevitable disclosure” arguments in determining whether to enforce restrictive covenants).

101. California, for example, has expressly rejected the so-called “inevitable disclosure” doctrine, *Whyte v Schlage Lock Co.*, 125 Cal Rptr. 2d 277 (Cal Ct. App. 2002), while permitting injunctive relief to enjoin “threatened” misappropriation, *Central Valley General Hospital v. Smith*, 162 Cal. App.4th 501 (2008). Cf. *Barilla America v. Wright*, No. 4-02-CV-90267, 2002 WL 31165069 (S.D. Iowa July 5, 2002) (observing that an alternative way of reading the “inevitable disclosure” doctrine is that it is just one way of showing threatened misappropriation that applies a stricter standard focusing on the employee’s intent; finding standard satisfied).

102. See, e.g., *Mickey’s Linen v. Fischer*, No. 17 C 02154, 2017 WL 3970593, at \*12–13 (N.D. Ill. Nov. 8, 2017). Cf. *Smithfield Pkg’d Meats Sales Corp. v. Dietz & Watson, Inc.*, 452 F. Supp. 3d 843, 362 (S.D. Iowa 2020) (finding that the plaintiff need not rely on the “inevitable disclosure” doctrine because it had presented compelling evidence of threatened misappropriation).

103. No. 16 C 03545, 2017 WL 1954531, at \*5 n.13 (N.D. Ill. May 11, 2017).

discussing the so-called “inevitable disclosure” doctrine that “calling a line of reasoning a ‘doctrine’ poses the risk of ossifying the ‘factors’ into a rigid test. At bottom, whether a trade secret would be inevitably disclosed is really a question of circumstantial evidence, and those types of questions defy straitjacket formulas.”<sup>104</sup>

Rather than attempting to resolve the elusive question of whether “inevitable” disclosure is different from “threatened” misappropriation, WG12 finds it more useful to focus the discussion on what evidence and factors may be pertinent to reaching or rejecting a finding of threatened misappropriation warranting any equitable relief in a particular case. “Simply stating that inappropriate use of information is inevitable is not sufficient.”<sup>105</sup> Neither is making a bare assertion that future use or disclosure is “threatened.”<sup>106</sup> What matters, as with all claims

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104. *See also* *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 115–16 (3d Cir. 2010) (“[T]he ‘proper inquiry’ in determining whether to grant an injunction to prevent the threatened disclosure of trade secrets is not whether a defendant inevitably will disclose a trade secret in the absence of injunctive relief, but instead whether ‘there is sufficient likelihood, or substantial threat, of defendant doing so in the future.’”) (citations omitted); *accord* *CentiMark Corp. v. Jacobsen*, Civil Action No. 11-1137, 2011 WL 5977668, at \*12 (W.D. Pa. Nov. 29, 2011) (acknowledging that state and federal precedent has revealed the “inevitab[ility]” inquiry to somewhat miss the mark).

105. *Premier Dealer Svc., Inc. v. Allegiance Administrators, LLC*, No. 2:18-CV-735, 2018 WL 5801283, at \*5 (S.D. Ohio Nov. 6, 2018).

106. Some jurisdictions have used the term “inevitable disclosure” after the enactment of the DTSA, although they have required the party seeking relief to establish facts supporting the need for relief going beyond the defendant’s knowledge of trade secrets. An Ohio court, for example, has observed that “[c]ourts applying the inevitable disclosure doctrine have recognized that when employees have intimate knowledge of their employer’s confidential business information and trade secrets, it is virtually impossible for those employees to leave the company and work for a competitor, but compartmentalize their knowledge and avoid using their former employer’s

seeking equitable relief, is the evidence and reasonable inferences to be drawn therefrom. The discussion below focuses on the evidence courts have considered in cases considering relief that has been requested using both terms.

**Guideline 9. An accused employee’s generalized knowledge of a claimant’s trade secrets, without more, is unlikely to be sufficient to establish a finding of a likelihood of success on a claim of threatened misappropriation.**

The DTSA provides that an injunction should not be entered restricting the activities of an employee simply because of information the employee knows.<sup>107</sup> Decisions under the DTSA as well as case law under the UTSA and common law have held that the fact that an employee has generalized knowledge of a

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confidential business information and trade secrets at their new job,” *Polymet Corp. v. Newman*, 2016 WL 4449641, at \*4 (S.D. Ohio 2016), but has cautioned that “the usual elements for an injunction must be proved. . .even when the plaintiff seeks to invoke the inevitable-disclosure doctrine to enjoin a former employee’s employment with a competitor,” *Id.* (finding the plaintiff had not satisfied these elements). To the same effect *see United Healthcare Servs., Inc. v. Louro*, No. 20-2696 (JRT/ECW), 2021 WL 533680, at \*5 (D. Minn. Feb. 12, 2021), emphasizing that to succeed on an “inevitable disclosure” theory, the moving party must show that there is a “high degree of probability” of inevitable disclosure and that “[m]ere knowledge of a trade secret is not enough, even where the person with such knowledge takes a comparable position with a competitor,” (citation omitted), enumerating factors to consider and concluding that under both the Uniform Trade Secrets Act and the DTSA the plaintiff’s pleadings “do not meet the high bar for inevitable disclosure.” *Id.*; *Pkg. Corp. of Am., Inc. v. Croner*, 419 F. Supp. 3d 1059, 1070 (N.D. Ill. 2019) (dismissing trade secret claim under DTSA that “briefly gestures” to the “inevitable disclosure” doctrine but alleged no foundation upon which court could find a showing of intent or high probability that defendant would use its trade secrets, “especially in light of the skepticism other courts in this district have shown toward the inevitability doctrine”).

107. 18 U.S.C. § 1836(3)(A)(i)(I).

former employer's trade secrets, without more, will not support a finding of threatened misappropriation.<sup>108</sup> Courts throughout

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108. See, e.g., *United Healthcare Servs.*, 2021 WL 533680, at \*5; *Cambria Co. LLC v. Schumann*, No. 19-CV-3145 (NEB/TNL), 2020 WL 373599, at \*6 (D. Minn. Jan. 23, 2020) (denying motion for preliminary injunction seeking to enjoin former employee from working for competitor following expiration of his two-year noncompete agreement as a way of protecting trade secrets, observing that “putting aside that [plaintiff] has not shown trade secrets to be in [defendant’s] head, courts do not grant injunctions when the only trade secrets are in the employee’s head and the company has not demonstrated a high probability of inevitable disclosure”); *Midwest Sign & Screen Printing Supply Co. v. Dalpe*, 386 F. Supp. 3d 1037, 1053 (D. Minn. 2019) (“Merely showing that [the employee] had knowledge of trade secrets is not enough.”) (alterations in original, citation omitted); *Freedom Medical Inc. v. Whitman*, 343 F. Supp. 3d 509 (E.D. Pa. 2018) (recognizing that Pennsylvania courts have employed the “inevitable disclosure” doctrine, but denying preliminary injunction where plaintiff had not carried its burden of establishing that misappropriation was likely as to defendants who knew but were not shown to have retained or used trade secrets); *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 870 (D. Minn. 2015) (“Mere knowledge of a trade secret is not enough, even where the person with such knowledge takes a comparable position with a competitor.”) (citation omitted); *Cargill Inc. v. Kuan*, No. 14-cv-2325-RM-MJW, 2014 WL 5336233, at \*6 (D. Colo. Oct. 20, 2014) (same). *Triumph Pkg. Grp. v. Ward*, 834 F. Supp. 2d 796 (N.D. Ill. 2011) (denying preliminary injunction under “inevitable disclosure” theory, observing that courts do not often apply the doctrine, which requires the showing of “high probability” of disclosure; finding that the mere fact that a person who learned trade secrets assumed a similar position at a competitor does not, without more, make it inevitable that he will use or disclose trade secret information so as to demonstrate irreparable injury); *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 681 (S.D. Ind. 1998) (“The trade secret statute does not prohibit a former employee who has knowledge of trade secrets from going to work for a competitor.”); *Marietta Corp. v. Fairhurst*, 301 A.D. 2d 734, 738 (N.Y. App. Div. 2003) (finding that in the absence of any wrongdoing which would cause a breach of the confidentiality agreement, after expiration of a noncompete agreement, “mere knowledge of the intricacies of a business is simply not enough”); *Motion Control Sys., Inc. v. East*, 546 S.E.2d 424, 426 (Va. 2001) (“Mere knowledge of trade secrets is insufficient to support an injunction . . .”).

the country have emphasized that “it is not the case that every former employee with specialized technical knowledge can be enjoined from working for a competitor.”<sup>109</sup> In language resonating with the DTSA’s provisions on equitable relief directed to former employees, it has been held that “there must be some substantive support of a legitimate threat of disclosure in the facts of the case beyond the mere fact that a former employee has agreed to protect confidential information.”

Further, where the defendant’s original acquisition of the trade secrets was authorized, mere possession of the trade secrets, without more, does not necessarily establish a likelihood of success on a claim that future misappropriation is threatened,<sup>110</sup> especially where an equitable order directing the return or remediation of particular documents or data will alleviate or remedy the risk.<sup>111</sup>

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109. *A&P Tech., Inc. v. Lariviere*, No. 1:17-cv-534, 2017 WL 6606961, at \*5 (S.D. Ohio Dec. 27, 2017) (finding that “reviewing courts look to the particular facts of the case for circumstantial evidence of misappropriation, intent to misappropriate, nefarious activities or attempts to circumvent any of the parties’ agreements, demonstrated acts of dishonesty, evidence of deleting or copying files, improper solicitation, or other such evidence to weigh the need for injunctive relief”).

110. *See, e.g., Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F. Supp. 2d 954, 969 (E.D. Wis. 2009) (“Therefore, a plaintiff must do more than show the defendant possesses trade secrets to prove a claim of threatened misappropriation of trade secrets.”); *StrikePoint Trading, LLC v. Sabolyk*, No. SACV 07-1073 DOC(MLGx), 2009 WL 10659684, at \*8 (C.D. Cal. Aug. 18, 2009) (“However, ‘the issuance of an injunction based on a claim of threatened misappropriation requires a greater showing than mere possession by a defendant of trade secrets where the defendant acquired the trade secrets by proper means.’”) (citation omitted).

111. *See, e.g., Henry Schein, Inc. v. Cook*, No. 16-cv-03166-JST, 2016 WL 3418537 (N.D. Cal. June 22, 2016) (denying an activity restriction, finding that plaintiff had not established that such an order was necessary to protect its trade secrets in light of order prohibiting use of plaintiff’s documents); *Free*

The “something more,” as discussed below, that may establish a showing of threatened misappropriation giving rise to a need for injunctive relief, regardless of terminology, includes the same kinds of evidence that has been found by some courts to show that under the circumstances the threat of misappropriation is “inevitable.” For example, evidence of wrongdoing by the accused party and other evidence suggesting lack of trustworthiness have led to the imposition of activity restrictions on employees moving to competitors even under the DTSA,<sup>112</sup> as

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Country Ltd. v. Drennen, 235 F. Supp. 3d 559, 569 (S.D.N.Y. 2016) (denying activity restriction after completion of forensic review and remediation where plaintiff had not established a likelihood of success on the merits or ongoing irreparable harm); Williams-Sonoma Direct, Inc. v. Arhaus, LLC, 109 F. Supp. 3d 1009, 1023–24 (W.D. Tenn. 2015) (denying preliminary injunction prohibiting former employee who did not have a noncompete agreement from continuing to work for a competitor where defendants no longer had access to the trade secrets and there was no evidence of ongoing use of the information); Intertek USA Inc. v. AmSpec, LLC, No. 14 CV 6160, 2014 WL 4477933, at \*8 (N.D. Ill. Sept. 11, 2014) (finding that “sufficient steps have been taken over the course of this litigation to ensure that any Intertek trade secrets that the individual defendants possess will be removed from their possession”); Boston Scientific Corp. v. Lee, Civil Action No. 13-13156-DJC, 2014 WL1946687 (D. Mass. May 14, 2014) (denying activity restraint, finding that any harm to plaintiff would be averted by an injunction ordering the return of the material he had retained and that a broader injunction on competing would, under the circumstances, unfairly deprive defendant of his livelihood). *Cf.* Badger Daylighting Corp. v. Palmer, No. 1:19-CV-02106-SEB-MJD, 2019 WL 4572798 (S.D. Ind. Sept. 20, 2019) (finding an ongoing threat of potential or actual misappropriation of trade secrets, but only for so long as employee continued to possess documents containing trade secrets).

112. *See, e.g.,* Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560, at \*1–2 (N.D. Cal. May 11, 2017) (imposing activity restriction on individual engineer where the movant had presented evidence that before leaving employment with Waymo, engineer had downloaded 14,000 digital files which he did not return, told a colleague he planned to “replicate” Waymo technology, sold his new company to Uber for promised milestone earnouts of \$680 million, and become head of Uber’s driverless car



was also true in some pre-DTSA cases using “inevitable disclosure” terminology.<sup>113</sup>

The following is an illustrative guide to factors some courts have found to be important in evaluating the likelihood of the success on the merits in connection with specific requests for equitable relief. Practitioners are cautioned to review the current case law in the relevant jurisdictions to determine what terminology and what evidence is most frequently relied on in the jurisdiction of interest.

4. Nonexclusive factors or evidence that may be relevant to assessing whether the movant has established a likelihood of success that misappropriation is “threatened”
  - a. The nature of the trade secrets alleged to be at issue

Courts generally are less inclined to find threatened misappropriation, or a likelihood of irreparable harm, where the trade secrets alleged to be at issue are: 1) “fragile and ephemeral”;<sup>114</sup>

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program, and at the time of the preliminary injunction hearing, the evidence did not show that Uber had taken steps to prevent the executive from bringing Waymo information to Uber or using it, as Uber had done with other employees); *T&S Brass & Bronze Works, Inc. v. Slanina*, No. 6:16-03687-MGL, 2017 WL 1734362, at \*12 (D.S.C. May 4, 2017) (imposing activity restrictions going beyond those contained in the employee’s contract and concluding that “[t]his prohibition is based on this court’s finding of actual misappropriations and disclosures and the continued threat of the same and not based merely on the knowledge the defendants hold [sic].”) (citation omitted).

113. *See, e.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1270 (7th Cir. 1995).

114. *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 681 (S.D. Ind. 1998).

2) transitory;<sup>115</sup> 3) aged or obsolete;<sup>116</sup> 4) “elementary and obvious”;<sup>117</sup> 5) not “timely, sensitive, strategic and/or technical”

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115. *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 869 (D. Minn. 2015) (finding that factual question of whether pricing information regularly changes reduced plaintiff’s likelihood of success on the merits); *Bridgestone/Firestone*, 5 F. Supp. 2d at 681–82; *Merck & Co. Inc. v. Lyon*, 941 F. Supp. 1443, 1461 (M.D.N.C. 1996); *Archer Daniels Midland Co. v. Sinele*, 139 N.E.3d 1036, 1041 (Ill. App. Ct. 2019).

116. *Fox Sports Net N., LLC v. Minnesota Twins P’ship*, 319 F.3d 329, 336 (8th Cir. 2003) (“[O]bsolete information cannot form the basis for a trade secret claim because the information has no economic value.”); *Cortez, Inc. v. Doheny Enters., Inc.*, No. 17 C 2187, 2017 WL 2958071, at \*12 (N.D. Ill. July 11, 2017) (denying requested injunction where plaintiff produced no admissible, credible evidence that defendant had misappropriated trade secrets through improper acquisition or use, and record evidence suggested that information the former employee remembers was stale or irrelevant due to plaintiff’s changed operational structure); *Katch*, 143 F. Supp. 3d at 869, 875; *Cargill Inc. v. Kuan*, No. 14-CV-2325-RM-MJW, 2014 WL 5336233, at \*5 (D. Colo. Oct. 20, 2014).

117. *H&R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1074 (W.D. Mo. 2000).

information;<sup>118</sup> 5) granular and difficult to memorize;<sup>119</sup> or 6) “general” business information.<sup>120</sup>

b. The defendant’s knowledge of and access to the trade secrets at issue

If the accused party does not know or possess and is not likely to recall the trade secrets claimed to be at issue, threatened misuse and irreparable harm from use or disclosure is less likely to occur. Accordingly, in the case of an employee who is moving to a competitor, courts evaluate the accused party’s historical access to and knowledge of the former employer’s trade secrets. Relevant factors may include the former employee’s seniority,<sup>121</sup>

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118. *Hydrofarm, Inc. v. Orendorff*, 905 N.E.2d 658, 665 (Ohio Ct. App. 2008) (denying injunction where the former employee did not possess “timely, sensitive, strategic, and/or technical information that, if it was proved, posed a serious threat to . . . former employer’s business or a specific segment thereof.”). It should be noted, however, that a number of cases have held that nontechnical information, including marketing information, may be protectable as a trade secret and may have considerable value, even if for a relatively short duration. *See, e.g., PepsiCo.*, 54 F.3d at 1265–66 (finding marketing “attack plans” would have value as a trade secret for a six-month period of injunction); *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 112 (3d Cir. 2010) (“Our review of the relevant decisional law leads us to reject Botticella’s proposed distinction between technical and other information. To start with, it is clear that ‘trade secrets need not be technical in nature’ to be protected fully by Pennsylvania law. . .”) (citations omitted).

119. *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 569 (S.D.N.Y. 2016) (denying activity restriction after forensic review and remediation of 50,000 files where the court “[was] not persuaded that [defendant] could have memorized gigabytes of data concerning Free Country’s past, present, and future business in such a short period of time”); *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.*, 148 F. Supp. 2d 1326, 1339 (S.D. Fla. 2001); *H&R Block E. Tax Servs.*, 122 F. Supp. 2d at 1075; *Bridgestone/Firestone*, 5 F. Supp. 2d at 682.

120. *Merck*, 941 F. Supp. at 1461.

121. *Avery Dennison Corp. v. Finkle*, No. CV010757706, 2002 WL 241284, at \*2–3 (Conn. Super. Ct. Feb. 1, 2002) (unpublished) (“The court finds that

although courts have probed to determine whether a senior executive in fact knew, used, or was likely to have retained more than passing knowledge about the operational details of trade secrets claimed to be at issue;<sup>122</sup> an employee's role in the

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as a result of the management level and leadership position of Donald Finkle at Avery Dennison, he had direct access to, and in some instances contributed to the formulation of, procedures and information relating to [trade secrets at issue.]”); *see generally* *Bimbo Bakeries*, 613 F.3d at 105–07; *Del Monte*, 148 F. Supp. 2d at 1329; *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405, 1416 (N.D. Iowa 1996) (considering accused party's seniority).

122. *International Bus. Machs. Corp. v. Visentin*, No. 11 Civ. 399 (LAP) 2011 WL 672025, at \*12 (S.D.N.Y. Feb. 16, 2011), *aff'd*, 437 F. App'x 53 (2d Cir. 2011) (finding that misappropriation was not threatened where while IBM had established that defendant knew some trade secrets and had had exposure to others, it had not demonstrated that his knowledge was sufficiently deep or relevant that these secrets would be placed in jeopardy in the new position as Hewlett-Packard had designed it); *Del Monte*, 148 F. Supp. 2d at 1329 (noting that while defendant was one of Del Monte's senior scientists and highest ranking executives who had considerable access to all of Del Monte's trade secrets, his work, as an auditor/overseer did not require him to formulate or apply specific trade secrets). *Cf.* *National Starch Chem. Corp. v. Parker Chem. Corp.*, 530 A.2d 31, 32–33 (N.J. Super. Ct. App. Div. 1987) (finding threatened misappropriation where the defendant had helped to develop and retained complete recall of key formula his new employer had unsuccessfully endeavored to develop).

development or frequent use of the information;<sup>123</sup> and an employee's likely recall of the trade secrets.<sup>124</sup>

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123. See, e.g., *Uncle B's Bakery*, 920 F. Supp. at 1436 (granting relief where evidence showed that "O'Rourke would be taking with him far more than his skills, but particularized plans or processes developed by Uncle B's Bakery, in which development O'Rourke was intimately involved."). Intimate knowledge of secrets relevant to a new employer might also be found likely lead to threatened misappropriation even if the accused party did not initially develop the trade secrets. See, e.g., *Payment Alliance Int'l, Inc. v. Ferreira*, 530 F. Supp. 2d 477, 482 (S.D.N.Y. 2007) (employee was knowledgeable about the development and overall design of the secret software application even though he had not designed it at the technical level); *Est. . . e Lauder Cos., Inc. v. Batra*, 430 F. Supp. 2d 158, 175 (S.D.N.Y. 2006) ("The fact that Batra was not the scientist behind the formulas and the development of new products bears not on whether or not Est. . . e Lauder has carried its burden of demonstrating irreparable harm" given the pervasive nature of his knowledge of marketing and product plans). Cf. *H&R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000) ("The matter might be different if, for instance, either person was involved in the development of new products for JH. In such a case, it might be reasonable to conclude that someone armed with knowledge of Plaintiffs' plans could not help but consider those plans in developing new plans for JH. This is not the case at hand.").

124. See, e.g., *Cargill Inc. v. Kuan*, No. 14-CV-2325-RM-MJW, 2014 WL 5336233, at \*6 (D. Colo. Oct. 20, 2014) ("On the record as a whole, the evidence supports a finding that while Mr. Kuan did once have specific knowledge of Cargill's trade secrets, his knowledge now is generalized. Generalized knowledge . . . [is] insufficient to support a finding of 'threatened misappropriation.'"); *Del Monte*, 148 F. Supp. 2d at 1339 (denying injunction, noting former employee's inability to recall former employer's trade secrets with precision). *But see Emery Indus., Inc. v. Cottier*, No. C-1-78-474, 1978 WL 21419, at \*6-7 (S.D. Ohio Aug. 18, 1978) (granting activity injunction to prevent threat of misappropriation even though "[i]t could not be claimed that the detail of the proprietary material could be or is carried around by the defendant in his head," because "[t]he generality of it is [carried around by the defendant in his head], and the generality is usable for conclusory purposes"; "[e]quitable intervention is sanctioned when it appears that there exists a present real threat of disclosure, even without actual disclosure").

- c. The accused party's prior wrongdoing, lack of credibility, or inattention to confidentiality

Proof of prior wrongdoing or lies with respect to trade secrets can be powerful evidence that future misappropriation is threatened,<sup>125</sup> particularly where the accused party has already disclosed trade secrets to or used them for a competitor organization.<sup>126</sup> In the famous *PepsiCo v. Redmond* "inevitable disclosure" case, for example,<sup>127</sup> the court concluded that Redmond's "lack of forthrightness on some occasions, and out and out lies on others . . . leads the court to conclude that [the defendant] could not be trusted to act with the necessary sensitivity and good faith,"<sup>128</sup> leading the trial court to find a risk of irreparable harm absent injunctive relief and impose activity restrictions on the employee to prevent his involvement in certain activities for

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125. See, e.g., *ReadyLink Healthcare v. Cotton*, 24 Cal. Rptr. 3d 720, 727 (Cal. Ct. App. 2005).

126. See, e.g., *Vendavo, Inc. v. Long*, No. 397 F. Supp. 3d 1115, 1139 (N.D. Ill. 2019) (finding threatened misappropriation where defendants had prepared business plan for new employer and used plaintiff's trade secrets prior to beginning work with new employer); *Radiant Glob. Logistics, Inc. v. Furstenau*, 368 F. Supp. 3d 1112, 1120 (E.D. Mich. 2019), *appeal dismissed*, 951 F.3d 393 (6th Cir. 2020) (finding threatened misappropriation where, among other things, the employee had removed documents and had assisted the new organization in establishing and building out a new business location while still employed by the former employer); *Intertek USA, Inc. v. AmSpec, LLC*, No. 14 CV 6160, 2014 WL 4477933, at \*6 (N.D. Ill. Sept. 11, 2014) (finding threatened misappropriation where employee had transmitted trade secrets for use in new employer's business plan); *Xantrex Tech., Inc. v. Advanced Energy Indus., Inc.*, No. 07-CV-02324-WYD-MEH, 2008 WL 2185882, at \*4 (D. Colo. May 23, 2008) (finding threatened misappropriation based on evidence that, while employed by the trade secret owner, the defendant had prepared product design and market analyses for the new employer and that the defendant recalled trade secret owner's technical trade secrets).

127. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

128. *Id.* at 1270.

six months, the period of time that the court found the evidence showed was likely to place trade secrets at risk.<sup>129</sup>

d. The accused party's unusual pre-separation activity

Examples of suspect activity may include: 1) unusual access of the former employer's premises and computer files;<sup>130</sup> 2) simultaneously accessing multiple confidential documents;<sup>131</sup> 3) downloading or printing large volumes of confidential information;<sup>132</sup> 4) emailing former employer's confidential

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129. *See also* Mickey's Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*12–13 (N.D. Ill. Sept. 8, 2017) (concluding that wholly apart from circumstantial evidence of misappropriation, the overlap of the jobs and defendant's lies and destruction of evidence compelled the conclusion that defendant would inevitably use or disclose plaintiff's trade secrets during his employment with a competitor unless enjoined from doing so, finding that the employee's "bare assurances that he will not misappropriate his former employer's trade secrets may be discounted when he has such a 'history of deceit'"); *Advanced Micro Devices, Inc. v. Feldstein*, No. CV 13-40007-TSH 2013 WL 10944934 (D. Mass. May 15, 2013) (finding that where an actual threat of irreparable harm is shown and the credibility of the parties to be enjoined is in question, equitable relief is within the court's discretion without regard to any "presumptions" of irreparable harm).

130. *See, e.g.,* Clorox Co. v. S.C. Johnson & Son, Inc., 627 F. Supp. 2d 954, 959 (E.D. Wis. 2009).

131. *See, e.g.,* Bimbo Bakeries USA, Inc. v. Botticella, 613 F.3d 102, 107 (3d Cir. 2010); *Xantrex Tech.*, 2008 WL 2185882, at \*4; *Smithfield Pkg'd Meats Sales Corp. v. Dietz & Watson, Inc.*, 452 F. Supp. 3d 843, 862–63 (S.D. Iowa 2020) (finding defendant's departure with a significant amount of business information on a USB drive, inconsistent testimony on key points related to the USB drive, and solicitation of plaintiff's customers were "troubling" and that defendant's explanations were not credible; granting preliminary injunction to prevent threatened misappropriation).

132. *See, e.g.,* Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560, at \*1–2 (N.D. Cal. May 11, 2017); *Ayco Co., L.P. v. Frisch*, 795 F. Supp. 2d 193, 198–99, 208 (N.D.N.Y. 2011).

documents to a personal email account;<sup>133</sup> 5) using portable storage devices when accessing the former employer's computer system;<sup>134</sup> 6) wiping, deleting or reformatting files on personal devices such as laptops and personal digital assistants; and 7) altering or deleting a former employer's records.<sup>135</sup> A departing employee's pre-departure lies may suggest a risk of future threatened misappropriation.<sup>136</sup> Similarly, when the employee fails to disclose that the intended future employment violates an existing employment agreement and thereby is permitted to continue to access trade secrets during a notice period, courts may find threatened misappropriation.<sup>137</sup>

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133. See, e.g., *Radiant Glob. Logistics, Inc. v. Furstenau*, 368 F. Supp. 3d 1112, 1120 (E.D. Mich. 2019), *appeal dismissed*, 951 F.3d 393 (6th Cir. Mich. 2020).

134. See, e.g., *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198, 1203 (E.D. Cal. 2020); *Waymo*, 2017 WL 2123560, at \*1–2; *OmniGen Research, LLC v. Wang*, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*22 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018); *Bimbo Bakeries*, 613 F.3d at 107–108, 118; *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 456, 467 (Md. 2004).

135. See, e.g., *AHS Staffing, LLC v. Quest Staffing Grp., Inc.*, 335 F. Supp. 3d 856, 865, 872 (E.D. Tex. 2018); *Waymo*, 2017 WL 2123560, at \*1–2.

136. See, e.g., *Badger Daylighting Corp. v. Palmer*, No. 1:19-cv-02106-SEB-MJD, 2019 WL 4572798, at \*10 (S.D. Ind. Sept. 20, 2019) (granting limited injunction in part where defendant's "apparent disingenuousness has not helped his cause in trying to convince us that he no longer retains any access to the documents [he took with him at resignation], noting that "[h]is repeated lack of candor has created a level of distrust that neither the Court nor [the defendant] can wish away"); *Radiant Glob. Logistics*, 368 F. Supp. 3d at 1130 (E.D. Mich. 2019) ("Court finds Furstenau's testimony to be inherently incredible as to many key components that establish threatened misappropriation."), *appeal dismissed*, 951 F.3d 393 (6th Cir. Mich. 2020); *AHS Staffing*, 335 F. Supp. 3d at 865.

137. See, e.g., *Bimbo Bakeries*, 613 F.3d at 118 (finding defendant's failure to disclose "his acceptance of a job offer from a direct competitor" and "remaining in a position to receive [former employer's] confidential information and,



The evidence, however, should be assessed as a whole and in the context of the defendant's current actions. The parties and the court should still evaluate whether the past wrongdoing has been or can be corrected, the ongoing value of the trade secrets, the circumstances of the prior bad acts,<sup>138</sup> and whether there is an ongoing threat of imminent and irreparable harm, discussed in Part V.B. (Evaluating Evidence of Irreparable Harm).

e. The accused party's invocation of the Fifth Amendment

When an accused party in a civil trade secret suit invokes the Fifth Amendment and refuses to testify, the plaintiff may be stymied in gathering evidence. However, when a defendant asserts a Fifth Amendment privilege against self-incrimination in a civil case, that assertion may itself be introduced as evidence as permitted by the court and may ultimately result in a finding at trial, or on a motion for preliminary injunction, that the plaintiff's evidence is un rebutted.<sup>139</sup>

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in fact, receiving such information" to be factors supporting issuance of injunction). *Cf. Leach v. Ford Motor Company*, No. 03-74625 (E.D. Mich. Jan. 16, 2004) (denying injunction where employee had advised employer of his plans to work for a competitor and employer continued to provide him with trade secrets while it tried to persuade him to stay with the employer).

138. *See Freedom Med. Inc. v. Whitman*, 343 F. Supp. 3d 509, 518, 523 (E.D. Pa. 2018) (finding under the facts presented that "[former employee's] past misappropriation is insufficient, without more, to support the issuance of a preliminary injunction"); *see also, LeJeune*, 849 A.2d at 467.

139. *See, e.g., Arminius Schleifmittel GmbH v. Design Indus. Inc.*, No. 1:06CV00644, 2007 WL 534573 (M.D.N.C. Feb. 15, 2007) (granting preliminary injunction on finding that plaintiff's case was un rebutted, based in part on one defendant's invocation of Fifth Amendment and a second defendant's failure to deny plaintiff's evidence). Note, however, that state law may vary considerably about the extent to which invocations of the Fifth Amendment may be commented on. California's evidentiary code, for example, prohibits comment on the invocation. Cal. Evid. Code §913(a).

- f. The accused party's refusal to cooperate in returning information or to provide assurances regarding the protection of confidential information

A former employee or business partner's refusal to return or to give assurances to protect confidential information can evidence threatened misappropriation.<sup>140</sup> However, depending on other evidence before the court, such acts may be held not to support a finding of threatened misappropriation or to simply warrant an order directing specific affirmative measures to quarantine and remediate documents allegedly containing trade secrets, rather than broader injunctive relief to prevent further activities by the nonmoving party.<sup>141</sup>

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140. *See, e.g.,* *Lasen, Inc. v. Tadjikov*, 456 P.3d 1090, 198 (N.M. Ct. App. Dec. 21, 2018) (“Without attempting to set forth a comprehensive definition of ‘threatened misappropriation,’ we agree that it occurs when a defendant possesses trade secrets and wrongfully refuses to return them to the owner.”), *cert. denied*, No. S-1-SC-37720, 2020 WL 7640855 (N.M. Jan. 7, 2020); *Jazz Pharm., Inc. v. Synchrony Grp., LLC*, 343 F. Supp. 3d 434, 446 (E.D. Pa. 2018) (“An employee’s additional failure to ensure an employer that it would refrain from using or disclosing the employer’s trade secrets, despite their written agreement, may also constitute threatened misappropriation.”) (citation omitted); *Waymo* 2017 WL 2123560, at \*5, \*10; *Central Valley Gen. Hosp. v. Smith*, 75 Cal. Rptr. 3d 771, 791–92 (Cal. Ct. App. 2008) (finding that threatened misappropriation can be found where (1) trade secrets remain in the possession of a defendant who actually misused or disclosed some of them in the past; (2) trade secrets are held by a defendant who intends to improperly use or disclose them; or (3) a defendant possesses trade secrets and wrongfully refuses to return them after a demand for their return has been made).

141. *See, e.g.,* *Earthbound Corp. v. MiTek USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013 (W.D. Wash. Aug. 19, 2016); *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 569 (S.D.N.Y. 2016).

g. The accused party's need for and ability to use the trade secrets at issue

The context of an accused party's actions is important. For example, the fact that a former employee is joining or forming an actual or emerging competitor or that a former business partner to whom trade secrets were disclosed is creating a new, directly competing product may be pertinent to assessing both the likelihood of success on the merits and the risk of irreparable harm. It is not, however, dispositive. As always in trade secret disputes, the details matter.

A defendant organization or a party hiring a defendant employee may have a pressing need for the trade secrets at issue and may have previously failed to achieve the breakthrough the trade secret would facilitate. Likewise, a party trying to break into a particular business may have been unable to create a competing product until it had access to the trade secrets.<sup>142</sup> The movant may develop evidence that the competitor organization sought out an employee or group of employees for the apparent

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142. Compare *Schlumberger Tech. Corp. v. Frentrop*, No. B 81-108, 1981 WL 48166 (D. Conn. June 3, 1981) (prohibiting employee from performing consulting services relating to specialized generators where employee had been thoroughly immersed in the technology, former employer was the only organization ever to have developed the technology, and new organization had hired consultant specifically to perform services developing competing generators) with *National Starch & Chemical Corp. v. Parker Chemical Corp.*, 530 A.2d 31 (N.J. Super. Ct. App. Div. 1987) (finding likelihood of irreparable harm and granting limited activity restriction prohibiting employee from engaging in the 5% of his job directed to developing an adhesive formula new employer desired to offer but had previously failed in developing) and *PSC Inc. v. Reiss*, 111 F. Supp. 2d 252 (W.D.N.Y. 2000) (finding no likelihood of success or irreparable harm and denying injunction to prevent alleged inevitable disclosure where hiring company was market leader and had no demonstrated need for the trade secrets).

purpose of acquiring trade secrets.<sup>143</sup> An individual at the center of a departing-employee suit may be transitioning to a position in which he or she is able to direct or implement the use of the trade secrets,<sup>144</sup> or the movant may be able to present evidence (rather than simply conjecture) that given the nature of the position and the competitor's need for the trade secrets at issue, the former employee "... cannot help but consider them while performing duties for the [new employer]."<sup>145</sup> Evidence of the employee's or hiring organization's lack of attention to the need to guard against the receipt of trade secrets can be found to

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143. *See, e.g., Genentech, Inc. v. JHL Biotech, Inc.*, No. C18-06582 WHA, 2019 WL 1045911, at \*19 (N.D. Cal. Mar. 5, 2019) (granting injunction where evidence showed that new organization had engaged employees to train others in plaintiff's technology and to bring their former employer's information with them to use in doing so while they were employed by the plaintiff organization); *E.I. duPont de Nemours & Co. v. American Potash & Chem. Corp.*, 200 A.2d 428 (Del. Ch. 1964) (affirming grant of injunction, finding the fact that the only place a California company advertised for technical employees was in movant's hometown was evidence of an improper effort to obtain duPont's secrets); *B.F. Goodrich v. Wohlgemuth*, 92 N.E.2d 99 (Ohio Ct. App. 1963) (affirming grant of limited activity restriction where defendant employee, who knew specialized technology at issue, had testified that "loyalty and ethics had their price; insofar as he was concerned, [the new employer] was paying the price"). *But see Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 863 (D. Minn. 2015) (finding the fact that employee defendant who did not have a noncompete agreement turned down former employer's offer to pay him twice his normal salary if he would sit out for three months did not evidence the employee's intent to take trade secrets).

144. *See, e.g., Waymo*, 2017 WL 2123560; *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 106–07 (3d Cir. 2010) (defendant had accepted position as head of operations for competitor); *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1264–66 (7th Cir. 1995) (defendant intended to head the "integration" team for merging two direct competitors of his former employer's sports drink group and to lead the "attack plans" against his former employer's product).

145. *H&R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1075–76 (W.D. Mo. 2000).

constitute further evidence that threatened use or disclosure of trade secrets is likely to occur.<sup>146</sup>

The parties and the court should not assume, however, that simply because the plaintiff and a defendant in trade secret disputes are competitors, plaintiff has necessarily demonstrated a likelihood of success. The new organization may have no current need for or ability to implement the trade secrets alleged to be at issue,<sup>147</sup> such as where the organizations are embarked on different technological solutions to problems<sup>148</sup> or have adopted

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146. *Cerro Fabricated Prods. LLC v. Solanick*, 300 F. Supp. 3d 632 (M.D. Pa. 2018).

147. *Compare MEMC Elec. Materials v. Balakrishnan*, No. 2:12-CV-344, 2012 WL 3962905, at \*9 (S.D. Ohio Sept. 11, 2012) (denying activity injunction where plaintiff could not identify specific trade secrets at risk and evidence showed that while one day the two organizations might compete, “the companies are not competing right now”) with *Conley v. DSC Commc’ns Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at \*5 (Tex. App. Feb. 24, 1999) (finding that new employer had a need for the trade secret information at issue where both employers were in direct competition, selling comparable technology in the same markets, and were both on the short list of manufacturers under consideration for a contract worth up to \$100,000,000 per year).

148. *See, e.g., Spark Connected, LLC v. Semtech Corp.*, No. 4:18-CV-748-ALM-KPJ, 2019 WL 4305735 (E.D. Tex. Sept. 10, 2019) (denying preliminary injunction where evidence did not show that plaintiff and defendant competed for the same customers in the same niche of the wireless power market); *Katch*, 143 F. Supp. 3d at 871 (finding the disputed fact that the computer platforms employed by the two organizations are different to some extent “significantly reduces the risk of inevitable disclosure and thus [plaintiff’s] likelihood of success on the merits”); *Interbake Foods, L.L.C. v. Tomasiello*, 461 F. Supp. 2d 943, 973–74 (N.D. Iowa 2006) (denying “inevitable disclosure” injunction where the equipment, processes, and recipes independently developed by the two employers were significantly different and the trade secrets would thus be of little value to the new employer without substantial modification); *Hoskins Mfg. Co. v. PMC Corp.*, 47 F. Supp. 2d 852, 854 (E.D. Mich. 1999) (granting summary judgment for trade secret defendant where there were significant differences between the two organization’s manufacturing processes rendering the information at issue less likely to be at risk);

different business models;<sup>149</sup> where the organizations sell to different markets;<sup>150</sup> where the competitor organization presents evidence that it has developed its own plans and processes independently;<sup>151</sup> or where the accused or hiring organization does not have the financial ability to pursue adoption of the trade secret.<sup>152</sup> An employee who is at the center of a trade secret dispute may have little or no ability to influence or direct the use of the trade secrets at issue and hence presents little likelihood of threatened misappropriation.<sup>153</sup> And even evidence of

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Horner Int'l Co. v. McKoy, 754 S.E.2d 852, 859 (N.C. Ct. App. 2014); Analog Devices, Inc. v. Michalski, 579 S.E.2d 449, 455 (N.C. Ct. App. 2003) (denying threatened misappropriation injunction where court found that while employee clearly knew plaintiff's trade secrets, the trade secrets were nontransferable to the new business).

149. See *Katch*, 143 F. Supp. 3d at 871–72; *H&R Block E. Tax Servs.*, 122 F. Supp. 2d at 1069–70.

150. *Triumph Packaging Grp. v. Ward*, 834 F. Supp. 2d 796, 810 (N.D. Ill. 2011).

151. See, e.g., *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230 (Tex. App. 2003) (finding that misappropriation was not threatened where the new employer had developed its own business plan over a year before claimant's former employee came aboard and would have started its own competing business with or without the former employee).

152. See, e.g., *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 261 (E.D. La. 1967) (denying activity restriction where defendant presented credible evidence that the individual's new employer had no interest in and no financial ability to pursue new product lines which the use of the trade secrets could assist).

153. See, e.g., *Campbell's Soup Co. v. Giles*, 47 F.3d 467, 471 (1st Cir. 1995) (finding no "inevitable" misappropriation by midlevel employee hired to carry out existing plan in which there was "only minimal room left for competitive maneuvering"); *PSC Inc. v. Reiss*, 111 F. Supp. 2d 252 (W.D.N.Y. 2000) (finding that threat of misappropriation was not inevitable where employee sold a product with little knowledge of how it works, had only general knowledge of former company's plans, and in his new position would simply be selling an established product for a competitor).

arguable past misappropriation does not necessarily establish any future misappropriation with any specificity.<sup>154</sup>

This *Commentary* does not probe the differing and rapidly changing case law and differing state law standards regarding the availability and enforceability of restrictive covenants. Courts faced with evidence that a former employee or business partner has breached enforceable contractual obligations to the trade secret claimant will want to consider whether such contractual obligations were enforceable under applicable law, and if so, whether any breach evidences a likelihood of ongoing risk to the trade secrets absent injunctive relief.

h. Nonspeculative evidence of sudden or impending breakthroughs by the accused party

Claims asserting that misappropriation is threatened are, by definition, brought before the moving party has all the evidence it needs to establish that misappropriation is *in fact* occurring or has occurred. A clue often asserted by trade secret owners is that a defendant organization has made or announced a sudden breakthrough that it had not previously signaled to the market. Because the accused party controls much if not all of the evidence on these issues, its failure to present evidence rebutting this claim has been found to bolster the moving party's prima facie case and merit early equitable relief.<sup>155</sup>

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154. *See, e.g.,* Wisk Aero LLC v. Archer Aviation Inc., No. 3:21-cv-02450, 2021 WL 4073760 (N.D. Cal. Aug. 24, 2021) (denying motion to dismiss since complaint stated a plausible claim, but denying application for misappropriation where plaintiff could not provide evidence of specific future risk, did not establish connection between unauthorized downloads and trade secrets at issue, and did not rebut defendants' evidence of independent development).

155. *See, e.g.,* WeRide Corp. v. Huang, No. 5:18-CV-07233-EJD, 2019 WL 1439394 (N.D. Cal. Apr. 1, 2019) (granting a preliminary injunction where in response to prima facie case of misappropriation, defendants offered only

- i. An accused party's timely attention to developing and executing voluntary measures to reduce the risk of misappropriation

Evidence of a defendant's candor and forthrightness may negate a claim of threatened misappropriation.<sup>156</sup> Courts have found that the movant had not established a likelihood of

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vague or incomplete denials of wrongdoing and no evidence concerning how they had achieved their advanced capabilities), *modified in part*, 2019 WL 5722620 (N.D. Cal. Nov. 5, 2019), terminating sanctions entered against defendants at 2020 WL 1967209 (N.D. Cal. Apr. 16, 2020)). *See also* AtriCure, Inc. v. Meng, 842 Fed. App'x 974 (6th Cir. 2021) (not for publication) (finding evidence of misappropriation warranting a preliminary injunction where plaintiff presented seven witnesses to testify regarding the trade secrets plaintiff had developed at a cost of \$50 million, the individual defendants' access to them, and corporate defendant's release of a substantially similar product after hiring former employees of movant; while defendants contended that the new product had been developed through examining products of competitors they came forward with no witnesses or other evidence supporting this claim); *American Can Co. v. Mansukhani*, 814 F.2d 421 (7th Cir. 1987) (noting that evidence that defendant had created its new ink formula within hours of leaving plaintiff's employ supported finding of misappropriation). *But see, e.g.,* *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 766 (S.D. Ohio 1969) (finding no misappropriation where defendant developed competing product within ten weeks where evidence showed that defendants, who collectively had 59 years of relevant experience, had worked "sixteen hours a day seven days a week" to complete the design and development); *Wisk Aero*, 2021 WL 4073760 at \*20 (denying preliminary injunction finding that "just because development is fast does not mean it is implausibly so; a quick timeline can have explanations other than trade secrets theft"; finding that the evidence supported a finding of legitimate explanations and a longer timeline than plaintiff had asserted).

156. *See, e.g.,* *Prime Therapeutics LLC v. Beatty*, 354 F. Supp. 3d 957, 972 (D. Minn. 2018) (noting former employee's candor and honesty in relation to her resignation from former employer as supporting denial of injunction); *CMI Int'l, Inc. v. Internet Int'l Corp.*, 649 N.W.2d 808, 813 (Mich. Ct. App. 2002) (noting an absence of duplicity as a reason for denying threatened misappropriation injunction).



success on the merits or a threat of imminent irreparable harm in some cases where: 1) there was no evidence that the former employer's trade secrets were in fact actually improperly retained, used, or disclosed;<sup>157</sup> 2) the defendant's acquisition of the former employer's trade secrets occurred during employment, was authorized, and there was no contractual obligation requiring their return;<sup>158</sup> 3) the accused party was not under an obligation to retain documents for litigation and destroyed or returned the former employer's trade secret information prior to the suit to affirmatively avoid its misuse;<sup>159</sup> 4) the defendant

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157. See, e.g., *TDBBS LLC v. Ethical Prods. Inc.*, No. CV-19-01312-PHX-SMB, 2019 WL 979944 (D. Ariz. Feb. 28, 2019) (denying requested relief, finding that while individual's decision to email sensitive documents to himself on his last day of work raised an inference of wrongdoing, defendant had averred under oath that the material was not transmitted and in-house counsel for the new employer had represented that it had not received the information at issue), *subsequent determination*, 2019 WL 1242961 (D. Ariz. Mar. 18, 2019); *Prime Therapeutics*, 354 F. Supp. 3d at 972; *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 871 (D. Minn. 2015); *FLIR Sys., Inc. v. Parrish*, 95 Cal. Rptr. 3d 307, 316 (Cal. Ct. App. 2009) ("The trial court found that the download was not a threatened misappropriation because there was no evidence that the contents of the hard drive, 'if such contents existed, were improperly accessed, used, or copied before the drive was destroyed.'"); *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.*, 148 F. Supp. 2d 1326, 1339 (S.D. Fla. 2001); *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 682 (S.D. Ind. 1998).

158. See, e.g., *CPI Card Grp., Inc. v. Dwyer*, 294 F. Supp. 3d 791, 809–10 (D. Minn. 2018) (forwarding of confidential information to a personal email account minutes before resignation was found not to be evidence of misappropriation because the activity was not expressly prohibited by former employer's confidentiality agreement); *AirFacts, Inc. v. de Amezaga*, Civil Action No. DKC 15-1489, 2017 WL 3592440, at \*12 (D. Md. Aug. 21, 2017) (crediting defendant's explanations regarding why he had retained company documents and denying requested injunction), *aff'd in part, vacated in part*, 909 F.3d 84 (4th Cir. 2018).

159. See, e.g., *Packaging Corp. of Am., Inc. v. Croner*, 419 F. Supp. 3d 1059 (N.D. Ill. 2020) (denying interim injunction where at most defendant was

gave assurances that he would not use or had no need for the former employer's trade secrets in his new position and agreed to cooperate in efforts to quarantine and return materials that had been downloaded or retained;<sup>160</sup> and 5) the defendant

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shown to have retained certain documents after resignation which he had subsequently deleted prior to suit and there was no evidence that the documents had been shared with or forwarded to others); *Integrated Process Sols., Inc. v. Lanix LLC*, No. 19-CV-567 (NEB/LIB), 2019 WL 1238835, at \*6 (D. Minn. Mar. 18, 2019); *Midwest Sign & Screen Printing Supply Co. v. Dalpe*, 386 F. Supp. 3d 1037, 1052–54 (D. Minn. 2019); *Cargill Inc. v. Kuan*, No. 14-CV-2325-RM-MJW, 2014 WL 5336233, at \*6 (D. Colo. Oct. 20, 2014); *Holton v. Physician Oncology Servs., LP*, 742 S.E.2d 702, 705 (Ga. 2013); *FLIR Sys.*, 95 Cal. Rptr. 3d at 317. Forensics “remediation” taking place outside actual litigation that has not been properly documented and that occurs after litigation was threatened could, however, be found to constitute “spoliation” by destroying relevant evidence that might bear on the question of whether particular information had been transferred to others. *See, e.g., Panera, LLC v. Nettles*, No. 4:16-cv-1181-JAR, 2016 WL 4124114, at \*4 (E.D. Mo. Aug. 3, 2016) (finding that defendant's resetting of computer to “factory state” and deletion of documents gave rise to a strong inference of irreparable harm where the employee was subject to a noncompete agreement).

160. *See, e.g., Integrated Process Sols.*, 2019 WL 1238835, at \*2, \*5–6; *Midwest Sign*, 386 F. Supp. 3d at 1056–57; *Delphi Automotive PLC v. Absmeier*, 167 F. Supp. 3d 868, 882 (E.D. Mich. 2016) (denying an activity injunction where upon learning of the dispute, defendant voluntarily retained a computer forensic company to quarantine digital files alleged to be at issue in a manner to make them inaccessible to defendant and any other third party and transferred the drives at issue to plaintiff), *modified by* No. 15-cv-13966, 2016 WL 1156741 (E.D. Mich. Mar. 24, 2016); *Fisher/Unitech, Inc. v. Computer Aided Tech., Inc.*, No. 13 C 02090, 2013 WL 1446425 (N.D. Ill. Apr. 9, 2013) (denying injunction where, although defendant had concededly transferred a large volume of documents from a prior employer to a laptop issued by his new employer, by the time of litigation the parties were working cooperatively to preserve and analyze the information and remove it from devices not belonging to the former employer); *American Airlines, Inc. v. Imhof*, 620 F. Supp. 2d 574, 582 (S.D.N.Y. 2009) (denying activity injunction where upon being sued defendant worked with counsel to recover and quarantine all files at issue).

remained bound by a formal nondisclosure agreement and the court found no evidence of a prior violation.<sup>161</sup> Evidence that a competitor defendant has voluntarily established and implemented measures to avoid receiving trade secrets may be found to negate both a likelihood that the movant will succeed on a claim for threatened misappropriation and the risk of irreparable harm.<sup>162</sup>

A court is not obliged to deny injunctive relief, however, simply because the defendant asserts that it has taken some steps to avoid future harm.<sup>163</sup> Moreover, the failure of any prior

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161. See *In re Document Techs. Litig.*, 275 F. Supp. 3d 454 (S.D.N.Y. 2017) (denying injunction to enforce nonsolicitation agreement to protect trade secrets where employees were subject to nondisclosure agreements and there was no evidence of violation); *Avery Dennison Corp. v. Juhasz*, 924 F. Supp. 2d 893, 900–01 (N.D. Ohio 2013) (denying injunction where while “suspicion and mistrust” of a new employer was “perhaps understandable,” finding that suspicion was not sufficient to overcome the credible testimony of the defendant that he clearly understood his obligations under the applicable agreements and agreed to abide by them); *Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F. Supp. 2d 954, 971 (E.D. Wis. 2009); *Del Monte*, 148 F. Supp. 2d at 1339; *Bridgestone/Firestone*, 5 F. Supp. 2d 667 at 682 (S.D. Ind. 1998).

162. See, e.g., *International Bus. Machs. Corp. v. Visentin*, No. 11 Civ. 399 (LAP), 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011), *aff’d*, 437 F. App’x 53 (2d Cir. 2011) (denying injunction because thoughtful job structuring by the new employer had voluntarily removed the employee from the areas where he might cause the greatest risk to the former employer’s trade secrets prior to suit and counseled the employee of his ongoing obligations of confidentiality to his prior employer); *United Prods. Corp. of Am. v. Cedarstrom*, No. A05-1688, 2006 WL 1529478, at \*2 (Minn. Ct. App. Sept. 5, 2006) (unpublished) (denying injunction because employer’s pre-suit actions to structure employee’s duties negated movant’s concerns of irreparable harm under the facts presented).

163. See, e.g., *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, No. 20-CV-3375, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (finding that fact that defendant had required all new employees to sign an agreement not to use any confidential information or trade secrets of others was insufficient to

preventive measures by the new employer to prevent actual misappropriation may call into question the efficacy of its measures and support a finding that without court-ordered measures, further disclosures would likely occur.<sup>164</sup>

*B. Evaluating Evidence of Irreparable Harm*

1. Presumptions on motions for interim equitable relief

**Principle 4. The parties and the courts should evaluate the available evidence and the parties' respective burdens before determining whether any presumptions should apply to requests for equitable relief.**

When assessing claims for equitable relief in trade secret disputes, the court should not rely exclusively on purported "presumptions," whether based on case law or contract, but should consider the evidence each party controls, the burden of proof or production each party bears, and the evidence each party has presented. Where the movant has carried its burden of showing that misappropriation is threatened or will continue unless enjoined, the court may conclude in appropriate cases that a presumption of irreparable harm applies and should assess whether the nonmovant has rebutted any presumptions.

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rebut plaintiff's showing that defendants had previously removed documents containing trade secrets and incorporated plaintiff's trade secrets in patent applications; noting that defendant had not cited any case law indicating that such an agreement standing alone was sufficient to avoid liability for misappropriation).

164. *Vendavo, Inc. v. Long*, No. 19-CV-1725, 2019 WL 4139000, at \*15 (N.D. Ill. Aug. 30, 2019).

## 2. Legal presumptions in trade secret cases are not irrebuttable

Both the DTSA and the UTSA authorize, but do not mandate, injunctive relief to prevent or remedy misappropriation.<sup>165</sup> The discretionary language in both statutes has led some courts to hold that presuming irreparable harm as a matter of law in suits brought under these acts would be “contrary to traditional equitable principles.”<sup>166</sup>

Other courts have historically spoken of there being a “presumption” of irreparable harm in trade secret disputes. Principle No. 4 reflects that case law nationally points to the conclusion that any such presumptions are rebuttable. The applicability of any presumption and availability of injunctive

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165. Defend Trade Secrets Act, *supra* note 19, § 2(3)(A)(i); *Id.* § 2(3)(A)(ii); Unif. Trade Secrets Act, *supra* note 19, § 2(a) and § 2(c).

166. *See, e.g.*, First W. Capital Mgm't v. Malamed, 874 F.3d 1136, 1140 (10th Cir. 2017) (citation omitted); *followed in* DTC Energy Group, Inc. v. Hirschfeld, 912 F.3d 1263, 1270, 1266 n.3 (10th Cir. 2018) (denying preliminary injunctive relief); JTH Tax, Inc. v. Freedom Tax, Inc., No. 3:19-cv-85-RGJ, 2019 WL 2057323 (W.D. Ky. Mar. 15, 2019), *subsequent determination*, 2019 WL 2062519 (May 9, 2019); DLMC, Inc. v. Flores, CV. No. 18-00352 DKW-KSC, 2018 WL 6682986 (D. Haw. Dec. 19, 2018); Capital Tool & Mfg. Co., Inc. v. Maschinenfabrik Herkules, 837 F.2d 171 (4th Cir. 1998) (holding the text of Virginia's Uniform Trade Secrets Act permits but does not require entry of a preliminary injunction even on a showing that the statute has been violated). *Cf.* Regions Bank v. Raymond James & Assocs., Inc., No. 6:20-cv-658-Orl-40EJK, 2020 WL 7419650, at \*5 (M.D. Fla. Apr. 20, 2020) (holding that Florida's noncompete statute states that “use of specific trade secrets, customer lists, or direct solicitation of existing customers” creates a presumption of irreparable injury and may be specifically enjoined; finding evidence of future irreparable harm) (citations omitted). In a subsequent decision in the case, however, the court denied a preliminary injunction at because defendant had known the customers at issue before working for plaintiff, the phone numbers at issue were not trade secrets, and harm would be readily calculable. 2020 WL 6870815 (M.D. Fla. May 15, 2020).

relief must be assessed in light of evidence presented to the court, taking into account the parties' respective access to evidence and evidentiary burdens. Movants do not satisfy their burden to establish entitlement to injunctive relief simply by invoking mantras or purported presumptions alone,<sup>167</sup> including the familiar refrain that "a trade secret once lost is, of course, lost forever."

The Second Circuit used this phrase when granting a narrowly drawn preliminary injunction and ordering an expedited trial in its 1984 decision in *FMC Corp. v. Taiwan Tainan Giant Industrial Co. Ltd.*<sup>168</sup> This language has been widely quoted nationally in opinions discussing legal presumptions in trade secret disputes ever since, although not always with attribution or with the same emphasis.<sup>169</sup> The Second Circuit has subsequently

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167. *Titan Mfg. Sols., Inc. v. National Cost, Inc.*, No. 19-CV-1749-WJM-SKC, 2019 WL 3205955, at \*2 (D. Colo. July 16, 2019) (holding that generic claims and "mantra-like" invocations that particular information is a trade secret at risk and that once the details have been disclosed "it is difficult—if not impossible—to control [their] dissemination" is not sufficient to carry plaintiff's burden of establishing irreparable harm) (alteration in original). *See also* *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198, 1208 (E.D. Cal. 2020) (finding that evidence presented established a likelihood of irreparable harm, but after first noting that "this court joins those district courts who have declined to rely on a presumption in determining irreparable harm in the intellectual property context"); *Sky Capital Grp., LLC v. Rojas*, No. 1:09-CV-00083-EJL, 2009 WL 1370938, at \*12 (D. Idaho May 14, 2009) (observing that in the Ninth Circuit a trade secrets plaintiff who shows likely success on the merits of its claim is not entitled to a presumption of irreparable harm warranting preliminary injunctive relief, citing *Pacific Aerospace & Electronics, Inc. v. Taylor*, 295 F. Supp. 2d 1188, 1198 (E.D. Wash. 2003)).

168. 730 F.2d 61, 63 (2d Cir. 1984).

169. *See, e.g.*, *Neo Gen Screening, Inc. v. TeleChem Int'l, Inc.*, 69 F. App'x 550, 555 (3d Cir. 2003); *Peoplestrategy, Inc. v. Lively Employer Servs., Inc.*, No. 3:20-CV-02640-BRM-DEA, 2020 WL 7869214, at \*8 (D.N.J. Aug. 28, 2020) (unpublished), *reconsideration denied*, 2020 WL 7237930, at \*3-4 (D.N.J. Dec. 9, 2020) (citing *Taiwan Tainan Giant* as supporting the proposition that a

clarified in *Faiveley Transport Malmo AB v. Wabtec Corp.*<sup>170</sup> that while the *Taiwan Tainan Giant* language, which it characterized as a “passing observation,”<sup>171</sup> had been read by some courts to mean that an irrebuttable presumption of irreparable harm automatically arises upon a determination that a trade secret has been misappropriated, “[t]hat reading is not correct.”<sup>172</sup> Rather, the Second Circuit has explained:

A rebuttable presumption of irreparable harm might be warranted in cases where there is a danger that, unless enjoined, a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets. Where a misappropriator seeks only to use those secrets—without further dissemination or irreparable impairment of value—in pursuit of profit, no such presumption is warranted because an award of damages will often provide a complete remedy for such an injury.<sup>173</sup>

Courts nationally have discussed the *Faiveley* decision and differ on whether a finding that a trade secret plaintiff has

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showing of misappropriation “may” result in irreparable harm to reputation, trade and good will); *Cerro Fabricated Prods., LLC v. Solanick*, 300 F. Supp. 3d 632, 655 (M.D. Pa. 2018); *Teksystems, Inc. v. Spotswood*, Civil No. RDB 05-1532, 2005 WL 8174397, at \*5 (D. Md. June 29, 2005), *Touchpoint Sols. Inc. v. Eastman Kodak Co.*, 345 F. Supp. 2d 23, 32 (D. Mass. 2004) (quoting language from *Taiwan Tainan Giant* but finding, however, that “[n]otwithstanding that presumption, injunctive relief is only appropriate where, on the facts before the Court, irreparable harm is threatened”) (citation omitted).

170. 559 F.3d 110, 118–19 (2d Cir. 2009).

171. *Id.* at 118.

172. *Id.*

173. *Id.*

established a likelihood of success gives rise to any legal presumptions. They agree, however, that any such presumption, if it exists, may be rebutted.<sup>174</sup> For example, in *InnoSys, Inc. v.*

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174. See, e.g., *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115, 138 (D. Md. 2020), noting that the Fourth Circuit appears to require “an individualized analysis of irreparable harm on a case-by-case basis” (citation omitted) (preliminary injunction decision); *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, No. 20-CV-3375, 2020 WL 3960451, at \*12 (N.D. Ill. July 13, 2020) (holding that while within the Northern District of Illinois there appears to be a presumption of irreparable harm in cases of trade secret misappropriation, the presumption “can be rebutted by the defendant by ‘demonstrating that [the] plaintiff will not suffer any harm if the injunction is not granted’” (citations omitted)); *Reco Equip., Inc. v. Wilson*, No. 2:20-CV-3556, 2020 WL 6823119, at \*17 (S.D. Ohio Nov. 20, 2020) (observing that courts in this district “have regularly recognized that irreparable harm generally is presumed when a plaintiff has demonstrated a likelihood of success on a misappropriation of trade secrets claim or in the context of a noncompetition agreement implicating trade secrets,” but discussing the evidence supporting application of the presumption in the case at hand), *aff’d in part, vacated in part as to noncompete claim and remanded for determination of security*, 2021 WL 5013816 (6th Cir. Oct. 28, 2021)); *Peoplestrategy*, 2020 WL 7869214, at \*8 (unpublished) (observing that a preliminary injunction is not automatic merely because a trade secret claim is alleged and ought not be granted absent satisfaction of all the prerequisites for equitable relief (citing cases)), *reconsideration denied*, 2020 WL 7237930 (D.N.J. Dec. 9, 2020); *Maxum Petroleum, Inc. v. Hiatt*, No. 3:16-CV-0001615 (VLB), 2016 WL 5496283 (D. Conn. Sept. 28, 2016) (finding that presumption of irreparable harm did not apply and that evidence did not establish irreparable harm); *Intertek USA Inc. v. AmSpec, LLC*, No. 14 CV 6160, 2014 WL 4477933, at \*6 (N.D. Ill. Sept. 11, 2014) (stating that there is a presumption of irreparable harm to the plaintiff in cases of trade secret misappropriation, but that defendants may rebut this presumption by demonstrating that plaintiff will not suffer harm if the injunction is not granted). Similarly, some courts assessing the Supreme Court’s decision in *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) have concluded when ruling on requests for a preliminary injunction that there is no longer a presumption of irreparable harm in intellectual property disputes, including trade secret disputes. See, e.g., *Southeast X-Ray, Inc. v. Spears*, 929 F. Supp. 2d 867, 872 (W.D. Ark. 2013) (holding that *eBay* had eliminated



*Mercer*,<sup>175</sup> the Utah Supreme Court, applying state law, strongly criticized the Second Circuit's analysis in *Faiveley*. It emphasized that a trade secret is a right of property "which is at its core a right to exclude others. With this in mind, . . . [a] long-settled principle of trade secret law recognizes a presumption of harm upon proof of misappropriation. 'Over the years, courts have often ruled that a trade secret claimant is entitled to a rebuttable presumption of irreparable harm for the purposes of injunctive relief.'"<sup>176</sup> The court concluded that "[t]he presumption of irreparable harm is widely endorsed and rarely questioned. And where it has been questioned, it has usually been only to clarify that the presumption may be rebutted, as in circumstances where the trade secret has become so generally known that it no longer exists."<sup>177</sup> Evaluating the evidence before it, the court concluded that, "the presumption of irreparable harm was affirmatively reinforced by evidence of irreparable harm presented by InnoSys."<sup>178</sup>

The dissent, citing *Faiveley*, faulted the majority for appearing to "endorse the proposition that when a plaintiff seeks an injunction in a case involving trade secrets there is a

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presumptions of irreparable harm and denying preliminary injunction); *Advanced Micro Devices, Inc. v. Feldstein*, No. CV 13-40007-TSH 2013 WL 10944934 (D. Mass. May 15, 2013) (granting preliminary injunction but stating that in light of *eBay*, it was making its determination without relying on purported presumption of irreparable harm).

175. 364 P.3d 1013, 1021(Utah 2015).

176. *InnoSys*, 364 P.3d at 1020. In reaching this conclusion, the court cited a leading treatise's summary stating that "[o]ver the years, courts have often ruled that a trade secret claimant is entitled to a rebuttable presumption of irreparable harm for the purposes of injunctive relief, 4 ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS, § 15.02[1][c](2013) (citing extensive cases)." *Id.*

177. *InnoSys*, 364 P. 3d at 1021.

178. *Id.* at 1022.

presumption of a threat of future harm rather than merely a presumption that any harm would be irreparable”<sup>179</sup> It observed that “the leading commentator on trade secrets [who the majority had quoted] has noted that the presumption of irreparable harm is not a presumption that harm will occur”<sup>180</sup> but rather depends “on whether there is a threat of future harm at all.”<sup>181</sup>

The upshot is that courts and litigants increasingly focus on the evidence presented by the parties, not simply on purported presumptions alone, when evaluating irreparable harm and in assessing whether any presumption that may arise has been rebutted.<sup>182</sup>

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179. *Id.* at 1030.

180. *Id.* at 1031, citing MILGRIM & BENSON, *supra* note 176, § 15.02[1][c](2013), which the majority had also cited as stating that a presumption applies “at least where there is a threat of disclosure of the trade secret” (emphasis added in opinion).

181. *InnoSys*, 364 P. 2d at 1031.

182. Thus, for example, some courts considering the Second Circuit’s clarification in *Faiveley* of its widely cited statement in *Taiwan Tainan Giant* that “a trade secret once lost is, of course, lost forever” have concluded that a movant had presented evidence that absent injunctive relief it would suffer harm that would be unable to be repaired through monetary relief and that a presumption of irreparable harm was therefore appropriate. *See, e.g.,* *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115(D. Md. 2020); *WeRide Corp. v. Huang*, No. 5:18-CV-07233-EJD, 2019 WL 1439394, at \*12 (N.D. Cal. Apr. 1, 2019), *modified in part*, 2019 WL 5722620 (N.D. Cal. Nov. 5, 2019), terminating sanctions against defendants entered, 2020 WL 1967209 (N.D. Cal. Apr. 16, 2020)). *See also* *Genentech, Inc. v. JHL Biotech, Inc.*, No. C 18-06582 WHA, 2019 WL 1045911, at \*19 (N.D. Cal. Mar. 5, 2019); *Par Pharm., Inc. v. QuVa Pharma, Inc.*, Civ. Action No. 17-6115-BRM-DEA, 2018 WL 1374023, at \*8 (D.N.J. Mar. 16, 2018) (unpublished), *aff’d in part and rev’d in part for determination of appropriate duration of preliminary injunction*, 764 F. App’x 273 (3d Cir. 2019) (unpublished) (observing that a preliminary injunction “is not automatic merely because a trade secret claim is alleged and ought not be granted absent satisfaction of all the prerequisites for equitable relief”) (citation omitted); *Systems Spray-Cooled, Inc. v. FCH Tech, LLC*, No. 1:16-CV-

### 3. Contractual presumptions of irreparable harm are informative but not dispositive

Hoping to avoid uncertainties of determinations by a court, many contracts under which trade secret owners share trade secrets, whether with employees or other organizations, contain an “acknowledgment” that any breach of contractual confidentiality obligations “will result in irreparable injury” that cannot be quantified. Just as trade secret statutes and case law do not give rise to irrebuttable presumptions of irreparable harm, neither do contractual acknowledgments. Some courts take such acknowledgments into account, particularly on motions for early injunctive relief, concluding that such contractual recitals reflect an advance and agreed-upon assessment by the parties that the court will not disturb absent good cause.<sup>183</sup> This

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1085, 2017 WL 2124469 (W.D. Ark. May 16, 2017) (finding that a presumption did not apply but that the evidence supported a finding of irreparable harm as to misuse of some but not all of the trade secrets alleged to be at issue).

Other cases considering the *Faiveley* decision have concluded that evidence before the court did not support a finding of irreparable harm. *See, e.g.,* TDBBS LLC v. Ethical Prods. Inc., No. CV-19-01312-PHX-SMB, 2019 WL 979944 (D. Ariz. Feb. 28, 2019) (finding that under the circumstances presented, movant did not allege that defendant was making further disclosures of the protected information), *subsequent determination*, 2019 WL 1242961 (D. Ariz. Mar. 18, 2019); *accord* Graham Capital Mgmt., L.P. v. Bongiovanni, No. 3:18-cv-01665-WWE, 2019 WL 632287 (D. Conn. Feb. 14, 2019); DLMC, Inc. v. Flores, CV. No. 18-00352 DKW-KSC, 2018 WL 6682986 (D. Haw. Dec. 19, 2018); Passlogix, Inc. v. 2FA Tech., LLC, No. 08 Civ. 10986 (PKL), 2010 WL 2505628 (S.D.N.Y. June 21, 2010); Synergy Advanced Pharms., Inc. v. CapeBio, LLC, No. 10 Civ. 1736 (SAS), 2010 WL 2194809 (S.D.N.Y. June 1, 2010); American Airlines, Inc. v. Imhof, No. 09 Civ. 4535 (LAK), 620 F. Supp. 2d 574, 582 (S.D.N.Y. 2009); Sys. Mgm’t Planning, Inc. v. Gordon, 23 Misc. 3d 1104 (A), 2009 WL 901514 (N.Y. Sup. Ct. Apr. 3, 2009) (unpublished).

183. *See, e.g.,* CPI Card Grp. Inc. v. Dwyer, 294 F. Supp. 3d 791, 817 (D. Minn. 2018) (applying Delaware law and collecting Delaware precedent). *See also* Mercer Health & Benefits LLC v. DiGregorio, 307 F. Supp. 3d 326 (S.D.N.Y. 2018) (finding that such contractual provisions, while not

conclusion may be particularly appropriate where the contract is between organizations that may have commensurate bargaining power.<sup>184</sup> Other courts place little evidentiary value on such acknowledgments on the theory that the question is a matter of law to be determined by the court, not by the parties as a stipulation of fact.<sup>185</sup>

Principle No. 4 adopts the middle ground that has been increasingly followed by many courts, viewing such acknowledgments as potentially relevant evidence but directing the parties and the court to evaluate the totality of the evidence to determine whether the contractual presumption is supported.<sup>186</sup>

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dispositive, can support a finding of irreparable harm); *Cintas Corp. v. Perry*, No. 03 C 8404, 2004 WL 2032124 (N.D. Ill. Aug. 20 2004).

184. See, e.g., *Martin Marietta Materials, Inc. v. Vulcan Materials Co.*, 68 A.3d 1208 (Del. 2012).

185. See, e.g., *Versata Software, Inc. v. Internet Brands, Inc.*, No. 2:08-cv-313-WCB, 2012 WL 3075167 (E.D. Tex. July 30, 2012) (relying on *eBay*, 547 U.S. 38, in concluding that “the parties cannot invoke the equity powers of this Court by consent”); *Agency Solutions.com., LLC v. Trizetto Grp., Inc.*, 819 F. Supp 2d 1001 (E.D. Cal. 2011); *First Health Grp. Corp. v. Nat’l Prescription Adm’rs, Inc.*, 155 F. Supp. 2d 194, 235 (M.D. Pa. 2001); *TGR Enters., Inc. v. Kozhev*, 853 N.E.2d 739 (Ohio Ct. App. 2006) (finding contractual recital not to be binding because actual injury must be proved). Similarly, one court has held that a contract provision that “entitles the plaintiff to a *per se* finding of irreparable harm . . . runs contrary to the sort of case-by-case analysis courts engage in” and could lead to absurd results. *Int’l Creative Mgmt., Inc. v. Abate*, No. 07 Civ. 1979 (PKL), 2007 WL 950092, at \*6–7 (S.D.N.Y. Mar. 28, 2007).

186. See, e.g., *York Risk Servs. Grp. Inc. v. Couture*, 787 F. App’x 301, 308 (6th Cir. 2019) (unpublished) (“At most, the court cited the contractual provision as one piece of evidence in support of a finding of irreparable harm, which is permissible.”); *Dominion Video Satellite, Inc. v. EchoStar Satellite Corp.*, 356 F.3d 1256, 1266 (10th Cir. 2004) (citing cases for the proposition that “[w]hile courts have given weight to parties’ contractual statements regarding the nature of harm and attendant remedies that will arise as a result of a breach of a contract, they nonetheless characteristically hold that such statements alone are insufficient to support a finding of irreparable harm and

#### 4. Establishing imminent harm

Speculation or supposition that some harm may occur in the future unless the nonmoving party is enjoined has been held to be insufficient to justify injunctive relief. The harm that the movant seeks to avoid through equitable relief should be “imminent,” not “remote and uncertain.”<sup>187</sup> Courts have held that

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an award of injunctive relief”); *Cabela’s LLC v. Highby*, 362 F. Supp. 3d 208, 224 (D. Del. 2019), *aff’d*, 801 F. App’x 48 (3d Cir. 2020) (concluding that “most federal courts do not consider a contractual stipulation dispositive for purposes of showing irreparable harm” although it can be one factor); *Spark Connected, LLC v. Semtech Corp.*, No. 4:18-cv-748-ALM-KPJ, 2019 WL 4305735, at \*6 (E.D. Tex. Sept. 10, 2019) (finding that notwithstanding the contractual acknowledgement, movant “must demonstrate the threat of irreparable harm by independent proof or no injunction may issue” (citations omitted)); *Empower Energies, Inc. v. SolarBlue, LLC*, No. 16cv3220 (DLC), 2016 WL 5338555, at \*12 (S.D.N.Y. Sept. 23, 2016) (“giv[ing] little weight to the clause in the [funding agreement] that pre-declares that any breach of the Agreement will result in irreparable harm”); *Riverside Publ’g Co. v. Mercer Publ’g LLC*, No. C 11–1249, 2011 WL 3420421, at \*8 (W.D. Wash. Aug. 4, 2011) (citing cases declining to presume irreparable harm based on a contract clause); *Kansas City Southern v. Grupo TMM, S.A.*, No. Civ. A. No. 20518-NC, 2003 WL 22659332, at \*5 (Del. Ch. Nov. 4, 2003) (holding that “Although a contractual stipulation as to the irreparable nature of the harm that would result from a breach cannot limit this Court’s discretion to decline to order injunctive relief, such a stipulation does allow the Court to make a finding of irreparable harm provided the agreement containing the stipulation is otherwise enforceable. If the facts plainly do not warrant a finding of irreparable harm, this Court is not required to ignore those facts, especially since the parties cannot confer subject matter jurisdiction upon a court.”).

187. See, e.g., *Faveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 118 (2d Cir. 2009) (stating that “[t]o satisfy the irreparable harm requirement, [p]laintiffs must demonstrate that absent a preliminary injunction they will suffer an injury that is neither remote nor speculative, but actual and imminent, and one that cannot be remedied if a court waits until the end of trial to resolve the harm”) (alterations in original, citation omitted); *Continental Grp., Inc. v. Amoco Chem. Corp.*, 614 F.2d 351, 359 (3d Cir. 1980) (holding that to satisfy the second prong of the preliminary injunction inquiry, a party

“irreparable harm that may occur, if at all, years in the future, and certainly not before a trial on the merits, does not warrant injunctive relief.”<sup>188</sup> Nonetheless, if the threatened harm is shown to be significant, this fact alone may weigh heavily in favor of interim injunctive relief.

Further, in evaluating a request for further injunctive relief after earlier equitable relief has been granted, or following trial, where a likelihood of success has been established, courts will consider whether early equitable measures have already alleviated or negated the threat of future irreparable harm.<sup>189</sup>

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must make “a ‘clear showing of immediate irreparable injury’”) (citation omitted).

188. See, e.g., *Loxo Oncology, Inc. v. Array Biopharma Inc.*, No. 18 cv-03062-PAB-MEH, 2019 WL 10270263, at \*6 (D. Colo. June 26, 2019) (denying injunctive relief where potential irreparable harm was “remote and uncertain” and would not occur before a trial on the merits); *Direx Israel, Ltd. v. Breakthrough Med. Corp.*, 952 F.2d 802 (4th Cir. 1991), *as amended* (Jan. 7, 1992), *abrogation recognized on other grounds in Sarsour v. Trump*, 245 F. Supp. 3d 719, 729 n.6 (4th Cir. 2017) (same); *MEMC Elec. Materials v. Balakrishnan*, No. 2:12-CV-344, 2012 WL 3962905 (S.D. Ohio Sept. 11, 2012) (denying injunctive relief since, among other reasons, while the organizations might someday compete, they did not do so now); *Synergy Advanced Pharm., Inc. v. CapeBio, LLC*, No. 10 Civ. 1736 (SAS), 2010 WL 2194809 (S.D.N.Y. June 1, 2010) (denying injunction where there was no evidence that defendants threatened to disclose the allegedly confidential information and it was uncertain whether any product made through the use of the information would ever be released).

189. See, e.g., *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 569 (S.D.N.Y. 2016) (denying broader activity restraints once affirmative preservation and remediation measures had been completed); *Intertek USA Inc. v. AmSpec, LLC*, No. 14 CV 6160, 2014 WL 4477933, at \*8 (N.D. Ill. Sept. 11, 2014) (finding that “sufficient steps have been taken over the course of this litigation to ensure that any Intertek trade secrets that the individual defendants possess will be removed from their possession,” weighing against broad preliminary injunctive relief); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 109 F. Supp. 3d 1009, 1023–24 (W.D. Tenn. 2015) (denying preliminary injunction prohibiting employee who did not have a noncompete agreement

## 5. The impact of delay in bringing suit or seeking equitable relief on a finding of irreparable harm

Delay in seeking equitable relief may be a factor weighing against a claim that absent relief, the movant will suffer irreparable harm. A number of cases have found, even in the face of delay insufficient to support a laches defense, that “failure to act sooner undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury.”<sup>190</sup> However, courts have also recognized that extenuating circumstances such as the need to

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from continuing to work for a competitor where defendants no longer had access to trade secrets after remediation activities conducted pursuant to an extended temporary restraining order and there was no evidence of ongoing use of the information).

190. See, e.g., *Southtech Orthopedics, Inc. v. Dingus*, 428 F. Supp. 2d 410, 420 (E.D.N.C. 2006) (finding that a delay insufficient to support a laches defense may nonetheless mitigate against preliminary injunctive relief by indicating a lack of imminent and irreparable harm to the plaintiff). See also, *Applied Materials, Inc. v. LTD Ceramics, Inc.*, No. C-01-20478-JF (PVT), 2002 WL 971721 (N.D. Cal. Mar. 22, 2002) (finding that waiting a year after beginning investigations into a trade secret claim and seven months thereafter before moving for injunctive relief negated a claim of irreparable harm); *Spark Connected*, 2019 WL 4305735 (finding that a nine-month delay in filing for injunctive relief after learning of acts complained of pointed to lack of imminent irreparable harm); *Worldwide Sport Nutritional Supplements, Inc. v. Five Star Brands LLC*, 80 F. Supp. 2d 25, 34 (S.D.N.Y. 1999) (citing cases) (finding that a seven-month delay in bringing suit after movant had discovered evidence making it “very suspicious” that energy bars were being manufactured using movant’s trade secrets undercut the urgency of the claimed need for relief). Cf. *SRS Acquiom Inc. v. PNC Fin. Servs. Grp., Inc.*, No. 1:19-CV-02005-DDD-SKC, 2020 WL 3256883, at \*3 (D. Colo. Mar. 26, 2020) (holding that while delay of over one year in bringing suit does not mean that injunction should necessarily be rejected completely, movant must make a particularly strong showing of a likelihood of success on the merits and a balance of hardships).

complete specific investigation<sup>191</sup> or settlement discussions may make a delay in filing reasonable under the circumstances.

#### 6. Facts bearing on a finding of irreparable harm

As discussed above, a movant seeking injunctive relief will typically need to come forward with evidence, rather than relying solely on any legal presumptions, that absent injunctive relief it will suffer irreparable harm. Further, courts have cautioned that to support a claim for interim relief, a movant's claim that absent relief it will suffer a "loss of control over business reputation and damage to goodwill" "cannot be 'grounded in platitudes rather than evidence.'"<sup>192</sup>

Courts have found that many of the same facts that point to a likelihood of success, particularly those bearing on the defendant's intent or lack of care, as well as the following evidence, may be pertinent when considering irreparable harm.

##### a. Evidence that information remains at risk

In some cases, the evidence suggests that unless restrained, the defendant has the ability and will continue to misappropriate trade secrets. Thus, for example, in *Brightview Group, LP v.*

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191. See, e.g., *BP Chems., Ltd. v. Formosa Chem. & Fibre Corp.*, 229 F.3d 254 (3d Cir. 2000) (finding that irreparable harm was not precluded by delay in filing suit caused by plaintiff's good faith efforts to investigate a trade secret claim and determine how serious the violation is); *Computer Assoc. Int'l, Inc. v. Bryan*, 784 F. Supp. 982, 987 (E.D.N.Y. 1992) (excusing delay where plaintiffs used time before seeking preliminary injunction to conduct extensive investigation to gather facts required to support action concerning complex technologies).

192. *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198, 1208 (E.D. Cal. 2020) (citations omitted) (finding, however, that the evidence presented showed that absent relief defendants intended to use the information at issue and would attempt to cover their tracks).



*Teeters*,<sup>193</sup> where the defendants had downloaded files containing trade secrets and transferred them to a new employer's computer system, some copies had become embedded in documents shared with others, and one defendant testified that "maybe" he would use the former employer's information if it were available to him, the court found the plaintiff had established irreparable harm and ordered preliminary injunctive relief to prevent recurrent violations. Similarly, in *Waymo LLC v. Uber Technologies, Inc.*, where the record showed that a former employee remained in possession of over 14,000 confidential files, at least some of which likely contained Waymo's trade secrets, "[m]isuse of that treasure trove remains an ever-present danger wholly at his whim" absent relief, warranting preliminary injunctive relief.<sup>194</sup>

b. Evidence of the difficulty of undoing any ongoing misappropriation

Once the plaintiff has established a *prima facie* case of misappropriation, in some cases "undoing" the misappropriation after trial, such as by directing that misappropriated information

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193. 441 F. Supp. 3d 115 (D. Md. 2020).

194. *Waymo LLC v. Uber Techs., Inc.*, No. C 17-00939 WHA, 2017 WL 2123560, at \*11 (N.D. Cal. May 11, 2017). *See also* *Genentech, Inc. v. JHL Biotech, Inc.*, No. C 18-06582 WHA, 2019 WL 1045911, at \*19 (N.D. Cal. Mar. 1, 2019) (same); *Cutera*, 444 F. Supp. 3d at 1198; *OmniGen Research, LLC v. Wang*, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*22 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018); *Stream Cos. v. Windward Advert.*, No. 12-cv-4549, 2013 WL 12114590, at \*14 (E.D. Pa. Feb. 7, 2013) (finding irreparable harm where defendants had not produced any evidence that they had returned any of Stream's proprietary information); *ClearOne Commc'ns, Inc. v. Chiang*, 608 F. Supp. 2d 1270, 1279-81 (D. Utah 2009) (finding that given defendants' extensive prior bad acts, defendants' assertions that they stopped using the plaintiff's trade secrets did not eliminate the imminent threat of irreparable harm to plaintiff), *aff'd in part*, 643 F.3d 735 (10th Cir. 2011).

be disentangled from the accused party's operations may not be feasible or even possible. For example, in *Waymo v. Uber* the court focused on the evidence that the misuse of information from Waymo might be virtually untraceable and separating it out at the end of trial would be not only difficult but a "bone crushing" exercise. Accordingly, the court found that Waymo had established both a likelihood of success on the merits of its claim for misappropriation and harm that could not be undone—irreparable harm—and entered preliminary injunctive relief limiting the former employee's ability to engage in specific activities for Uber.<sup>195</sup>

c. Evidence of the difficulty or impossibility of quantifying the monetary impact of the misappropriation

In considering whether injunctive relief is warranted, the court must consider whether the movant has an adequate remedy at law, namely damages. This is another way of asking whether the harm to be avoided is irreparable absent an injunction. Starting with the premise that the rules of equity should not be applied in a fashion that consistently favors one party over the other, the parties and courts should review with skepticism arguments that money damages are "never" or "always" calculable in trade secret disputes. Thus, for example, while some trade secret plaintiffs may assume that asserting the misappropriation will impair their goodwill in an amount that is impossible to calculate justifies injunctive relief, an argument that has succeeded on some facts,<sup>196</sup> courts have rejected this

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195. *Waymo*, 2017 WL 2123560. See also *Genentech*, 2019 WL 1045911, at \*19; *Cutera*, 444 F. Supp. 3d at 1198.

196. See, e.g., *Invesco Trust (N.A.), Inc. v. Deutsche Investment Mgmt. Ams., Inc.*, 904 N.Y.S.2d 46 (N.Y. App. Div. June 29, 2010) (affirming finding that without a preliminary injunction plaintiff would likely sustain a loss of

conclusion when the claim is simply conclusory.<sup>197</sup> As with all other aspects of equitable relief, *the movant bears the burden of submitting evidence that there is in fact a credible risk of such loss in the specific case at bar rather than simply relying upon generalized invocations that harm is “irreparable” because goodwill is involved.*<sup>198</sup> “Mere injuries, however substantial, in

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business impossible or very difficult to quantify); *Technicon Data Sys. Corp. v. Curtis 1000, Inc.*, No. 7644, 1884 WL 8268 (Del. Ch. Aug. 21, 1984) (unpublished) (finding sufficient showing of irreparable harm where movant showed likely loss of good will and unfair competitive advantage).

197. *See, e.g., In re Document Techs. Litig.*, 275 F. Supp. 3d 454, 469 (S.D.N.Y. 2017) (rejecting plaintiff’s “conclusory statements from [plaintiff’s] Chief Integration Officer that the company saw ‘harm to [its] good will’ because of the defendant’s ‘abrupt’ departure,” finding that it is precisely such “unsubstantiated testimony, disconnected from proof that any customers have actually ceased doing business with [plaintiff] or testimony from any clients that they think less of the company, that New York courts have held is insufficient to show actual or imminent harm to a plaintiff’s ‘goodwill.’”); *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 875 (D. Minn. 2015) (finding that plaintiff had offered no explanation as to why damages would be impossible to measure or any more difficult than any other situation in which a party claims damages based on lost profits); *Rapco Foam, Inc. v. Scientific Applications, Inc.*, 479 F. Supp. 1027, 1031 (S.D.N.Y. 1979) (finding that claiming that there would be a “loss of competitive advantage” absent relief was not in itself sufficient to warrant injunctive relief where plaintiff presented no evidence concerning its position in the marketplace, the nature of competition within that market, or the impact of the misappropriation sufficient to show that any loss of competitive damages would not be measurable in money damages); *Sky Capital Grp., LLC v. Rojas*, No. 1:09-CV-00083-EJL, 2009 WL 1370938, at \*12–13 (D. Idaho May 14, 2009) (finding that the damages and harms movant alleged were simply generalized threats of lost revenue and profits which could be adequately addressed by monetary relief).

198. *See, e.g., Bison Advisors LLC v. Kessler*, No. Civ. No. 14-3121 (DSD/SER), 2014 WL 4389289, at \*4 (D. Minn. Oct. 30, 2014) (holding that the movant bears the burden of showing that lost profits would be difficult to quantify such that money damages would be difficult to ascertain; without this showing, there can be no irreparable harm); *ABC Phones of North Carolina, Inc. v. Yahyavi*, No. 5:20-CV-0090-BR, 2020 WL 1668046, at \*4 (E.D.N.C.

terms of money, time, and energy necessarily expended in the absence of a stay, are not enough. The possibility that adequate compensatory or other corrective relief will be available at a later date, in the ordinary course of litigation, weighs heavily against a claim of irreparable harm.”<sup>199</sup> However, courts have observed that irreparable harm is especially likely to stem from losses in a market environment where customers, once they are lost to a competitor through misappropriation, are difficult to win back.<sup>200</sup>

While in sophisticated trade secret disputes an economic expert is occasionally enlisted at an early stage to inform the court that a variety of financial awards are available and could ultimately be calculable given full access to information, such an assertion should be examined carefully by the presiding judge in the context of the specific case. The court should assess whether given the nature of the trade secret and the alleged

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Apr. 3, 2020) (rejecting “blanket assertions devoid of any justification for relief” as evidence of irreparable harm).

199. *Hughes Network Sys., Inc. v. InterDigital Commc’ns Corp.*, 17 F. 3d 691, 694 (4th Cir. 1994).

200. *See, e.g., Life Spine, Inc. v. Aegis Spine, Inc.*, No. 19 CV 7092, 2021 WL 963811, at \*22 (N.D. Ill. Mar. 15, 2021) (citations omitted), *aff’d* 8 F.4th 531 (7th Cir. 2021); *Peoplestrategy, Inc. v. Lively Employer Svcs., Inc.*, No. 320 CV 02640, 2020 WL 7930 at \*5 (D. N.J. Dec. 9, 2020) (considering *Faiveley* and affirming grant of preliminary injunction to protect trade secrets upon finding that plaintiff had presented evidence that absent relief it would suffer future irreparable reputational injury and injury to trade and goodwill); *ExpertConnect, LLC v. Fowler*, No. 18 CIV. 4828 (LGS), 2018 WL 11264885 (S.D.N.Y. July 25, 2018) (considering the decision in *Faiveley* and on reconsideration, affirming grant of preliminary injunction where the evidence showed that defendants had not only used movant’s trade secrets but also disclosed them to experts and clients so as to “impair the value of those secrets,” which the court found could “not be remedied if a court waits until the end of trial to resolve the harm”).

misappropriation, any damages calculation could likely be developed that would not be largely speculative.<sup>201</sup>

*C. Assessing and Balancing the Hardships in Orders Granting Injunctive Relief*

**Principle 5. The court may incorporate provisions into orders granting equitable relief designed to balance the hardships between the parties.**

Even if the movant presents some evidence of a likelihood of success, in some cases the hardships the proposed relief would impose on the nonmovant may be so severe that the court may determine that injunctive relief is not warranted.<sup>202</sup>

In other cases, where the court determines that some relief is appropriate but that particular relief under consideration is overly broad or likely to lead to material hardships or impose undue costs on the nonmoving party, it may be possible to

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201. See, e.g., *Waymo*, 2017 WL 2123560, at \*11 (finding that harm was irreparable since “[i]t would likely be futile to attempt, after the fact, to estimate the monetary value of injury suffered from either the loss of Waymo’s competitive position in this nascent industry or the destruction of its trade secrets pertaining to the same”). Cf. *Neural Magic, Inc. v. Facebook, Inc.*, No. 1:20-cv-10444-DJC (D. Mass. filed May 29, 2020) (denying preliminary injunctive relief both because plaintiff had failed to identify properly protected trade secrets that were at risk of threatened misappropriation and because the court found that the plaintiff could develop a plausible damages claim based upon the impact of the misappropriation on its business valuation).

202. See, e.g., *MPay Inc. v. Erie Custom Comput. Applications, Inc.*, 970 F.3d 1010, 1020–21 (8th Cir. 2020) (denying preliminary injunction in light of plaintiff’s failure to show any irreparable harm; balanced against this was the “significant harm” nonmovants would suffer if injunction were to issue since the injunction would prevent them from using the software that forms the basis of their business); *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 876 (D. Minn. 2015) (denying injunction when requested relief would prevent an individual from engaging in any work in a field to which he or she has devoted significant training and experience).

incorporate *counterbalancing measures* into the order granting relief.<sup>203</sup> This approach to allocating the hardships may be viewed as being akin to the proportionality concepts adopted by other projects of The Sedona Conference. Examples of such counterbalancing measures are reflected in the illustrative guidelines below.

**Guideline 10. When an order will impose activity restrictions on a former employee, the parties may present evidence on whether, in lieu of or in addition to a bond, compensation should be paid to the employee during the restricted period, and if so, by whom.**

When the court is enforcing a noncompete agreement to protect trade secrets, a contract may already direct payment of compensation by the complaining former employer to employees whose activities are enjoined.<sup>204</sup> This could be a point argued by

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203. The issue of fashioning relief to reduce the hardships on the nonmoving party is different from the issue of establishing a bond to address damage to the nonmoving party in the event that the injunction is found to have been improvidently granted, although the issues may be considered together. See discussion *infra* Part VII (Establishing an Injunction Bond to Protect the Interests of the Nonmoving Party).

204. For cases granting preliminary relief and enforcing contractual payment provisions contained in noncompete agreements designed to protect trade secrets, see *Est. . . e Lauder Cos., Inc. v. Batra*, 430 F. Supp. 2d 158, 182 (S.D.N.Y. 2006) (“Here the risk of Batra’s loss of livelihood is entirely mitigated by the fact that Est. . . e Lauder will continue to pay Batra his salary of \$375,000 per year for the duration of the ‘sitting out’ period.”); *Avery Dennison Corp. v. Finkle*, No. CV010757706, 2002 WL 241284, \*at 3 n.13 (Conn. Super. Ct. Feb. 1, 2002) (unpublished) (“Implicit in the decision of the court is the order that [defendant] be so compensated. Noncompliance by the plaintiff with this contractual provision [to pay two-thirds of defendant’s base monthly salary] will be grounds for an immediate review by the court of the continued propriety of the temporary injunction as well as possible sanctions by the court”); *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 298 (D.

movant to reduce the impact of the injunction on the defendant. Where a preexisting contractual payment obligation is not in place, the court may want when establishing the amount of the bond to address the potential economic harm to defendant from the loss of compensation during an injunction<sup>205</sup> Alternatively, the movant may want to offer, the defendant may choose to request, or the court may on its own initiative choose to direct some payment during the period of an activity restraint (by the movant or, as found to be warranted, by the new employer).<sup>206</sup>

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Mass. 1995) (finding that potential harm to former employer if injunction was not granted was greater than harm to employee if it was since former employer had agreed to pay employee 110% of the salary offered by the new employer); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (finding that potential harm to employee from an injunction enforcing a restrictive covenant to protect trade secrets was mitigated because restrictive covenant required former employer to make payments to employee equal to his monthly base pay at termination together with health and life insurance premiums); *Hekimian Labs., Inc. v. Domain Sys. Inc.*, 664 F. Supp. 493, 498–99 (S.D. Fla. 1987) (finding that the contractual payment of 50% of salary during the one-year restriction period avoided any claim of undue hardship, finding “this provision to be quite a significant factor for purposes of balancing the interests of [the former employer] and [the defendant employee]”).

205. See discussion *infra* Part VII (Establishing an Injunction Bond to Protect the Interests of the Nonmoving Party).

206. See, e.g., *Ayco Co., L.P. v. Feldman*, No. 1:10-CV-1213 (GLS/DRH), 2010 WL 4286154 (N.D.N.Y. Oct. 22, 2010) (enforcing 90-day noncompete agreement where former employer stipulated in court that it would pay employee his base salary if an injunction issued); *Evolution Mkts., Inc. v. Penny*, 889 N.Y.S.2d 882, at \*2 (N.Y. Sup. Ct., Westchester Cty. 2009) (unpublished) (enforcing noncompete agreement to protect trade secrets and customer relationships against trading assistant where “[d]uring the oral argument, the Court made clear that it expected that [plaintiff] would be paying [defendant] her base salary while the motion was pending” and, apparently, during the period of the injunction); *Aetna Ret. Servs., Inc. v. Hug*, No. CV970479974S, 1997 WL 396212, at \*11 (Conn. Super. Ct. June 18, 1997) (unpublished) (conditioning grant of injunction on former employer’s representation in court that it would pay [defendant] the pro rata portion of his

The totality of the circumstances and applicable law may lead the court to conclude in a particular case, however, that payment before the case ends is not appropriate when not required under the contract<sup>207</sup> and that the potential hardship to the defendant is more appropriately addressed by means of the bond.

**Guideline 11. Establishing a fixed commencement date or termination date for an order granting interim equitable relief may assist in balancing the hardships on the parties.**

Where shown to be warranted, it may be appropriate to balance the hardships to an employee whose activities have been enjoined by selecting an effective date that would enable the employee time to find alternative employment. However, such an approach would also need to include measures designed to protect the trade secret during this period.<sup>208</sup> Crafting

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\$210,000 base salary during the period of restraint); *Emery Indus., Inc. v. Cotter*, No. C-1-78-474, 1978 WL 21419, at \*10 (S.D. Ohio Aug. 18, 1978) (requiring plaintiff to compensate the employee during the period of the injunction). *Cf. Katch*, 143 F. Supp. 3d at 854 (recognizing plaintiff's effort to reduce harm to defendant by offering to pay normal salary during pendency of injunction, but nonetheless denying request for injunction imposing activity restraint as not warranted by the evidence). *But see Intertek USA Inc. v. AmSpec LLC*, No. 14 CV 6160, 2014 WL 4477933, at \*8 (N.D. Ill. Sept. 11, 2014) (ordering the *new employer* to pay the employees' salaries during the injunction period based on its finding that the new employer had contributed to the problem).

207. *See, e.g., Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 68–69 (2d Cir. 1999), *abrogation recognized by LaJolla Cove Inv'rs, Inc. v. GoConnect Ltd*, No. 11CV1907 JLS(JMA), 2012 WL 1580995 (S.D. Cal. May 4, 2012), finding that payment was not warranted where contract did not require it and defendant had been highly compensated during employment.

208. *See Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405, 1438–39 (1996) (emphasizing that any violation of nondisclosure restrictions “either during this thirty-day grace period or afterwards, during the pendency of the preliminary injunction, will be punished as contempts by the severest



preliminary injunctive relief to be in effect for a specific duration rather than through trial on the merits,<sup>209</sup> or effectively limiting its duration by expediting trial on the merits,<sup>210</sup> can also help to

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sanctions of which this court can avail itself"). Cf. *Peoplestrategy, Inc. v. Lively Employer Svcs., Inc.*, No. 3:20-CV-02640-BRM-DEA, 2020 WL 7237930 (D. N.J. Dec. 9, 2020) (on motion for reconsideration, granting defendants more time to comply with preliminary injunction to enable customers to transition to new service providers).

209. Compare, e.g., *Red Valve, Inc. v. Titan Valve, Inc.*, No. 18CVS1064, 2018 WL 1830503, at \*15 (N.C. Super. Ct. Apr. 10, 2018) (issuing injunction "pending final resolution of this civil action" unless otherwise ordered by the court) and *Bartech Sys. Int'l, Inc. v. Mobile Simple Sol., Inc.*, No. 2:15-cv-02422-MMD-NJK, 2016 WL 3002371, at \*8 (D. Nev. May 24, 2016) (imposing restrictions on defendant's use of specified information "during the pendency of this action") with *Peoplestrategy*, 2020 WL 7869214, at \*8, \*11 (unpublished) (entering preliminary "head start" injunction restricting defendant's ability to solicit particular clients where plaintiff had established misappropriation and use of trade secrets, but limiting duration of preliminary injunction to one year in light of defendants' prior relevant experience in the industry), *reconsideration denied*, 2020 WL 7237930 (D.N.J. Dec. 9, 2020) and *Executive Consulting Grp., LLC v. Baggot*, No. 1:18-cv-00231-CMA-MJW, 2018 WL 1942762, at \*10 (D. Col. Apr. 25, 2018) (issuing preliminary injunction for period of nine months or "through the trial of this matter," whichever is earlier); and *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995) (issuing preliminary injunction to run through a date certain six months from entry, finding that "the injunction against [defendant's new employment at plaintiff's subsidiary] extends no further than necessary" and was within the trial court's discretion).

210. In *Bimbo Bakeries USA, Inc. v. Botticella*, Civil Action No. 10-0194, 2010 WL 571774, at \*17 (E.D. Pa. Feb. 9, 2010), for example, recognizing the potential adverse impact of an order prohibiting defendant from assuming particular employment until a determination on the merits after trial, the trial court established a trial schedule that would have given defendant a trial just two months after entry of the preliminary injunction award. Defendant chose, however, to file an appeal, which had the practical effect of extending the period of the injunction. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 104 (3d Cir. 2010). See also *FMC Corp. v. Taiwan Tainan Giant Indus. Co., Ltd.*, 730 F.2d 61, 64 (2d Cir. 1984) (granting narrowly drawn preliminary

balance the hardships that may arise from a grant of interim equitable relief. The order should also specify whether it becomes effective only upon the posting of the injunction bond or at some other time.

#### *D. Assessing the Public Interest*

Virtually all trade secret disputes present an interplay of competing public policies. The Supreme Court has cautioned that “[i]n exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction.”<sup>211</sup> On one hand, as the Supreme Court has recognized, trade secret law reflects a strong policy in favor of protecting trade secrets as a way of encouraging innovation and protecting the standards of commercial morality.<sup>212</sup> On the other, the law recognizes compelling

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injunction, but observing that the action was impeding employee’s ability to make a living by using the non-trade secret expertise he has developed in his career; holding that the best way fairly to ensure that all the parties’ rights are protected was to have them determined finally as quickly as possible and remanding for expedited discovery and trial to be set as early as possible). *Cf.* *Maxum Petroleum, Inc. v. Hiatt*, No. 3:16-CV-0001615 (VLB), 2016 WL 5496283 (D. Conn. Sept. 28, 2016) (denying temporary restraining order in light of movant’s failure to establish irreparable harm, but in light of alleged urgency, setting case down for expedited discovery and early trial to be consolidated with preliminary injunction hearing to limit any potential damages from disclosure of trade secrets).

211. *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 24 (2008) (*quoting* *Weinberger v. Romero-Barcello*, 456 U.S. 305, 312 (1982)).

212. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482 (1974). An emphatic account of this policy is found in *Earthbound Corp. v. MiTek USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013, at \*10 (W.D. Wash. Aug. 19, 2016), imposing a temporary restraining order and expressly noting that protecting trade secrets is in the public interest, in part because the Economic Espionage Act of 1996 (18 U.S.C. § 1832) establishes criminal penalties for misappropriation of trade secrets. “Theft of trade secrets, and allowing the thieves to retain and

interests in encouraging competition through the liberal exchange of ideas and information<sup>213</sup> without imposing unwarranted restrictions on the right of persons to engage in businesses and occupations of their choosing.<sup>214</sup> Determining which of these policies is paramount in a particular case calls for more than citing general public policies. Rather, it requires consideration of how each of these public policies may be implicated in the case at bar, both in determining whether equitable relief is

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use the confidential information they purloined, undermines business development and stability; preventing such conduct is in the public's interest." *Id.*

213. *Cambria Co. LLC v. Schumann*, No. 19-CV-3145 (NEB/TNI), 2020 WL 373599, at \*8 (D. Minn. Jan. 23, 2020) (denying motion for preliminary injunction that had sought to protect trade secrets by enjoining former employee from working for competitor following expiration of his two-year noncompete agreement) (citation omitted). *See also Bimbo Bakeries*, 613 F. 3d 119 (observing that "there is a public interest in employers being free to hire whom they please and in employees being free to work for whom they please," and that Pennsylvania courts "consider the right of the employee to be the more significant," (citing cases); nonetheless on the facts presented, affirming activity injunction to protect the trade secret owner).

214. *See, e.g., Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F. Supp. 3d 1198 (E.D. Cal. 2020) (granting a tailored temporary restraining defendant from obtaining, retaining, using, or disclosing Cutera trade secret information, as defined, but not otherwise restricting the activities of particular employees, finding that doing so would be contrary to public policy); *SRS Acquiom Inc. v. PNC Fin. Servs. Grp., Inc.*, No. 1:19-CV-02005-DDD-SKC, 2020 WL 3256883, at \*12 (D. Colo. Mar. 26, 2020) (denying preliminary injunction after discussing competing policy considerations, determining that requested relief would enjoin use of information "that at this point is mostly public and thus not trade-secret material"); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 109 F. Supp. 3d 1009, 1023–24 (W.D. Tenn. 2015) (denying preliminary injunction prohibiting former employee who did not have a noncompete agreement from continuing to work for a competitor where defendants no longer had access to the trade secrets, there was no evidence of ongoing use of the information, and "[s]tripped of the minutiae, much of the information [the employee] likely retains in his head" was "of the type that one would find in any business school class on supply chain management").

warranted at all, and if so, the appropriate scope of any relief and appropriate measures to balance the hardships. If either party contends that the proposed relief has particular significance to the public, it should present evidence, not simply cite familiar maxims, supporting its position.

## VI. ESTABLISHING THE PROPER SCOPE OF INTERIM RELIEF

Should the evidence establish the need for interim equitable relief, the parties and the court should assess the proper scope of relief. While decisions have cautioned that interim relief should be narrowly tailored and no broader than necessary to prevent the harm alleged,<sup>215</sup> the determination of the appropriate scope of equitable relief in a particular case lies at the very heart of the exercise of the court's discretion and requires assessment of all four factors for evaluating equitable relief. In arriving at the appropriate scope of relief, factors the courts have considered include, among other things:

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215. See, e.g., *Faiveley Transport Malmö AB v. Wabtec Corp.*, 559 F.3d 110, 119 (2d Cir. 2009) (holding that “[i]n cases where the presumption applies (and has not been rebutted) or where irreparable injury has been demonstrated,” “a ‘narrowly drawn’ preliminary injunction that protects the trade secret from further disclosure or use may be appropriate. In all cases, the relief should be ‘narrowly tailored to fit specific legal violations’ and to avoid ‘unnecessary burdens on lawful commercial activity.’” (citing *Waldman Publ’g Corp. v. Landoll, Inc.*, 43 F.3d 775, 785 (2d Cir. 1994)); *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115 (D. Md. 2020) (preliminary injunction decision, commending plaintiff for narrowing its request for preliminary relief to an order prohibiting defendants from accessing, using, disclosing, or disseminating documents referenced in an appendix to the order). *But see Arminius Schleifmittel GmbH v. Design Indus., Inc.* No. 1:06CV00644, 2007 WL 534573, at \*7 (M.D.N.C. Feb. 15, 2007) (recognizing that, generally, the scope of a preliminary injunction must be narrowly tailored and should not deprive a defendant of the right to use its own skills and talents in the marketplace, but concluding that given the evidence of defendants’ unauthorized disclosure and use of trade secrets, it was appropriate in the case at bar to grant a preliminary injunction prohibiting defendants from offering for sale a product incorporating the misappropriated trade secret designs and prohibiting two defendants from entering the corporate defendant’s business premises).

- the nature and scope of the trade secret(s) at issue—trade secrets in fields in which there is much public information typically merit narrower injunctive relief.<sup>216</sup>
- the extent to which the defendant has engaged in independent development;<sup>217</sup>
- the likely useful life of the trade secret;
- the extent of the defendant’s established wrongdoing or concealment, with broader relief potentially being granted in the face of significant wrongdoing or where the information at issue remains in the defendant’s possession;<sup>218</sup> and
- the defendant’s prior violation of court orders.<sup>219</sup>

Where evidence is developed after an initial hearing showing that additional information is at risk beyond that previously identified, the court may entertain a request for an amendment to the original order altering the relief.<sup>220</sup>

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216. See, e.g., *American Can Co. v. Mansukhani*, 742 F.2d 314, 326 (7th Cir. 1984) (remanding decision on preliminary injunction that did not limit the definition of trade secrets to exclude information in the public literature for determination of whether defendant’s products had been derived from the trade secret or from public information), *subsequent decision on contempt*, 814 F.2d 421 (7th Cir.1987).

217. This consideration more frequently arises in the context of assessing a demand for permanent injunctive relief. See discussion *infra* Part VIII (Additional Factors to Consider in Connection with Permanent Injunctions).

218. See, e.g., *OmniGen Research, LLC v. Wang*, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*22 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018).

219. *Id.* See discussion *infra* Guideline No. 19.

220. See, e.g., *Invacare Corp. v. Nordquist*, No. 1:18-CV-62, 2018 WL 3768278 (N.D. Ohio Aug. 9, 2018) (modifying original preliminary injunction in light of newly-produced evidence that defendant had misappropriated additional information beyond that known to plaintiff at the time of the preliminary injunction hearing).

Where a plaintiff seeks an injunction to limit particular employment activities by a former employee and the defendant is subject to a noncompete or similar agreement, the court will need to consider whether the contractual restrictions are enforceable.

If the court concludes that equitable relief is necessary to prevent the use or disclosure of the trade secret, the court may frame the order in a way to prevent circumvention, including through the use of terms explicitly preventing the enjoined party from using, disclosing, licensing, transferring, selling, or offering to sell the trade secret and, as appropriate, products or processes incorporating the trade secret, or assisting others to do the prohibited acts. It has been observed that “[a]n injunction should be ‘tailored to eliminate only the specific harm alleged,’ but it should not be ‘so narrow as to invite easy evasion.’”<sup>221</sup>

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221. *Skydive Arizona, Inc. v. Quattrocchi*, 673 F.3d 1105, 1116 (9th Cir. 2012) (internal citations omitted).

## VII. ESTABLISHING AN INJUNCTION BOND TO PROTECT THE INTERESTS OF THE NONMOVING PARTY

An interim injunction may have dramatic economic consequences for the party enjoined. Interim equitable relief is often fashioned on an early or incomplete record. Later, a reviewing court, or the trial court upon review of further evidence, may ultimately determine that the injunction was not properly granted. An enjoined party could suffer injury from the injunction before the decision is reviewed. To provide security against the damages caused by an improvidently granted interim injunction, courts are directed by applicable procedural rules to establish a bond to which the enjoined party may have recourse. Thus, under Federal Rule of Civil Procedure 65(c), the court “may issue a preliminary injunction or a temporary restraining order only if the movant gives security in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained.” The bond is generally the cap on the damages a wrongfully enjoined party can recover.<sup>222</sup> Many states have similar rules.<sup>223</sup> That being the case, at least one federal court of appeals decision outside the trade secret context has cautioned

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222. See, e.g., 13 MOORE’S FEDERAL PRACTICE § 65–94.1 (3d. ed. 1997); *Mead Johnson & Co. v. Abbott Labs*, 201 F.3d 883, 888 (7th Cir.), *amended on denial of rehearing*, 209 F.3d 1032 (7th Cir. 2000); *Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc.*, 323 F. Supp. 2d 525 (S.D.N.Y. 2004) (trade secret case). Readers should note that to the contrary, in connection with ex parte seizure orders under the DTSA, the bond is expressly specified as not constituting a cap on the damages that may be recovered by the wrongfully enjoined party. 18 U.S.C. 1836 §§ (b)(2)(F) and (G).

223. See, e.g., *Emerald Partners v. Berlin*, 712 A.2d 1006 (Del. Ch. 1997) (non-trade secret case). *But see* N.D. R. CIV. P. 65(h)(5) (West 2021), providing that the bond is not a cap and does not limit the costs and damages a wrongfully-enjoined party may recover; illustrating the importance of researching the law applicable to the jurisdiction of interest.



that “[w]hen setting the amount of security, district courts should err on the high side,” since an error in setting the bond too low “produces irreparable injury, because the damages for an erroneous preliminary injunction cannot exceed the amount of the bond[;]” whereas, “[a]n error in setting the bond too high . . . is not serious” because the wrongfully enjoined party “still would have to prove its loss[.]”<sup>224</sup> Recoverable damages must arise from the operation of the injunction itself, not from the suit independently of the injunction, and must not be remote or speculative.<sup>225</sup>

Several circuits have expressly acknowledged the mandatory phrasing of the bond requirement under Rule 65(c), holding that this means that a bond is required in every case.<sup>226</sup> Most

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224. *Mead Johnson*, 201 F.3d at 888; *Mallet and Co., Inc. v. Lacayo*, 16 F. 4th 364, 391 (3d Cir. 2021) (“the consequences” could be “dire if district courts were to significantly underestimate the economic impact of an injunction it issues,” remanding for further consideration of bond); *Life Spine, Inc. v. Aegis Spine, Inc.*, No. 19 CV 7092, 2021 WL 963811, at \*23–24 (N.D. Ill. Mar. 15, 2021), *aff’d* 8 F.4th 531 (7th Cir. 2021); *see also* *Guzzetta v. Service Corp. of Westover Hills*, 7 A.3d 467 (Del. 2010) (non-trade secret case).

225. *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115, 144–45 (D. Md. 2020) (preliminary injunction decision; summarizing general precedents on injunction bonds). *Cf. Guzzetta*, 7 A.3d at 470 (non-trade secret case summarizing general precedents on injunction bonds).

226. *See* *Globus Med., Inc. v. Vortex Spine, LLC*, 605 F. App’x 126, 129 (3d Cir. 2015) (holding that courts “must interpret this requirement strictly”); *Scanvec Amiable Ltd. v. Chang*, 80 F. App’x 171, 176 (3d Cir. 2003) (unpublished) (“We have long held that the *posting* of adequate security is a ‘condition precedent’ to injunctive relief.” (emphasis added, citations omitted)); *Patuxent Section I Corp. v. St. Mary’s Cty. Metro. Comm’n*, 1975 WL 166159, at \*1 (4th Cir. Mar. 26, 1975) (“[A] bond [is] required” for a preliminary injunction, citing Federal Rule of Civil Procedure 65(c)); *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 421 (4th Cir. 1999) (trade secret case) (Rule 65(c) “is mandatory and unambiguous. Although the district court has discretion to set the bond amount ‘in such sum as the court deems proper,’ it is not free to disregard the bond requirement altogether. In view

circuits, however, have interpreted the second half of the Rule (requiring that the bond be “in an amount that the court considers proper[.]”) as rendering the amount of the bond and, more significantly, whether a bond is required at all within the discretion of the district court.<sup>227</sup> This is so even if the amount of the bond is set lower than the amount of nonspeculative potential damages that would be suffered by a wrongfully enjoined party.<sup>228</sup> The exercise of this discretion may be appropriate, for

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of the clear language of Rule 65(c), failure to require a bond upon issuing injunctive relief is reversible error.”) (internal citations omitted); *Atomic Oil Co. of Okla., Inc. v. Bardahl Oil Co.*, 419 F.2d 1097, 1100–01 (10th Cir. 1969) (“Rule 65(c) states in mandatory language that the giving of security is an absolute condition precedent to the issuance of a preliminary injunction.”). *See also* *Zambelli Fireworks Mfg. Co. v. Wood*, 592 F.3d 412, 426 (3d Cir. 2010) (finding, “[w]e have never excused a district court from requiring a bond where an injunction prevents commercial, money-making activities”); *Frank’s GMC Truck Ctr., Inc. v. General Motors Corp.*, 847 F.2d 100, 103 (3d Cir. 1988) (“[A]bsent circumstances where there is no risk of monetary loss to the defendant, the failure of a district court to require a successful applicant to post a bond constitutes reversible error.”).

227. *See* *Reco Equip., Inc. v. Wilson*, No. 20-4312, 2021 WL 5013816 (6th Cir. Oct. 28, 2021) (“Though Rule 65(c)’s language suggests security is mandatory, our circuit has long recognized a district court’s discretion over *whether* to require the posting of security. In other words, a lower court can expressly choose not to require security. But it must affirmatively do so—it can’t ignore the issue altogether.”) (remanding for consideration of whether security should be ordered and if so the amount) (citations omitted) (emphasis in original).

228. *See* *Urbain v. Knapp Bros. Mfg. Co.*, 217 F.2d 810, 815–16 (6th Cir. 1954) (“The rule leaves it to the District Judge to order the giving of security in such sum as the court considers proper. This would indicate plainly that the matter of requiring security in each case rests in the discretion of the District Judge.”); *Corrigan Dispatch Co. v. Casa Guzman, S.A.*, 569 F.2d 300, 302–03 (5th Cir. 1978); *Temple Univ. v. White*, 941 F.2d 201, 219 (3d Cir. 1991); *Wayne Chem., Inc. v. Columbus Agency Serv. Corp.*, 567 F.2d 692, 701 (7th Cir. 1977); *Johnson v. Couturier*, 572 F.3d 1067, 1086 (9th Cir. 2009); *see also* 11A CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE &

example, where interim relief is granted on a relatively well-developed record after substantial discovery in which both parties have participated, reducing the likelihood that on appeal the injunction will be found to have been improvidently granted, or where the nonmovant has not shown a likelihood of harm.<sup>229</sup>

The application of these principles has led to a wide range of bonds in trade secret disputes.<sup>230</sup> The bond amount is related to the scope of the injunction and “ordinarily depends on the gravity of the potential harm to the enjoined party.”<sup>231</sup> Thus, for example, a bond will typically be larger when an injunction impacts the operation of a business and smaller when the

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PROCEDURES CIV. § 2954, at 524 (2d ed.) (“The mandatory nature of the security requirement is ameliorated by the remaining portion of the first sentence of Rule 65(c), which states that the security be ‘in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained.’”).

229. See, e.g., *Integra Optics, Inc. v. Nash*, No. 1:18-CV-0345(GTS/TWD), 2018 WL 2244460, at \*16 (N.D.N.Y. Apr. 10, 2018) (ordering that plaintiff would not be required to post a bond in connection with preliminary injunction enforcing confidentiality and non-solicitation agreement where plaintiff was “very likely to prevail on the merits of its claims” and defendant had not shown that she would likely suffer harm (citations omitted)); *Hoechst Diafoil*, 174 F.3d at 421 n.3 (listing factors courts consider in determining the bond amount in trade secret cases).

230. See *Brightview Grp.*, 441 F. Supp. 3d at 145 (surveying bond decisions in trade secret cases).

231. *Hoechst Diafoil*, 174 F.3d at 421 n.3 (trade secret case); see also *Doctor’s Assocs., Inc. v. Stuart*, 85 F.3d 975, 985 (2d Cir. 1996); *Int’l Controls Corp. v. Vesco*, 490 F.2d 1334, 1356 (2d Cir. 1974) (non-trade secret case) (“In construing this language, we have stated that, especially in view of the phrase— ‘as the court deems proper’— the district court may dispense with security where there has been no proof of likelihood of harm to the party enjoined.”) (internal citations omitted); *Cont’l Oil Co. v. Frontier Refining Co.*, 338 F.2d 780, 782 (10th Cir. 1964).

injunction is directed to the return of documents.<sup>232</sup> Depending on the scope of the injunction and its likely impact on the party to be enjoined, courts have imposed substantial bonds in trade secret cases where warranted by the evidence.<sup>233</sup> Courts have also imposed nominal bond in trade secret cases awarding

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232. See *Prairie Field Servs., LLC v. Welsh*, No. 20-CV-2160 (ECT/KMM), 2020 WL 6336705, at \*18 (D. Minn. Oct. 29, 2020) (imposing bond of \$10,000 in connection with an injunction order directing the return of documents since compliance would likely cause defendant to incur forensic expense).

233. See, e.g., *Genentech, Inc. v. JHL Biotech, Inc.*, No. C 18-06582 WHA, 2019 WL 1045911, at \*22 (N.D. Cal. Mar. 5, 2019) (imposing a bond of \$50,000,000 in connection with order enjoining defendants from using particular information to develop particular drugs given evidence of the market for the pharmaceutical products at issue); *Life Spine, Inc. v. Aegis Spine, Inc.*, No. 19 CV 7092, 2021 WL 963811, at \*23–24 (N.D. Ill. Mar. 15, 2021), *aff'd* 8 F.4th 531 (7th Cir. 2021) (ordering bond of \$6,000,000 in connection with entry of a preliminary injunction preventing defendant from developing, manufacturing, marketing, distributing, or selling its competing line of surgical devices pending trial); *Peoplestrategy, Inc. v. Lively Employer Servs., Inc.*, No. 3:20-CV-02640-BRM-DEA, 2020 WL 7869214, at \*10 (D.N.J. Aug. 28, 2020) (unpublished) (ordering posting of \$200,000 bond in connection with preliminary injunction requiring defendants to cease using plaintiff's proprietary information and soliciting plaintiffs' employees and customers for one year since injunction would force defendants to forego revenue; amount calculated by reference to value of accounts), *reconsideration denied*, 2020 WL 7237930 (D.N.J. Dec. 9, 2020); *Waymo LLC v. Uber Techs., Inc.*, No. C 17-00939 WHA, 2017 WL 2123560, at \*14 (N.D. Cal. May 11, 2017) (conditioning injunction directing return of documents and limiting one employee's work on LiDAR technology on the posting of a \$5,000,000 bond); *Systems Spray-Cooled, Inc. v. FCH Tech, LLC*, No. 1:16-CV-1085, 2017 WL 2124469 (W.D. Ark. May 16, 2017) (conditioning preliminary injunction enjoining defendants from using or disclosing plaintiff's design drawings and worksheets on posting of a \$5,000,000 bond); *International Bus. Machs. Corp. v. Papermaster*, No. 08-CV-9078-KMK, Dkt. #22 (S.D.N.Y. Nov. 13, 2008) (establishing a bond after posthearing briefing in the amount of \$3,000,000 in connection with an injunction enforcing a highly compensated executive's noncompete agreement to protect trade secrets).

limited injunctive relief, again as supported by the evidence.<sup>234</sup> However, the amount of the bond should be calibrated to the needs of the specific case rather than following “rules of thumb” based on rulings in other cases.<sup>235</sup>

Under the Federal Rules of Civil Procedure, regardless of the size of the bond, the court can be reversed if it does not make factual findings and provide an explanation for setting the bond at a particular amount.<sup>236</sup>

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234. See *Pyro Spectaculars N., Inc. v. Souza*, 861 F. Supp. 2d 1079, 1098 (E.D. Cal. 2012) (no bond); *Tesla, Inc. v. Khatilov*, No. 4:21-cv-00528-YGR, 2021 WL 624174 (N.D. Cal. Jan. 22, 2021) (no bond in connection with injunction requiring turnover of materials for forensic review). Cf. *Neo Gen Screening, Inc. v. TeleChem Int’l, Inc.*, 69 F. App’x 550, 556–57 (3d Cir. 2003) (affirming award of \$10,000 bond in trade secret case because the enjoined party “produced no evidence of any irreparable harm to it from the injunction”).

235. *Mallet and Co., Inc. v. Lacayo*, 16 F. 4th 364, 392 (3d Cir. 2021) (reversing trial court’s entry of a bond of \$500,000 in connection with entry of a “production injunction” preliminarily enjoining defendant from distributing particular products where amount of bond had been based on trial court’s canvassing of decisions throughout the country establishing bonds in similar cases, holding that the determination of the appropriate bond must be tied to analysis of the specific case and injunction before the court).

236. See, e.g., *Reco Equip., Inc. v. Wilson*, No. 20-4312, 2021 WL 5013816 at \*5 (6th Cir. Oct. 28, 2021) (remanding for explanation of decision on security); *Mallet*, 16 F.4th at 392; *Gateway E. Ry. Co. v. Terminal R.R. Ass’n*, 35 F.3d 1134, 1142 (7th Cir. 1994) (“Because the district court has provided us with no explanation for its decision to set the bond at the chosen figure, it is impossible for us to determine whether or not the \$70,000 bond was ‘within the range of options from which one could expect a reasonable trial judge to select.’ Consequently, we remand for a more definite statement of findings on this issue.”) (internal citations omitted); *Corning Inc. v. PicVue Elecs., Ltd.*, 365 F.3d 156, 158 (2d Cir. 2004) (trade secret and copyright case) (“While it might have been within the discretion of the district court to decide that, under the circumstances, no security was required, . . . the district court was required to make this determination before it entered the preliminary injunction.”) (internal citations omitted); *Hill v. Xyquad, Inc.*, 939 F.2d 627, 632 (8th Cir. 1991) (“Although we allow the district court much discretion in setting

**Guideline 12. The parties should present evidence and argument regarding the proper amount of any bond that is tied to any interim relief ordered.**

While the specific approaches to assessing the imposition of a bond vary, parties should assess and present to the court evidence tied to the proposed interim injunctive relief in support of their proposed amount for the bond. Too often argument over the amount of a bond appears to emerge only as an unsubstantiated afterthought as the parties exit the courtroom.<sup>237</sup> If the issue has not been fully presented, the court or the parties may want to seek the further evidence and argument on the bond once an injunction has been entered and the scope of the relief being ordered is clear.<sup>238</sup>

Some nondisclosure or other contracts at issue in trade secret disputes specify that if a party is successful in a request for

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bond, we will reverse its order if it abuses that discretion due to some improper purposes, or otherwise fails to require an adequate bond or to make the necessary findings in support of its determinations.”). Cf. *Guzzetta v. Svc. Corp. of Westover Hills*, 7 A.3d 467 (Del. 2010).

237. See *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, No. 20-CV-3375, 2020 WL 3960451, at \*14 (N.D. Ill. July 13, 2020) (ordering \$50,000 bond where plaintiff had argued that there should be no bond “because defendant ‘should never have stolen . . . trade secrets in the first place’” and defendant had argued that there should be a “substantial monetary bond” because “the relief sought by Plaintiffs could imperil Defendant’s ‘entire business,’” but submitted no evidence; noting that the parties could move to adjust the bond in the future).

238. See, e.g., *Mallet and Co. v. Lacayo*, No. 19-1409, 2020 WL 6866386, at \*14 (requesting further input from the parties on the order on preliminary injunction in a trade secret dispute, particularly as relates to the entry of a security bond); *Peoplestrategy*, 2020 WL 7869214, at \*2 n.4 (directing further briefing on the amount of the bond); *Inventus Power*, 2020 WL 3960451, at \*14 (observing that argument on the amount of the bond can be more focused once the scope of the injunction is established).

injunctive or other equitable relief, the court shall be permitted to enter the relief without requiring the posting of a bond. Courts differ in their willingness to give force to such provisions.<sup>239</sup> A court may act within its discretion in requiring a bond even though a relevant contract waives the requirement, at least where the movant expresses a willingness to post a bond.<sup>240</sup> Similar to contractual “acknowledgements” of irreparable harm, parties should present evidence on whether enforcing a contractual waiver of security is appropriate in the particular dispute.

Any order granting interim injunctive relief should specify whether it becomes effective at the date of the order, subject to vacatur if the bond is not posted by a specific date, upon the posting of the bond, or at some other time.

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239. Compare *Singas Famous Pizza Brands Corp. v. N.Y. Advert., LLC*, No. 10 Civ. 8976(RJH), 2011 WL 497978, at \*12 (S.D.N.Y. Feb. 10, 2011) (enforcing the parties’ contractual waiver of a bond), *aff’d*, 468 F. App’x 43 (2d Cir. 2012) with *Life Spine, Inc. v. Aegis Spine, Inc.*, No. 19 CV 7092, 2021 WL 963811, at \*23–24 (N.D. Ill. Mar. 15, 2021) (refusing to extend a private agreement attempting to do away with the bond requirement to a claim for trade secret misappropriation) and *TP Grp.-CI, Inc. v. Vetecnik*, No. 1:16-cv-00623-RGA, 2016 WL 5864030, at \*3 (D. Del. Oct. 6, 2016) (refusing to enforce contractual waiver of bond).

240. See Transcript of Oral Argument at 36:14–23, *Presidio, Inc. v. Leonard*, C.A. No. 2019-0298-JRS (Del. Ch. filed May 24, 2019).

### VIII. ADDITIONAL FACTORS TO CONSIDER IN CONNECTION WITH PERMANENT INJUNCTIONS

By the time a trade secret dispute goes to trial, discovery is complete and the finder of fact is able to assess all the evidence and the credibility of the witnesses on each side. If the factfinder determines that the defendant has misappropriated the movant's trade secrets, the trade secret owner has succeeded on the merits of its claim. Nevertheless, permanent injunctive relief is not automatic.

In some cases the trade secret owner may decide not to seek permanent injunctive relief.<sup>241</sup> It may be satisfied by any monetary award. The information may no longer be a trade secret.<sup>242</sup> The trade secret owner itself may have elected to make its trade secret public by filing for or obtaining a patent. Future relief may be available to the trade owner under other theories, such as part of a claim for patent infringement. Others may have independently developed the trade secret or information that is a close substitute, diminishing the value of the trade secret to its owner.

In some cases, the trade secret owner may ask the court to enter an order permanently enjoining the defendant from further using or disclosing the information that has been found to be misappropriated. The court may determine, however, that in a particular case the trade secret has become so widely known that enjoining its further use and disclosure would impose

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241. For a recent empirical look at requests for permanent injunctive relief as well as the absence of such requests after trial, see, Elizabeth A. Rowe, *eBay, Permanent Injunctions, and Trade Secrets*, 77 WASH. & LEE L. REV. 553 (2020) (examining many unpublished orders).

242. See, e.g., *02 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064 (N.D. Cal. 2006), *aff'd* 221 F. App'x 996 (Fed. Cir. 2007) (denying use injunction because the information was no longer secret and had been disclosed; jury had awarded unjust enrichment damages).



inappropriate restrictions on the public's ability to continue to access it.<sup>243</sup>

Even if some third parties are now free to use the trade secrets through their own legitimate efforts, the trade secret owner may urge that money damages have not undone the effects of the unfair competitive lead time or "head start" the defendant gained through misappropriation and that an injunction should be entered delaying the defendant from entering or participating in the market for some period.

As with other decisions regarding equitable relief, the availability of permanent injunctive relief after a finding of misappropriation at trial is not necessarily presumed. Courts continue to apply the traditional rules of equity, in particular focusing on the nature and scope of the trade secret, whether the plaintiff is able to establish ongoing irreparable harm, and the impact of the proposed relief on the defendant and on the public.<sup>244</sup> A

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243. *See, e.g.*, *B. Braun Med., Inc. v. Rogers*, 163 F. App'x 500, 509 (9th Cir. 2006) (holding that "[I]njunctive relief is only available to protect a trade secret. Once a trade secret has been widely disclosed, it is no longer secret and does not merit injunctive relief."); *DVD Copy Control Ass'n Inc. v. Bunner*, 10 Cal. Rptr. 3d 185, 194–95 (Cal. Ct. App. 2004) (finding that permanent injunctive relief barring use or disclosure of trade secret was unwarranted where the trade secret had become so widely known that it was even available on t-shirts; concluding that an injunction would remove from the general public information that was no longer a trade secret).

244. *See, e.g.*, *Syntel Sterling Best Shores Mauritius, Ltd. v. Trizetto Grp., Inc.*, No. 15-Civ. 211 (LGS), 2021 WL 1553926, at \*12 (S.D.N.Y. Apr. 20, 2021) (following *eBay* and *Faiweley* in declining to apply a presumption of irreparable harm after trial; finding, however, that the plaintiff had established the four equitable factors; and granting a permanent injunction); *Cajun Servs. Unlimited, LLC v. Benton Energy Serv. Co.*, Civil Action Nos. 17-491, c/w 18-5630 & 18-5932, 2020 WL 375594, at \*7 (E.D. La. Jan. 23, 2020), *motion to amend denied*, 2020 WL 3188991 (E.D. La. June 15, 2020), *aff'd mem.* 855 Fed. App'x 771 (Fed. Cir. 2021); *CardiAQ Valve Techs., Inc. v. Neovasc, Inc.*, No. 14-cv-12405-ADB, 2016 WL 6465411, at \*7 (D. Mass. Oct. 31, 2016), *aff'd*, 708 F.

request for a permanent injunction can raise additional considerations that were not before the court in weighing interim relief; principally whether any monetary remedies that have been awarded at trial have “repaired” the harm, the question of whether to award a “use” injunction or a “production” injunction, and the duration of appropriate relief.

One frequent component of permanent injunctive relief is an order directing the “eradication” or “remediation” of misappropriated documents and computer files. By the time the trial has been completed, more specific direction as to the location and types of files to be addressed and more robust remediation

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App’x 654 (Fed. Cir. Sept. 1, 2017) (unpublished) (following *eBay* and assessing the “well-established principles of equity” in determining whether to grant permanent injunctive relief rather than applying any presumption; denying permanent injunction); *Steves & Sons, Inc. v. JELD-WEN, Inc.* No. 3:16cv545, 2018 WL 6272893, at \*5 (E.D. Va. Nov. 30, 2018) (denying permanent injunctive relief in light of plaintiff’s argument that damages would be an adequate remedy; not reaching consideration of *eBay*); *Bimbo Bakeries USA, Inc. v. Sycamore*, No. 2:13-cv-00749-DN-DBP, 2018 WL 1578115 (D. Utah Mar. 29, 2018) (following *eBay*; finding that the evidence warranted granting a limited permanent injunction); *Aspen Tech., Inc. v. Kunt*, No. H-10-1127, 2013 WL 12090343, at \*3 (S.D. Tex. Feb. 4, 2013) (making findings “as required by *eBay*,” establishing irreparable harm and the lack of an adequate remedy at law, particularly in view of defendant’s commencement of bankruptcy proceedings and plaintiff’s likely inability to recover damages, and granting permanent injunction); *Versata Software, Inc. v. Internet Brands, Inc.*, No. 2:08-CV-313-WCB, 2012 WL 3075712 (E.D. Tex. July 30, 2012) (following *eBay* in assessing the request; denying a permanent injunction); *Uhlig, LLC v. Shirley*, No. 6:08-CV-01208-JMC, 2012 WL 2458062 (D.S.C. June 27, 2012) (finding that *eBay* had effectively abrogated a presumption of irreparable harm applicable to trade secret disputes and denying permanent injunction after finding that movant had not established irreparable harm). *Cf.* *Brightview Group, LP v. Teeters*, No. SAG-19-2774, 2021 WL 1238501 (D. Md. March 26, 2021) (after ruling on motion for summary judgment, applying *eBay*’s requirement that court consider all four equitable factors and not simply apply a presumption of irreparable harm; finding a threat of continuing misappropriation if no permanent injunction was issued).

procedures may be fashioned than may have been possible at an earlier stage of the dispute.<sup>245</sup> Issues may remain as to the scope of remediation and who will pay for it.

Another component of permanent injunctive relief may be the imposition of a variety of activity restrictions on the party found to have engaged in misappropriation. Depending on the facts presented, these restrictions may be stated to apply outside the United States, even worldwide.<sup>246</sup>

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245. See, e.g., *Epic Sys. Corp. v. Tata Consultancy Svcs., Ltd.*, No. 14-cv-748-wmc, 2016 WL 6477011, at \*3 (W.D. Wis. Nov. 2, 2016) (imposing remediation order after trial); *IHE Auto Parts, LLC v. Abelson*, No. 1:16-CV-4717-SCJ, 2017 WL 7519067 (N.D. Ga. Nov. 16, 2017) (issuing permanent injunction barring employee caught taking material with him via USB flash drive on his last day of work from using or disclosing plaintiff's trade secrets and requiring him to provide all USB devices for inspection and removal of plaintiff's trade secret information); *OmniGen Research, LLC v. Wang*, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*22 (D. Or. Nov. 16, 2017), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018); *Allergan, Inc. v. Merz Pharm., LLC*, No. SACV-11-446 AG (Ex) (C.D. Cal. filed Mar. 9, 2012) (entering permanent injunction order detailing forensic remediation requirements). For an even more aggressive permanent remediation directive, see *Specialized Tech. Res., Inc. v. JPS Elastomerics Corp.*, No. HSCV200700200, 2011 WL 1366584 (Mass. Super. Ct. Feb. 10, 2011) (ordering that plant incorporating trade secrets be dismantled and that thorough review be conducted to locate and return documents containing identified trade secrets), *aff'd*, 957 N.E.2d 1116 (Mass App. Ct. 2011).

246. See, e.g., *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970, 974 (9th Cir. 1991); *OmniGen Research*, 2017 WL 5505041, at \*22; *Syntel Sterling*, 2021 WL 1553826, at \*14 (entering worldwide permanent injunction under DTSA where acts in furtherance of the offense had occurred in the United States); *General Elec. Co. v. Sung*, 843 F. Supp. 776 (D. Mass. 1994). *Cf.* *Nordson Corp. v. Plasschaert*, 674 F. 2d 1371, 1377 (11th Cir. 1982) (observing that “[a]s a practical matter, however, geographical limits often can be set” (limiting permanent injunction to Western Europe, the United States and Canada); *AtriCure, Inc. v. Meng*, 842 Fed. App'x 974 (6th Cir. Jan. 21, 2021) (unpublished) (granting worldwide preliminary injunction under Ohio's Uniform Trade Secrets Act). *Cf.* Restatement (Third) of Unfair Competition,

**Guideline 13. Positions the parties have taken regarding damages at trial may bear on the question of whether the movant will suffer irreparable injury without a permanent injunction.**

To obtain permanent injunctive relief after trial the movant is typically still required to establish that without injunctive relief it will suffer irreparable harm.<sup>247</sup> If the jury has already awarded damages for future continuing harm, it may be appropriate to find on particular facts that an injunction “would be redundant of the legal relief which the jury has already awarded,”<sup>248</sup> even if the damages award is less than the movant requested.<sup>249</sup> Where, however, damages are found to compensate only past harm, permanent injunctive relief may be

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§44 cmt. d, stating that “[a] defendant would normally be enjoined from disclosing or using the trade secret even outside the geographic market of the trade secret owner.”

247. See, e.g., *Brocade Commc’ns Sys., Inc. v. A10 Networks, Inc.*, No. C 10-3428 PSG, 2013 WL 890126, at \*3 (N.D. Cal. Jan. 23, 2013).

248. *Whiteside Biomechanics, Inc. v. Sofamor Danek Grp., Inc.*, 88 F. Supp. 2d 1009, 1020 (E.D. Mo. 2000), *aff’d*, 13 F. App’x 950 (Fed. Cir. 2001). See also *CardiAQ Valve Techs.*, 2016 WL 6465411, at \*7; *Allied Erecting & Dismantling Co. v. Genesis Equipment & Mfg., Inc.*, No. 4:06-CV-114, 2010 WL 3370286 (N.D. Ohio Aug. 26, 2010), *aff’d*, 511 F. App’x 398 (6th Cir. 2013).

249. *Steves & Sons*, 2018 WL 6272893, at \*5 (denying permanent injunctive relief where “it could not be clearer” that the trade secret claimant’s expert witness had testified that an award of a reasonable royalty would allow the trade secret defendant to use any trade secret without future restraint; the fact that the jury awarded a reasonable royalty in a lower amount than claimant’s expert had requested did not change this result); *Pike v. Texas ECM Mgm’t, LLC*, 610 S.W. 3d 763 (Tex. 2020) (holding that the fact that movant’s damages expert had used evidence of the market value attributable to future income streams to attempt to prove that misappropriation had reduced the movant’s market value meant that movant’s claim was reparable, even though the reviewing court concluded movant had failed to offer legally sufficient evidence of damages).

appropriate to prevent future harm.<sup>250</sup> As with other aspects of equitable relief, the inquiry is fact specific. Positions that both parties have taken at trial will be relevant. Where the record evidence shows, for example, that the trade secret owner would not have voluntarily licensed its trade secret and the plaintiff did not argue at trial that a damages award would make it whole, permanent injunctive may be found to be appropriate.<sup>251</sup>

**Guideline 14. A “use” injunction should specify any trade secret it addresses and, where practical, carve out particular information that has been found not to be a trade secret.**

The most common form of injunction following trial is an order directing defendant not to use or disclose the trade secrets at issue, including by such means as using, distributing, copying, modifying, selling, offering to sell, or licensing the trade secret, products embodying the trade secret, or information derived from the trade secret.<sup>252</sup> The injunction order should provide notice of the trade secret in reasonable detail.<sup>253</sup> Courts

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250. *Syntel Sterling*, 2021 WL 1553926, at \*13.

251. *TMRJ Holdings, Inc. v. Inhance Techs., LLC*, 540 S.W.3d 202, 214 (Tex. Ct. App. 2018).

252. *See, e.g., Chetu, Inc. v. Salihu*, No. 09-60588-CIV, 2010 WL 1372329, at \*1 (S.D. Fla. Apr. 2, 2010).

253. *See Mallet & Co. Inc. v. Lacayo*, 16 F. 4th 364, 388–89 (3d Cir. 2021) (vacating and remanding for further assessment and identification of the trade secrets at issue; if on remand trial court determined preliminary injunctive relief to be appropriate, requiring trial court to sufficiently define the trade secrets at issue and narrowly tailor scope of injunction since “basic fairness requires that those enjoined receive explicit notice of precisely what conduct is outlawed”); *E.W. Bliss Co. v. Struthers-Dunn, Inc.*, 408 F.2d 1108, 1113–17 (8th Cir. 1969) (holding that injunction against “using or disclosing trade secrets and confidential technical information” was too vague to give fair notice of the information at issue); *TMRJ Holdings*, 540 S.W.3d at 214. *Cf. Corning Inc. v. PicVue Elecs., Ltd.*, 365 F.3d 156, 157–58 (2d Cir. 2004)

have recognized that the injunction should not be so broad as to limit lawful competition by prohibiting the use of fully public information.<sup>254</sup> A permanent injunction should not prohibit the use of information that has been found to be lawfully developed through independent means.<sup>255</sup> An injunction order may,

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(vacating and remanding preliminary injunction order that did not specify trade secrets).

254. See, e.g., *Mallet*, 16 F. 4th at 388–89; *Brightview Grp. LP v. Teeters*, No. SAG-19-2774, 2021 WL 1238501 (D. Md. March 29, 2021) (entering permanent injunction that narrowed preliminary injunction to clarify that injunction prohibits only the use of specified documents court had found to contain trade secrets; expressly not enjoining the use or disclosure of nonconfidential or proprietary information stored in defendants’ memories from their work experience or available from public sources that may also be contained in some of the restricted documents); *KCG Holdings, Inc. v. Khandekar*, No. 17-CV-3533 (AJN), 2020 WL 1189302, at \*17–18 (S.D.N.Y. Mar. 12, 2020) (granting narrower permanent injunction than plaintiff had requested since requested injunction would have prohibited defendant from working on market predictors in any capacity in perpetuity; instead entering injunction prohibiting defendant only from using or disseminating specific information he had obtained through misappropriation), *reconsideration denied*, 2021 WL 517226 (S.D.N.Y. Feb. 11, 2021); *Bimbo Bakeries USA, Inc. v. Sycamore*, Case No. 2:13-cv-00749-DN-DBP, 2018 WL 2018 WL 1578115, \*6 (D. Utah 2018) (granting permanent injunction prohibiting defendants from using specific recipe but otherwise permitting them to compete in the bread market and produce granny-style bread); *Tradesman Int’l, Inc. v. Black*, 724 F.3d 1004, 1014 (7th Cir. 2013) (denying permanent injunctive relief to protect proprietary information that was closer to know-how than to trade secrets and would not provide an unfair advantage to defendants, concluding that the requested permanent injunction “appear[ed] to be nothing but ‘merely seek[ing] to eliminate ordinary competition.’” (citation omitted)); *TMRJ Holdings*, 540 S.W.3d at 214 (Tex. Ct. App. 2018) (remanding injunction that could be read to prohibit all commercial uses of fluorine, where evidence at trial had showed that some fluorine-manufacturing processes were not trade secrets of plaintiff).

255. See, e.g., *Ecimos, LLC v. Carrier Corp.*, No. 2:15-CV-2726-JPM-CGC, 2018 WL 7272058 (W.D. Tenn. Oct. 9, 2018) (following *eBay* and tailoring permanent injunctive to prevent misuse of specific trade secret and appointing

however, as further discussed in connection with Guideline No. 19, be phrased in a fashion appropriate to ensure compliance.

**Guideline 15. An injunction may be entered after trial without a fixed termination date in accordance with applicable law and procedural rules.**

Many injunctions after trial are phrased as being “permanent” without specifying a termination date.<sup>256</sup> It is more accurate to say that such injunctions are of “indefinite duration.” Federal Rule of Civil Procedure 60(b)(5) authorizes the court to relieve a party from the order where “applying it prospectively is no longer equitable.”<sup>257</sup>

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a special master to oversee clean room development of new noninfringing database); *Revolution Retail Sys., LLC v. Sentinel Techs., Inc.*, C.A. No. 10605-VCP, 2015 WL 6611601 (Del. Ch. Oct. 30, 2015), *order clarified by* 2015 WL 6776198 (Del. Ch. Nov. 5, 2015) (carving out from permanent injunction products not found to have been developed through misappropriation); *Halliburton Energy Servs., Inc. v. Axis Techs., Inc.*, 444 S.W.3d 251 (Tex. App. 2014) (limiting scope of injunction to clarify that it did not extend to products that were not derived from plaintiff’s trade secrets). *Cf.* *Agilent Techs., Inc. v. Kirkland*, C.A. No. 3512-VCS, 2010 WL 610725 (Del. Ch. Feb. 18, 2010) (unpublished) (denying permanent injunction that would threaten the continued viability of a business which includes significant aspects that were independently developed).

256. For a discussion of state and federal decisions on perpetual injunctions, *see Halliburton*, 444 S.W.3d at 260 (concluding that under the facts presented trial court abused its discretion in refusing to grant Halliburton a perpetual injunction because “the law is clear that injunctive relief for trade secret misappropriation must be sufficient to protect the plaintiff’s legal rights and remove the competitive advantage obtained through the misappropriation” and defendants had failed to show that anything less than a perpetual injunction would serve these purposes; narrowing scope of injunction, however, since it could be read to encompass the manufacture of products that were not made using or derived from Halliburton trade secrets).

257. *See Crutchfield v. United States Army Corps of Eng’rs*, 175 F. Supp. 2d 835 (E.D. Va. 2001), outlining six factors courts have considered in

**Guideline 16. The duration of a “head start” permanent injunction should be supported by evidence of the duration of the unfair commercial advantage gained through misappropriation.**

The UTSA provides that “[u]pon application to the court, an injunction shall be terminated when the trade secret has ceased to exist.”<sup>258</sup> The UTSA also provides that once a trade secret no longer exists the injunction “may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation,”<sup>259</sup> generally referred to as the “head start” or “lead time” period. This formulation has not been adopted in every state that has adopted the UTSA, so litigants need to determine which

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determining whether to dissolve any injunction: (1) the circumstances leading to entry of the injunction and the nature of the conduct sought to be prevented; (2) the length of time since entry of the injunction; (3) whether the party subject to its terms has complied or attempted to comply in good faith with the injunction; (4) the likelihood that the conduct or conditions sought to be prevented will recur absent the injunction; (5) whether the moving party can demonstrate a significant, unforeseen change in the facts or law and whether such changed circumstances have made compliance substantially more onerous or have made the decree unworkable; and (6) whether the objective of the decree has been achieved and whether continued enforcement would be detrimental to the public interest. This six-factor test has been applied in the trade secret context in, *e.g.*, *MicroStrategy, Inc. v. Business Objects, S.A.*, 661 F. Supp. 2d 548 (E.D. Va. 2009) (granting defendants’ second motion to dissolve injunction based on showing that the nine-year old documents that had been the subject of the injunction no longer constituted trade secrets and that a sufficient period of time had passed since entry of the injunction five years earlier to eliminate any competitive advantage from the misappropriation).

258. Unif. Trade Secrets Act, *supra* note 19, § 2(a).

259. *Id.*



formulation applies in jurisdictions of interest.<sup>260</sup> The DTSA does not contain this language.

In some cases the proper duration of a head start or lead time injunction, whether a “use” injunction or a “production” injunction, can be established based on the evidence presented at trial of the time the trade secret has been useful and not susceptible to reverse engineering.<sup>261</sup> Other cases focus on the evidence presented concerning the time it took the trade secret owner to

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260. See Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit Upon Its Duration*, 17 B.U. J. SCI. & TECH. L. 173, 196 (2011) for a discussion of the history of the adoption of this provision along with examples of its application.

261. See, e.g., *ShowCoat Sols., LLC v. Butler*, No. 1:18-CV-789-ALB, 2020 WL 1467215 (M.D. Ala. Mar. 19, 2020) (ordering use and production injunctions as to different trade secrets, with the duration of the production injunction calibrated to evidence of how long it took others to develop similar formulas, along with an injunction prohibiting the sale of computer code that had been developed through misappropriation). For other examples of cases discussing “head start” injunctions (all decided under common law), see, e.g., *Picker Int’l Corp. v. Imaging Equip. Servs., Inc.*, 931 F. Supp. 18 (D. Mass. 1995), *aff’d*, 94 F.3d 640 (1st Cir. 1996) (ordering permanent use injunction where defendant had engaged in ten-year campaign to acquire and use specialized trade secrets at issue, continuing even during the trial); *Monovis, Inc. v. Aquino*, 905 F. Supp. 1205 (W.D.N.Y. 1994) (permanently enjoining individual and his new organization from competing in the highly specialized single screw compressor marketplace given his prior misappropriation and subterfuge and his intimate knowledge of the technology secrets and fact that the rest of the industry had been unable to develop alternatives, but had taken licenses from plaintiff); *Peggy Lawton Kitchens, Inc. v. Hogan*, 466 N.E.2d 138, 139 (Mass. App. Ct. 1984) (affirming permanent injunction where evidence showed that plaintiff’s cookie recipe had produced cookies for many years that were unique among forty other regional brands); *Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co., Inc.*, 407 N.E.2d 319 (Mass. 1980) (affirming order imposing permanent production injunction where trial court had found that no other manufacturer had ever been able to produce two-tone sinks of the type produced by plaintiff; remanding for damages calculation).

develop the information at issue, and the period it enjoyed its advantage prior to the misappropriation.<sup>262</sup> Still other cases focus on evidence of the period of time it would take the defendant or a legitimate competitor to engage in successful reverse engineering or independent development.<sup>263</sup> Arriving at an

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262. See, e.g., *Epic Sys. Corp. v. Tata Consultancy Servs., Ltd.*, No. 14-cv-748-wmc, 2016 WL 6477011, at \*3 (W.D. Wis. Nov. 2, 2016) (injunction order directing nonuse, nondisclosure, and activity restrictions for four years based on evidence that the information provided a four-year head start but that thereafter the information would be of little value); *Merck & Co., Inc. v. SmithKline Beecham Pharms. Co.*, No. C.A. 15443-NC, 1999 WL 669354 (Del. Ch. 1999) (unpublished)), *aff'd*, 746 A.2d 277 (Del. 2000) (concluding, after considering evidence of the time it had taken trade secret owner to develop information at issue that defendant had gained a three-year head start from the misappropriation and prohibiting defendant from marketing a vaccine that had been developed through the misappropriation in the United States or Canada for three years after FDA approval). Cf. *Allergan, Inc. v. Merz Pharms., LLC*, No. SACV-11-446 AG (Ex), 2012 WL 781705 (C.D. Cal. Mar. 9, 2012) (imposing eight-month injunction against marketing, selling, or distributing botulinum toxin product where plaintiff's pre-suit projections had anticipated that it would take defendant that length of time to enter the market in the ordinary course through fair competition and court had found misappropriation of marketing and sales trade secrets).

263. *Epic Sys.* 2016 WL 6477011, at \*3; *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970, 974 (9th Cir. 1991) (finding evidence in the record to support eight-month head start injunction but noting that it is preferable for trial court to make specific findings); *Syntex Ophthalmics, Inc. v. Novicky*, 745 F.2d 1423, 1435–37 (Fed. Cir. 1984), *vacated on other grounds sub nom.* *Novicky v. Syntex Ophthalmics, Inc.*, 470 U.S. 1047 (1985) (finding that defendant could reverse engineer the trade secret in eight years following termination of employment, so maximum permissible injunction would be eight years); *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 142 (9th Cir. 1965) (tying duration of injunction to projected development period for competitors once trade secret owner planned to fully disclose the secrets in marketing materials); *K-2 Ski Co. v. Head Ski Co., Inc.*, 506 F.2d 471 (9th Cir. 1974).

appropriate fixed duration may require testimony from both technical and economic experts.

Where the specific period of time in which the defendants could have lawfully acquired the information is unclear, some courts have awarded indefinite injunctions, with the burden on the defendants to seek a modification when the commercial advantage from the appropriation has ended.<sup>264</sup>

**Guideline 17. Where a trade secret process has become inextricably connected to the process to manufacture a product, a “production” injunction may be entered to prohibit or limit the defendant’s further production of the product.**

In the unusual case where the misappropriated trade secrets have become inextricably connected to the defendants’ manufacture of a product, a court may find that a use injunction alone would be ineffective in eliminating the competitive advantage gained by the misappropriator, because the defendant cannot be relied on to unlearn or abandon the misappropriated technology.<sup>265</sup> There is an “inextricable connection” when the trade

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264. Cf. *Curtiss-Wright Corp.*, 407 N.E.2d at 326, n.8 (granting permanent injunction, but stating, “[w]e do not preclude the possibility that at some time in the future a substantial change of circumstances may entitle the defendant to seek judicial consideration as to whether the injunction should be dissolved”).

265. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §44, cmt. d (AM. LAW INST. 1995) (stating that a production injunction may be appropriate where a use injunction would be impossible to enforce due to difficulty of distinguishing further improper use of trade secret from independent discovery); *Specialized Tech. Res., Inc. v. JPS Elastomers Corp.*, No. HSCV200700200, 2011 WL 1366584 (Mass. Super. Ct. Feb. 10, 2011), *aff’d*, 957 N.E.2d 1116 (Mass. App. Ct. 2011) (ordering that plant incorporating trade secrets be dismantled and that defendant be enjoined for five years, the period of time it had taken plaintiff to develop the trade secrets, from producing products at

secrets form such an integral and substantial part of the comprehensive manufacturing process or technology that the defendants did not and would not be able independently to manufacture or design a comparable product without relying on the trade secrets.<sup>266</sup> In establishing the duration of such an injunction, the court will generally be guided by the factors discussed in relation to Guideline No. 16.

**Guideline 18. The court may in its discretion consider whether a compelling public interest would be disserved by entry of an injunction prohibiting the sale of the defendant's product, where, for example, the defendant's product made through**

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issue); *Wyeth v. Natural Biologics, Inc.*, 395 F.3d 897, 903 (8th Cir. 2005) (entering permanent production injunction); *General Elec. Co. v. Sung*, 843 F. Supp. 776 (D. Mass. 1994) (enjoining defendant from producing industrial grade diamonds for seven years where manufacturing process incorporating plaintiff's trade secrets was inextricably intertwined with defendants' production process, defendants' approach to litigation did little to inspire confidence that they could be relied upon not to use trade secret and to police themselves if permitted to continue in the field; duration of the injunction was calculated by considering plaintiff's twenty-year development time and reducing it because the industry had progressed since plaintiff's original work and lawful independent development would now take a shorter period of time); *Christopher M's Hand Poured Fudge, Inc. v. Hennon*, 699 A.2d 1272, 1277 (Pa. Super. Ct. 1997), *appeal denied*, 717 A.2d 1026 (Pa. 1998) (permanently enjoining defendant from manufacturing or selling fudge where the defendant had had no prior experience in the field and the theft of the former employer's secret recipe was found to be inextricably intertwined with the production of fudge); *Monovis*, 905 F. Supp. at 1235 (imposing production injunction of indefinite duration where, among other things, evidence showed that defendants' approach to litigation did little to inspire confidence that they could be relied upon not to use trade secret and to police themselves if permitted to continue in the field).

266. See *General Elec.*, 843 F. Supp. at 780.

**misappropriation does not duplicate the movant's product.**

Particularly where the trade secret at issue pertains to public health and the movant's and defendant's products offer different health benefits, and where the movant is unable to satisfy market demand, a court may be reluctant to impose injunctive relief that would have the effect of removing a product from the market or from further development that could benefit the health of particular citizens whose needs may not be met by the plaintiff's product. In *CardiAQ Valve Technologies, Inc. v. Neovasc, Inc.*, for example, the court declined to grant a permanent injunction prohibiting the defendant from continuing to develop a heart valve based in part on a factual finding that the public would also be disserved by the injunction where neither plaintiff nor defendant's valve had been approved for sale and it was impossible to know which device would ultimately be approved. "The proposed 18-month suspension would be duplicative of the monetary relief, and is not warranted given the uncertainty in the [heart valve] market, the impact the injunction would have on Neovasc, and the public's interest in having access to a potentially life-saving technology."<sup>267</sup> This holding should not be read, however, to suggest that a permanent injunction is never appropriate where a product is made for use in the healthcare field.<sup>268</sup>

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267. No. 14-cv-12405-ADB, 2016 WL 6465411, at \*7 (D. Mass. Oct. 31, 2016), *aff'd*, 708 F. App'x 654 (Fed. Cir. Sept. 1, 2017). *Cf.* *Agilent Techs., Inc. v. Kirkland*, C.A. No. 3512-VCS, 2010 WL 610725, at \*31 (Del. Ch. Feb. 18, 2010) (unpublished) (denying request for permanent injunction seeking to keep product developed through use of trade secrets off the market in part based on impact to the public which had come to rely on defendant's product and that might suffer commercial harm if the product was no longer available).

268. *Cf., e.g., Merck & Co., Inc. v. SmithKline Beecham Pharms. Co.*, No. C.A. 15443-NC, 1999 WL 669354 (Del. Ch. 1999) (unpublished), *aff'd*, 746 A.2d 277 (Del. 2000) (granting an injunction prohibiting defendant from

**Guideline 19. An order granting broad permanent injunctive relief may be appropriate where evidence of past violations shows that it is necessary to ensure compliance and avoid future disputes.**

Courts have the discretion to fashion a broad order imposing permanent equitable relief where found to be warranted. Where, for example, there is strong evidence of prior misconduct by the misappropriator, broad relief may be appropriate to ensure that the parties and the court can readily evaluate compliance. Thus, in *Wyeth v. Natural Biologics, Inc.*, the Eighth Circuit affirmed a permanent injunction barring defendant from all activity related to the development of natural conjugated estrogens where the district court found that during litigation the defendant had attempted to conceal its misappropriation through destruction of evidence, false testimony, and improper redactions, concluding that “Natural Biologics cannot be trusted to avoid using the misappropriated process.”<sup>269</sup>

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marketing a vaccine in the United States or Canada that had been developed through misappropriation of trade secrets for three years after FDA approval since defendant’s vaccine would likely be substantially identical to that already offered to the public by plaintiff organization); *see also Wyeth*, 395 F. 3d 897.

269. 395 F. 3d at 903. *See also ClearOne Commc’ns, Inc. v. Bowers*, 643 F.3d 735 (10th Cir. 2011) (affirming permanent injunction of indefinite duration prohibiting use of specific trade secrets and information derived therefrom in light of defendants’ prior behavior and posttrial contemptuous conduct); *Minnesota Mining & Mfg. Co. v. Pribyl*, 259 F.3d 587, 598 (7th Cir. 2001) (finding no abuse of discretion where the trial court had entered a broader injunction than the narrow order defendants had suggested in order to curb “the misconduct and evasive action of defendant,” finding that under the circumstances “no opportunity for loopholes should be allowed”); *Monovis*, 905 F. Supp. At 1234 (granting permanent injunction prohibiting defendants from engaging in the single screw compressor marketplace where “there is much to cause this Court to question whether the defendants would in good faith

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act to avoid using and disclosing information belonging to others; the record in this case suggests the opposite. The defendants have repeatedly chosen to interpret [its] obligations in a begrudgingly narrow sense, violating both their letter and spirit"); *W.L. Gore & Assocs., Inc. v. Wu*, No. 263-N, 2006 WL 2692584, at \*14 (Del. Ch. Sept. 15, 2006) (enjoining defendant for ten years from working on polymers he had worked on for plaintiff in light of finding that defendant had destroyed evidence making it possible to determine the full scope of his misappropriation and "he has given evasive testimony, obstructed discovery, lost or destroyed evidence and disobeyed previous court orders. On this record, the Court has no confidence that [he] will refrain from using [plaintiff's] trade secrets if he is allowed to work in areas where he will have to exercise the discretion and judgment to not use them"), *aff'd* 918 A.2d 1171 (Del. Sup. Ct. 2007); *Solutech Corp., Inc. v. Agnew*, 88 Wash. App. 1067 (Wash. Ct. App. 1997) (unpublished) (affirming an injunction prohibiting individuals from engaging in making any apple wax formulas, not simply those identical to plaintiff's formula, in light of the fact that the parties had been in and out of court numerous times on disputes over compliance with a temporary restraining order).

## IX. FURTHER GUIDELINES FOR CRAFTING AN ORDER GRANTING EQUITABLE RELIEF

While every order granting equitable relief, whether interim or permanent, will necessarily contain unique elements, this *Commentary* provides the following additional guidance on elements to consider in fashioning equitable orders granting affirmative or prohibitive injunctive relief. All of these recommendations must be considered in the context of the magnitude and urgency of the relief requested, the time constraints of the courts, and the degree to which the parties and the court have had access to relevant evidence. A party wishing to ensure that any order concerning equitable relief is well-tailored may be well-advised to submit a proposed form of order to guide the court and the parties in the presentation and evaluation of evidence.

**Guideline 20. An order granting equitable relief should state the reasons for its entry, consistent with applicable procedural rules and the phase of the dispute.**

Federal Rule of Civil Procedure 65(d) and many state law counterparts require the court to state the reasons why an order is being entered. Rule 52(a)(1) expressly states that such findings and conclusions may be stated on the record. If emergency injunctive relief is sought early in a case, the movant should present a proposed form of order that provides at least a high-level statement of reasons for the relief in conjunction with the filing of its moving papers.

At later phases of a dispute, many courts find it convenient to request that the parties to submit proposed findings of fact and conclusions of law for consideration, and some counsel offer to submit such proposed findings and conclusions. Such documents can help ensure that the court does not omit material findings or slip inadvertently into error regarding technical



evidence. However, courts will necessarily conduct independent review of such proposed findings and conclusions, as the final decision will become the findings of the court.<sup>270</sup>

**Guideline 21. An order granting equitable relief to protect trade secrets may identify the trade secrets in a sealed attachment.**

As discussed more fully in the *The Sedona Conference Commentary on Protecting Trade Secrets in Litigation About Them*,<sup>271</sup> while the parties and those to be enjoined must receive notice of the trade secrets as to which the relief extends, the court order should not expose the details of the trade secrets at issue to the public, as such disclosure would inherently destroy their value. This notice must be clear and definite,<sup>272</sup> consistent with the phase of the case. One common practice in trade secret cases is for the court to refer the parties to a sealed attachment

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270. *See, e.g., Syntel Sterling Best Shores Mauritius, Ltd. v. Trizetto Grp., Inc.*, No. 15-Civ. 211 (LGS), 2021 WL 1553926, at \*14 (S.D.N.Y. Apr. 20, 2021) (directing parties to submit a proposed form of order for a permanent injunction consistent with court's opinion and not making changes to proposed order unless both agreed). On occasion courts adopt verbatim, or nearly so, proposed findings and conclusions of one of the parties. This practice does not by itself necessarily constitute reversible error but may lead the reviewing court to subject such findings to heightened review. *See, e.g., PepsiCo, Inc. v. Redmond*, 54 F. 3d 1262, n.4 (7th Cir. 1995).

271. *Commentary on Protecting Trade Secrets in Litigation About Them*, *supra* note 77.

272. *See, e.g., Capstone Logistics Holdings, Inc. v. Navarrete*, 838 F. App'x 588, 590 (2d. Cir. 2020) (unpublished) (remanding permanent injunction order that it otherwise affirmed on the merits to require definition of the trade secrets at issue, finding that permanent injunction entered by the district court failed to satisfy the specificity requirements of Rule 65(d) since it is "not possible to ascertain from the four corners of the order precisely what acts are forbidden"); *on remand, Capstone Logistics Holdings, Inc. v. Navarrete*, No. 17 Civ. 4819, Dkt. #589 (S.D.N.Y. March 4, 2021).

specifying the information at issue.<sup>273</sup> In some cases in which there are multiple defendants, one of whom has not yet been shown to have received the trade secrets at issue, as may be the case, for example, in certain “customer-list” cases, the court may choose to direct that portions of the order may be provided only to counsel rather than directly to all of the parties.<sup>274</sup>

**Guideline 22. An order granting equitable relief may specify that it should be served on specific individuals, organizations, or divisions of an organization.**

Rule 65 and state court analogues provide that ordinarily an injunction shall be binding only on those who receive actual notice of the order by personal service or otherwise, ordinarily: (A) the parties; (B) the parties’ officers, agents, servants, employees, and attorneys; and (C) other persons who are in active concert or participation with the foregoing categories of people.

Often by the time that an order is entered it is apparent to the court and to the parties, the particular divisions or

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273. See, e.g., *Henry Hope X-Ray Prods., Inc. v. Marron Carel, Inc.*, 674 F.2d 1336, 1343 (9th Cir. 1982); *Macom Tech. Sols. Holdings, Inc. v. Infineon Techs. AG*, No. 2:16-CV-02859-CAS(PLAx), 2016 WL 6495373, at \*25 (C.D. Cal. Oct. 31, 2016), *issuing order*, 2016 WL 11005112 (C.D. Cal. Dec. 7, 2016), *aff’d in part, vacated in part*, 881 F.3d 1323 (Fed. Cir. 2018) (following *Henry Hope*); *Capstone Logistics Holdings*, 838 F. App’x at 590 (finding that the “better practice” is for the district court to enter its permanent injunction in a separate document); *Brightview Grp., LP v. Teeters*, 441 F. Supp. 3d 115 (D. Md. 2020) (preliminarily enjoining defendants from accessing, using, disclosing or disseminating documents referenced in an appendix to the Order); preliminary injunction modified in permanent injunction at 2021 WL 1238501 (D. Md. March 29, 2021); *Bimbo Bakeries USA, Inc. v. Sycamore*, No. 2:13-cv-00749-DN-DBP, 2018 WL 1578115, at \*6 (D. Utah 2018).

274. Cf. *W.L. Gore*, 2006 WL 2692584, at \*11–12 (holding that the fact that the listed polymers would only be viewable on an attorneys-eyes-only basis did not, under the facts presented, which included extensive litigation misconduct by defendant, violate defendant’s due process rights).

departments within an organization or specific individuals that should be apprised of the terms of any equitable relief. The parties can request, and the court may on its own motion specify in the order that it shall be served, for example, on the “head of defendant’s research & development team having responsibility for product X.” Such an order should prevent any future findings that relevant individuals were not apprised of the order. Similarly, the court may direct the enjoined party to notify specified third parties of the entry of an order granting injunctive relief.<sup>275</sup>

Importantly, however, nonparties having notice of an order are obliged as a matter of law in most jurisdictions not to assist parties to circumvent or violate the order. Stated differently, under Rule 65(d)(2)(C), such parties may be exposed to liability if they are in active concert or participate with the explicitly enjoined party or its agents in violating an injunction. Establishing liability may require further discovery.

**Guideline 23. Extensive ongoing compliance mechanisms should be viewed as the exception and not the rule. They may be warranted in particular cases to ensure the return of documents found to contain the movant’s trade secrets and for limited other purposes.**

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275. See, e.g., *Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd.*, No. 20-CV-3375, 2020 WL 3960451, at \*16 (N.D. Ill. July 13, 2020) (directing defendant to notify its distributors and resellers of the entry of the Temporary Restraining Order and their obligation to comply with it as well as directing defendant to certify compliance in writing to the court within seven days of entry); *WHIC LLC v. NextGen Labs., Inc.*, 341 F. Supp. 3d 1147 (D. Haw. 2018) (directing defendants to send copy of order to specific clients and to former plaintiff employees now working at defendant company); *Epic Sys. Corp. v. Tata Consultancy Servs., Ltd.*, No. 14-cv-748-wmc, 2016 WL 6477011 (W.D. Wisc. Nov. 2, 2016), at \*3 (requiring defendant to present information about injunction to all employees).

Often the prevailing party in a request for equitable relief, whether interim or permanent, expresses reservations about whether the relief will be complied with and seeks to impose continuing reporting obligations on the party against whom relief is directed. Some such requirements can be implemented with little court involvement, such as by orders requiring periodic certifications of compliance.<sup>276</sup>

In other cases, courts have ordered more robust continuing compliance mechanisms, such as appointing an independent forensic specialist to direct the eradication/return of specific documents according to an agreed protocol, either at an early stage<sup>277</sup> or after trial.<sup>278</sup> At least one court has directed the enjoined party to establish “clean room” procedures monitored by a gatekeeper to develop new products without the use of plaintiff’s trade secrets. The order in that case specified that the cost of the gatekeeper would be borne by the enjoined party,<sup>279</sup> and

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276. *See, e.g.,* Cook Med., Inc. v. Griffin, No. 1:08-cv-188-SEB-JMS, 2008 WL 858996 (S.D. Ind. Mar. 25, 2008) (ordering defendants to maintain contemporaneous, accurate diaries of contacts with specified customers and submit them to plaintiff for monthly review to ensure compliance with order prohibiting soliciting or servicing particular customers), *order clarified by* 2008 WL 2225614 (S.D. Ind. May 27, 2008).

277. *See supra* Guidelines Nos. 3–6.

278. *See, e.g.,* Epic Sys., 2016 WL 6477011, at \*3; Allergan, Inc. v. Merz Pharms., LLC, No. SACV-11-446 AG (Ex), 2012 WL 781705 (C.D. Cal. Mar. 9, 2012) (permanent injunction order detailing forensic remediation requirements); Specialized Tech. Res., Inc. v. JPS Elastomerics Corp., No. HSCV200700200, 2011 WL 1366584 (Mass. Super. Ct. Feb. 10, 2011), *aff’d*, 957 N.E.2d 1116 (Mass. App. Ct. 2011); OmniGen Research, LLC v. Wang, No. 6:16-CV-268-MC, 2017 WL 5505041, at \*26 (D. Or. Nov. 16, 2017) (ordering compliance mechanisms including forensic remediation and posting of security), *appeal dismissed*, 2018 WL 3012530 (9th Cir. May 21, 2018).

279. Bridgetree, Inc. v. Red F Mktg., LLC, No. 3:10-cv-00228-FDW-DSC, 2013 WL 443698, at \*23–24 (W.D.N.C. Feb. 5, 2013). *See also* Ecimos, LLC v. Carrier Corp., No. 2:15-CV-2726-JPM-CGC, 2018 WL 7272058 (W.D. Tenn.

that the cost of additional forensic review and monitoring for a two-year period would be shared by the parties absent a violation.<sup>280</sup> Other courts have granted ongoing monitoring procedures, including appointing a monitor to conduct periodic unannounced visits to the defendants' facilities to assess ongoing development by the defendant of any competing product and report any evidence of violations.<sup>281</sup> Courts have also directed targeted depositions after some time has elapsed to test whether compliance measures have been implemented and followed.<sup>282</sup>

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Oct. 9, 2018) (entering permanent injunction prohibiting use of some information and appointing a special master to oversee clean room development of new noninfringing database).

280. *Bridgetree*, 2013 WL 443698, at \*24.

281. *See, e.g., Epic Sys.*, 2016 WL 6477011, at \*3 (permanent injunction order directing monitoring); *Picker Int'l Corp. v. Imaging Equip. Servs., Inc.*, 931 F. Supp. 18, 45 (D. Mass. 1995) (appointing former FBI agent as a monitor to investigate and report on compliance with order given finding at trial of a "10-year campaign of misconduct"), *aff'd*, 94 F.3d 640 (1st Cir. 1996) (unpublished); *PLC Trenching Co., LLC, v. Newton*, No. 6:11-CV-0515 (GTS/DEP), 2012 WL 1155963 (N.D.N.Y. Apr. 6, 2012) (permanent injunction order permitting plaintiff to directly monitor compliance by making announced or unannounced inspections of defendants' facilities at defendant's expense since defendants had willfully violated a prior injunction); *Myriad Dev., Inc. v. Alltech, Inc.*, No. 1:08-cv-00253 (W.D. Tex. filed Mar. 28, 2008) (permanent injunction order detailing implementation of injunction requiring defendant to remove misappropriated features and functions from computer systems and to file notice with the court certifying compliance); *Cf. Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677 (7th Cir. 1983) (establishing procedure for court-appointed patent expert well-versed in the relevant technical field to advise the court on whether defendant's proposed production of certain chemical compounds would violate the court's injunction or were based on public information).

282. *See, e.g., Amphenol Corp. v. Paul*, No. 3:12CV543 (AVC), 2012 WL 5471857 (D. Conn. Nov. 9, 2012) (preliminary injunction order), *amended and superseded by* 2013 WL 12250880 (D. Conn. Jan. 8, 2013); *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111 (N.D. Cal. 1999) (preliminary injunction order requiring defendant to submit to two subsequent

While such orders can protect trade secrets and reduce the need for applications for contempt, they can be burdensome for the court as well as the parties. Mere fears of noncompliance do not mandate ongoing oversight for compliance, just as they do not necessarily warrant injunctive relief in the first place.<sup>283</sup> It is well within the court's discretion to decline to enter ongoing monitoring and reporting protocols as being unduly burdensome for the court to administer or for the parties to implement, among other reasons. Indeed, at least one state court, Minnesota, has recognized as a factor for the court to consider when evaluating requests for injunctive relief and fashioning orders "the administrative burden of supervising and enforcing the order."<sup>284</sup>

**Guideline 24. An order directing ongoing compliance mechanisms should allocate the cost and specify the duration of such procedures.**

Ongoing monitoring, including forensic review, can be costly. Courts have allocated the expense of such procedures in various ways; in some cases requiring the defendant to bear the

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depositions, to report to the court any efforts by new employer or others to obtain trade secrets at issue, and requiring production of documents relating to defendant's work).

283. *See, e.g.,* Pyro Spectaculars N., Inc. v. Souza, 861 F. Supp. 2d 1079, 1098 (E.D. Cal. Mar. 21, 2012) (denying movant's request for a monitor to ensure compliance with a preliminary injunction as unnecessarily expensive and unwarranted where discovery was ongoing and could reveal noncompliance). *Cf. Mickey's Linen v. Fischer*, No. 17 C 2154, 2017 WL 3970593, at \*19 (N.D. Ill. Sept. 8, 2017) (rejecting as "unduly burdensome" a request for injunctive relief that would require the defendant to seek the plaintiff's approval "whenever he 'has a question of whether a customer qualifies as restricted.'"); *W.L. Gore & Assocs., Inc. v. Wu*, 2006 WL 2692584, at \*18 (Del. Ch. 2006) (rejecting ongoing compliance meetings as "unduly burdensome and intrusive").

284. *See Dahlberg Brothers, Inc. v. Ford Motor Co.*, 137 N.W.2d 314, 321-322 (1965); *Eakman v. Brutger*, 285 N.W.2d 95 (Minn. 1979).

costs, particularly after trial, on the theory that but for the defendant's acts, monitoring would not be necessary. In other cases, the court has placed responsibility for ongoing costs on the movant, perhaps reflecting the view that the movant will determine how much monitoring or remediation it is willing to pay for. A frequent resolution is to require the parties to share the costs. Regardless of the approach ultimately adopted, it should be clearly stated.

THE SEDONA CONFERENCE COMMENTARY ON  
PROTECTING TRADE SECRETS IN LITIGATION ABOUT THEM

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*A Project of The Sedona Conference Working Group (WG12) on  
Trade Secrets*

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The opinions expressed in this publication, unless otherwise attributed, represent consensus views of the members of The Sedona Conference's Working Group 12. They do not necessarily represent the views of any of the individual participants or their employers, clients, or any organizations to which they may belong, nor do they necessarily represent official positions of The Sedona Conference.

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This publication may be cited as follows:

The Sedona Conference, *Commentary on Protecting Trade Secrets in Litigation About Them*, 23 SEDONA CONF. J. 741 (2022).

## PREFACE

Welcome to the final, March 2022 version of *The Sedona Conference Commentary on Protecting Trade Secrets in Litigation About Them* (“*Commentary*”), a project of The Sedona Conference Working Group on Trade Secret Law (WG12). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The mission of WG12, formed in February 2018, is “to develop consensus and nonpartisan principles for managing trade secret litigation and well-vetted guidelines for consideration in protecting trade secrets, recognizing that every organization has and uses trade secrets, that trade secret disputes frequently intersect with other important public policies such as employee mobility and international trade, and that trade secret disputes are litigated in both state and federal courts.” The Working Group consists of members representing all stakeholders in trade secret law and litigation.

The WG12 *Commentary* drafting team was launched in 2018. Earlier drafts of this publication were a focus of dialogue at the WG12 Annual Meeting, Online, in November 2020, the WG12 Annual Meeting in Charlotte, North Carolina, in November 2019, and the WG12 Inaugural Meeting in Los Angeles, California, in November 2018. The *Commentary* was published for public comment in June 2021. The editors have reviewed the comments received through the Working Group Series review and comment process and, where appropriate, incorporated them into this final version.

This *Commentary* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular James Pooley, the now Chair Emeritus of WG12, and Victoria Cundiff, the Chair of WG12, who serve as the Editors-in-Chief of this publication, and Randall E. Kahnke and Eric Ostroff, who serve as the Senior Editors of this publication. I also thank everyone else involved for their time and attention during this extensive drafting and editing process, including our Contributing Editors John Barry, Charles Duncan, Benjamin I. Fink, Mark Halligan, Dina Hayes, Mary Goodrich Nix, Samuel C. Straight, and Kenneth J. Withers.

The Working Group had the benefit of candid comments by the Judicial Advisors designated to this *Commentary* drafting team effort—Ronald J. Hedges and Hon. Laurie J. Miller. The Working Group further had the benefit of the review of our Judicial Review Panel formed for this *Commentary*, consisting of Hon. Cathy Ann Bencivengo, Hon. Cathy Bissoon, Ronald J. Hedges, and Hon. Laurie J. Miller. The statements in this *Commentary* are solely those of the nonjudicial members of the Working Group; they do not represent any judicial endorsement of any recommended practices.

The drafting process for this *Commentary* also was supported by the Working Group 12 Steering Committee.

We encourage your active engagement in the dialogue. Membership in The Sedona Conference Working Group Series is open to all. The Series includes WG12 and several other Working Groups in the areas of electronic document management and discovery, cross-border discovery and data protection laws, international data transfers, data security and privacy liability, patent remedies and damages, and patent litigation best practices. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

Craig W. Weinlein  
Executive Director  
The Sedona Conference  
March 2022

## FOREWORD

This Working Group 12 *Commentary on Protecting Trade Secrets in Litigation About Them* provides Principles and Best Practice recommendations to help the bench and bar navigate several competing interests inherent in trade secret litigation, including trade secret plaintiffs' interest in maintaining their asserted trade secrets while asserting them, trade secret defendants' interest in securing information about the asserted trade secrets as necessary to effectively mount a defense, and the public's interest in maintaining public access to the courts.

This drafting process was a challenging one, with fundamental points of disagreement raised on multiple fronts throughout. This publication reflects the consensus, nonpartisan approach of The Sedona Conference.

The editors would like to express their appreciation to the members of the drafting team and the judicial advisors for their valuable input and thoughtful commentary in reaching a balanced consensus on difficult issues.

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Chair Emeritus and Chair

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Eric Ostroff  
Senior Editors

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## I. INTRODUCTION

Trade secrets are a property interest that can be destroyed by disclosure. This makes litigation of trade secrets unique: by bringing claims seeking to remedy misappropriation, a trade secret owner puts these secret information assets at issue in the public litigation process. Without the ability to protect the secrecy of trade secrets in litigation, the law of trade secrets would disappear, as it would be impossible to enforce trade secret rights in the face of misappropriation. Both the Uniform Trade Secrets Act and the Defend Trade Secrets Act explicitly acknowledge the need to protect trade secrets in litigation.

But this issue of protection runs into competing policy objectives: First, defendants need information about the claims to mount an effective defense, and second, the public generally has a constitutional right to access judicial proceedings. In this *Commentary*, Working Group 12 attempts to reconcile these important objectives with the need to protect trade secrets when litigating misappropriation claims. This *Commentary* offers consensus recommendations to parties and courts for addressing these thorny issues in various contexts, including access to trade secret information by in-house counsel, experts, employees, and attorneys who prosecute patents, as well as providing consensus guidance to parties and courts about balancing the right to public access with the trade secret owner's right to maintain the secrecy of its trade secrets.

This *Commentary* also addresses logistical issues that often arise in trade secret cases. In virtually all such cases, discovery is governed by a protective order. This *Commentary* provides guidance for how these orders should be drafted and how parties should exchange information pursuant to a protective order. The goal is to avoid unnecessary overdesignations, which burdens parties and the court, while allowing for efficient exchange of information.

This *Commentary* does not address (a) issues surrounding the identification of trade secrets requirement for moving forward with a trade secret misappropriation claim,<sup>1</sup> (b) the effect of court rulings about protecting trade secrets in one proceeding on other related proceedings, (c) how a protective order should be interpreted when it is silent as to a certain issue (e.g., if a protective order does not specify whether a designated document can be used in other proceedings, whether the “default” position should or should not permit such use), and (d) the protection of trade secrets in confidential arbitration proceedings.

References in this *Commentary* to “trade secrets” are not meant to imply that the court has already adjudicated the information’s status as a trade secret. Instead, these references will often refer to one party’s alleged trade secrets.

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1. For more details regarding identification of trade secrets issues, see The Sedona Conference, *Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases*, 22 SEDONA CONF. J. 223 (2021), available at: [https://thesedonaconference.org/publication/Commentary\\_on\\_Proper\\_Identification\\_of\\_Trade\\_Secrets\\_in\\_Misappropriation\\_Cases](https://thesedonaconference.org/publication/Commentary_on_Proper_Identification_of_Trade_Secrets_in_Misappropriation_Cases).

## II. ACCESS TO TRADE SECRET INFORMATION BY PARTY REPRESENTATIVES DURING MISAPPROPRIATION LITIGATION

Trade secret litigation necessitates negotiating appropriate terms of an operative protective order to define the tiers of confidential information and trade secrets, and the access to such tiers, while being mindful of the unique nature of proprietary and trade secret information that will be disclosed during the discovery process. Negotiating who may have access to trade secret information and the management of that access during the course of litigation is critical and can often be hotly disputed. Specifically, parties often disagree on the appropriate level of access to the asserted trade secret by certain individuals associated with the opposing party, including in-house attorneys, expert witnesses, and employees. Just as with any disclosure of a trade secret, if the trade secret owner loses control over the scope and manner of disclosure of the trade secret to these individuals during litigation, one of the key criteria for trade secret protection may be destroyed, and competitive harm could result.

Nevertheless, it may be necessary for certain individuals affiliated with the adversary to have access to the trade secrets to prepare their case. It is imperative that attorneys for the receiving party work with their clients to manage internal disclosures of trade secret information produced in litigation in order to avoid creating risk of liability to the producing party by violating the terms of disclosure.

**Principle 1.**      **Whether a party's in-house attorneys, experts, or employees should be permitted to have access to the trade secrets of another party should be determined by balancing the risk of disclosure and harm to the producing party with the need for the other party to have the**

**information in order to properly prepare its case.**

*A. Access by In-house Attorneys*

Whether and to what extent in-house attorneys of the receiving party can have access to asserted trade secret information of the producing party is an issue that arises often in trade secret litigation. Typically, a producing party will want to limit, as much as possible, the people who have access to its trade secrets, particularly with respect to people employed directly by an opposing party, who are often competitors. On the other hand, a receiving party may believe its ability to prosecute or defend its position in the case may be inhibited by not having access to the information that is at the heart of the dispute. Some courts have concluded that where a party is represented by outside counsel, outside counsel can adequately represent the party's interests in the litigation even if in-house counsel is precluded from viewing confidential information.<sup>2</sup> Other courts have held that limiting in-house counsel's ability to access discovery "may create severe obstacles to a litigating party,"<sup>3</sup> and may prevent in-house counsel from appreciating "fully the strengths and weaknesses, such as they are, of their case . . . ."<sup>4</sup>

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2. *Blackbird Tech LCC v. Serv. Lighting & Elec. Supplies, Inc.*, No. CV 15-53-RGA, 2016 WL 2904592, at \*5 (D. Del. May 18, 2016) (citing *ST Sales Tech Holdings, LLC v. Daimler Chrysler Co., LLC*, 2008 WL 5634214, at \*8 (E.D. Tex. Mar. 14, 2008) ("Courts have found time and again that requiring a party to rely on its competent outside counsel does not create an undue or unnecessary burden.")).

3. *Philadelphia Gear Corp. v. Power Transmission Servs., Inc.*, C.A. No. 11364, 1991 WL 29957, at \*4 (Del. Ch. Mar. 6, 1991).

4. *Tanyous v. Banoub*, C.A. No. 3402-VCN, 2010 WL 692615, at \*1 (Del. Ch. Feb 19, 2010).



The fact that in many trade secret cases both sides will be producing information they consider to be a trade secret often leads parties to reach an agreement with respect to this issue through a negotiated protective order. There are some cases, however, where the disagreement cannot be resolved and guidance from the court must be obtained.

When considering whether in-house counsel of the receiving party should have access to trade secret information of the producing party, courts should consider whether (a) in-house counsel of the receiving party is involved in competitive decision-making; and (b) good cause exists for granting access to the in-house attorneys of the receiving party. Courts routinely employ the good-cause standard when deciding protective order issues.<sup>5</sup> In scenarios where a party seeks to enforce a provision under the protective order, a showing of competitive harm resulting from the disclosures is required—and is often resolved through the implementation of a two-tiered protective order.<sup>6</sup> A party must show the protective order is necessary through good cause.<sup>7</sup> Then, the burden shifts to the party seeking to use a designated person to establish that the disclosure of the trade secret is relevant and necessary to the action.<sup>8</sup> The court must balance the need for the party seeking discovery against the opposing

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5. *See, e.g., Murata Mfg. Co., Ltd. v. Bel Fuse, Inc.*, 234 F.R.D. 175, 180 (N.D. Ill. 2006) (“In considering whether the party seeking to vacate the protective order has established good cause, the court must weigh that party’s need for modification against the other party’s need for protection, and ought to factor in the availability of alternatives to better achieve both sides’ goals.”); *see also Makar-Wellbon v. Sony Elecs., Inc.*, 187 F.R.D. 576 (E.D. Wis. 1999).

6. *See, e.g., MGP Ingredients Inc. v. Mars, Inc.*, 245 F.R.D. 497, 500 (D. Kan. 2007).

7. *Id.*

8. *Id.*

party's claim of injury.<sup>9</sup> Courts in multiple jurisdictions have balanced this need by seeing if the party seeking modification has good cause for the request.<sup>10</sup>

**Guideline 1. In determining whether in-house counsel of the receiving party should have access, or limited access, to the trade secrets of the producing party, in-house counsel's role in competitive decision making should be considered.**

As a practical matter, a receiving party that wants its in-house attorneys to have access to the trade secrets of the producing party should provide the opposing party with information regarding the number of in-house attorneys who would be accessing an opposing party's trade secret information and, for each in-house attorney, his or her (a) department or role in the organization generally (e.g., litigation, corporate, employment, intellectual property (IP), benefits), (b) title in the legal department (e.g., general counsel, chief legal officer, staff attorney, head IP counsel), (c) history of employment with the

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9. *Id.*

10. See, e.g., *Public Citizen v. Liggett Grp., Inc.*, 858 F.2d 775, 790–91 (1st Cir. 1988); *Bayer AG & Miles, Inc. v. Barr Lab., Inc.*, 162 F.R.D. 456, 458 (S.D.N.Y. 1995); *Factory Mut. Ins. Co. v. Insteel Indus., Inc.*, 212 F.R.D. 301, 304 (M.D.N.C. 2002) (noting that to modify a stipulated protective order, the party must show good cause because “good cause was at least implicitly acknowledged when the order was initiated.”); *In re Southeastern Milk Antitrust Litig.*, 2009 WL 3713119, at \*1 (E.D. Tenn. Nov. 3, 2009) (noting that a party had to establish good cause for modification of a protective order for documents that were marked highly confidential); *LL Bean, Inc. v. Bank of Am. Corp.*, 2009 WL 10730643, at \*1 (D. Me. Aug. 20, 2009) (noting if a defendant does not stipulate to a protective order, it must only show good cause to modify the order, and if the defendant had stipulated to the order, it would need to show “particular good cause”).

organization, (d) whether the person is an officer or part of the executive management team, and (e) whether and to what extent the person has a dual role involving nonlegal duties or responsibilities. These disclosures can be included as requirements of the protective order governing the confidentiality of information and submitted with the signed undertaking that commences an objection period.

In the event the parties are unable to agree, courts should consider this information and any other information the parties may submit to determine if access to trade secrets by in-house counsel is warranted. In making that determination, another factor the court should consider is whether the in-house attorneys who will be provided with access to the trade secrets of a producing party may move into a competitive decision-making role at some point in the future when the trade secret information (a) still constitutes trade secrets and (b) might be relevant to the decision-making role.

In these situations, courts generally engage in a two-step analysis to determine whether in-house counsel should be permitted to access materials designated as confidential, highly confidential, or “attorneys’ eyes only” (AEO) in a protective order.<sup>11</sup> First, courts assess whether an unacceptable risk of inadvertent disclosure exists. This assessment “turns on the extent to which the person to whom the information is to be disclosed is

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11. See, e.g., *Sanofi-Aventis U.S. LLC v. Breckenridge Pharm., Inc.*, 2016 WL 308795, at \*3-4 (D.N.J. Jan. 25, 2016); *In re Deutsche Bank Trust Co. Ams.*, 605 F.3d 1373, 1378–80 (Fed. Cir. 2010). While similar considerations may exist with respect to confidential information that does not rise to the level of a trade secret, the guidance provided here is intended to apply only to information that qualifies as trade secrets. It is assumed that such information will be designated by the producing party as “highly confidential” or “attorneys’ eyes only,” not merely “confidential” in most instances.

involved in ‘competitive decision making’ with the client.”<sup>12</sup> Second, courts must balance the risk of disclosure against any potential harm to the receiving party from restrictions imposed upon its right to have the benefit of counsel of its choice.<sup>13</sup> Some courts have collapsed this two-step test into a single-question inquiry. For example, the court in *Brown Bag Software v. Symantec Corp.* employed a balancing test to resolve a protective order dispute, balancing the risk of inadvertent disclosure of trade secrets to competitors against the risk that the nondisclosing party would be harmed by such protection<sup>14</sup>

On the issue of inadvertent disclosure, some courts have held that, even when in-house counsel of the receiving party can mentally distinguish highly confidential information produced in discovery from nonconfidential information, the lawyer may be put in an ethical predicament of having to refuse giving legal advice if doing so would entail improperly revealing the confidential material.<sup>15</sup> “[E]ven the most rigorous efforts of the recipient of such information” may not prevent inadvertent disclosure:

[T]he fact that in-house counsel are bound by the rules of professional responsibility is insufficient alone to warrant granting access to confidential information of a competitor to in-house counsel. Notwithstanding the rules of professional

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12. *Voice Domain Techs., LLC v. Apple, Inc.*, 2014 WL 5106416, at \*3 (D. Mass. Aug. 4, 2015), citing *U.S. Steel Corp. v. United States*, 730 F.2d 1465, 1468 (Fed. Cir. 1984).

13. *In re Deutsche Bank*, 605 F.3d at 1380.

14. *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1470 (9th Cir. 1992). See also *Kaseberg v. Conaco LLC*, 2016 WL 3997600, at \*12 (S.D. Cal. July 26, 2016).

15. See, e.g., *In re Deutsche Bank*, 605 F.3d at 1378; *Carpenter Tech. Corp. v. Armco, Inc.*, 132 F.R.D. 24, 27 (E.D. Pa. 1990)).

conduct, the inadvertent use or disclosure of confidential information remains a major concern.<sup>16</sup>

Therefore, the risk of inadvertent disclosure should be considered when making discovery determinations regarding whether a producing party must grant access to its trade secrets to in-house counsel of a receiving party.

With respect to “competitive decision making,” courts have typically found this to be a fact-specific inquiry. The term often serves shorthand for a person’s “activities, association, and relationship with a client that are such as to involve counsel’s advice and participation in any or all of the client’s decisions (e.g., pricing, product design, etc.) made in light of similar or corresponding information about a competitor.”<sup>17</sup> Courts must look at the particular facts of the case to “determine whether there is an unacceptable risk of or opportunity for inadvertent disclosure of confidential information.”<sup>18</sup> Importantly, mere contact with a competitive decision-maker is not a disqualification, and consideration into whether there is active participation in the determination of pricing, product design and patents is imperative. With respect to patent prosecution, a person who is involved with *inter partes* review (IPR) proceedings and decisions can be considered a competitive decision maker.<sup>19</sup>

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16. *Carpenter Tech.*, 132 F.R.D. at 27. See also *F.T.C. v. Exxon Corp.*, 636 F.2d 1336, 1350 (D.C. Cir. 1980) (“[I]t is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so.”).

17. *U.S. Steel*, 730 F.2d at 1468 n.3 (applying the test to counsel); see *Suture Exp., Inc. v. Cardinal Health, 200, LLC*, 2013 WL 6909158, at \*7 (D. Kan. Dec. 31, 2013) (applying the competitive decision-making analysis to a member of plaintiff’s board of directors).

18. *Suture Exp.*, 2013 WL 6909158, at \*7.

19. See *Emerson Elec. Co. v. SIPCO, LLC*, 2016 WL 6833741, at \*3–4 (N.D. Cal. Nov. 21, 2016).

**Guideline 2. In determining whether in-house counsel of the receiving party should have access, or limited access, to the trade secrets of the producing party, the extent of the negative impact on the adequacy of the representation should be considered.**

The court should also consider whether and to what extent an in-house attorney's access to the trade secrets of the adverse party is necessary for the in-house attorney to adequately defend the company. If the case involves complex scientific formulas or highly technical matters that can only be properly understood with the assistance of uniquely credentialed or experienced in-house counsel, it is more likely that in-house counsel should have access with the protections identified above. However, if the case involves less technical business information—but trade secrets nonetheless—it is more likely that outside counsel is capable of understanding the information without the assistance of in-house attorneys.<sup>20</sup> In addition to this technical knowledge or expertise in-house counsel may bring to the table, in-house counsel's role in litigation may provide other difficult-to-quantify benefits, including a deep company knowledge or cost-saving efficiencies that are not easily replicated by outside counsel. Factors like the size of the company

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20. See, e.g., *Blackbird Tech LCC v. Serv. Lighting & Elec. Supplies, Inc.*, 2016 WL 2904592, at \*5 (D. Del. May 18, 2016) (citing *ST Sales Tech Holdings, LLC v. Daimler Chrysler Co., LLC*, 2008 WL 5634214, at \*8 (E.D. Tex. Mar. 14, 2008) (“Courts have found time and again that requiring a party to rely on its competent outside counsel does not create an undue or unnecessary burden.”)). See also *Akzo N.V. v. U. S. Int’l Trade Comm’n*, 808 F.2d 1471, 1483 (Fed. Cir. 1986), cert. denied, 482 U.S. 909 (1987) (refusing to grant in-house counsel access to confidential business information in connection with exclusion order; “Obviously, where confidential material is disclosed to an employee of a competitor, the risk of the competitor’s obtaining an unfair business advantage may be substantially increased.”).

and the nature of the dispute may impact these considerations and ultimately the degree to which in-house counsel should have access to the producing party's trade secrets.

As stated above, involvement in competitive decision-making is a strong factor against granting in-house counsel of the receiving party access to a producing party's trade secret information during litigation. Further complicating the issue is the lack of safeguards in place to preserve the trade secret information if the in-house counsel given access is later authorized to make competitive decisions for the receiving party. In rare instances, the parties have had the forethought to include in a protective order a prohibition on participation in competitive decision making while litigation is ongoing.<sup>21</sup> However, these safeguards, when adopted, often do not clearly prohibit decision-making after litigation ends or in the event that one of the in-house attorneys finds work elsewhere (say, for a different competitor). In some circumstances, this issue may be resolved by requiring in-house attorneys to sign a nondisclosure agreement that can extend the period of protection beyond the litigation. In the absence of such a requirement, however, it is unclear how to keep in-house counsel of the receiving party from using such information after litigation has ended.<sup>22</sup>

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21. See *Affymetrix, Inc. v. Illumina, Inc.*, 2005 WL1801683, at \*1 (D. Del. July 28, 2005).

22. There are two situations that could arise but are not addressed by this *Commentary*. They are (1) a party is represented in a lawsuit solely by in-house counsel without the involvement of outside counsel; and (2) outside counsel serves as "general counsel" or "general IP counsel" and may participate in competitive decision making for that party. While these situations could arise, they are not prevalent enough to warrant discussion here. Moreover, in such situations, the general principles set forth in this *Commentary* can be applied, but the analysis by the court will likely be fact-intensive and specific to that particular situation.

**Guideline 3. To further protect against disclosure of a producing party's trade secret information, when in-house attorneys of the receiving party are permitted to have access to the trade secret information, additional safeguards should be required.**

In cases involving trade secrets, courts have imposed various limitations on in-house counsel of the receiving party in order to receive access to the information at issue. One prominent limitation included in protective orders and upheld by courts is the requirement that such in-house counsel sign an affidavit agreeing to be bound by the terms of the protective order.<sup>23</sup> This may be used to ensure that in-house counsel who is given access to the asserted trade secret information is subject to liability for any unauthorized disclosures. Another limitation involves limiting the number of in-house counsel of the receiving party who may access the confidential information.<sup>24</sup> In addition, many courts have put in place and upheld procedural safeguards to simultaneously minimize the risk of disclosure and allow the receiving party to access the materials it needs to sufficiently defend itself from claims of misappropriation (including the need for in-house counsel to be involved in implementation of a litigation hold for the litigation). Some of these procedural safeguards include: having in-house counsel lock their office doors when not in their offices; maintaining locked document storage rooms; maintaining separate servers for in-house counsel's computers that are not accessible by the rest of the company; maintaining an electronic database to store confidential electronic documents available only to in-house attorneys; prohibiting the

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23. *See, e.g.*, *Bailey v. Dart Container Corp.*, 980 F. Supp. 560, 582–83 (D. Mass. 1996).

24. *See id.* at 583.



relevant attorneys from participating in competitive decision making; and physically housing in-house attorneys in a separate location.<sup>25</sup>

When in-house attorneys of the receiving party are permitted to have access to trade secret information of an adversary, additional safeguards should be required to ensure the protection of the trade secret information. The following limitations should be considered:

- (a) Requiring the in-house attorneys who will have access to the information to sign a sworn statement agreeing to be bound by the terms of the protective order, so that the in-house attorneys are subject to the jurisdiction of the court for any unauthorized use or disclosures.
- (b) Limiting the number of in-house lawyers who are permitted to access the information, particularly in large organizations with numerous in-house attorneys.
- (c) Requiring in-house attorneys to lock the doors to their personal offices to the extent any of the information may exist in a hard-copy or tangible form in their offices.
- (d) Prohibiting in-house attorneys from printing or making a copy (electronic or hard copy) of the information or limiting the number of times the information may be printed or copied.
- (e) To the extent trade secrets of the opposing party are electronically stored by the receiving party's attorneys, the trade secrets should be stored on a device that is password protected, stored separately from

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25. See *Affymetrix*, 2005 WL1801683, at \*1.

and inaccessible by anyone else associated with the receiving party.

- (f) Prohibiting in-house attorneys from downloading, copying, or otherwise replicating (i.e., via screenshot) trade secret information of the producing party when stored by a third-party vendor.

### *B. Access by Experts*

There is no one-size-fits-all strategy to be gleaned from courts' handling of trade secret disclosures to experts. Consistency is lacking among decisions to grant or deny experts access to trade secret information during discovery.

**Guideline 4.** To safeguard a producing party's trade secret information when disclosed to a testifying or nontestifying expert, a nondisclosure agreement should be required. A nondisclosure agreement may not be sufficient, however, when the expert is, or may become, a competitor of the producing party.

Parties may be hesitant to disclose trade secrets to experts unaffiliated with either party for fear that they may have ties to an additional competitor or the industry as a whole. Where there is a disagreement regarding access to confidential information, courts have required the independent experts to sign a confidentiality order or nondisclosure agreement (NDA) to protect against any inappropriate disclosures.<sup>26</sup>

While most courts require experts to sign an NDA, courts differ on whether confidential materials may be disclosed to

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26. See, e.g., *Sandvik, Inc. v. Mecca C & S, Inc.*, 2014 WL 11210395, at \*9 (Pa. Com. Pl. May 21, 2014).

experts who are employed by or consult with competitors. For example, in *Layne Christensen Co. v. Purolite Co.*, experts were required to sign an NDA before viewing any confidential materials, but disclosure of attorneys' eyes-only materials to experts who were employed or consulted with competitors was expressly prohibited.<sup>27</sup> In contrast, other courts remain unconcerned with an expert's affiliation with a competitor as long as they agree to sign an NDA before confidential materials are disclosed.<sup>28</sup> In the event the producing party maintains its objection to the independent expert's access due to the expert's ongoing relationships with others in the field, an examination into whether alternative independent experts are available or how involved the expert is in the field is warranted. In *Symantec Corp. v. Acronis Corp.*, the objecting party showed that disclosing confidential material to a consultant created a "substantial" risk and that absent a showing that the expert possessed a unique expertise he was not allowed to access the materials.<sup>29</sup> In *Symantec*, the court noted that the consultant did not have unique knowledge "that could not be found in another expert" and he had "ongoing relationships with competitors in the field."<sup>30</sup> Therefore, the court found there was a tangible risk in providing the information and denied his status. The court further noted that his

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27. *Layne Christensen Co. v. Purolite Co.*, 271 F.R.D. 240, 252 (D. Kan. 2010).

28. *See, e.g., Streck, Inc. v. Research. & Diagnostic Sys.*, 250 F.R.D. 426, 430–33 (D. Neb. 2008) (finding an expert who engaged in active consultancy with a direct competitor was entitled to access because the risk of inadvertent disclosure was small where the expert's work did not fall within the topic area covered by the suit at hand).

29. *Symantec Corp. v. Acronis Corp.*, 2012 WL 3582974, at \*3 (N.D. Cal. Aug. 20, 2012).

30. *Id.*

status as a consultant “rather than a testifying expert” further undercut how essential he was to the case.<sup>31</sup>

Notably, the court in *Symantec* distinguished its facts from *Advance Semiconductor Materials America v. Applied Materials*, where an objection to an independent testifying expert’s access was overruled because the expert had not consulted in the industry for four years and had no future plans to do so.<sup>32</sup> Further, the independent expert was deemed to have unique knowledge that was not easily found in others.<sup>33</sup> The line of cases that discuss whether access to trade secret information by independent consultants “in the field” is appropriate also turns on whether the objecting party has presented a sound showing that potential misuse is real.<sup>34</sup> Similarly, in *Reedhycalog UK, Ltd. v. Baker Hughes Oilfield Operations Inc.*, the court determined that a party could be a technical expert even though the defendant had tried to hire the expert before plaintiff did because he did not seem to be biased, and there was a “limited amount of non-party experts in the field.”<sup>35</sup> The court noted that the technical expert did not have any engagement in the products he was discussing, and denying access would prejudice the plaintiffs.<sup>36</sup> A party can also argue that a technical expert should not have access to certain materials if the expert has some competitive decision-making power in the industry or if the knowledge the expert would gain

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31. *Id.*

32. *Advance Semiconductor Materials Am., Inc. v. Applied Materials*, 1996 WL 908654, at \*8–9 (N.D. Cal. Oct. 28, 1996).

33. *Id.*

34. *See White v. Hitachi, Ltd.*, 2005 WL 8162337, at \*3 (E.D. Tenn. June 3, 2005) (finding insufficient showing of “real” potential misuse when even though the expert had once worked for the plaintiff, he was now retired).

35. *Reedhycalog UK, Ltd. v. Baker Hughes Oilfield Operations, Inc.*, 251 F.R.D. 238, 246 (E.D. Tex. 2008).

36. *Id.*

could be inadvertently used.<sup>37</sup> In *Sarl v. Sprint Nextel Corp.*, the court found that a technical expert could receive confidential information even though he had worked for an affiliated company of the defendants before the case.<sup>38</sup> The court noted he had no access to defendants' confidential materials before the case, and it was therefore appropriate.<sup>39</sup>

Where parties have agreed through the protective order to have experts sign an NDA, courts should generally uphold this provision. Contracting for such provisions indicates that the parties believe an NDA can adequately protect their trade secrets. If, however, there is no NDA in the protective order, courts must look much more closely at the facts of the specific case.<sup>40</sup>

### C. Access by Employees

**Guideline 5. An employee accused of misappropriating trade secrets should be given access to the former employer's trade secrets that he or she is accused of misappropriating, unless a case presents an unusual circumstance where the former employer can establish good cause for not doing so and appropriate**

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37. See, e.g., *Sarl v. Sprint Nextel Corp.*, 2013 WL 501783, at \*9 (D. Kan. Feb. 8, 2013).

38. *Id.*

39. *Id.*; see also *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 2008 WL 4950989, at \*4 (S.D. Cal. Nov. 18, 2008).

40. For judicial opinions providing guidance if there is no NDA and a party is concerned about disclosing information to an expert who is employed by or provides services to competitors, see, e.g., *Layne Christensen Co. v. Purolite Co.*, 271 F.R.D. 240, 252 (D. Kan. 2010); *Streck, Inc. v. Rsch. & Diagnostic Sys.*, 250 F.R.D. 426, 430–33 (D. Neb. 2008).

**restrictions are put in place to avoid further use or dissemination of the trade secrets.**

Should an employee accused of misappropriating trade secrets be granted access to the trade secrets that were allegedly misappropriated from the former employer? Is it sufficient to allow access to the trade secrets to the former employee's counsel or expert under an "Attorneys' Eyes Only" (AEO) or similar designation, but not allow access to the former employee? While there have been few reported cases addressing these questions, those that do attempt to balance the ability of the former employee to defend himself or herself against the harm to the former employer, who has allegedly already been harmed by the misappropriation and now is exposed to harm again by allowing the former employee unfettered and complete access to the trade secret information. In striking this balance and reaching a final determination, most courts have (a) consistent with Federal Rules of Civil Procedure 26(c) (Rule 26(c)), placed the burden of proving "good cause" on the former employer by requiring it to demonstrate why the former employee should not be granted access to the trade secrets; and (b) assessed the question of whether "good cause" exists based on the nature of the trade secret and the ability of the former employee to mount a defense to the claims asserted without being given access to the information.

Courts find themselves in a quandary when faced with challenges to multitiered confidentiality orders that include designations that can be used to shield documents from disclosure to a former employee accused of misappropriating trade secrets:

In deciding whether to compel disclosure of allegedly confidential or trade secret information, this Court weighs competing policy and practical considerations. A trade secret plaintiff has a legitimate interest in avoiding needless disclosure of

confidential information. It seems somewhat unfair to make a plaintiff disclose a trade secret simply to prosecute his or her claims against someone who may have stolen that secret. Yet, that same plaintiff, having chosen to file suit accusing the defendant of misconduct, must identify trade secrets at issue with sufficient specificity for the defendant to prepare his or her defenses. Put simply, a defendant must be provided sufficient information to defend himself or herself. The Court also needs sufficient information to determine the relevancy of discovery and the basis for the claims asserted.<sup>41</sup>

It is the consensus of WG12 that consistent with Rule 26(c) and basic due process, the burden of establishing good cause should be placed on the former employer requiring it to demonstrate why the former employee should not be granted access to the trade secrets.<sup>42</sup> The question of whether good cause exists should be assessed based upon relevant factors such as the nature of the trade secret, the extent of the former employee's previous access to the information during employment, whether the former employee's access during employment was authorized or unauthorized, and the ability of the former employee to mount a defense to the claims asserted without being given access to the information.

If the former employee is to be provided with access to the information in discovery, additional safeguards may be

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41. *Mobilitie Mgmt., LLC v. Harkness*, Case No. 1:16-cv-04396, 2018 WL 7858685, at \*2 (N.D. Ga. July 10, 2018).

42. When analyzing employees' access to trade secrets, some courts have made the distinction between general business information, such as a customer list, and technical or scientific information. *See, e.g., Layne Christensen*, 271 FRD at 246–47.

required to ensure the protection of the trade secret information, including prohibiting the former employee from being provided with copies (electronic or hard copy) of the information and prohibiting him or her from downloading, copying, or otherwise replicating (i.e., via screenshot) the information.

**Guideline 6. An employee of a receiving party may be given access to the producing party's trade secret information if nonemployee subject matter experts are not readily available, the employee has unique specialized knowledge pertaining to the trade secrets, and the employee agrees to be bound by the restrictions in the protective order.**

The circumstances that could justify an adversary's employees being given access to a competitor's trade secret information are extremely limited. Many parties stipulate to limiting disclosure to independent experts in order to avoid any risk of competitive harm. However, there is a general absence of agreement on disclosures made to non-independent, or employee, experts. If a protective order generically authorizes experts to view trade secrets during discovery, it is unclear whether courts should permit or prohibit disclosure to nonindependent experts. This issue would necessarily be decided on a case-by-case basis.

The one reported case allowing for the sharing of trade secret information with a competitor's employees seems to be based on the particular fact pattern alleged in the complaint. In *Profil Institut für Stoffwechselforschung GmbH v. ProSciento, Inc.*, the court recognized that it was appropriate to share an opposing party's trade secrets with a competitor's employees where the employees had highly specialized knowledge and, per the complaint's allegations, already had access to the alleged trade



secrets at issue.<sup>43</sup> Specifically, this case involved the familiar fact pattern of an employee who allegedly stole trade secrets at the time of his departure and further used and relied upon that information during employment with the competitor. The defendant company sought the plaintiff company's trade secret information so that it could disprove the claims and, more specifically, argued that a select group of its employees with specialized knowledge and whom allegedly had already seen and used the information (by way of the employee who had moved from one company to the next) should be permitted access to the information. The court agreed this was appropriate in the context of the claims asserted because the trade secrets at issue could not be further harmed.<sup>44</sup>

WG12 recommends applying a Rule 26(b)(3)-type analysis in these circumstances. Specifically, WG12 recommends that "substantial need" and "undue hardship" for providing trade secret information to a competitor's employee with specialized knowledge be satisfied only in extremely limited circumstances where (a) there are no subject matter experts available to provide assistance to counsel; (b) the party seeking disclosure has objectively conducted a reasonably exhaustive search for expert assistance; and (c) an employee with specialized knowledge has signed a declaration agreeing to be bound to the terms of the protective order. Further, WG12 recommends that consideration be given to (d) whether the employee with specialized knowledge who would receive the competitor's trade secret information plays a role in competitive decision making (this would weigh against compelling the disclosure), and (e) if

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43. *Profil Institut fur Stoffwechselforschung GmbH v. ProSciento, Inc.*, Civil No. 16cv1549-LAB (BLM), No. 73, slip op. at 7 (S.D. Cal. July 3, 2017).

44. Parties commencing trade secret claims thus must be mindful not to include overly broad allegations that could later be used to further harm the plaintiff by the additional dissemination of its trade secret information.

disclosure is permitted, adopting the safeguards set forth above for in-house counsel who are permitted access to AEO information for the dissemination of trade secret information to a competitor's employee.

### III. PATENT PROSECUTION BARS IN TRADE SECRET CASES

A patent prosecution bar precludes attorneys who have access to an opposing party's confidential information and trade secrets in litigation from prosecuting patents in the technology field at issue and/or from accessing such information at all. The purpose behind a patent prosecution bar is to prevent lawyers involved in both litigation and patent prosecution from using, even unintentionally, confidential information of an opposing party in patent prosecution.

Regarding patent prosecution bars, the Federal Circuit explained: "A determination of whether a trial lawyer should be denied access to information under a protective order because of his additional role in patent prosecution, or alternatively be barred from representing clients in certain matters before the U.S. Patent and Trademark Office (USPTO), is an issue unique to patent law."<sup>45</sup>

Given "a noted lack of uniformity" regarding patent prosecution bars, the Federal Circuit set forth the following guidelines:

A party seeking imposition of a patent prosecution bar must show that the information designated to trigger the bar, the scope of activities prohibited by the bar, the duration of the bar, and the subject matter covered by the bar reasonably reflect the risk presented by the disclosure of proprietary competitive information. We further hold that the party seeking an exemption from a patent prosecution bar must show on a counsel-by-counsel basis: (1) that counsel's representation of the

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45. *In re Deutsche Bank Tr. Co. Americas*, 605 F.3d 1373, 1377–78 (Fed. Cir. 2010) (holding "determination of whether a protective order should include a patent prosecution bar is a matter governed by Federal Circuit law").

client in matters before the [US]PTO does not and is not likely to implicate competitive decisionmaking related to the subject matter of the litigation so as to give rise to a risk of inadvertent use of confidential information learned in litigation, and (2) that the potential injury to the moving party from restrictions imposed on its choice of litigation and prosecution counsel outweighs the potential injury to the opposing party caused by such inadvertent use.<sup>46</sup>

Patent prosecution bars are often litigated in patent cases. However, there are few reported cases of patent prosecution bars in trade secret litigation. In one case involving a dispute over misappropriation of trade secrets regarding the development and marketing of blood collection tubes, a federal district court considered plaintiffs' request that a prosecution bar be included in the protective order. The court followed the Federal Circuit guidelines in *In re Deutsche Bank Trust Co. Americas* and determined that the plaintiffs had not met the threshold requirement of showing that absent a patent prosecution bar, defense counsel's "involvement in the subject matter of this litigation presents an unacceptable risk of inadvertent disclosure of confidential information."<sup>47</sup> While the court declined to require a patent prosecution bar in the trade secret dispute, the court found that "an AEO designation is appropriate to protect the technical and proprietary information of the parties."<sup>48</sup>

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46. *Id.* at 1381.

47. *CFGenome, LLC v. Streck, Inc.*, No. 4:16CV3130, 2018 WL 2463071, at \*5 (D. Neb. June 1, 2018).

48. *Id.*; *Cf. Encap LLC v. Scotts Co. LLC*, No. 11-CV-685, 2015 WL 12991188, at \*4 (E.D. Wis. Jan. 8, 2015) (discussing stipulated patent prosecution bar of protective order in trade secret case and finding "Confidential—Subject to Patent Prosecution Bar" designation on specific documents under

By contrast, another court interpreted a stipulated protective order with a patent prosecution bar in trade secret litigation and succinctly explained “plaintiffs may either consult with [a patent prosecution lawyer and agent] about this lawsuit or have them continue to prosecute patents on the technology at issue. They cannot do both.”<sup>49</sup>

Should patent prosecution attorneys have access to an opposing party’s trade secrets in trade secret litigation and use such trade secrets in their own client’s patent prosecution, the consequences could be very serious. The trade secret owner would likely suffer irreparable and monetary harm, and patent prosecution attorneys could themselves be liable for misappropriation of trade secrets. The issue could also give rise to satellite litigation.

While confidential and AEO designations of protective orders used in most trade secret cases are often sufficient to address the concerns of protecting confidential information and trade secrets in litigation about them, the use of patent prosecution bars should also be carefully considered and used in appropriate circumstances.

**Guideline 7. Patent prosecution bars should be considered in trade secret litigation when patent prosecution attorneys and agents are involved in the litigation and should assess**

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the protective order in effect reasonable given attorney’s close relationship with his client, his long history with its patents, and the nature of the information contained in the documents).

49. *M.A. Mobile LTD. v. Indian Inst. of Tech. Kharagpur*, No. C08-02658 RMW HRL, 2010 WL 3490209, at \*2 (N.D. Cal. Sept. 3, 2010); *see also* *Ultra Premium Servs., LLC v. OFS Int’l, LLC*, No. 4:19-CV-2277, 2019 WL 5846900, at \*6 (S.D. Tex. Nov. 7, 2019) (requiring patent prosecution bar in trade secret case after litigation had begun based on balance of factors regarding risk of disclosure and illustrating the need to consider this issue early in the case).

**pertinent factors that reasonably reflect the risks presented by the disclosure of proprietary competitive information to the specific counsel involved in the case.**

When patent prosecution attorneys and agents are involved in a trade secret litigation, the parties and the bench should consider whether a patent prosecution bar should be applied.

The burden should be on the party seeking imposition of a patent prosecution bar to show:

- the information designated to trigger the bar, the scope of activities prohibited by the bar, the duration of the bar, and the subject matter covered by the bar reasonably reflect the risk presented by the disclosure of proprietary competitive information.

The burden should be on a party seeking an exemption from a patent prosecution bar to show on a counsel-by-counsel basis:

- that counsel's representation of the client in matters before the USPTO does not and is not likely to implicate competitive decision making related to the subject matter of the litigation so as to give rise to a risk of inadvertent use of confidential information learned in litigation, and
- that the potential injury to the moving party from restrictions imposed on its choice of litigation and prosecution counsel outweighs the potential injury to the opposing party caused by such inadvertent use.

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A typical patent prosecution bar provision includes the following provisions:

- Absent written consent from the Producing Party, any individual who receives access to “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional: or “HIGHLY CONFIDENTIAL – SOURCE CODE”*] information shall not be involved in the prosecution of patents or patent applications relating to [insert subject matter of the invention and of highly confidential technical information to be produced], including without limitation the trade secrets asserted in this action, before any foreign or domestic agency, including the United States Patent and Trademark Office.
- For purposes of this paragraph, “prosecution” includes directly or indirectly drafting, amending, advising, or otherwise affecting the scope or maintenance of patent claims.
- To avoid any doubt, “prosecution” as used in this paragraph does not include representing a party challenging a patent before a domestic or foreign agency (including, but not limited to, a reissue protest, ex parte reexamination or inter partes reexamination).
- This Prosecution Bar shall begin when access to “HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY” [*Optional: or “HIGHLY CONFIDENTIAL – SOURCE CODE”*] information is first received by the affected individual and shall end two (2) years after final termination of this action.

#### IV. PROTECTION OF TRADE SECRET INFORMATION DISCLOSED AT TRIAL AND THE RIGHT OF PUBLIC ACCESS TO COURT PROCEEDINGS

##### A. *Qualified Right of Public Access*

**Principle 2.** [WG2, Chapter 2, Principle 1] – In civil proceedings, the public has a qualified right of access to documents filed with a court that are relevant to adjudicating the merits of a controversy. In compelling circumstances, a court may exercise its discretion to deny public access to submitted documents to protect the privacy, confidentiality or other rights of the litigants.<sup>50</sup>

Trade secrets actions typically take place at the intersection between the public right of access to court filings/proceedings and the protection of the litigants' trade secrets. The right of access is firmly entrenched in the law throughout the United States. At the same time, there are protections available under the federal Defend Trade Secrets Act<sup>51</sup> (DTSA) and the Uniform Trade Secrets Act (UTSA) to safeguard trade secrets from disclosure during litigation, which serve as qualifications on the public's right of access to court proceedings. Thus, in trade secret cases, there is tension between the qualified right of public access and the litigants' need to protect the confidentiality and value of their trade secrets.

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50. The Sedona Conference, *The Sedona Guidelines: Best Practices Addressing Protective Orders, Confidentiality & Public Access in Civil Cases*, at Chapter 2, Principle 1 (March 2007), available at: [https://thesedonaconference.org/publication/Working\\_Group\\_2\\_Guidelines](https://thesedonaconference.org/publication/Working_Group_2_Guidelines).

51. 18 U.S.C. § 1836, *et seq.*



A constitutional right to public access arises if the proceedings or documents have historically been open to the general public and “public access plays a significant positive role in the functioning of the particular process in question.”<sup>52</sup> “If the particular proceeding in question passes these tests of experience and logic, a qualified First Amendment right of public access attaches.”<sup>53</sup> But this right is not unlimited. The qualified right to public access can be overcome “only by an overriding interest based on findings that closure is essential to preserve higher values and is narrowly tailored to serve that interest.”<sup>54</sup> The protection of trade secrets has long been recognized as one of these overriding interests that justify an exception to this right. Indeed, the Supreme Court has recognized that “sources of business information that might harm a litigant’s competitive standing” are exempted from public disclosure.<sup>55</sup> <sup>56</sup> As further noted by the Ninth Circuit, “[t]he publication of materials that could result in infringement upon trade secrets has long been considered a factor that would overcome th[e] strong presumption” of public access to court proceedings.<sup>57</sup>

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52. *Press-Enterprise Co. v. Superior Court*, 478 U.S. 1, 8 (1986).

53. *Id.* at 9.

54. *Id.*; *see also* *Globe Newspaper Co. v. Superior Court*, 457 U.S. 596, 606–07 (1982) (“Where, as in the present case, the State attempts to deny the right of access in order to inhibit the disclosure of sensitive information, it must be shown that the denial is necessitated by a compelling governmental interest, and is narrowly tailored to serve that interest.”).

55. *Nixon v. Warner Commc’ns*, 435 U.S. 589, 598 (1978).

56. For complete discussion of public access considerations, *see The Sedona Guidelines: Best Practices Addressing Protective Orders, Confidentiality & Public Access in Civil Cases*, *supra* note 50.

57. *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1162 (9th Cir. 2011).

Both the DTSA and the UTSA direct courts to implement safeguards to protect the litigants' trade secrets.<sup>58</sup> And courts commonly implement protections in trade secret matters.<sup>59</sup> This sensible directive ensures that victims of trade secret misappropriation can seek redress in the courts without having to suffer further damage to their trade secret property rights by disclosure within the litigation.

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58. See Uniform Trade Secrets Act § 5 (The Uniform Trade Secret Act requires that courts “preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.”); 18 U.S.C. § 1835(a) (The Defend Trade Secret Act requires that courts “enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws.”).

59. See, e.g., *In re Iowa Freedom of Info. Council*, 724 F.2d 658 (8th Cir. 1983) (denying petition for mandamus regarding the exclusion of all non-parties from a contempt hearing to determine if a party used trade secrets in violation of a protective order); *Brown & Williamson Tobacco Co. v. FTC*, 710 F.2d 1165, 1180 (6th Cir. 1983) (vacating order to seal documents because trade secrets were not at issue, noting that “legitimate trade secrets” are a “recognized exception to the right of public access to judicial records”); *Woven Elecs. Corp. v. Advance Grp.*, Nos. 89-1580, 89-1588, 1991 WL 54118, at \*6 (4th Cir. 1991) (directing trial court to review the trial record and seal those portions “necessary to prevent the disclosure of trade secrets”); *Joint Stock Soc’y v. UDV N. Am.*, 104 F. Supp. 2d 390, 396 (D. Del. 2000) (allowing certain records containing trade secrets to remain sealed over objection of news reporter); *Neural Magic, Inc. v. Facebook, Inc.*, Civil Action No. 20-10444-DJC (D. Mass. May 29, 2020) (redacting alleged trade secrets from order denying motion for preliminary injunction).

*B. Trade Secret Information Presumed to be Restricted from Disclosure*

**Principle 3. Because public disclosure of a trade secret in litigation could destroy its value, if the trade secret owner establishes that certain information reveals all or a meaningful part of a trade secret, such information should be restricted from public disclosure, in both filings and open court. Restrictions should be as narrowly tailored as necessary to protect the trade secrets at issue.**

As discussed above, a party that has been victimized by trade secret misappropriation should be able to seek redress in the courts without having to fear further public disclosure of its trade secrets. Where a litigant can make a showing that disclosure of the information at issue would reveal all or a meaningful part of a trade secret, good cause exists to implement protections.<sup>60</sup> Indeed, this is precisely the reason why the DTSA and the UTSA instruct courts to implement protections. A trade secret is a property right that can be destroyed by disclosure. Without the ability to adequately protect a trade secret, the trade secret laws become useless. Thus, when a party makes a showing that the litigation involves information that reveals all or a meaningful part of a trade secret, that information should be entitled to protections against disclosure.

Whether restrictions are needed is “best left to the sound discretion of the court, discretion to be exercised in light of the relevant facts and circumstances of the particular case.”<sup>61</sup> Thus, courts need to use their discretion when evaluating the evidence

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60. See *Nixon*, 435 U.S. at 598.

61. *Id.* at 598–99.

presented by the trade secret owner to determine whether protections are appropriate. For example, while the burden in the first instance is on the party seeking protections, once that party has met its burden of showing that the litigation involves information that reveals all or a meaningful part of a trade secret, the party opposing the restrictions can still show that disclosure will not cause harm. If the court finds that disclosure would not cause harm, for example in a situation where only a part of a trade secret would be disclosed in a manner that did not reveal information in a usable form, the court should determine whether any restriction is necessary. The plaintiff's identification of the trade secrets at issue at the outset of the case is a logical starting point for this analysis. The information at issue should fall within the scope of the plaintiff's prior identification. If it does not, the plaintiff will have to reconcile the omission before being entitled to protections.

Importantly, however, restrictions on the disclosure of trade secrets, whether in court filings or in open court, should be narrowly tailored to protect the trade secrets at issue. For example, in court filings, parties should redact only those portions of the public filings containing information that reveals part or all of a trade secret, instead of filing the entire document under seal. Similarly, the courtroom should be closed only for those limited portions of a trial or hearing during which information that reveals part or all of a trade secret is disclosed. By narrowly tailoring needed restrictions, courts give life to the constitutional right to public access. As noted in *Woven Electronics Corp. v. Advance Group*:

The district court should review the entire record of the trial, including the exhibits and transcripts if any, and seal only those portions necessary to prevent the disclosure of trade secrets. Such a partial sealing strikes an appropriate balance between

the public's right of access to judicial records and proceedings and the parties' legitimate interest in the protection of sensitive proprietary information. We emphasize . . . that we are not announcing a blanket rule that the presence of trade secrets will in every case and at all events justify the closure of a hearing or trial. In these sensitive situations courts must proceed cautiously and with due regard to the unique facts involved in each case.<sup>62</sup>

When implementing protections, courts and parties should be mindful of the stage of the case in which the protections are sought. In particular, restrictions on information disclosed between the parties in discovery are far different than restricting access to publicly filed materials. The public right to access does not attach to nonpublic exchanges between parties, as opposed to matters filed with the court or presented in a court proceeding, and thus protections applicable to the former require far less scrutiny than the latter. Similarly, the degree to which otherwise public materials are restricted or redacted is relevant; there is a difference between limited redactions versus the wholesale sealing of a filing or exhibit. Courts and parties should limit the restriction to redactions wherever possible. Finally, once the matter reaches trial, the public's interest is at its apex, requiring courts and parties to carefully consider the need for protections as well as to narrowly tailor any protections that are deemed necessary.

### *C. Trial Considerations*

**Principle 4. In cases to be tried before a jury, restrictions on disclosure of a trade secret at trial should**

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62. 1991 WL 54118, at \*6 (4th Cir. 1991) (citation omitted).

**be implemented in a manner that minimizes  
any prejudicial effects of the restrictions.**

At trial, the trade secret owner is not the only stakeholder who must be accounted for when implementing restrictions on disclosure. When a jury is involved, restrictions like sealing the courtroom could send a message to the jury that the information at issue is a trade secret, even though that determination may be in the jury's hands. For this reason, sealing the courtroom during trial should be a last resort, used only when less restrictive means—such as using aliases or code words to describe the trade secret—cannot be used. In these circumstances, courts will almost always need to give a curative instruction to the jury that directs them that the sealing of the courtroom and the use of other protections is not to be considered when making any of their findings.

Additionally, when sealing is necessary, the number of times that the courtroom is sealed should be minimized. This helps to mitigate any possible prejudice to the jury.

For example, in *United States v. Roberts*, a case involving photographs that allegedly disclosed trade secrets, the court implemented protections at trial in a way that limited the suggestive nature of the restrictions.<sup>63</sup> This included (a) publishing the photographs to the jury in a way that did not allow others in the courtroom to view them, such as by publishing by hand instead of electronically; (b) to the extent trade secret information needed to be displayed on the electronic monitors, turning off the public monitors without the jury being aware; (c) placing demonstrative aids where only the jury could see them; and (d) giving a special instruction that the jury should attach no

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63. *United States v. Roberts*, No. 3:08-CR-175, 2010 WL 1010000, at \*1 (E.D. Tenn. Mar. 17, 2010).

significance to the manner in which the photos were displayed or handled.

These issues do not apply to (a) matters to be tried before the court, and (b) pretrial disclosure restrictions, such as those in a protective order that governs the pretrial exchange of documents and information between the parties.

**Guideline 8. In a matter tried before a jury, when the court seals the courtroom or implements other protections that are known to the jury, the court should instruct the jury to draw no inferences on any contested issue from the existence of those protections.**

**Guideline 9. When a trial will involve sealing the courtroom, the parties should confer and propose to the court a means of coordinating the presentation of evidence to minimize the number of times that the courtroom needs to be sealed.**

Taking these steps protects the parties' rights to a fair trial by an impartial jury. Grouping the presentation of the evidence may entail calling witnesses out of order but may also minimize the number of times that the courtroom needs to be sealed and mitigate against any improper inferences that the jury may draw from that.

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WG12 provides the following proposed model jury instruction:

This action involves allegations that certain materials are subject to protection as trade secrets. To protect this information from public disclosure, the court has [describe protections]. The jury is

reminded that [the party asserting the trade secret] bears the burden of proving all elements of its claim for misappropriation of trade secrets, as explained in instruction number [insert]. When evaluating whether [the party asserting the trade secret] has satisfied this burden, the jury is not permitted to take into account, or consider in any way, the fact that the court [describe protections].

This instruction makes the jury aware that the restrictions themselves are not to be considered when determining whether the party asserting the trade secret has satisfied its burden to establish the existence of the trade secrets at issue. Depending on the court's local practice, this instruction can be given in the initial instructions, the final instructions, or both. Again depending on local practice, this instruction could be inserted immediately after the substantive instruction on the misappropriation-of-trade-secrets claim, and it can be modified to parallel the form of instructions used in the particular jurisdiction.

#### *D. Case Management Guidelines for Implementing Protections*

Implementing protections against disclosure of trade secret information in litigation raises practical considerations, such as the timing and types of protections. Effectively addressing these considerations requires parties to work together cooperatively, in good faith, and in a timely fashion.

1. Address protections early in a case

**Guideline 10. Attorneys should address the issue of needed protections at the earliest possible time, for example, at the Federal Rule of Civil Procedure 26(f) initial conference.**



Attorneys need to work together to ensure that the need for protections is addressed early in the case. This allows for agreement where possible and the ability to bring any areas of disagreement to the judge at an early stage in the case. It is important for attorneys to work collaboratively to address the issue of protections and narrow any areas of dispute as much as possible.

**Guideline 11. Restrictions on disclosure of a trade secret in litigation should be implemented in a manner that minimizes the burden on courts and their administrative staff, while adequately protecting the trade secrets at issue.**

Additionally, attorneys need to be cognizant of the burdens that the requested protections will have on courts and their administrative staff. These restrictions will often be unique to each jurisdiction. For example, some courts use systems where sealing a document restricts access from all court personnel except the judges themselves. This could make it more difficult for a judge to efficiently handle a matter. Where less restrictive options are available, they should be carefully considered. For example, some jurisdictions distinguish between “confidential” filings, which can be reviewed by court staff, and “under seal” filings, which can only be viewed by the judge.<sup>64</sup> Filing “under seal” may place greater administrative burdens on courts and judicial staff. Thus, parties should use the least burdensome method that will adequately protect the information at issue. Similarly, there are many jurisdiction-specific rules relating to the filing of motions to seal that will determine how such motions must be filed.

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64. See, e.g., Minn. Gen. R. Prac. 11.03 & 11.04.

## 2. Types of protections

**Guideline 12. Protections for trade secrets may include: sealing the courtroom during portions of trials or hearings; restricting public access to the portions of filings, transcripts, exhibits, and evidence that reveal part or all of a trade secret; and ordering court personnel and jurors not to disclose or use any information learned at trial.**

As discussed above, protections should be narrowly construed. As part of this effort, parties and courts should look to the full arsenal of protections, selecting the narrowest available restriction that adequately protects the trade secrets at issue. For example, court filings should be redacted where possible, instead of sealing the entire filing.

Case law shows the various ways courts implement protections, including:

- sealing the courtroom for a preliminary injunction hearing that involved alleged trade secrets;<sup>65</sup>
- ordering that transcripts be redacted before being made publicly available;<sup>66</sup>
- permitting exhibits to be filed under seal;<sup>67</sup>
- entering a number of protections, including (a) not filing exhibits on the public docket; (b) not

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65. *BP Am. Prod. Co. v. Hamer*, No. 19-CV-03581-CMA-STV, 2019 WL 7049990, at \*1 (D. Colo. Dec. 23, 2019).

66. *Facebook, Inc. v. ConnectU, Inc.*, No. C 07-01389 JW, 2008 WL 11357787, at \*1 (N.D. Cal. July 2, 2008).

67. *Motorola Sols., Inc. v. Hytera Commc'ns Corp.*, 367 F. Supp. 3d 813 (N.D. Ill. 2019).

publishing exhibits to the gallery; and (c) subjecting witnesses who were shown certain exhibits to an order requiring them to keep the information confidential;<sup>68</sup>

- closing the courtroom at trial whenever there was testimony about alleged trade secrets;<sup>69</sup> and
- declining to close the courtroom at trial, instead (a) making trial observers subject to the protective order; (b) sealing exhibits admitted into evidence; and (c) redacting court orders<sup>70</sup>

Courts may also consider using code names to identify the particular trade secrets or categories of trade secrets. These decisions show that determining the appropriate protections requires a case-by-case analysis. The court must review the particular trade secrets at issue to determine how to implement protections that will safeguard the information.

When drafting orders or opinions, judges should be careful not to publicly disclose trade secret information that has previously been ordered subject to protections. One way to avoid this inadvertent disclosure is, to the extent possible under the rules of the particular jurisdiction, to have the court provide the parties with the order prior to filing it publicly. This would allow the parties to offer proposed redactions for the court's consideration.

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68. *Sumotext Corp. v. Zoove, Inc.*, No. 16-CV-01370-BLF, 2020 WL 836737, at \*1 (N.D. Cal. Feb. 20, 2020).

69. *CDA of Am. Inc. v. Midland Life Ins. Co.*, No. 01-CV-837, 2006 WL 5349266, at \*1 (S.D. Ohio Mar. 27, 2006).

70. *LifeNet Health v. LifeCell Corp.*, No. 2:13CV486, 2015 WL 12516758, at \*1 (E.D. Va. Jan. 9, 2015).

### 3. Dealing with “alleged” trade secrets

**Principle 5.** A court does not need to make a conclusive determination as to whether a party’s information qualifies as a trade secret before ordering appropriate protections. Instead, the court should determine whether that party has credibly identified the existence of a trade secret, making a particularized finding regarding the specific information that is subject to protection.

Consistent with the Uniform Trade Secrets Act, which addresses protections for “alleged” trade secrets,<sup>71</sup> courts do not need to make a conclusive determination as to whether a party’s information qualifies as a trade secret before ordering appropriate protections. Indeed, in jury cases, this determination may be the province of the jury. Instead, the court should determine whether that party has credibly identified the existence of a trade secret, making a particularized finding regarding the specific information that is subject to protection.

The plaintiff’s identification of its trade secrets informs this analysis. If a plaintiff has satisfied its burden to identify the trade secrets at issue with reasonable particularity, then information falling within the identified trade secrets should be subject to protections. For further information on the issue of identification, consult Working Group 12’s *Commentary on the Proper Identification of Asserted Trade Secrets*.<sup>72</sup>

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71. Uniform Trade Secrets Act § 5.

72. The Sedona Conference, *Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases*, 22 SEDONA CONF. J. 223, 234 & n. 5 (2021) available at [https://thesedonaconference.org/publication/Commentary\\_on\\_Proper\\_Identification\\_of\\_Trade\\_Secrets\\_in\\_Misappropriation\\_Cases](https://thesedonaconference.org/publication/Commentary_on_Proper_Identification_of_Trade_Secrets_in_Misappropriation_Cases).

If that a court determines that a party is not entitled to requested protections, the court should nonetheless restrict public access to the information at issue until the moving party has had the opportunity to seek appellate relief.

#### 4. Trial-specific issues

**Guideline 13. Prior to sealing the courtroom in a trial or hearing, the court should conduct an in camera hearing to examine the trade secrets at issue and determine the scope of the protection.**

Courts will generally have to review, *in camera*, the alleged trade secrets to determine if protections are warranted, as well as what protections to apply.<sup>73</sup> Given the public's right to access, this review should take place even if the other party does not object to the restrictions.<sup>74</sup>

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73. *See, e.g.,* Woven Elecs. Corp. v. Advance Grp., 1991 WL 54118, at \*6 (4th Cir. 1991) ("Where a party or a member of the public voices an objection to closure a district court must provide that person a reasonable time to state his objections. The court should then make an initial *in camera* determination as to whether trade secrets are likely to be involved.") (citation omitted).

74. *Id.*

## V. APPROPRIATE CLASSIFICATION OF INFORMATION IN TRADE SECRET DISCOVERY

Trade secret litigation presents plaintiffs and defendants alike with a common dilemma: how best to protect their respective trade secrets (and other internal confidential information) while seeking a remedy for misappropriation or pursuing a defense against a misappropriation claim. In practice, in order to support their asserted misappropriation claim, a party in a trade secret case must disclose not only the alleged existence of a trade secret, but, in most cases, the secret itself and the details regarding its proprietary development, protections and value. Similarly, to wage an adequate defense in a trade secret case, a party must collect and produce evidence containing the details surrounding the alleged misappropriation that may reveal its own cache of trade secrets and other highly sensitive internal information. Fact discovery is routinely the battleground where these two competing concerns face off, and, depending on the contentiousness of the case, can lead to expensive, protracted motion practice that does not serve any participant—including the court.

Parties are best served when, at the outset of litigation, agreement is reached as to the certain tiers of designations that shall be used to provide the framework for the necessary protections of discovery by respective sides. The most common classification tiers include “Confidential,” and “Highly Confidential-Attorneys’ Eyes Only.” Depending on the scope and variety of information, and the extent to which nonlawyers may be required to interpret the information, additional classifications may be appropriate to identify which of the information may be accessible by in-house lawyers (if there is a need to distinguish between internal and external counsel), nonlawyer party personnel with particular technical or subject-matter insight, or third-party experts and advisors. Classification tiers

should be identified and defined in the governing stipulated protective order entered in the case.

When the parties agree to a protective order and submit it to the court for approval, they should keep in mind that such an order is an agreement between them about how they want to protect their proprietary information while conducting the case. The parties cannot, through an agreed protective order, require the court to take or refrain from taking any actions. The parties should also be wary of burdens on the court and administrative staff when drafting protective orders. And the parties should use, wherever possible, a jurisdictionally approved protective order.

In a perfect world, the classification designations are applied judiciously to each and every document (or portion of document) in accordance with the protective order. However, during high-stakes trade secret litigations, parties tend to flinch at the notion of turning over their internal sensitive information directly to competitors, worrying that the tiers do not necessarily provide protection for the secrets—after all, once the cat is out of the bag, it is out of the bag. Additionally, and especially as the number of documents grows with electronic discovery while response times remain the same or shrink, parties are often under tremendous pressure to turn out voluminous document production and may (at least initially) feel pressure to conservatively overdesignate or mass-designate documents in lieu of thoughtful document-by-document review and classification. In particular, trade secrets cases often involve expedited discovery in advance of an injunction hearing, which puts further pressure on the parties and, in some circumstances, may justify initial designation of documents by group, to be followed by appropriate adjustment when the time pressure lifts.

Overdesignating can burden the receiving party. To the extent it leads to litigated dispute, overdesignating also burdens

courts. And it can unnecessarily complicate (a) the taking of depositions (by placing procedural burdens on the process of examining witnesses regarding designated documents), and (b) the presentation of evidence to the court or jury. For these reasons, it is essential that the parties work in good faith to address any designation-related issues, avoiding court intervention wherever possible.

**Principle 6. The parties should cooperate in good faith to develop and implement a protective order that balances: (a) the need to protect trade secret information; (b) the right of both parties to receive timely disclosures and discovery responses; and (c) the right to have specified nonattorney representatives also timely review the other party's discovery responses.**

Poorly drafted protective orders can be negotiated and executed in haste during a particularly urgent stage of litigation (in advance of a preliminary injunction hearing, in connection with expedited discovery, etc.), when parties may be motivated more by time than substance; or they can be treated more perfunctorily, where standard classifications are identified, followed by boilerplate language regarding designation challenges and filing procedures. It is important that the protective order, and its terms and guidelines for designating material into protective classifications, balance the need to protect confidential information concerning trade secrets against the right of both parties to timely receive disclosures and discovery responses; while also allowing access to such information—including for review and evaluation by appropriately qualified and interested nonattorneys. Whether motivated by the urgency of time, the intent of protecting proprietary and trade secret information, or procedural strategy, producing parties may be inclined to designate information or documents to higher levels of restriction than



may reasonably be appropriate under the circumstances. An un-negotiated protective order that does not effectively inform and guide the parties for fair, reasonable, and balanced designation can lead to frequent, unnecessary, time-consuming, and costly dispute resolution throughout discovery and during trial. Parties should take time, even when time is most of the essence, to anticipate the likely disputes in a contentious trade secret case and draft the relevant provisions accordingly, both with respect to the rules of designation and the consequences of overdesignation. All parties should strive to minimize the extent to which the court is called upon to resolve disputes pertaining to appropriate designations, but they should also set forth clear, objective criteria for settling disputes. Where the parties are willing to thoughtfully craft reciprocal provisions governing the information exchange, then the court can more efficiently enforce the negotiated repercussions of noncompliance

**Guideline 14. Parties should develop protective orders to protect the type of information likely to be discovered in each particular case, using any jurisdictionally provided model protective order as a starting point.**

Parties should develop protective orders specific to the case, using any jurisdictionally provided model protective order as a starting point. For example, the Northern District of California issued a Model Protective Order for Litigation Involving Patents, Highly Sensitive Confidential Information and/or Trade Secrets that provides thorough definitions, restrictions, and other guidelines that are crucial to the protection of information, and applies equally to both plaintiff and defendant in such

cases.<sup>75</sup> Other districts, in 33 of the 50 states, have similar model protective orders containing provisions that define the types of information that warrant the “Confidential” classification, and that warrant “Attorneys’ Eyes Only.” See for example, the “Discovery Confidentiality Order” for the District of New Jersey,<sup>76</sup> where “Attorneys Eyes Only” is reserved for “highly sensitive business or personal information, the disclosure of which is highly likely to cause significant harm to an individual or to the business or competitive position of the designating party.” These model protective orders can be used by the parties in their entirety or with minor revisions should the circumstances of the case necessitate deviation from the template. Using a standing order by the court that sets forth its expectations of the parties, as well as an accepted form of protective order, can provide parties with a common, reasonable starting place while minimizing the court’s burden in reviewing often lengthy and dense proposed protective orders.

For cases in jurisdictions where there is no such model protective order, the parties should develop protective orders with confidentiality designations specifically defined to address the types of information likely to be discovered in that particular case. The parties should not agree to or propose a form protective order, without tailoring it to the specific circumstances of each case. It may be helpful to use as a starting point a confidentiality order that has been approved by another jurisdiction. The protective order should provide objective guidelines categorizing the type of information or documents likely to be discovered in each particular case into confidentiality designations, to the extent knowable at the time.

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75. Available at <https://www.cand.uscourts.gov/forms/model-protective-orders/>.

76. Available at <https://www.njd.uscourts.gov/sites/njd/files/APPS.pdf>.

Parties should avoid relying on recycled forms of protective orders without further analysis and review. Parties should take time to consider the special circumstances of the matter at hand and draft the protective order accordingly in each instance, taking into consideration the trade secrets at issue, the foundation and context of such trade secrets, the unique circumstances in the appropriate context of the parties to the litigation and the legitimate need for access by the other side. The justification for satisfying a designation threshold may vary depending on the nature of the trade secret—what may be “Highly Confidential – Attorneys’ Eyes Only” in one matter, may only need be “Confidential” in another. Similarly, whether there should even be a “Confidential – Outside Attorneys’ Eyes Only” designation and what information meets the higher level of restriction should be considered on a case-by-case basis. The protective order should narrowly address the circumstances of the particular case. Again, if the jurisdiction has an approved form of protective order, that should be the starting point.

Parties often lack motivation to take the time up front to vet the circumstances of the particular case and draft protective orders narrowly for the specific situation. Often, parties (especially plaintiffs with an urgent mandate to proceed) will deem it in their best interest to proceed quickly with a broad, undefined protective order, leaving themselves the “flexibility” to customize arguments on a situation-by-situation basis as the case progresses. This places a significant burden on the court to subjectively adjudicate discovery matters frequently, urgently, and contentiously throughout the case. By insisting on a well-considered protective order before it is entered, the parties may reduce the number of situations that require the court’s involvement, or, at least, may afford the court a more objective foundation with more guidance from the parties for resolving such disputes.

Occasionally, the parties may find as discovery progresses that the confidentiality designation categorizations defined in the confidentiality order at the outset turn out not to properly address certain categories of documents. In that circumstance, counsel should first negotiate in good faith to amend the relevant portion of the protective order in way that will help both sides anticipate and address any issues going forward, bringing such disputes to the court only as a last resort.

**Guideline 15. In circumstances where group designation of documents is required, within a reasonable time after initial production, the parties should cooperate in good faith to adjust the confidentiality designation from documents or categories of documents to allow access by specific individuals as appropriate and necessary for the recipient to defend its position.**

Group designation of documents as Attorney's Eyes Only without evaluation of individual documents may be a practical necessity in some trade secret cases to allow for timely responses to document requests. However, this practical constraint must be balanced against the recipient's ability to prepare its case.

As a practical reality, trade secret cases often require parties to review and produce a large number of documents quickly. This is particularly true for cases involving expedited discovery in advance of a preliminary injunction hearing, as often occurs in misappropriation cases. As a result of such timing pressure or the sheer volume of modern electronically stored information production, a producing party will frequently designate large groups of documents under a protective order as AEO, without conducting a document-by-document review to determine an

appropriate level of designation. In Group designation may not be necessary in cases involving a small volume of documents, where a producing party has sufficient time to conduct a document-by-document designation analysis.

While group designation as AEO may be expedient, it can also interfere with the receiving party's ability to manage its case by limiting communications with clients or other parties or witnesses. It also can create logistical hurdles when taking depositions, filing documents with the court, and presenting evidence at evidentiary hearings or at trial. For these reasons, when such a group designation is used, the parties should work together to address these issues within a reasonable time following production. The "reasonable time" for engaging in this process will necessarily vary by case and turn on factors such as the need to prepare for an evidentiary hearing or depositions, the need to confer with clients in connection with settlement negotiations, and any local rules governing the filing of documents under seal.

**Guideline 16. Protective orders should set forth a specific process for challenging confidentiality designations, including a conference between the parties. Should the parties be unable to resolve a dispute, the producing party should be required under the protective order to file a motion seeking to maintain the designation.**

Proposed protective orders should set forth a specific process for challenging confidentiality designations, including the requirement of a good-faith telephonic or in-person conference between the parties within a set period following the requesting party's challenge, during which the parties are required to discuss each challenged document in an effort to resolve any

disagreement. Protective orders should take into consideration local rules or practice for adjudicating disputes arising under protective orders.

The producing party bears the burden of justifying its confidentiality designations. Should the receiving party challenge a confidentiality designation, the producing party should be required under the protective order to file a motion seeking to maintain the designation.

The producing party's original confidentiality designation should be maintained until the resolution of the dispute over the designation.

**Guideline 17. Protective orders should contain a provision recognizing that the court can award fees to the prevailing party in a motion regarding the propriety of a designation where the court finds that the designation or opposition thereto was not substantially justified.**

While designation, disclosure, and use in litigation of protected information is primarily the obligation of the parties, the court is inevitably involved and affected by the diligence, or lack thereof, of the parties. Therefore, it becomes the responsibility of all parties, and the court, together, to ensure an efficient, least-disruptive process for protecting trade secret information while making sufficient protected disclosures for the parties to realize their rights to prosecute and defend claims in litigation. This responsibility begins with a narrowly drafted protective order that considers the specific facts and circumstances of the matter and the parties, clearly defines necessary classification levels, expresses objective criteria by which the parties may designate information at each level of protection, and provides for consequences that are a meaningful deterrent to violation of, and

incentive for good-faith compliance with, its terms. The court can play an important oversight and authoritative role in this part of the process as a condition to accepting and entering the proposed order. Once the order is entered, the parties must act in good faith to efficiently comply, and the court may intervene with some force, including with an award of fees, when the parties stray substantially from this commitment.

**Guideline 18. Protective orders should address how designated documents are handled and produced between the parties. By contrast, procedures for the filing of such designated documents with the court or presenting such documents at trial are governed by the applicable law and practice of each jurisdiction.**

Courts are granted the authority to enter a protective order “for good cause,” which at the discovery stage usually means facilitating the prompt and fair exchange of discovery without compromising the confidentiality of bona fide or alleged trade secrets or other commercial confidences. The negotiation of a protective order represents a good opportunity for the parties to define appropriate tiers of classification and provide guidelines for classifying documents to be used in discovery. Such designations should be minimized and applied on a document-by-document, or at least classification-by-classification, basis only to the extent necessary to adequately protect trade secrets from disclosure under the specific circumstances of the matter and the document or testimony.

A well-drafted protective order may also spell out the procedures to be followed between the parties should a party wish to file a designated document with the court, either as an attachment to a motion or an exhibit at a hearing or trial. However,

while the court may enforce the terms of a protective order as between the parties, a protective order cannot bind a court to procedures contrary to its local rules, policies and procedures or governing law.

To address the handling of designated documents by the court, many courts have adopted model procedures and many judges have their own model orders.<sup>77</sup> These are not the “boiler-plate” orders referred to in prior Guidelines. These court-issued model orders have been carefully crafted to reflect the courts’ resources and internal procedures. They also reflect a different standard for adoption, in that the standard required for entry of an order that would prevent evidence or a proceeding from public view is higher than the “good cause” that facilitates discovery between the parties.<sup>78</sup>

As a best practice—or simply common sense—the first step in drafting a protective order should be to consult the court to determine whether there are relevant local rules, model orders, or required forms. Then, consider whether your case raises any special issues that require modification of that model or form and document the reasons supporting such modification for the court’s consideration. If the court does not have a model, consider modifying a relevant model from another jurisdiction with similar resources. In all cases, however, avoid starting from recycled samples, models or forms that were not developed to

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77. See, e.g., U.S. District Court, Southern District of New York, Electronic Case Filing Rules & Instruction, Section 6, Filing Under Seal and Redacting in Civil and Miscellaneous Cases, [https://nysd.uscourts.gov/sites/default/files/pdf/ecf\\_rules/ECF%20Rules%20020121%20FINAL.pdf](https://nysd.uscourts.gov/sites/default/files/pdf/ecf_rules/ECF%20Rules%20020121%20FINAL.pdf). See also *HouseCanary Inc. v. Title Source Inc.*, No. 19-0673 (Tex., April 30, 2021).

78. See, e.g., *Lugosch v. Pyramid Co. of Onondaga*, 435 F.3d 110, 119–20 (2d Cir. 2006); *In re Avandia Mktg., Sales Practices and Prods. Liab. Litig.*, 924 F.3d 662 (3d Cir. 2019).



address trade secrets or similar commercial confidences, or that ignore the court's established procedures.

While a well-crafted and narrowly tailored protective order may assist the parties and the court by articulating the criteria for designating a document or testimony as "confidential" or "attorneys eyes only," may establish procedures for resolving any dispute between the parties regarding such designations, and may even establish a framework for presenting a dispute or a stipulation regarding such designations to the court (subject to the court's own procedures), the protective order alone cannot require the court to seal any evidence or proceeding. The court has an independent duty to strike a proper balance between maintaining public access to court proceedings and allowing parties to protect as confidential whatever information qualifies for such protection. To the extent that the issue can be anticipated, the appropriate mechanisms for those determinations are a case-management order that addresses the filing of designated documents and testimony with the court in pretrial motions and proceedings, and a pretrial order that addresses the handling of designated documents and testimony at trial. The purpose of the protective order is to minimize the instances in which the parties must approach the court regarding the designation of confidential documents and testimony, and to provide a smooth path for the litigants to present the issue to the court in the rare instances in which a court determination is necessary.

THE SEDONA CONFERENCE COMMENTARY  
ON PROTECTING TRADE SECRETS THROUGHOUT  
THE EMPLOYMENT LIFE CYCLE

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*A Project of The Sedona Conference Working Group 12 on Trade  
Secrets*

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This publication may be cited as follows:

The Sedona Conference, *Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle*, 23 SEDONA CONF. J. 807 (2022).

## PREFACE

Welcome to the final, March 2022 version of The Sedona Conference *Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle*, a project of The Sedona Conference Working Group 12 on Trade Secret Law (WG12). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The mission of WG12, formed in February 2018, is “to develop consensus and nonpartisan principles for managing trade secret litigation and well-vetted guidelines for consideration in protecting trade secrets, recognizing that every organization has and uses trade secrets, that trade secret disputes frequently intersect with other important public policies such as employee mobility and international trade, and that trade secret disputes are litigated in both state and federal courts.” The Working Group consists of members representing all stakeholders in trade secret law and litigation.

The WG12 *Commentary* drafting team was launched in November 2018. Earlier drafts of this publication were a focus of dialogue at the WG12 Annual Meeting, Online, in November 2020, the WG12 Annual Meeting in Charlotte, North Carolina, in November 2019, and the WG12 Inaugural Meeting in Los Angeles, California, in November 2018. The editors have reviewed the comments received through the Working Group Series review and comment process.

This *Commentary* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular James Pooley, the now Chair Emeritus of

WG12, and Victoria Cundiff, currently the Chair of WG12, who serve as the Editors-in-Chief of this *Commentary*, and Russell Beck, John Marsh, and Robert Milligan, who serve as the Senior Editors of this *Commentary*. I also thank everyone else involved for their time and attention during this extensive drafting and editing process, including our Contributing Editors: Barry Brown, Richard Dole, Stacey Schmidt, Karen Tompkins, Danielle Vanderzanden, James Vaughn, and Robert Yonowitz.

The drafting process for this *Commentary* has also been supported by the Working Group 12 Steering Committee and Judicial Advisors. The statements in this *Commentary* are solely those of the nonjudicial members of the Working Group; they do not represent any judicial endorsement of any recommended practices.

We encourage your active engagement in the dialogue. Membership in The Sedona Conference Working Group Series is open to all. The Series includes WG12 and several other Working Groups in the areas of electronic document management and discovery, cross-border discovery and data protection laws, international data transfers, data security and privacy liability, patent remedies and damages, and patent litigation best practices. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

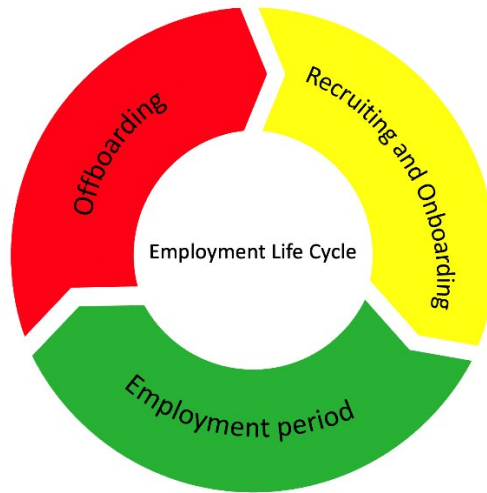
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March 2022

## FOREWORD

Employees are at the center of most aspects of trade secrets: Trade secrets cannot exist without the work of employees, cannot be protected without the efforts of employees, and would rarely be compromised or lost without the conduct of employees. This *Commentary* focuses on the inherent potential tensions these realities create in the employer-employee relationship.

While in most circumstances, employers and employees will be aligned in protecting trade secrets for their mutual benefit at the beginning and during the employment relationship, there remains an inherent tension between an employer's interest in protecting its trade secrets and an employee's interest in engaging in future employment. This tension is further complicated by the fact that although the departing employee is at the end of one employment life cycle, they are typically simultaneously at the beginning of the next, where the former's employer's risk of compromise or loss of its trade secrets corresponds directly to the new employer's risk of infiltration of those same trade secrets.

This *Commentary* addresses these issues through a chronological view of the employment relationship, from recruiting and onboarding, to the period of employment, to the offboarding, and back to the onboarding, as follows:



The intended audience for this *Commentary* is the legal community: Primarily intellectual property, business litigation, and employment law attorneys, either in-house or outside; secondarily, nonattorneys who deal with these issues professionally, such as human resources, information governance, compliance, and other personnel who face these issues daily at all points in the employment life cycle. That includes professionals outside the corporate organizational chart, such as recruiters, consultants, and staffing agencies.

The editors would like to express their appreciation to the members of the drafting team and the judicial advisors for their valuable input and thoughtful commentary.

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**THE EMPLOYMENT LIFE CYCLE RELATING TO TRADE SECRETS  
PRINCIPLES AT A GLANCE**

- Principle 1 – There is an inherent tension between an employer’s interest in protecting its trade secrets and an employee’s interest in engaging in future employment. Employers should tailor their policies and procedures to guard against the risk of unlawful use or disclosure of their trade secrets, while avoiding inappropriately restricting their former employees’ application of their general skill and knowledge in their next employment. ....827
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GUIDELINES AT A GLANCE**

- Guideline 1 – Before an offer of employment is made, the employer and candidate should make reasonable efforts to identify and evaluate the candidate’s existing agreements that may impose obligations that affect the candidate’s ability to fulfill the responsibilities of the proposed position with the employer. For executives or other sensitive hires, it may be advisable for the candidate to obtain independent legal advice concerning the candidate’s continuing obligations under such agreements. ....843
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## I. INTRODUCTION

The natural dynamics of trade secret law reveal inherent potential tensions in the employer-employee relationship. Employers typically share trade secrets with their employees. In most circumstances, employers and employees will be aligned in protecting that information for their mutual benefit, with employers enabling employees to use the information to do their job as effectively as possible for the benefit of the organization, and with employees using the information to maximize their advancement within the organization.<sup>1</sup>

However, a significant portion of trade secret lawsuits arise in the context of the former employer-former employee relationship.<sup>2</sup> Survey data and studies reinforce the role that employees may play in loss of employers' control over confidential information. A frequently cited study by Symantec Corporation found that half of employees who left their jobs kept confidential data of their former employers.<sup>3</sup> That study also showed that

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1. This *Commentary* is intended to address only the sharing and protection of trade secrets during the employment life cycle and does not address the sharing or protection of other information that may be deemed confidential by statute or contract (i.e., personal identifiable information, information protected by HIPAA or some other state or federal statute, or other information protected by a contract that may not otherwise qualify as a trade secret).

2. In over 85 percent of the trade secret cases filed in federal court from 1950 to 2008 that had a written opinion based on trade secret law, "[t]he alleged misappropriator was someone the trade secret owner knew—either an employee or business partner." David Almeling, et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZAGA L. REV. 291, 294 (2010).

3. Symantec Corp., *Data Loss During Downsizing*, <https://investor.nortonlifelock.com/About/Investors/press-releases/press-release-details/2009/More-Than-Half-Of-Ex-Employees-Admit-To-Stealing-Company-Data-According-To-New-Study/default.aspx> [hereinafter *Symantec IP/Employees Study*].

most employees who were surveyed did not believe this conduct was wrong and thought their actions were appropriate because they caused no harm to their former employers. Roughly the same number claimed that the company failed to enforce policies applicable to data protection.

The tensions between employers and employees are rooted in the very nature of trade secrets. As one court has observed, “[a] trade secret is one of the most elusive and difficult concepts in the law to define. In many cases, the existence of a trade secret is not obvious; it requires an ad hoc evaluation of all the surrounding circumstances.”<sup>4</sup> This elusive quality results from at least these characteristics: (1) broad categories of information may be included and protected as trade secrets; (2) what qualifies as a trade secret can potentially change and evolve over time; (3) the value of information may range from “crown jewels” to ephemeral data of minimal value but that technically qualifies as a trade secret; and (4) unlike other forms of intellectual property, there is no definitive registry of information that determines the parameters and ownership of a trade secret.

Given the imprecise contours of trade secrets, many employers are unaware of their exact metes and bounds relative to the “general skill and knowledge<sup>5</sup>” applied by their employees. But

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4. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 723 (7th Cir. 2003).

5. Courts have used various terms to distinguish that which an employee may continue to use after an employment relationship ends from trade secrets and other confidential information (which an employee typically may not continue to use). Among the formulations are “general skill and knowledge,” “general skill, knowledge, and experience,” “general skill, knowledge, training, and experience,” and even “general know-how.” However, “experience” itself is not a protectable interest; rather, it is the skill and knowledge enhanced through experience that is the protectable interest. Similarly, training in and of itself is not a protectable interest; it too is a method of obtaining skill and knowledge. Thought of in the reverse, skill and

it should generally be assumed that employers have some protectable trade secrets, even if their precise scope is not defined. Indeed, employers not only have the right to establish policies designed to protect their potential trade secrets, but must do so to preserve their ability to enforce them in the courts. It is incumbent on employers to reasonably define for their employees the types of information they treat as their trade secrets, and it is generally incumbent on employees to help protect such information from improper use or disclosure. But challenging questions can arise, particularly when employees depart for a competitor.

The following introduction identifies and frames these issues, explains the forces that shape the potential conflicts, and provides consensus principles and guidelines to mitigate against disputes.

#### *A. The Employer's Perspective*

There is a central paradox surrounding the role of trade secrets in the employment life cycle. On the one hand, employers need to disclose trade secrets to their employees in order to operate. On the other hand, employees often pose the greatest risk to those trade secrets.

More specifically, it is in the interest of employers to ensure that their employees are productive and successful throughout their employment. Therefore, during the course of the employment life cycle, employers will provide their employees with access to secret information to enable them to effectively perform

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knowledge can come from both experience and training, as well as from other sources, such as education (whether academic, self-study, or otherwise). And, of course, "know-how" is simply a type of knowledge. Accordingly, the Sedona Conference has adopted the simplified, but still comprehensive, formulation "general skill and knowledge."



their jobs. For example, a manager will typically be given internal financial information, budgets, forecasts, and strategic plans to implement. An engineer may be provided with historical information about the successes and failures in the design and development of the employer's products. And their employers will often expect these employees to use and build upon those trade secrets for the benefit of the organization.

Relatedly, employees may be hired for the purpose of improving or creating information that qualifies as a trade secret. For example, employees involved in research and development are generally expected to improve or develop new products, processes, or services, while sales representatives may be expected to gather and compile information about the current or future needs of existing or new customers.

Employers should take steps to facilitate a mutual trust with their employees regarding the protection of trade secrets. Employers reasonably expect that their employees will maintain confidentiality (including of information entrusted to the company by third parties) and avoid use of sensitive information for any purpose outside the defined parameters of their employers' businesses. While employers should develop, implement, monitor, and enforce trade secret protection policies, all organizations necessarily rely on their employees to follow those policies and to exercise appropriate care and judgment in connection with their use or disclosure of trade secrets.

But disclosure to employees of an organization's trade secret information necessarily puts it at risk. This follows from the simple reality that the vast majority of employees will ultimately leave to work elsewhere. Some will leave under less than amicable circumstances, and many will naturally transition to work for a competitor. These circumstances create a risk that former employees will not only (properly) use skills developed or honed while working for their former employers, but also

(improperly) use or disclose their former employers' trade secrets. As reflected in the study referenced above, many employees may have a cavalier attitude about their employers' trade secret information, believing it acceptable to take and use it in future employment.<sup>6</sup> Frequently this results not from malice but from misunderstanding concerning what belongs to the company and what their obligations are. Other employees may assume, incorrectly, that if they did not take or retain any of their employers' documents, they no longer have to concern themselves with protecting trade secrets. Any company that has valuable trade secret information should take measures to mitigate against all these risks.

A related concern for hiring employers is having access to a talent pool to further their business objectives while at the same time respecting the obligations of candidates to their prior employers, as well as any enforceable restrictive covenants. Hiring employers should have the ability to recruit lawfully without the fear of facing anticompetitive, bad-faith claims calculated to stifle employee mobility. However, former employers deserve protection against competitors who use hiring as a means to secure improper access to trade secrets, as well as against former employees who use trade secrets for their own or their new employer's benefit.

Given these realities, employers should — throughout the entire employment lifecycle, from hiring through offboarding — explore all reasonable avenues for protecting against these risks to their trade secret assets.

### *B. The Employee's Perspective*

From the employee's perspective, the relationship with their employers reflects an inherent imbalance of power. This is

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6. See *Symantec IP/Employees Study*, *supra* note 3.

understandable, given that it is the employers that draft employment agreements and policies, typically in a take-it-or-leave-it fashion. This creates the potential for employer overreach, using that imbalance of power to dictate unreasonable terms.

Indeed, employers often have the ability to impose terms that can substantially impact their employees' future mobility through restrictive agreements. For example, employers may present an employment agreement with restrictive covenants on the employee's first day of work, after the employee has quit a previous job and has no practical leverage to negotiate the terms. In many states, employers are even permitted to amend agreements during the course of employment to add restrictive covenants, with the only consideration being the continuation of at-will employment.

Finally, employers may (and often do) take a broad view of the information entitled to protection.

But employees may bring with them deep and relevant prior knowledge, referred to as "general skill and knowledge." This baseline expertise is the employee's primary contribution to the relationship and should be the employee's to keep and use in a subsequent position. However, when those skills are brought to bear or become enhanced on the job, a dispute may arise over whether the resulting information belongs to the employer or is properly accretive to the employee's general skill and knowledge.

In this inherently ambiguous environment, it may be tempting for some employers to overreach by taking an unjustifiably broad view of what information may be entitled to trade secret protection. Examples of such overreach may include:

1. Asserting ownership, through employment agreements or policies, of all information to which

employees had access or which employees used to create something for their employers.

2. Asserting ownership of all information that relates to the company's business, regardless of whether it is known within the industry.
3. Defining as a trade secret everything that employees worked on during the period of employment.

Whether some of this information may be properly claimed as a trade secret by employers may depend on the governing law. However, while employees may challenge such broad claims, the relative imbalance of power and resources may make that impractical, affecting not only employees but also the legitimate interest of competitors that may otherwise have considered offering them alternative employment.

From the employees' perspective, in addition to the general skill and knowledge that they possessed prior to hire, they may also claim learned general skill and knowledge on the job to be equally transferrable to their new employers.<sup>7</sup> The line of

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7. See, e.g., *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1267 (3d Cir. 1985) (“[A]n employee’s general knowledge, skill, and experience are not trade secrets. Thus in theory an employer generally may not inhibit the manner in which an employee uses his or her knowledge, skill, and experience—even if these were acquired during employment.” (citations omitted) (analyzing information in suit in detail and finding that some constitutes trade secrets and that other information is simply general skill and knowledge the employee is free to use); *Pressure Sci., Inc. v. Kramer*, 413 F. Supp. 618, 629 (D. Conn. 1976) (holding that an employee cannot be barred from using his general skill and knowledge in the industry), *aff’d*, 551 F.2d 301 (2d Cir. 1976); *George O’Day Assocs., Inc. v. Talman Corp.*, 206 F. Supp. 297, 300 (D.R.I. 1962) (“[A]n employee after leaving the service of an employer may carry on the same business on his own and use for his own benefits the things he has learned while in the earlier employment.” (quoting *Midland-Ross Corp. v. Yokana*, 293 F.2d 411, 412 (3d Cir. 1961))), *aff’d*, 310 F.2d 623 (1st Cir. 1962);

demarcation between an employer's trade secret and an employee's general skill and knowledge can be murky, particularly where the employee has applied that general skill and knowledge in the creation of a valuable asset. Given the complexities of defining the boundaries and value of trade secrets, it may be difficult to discern in any specific case whether an employer's attempt to enforce its alleged rights is made in good faith or is animated by anticompetitive or other inappropriate motives.

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For these reasons, employer-employee disputes over trade secrets are frequently emotional and contentious. This should come as no surprise, given the potential impact such disputes may have both on information an employer may consider critical to its enterprise and on an employee's ability to find better opportunities. The emotional overlay is only intensified by the charges they typically level at each other: charges by the employer of stealing and betrayal, countered with charges by the employee of overreaching and anticompetitive behavior.

*C. Balancing the Interests of Employers and Employees in Protecting Trade Secrets*

As noted above, defining the legally protectable metes and bounds of a company's trade secrets is inherently challenging and ultimately may only be accomplished with certainty by the courts through the litigation process.

Some employers may tend to overreach by expansively defining what constitutes the company's trade secrets, as a result of which their enforcement efforts may inappropriately restrict

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Van Prods. Co. v. General Welding & Fabricating Co., 213 A.2d 769, 776 (Pa. 1965) (holding that an employee "is entitled to take with him 'the experience, knowledge, memory, and skills which he gained while . . . employed'") (internal citation omitted).

their former employees' application of their general skill and knowledge, and thus their employment mobility. For example, a company in the driverless car industry cannot reasonably assert as its trade secret "how we design and manufacture our driverless cars," because the uncertainty of its sweep could effectively preclude the employee from working for any other driverless car company.

Some employees may overreach by more broadly defining what constitutes their general skill and knowledge to include nonpublic, valuable information that is properly understood by the employer as its trade secrets. For example, a code developer may have coding experience that represents general skill and knowledge, but working on the company's project and applying that knowledge to create code specific to the project could involve, or lead to the creation of additional, company trade secrets.

The following set of four Principles addresses both tendencies and provide guidance for employers and employees to manage these trade secret issues in a balanced fashion, accounting for the interests of all parties concerned.

The consensus of WG12 is that trade secret protection in the employment life cycle should be governed by the following key principle:

**Principle 1.      There is an inherent tension between an employer's interest in protecting its trade secrets and an employee's interest in engaging in future employment. Employers should tailor their policies and procedures to guard against the risk of unlawful use or disclosure of their trade secrets, while avoiding inappropriately restricting their former employees'**

### **application of their general skill and knowledge in their next employment.**

This overarching Principle recognizes two primary competing interests in the employment life cycle—protection of an employer’s trade secrets and an employee’s mobility—and strives to promote balance between them. Employers may have the legal right to include broad protections available to them in their employee agreements and policies to protect against potential risks. However, if unchecked, such a practice may be not only contrary to Principle No. 1, but also counterproductive for employers by damaging their relationships with those tasked with protecting those trade secrets, or in some cases even potentially leaving the employers subject to liability.<sup>8</sup>

- Company counsel should consider having frank conversations with the company’s leadership on the appropriate balance between maximum trade secret protections and employee mobility and related intellectual property rights. Key questions to consider may include:
- What are examples of the company’s “crown jewels”—the specific trade secret information from which the company derives significant competitive advantage in the marketplace and that do not include employee general skill and knowledge—that the company should affirmatively protect with restrictions on future employment by its employees?

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8. Several courts have treated overly broad employee nondisclosure agreements as restrictive covenants and declined to enforce them. *See* *TLS Mgmt. & Marketing Servs., LLC v. Rodriguez-Toledo*, 966 F.3d 46 (1st Cir. 2020); *Brown v. TGS Management Company, LLC*, 57 Cal.App.5th 303, 317 (Cal. Ct. App. 5th 2020).

- Are the company's protection measures proportionate— i.e., tailored to the company's particular business, the value and vulnerability of its trade secrets, and its employees' roles and means of access? Or will some measures unduly interfere with the ability of employees to do their jobs and ensure that the business fully benefits from its trade secrets?
- Would the company benefit from a discussion with departing employees distinguishing what are the company's protectable trade secrets from the general skill and knowledge that the employees may use in future employment?

WG12 further presents the following additional Principles in furtherance of Principle No. 1:

**Principle 2. Employers should provide timely and sufficient notice of what they claim as their trade secrets, the policies and procedures to be followed by employees to protect those trade secrets, and any restrictions the employers intend to impose on the future mobility of their prospective and current employees.**

Both parties, but especially employers, should provide notice to the other about the scope and nature of any trade secret that impacts the competing interests of the employers and the employees. For example, as noted above and explained in greater detail below, an employer's use of agreements that include restrictions that may affect an employee's privacy or mobility should be disclosed in a manner that provides an employee with timely and sufficient notice of those restrictions.

Employers should provide clarity about what information it considers to be its trade secret. Whether in the form of



identification of what is a trade secret or communication about any restrictions or expectations on employees with respect to trade secrets, employers should attempt to provide adequate notice at each stage of the employment life cycle to their employees so they can conform their conduct to those expectations. Finally, employers should be cognizant of balancing their interest in protecting trade secrets with the potentially competing interests of their employees.

While employers should take the lead in communicating their trade secret policies and procedures to their employees, employees should be expected to cooperate in those efforts (e.g., by attending training sessions offered by employers, and disclosing the existence of prior work that might compromise their ability to do their job). Employees should not ignore their former employers' trade secret interests or impede their efforts to protect them.

**Principle 3. Employees and new employers should take into account the legitimate interests of former employers in their trade secrets, and employees and new employers should take reasonable steps to mitigate against the risks of misappropriation of the former employers' trade secrets.**

When employees leave their current employers to work for a competitor, it can be a combustible situation. Fears and tensions can be ameliorated, at least in part, where both the employees and new employers demonstrate proper respect for legitimate concerns that the former employers may have regarding the protection of their trade secrets. To help address those concerns, employees should cooperate with reasonable exit interviews, coordinate with their former employers concerning the return of any company electronic files and other property that may remain in their possession at termination,

and not misuse company trade secrets in their new employment. Hiring employers should have sound recruiting and interview practices to screen candidates and protect the company from potential trade secret issues resulting from new hires and their retention, use, or disclosure of their former employer's documents. Once appropriate vetting of candidates has occurred and offers have been extended and accepted, hiring employers should, in consultation with affected employees, consider (if possible and practical) placing their new hires in roles that would not benefit from the trade secrets of their former employers. The hiring employers also should articulate to their new hires the requirement that they not misappropriate any confidential information of their former employers.

**Principle 4. In response to an impending employee departure, the employer should identify, address, and communicate to the employee any concerns regarding compliance with their continuing obligation to protect the employer's trade secrets.**

Employers should consider communicating to departing employees their concerns that employees have misappropriated or will misappropriate the company's trade secrets to the benefit of their new employers and solicit a dialogue to resolve those concerns. Where appropriate, employers may wish to monitor the situation for evidence of misappropriation (or threatened misappropriation) before confronting employees or beginning litigation. In contrast, some circumstances may call for immediate filing of a trade secret misappropriation lawsuit seeking provisional relief.

In addition to or as a part of exit interviews, employers often use reminder letters and certifications to obtain reasonable assurances from departing employees that they will honor their

post-termination obligations. Tensions can quickly escalate where such efforts are ignored, as this may suggest (or be interpreted by the employer to suggest) that the employer should be concerned about the retention of or misuse of company property by the departing employee. This is particularly true when the departing employee will be performing similar work for competitors and in other situations that may appear to compromise the company's interests. Employers should use a tailored approach to protect their trade secrets, including, where practicable, by focusing on their legitimate concerns and obtaining reasonable assurances in order to avoid litigation.

This *Commentary* addresses all three stages of the employment life cycle—the recruiting and onboarding period, the ongoing employment period, and the offboarding and postemployment period—and applies the four Principles introduced above to guide employers on how not to overreach or underreach in protecting trade secrets.

## II. RECRUITING AND ONBOARDING PERIOD

Principle No. 1, as presented above, states:

There is an inherent tension between an employer's interest in protecting its trade secrets and an employee's interest in engaging in future employment. Employers should tailor their policies and procedures to guard against the risk of unlawful use or disclosure of their trade secrets, while avoiding inappropriately restricting their former employees' application of their general skill and knowledge in their next employment.

Applying Principle No. 1 to the recruiting and onboarding period, new employers should conduct their hiring process and design employment policies both to protect company trade secrets and to reduce the risk of misappropriation of former employers' trade secrets. Any such trade secret protection policy should, however, be tailored and avoid unnecessarily restricting the employees' interests in future employment and future application of their general skill and knowledge.

### *A. Recruiting New Employees and Attempting to Reduce the Risk of Trade Secret Misappropriation*

#### 1. Recruiting when trade secrets are potentially an issue

When companies begin recruiting, they must assess the risks of hiring competitors' employees.<sup>9</sup> While employee mobility

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9. This *Commentary* focuses on the employer-employee relationship and employment life cycle. However, many of the issues that arise in that context can be the same as or similar to the issues arising in the consultant and contractor context. For example, the Defend Trade Secrets Act (DTSA) applies to employees and independent contractors alike, meaning that consultants and contractors must abide by confidentiality restrictions and are afforded the

may be valuable and an important part of a functioning economy, it puts the hiring employer and potential employee in a potentially tricky situation, as a competitor's employee may come with knowledge of the competitor's trade secrets. To recruit a competitor's employees in a way that does not lead to the use or disclosure of the former employer's trade secrets is critical for all involved: the former employer, the employee, and the

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same whistleblower protection as regular employees. In contrast, consultants and contractors often differ from employees in that they may simultaneously work for multiple companies and could even work for two competing companies at the same time, potentially posing risk to each company's trade secrets. Further, the issue of knowledge retained in an individual's unaided memory that is discrete from any trade secrets that he or she may have been exposed to while working for a company is often addressed differently based on the relationship of the parties. Given the many specific issues that can arise and the considerations that must go into their evaluation, which can be quite different in the different contexts, consultants and contractors are outside the scope of this specific *Commentary*.

Employers sometimes use certain consultants and contractors that have the same "look and feel" as employees (even though for various business reasons they may not be classified as employees) and only work for that employer or contracting party during the consultancy or contract relationship. In those instances, the general protection strategies and approaches discussed in this *Commentary* concerning the employment relationship (e.g., recruiting, onboarding, training, exit interviews) are more directly applicable. However, even in those specific situations, companies must be vigilant concerning trade secret exposure in each of the recruiting, onboarding, training, working, and departing procedures, particularly since the consultant or contractor (in contrast to an employee) typically does not have a duty of loyalty, may not be subject to or familiar with the company's agreements and policies to protect confidentiality, and may have access to and store the company's data on the consultant's or contractor's devices or accounts, rather than the company's equipment or systems. Additionally, the company may be exposed at the time of the contractor's termination because it may not have the same ability to conduct exit interviews and obtain removal of company data from the contractor's devices or accounts. Carefully contracting with such contractors or consultants to provide protection rights is essential to ensure that company trade secrets are protected in these scenarios.

new employer (i.e., the former employer benefits in that the measures may reduce the risk of misappropriation of its trade secrets; the new employer and employee benefit in that the measures may reduce the risk that the former employer will assert misappropriation claims against them).

As stated above in Principle No. 3:

Employees and new employers should take into account the legitimate interests of former employers in their trade secrets, and employees and new employers should take reasonable steps to mitigate against the risks of misappropriation of the former employers' trade secrets.

Hiring employers should evaluate risk of exposure to trade secrets when hiring from competitors and implement appropriate measures to guard against improper acquisition of trade secrets, while balancing their own right to hire and the employee's right to mobility. Prudent management will impose rigorous discipline on the recruiting effort, both to erect guardrails against cavalier behavior and to help drive the message to the workforce that lawful and ethical behavior is critical to mitigating risks.

a. Internal recruiting

Internal recruiting aided by a skilled human resources (HR) department is a useful way to reduce the risk of misappropriation of former employers' trade secrets. Existing employees are often a source of referrals of prospective employees. Nevertheless, employees may still be bound by continuing obligations to former employers, including nondisclosure obligations (contractual and under applicable law), noncompetition restrictions, and no-recruit commitments (i.e., agreements not to solicit former colleagues from their former employers). If this is the case,

then taking a new job at the same company or asking former coworkers to come work with them may violate these postemployment obligations. To manage this scenario, employers should typically review potentially applicable ongoing obligations owed to former employers to understand if the employee's moving to the proposed new position or recruitment efforts would violate any continuing obligations, and caution the employee that nothing should be construed as an invitation to disclose former employers' (or others') trade secrets. The employer should specifically require its employees not to disclose any such information of former employers.

Recruiters should be presented with a clear message to avoid contamination with a competitor's data. For sensitive hires that may generate significant concern from former employers, those concerns should be top of mind. This may translate into specific guidelines and checklists for promoting the position and for speaking with candidates.

#### b. Outsourced recruiting

The use of outside recruiters, recruiting websites, and services like LinkedIn can be helpful for companies, because recruiting firms are able to integrate sourcing, recruiting, hiring, and, in some instances, even onboarding. With some third-party recruiters, however, employers may be taken out of the process altogether, which makes it difficult to assess the prospective employees before they show up for the interview. Because of this disconnect between the employer and the candidate, it can be difficult to discern whether the candidate possesses another employer's trade secrets or what ongoing obligations the candidate owes to current or former employers. Employers should use special care when using outside recruiters to hire a competitor's employees and make sure that trade secret exposure issues are appropriately considered and addressed. Employers should require their outside recruiters to ask candidates to identify any

limitations on their ability to take on employment and any obligations to former (or soon to be former) employers that survive termination of employment, including but not limited to restrictive covenant agreements, and to confirm that, if hired, they are able to take the position and perform the related responsibilities without violating any obligations to others.

c. Drafting the job description

Both HR and business units typically play a role in drafting a job description. When drafting a job description, it is important to include both specific and general language with trade secret protection strategies in mind. The description should be specific as to exactly what the employer is looking for. For example, “we are looking for someone with experience” or “we are looking for an individual that does X.” However, the job description should also be written generally enough to avoid revealing any trade secrets. It is important to note that during litigation, the job description may be offered as evidence to support a misappropriation claim (e.g., if it arguably (a) demonstrates the similarity in roles for a noncompete claim or (b) suggests “inevitability” of use of trade secrets or threatened misappropriation). Therefore, a job description should be carefully crafted with potential misappropriation claims in mind when potentially hiring from a competitor (e.g., reflect the company’s requirements that, if hired, the candidate not misappropriate any trade secrets and that the candidate be able to perform the job responsibilities without misappropriating any trade secrets). As the candidate proceeds in the hiring process, the job description may need to be modified to reflect the particular skills the employee brings and any restrictions to which the employee may be subject by law or by contract with a former employer. Any such modifications to the job description should be clearly documented to prevent confusion.



2. Risks of restrictive covenants, confidentiality agreements, inevitable disclosure, and actual or threatened trade secret misappropriation

An employer will want to find out as much as it can concerning a prospective employee's fit for the position, while taking care not to ask the candidate to provide any nonpublic information related to a prior employer. This process should begin with the collection and review of documents reflecting nonconfidential aspects of the candidate's prior work history. Prospective employers should typically consider whether to request the following types of documents from the candidate, to the extent they are potentially implicated by the anticipated position:

- Any written employment and other agreements (e.g., offer letters, stock option agreements, and restricted stock unit agreements) containing a non-competition, nonsolicitation, or confidentiality agreement;<sup>10</sup>
- Any invention disclosure or assignment agreement;
- Any separation or severance agreement with restrictive covenants or confidentiality provisions; and
- Any patents and published patent applications that identify the prospective employee as an inventor.

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10. Depending on the jurisdiction, such agreements may be enforceable in whole or part or not at all. The propriety of their use and assessment of their enforceability is beyond the scope of this *Commentary*. Because employees may not consider offer letters containing terms of employment or deferred compensation agreements to contain restrictions on employment, employers should counsel them to think broadly in assessing whether they may have applicable agreements. Employers should further encourage long-term employees to think back to when they joined the company to ensure that they have a complete perspective on their restrictions.

- As a general matter, employers should ask about obligations that may be implicated as a result of the employee's anticipated role, e.g., any nondisclosure agreement or restrictive covenant that may preclude employees from engaging in certain anticipated activities at their new employment. Accordingly, assuming there are no lawful confidentiality restrictions prohibiting an employee from sharing those documents, the employer should encourage the employee to provide them.

If the employee's role might potentially violate a noncompetition obligation, both the employee and the new employer will want to understand the enforceability and parameters of the restriction. The employer may want to learn additional information—for example, how long did the employee work for the prior employer? What were the circumstances under which the employee was asked to sign the agreement? Was any consideration provided for the agreement? Did the employee's role change after signing the agreement? If the new employee joined from former employment with a competitor, the current employer's instructions for complying with the new employee's obligations to the former employer may be relevant. With that understanding, each party can determine for itself whether the anticipated role creates potential exposure and whether the role can and should be modified in such a way as to limit the potential fallout, such as by putting the employee in a role that does not expose the former employer's trade secrets to potential misuse (even if accidental).

Responsible companies will want to balance their own interests with the interests of their employees and the interests of the former employers in protecting trade secrets and contractual relations.

### 3. Conducting interviews

#### a. The risks of disclosure and solicitation of disclosure of trade secrets during interviews

Employers and employees must both take precautions during the interview process to prevent the disclosure of any trade secrets. The employer should avoid disclosing its own trade secrets to a candidate and should avoid asking questions that are likely to prompt the candidate to disclose a third party's trade secrets. Similarly, candidates should avoid disclosing another's trade secrets to the employer. Each should also attempt to begin to gauge the trustworthiness of the other before the interview even starts.

For example, when selecting applicants to interview, an employer should consider whether the candidate's work history suggests any concerns.<sup>11</sup> It should be especially careful when recruiting from competitors, as there is a risk that the candidate will disclose the competitor's trade secrets or that the candidate will attempt to relay the prospective employer's trade secrets back to the competitor. Potential red flags may include frequent job changes, a resum. . . disclosing information that appears too specific and is perhaps confidential to former employers, and prior restrictive covenant or unfair competition litigation.<sup>12</sup>

In addition, employers should never attempt to solicit the disclosure of trade secrets from the candidates they interview and should warn candidates not to disclose such information. Accordingly, employers should not ask candidates specific questions about their prior employment that may reveal trade

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11. Potential risks to the would-be-employer from mining the internet or social media for information about the employee or candidate is beyond the scope of this *Commentary*.

12. To be clear, each of these is simply cause for inquiry, not a cause for immediate disqualification.

secrets and should caution candidates that they should not reveal trade secrets in the course of the interview. Examples could include seeking the identity of particular customers whose identities are not readily in the public domain, and nonpublic information on current products or processes on which the employee is working. Rather, employers should talk about the candidates' talents, skills, general experience, and qualifications without seeking company-specific information.

Prudent employers use standardized protocols and forms to communicate specifically to candidates that they are not to reveal any trade secrets, both to prevent exposure and to create a record. Employers should create a system for communicating with potential recruits that consistently reinforces the company's respect for others' trade secrets.

#### b. Plan ahead for the interview

Employers should have well-defined plans concerning how to conduct interviews of candidates, particularly from competitors or otherwise where trade secrets could potentially be disclosed. Recruiters, human resources, and all businesspeople involved in the interview process should remember to discuss only the candidates' skills and talents, not their employers' customers or trade secrets. Those involved in interviewing all need to be trained to radiate respect for others' intellectual property and to avoid asking questions that might lead to inappropriate disclosures. In the same vein, they should receive proper training concerning not disclosing the company's own trade secrets.

Human resources professionals also may choose to establish guidelines or criteria for topics that business and segment leaders should avoid during the interview process. Human resources and business teams looking to hire should discuss these guidelines and appropriate areas of inquiry during the recruiting process and prior to the interview.

- c. Requiring candidates to certify they will not disclose trade secrets during the interview

Especially where there is a particular risk of the disclosure of trade secrets or a restrictive covenant dispute, potential employers may wish to ask candidates to certify in writing that they do not believe that performance of those job duties would entail any reliance upon their former employers' trade secrets. If this approach is taken, candidates should be provided a detailed description of their proposed job duties before being asked to sign the certification. The certification should also indicate that the candidate will not disclose any trade secrets during the application process and any interviews.

- d. Training participants in the interview process

Those involved in the interview process should be trained to control the interview and put the candidate at ease. They should discuss in general terms the nature of the position for which the candidate is being considered, the company's expectations for employment, and ask only for a "yes" or "no" answer concerning whether the candidate has exposure to potential trade secrets of a prior employer or a third party that would be relevant to the candidate's performance of the proposed job. If the answer is "yes," they should ask the candidate (1) whether, based on the company's description of its job opening, the candidate can perform the job without—knowingly or unconsciously—using or disclosing what the prior employer is likely to claim as its trade secrets, and (2) if the candidate will agree to take care that no such trade secrets are used or disclosed by him or her during employment. If the company is not confident based on the candidate's responses or otherwise that the risk of trade secret misappropriation is low, the company should reconsider proceeding any further with the candidate or consider whether modification of the job is feasible and appropriate.

e. Limiting inadvertent disclosure of confidential information

Candidates should have limited access to facilities before, during, and after an interview to reduce the risk that the candidate is exposed to any trade secrets.

When discussing projects and customers, disclosure should be limited, with discussion centering on generalized knowledge and not customer specifics. Typically, certain types of customer information are off limits, such as profitability, margins, order history, and ongoing projects. Other types of information, such as research and development, strategic plans, and future plans, are similarly off limits. Exceptions to this general rule may exist where, for example, the information is in the public domain or otherwise known in the industry to both potential employers and candidates.

*B. Extending and Accepting the Offer*

1. Review of applicable agreements before extending the offer

**Guideline 1.** Before an offer of employment is made, the employer and candidate should make reasonable efforts to identify and evaluate the candidate's existing agreements that may impose obligations that affect the candidate's ability to fulfill the responsibilities of the proposed position with the employer. For executives or other sensitive hires, it may be advisable for the candidate to obtain independent legal advice concerning the candidate's continuing obligations under such agreements.

It is sensible for the hiring employer to understand what limitations the candidate may have working for the company prior to extending an offer. Employers should avoid scenarios where they have extended offers and employees have accepted such offers and tendered resignations without disclosure, consideration, or evaluation of the candidate's contractual restrictions and obligations with respect to the former employers' trade secrets.

In-house counsel or outside counsel should generally be consulted concerning the review of applicable agreements.<sup>13</sup> They may evaluate the restrictive covenants to see if they are enforceable. If they are, the company should assess to what extent employment is possible notwithstanding the restrictions. For example, depending on the restrictions, it may be possible to arrange for engineers to take on a different type of project or to assign sales personnel to operate in a different geographic area or market segment involving different customers. C-suite executives may not be able to take on a directly competitive position for a period of time after termination if doing so is likely to result in disclosure of trade secret information. Depending upon the candidate's exposure to its current employer's trade secrets, it may be possible to tailor an appropriate position that minimizes the exposure and avoids breaches of the candidate's restrictive covenants. Counsel, human resources, and other managers should work together to identify the contractual obligations and the practical risk and implement safeguards to reduce the risk. In some cases, the hiring company may conclude that it is appropriate to work with the employee to challenge the former employer on particular contractual restrictions.

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13. While recruiters may offer to provide this service, they may have a self-interest in the conclusion. Most organizations will prefer to evaluate enforceability themselves.

Before extending an offer, companies should take into consideration the specific responsibilities of the position so that potential violations are avoided before employment starts. As the interviewing process proceeds, any restrictions the new employer concludes are advisable should, where possible, be communicated to the employee before acceptance of the offer. For example, candidates for sales positions should not be told only vaguely about the type of customers to whom they will be selling, only to find out later that they have to reach out to customers prohibited by their obligations to their former employer; or that because they will not be servicing particular customers, their commission-based compensation will be lower than anticipated.<sup>14</sup> Ideally, they will have a clear understanding of their assigned territories and clear expectations concerning their activity with regard to accounts they serviced for their former employer. Neither the new employer nor the new employee should want to be complicit in misappropriation.

Further, employees should not be asked to move outside their stated job description without first carefully considering the impact of any restrictive covenant. In crafting an appropriate role, careful consideration should be given to putting the prospective employee in a position to succeed without unnecessary encumbrance, but at the same time the new employer should be sensitive to the risk of misappropriation.<sup>15</sup> Employers

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14. As already noted, however, the new employer will need to balance the need to be clear about the duties of the new position against the need to be circumspect about disclosing its own trade secrets to a candidate who is not yet—and may not become—an employee.

15. Some prudent employers will consider erecting walls around sensitive new hires where they are blocked from meetings, discussions, and information concerning customers or projects in those instances where there are concerns about improper disclosure of trade secrets. *See Int'l Bus. Machs. Corp. v. Visentin*, No. 11 Civ. 399 (LAP), 2011 WL 672025 (S.D.N.Y. Feb. 16,



who extend offers based upon securing customers of a competitor or a competitor's technology put themselves at enhanced risk, particularly if the competitor has a protectable customer list or an enforceable noncompetition or nonsolicitation agreement.

## 2. Disclosing acceptance of a job offer to former employers

When employees transition to a new job, their goal should be to minimize harm to their former employers through steps such as giving prompt notice of acceptance of a job offer and continuing to abide by the former employers' confidentiality, noncompetition, and nonsolicitation agreements to the extent that they are lawful.

As a general rule, employers should encourage employees to be transparent about their plans and comply with any requirements to disclose their planned new employment to their former employers. Accordingly, if asked (or required by contract or otherwise) to disclose who they are transitioning to work for, employers should encourage employees to answer truthfully; failure to do so (in addition to a breach of any applicable contractual requirements) will raise suspicions and potentially create problems unnecessarily.<sup>16</sup> Employers should note that

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2011); *Amazon v. Powers*, No. C12-1911RAJ, 2012 WL 6726538 (W.D. Wash. Dec. 27, 2012).

16. Two cases are particularly instructive about the issues that can arise when employees fail to disclose—or misrepresent—their acceptance of a competitor's offer.

In *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102 (3d Cir. 2010), the defendant accepted employment with Interstate Brands Corporation on October 15, 2009, but did not give notice to his then-present employer, Bimbo Bakeries, until January 4, 2010. And even then, he did not disclose that he was going to work for Bimbo Bakeries' competitor until January 13, 2010, only two days before his resignation date. Due in part to the defendant's failure to alert Bimbo Bakeries of his new employment, he was able to attend a

employees may not want to disclose the full details about their new positions to their current employers and may not be required to do so by contract or otherwise.

The new employer should encourage the employee to make a smooth transition and to provide necessary assistance to his or her former employer in transitioning. The new employer should, however, be wary of a start date that occurs any material time after acceptance of the offer. It should counsel the employee not to share trade secrets or to let up in his or her work for the soon-to-be former employer during the interval between the offer acceptance and the employee's last day with the former employer. In other words, the new employer should do what it can to ensure that the new employee is not acting as though he or she has already joined the new team before he or she has left the old one.

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number of strategic meetings, in which he admittedly felt conflicted (a problem he dealt with by trying to forget what he had learned or not pay attention), and load his personal computer with confidential information, using at least three external storage devices. Ultimately, Bimbo Bakeries succeeded in obtaining a preliminary injunction against the former employee, who did not have a noncompete agreement, preventing him from working for the competitor.

In *PepsiCo, Inc., v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), although the defendant accepted an offer with the Quaker Oats Company, a direct competitor of his then-employer PepsiCo, he told PepsiCo that he had received an offer from Quaker but had not yet accepted it. As a result, the defendant continued making visits to PepsiCo customers while having secretly accepted employment with Quaker. Partly in relying on this lack of candor, PepsiCo succeeded in obtaining a preliminary injunction against the defendant.

### 3. Reducing the risks of retaining potential trade secret information of former employers

The employer should instruct prospective employees not to take or retain any trade secrets (or other property) of the prior employer and should ordinarily coordinate with the prior employer to ensure that this does not happen. The employers should encourage the employee to notify the soon-to-be former employer if he or she has any company data or trade secret information on personal devices and accounts.<sup>17</sup> The soon-to-be prior employer should work with the employee to appropriately lock down the information. In some instances, the former employer may instruct the employee to simply delete the materials. In other instances, a computer forensic examiner, engaged by the former employer or by the hiring employer, may be needed to ensure the full return or deletion of the material as well as to preserve it at various stages in a forensically defensible manner as appropriate under the specific circumstances.<sup>18</sup>

Pursuant to Principle No. 3 above, the new employer will typically want a new employee to represent in writing that he or she did not retain or bring to the new company, and will not use at the new company, any trade secrets or other property of the prior employer and that he or she will otherwise abide by all lawful agreements of the former employer. The hiring employer should emphasize that this requirement is real and not simply

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17. There may, however, be instances in which an employee should consult with counsel prior to communicating with a soon-to-be former employer. For example, sometimes employees believe that it is permissible to take information with them to a new employer, only to later learn that such conduct is not appropriate. In such an instance, proper advice of counsel separate from the hiring organization may be needed to evaluate the facts and determine the best approach to handling the misstep.

18. If this is done, steps must be taken to ensure that the new employer does not receive a copy of any company materials that are preserved.

empty “boilerplate” language. The agreement between the new employer and employee may also provide that the company may terminate employment and seek damages for unlawful breaches and failure to disclose prior agreements.

#### 4. Tailoring employees’ roles to mitigate trade secret risks

When job applicants are uncertain whether they can provide written assurances that the performance of their new job duties will not lead to the use or disclosure of a former employer’s trade secrets, or where the risk of litigation seems high in view of the potential overlap and the work to be assigned to the new employee, employers might want to refer the matter to outside counsel for further investigation.<sup>19</sup> Outside counsel may be able to discuss the scope of the applicant’s job duties for the former employer while avoiding disclosure of the former employer’s trade secrets to the new employer; engagement letters with such outside counsel should insist that the former employer’s trade secrets not be shared with the hiring employer. Understanding the scope and type of work is important because it will inform whether there is substantial or little risk of trade secret misappropriation—even if the two companies are offering some competitive products or services. The use of outside counsel can be invaluable in evaluating any legal risk and in developing appropriate strategies for mitigating the risk. Moreover, following such procedures may reduce the risk of a willfulness finding and concomitant enhancement of damages and attorney’s fees even if a trade secret misappropriation does occur.<sup>20</sup>

To the extent that there appears to be a reasonable likelihood that a new employee could use or disclose a former employer’s

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19. Depending upon the factual circumstances, separate outside counsel for the employee alone may be advisable.

20. *See* 18 U.S.C. § 1836(b)(3).

trade secrets, the new employer (and counsel) should work with the new employee to attempt to lower that risk. Such practical mechanisms may include:

- being clear that an employee must arrive “clean,” with none of his or her former employer’s information with him or her, at his or her home, or on his or her personal devices or cloud storage, and that violation of that policy may lead to termination;
- having the employee sign an agreement that includes a promise to respect the intellectual property rights of others and that discusses how the new employee will be expected to handle the transition and how he or she will be expected to interact with his or her new colleagues—with reinforcement both verbally and in writing that the hiring company is serious about these provisions and intends that they be followed;
- creating a point of contact to answer questions or concerns and ensure that the employee receives meaningful training on how the company handles its own and others’ trade secrets;
- walling the employee off from certain projects and/or customers that present particular risk of misappropriation or perceived misappropriation, and reflecting these limitations on employment in the offer letter or in subsequent memos in writing to avoid uncertainty;
- utilizing a clean room for significant work posing particular risk performed by the employee and which is vetted by outside counsel prior to use in any company projects;

- training and communicating with other employees about areas of inquiry that are off-limits with the employee; and
- where warranted, periodically reviewing and analyzing the employee's email and computer activities through smart forensic searches in an attempt to ensure no contamination. For example, if an employee's newly issued computer is populated by the employee with multiple gigabytes of data in the employee's first week of work, further investigation will likely be warranted. Similarly, some software development organizations will not "commit" code from a new employee to the corporate "code bank" without careful review to assess its origin.

Further, employers may consider providing new employees some discretion to decline work assignments if they perceive a legitimate risk of use or disclosure of their former employers' trade secrets but are not at liberty to explain why without revealing the actual secrets. Outside counsel can be consulted to assist with this process.

### *C. Onboarding—Trade secret related agreements*

#### 1. Confidentiality agreements

Employers should include in their employment agreements an acknowledgment by new employees that the new employers have valuable trade secrets to which the employee will or may have access. The agreement should put employees on general notice of what kind of information is included and that this notice should be reinforced throughout the relationship by training. It should also include a covenant by employees not to improperly access, use, disclose, or retain such information outside of or following employment. These agreements are a common

vehicle for companies to protect their trade secrets. Depending on the jurisdiction, such an agreement may require an outside time limit as it applies to confidential information (as opposed to trade secrets) and may be invalidated if too broad in the scope of what it purports to claim is confidential. Such a provision may be standalone or included in a broader employment agreement or other similar agreement.

Confidentiality agreements serve multiple important purposes, including putting employees on notice that the company has information that may be confidential in general, and identifying for the employee particular types of information that the company considers its trade secrets. Also, nondisclosure agreements are an important building block of the company's overall efforts to take (and ability to demonstrate that it has taken) reasonable measures to protect its information. They also may provide a breach-of-contract claim for the unauthorized use, disclosure, or taking of company information, in addition to a trade secret misappropriation claim.

a. DTSA's whistleblower language

The Defend Trade Secrets Act (DTSA) provides that employers "shall" include a notice of whistleblower immunity in any contracts with employees, contractors, or consultants that include provisions restricting the use or disclosure of trade secrets. Absent providing such notice, employers cannot recover attorneys' fees or enhanced exemplary damages. The notice must inform employees that they are permitted to disclose a trade secret in confidence to a federal, state, or local government official, or to an attorney, when such disclosure is made to investigate or report a suspected violation of law, or in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, the notice, which can be expressed in general, easy-to-understand terms, should advise that individuals suing their employers for retaliation

based on the reporting of a suspected violation of law may disclose a trade secret to their attorneys and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and the individual does not disclose the trade secret except pursuant to court order. The required disclosures can, in the alternative, be contained in a nondisclosure agreement or other appropriate company policy or handbook, including cross-referencing the DTSA's immunity language in the company's general whistleblower procedures.

b. Examples of information pertinent to the company that the company identifies as a trade secret

Agreements that protect confidential information often contain lengthy, boilerplate definitions of confidential information. For many businesses, the general categories of confidential information are common and can include customer lists, formulas, patterns, compilations, programs, devices, methods, techniques, and processes. Despite some areas of commonality, employers should consider tailoring appropriate definitions to particularly valuable or unique categories of information so there is no ambiguity about what the company deems confidential and so the agreement does not sweep in nonconfidential information. From the employee's perspective, it is essential that employers provide descriptions and examples of protectable information that are understandable, identifiable, and relevant to their businesses. Employers that overreach and fail to provide employees with this basic understanding run the risk that their employees will not sufficiently understand their obligations or that a court may refuse to enforce the nondisclosure obligation.<sup>21</sup>

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21. Failing to put employees on notice may be a failure to take reasonable measures to protect the information, especially if the information is not



Employers should also be aware of not imposing obligations of specifically marking information as confidential in their agreements if they are not prepared to mark all such information. Courts have refused to protect alleged trade secrets where companies have not followed their self-imposed identification requirements in their nondisclosure agreements.<sup>22</sup>

c. Do not overcommit, and do enforce

As a general matter, companies should enforce their policies and agreements. If the company as a whole does not follow its own policies, there will be little incentive for its employees to follow them. This then heightens the risk that an employee will breach his duty of confidentiality, as the employee may view the confidentiality agreement as simply a suggestion rather than an obligation. Moreover, a routine failure to enforce may be argued by other employees as a failure to take reasonable steps to preserve the confidentiality of the information, thus undermining the ability of the employer to prove the information is in fact entitled to trade secret status. An employer's reasons for not enforcing particular restrictions should be considered and deliberate, and not due to oversight.

2. Noncompetition agreements

In addition to confidentiality agreements, noncompetition and related agreements<sup>23</sup> may be used in some states to protect

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"intuitively" a trade secret. *See* *Electrocraft v. Controlled Motion*, 332 N.W.2d 890, 902 (Minn. 1983).

22. *Convolve, Inc. v. Compaq Computer Corp.*, No. 2012-1074, 527 Fed. Appx. 910 (Fed. Cir. Jul. 1, 2013); *Abrasic 90 Inc. v. Weldcote Metals, Inc.*, 364 F. Supp. 3d 888 (N.D. Ill. 2019).

23. Nonsolicitation-of-customers provisions are used in addition to or in lieu of noncompetition agreements by some employers in those states that permit such clauses. Like noncompetition agreements, nonsolicitation provisions may be enforceable in some states as necessary to protect trade secrets.

trade secrets. These agreements have historically been governed by state law on restrictive covenants,<sup>24</sup> though that may change in the future.<sup>25</sup> This *Commentary* does not advocate a particular position as to the propriety of such agreements; nevertheless, any understanding of the various tools used by employers to protect trade secrets must include a discussion of them.

Employee advocates often argue that noncompete agreements are unnecessary because they do not serve any legitimate business interest, and that they are contrary to the public interest because they stifle creativity, economic development, and the fair exchange of information, as well as employee mobility. They view noncompete agreements as blunt instruments that are prone to abuse because of overly aggressive drafting and enforcement. They often point to California's general prohibition of employment noncompete agreements and to California's economic development and the success of the technology sector in

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The enforceability of nonsolicitation provisions is beyond the scope of this *Commentary*.

24. The law, advisability, and drafting of restrictive covenants vary widely by jurisdiction (by state in the United States and by country outside) and are outside the scope of this *Commentary*. However, a brief overview is provided because of the significant role these agreements often play in the protection of trade secrets. For more information about noncompete agreements generally, see Brian Malsberger, *COVENANTS NOT TO COMPETE* (Bloomberg Law 2018) (12th ed.). Several law firms track the developments in noncompetition law across the country, and they can be located through a simple internet search.

25. Since 2015, bills have been presented in Congress to ban or regulate the use of noncompete agreements. And starting in 2019, the FTC has been considering whether its rulemaking authority permits it to regulate noncompete agreements, and if so, to what extent. Both Congress and the FTC have been considering complete bans or less comprehensive regulations such as requiring advance notice to be provided to employees who will be required to sign a noncompete agreement and preventing courts from modifying unnecessarily restrictive agreements.

the Silicon Valley to support their position. Others point out that the Silicon Valley success story is multifaceted. The dialogue around these issues has led several states to recently pass or propose legislation to limit the use of certain types of noncompete agreements with some kinds of employees. The new laws typically prohibit the use of noncompete agreements with low-wage workers or limit the duration and scope of such agreements.

By contrast with noncompete agreements, confidentiality agreements generally do not inherently prevent employees from working for a competitor. Thus, it is left to the former employer to police the former employee's conduct (i.e., monitor for any use of its trade secrets), often without the tools necessary to do so fully (i.e., the former employer has limited ability to know what the employee is doing until, in the worst case, it is too late, and the former employee has used the information).

For example, one of the most nuanced areas in trade secret law is how to handle the fact that trade secrets can often be retained in a person's memory. As a general matter, the mere fact that information is lodged in someone's head does not strip it of its trade secret qualities or the available protections. But it may be particularly difficult to detect whether a former employee is using in a new position trade secrets that he or she retained in memory without needing to rely on the physical or electronic transfer of information. Noncompetition agreements, however, can—for a period of time—limit the scope of, or even prevent altogether, an employee's engagement with a prospective employer. Thus, one justification that has been offered for noncompetition agreements is that because misappropriation is often "behind the scenes" and, as a result, difficult for the former employer to detect, noncompete agreements provide readily detectable boundaries to prevent misappropriation by keeping the employee (and therefore the trade secrets known to the employee) out of the market altogether for a defined period.

Accordingly, noncompete agreements can offer the advantage of serving as a prophylactic tool for companies to prevent the circumstances in which trade secrets are likely to be put at risk—such as when an employee moves to a competitor in a role that threatens disclosure of the company’s trade secrets—and thus may prevent misappropriation before it happens.<sup>26</sup> While state laws vary to some degree, the protection of trade secrets is recognized as a legitimate basis for the use of noncompete agreements in many states.<sup>27</sup>

With few exceptions (notably California, Oklahoma, and North Dakota), noncompete agreements are generally enforceable in most states, but only if and to the extent they are “reasonable” and comply with any statutory or common law requirements of the relevant jurisdiction. Noncompetition agreements are generally disfavored in the law because they are restraints on trade, and as a result, unlike most contracts, they are reviewed by courts for reasonableness. In most states permitting noncompete agreements, courts generally balance the interests of the particular employee against the interests of the particular

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26. Trade secrets are not the only recognized protectable interest. Other well-recognized interests include the protection of customer goodwill developed by the company (through the work it pays its employees to perform). Indeed, goodwill is frequently the primary concern for companies managing departing sales team members. But other legitimate business interests exist, depending upon the particular state. For example, some states permit noncompete agreements to be used to ensure that investments in training, sharing of information, and innovation are protectable.

27. Only three states ban employee noncompete agreements: California (see *Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937, 945 (2008)); North Dakota (see *Werlinger v. Mut. Serv. Cas. Ins. Co.*, 496 N.W.2d 26 (N.D. 1993)); Oklahoma (see *Brandon Kemp, Noncompetes in Oklahoma Mergers and Acquisitions*, 88 Oklahoma Bar Journal 128, at n.2 (Jan. 21, 2017)). The District of Columbia has a near-ban (Ban on Non-Compete Agreements Amendment Act of 2020, D.C. Law 23-209).

employer in the particular case. Consequently, under most applicable state laws, noncompete agreements must be reasonable in time (typically one to two years, depending on the state), space (the territory in which the employee is restricted), and scope (the nature of the work in which the employee is prohibited from engaging during the restricted period). A “reasonable” agreement typically limits the employee’s right to engage in competitive activities only as far as necessary to protect a recognized legitimate business interest, chief among them, the protection of trade secrets. A noncompete agreement is typically found to be unreasonable if it is used solely to limit the employee’s right to work for competitors and prevent “ordinary” competition, as distinguished from “unfair” competition.<sup>28</sup> These “general” principles are being evaluated and commented on by courts and legislatures regularly, however, and are evolving. It is advisable to routinely consult with counsel to keep up with recurring changes in this area.<sup>29</sup> The continued use of non-compete agreements by companies and appropriate limitations

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28. As a general matter, to maximize the likelihood that a noncompete agreement will be found reasonable, the noncompete period should be only as long as is necessary to protect any trade secrets to which the employee had access and should be limited to the geographic area in which the employee was involved and to the product or services on which the employee worked. Another factor that sometimes contributes to a finding of reasonableness is a provision obligating the employer to pay a base salary or other compensation to a departed employee during the noncompete period if the employer invokes the agreement to prevent a departing employee from accepting a specific job offer with a competitor.

29. Employers doing business in multiple states and countries often prefer uniformity in their restrictive covenant agreements. While uniformity may be an ideal, it may not be possible due to various state law limitations on such covenants or limits on specifying outside forums or choice of law. *See, e.g.,* CAL. BUS. & PROF. CODE § 16600; CAL. LAB. CODE § 925 (prohibiting out-of-state choice of law and forum provisions in employment agreements subject to certain exceptions).

on such agreements, particularly their use with low-wage employees, which is defined quite differently by a number of states, remains a hot-button issue that state and federal legislators and regulators continue to scrutinize.

Employers should timely disclose to candidates before they accept employment any requirement that they sign a noncompete agreement. For example, waiting to disclose a restrictive covenant until the first day of the employee's job, or perhaps even thereafter, even where legally permitted,<sup>30</sup> can have multiple adverse consequences, including decreasing morale.<sup>31</sup> And it is often the disgruntled employee who poses the biggest security risk to a company.

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30. Additionally, employees are often frustrated when they are asked to sign noncompetition agreements for the first time after they have been employed for a number of years. Depending upon the jurisdiction, some state laws require employers to provide additional consideration in such circumstances, whereas some states do not. Employers may consider providing consideration even where it may not be required.

31. Indeed, some jurisdictions are now requiring that the employee be provided with notice of the noncompete agreement with the formal offer, or otherwise prior to commencement of employment. Those states are Maine, Massachusetts, New Hampshire, Oregon, and Washington, as well as the District of Columbia. Gauging from proposed legislation, this number is likely to increase.

### III. THE ONGOING EMPLOYMENT PERIOD

The boundary between protectable trade secret information and employee general skill and knowledge is inherently ambiguous. Because employers usually are in a better position to determine what information they consider to be valuable, they should take the lead in defining what they believe to be the company's trade secrets. Therefore, to minimize misunderstanding and maximize alignment between employers and employees, employers should use opportunities throughout the ongoing employment period to train and educate their employees regarding the identification of what information or types of information they view as their trade secrets and what processes employees are to follow to protect them.

An employee's level of exposure to trade secrets may influence the degree of training and protection obligations imposed on the employee. C-suite executives and managers will typically have access to more trade secrets, and as leaders should be expected to not only be familiar with company confidentiality policies and practices, but to consistently follow and be role models for other employees. Likewise, scientists and engineers engaged in research and development projects may have greater access to trade secrets. As employees remain with the organization and gain access to new types of information, further training is likely necessary so that all are on the same page regarding the information to be treated as a trade secret, how it should be treated, and how such information is and is not affected by developments in the industry.

Ultimately, managing trade secrets during the duration of the employment relationship should be part of an overall company trade secret protection program and the development of a company culture of respect for legitimate intellectual property rights.

### *A. Identification of Trade Secrets by the Employer*

Trade secrets come in a vast range of formats and types of business information. Their commercial value can also cover a wide range, from “bet the company” assets to information that a company would prefer not to lose but would not drive the company out of business if it were lost. And while some companies may elect to implement a program that catalogs their trade secrets, others may elect for myriad different reasons not to do so. This issue will be discussed in more detail in the forthcoming *The Sedona Conference Commentary on the Governance and Management of Trade Secrets*.

There is a robust debate about the extent to which employers should implement a program identifying and cataloging its trade secrets. Nevertheless, there are multiple reasons that some degree of identification of trade secrets to employees benefits both the employer and the employees.

As stated above in Principle No. 2:

Employers should provide timely and sufficient notice of what they claim as their trade secrets, the policies and procedures to be followed by employees to protect those trade secrets, and any restrictions the employers intend to impose on the future mobility of their prospective and current employees.

Given that employees are essential to the successful implementation of trade secret protection programs, employees need to have some level of understanding of what information qualifies for that protection. And by providing some level of notice of information that employers consider to be their trade



secrets,<sup>32</sup> that identification may promote a dialogue about whether certain information can be protected or whether there are potential disputes between employers and employees about the ownership of that information. Furthermore, courts have required employers to provide their employees with some level of notice of what the employer claims as its trade secrets.<sup>33</sup>

**Guideline 2. Employers should identify for their relevant employees the categories of information they consider to be trade secrets and provide examples where practicable.**

At a minimum, to the extent that employers expect their employees to implement programs protecting their trade secrets, employers should identify the categories of trade secrets that they expect them to protect. This should be provided in training and education, as described below.

**Guideline 3. In assessing and communicating to employees what information is to be protected as their trade secrets, employers should be mindful not to sweep in information that is not their trade secrets, including the**

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32. The resources, size, and sophistication of the employer may impact the scope and level of the notice that may be provided. For example, it is reasonable to expect that a Fortune 500 company will be better equipped to develop standards and policies to provide that notice. Conversely, it may not be reasonable to expect a small startup to have the capability to develop those same standards and policies and provide the same degree of notice, although the smaller organization should also make efforts to inform the employee of its overall expectations.

33. See, e.g., *Electrocraft v. Controlled Motion*, 332 N.W.2d 890, 902 (Minn. 1983) (holding that, in a case involving a trade secret that was not “intuitively” understood as such, the employer did not sufficiently protect it when sharing it with employees without identifying it as a trade secret).

**information that is generally known or is part of the general skill and knowledge of their employees.**

It may be advisable for the employer to use greater specificity in identifying its trade secrets for those employees who are tasked with research and development or involved in generating or creating information that the employer considers to be its trade secrets. While these employees can be expected to appreciate the value of that information, it may be prudent for the employer to ensure that they understand the information that they are working with and developing is proprietary, confidential, and the property of the employer. Employers and employees alike should be aware that there is often a “lag” in identifying new trade secret information that is being developed. An organization’s trade secrets are typically not frozen in time. The fact that information developed five years into an employee’s career with an organization is not identified as a trade secret in the initial onboarding materials does not mean that the employer cannot through training and exit proceedings subsequently identify this information as a trade secret. In turn, the fact that the employer properly identified information as a trade secret five years before does not mean that the information remains a trade secret now.

*B. Policies and Procedures Regarding Trade Secret Information  
Directly Impacting Employees*

The employer should develop and communicate to its employees policies that address company trade secret information. These policies serve many purposes, but they should strive to meet the following three guidelines:

**Guideline 4. Trade secret policies should provide notice to employees about the employer’s**

**expectations for protection, management, and use of trade secrets during the employment relationship and thereafter.**

**Guideline 5. Trade secret policies should provide guidance to employees on what they should do, or whom they should consult, in the event that a question about the management, protection, or use of trade secrets may arise.**

**Guideline 6. Trade secret policies should promote communication between the employer and its employees about the employer's intellectual property protection policies and procedures and should facilitate employee questions or considerations about them, both during and following employment.**

The courts frequently consider confidentiality policies when examining whether an employer has taken reasonable measures to protect its trade secrets and to enforce trade secret interests against others who the employer believes misappropriated or threatens to misappropriate the employer's trade secrets.

Confidentiality policies can take many forms. Many employers use a "Code of Conduct" or similar approach to instill their policies as ethical principles that employees should follow. Others may focus on a comprehensive employee handbook to convey the information. Whatever their form, written policies may be an important first step in providing tangible guidance to employees on how to use, share, and manage trade secrets.

Several trade secret policies directly impact employees,<sup>34</sup> and as such merit heightened attention in their development, communication, and implementation, including:

1. Post-termination obligations

Trade secret protection programs should address obligations that employees have for the return and treatment of trade secret information when and after their employment relationship ends. These obligations, as documented in each employee's employment agreements and in any associated policies,<sup>35</sup> should be reinforced periodically and consistently throughout the ongoing employment period.

2. Treatment of former employers' trade secrets

The prohibition against using any trade secret information of former employers should be memorialized in each employment agreement, and employers should emphasize this throughout the employment period. Not only does this help mitigate against the risk of disputes or litigation with the former employers, but it further serves to reinforce the importance of protecting and respecting all trade secret information, including the employer's own trade secrets.

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34. For a broader discussion of other company policies that are part of or affect a company's trade secret protection program, see the *The Sedona Conference Commentary on the Governance and Management of Trade Secrets, Public Comment Version* (April 2022), available at [.https://thesedonaconference.org/publication/Commentary\\_on\\_Governance\\_and\\_Management\\_of\\_Trade\\_Secrets](https://thesedonaconference.org/publication/Commentary_on_Governance_and_Management_of_Trade_Secrets).

35. See *supra* Sect. II.C. (Onboarding—Trade secret related agreements).

### 3. Bring-your-own-device (BYOD) policies

The use of personal devices for business purposes is fraught with the opportunity for inadvertent or intentional loss or misuse of trade secrets. Mitigating against this risk is further complicated by the fact that any BYOD policy implicates private information, photos, or other personal information on these devices owned by the employee. If a company elects to allow employees to perform work on employee-owned devices, these issues should be addressed in the employer's policies. The policy should clearly notify the employees participating in the BYOD program that the employer retains and reserves the right to access, monitor, and delete information from the employee-owned devices. The policy should describe the circumstances under which the employer can exercise those rights and the scope of those rights:

- To eliminate doubt and ensure all expectations are aligned, employers should make sure that they secure consent from their employees so that the employees clearly understand the rules, terms, and conditions that govern participation in the BYOD program. If there are noteworthy changes that are being made to the BYOD program, acknowledgements for those changes should be secured.
- If an employer intends to use any forms of monitoring, it should notify its employees of its right to monitor that activity at the outset of the employment relationship.
- Employers should also notify employees that the employee has reduced expectations of privacy in personal (not employer-owned) files.

For an in-depth discussion on these issues, see *The Sedona Conference Commentary on BYOD: Principles and Guidance for Developing Policies and Meeting Discovery Obligations*.<sup>36</sup>

#### 4. Ability to work on side opportunities/projects

Some employees, particularly researchers, software coders, and engineers, may be interested in doing side work, moonlighting, and partnering with others in what they believe are opportunities unrelated to their employment. Employers may permit or even encourage them to take advantage of these opportunities for a variety of reasons, including opportunities to allow employees to earn other income or further develop skills that contribute to the employer's business.<sup>37</sup> However, these opportunities are not without risk, as an employee may misuse or improperly share trade secrets in connection with those opportunities or find themselves in a position to potentially use that information to compete against an employer now or in the future, thereby potentially breaching duties of loyalty owed to his or her employer. Consequently, special care should be taken by employers in these situations to specify by policy and reinforce through communications the parameters of such outside consulting work to reduce the risk that trade secrets are misappropriated.

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36. The Sedona Conference, *Commentary on BYOD: Principles and Guidance for Developing Policies and Meeting Discovery Obligations*, 19 SEDONA CONF. J. 495 (2018).

37. Restrictions on such opportunities may also be subject to developing state law. See *supra* note 27.

## 5. Respecting employee's rights to their general skill and knowledge

Employers may (and often do) take a broad view of their ownership of the information that is generated over the course of the employment life cycle. But many employees bring certain information with them to their job and develop new skills and information while on the job. This information is frequently described as "general skill and knowledge," and it is a baseline expertise that a reasonably successful employee in that position and industry would be expected to have.<sup>38</sup> When those skills are brought to bear in the process of helping develop or create work product for the employer, there is potential for a dispute over whether the resulting information belongs to the employer or is properly accretive to the employee's general skill and knowledge, often turning on whether the product of information is something that a comparably placed and skilled employee would be able to develop elsewhere.

Courts have grappled with the proper line of demarcation between a trade secret and the general skill and knowledge/residual knowledge of an employee. Some of those cases have identified multiple factors as relevant in attempting to separate

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38. A related but very specific concept is "residual knowledge clauses" that one sees most often in contracts with consultants. These clauses typically provide in express language that the consultant is not permitted to use or disclose trade secrets of the engaging party, "provided, however, that this prohibition does not extend to information retained solely in the consultant's unaided memory without documentation" or the like. The rationale provided for using such contracts is that a consultant brings knowledge gained from working for many clients and that the consultant wants to be able to use whatever he or she learned about, for example, optimizing particular software, as long as the consultant does not bring or use particular code; otherwise, the consultant would have to charge a great deal more, and the party engaging the consultant would not get the benefit of his or her work for other clients.

an employee's general skill and knowledge from the employer's trade secrets. These include:

- the degree of experience and expertise of the employee prior to joining the employer;
- the extent to which the claimed trade secrets consist of information or general principles already found in the public domain or known to others in the field;
- the extent to which the claimed trade secrets result from the application of basic problem-solving or knowledge within that industry;
- the extent to which the claimed trade secrets have been reduced to practice in the form of a functioning device or system;
- the extent to which the information is carried in the employee's head as opposed to documented in files brought over from the former employer; and
- the degree to which that information is so integrated with the employee's overall employment experience that characterizing it as a trade secret of the former employer would deprive the employee of the ability to find commensurate employment elsewhere.<sup>39</sup>

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39. See *SI Handling Sys. v. Heisley*, 753 F.2d 1244, 1264–65 (3d Cir. 1985) (employee's ability and experience that led to developments does not belong to employer, including problem solving and ability to identify mistakes to be avoided/negative trade secrets); *Winston Res. Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 144–45 (9th Cir. 1965) (finding that general approach of former employees was not a trade secret because it consisted of general engineering principles in the public domain with which they were previously familiar); *Dynamics Res. Corp. v. Analytic Scis. Corp.*, 9 Mass. App. Ct. 254



While courts have not uniformly applied the same factors in their analysis, they have routinely held that the employer bears the burden of describing the information at issue specifically and establishing that the information at issue is not the general skill and knowledge of the employee. A full discussion of this complex issue is beyond the scope of this *Commentary*.<sup>40</sup>

Disputes over trade secret (and intellectual property in general) ownership often originate from employment policies imposed by the employer and from positions taken by the employer with respect to its claimed scope of its trade secrets. Many company employment policies and agreements include expansive claims to information generated or touched by its employees. A comprehensive discussion of such employment policies and agreements is beyond the scope of this *Commentary*,<sup>41</sup> but some issues that merit discussion include:

- a. Understanding the scope of the employee's general skill and knowledge

Employers should try to develop an understanding of what intellectual property rights employees owned prior to hire and

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(1980) (employee was hired by employer because he understood engineering concepts at issue).

40. For a discussion and additional context on the underlying issues, see *The Sedona Conference Commentary on Equitable Remedies in Trade Secret Litigation*, 23 SEDONA CONF. J. 591, 654–81 (2022), Section V.A. (Evaluating the Movant's Likelihood of Success on the Merits), available at: [https://thesedonaconference.org/publication/Commentary\\_on\\_Equitable\\_Remedies\\_in\\_Trade\\_Secret\\_Litigation](https://thesedonaconference.org/publication/Commentary_on_Equitable_Remedies_in_Trade_Secret_Litigation) [hereinafter *Sedona WG12 Trade Secret Equitable Remedies Commentary*].

This topic will further be a focus of the forthcoming *Sedona Conference Commentary on What Can and Cannot Be a Protectable Trade Secret*.

41. To that point, this *Commentary* does not attempt to address the issue of ownership of preexisting knowledge or intellectual property rights incorporated into intellectual property during employment.

are bringing into the employment relationship, so that the parties have a better understanding what rights the employees will retain or acquire, if any, during employment. This is typically done through a disclosure in the agreement identifying intellectual property that the employee owns or has an interest in prior to hire, including publicly registered intellectual property such as patents or copyrights. Such a provision is particularly important if the employee will be asked to integrate his or her intellectual property into the company's developments. However, the employer should not overreach by trying to use the employee's disclosure to assert a limit on the scope of the employee's general skill and knowledge.<sup>42</sup>

b. Managing the risks of employee-owned intellectual property

The existence of employee-owned intellectual property poses risks and challenges both during and after the period of the employee's employment.

One possible approach is for the employer to instruct the employee not to incorporate any preexisting work that the employee owns into any of the work that the employee creates for the employer, and if the employee does so, the employer will be provided with a royalty-free license to use it in the work that the employee created for that employer. This solution has the benefit of minimizing potential confusion about what is owned by the employer and also enables the employee, who is in the best position to identify and avoid using those inventions, to initiate any conversation about the relationship of that invention to the employer's intellectual property.

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42. This *Commentary* does not address the issue of ownership of intellectual property created by the employee during his or her employment and what, if any, rights the employer has to that intellectual property.

- c. Providing a company resource for employees to address questions about intellectual property ownership

Employers should consider naming someone to address questions about intellectual property ownership to help prevent misunderstandings and disputes. An employee's decision not to call on such a resource during employment, however, should not be used to assert a limit on the scope of the employee's general skill and knowledge.

### *C. Employee Training on Trade Secrets*

In furtherance of Principle No. 2 above, employers should, at the inception of and throughout employment, provide employees with training that sufficiently identifies the categories of employers' trade secrets and the employers' expectations of employees concerning their creation of trade secrets, as well as access to and responsibility to protect such information.

Training and education are critical tools to ensure employee compliance with trade secret policies and procedures. Interactive training facilitates a greater shared understanding by employees and employers alike of the company's trade secret protection program.

Employees who understand what their employer considers to be its trade secrets, what they need to do to protect that information, and what the consequences are will generally be less likely to engage in conduct that puts that information at risk. Accordingly, in most instances, new employees—particularly those who may have little familiarity with trade secrets and their protection—should be provided with an appropriate level

of proprietary rights protection training when they join the company, and as appropriate thereafter.<sup>43</sup>

Training should:

- provide a sufficiently detailed overview of the categories of information that the employer considers to be its trade secrets, including third-party information with which the employer and employee deal;
- emphasize the company's commitment to protecting its trade secrets (and other proprietary assets);
- explain the forms of protection relied upon by the company and applicable policies (see below); and
- describe the written materials and other company resources available to provide further guidance to the employee.

Employers should emphasize to their employees the importance of dotting all the "i's" and crossing all the "t's" when it comes to trade secrets, including the trade secrets of a third party that the company is obligated to protect. Employees should understand that the third party's trade secret information is not to be used or disclosed without permission, even if they think the proposed activity is innocent or makes sense to them. They need to understand that they have an obligation to protect the third party's trade secret information from misappropriation, just as they have an obligation to protect their own employer's trade secret information.

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43. A portion of this training could be in the form of a short video presentation on the employee's role in protecting the company's proprietary assets and trade secrets and can be shown to new employees as part of their orientation.

Training tends to be more effective if it is tailored to particular employees' responsibilities. For example, a sales associate may not encounter the same types of situations involving trade secret disclosure risks that a research scientist typically would. Employees thus benefit from training hypotheticals that apply to their particular job responsibilities. However, there are administrative burdens that may be considered in deciding whether tailored training is realistic or cost efficient.

Training should focus on both sides of the trade secret continuum: safeguarding the employer's trade secrets; and guarding against the improper receipt and use of the trade secrets of others, such as former employers. Practical training that provides tips on how to manage real-life situations can be particularly effective. For example, training on preventing use of former-employer information when an employee is wondering whether he or she is able to use an item of information can include practical guidance on searching the public domain and documenting public sources of information. Another practical training exercise could involve how to politely tell coworkers, customers, vendors, and others that they might be inappropriately sharing information that might appear to be the trade secrets of others.

Employers should emphasize that just because employees *can* access another company's trade secret information does not mean that they *should*. Analogies can often help the employee understand: just because a person leaves the door to the house unlocked does not mean that you are free to walk in and take the television. Extending the analogy, just because someone else walked in and took the television and is offering to sell it does not mean employees can now legally help themselves to it.

Similarly, employers should educate employees about the proper internal recourse if they are concerned that coworkers, consultants, vendors, or business partners may be engaged in

conduct that might lead to misappropriation. To that end, employers should make employees aware of (1) their primary point of contact for reporting purposes; (2) what steps to take to document or memorialize the conduct in question; and (3) the protection the company will afford them for identifying and reporting on such conduct.

In addition, employers should ask employees to honor any continuing confidentiality, noncompete, and nonsolicitation obligations owed to former employers. Human resources personnel should follow up with the employees and the employees' managers to confirm that they all understand the scope of their restrictions and obligations.<sup>44</sup>

Finally, it is the reinforcement and implementation of those policies and procedures that is so critical in building a culture of confidentiality that ensures a workforce actually abides by and reinforces the need for confidentiality. Accordingly, while training and education are necessary, testing and consequences for the results of that testing are strongly encouraged.

- Identification of what is confidential and what to do about it: Does the employer truly assist the employee in understanding what should be treated as confidential and what do to about it? This is where including a "confidentiality" legend or designation, or encouraging employees to use those designations, may be useful but is not always possible or practical. Negotiating and executing general confidentiality agreements with vendors or third parties

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44. HR personnel should be clear that they are not giving the employee any legal advice and that the employee is free to seek legal advice from his or her own attorney.

may be of limited value if the employees do not understand what to treat as confidential.

And to what degree should an employer specifically identify the information it wishes to be treated as confidential? Given the number and potentially changing status of what may or may not be confidential, it may be best to rely on categorical designations (i.e., “highly confidential” v. “confidential”) and provide examples of the types of information that fall within those categories.

- Frequency: Employers should provide periodic communications and training regarding its trade secret protection program. This may vary from company to company or industry to industry, but it should take place at some regular interval to ensure training is provided.
- Testing and Certification: Simply providing training and lectures may be insufficient. Confidentiality training should be accompanied by testing and, where possible, certifications that demonstrate core competency, understanding, and sufficient reinforcement. For performance reviews of certain employees, employers may consider including a metric assessing the employee’s performance in complying with the company’s trade secret protection program.
- Modes of training and education: Where possible, live training should be provided with real-world examples and situations to assist in reinforcing basic principles for protection of trade secrets. Employers should have online training and education available but should couple that training with more

rigorous testing to ensure compliance and retention.

- Consequences for failing to pass training: If there are no consequences, there will be diminished incentive to retain and use what is learned. Some employers (in particular those who have gone through traumatic events involving their confidential information or suffered a severe breach) tie success in confidentiality testing and certifications to bonuses and other financial compensation.
- Training for all: Training should be required of C-suite and senior management and should include managers (HR, legal, compliance, marketing, etc.) as well as the remainder of the workforce that has access to trade secrets.



#### IV. THE OFFBOARDING PERIOD

Each time an employee leaves a company, there are risks for the former employer, employee, and new employer. Those risks vary significantly in many ways. For example, the risks posed by “rank-and-file” employees may be very different from the risks posed by research and development teams. In particular, rank-and-file employees typically do not have knowledge of critical trade secrets, whereas R&D teams typically do. Similarly, departing salespersons pose different challenges from departing C-level executives, although each may have significant potential ramifications for the employer.

Not every departure creates risks that warrant a response, much less the same level of response. Accordingly, as articulated in Principle No. 4:

In response to an impending employee departure, the employer should identify, address, and communicate as appropriate legitimate concerns about the departing employee’s compliance with their continuing obligation to protect the employers’ trade secrets.

Many factors come into play in evaluating the risks, some of which deserve more attention and analysis than others. These factors include, but are not limited to, the level of the employee’s position; the nature of the employee’s work; the scope of the employee’s access to information; the sensitivity of the information; the quality and duration of the employment relationship; the trustworthiness of the employee as assessed both during employment and in connection with the employee’s departure; and the risks posed by the employee’s role for the new company.

Further, while many of the factors focus on the employee and the nature of the particular employment relationship, external circumstances may play a role in the analysis as well. For

example, the risks may be evaluated in light of specific concerns arising from the stage at which a product is in the development cycle, whether the employee is needed to finalize a project or transition the employee's work, or whether the employer will make an effort to retain the employee. Outside factors may also include the potential impact of the employee's departure on the company, the impact on the remaining employees, what message the departure sends (internally and externally), and what message the employer's response sends (to employees and others).

Applying Principle No. 1 to the offboarding and postemployment period, employers should use reasonable departure procedures, including exit interviews, that are calculated to obtain the return of company trade secret information and to understand the departing employees' commitment to protect trade secrets in their future employment, while respecting employees' privacy and interests in engaging in future employment.

Knowing what information departing employees had access to and where it presently resides can be critically important, whether for purposes of confidentiality and data security or for being able to identify and gather responsive electronically stored information in the context of pending or future litigation.

Some employee departures and exit interview processes are amicable, and some are not. This is not surprising, as this is where the inherent tensions, as outlined in Principle No. 1, between an employer's interest in protecting its trade secrets and an employee's interest in engaging in future employment come to a head. The employer may be justifiably concerned that valuable trade secrets may be going to a competitor by way of this departing employee. The employee may be justifiably concerned that the employer may attempt to restrain the employee's ability to transition to another already accepted position or to seek future employment in his or her area of expertise,

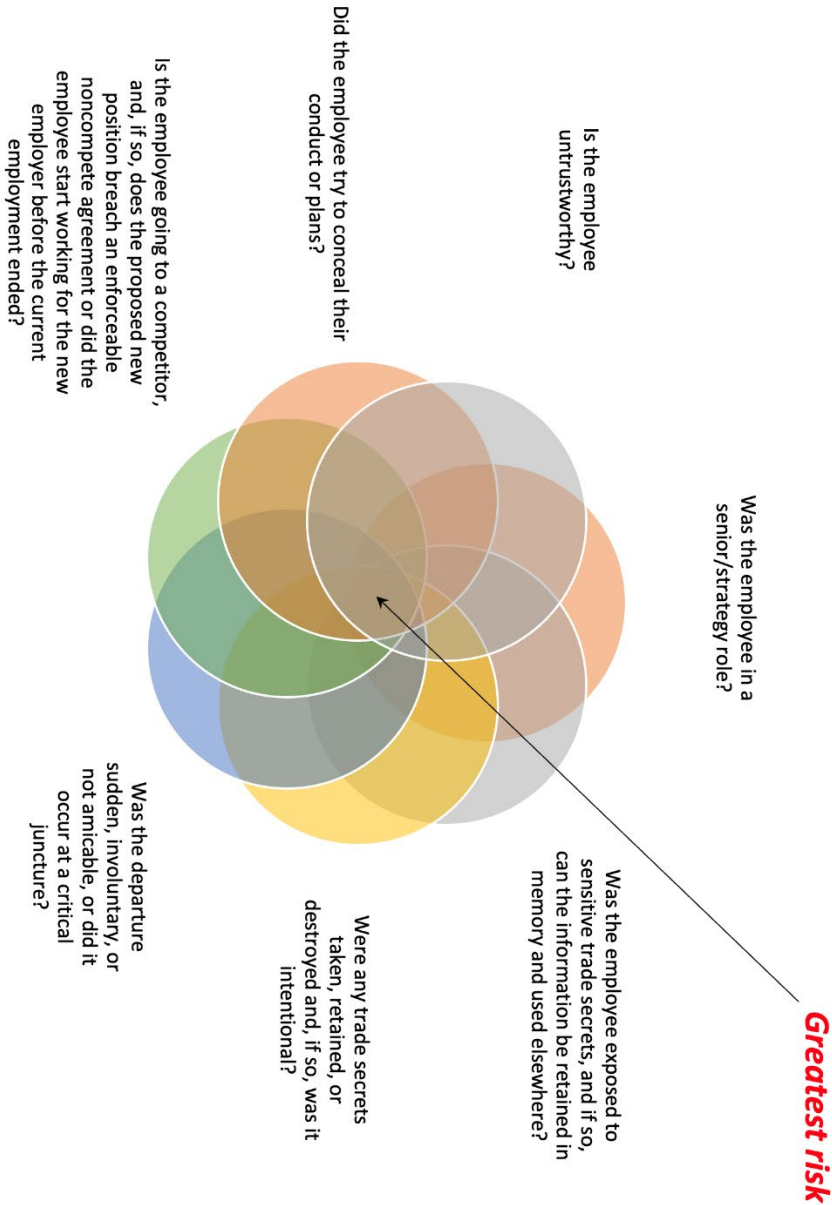
and that the employer may overreach with respect to its purported trade secret rights in order to do so. The goal is to facilitate an orderly transition respectful of both concerns, for the benefit of the former employer, the transitioning employee, and the new employer (if present).

*A. Assessing the Level of Risk*

Key risk factors for potential trade secret misappropriation by departing employees can be summarized into the following seven broad questions:

- Was the employee in a senior/strategy role?
- Was the employee exposed to sensitive trade secrets, and if so, can the information be retained in memory and used elsewhere?
- Were any trade secrets taken, retained, or destroyed, and if so, was it intentional?
- Was the departure sudden, involuntary, not amicable, or did it occur at a critical juncture?
- Is the employee going to a competitor, and if so, does the proposed new position breach an enforceable noncompete agreement, or did the employee start working for the new employer before the current employment ended?
- Did the employee try to conceal his or her conduct or plans?
- Is the employee untrustworthy?

In general, the more questions answered in the affirmative, the greater the risk—or at least the greater reason to investigate. Viewed as a Venn Diagram, the greatest risk is at the intersection of the circles:



Below is a discussion of these seven risk factors, together with additional, related questions.

- Was the employee in a senior/strategy role?

All things being equal, the more senior an employee, the broader and deeper the employee's knowledge of company trade secrets will likely be—and therefore the greater the threat the employee is likely to pose.<sup>45</sup> However, this general rule is not always true. For example, while a senior executive may have broad-based knowledge of the company's trade secrets, the knowledge may be too shallow and generalized to pose an actual threat.<sup>46</sup>

- Was the employee exposed to sensitive trade secrets?

“Access” to information is not necessarily the same as “exposure” to it. The mere fact that an employee had the ability to access trade secrets does not mean that the employee ever used that access. Accordingly, the potential threat comes from exposure to the secret.<sup>47</sup>

- Assuming exposure, how sensitive/important are the secrets to which the employee was exposed?

Not all information is created equal. Some information (for example, customer pricing information)

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45. Cases frequently distinguish between high-level employees and low-level employees as a proxy for their access to trade secrets and the threat they likely pose as a consequence. *See, e.g., Willis of New York, Inc. v. DeFelice*, 750 N.Y.S.2d 39, 42 (N.Y. App. Div. 2002); *Tactica Int'l, Inc. v. Atl. Horizon Internal, Inc.*, 154 F. Supp. 2d 586, 608 (S.D.N.Y. 2001).

46. *See, e.g., Int'l Bus. Machs. v. Visentin*, No. 11 Civ. 399(LAP), 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011) (finding that defendant high-level executive's knowledge of plaintiff's trade secrets was too generalized to pose a substantial risk).

47. *See, e.g., Harlan Labs., Inc. v. Campbell*, 900 F. Supp. 2d 99, 108–09 (D. Mass. 2012) (noting that the employee not only had access to information but also accessed it).

may give a marginal competitive advantage, while other information (for example, product formulas like the secret formula to Coca-Cola) may be among the company's most valuable and therefore most competitively sensitive. While all of this information may be protectable as a trade secret, the consequences of the information falling into the hands of a competitor can vary greatly.

- Assuming exposure to sensitive trade secrets, can the information be retained in memory and used elsewhere?

A former employee's inability to recall information with enough specificity to use it poses, if genuine, much less of a risk than an employee who can retain and use such information.<sup>48</sup> For example, lengthy compilations of information may not be susceptible to memorization, whereas smaller amounts of information may be easily remembered in their entirety.<sup>49</sup> If the information can be memorized, it will be important to know how critical that information is. Further, of the information capable of being remembered, the critical inquiries are whether use or

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48. *See, e.g.,* Del Monte Fresh Produce Co. v. Dole Food Co., Inc., 148 F. Supp. 2d 1326, 1339 (S.D. Fla. 2001) (denying a preliminary injunction where, “[a]lthough [the former] had thorough knowledge of the business, the court finds credible [his] testimony that he cannot remember this information with precision.”).

49. *See, e.g.,* Free Country LTD v. Drennen, 235 F. Supp. 3d 559, 569–70 (S.D.N.Y. 2016) (the information was useful only in the aggregate and was too voluminous to have been remembered).

disclosure of that subset poses a threat,<sup>50</sup> and if so, for how long is it likely to be remembered, and how long does that relate to the shelf life of the information?

- Were any trade secrets taken, retained, or destroyed, and if so, was it intentional?

The taking, retention, or destruction of information does not inherently pose a significant risk, though it can be a red flag. The inquiry must drill down to whether the employee was authorized to take, retain, or destroy the information, and if not, whether the conduct was intentional (in anticipation of the departure for purposes of later use) or inadvertent (for example, as part of routine backing up or an effort to take personal information). Further, if information was not taken physically or electronically, it is still possible that the employee memorized (or attempted to memorize) it, which should be investigated where that seems probable.<sup>51</sup> Consideration should be given to whether the problem can be solved or mitigated if, for example, the employee returns the information.

Relatedly, an indication that the employee attempted to conceal his or her conduct may suggest

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50. See, e.g., *id.* at 569–70 (the information was useful only in the aggregate).

51. *Oxford Global Res., Inc. v. Guerriero*, No. Civ. A. 03-12078-DPW, 2003 WL 23112398, at \*9 (D. Mass. Dec. 3, 2003) (injunctive relief would likely be warranted if defendants had taken steps to memorize confidential information); *Fidelity Brokerage Servs. LLC v. Djelassi*, No. 2015-2337-BLS1, slip op. at 6 & n.2 (Mass. Super. Ct. Aug. 11, 2015) (“[T]he strategy of memorizing names and then calling [the former employer’s] customers is suspect.”).

consciousness of guilt.<sup>52</sup> Accordingly, employers will want to evaluate how the employee responded to the company's discovery that he or she had taken information.

- Was the departure sudden, involuntary, or not amicable, or did it occur at a critical juncture?

Departures at critical junctures can increase the exposure a company faces from the exfiltration of trade secrets. Accordingly, the employer will need to evaluate the risk posed in light of the timing of the departure, especially where the departure comes at an inflection point for the company, affects the timing of a product launch or improvement, or otherwise affects the company's position in the marketplace.

Similarly, departures that are involuntary or not amicable can increase the risk that the employee will be unwilling to protect the company's trade secrets or affirmatively motivated to harm the company, perhaps as a result of the view that because the company breached some real or perceived obligation to the employee, the employee owes nothing to the employer in return.

- Is there a need for a transition plan, or will the company attempt to retain the employee?

Anytime an employee resigns, the employer may seek to retain the employee and thereby avoid the

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52. *Engility Corp. v. Daniels*, No. 16-cv-2473-WJM-MEH, 2016 WL 7034976, at \*9–10 (D. Colo. Dec. 2, 2016) (“[N]early every aspect of [defendant’s] original story was either false or materially incomplete, forcing [defendants] into explanations that smack of one trying to escape a lie”).



adverse impacts associated with the departure. However, where the employee does not remain and possesses unique knowledge that requires transfer to others, there may be a benefit to allowing the employee to stay long enough to facilitate such a transition or even temporarily engaging in a postemployment consulting relationship to facilitate the transfer. The benefits of facilitating a transition must be weighed against any continued access to trade secrets, which may be informed, in part, by whether the company and employee wish to maintain an ongoing, amicable postdeparture relationship.

- Is the employee going to a competitor, and if so, does the proposed new position breach any enforceable noncompete agreement, or did the employee start working for the new employer before the current employment ended?

The risk of use or disclosure of a company's trade secrets is typically at its greatest when the employee's new employment is with a competitor. In such an instance, it becomes critical to understand the nature of the new role and whether and to what extent the company's trade secrets may be at risk of use or disclosure. In this regard, the focus of the risk posed by such individual's departure lies primarily on an assessment of the likelihood of use of the information in the employee's planned new employment.<sup>53</sup>

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53. For a detailed discussion of "threatened" misappropriation and claims of "inevitable" disclosure, please see *Sedona WG12 Trade Secret Equitable Remedies Commentary*, Section V.A. (Evaluating the Movant's Likelihood of Success on the Merits), pp. 25–37 & nn.94–157, *supra* note 40.

- Did the employee try to conceal his or her conduct or plans?

Attempts to conceal conduct or plans may reflect that the employee is concerned that he or she has engaged in misconduct or is planning to violate his or her obligations to the company. Such efforts, however, do not necessarily reflect a malicious state of mind.

- Is the employee untrustworthy?

Generally, an employee who has proven to be ethical and have a high degree of integrity is less likely to intentionally pose a threat to a former employer's trade secrets, although there may nonetheless be a risk of future disclosure, even though not intentional, in particular jobs.

- Has the employee been paid fully?<sup>54</sup>

#### *B. Minimizing the Risks Associated with Employee Departures*

Once the risk level has been identified, the employer and employee can (independently) evaluate the steps that each needs to take to minimize that risk. The steps set forth below are intended to be useful guidelines for situations with unusual risk and can be scaled back to meet the needs of lower-risk situations

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54. Anytime an employer sues a former employee, it needs to expect counterclaims. A common counterclaim in that context is the failure of the employer to comply with its payment obligations, which can constitute both a breach of contract and a claim under applicable wage laws. *Moonracer, Inc. v. Collard*, Nos. 5:13-CV-455-BO, 5:13-CV-852-BO, 2015 WL 1275395, at \*2 (E.D.N.C. Mar. 18, 2015).

or where the employer or the employee lack the resources to implement all guidelines.<sup>55</sup>

The steps are presented in the order in which they typically arise in the ordinary course. However, the timing sometimes varies, and oftentimes some of the steps proceed in parallel.

### 1. Rights and responsibilities of the employee

The employer should assess what reasonably constitutes its trade secrets and what reasonably belongs to the employee. The following should be reviewed and evaluated:

- Applicable trade secret laws.<sup>56</sup> Trade secret law imposes obligations on the employee for the protection of the employer's information that qualifies as a trade secret.
- Agreements.<sup>57</sup> Many types of agreements may speak to ownership of information created or developed during employment. Sometimes these are standalone agreements, while other times they are incorporated into an offer letter, employment agreement, or restrictive covenant agreement.

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55. Note that the departure of an employee may have significant, tangential implications, including with respect to disclosures to shareholders of publicly traded companies, required or recommended notifications to clients and key relationships (even if simply for relationship management issues), and insurance coverage ramifications.

56. Outside the scope of these guidelines are other areas of intellectual property law (patents, copyrights, and trademarks) and the common law of property.

57. Sometimes external considerations impact an employee's access to these agreements. For example, the employee may not have retained a copy of these agreements and may not wish to ask for them in connection with a possible resignation, for fear of prematurely revealing his/her possible resignation. Addressing issues like these is beyond the scope of this *Commentary*.

Three of the most critical agreements tend to be: invention assignment agreements, nondisclosure agreements, and agreements imposing obligations on the employee to return company property (such as documents reflecting company confidential information).

Regardless of where stated, the obligation to return documents and materials is an often overlooked obligation that can have significant consequences for an employee who fails to comply with it.

- Company policies. Company policies often set the stage for the parties' expectations about what work is owned by the company and how it must be treated by employees.

There are exceptions to the prohibitions on an employee's use and disclosure of the employer's trade secret information, such as for purposes of whistleblowing under the Economic Espionage Act.<sup>58</sup>

## 2. Exit interviews

When an employment relationship terminates, exit interviews provide an opportunity for the soon-to-be former employer and the employee to understand and address the

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58. 18 U.S.C. §§ 1831-39 (as amended by the Defend Trade Secrets Act of 2016 (Pub. L. 114-153, 130 Stat. 376)). The Defend Trade Secrets Act provides an express immunity from liability of an employee or consultant who discloses a trade secret in certain circumstances, specifically in confidence for the sole purpose of reporting or investigating a suspected violation of law or in a sealed filing in a lawsuit. However, the full parameters of this immunity (including, for example, who bears the burden of demonstrating applicability or inapplicability of the immunity and what conduct is immunized and what is not) are outside the scope of this *Commentary*.

potential concerns relating to trade secrets. In particular, exit interviews allow the employer to understand where the employee is headed and assess the risks posed by that new role, and provide the employee an opportunity to assuage any concerns the employer may have and to understand and comply with the employee's various remaining obligations. The information garnered from such interviews will often result in the employer determining if the departing employee poses a risk of trade secret misappropriation and the need for steps to be taken to mitigate the risk. Knowledge of this fact, accompanied with the employer's exit interviewer asking the departing employee to sign a certification with clear potential legal implications for doing so (and perhaps for not doing so), can understandably put the employee on the defensive. Skilled HR or legal representation in conducting the exit interview can be critical in reducing these tensions and achieving a greater level of transparency in both directions that hopefully works to the benefit of both parties.

a. Importance of an exit interview

As a general matter, employers must be able to show that reasonable measures were taken to protect the secrecy of trade secrets in order to maintain the trade secret status of such information.<sup>59</sup> Employers can develop a false sense of security when employees sign confidentiality agreements during the course of their employment. While these agreements are helpful, they are

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59. See, e.g., *First W. Cap. Mgmt. Co. v. Malamed*, No. 16-cv-1961-WJM-MJW, 2016 WL 8358549, at \*8 (D. Colo. Sept. 30, 2016) *rev'd on other grounds*. *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136 (10th Cir 2017) (requiring the company to establish irreparable harm in order to obtain injunctive relief); Uniform Trade Secrets Act, § 1(4)(ii) information purporting to be a trade secret must be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

not a panacea.<sup>60</sup> Employers must be able to show that reasonable measures were taken to (1) prevent the employee from taking their trade secret information to a competitor and (2) recover all copies of trade secret information from the departing employee, regardless of whether the information is in paper or electronic form.

Employers who fail to take reasonable actions—including to reclaim trade secrets that were in a departing employee's possession, custody, or control—can find themselves in the unenviable position of waiving trade secret status for that information before a court. Accordingly, proper exit interviews can not only serve their intended purpose of educating employees about their obligations and obtaining their compliance and assessing whether there is a problem, but can also help establish that the

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60. *S. Field Maint. & Fabrication LLC v. Killough*, No. 2:18-cv-581-GMB, 2018 WL 4701782, at \*6 (M.D. Ala. Oct. 1, 2018) (“Some states evaluate multiple factors in determining reasonableness, the presence or absence of a confidential disclosure agreement being just one factor, along with the nature and extent or precautions taken, the circumstances under which the information was disclosed, and the degree to which the information has been placed in the public domain or rendered readily ascertainable.”); *Boston Sci. Corp. v. Lee*, No. 13-13156-DJC, 2014 WL 1946687, at \*4 (D. Mass. May 14, 2014) (“It is not necessary that an impenetrable fortress be erected to retain legal protection for a trade secret. Instead, courts consider four relevant factors in determining whether plaintiffs asserting trade secret protections took reasonable security precautions: (1) the existence or absence of an express agreement restricting disclosure, (2) the nature and extent of security precautions taken by the possessor to prevent acquisition of the information by unauthorized third parties, (3) the circumstances under which the information was disclosed . . . to (any) employee to the extent that they give rise to a reasonable inference that further disclosure, without the consent of the possessor, is prohibited, and (4) the degree to which the information has been placed in the public domain or rendered ‘readily ascertainable’ by the third parties. Ordinarily, however, confidentiality agreements suffice to constitute reasonable protective measures.” (citations omitted)).

employer has taken reasonable measures to protect its trade secrets.

While solid exit interview procedures are important, their usefulness depends on the skills of the interviewer(s). Depending on the risk posed by the departing employee, a company should consider having two members of management conduct the interview so that if there are any disputes as to what was said during the interview, there will be multiple witnesses. One of the managers should have an extensive understanding of the soon-to-be former employee's job duties. Including the employee's direct supervisor in the exit interview can be extremely helpful, both because the direct supervisor understands the employee's job duties and because the direct supervisor is often the person with the best understanding of the type of trade secret that the soon-to-be departing employee had access to and the customers or projects with whom or on which the employee was working. On the other hand, the departing employee may "clam up" if he or she is being interviewed by a manager, let alone two managers. Accordingly, depending on the circumstances, the employer may decide to use a less senior member of HR to conduct the interview. The HR staff member should be trained on how to conduct an effective exit interview (as should the managers, if they are to conduct the interview). Further, if there are particular concerns (e.g., if the employee is going to a competitor), the employer should consider involving counsel to guide the interviewer about what to cover in the interview and how to address the existing concerns. The employer should also consider whether it is appropriate, particularly for a high-risk exit to a competitor, for in-house counsel to conduct the portions of the exit interview involving the employee's post-employment legal obligations, either in a separate interview or in conjunction with HR.

Striking the right tone is also critical. The interview should be tailored to the individual employee and circumstances and

determined before the interview occurs. An exit interview does not happen in a vacuum. If the employee is leaving on bad terms—whether as a result of being fired, quitting due to perceived mistreatment, or arising from other circumstances—the employee may well be uncooperative during the exit interview independent of any intent to misappropriate any trade secrets, and this is best recognized and accounted for in advance to the extent possible. If the exit interview leaves employees feeling that the company does not trust them, the interview itself may set up unwanted animus. A constructive interview, during which the departing employee acknowledges the former employer's trade secrets and their obligation to maintain confidentiality, keeps lines of communication open in case there are any questions in the future.

In some cases, the departing employee's responses during the exit interview may give rise to a heightened concern of the threat of misappropriation, for example, if the employee repudiates any continuing obligations to the employer, disputes that particular information of the employer is confidential information that he or she may not use, refuses to return company property, reveals that he or she started working for a competitor while still employed by the current employer, is unable to reasonably explain how he or she can do the new job without misappropriating the current employer's trade secrets, or engages in dissemblance. In other cases, the interview may help confirm that nothing untoward has occurred or will occur and can leave the employer and the employee with positive feelings about the employment experience.

The employer may want to provide the employee a "point person" to contact with any questions or concerns in the future.



b. For the employer: Exit interview checklist

Prior to commencing an exit interview, the company should confirm that the departing employee signed the company handbook (if the company has one) and that the handbook included a policy that makes it clear to employees that the company reserves the right to inspect all company devices and company email, and that the employee should have no expectation of privacy in their use of company devices.

The following steps should be on an employer's exit interview checklist, which of course will need to be adapted to the particular departure and company culture:

- Inform the employee. The employee should be informed that in addition to any discussion of the reasons for the employee's departure, the exit interview is the opportunity for the employee to make a full and complete return of all paper and electronic company information in the employee's possession, custody, or control, including, but not limited to, all company computers and other storage devices that contain any company information, as well as company information stored on personal computers, cloud accounts, and other devices.
- Inform Human Resources, in-house counsel, and in-house information technology staff immediately if an employee refuses to participate in the exit interview. A departing employee's refusal to participate in an exit interview may reflect a threat of misappropriation. Accordingly, after such a refusal, steps should be immediately taken by the company to secure its information as discussed below.
- Retrieve company property. Employers should collect keys, access cards, uniforms, computers,

tablets, smart phones, other assigned electronic devices (including USB storage devices), company credit or debit cards, and any other company property allocated to the employee. Retrieving company property will reduce the threat of misappropriation of trade secrets by eliminating the former employee's access to information. Such actions also may constitute evidence that the company has taken reasonable measures to ensure the continuing secrecy of the employer's trade secret information.

- Retrieve company records. Employers should ensure that all physical and electronic documents, records, data, plans, memoranda, reports, and other like materials are returned to the company. Employees should be asked where all of this information resides (either in paper or electronic form) so that the employee can assist the company, as part of the exit interview, to retrieve or forensically delete this information without the employee retaining copies.
- Remind the employee about continuing confidentiality obligations. An employee's duty to not misappropriate an employer's trade secrets endures even after the employment relationship has ended.<sup>61</sup> Employees may be unaware of this ongoing duty; in which case it is important that they be educated. They also should be reminded that in addition to being prohibited from *disclosing* the employer's trade secrets, they also are prohibited from *using*

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61. See, e.g., *Flexcon Co. v. McSherry*, 123 F. Supp. 2d 42, 45 (D. Mass. 2000) (noting that the employee remains under a "duty not to disclose any confidential or trade secret information he learned during his employment").

the trade secrets, at least to the extent that they remember them. Having a record that the employer reminded the employee about their duty to not misappropriate can assist in establishing reasonable efforts to ensure the secrecy of confidential information. The interviewer may also ask the employee to confirm that they will comply with their confidentiality obligations.

- Remind the employee about any restrictive covenants. Where an employee has signed nondisclosure, nonsolicitation, nonrecruiting, or noncompete agreements, the employer should remind the departing employee of the agreements' terms and the employee's obligations (if they are enforceable in the applicable jurisdiction). Reminding the employee will help increase the odds that the agreements are actually followed or raise any questions about their application and may be helpful evidence for the employer if the employee breaches them. The employee should also be given copies of these signed agreements so that the employee can reference their terms in the future. The interviewer may also ask the employee to confirm that they will comply with any restrictive covenants.
- Obtain information on the employee's new employer. When an employee has resigned in favor of another job, the exit interviewers should try to gather information about the employee's new employer and the position and nature of the duties the employee intends to pursue. This could help the company assess the risks of misappropriation and unfair competition by the departing employee, but of course the employee may be understandably

reticent to disclose this information for this or other reasons.

The interviewer(s) should, however, also make clear to the departing employee that nothing said should be construed as an invitation to disclose the new employer's confidential information (if the employee happens to have any), and the employer does not want to receive any such information. The employer can, of course, also conduct an independent information search about the new position through public resources, including any press releases announcing the new hire.

- Request the employee to sign a certification and acknowledgement. In most circumstances, either prior to or in conjunction with the exit interview, the interviewers should request that the employee search for and return all company property and information that was in the employee's possession, custody, or control, and then ask the employee to sign a certification that such property and information have been returned (and not retained).

The company may also wish to include an acknowledgement to be signed by the employee that the employee has been reminded about and received a copy of all documents prescribing ongoing obligations to the employer. It is advisable to have the employee sign this same acknowledgment during onboarding and again during offboarding to mitigate against concerns by the employee that the employer is imposing any new obligations.

A company cannot force a departing employee to sign, nor should final wages be withheld, if the

departing employee refuses to sign. However, the departing employee's refusal to sign the certification/acknowledgement may be a sign of a threat of misappropriation. The interviewers should inform human resources and legal immediately if the departing employee does not sign the certification or acknowledgement. If training programs and policies along the way have coached the employee to understand that he or she may not retain and use company property, the exit interview and certification should be simply a continuation of those policies and practices—or provide an opportunity for the employee to raise specific questions.

- Request permission to inspect the departing employee's devices containing company information. Ideally, the employee has signed an agreement—or at a minimum, the company has a policy—by which the employee has granted permission to the company to inspect any personal devices used for company business or onto which the employee has placed company information or through which the employee accessed company information. Regardless, if personal devices were used for work or to access or store company information, the company should consider asking the departing employee's permission to inspect the employee's personal computer, smart phone, removable storage media (such as USB thumb drives), cloud backup and synchronization accounts, social media accounts, and other similar technology for company trade secrets or sensitive information. If the employee consents, the company can conduct an appropriate review, preservation, or deletion protocol, typically, in the employee's presence, with the employee's

cooperation, and subject to a reasonably tailored, targeted protocol that respects the employee's privacy interests. If the employee does not consent, while this may reflect a general privacy concern, this may also be a sign of a threat of misappropriation.

- Eliminate the departing employee's access to company networks. The company must ensure that the departing employee no longer has access to company networks. If controls are not in place, exit interviewers must confirm with IT that all passwords, remote access codes, and virtual private network (VPN) numbers the departing employee once used to access the company's system are disabled.
- Ensure the departing employee is fully paid all wages due. Depending on the particular state's laws, employers may be required to pay the departing employee's final wages (including all accrued but unused vacation time) on the employee's last day of work.<sup>62</sup>
- Conclude the exit interview. The exit interview should then conclude. The departing employee will need to retrieve his or her personal items and leave the company's premises.

c. For the employee: Participating in exit interviews

Employees generally should participate in the exit interview process, and do so in good faith. Refusing to do so could create

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62. This aspect of the exit interview, as well as that pertaining to health insurance, COBRA, and other benefits, is beyond the scope of this *Commentary*.

significant unwarranted suspicion, whereas cooperating with exit interviewers may reduce the likelihood of a misappropriation lawsuit.<sup>63</sup>

This does not mean that, absent contrary contractual obligations, departing employees have an obligation to provide any information that may be requested<sup>64</sup> or that they should necessarily volunteer information or be fulsome in the responses and information they provide. But absent important tactical or strategic reasons,<sup>65</sup> they should in most instances respond to reasonable and appropriate exit interview questions. An important reason for doing so is that when a departing employee refuses to reveal their postemployment plans, the employer may (perhaps incorrectly) infer a consciousness of guilt, i.e., that the refusal reflects the employee's belief that the new job violates some ongoing obligation to the former employer.

In all circumstances, even if the employee chooses not to answer particular questions, any questions that the employee does answer should be answered truthfully. Lies will raise concern

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63. Cooperation during the exit interview is a separate analysis from whether an employee should cooperate with ongoing business activities, such as transitioning their responsibilities to a new person or otherwise facilitating a smooth departure.

64. There may be contractual obligations that can alter an employee's duties. Any such obligations, including their enforceability and the consequences of a breach, should be evaluated before refusing to answer an employer's questions.

65. There may be many appropriate reasons for an employee to refuse to disclose information about their plans, including, for example, confidentiality obligations to their new employer. However, before refusing to answer the employer's questions, the employee should balance the reasons for refusing against the likely emotional impact on the current employer and the potential adverse inferences the employer may draw and should consider consulting on this issue with the new employer or seeking legal advice from a lawyer.

by the former employer and could be used in litigation to suggest that the employee cannot be trusted.

As a general matter, allowing the company to investigate whether former employees have any trade secrets on any of their devices will help employees demonstrate that they intend to comply with their obligations and have no interest in retaining company information. To the extent that they have concerns about protecting their private information, they should raise those concerns with the interviewer. For example, where the employee has personal information on the employer's devices or on personal devices the company wishes to inspect, the employee should ask what steps can be taken to protect personal data from being accessed, disclosed, taken, or destroyed.

By cooperating in the exit interview, former employees may also reduce the chances of implicating their new employer in a potential misappropriation of trade secrets claim. Given that most employers ask their new hires to represent that they have not brought the trade secrets of their former employer to their new employer, being able to state that they fully cooperated in the exit interview may support such a representation.

Further, employees may wish to ask for permission to take information, or assistance in taking their own information.<sup>66</sup> If information has already been taken, it may be best for the employee to alert the employer that he or she has information, and ask the employer how it would like that information handled.

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66. Employees who have no intent to misappropriate information should avoid unnecessarily accessing, copying, or downloading company confidential information shortly before their employment terminates. If they believe they have a legitimate need to do so, they should generally confer with their supervisor or human resources so as to negate an inference that they were conducting themselves covertly because they knew they were engaged in wrongdoing.



The timing of these conversations may be affected by the circumstances of the departure (an amicable resignation versus a “for cause” termination, for example).

Employees should sign a certification or acknowledgment that they have taken no information only if they are certain that they have returned all devices and trade secrets to their former employer. If they have not yet returned all such devices and information or have questions about issues concerning personal information (such as personal photos or financial records), employees should raise their questions and indicate that they need to complete the return of such devices and information before signing.

d. For the employer: Information technology security

In many instances, immediately after the exit interview concludes, particularly in the case of high-risk departures, the company will want to sequester and preserve departing employees’ computers, company-issued cell phones, external hard drives, and other information technology, particularly where a departing employee had access to electronic versions of company trade secrets. A proper chain of custody for these devices and the information that was on them should be established, and, ideally, the devices should not be reissued to a new employee until the company is satisfied that it no longer needs them to investigate an employee’s conduct or pursue a claim against the employee. Organizations that need to repurpose computer devices will want to consider whether preserving an electronic image of the device is economically feasible, as failure to do so may result in the loss of important data and evidence.

If an investigation is warranted, any such investigation should be conducted on forensic copies of hard drives (or other storage media). Limiting the forensic investigation to the copies will maintain forensic integrity of a company’s investigation by

demonstrating that no original storage devices or hard drives had any new metadata placed on them that could create the appearance that the company was trying to make it look like the former employee engaged in wrongdoing. These copies will still show the same internal volume serial number as the original hard drives so that they can be authenticated for evidentiary purposes in court.

The company should be aware of its data retention and deletion policies and protocols and assess whether to make an image of the former employee's email account.<sup>67</sup> A review of the employee's email activity can then be undertaken if there is reason to suspect misconduct.

Although the nature and context of the departure will inform the need for and appropriateness of these preservation, imaging, and forensic-review steps, ideally the devices and email should be preserved regardless of whether the company intends to engage in deeper examination of the departing employee's activities. This is because the company may not know at that time whether the departing employee has been or will be engaging in unfair competitive activities.

Further, it is important that any forensic investigation not be undertaken without first consulting with legal counsel (in-house or outside) and using qualified forensic investigators who have expertise both in forensic protocols and, where necessary, testifying as to the acts of misappropriation engaged in by the former employee.

Once the forensic investigation has concluded, devices should not be wiped if the company discovered a concern

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67. The image should include the entire account (including, at a minimum, the inbox, outbox, sent items, and deleted items folders), but if preserving the entire account is not feasible, the image should typically include 60 to 90 days, or even up to six months, before the employment ended.

during the investigation. In that case, the device should be kept in a secure location and not reissued to another employee. However, if no problems were discovered, the company may follow its normal protocols, including wiping and initializing the devices and reissuing them to a new user.

### *C. Departure Procedures*

#### 1. Reminder letters

After a former employee has completed the exit interview and left the company, the company should consider sending the former employee a reminder letter.<sup>68</sup> In contrast to “cease and desist” letters, which threaten enforcement of the employer’s postemployment rights, reminder letters are routine communications, typically cordial in tone,<sup>69</sup> and are appropriate when the employee cooperated with the exit interview process and when the company does not have reason to suspect that the employee misappropriated company property or trade secrets.

Reminder letters are crafted to do what their name suggests: remind employees of their continuing responsibilities. In most instances, these letters should include copies of any confidentiality, noncompete, nonsolicitation, or any other relevant enforceable agreements signed during the course of employment—even if they were given to the employee during the exit interview. The more instances the company can show that it was

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68. Typically, the reminder letter need not be a separate, standalone document; in many instances, it can be part of a routine exit letter or other communication to the departing employee.

69. In some instances, for example, when the employee participated in a key strategy meeting shortly before announcing his or her departure, the letter may take a more pointed tone, though not necessarily asserting misconduct or threatening legal action. In such instances, the letter should generally be a standalone communication, rather than part of another, routine communication.

trying to enforce its agreements and protect trade secrets, the stronger the company's position will likely be in any future lawsuit.

The reminder letter should inform the former employee that the law does not allow trade secrets gained while working for the company to be used or disclosed for any reason. An employer may further wish to ask the former employee to update his or her social media accounts to reflect the fact that he or she no longer works at the company.

Reminder letters need not be sent to every departing employee. However, employees who had access to trade secrets should generally receive one. The letter should not include *the substance* of any trade secret information.

## 2. Managing the impact of employee departures on remaining staff

The resignation or termination of a key employee or group of employees has the potential to trigger a variety of issues for the company. The departure can cause morale among the remaining employees to suffer. And the remaining employees may have trade secret information that they may intentionally or unintentionally disclose to the departed employee(s) whom they may remain in communication with. These same remaining employees may have information about the conduct of the departing employee(s) that might be critical to help the company protect its trade secrets.

Oftentimes, it makes sense for the company to get ahead of the issue and assess what concerns might be raised by the departure(s) and determine what reassurances can be provided to the remaining employees. For example, when a senior executive leaves, particularly at a critical juncture for the company, remaining employees may be concerned that the departure

signifies uncertainty about the company's future. For a public company, similar perceptions may arise in the public eye.<sup>70</sup>

When a long-term or beloved employee leaves, remaining employees may consider their former colleague to still be in the "circle of trust" and be willing to continue to share trade secret or legal strategy information with him or her. Or the remaining employees may be loath to disclose misconduct by the departing employee of which they are aware. These issues may be exacerbated if the former employee is sued by the company, insofar as remaining employees may be upset that the employer is suing their former colleague and friend. Some remaining employees may also be called upon to testify against the former employee. Balancing what is said to remaining employees and getting their cooperation when needed can be a difficult task. As a general matter, the less said, the better—and the employer should avoid disparaging the former employee.<sup>71</sup>

Instead, the employer should explain, in general terms, the reasons for the employee's departure, provide assurances that the company will weather the change, and, where warranted, may inquire about any ongoing communication with the former employee and whether the remaining employees are aware of any misconduct either before or after the former employee left. It will typically be important to explain the significance of the issues in general and reinforce with the remaining population

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70. If the company is publicly traded, there may be significant fallout when information of the departure—especially of key employees—becomes public. This is something that the company may wish to address as a public relations matter. However, what the company can and cannot say, and when and how it can provide this information, are outside the scope of this *Commentary*.

71. One of the concerns that arises is that the former employee will assert that he has been defamed by the employer. While some states have qualified immunity for statements made to remaining employees, this issue is outside the scope of this *Commentary*.

that the company takes the protection of its information very seriously. To the extent applicable, the company should also explain that it will be taking only those steps necessary to protect its interests—and those of the remaining employees. This discussion will help to assuage concerns and have the added benefit of reminding employees of how to conduct themselves if and when they decide to leave the company.

In general, but particularly in circumstances where multiple people leave or where the company is concerned about the solicitation of its remaining employees, the company should recognize that anything said to the remaining employees may make its way back to the former employee. Discretion is therefore all the more important, as is reminding the remaining employees that they are not to share any confidential business information with the former employee.<sup>72</sup> The focus should always remain on the company's reasonable efforts to protect its information (and any other protectable interests) and the remaining employees.

### 3. Notifying the new employer

In appropriate circumstances, a copy of the reminder letter (or even a separate letter) may be sent to the former employee's new employer. Sending such letters to the new employer, however, can give rise to claims by the former employee that the former employer tortiously interfered with the relationship with

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72. Employees should also be told how to respond to any inquiries they may receive concerning the former employee. For example, while employees may wish to protect the privacy of the former employee, industry regulations may require certain disclosures. *See, e.g.*, FINRA Regulatory Notice 19-10 (Customer Communications) (requiring customers, upon inquiry, to be provided certain information about a departed registered representative).

the new employer or defamed the employee.<sup>73</sup> Accordingly, before doing so, the former employer should consider and evaluate the competing risks (for example, the risk that the employee will assert a claim, and the risk that the employee may not comply with, or even inform the new employer of, his or her ongoing obligations to the former employer). If a letter is sent to the new employer, the former employer should not make false or unsupported accusations or defame the employee.

*D. Reducing the Risk of Misappropriation Claims by the Former Employer*

Departing employees and the companies they go to work for must always be careful to avoid misappropriating the former employer's trade secrets, not just intentionally, but inadvertently as well. While getting the "keys to the kingdom" of a competitor could be tempting, it will likely result in liability for misappropriation, expensive litigation that could drag on for years, and other significant adverse consequences for all involved. Consequently, companies and their employees should be careful to avoid engaging in or benefiting from misappropriation and should instead follow the guidance provided above from the beginning of the employment life cycle. In these and other respects, while the employment life cycle comes to an end for one employer-employee relationship, it is just the beginning of the next.

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73. Oftentimes, agreements with the employee will contain a provision authorizing the former employer to notify the new employer.

THE SEDONA CONFERENCE FRAMEWORK FOR ANALYSIS  
ON TRADE SECRET ISSUES ACROSS INTERNATIONAL  
BORDERS: EXTRATERRITORIAL REACH

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*A Project of The Sedona Conference Working Group 12 on Trade  
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This publication may be cited as follows:

The Sedona Conference, *Framework for Analysis on Trade Secret Issues Across International Borders: Extraterritorial Reach*, 23 SEDONA CONF. J. 909 (2022).

## PREFACE

Welcome to the final, May 2022 version of The Sedona Conference *Framework for Analysis on Trade Secret Issues Across International Borders: Extraterritorial Reach*, a project of The Sedona Conference Working Group 12 on Trade Secret Law. This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, intellectual property rights, and data security and privacy law. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

The mission of WG12, formed in February 2018, is “to develop consensus and nonpartisan principles for managing trade secret litigation and well-vetted guidelines for consideration in protecting trade secrets, recognizing that every organization has and uses trade secrets, that trade secret disputes frequently intersect with other important public policies such as employee mobility and international trade, and that trade secret disputes are litigated in both state and federal courts.” The Working Group consists of members representing all stakeholders in trade secret law and litigation.

The WG12 *Framework* drafting team was launched in November 2018. Earlier drafts of this publication were a focus of dialogue at the WG12 Annual Meeting, Online, in November 2020, the WG12 Annual Meeting in Charlotte, North Carolina, in November 2019, the WG12 Inaugural Meeting in Los Angeles, California, in November 2018. The *Framework* was published for public comment in March 2021. The editors have reviewed the comments received through the Working Group Series review and comment process and, where appropriate, incorporated them into this final version.

This *Framework* represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular James Pooley, the now Chair Emeritus of WG12, and Victoria Cundiff, currently the Chair of WG12, who serve as the Editors-in-Chief of this publication, and Randall Kay and Mark Schultz, who serve as the Senior Editors of this publication. I also thank everyone else involved for their time and attention during this extensive drafting and editing process, including our Contributing Editors G. Brian Busey, Seth Gerber, Dean Harts, and Jeff A. Pade, and our Sedona WG10-WG12 Steering Committee Liaison Monte Cooper.

The statements in this *Framework* are solely those of the non-judicial members of the Working Group; they do not represent any judicial endorsement of any recommended practices.

The drafting process for this *Framework* has also been supported by the Working Group 12 Steering Committee and Judicial Advisors.

We encourage your active engagement in the dialogue. Membership in The Sedona Conference Working Group Series is open to all. The Series includes WG12 and several other Working Groups in the areas of electronic document management and discovery, cross-border discovery and data protection laws, international data transfers, data security and privacy liability, patent remedies and damages, and patent litigation best practices. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

Craig W. Weinlein  
Executive Director  
The Sedona Conference  
June 2022

## FOREWORD

Trade secret misappropriation has increasingly international scope with expanding cross-border activity and wrongdoing. Indeed, when Congress passed the Defend Trade Secrets Act (DTSA) in 2016, the “Sense of Congress” portion of the Act indicated Congress had concern over trade secret theft “around the world.”<sup>1</sup> Case reports, press accounts, and trade secret owners’ experiences increasingly describe disputes that span several jurisdictions and cross international borders.

Litigating a trade secret dispute abroad and in multiple jurisdictions can prove extremely challenging or impracticable, so parties often seek redress in U.S.-based forums. A variety of U.S. forums adjudicate trade secret disputes, including federal courts, state courts, the International Trade Commission, arbitral forums, and administrative tribunals. When at least some of the parties, disputed actions, evidence, or harms are outside the United States, the issue of the extraterritorial reach of these forums and causes of action is implicated.

In a number of respects, the law regarding extraterritorial reach of trade secret law is still developing. For example, when this drafting team began its work in 2018, uncertainty existed as to the extraterritorial reach of the DTSA, largely because the case law on the issue was limited at the time. Since then, courts have decided cases on the issues, and this WG12 *Framework* now reports those developments. Still, no appellate court has addressed extraterritorial reach under the DTSA as of this writing. Similarly, we describe other recent developments, including the use of novel administrative remedies.

Given the breadth and relative newness of this topic, the Sedona Conference and the drafting team identified a *Framework*

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1. Defend Trade Secrets Act of 2016 (DTSA), Pub. L. No. 114-153, 130 Stat. 376 § 5 (May 11, 2016) (uncodified).

*for Analysis* as the proper way to address it. The *Framework* is designed to help practitioners and the judiciary identify the key means by which conduct abroad is reached by U.S. law. With respect to each of these means, the *Framework* identifies areas of agreement and disagreement or ambiguity and puts into the appropriate context the types of issues that frequently arise with respect to extraterritorial reach.

The Senior Editors would like to express their appreciation to the members of the drafting team for their valuable input and thoughtful commentary. Brian Busey, Monte Cooper, Seth Gerber, Dean Harts, and Jeff Pade were dedicated and invaluable participants. This was a tremendous team effort by all involved. We are grateful.

James Pooley

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## I. INTRODUCTION

This *Framework for Analysis on Trade Secret Issues Across International Borders: Extraterritorial Reach* (“*Framework*”) addresses the extraterritorial reach of United States federal and state trade secret law. Trade secret misappropriation is increasingly a cross-border problem, with conduct that is difficult to reach in the United States. In some instances, foreign parties are accused of misappropriating U.S. trade secrets but never enter the United States physically and have little or no presence in the United States. Other cases involve parties and incidents that span multiple countries, including the United States. It often is equally difficult to address overseas and extraterritorial misappropriation through foreign legal proceedings due to shortcomings in national laws and enforcement in many countries. Moreover, it may be the case that no one country’s courts are able to offer a complete remedy.

Finding a remedy for such cross-border claims in U.S. courts poses several challenges, particularly territoriality, which limits the ability of a country’s courts to apply its laws to conduct outside its borders. Under U.S. law, territoriality gives rise to a presumption against extraterritorial application of law.<sup>2</sup> Nevertheless, the presumption against extraterritoriality is just that—a presumption. There are exceptions to the rule. For instance, the presumption against extraterritorial application of domestic law does not entirely preclude the use of domestic laws and forums to seek relief for extraterritorial acts.

This *Framework* thus identifies key means by which U.S. trade secret law reaches conduct abroad. For each of these means, it identifies primary areas of agreement, disagreement, and ambiguity. It catalogs some successful approaches, offers

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2. See *Morrison v. Nat’l Austl. Bank Ltd.*, 561 U.S. 247, 255 (2010).



guidance as to how they can be used, and identifies potential limitations of existing approaches.

The discussion here is framed as a resource to parties and lawyers seeking to remedy a misappropriation of trade secrets where some or all of the conduct, parties, or evidence are outside of the United States. Nevertheless, this *Framework* should serve equally as a resource to a party defending a claim for misappropriation of trade secrets with extraterritorial aspects—the framing will serve to ensure comprehensive coverage.

- The first part of the *Framework* identifies six key means of reaching conduct abroad:
- claims pursuant to the Defend Trade Secrets Act
- claims pursuant to state trade secret laws
- the International Trade Commission
- criminal prosecution
- extrajudicial regulatory remedies against foreign wrongdoers
- litigation abroad

The second part of the *Framework* then addresses significant challenges when parties attempt to use these means to reach conduct abroad:

- sovereign immunities
- choice of law issues
- jurisdiction and venue
- where and how to get evidence
- enforceability of trade secret judgments against foreign entities

## II. KEY MEANS OF REACHING CONDUCT ABROAD

### A. *The Defend Trade Secrets Act*

The Defend Trade Secrets Act of 2016 (DTSA) was motivated in part by concerns about the misappropriation of trade secrets of U.S. companies that occurs outside of the United States, including by foreign adversaries and competitors.<sup>3</sup> The DTSA's aim is to provide a "single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved."<sup>4</sup> The DTSA provides a federal private right of action and complementary federal remedies, including injunctive relief, *ex parte* seizure orders, damages for actual loss or unjust enrichment, or a reasonable royalty, along with an award of attorneys' fees and double damages for willful and malicious misappropriation.<sup>5</sup> A plaintiff can pursue civil claims for misappropriation of trade secrets under the DTSA in federal or state court along with (and without preempting) claims for misappropriation under state law variations of the Uniform Trade Secrets Act (UTSA).

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3. H.R. Rep. No. 114-529, at 4–6, 12–14 (2016); *see also* Brian T. Yeh, Cong. Research Serv., R43714, Protection of Trade Secrets: Overview of Current Law and Legislation, at 1, 14–15 (2016) (citing Office of National Counterintelligence Executive, Foreign Spies Stealing US Economic Secrets in Cyberspace, at i–ii (2011); China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy, Inv. No. 332-519, USITC Publication 4226, at 3–42 (May 2011); *Austar Int'l Ltd. v. AustarPharma LLC*, 425 F. Supp. 3d. 336, 365 (D. N.J. 2019) (stating "the very rationale and purpose of the DTSA is, of course, the protection of trade secrets from foreign encroachment").

4. S. REP. NO. 114-220, at 2–3 (2016).

5. 18 U.S.C. § 1836(b)(1), (b)(3), (c) (2016). The Economic Espionage Act of 1996 provides for criminal remedies for trade secret theft that has an interstate or foreign nexus. *See* 18 U.S.C. § 1832 (2016).

The DTSA states that “[a]n *owner* of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”<sup>6</sup> The term “owner,” with respect to a trade secret, means “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.”<sup>7</sup> The DTSA does not mandate that the owner of a trade secret be a U.S. citizen or permanent resident, nor an organization organized under the laws of the United States or a state or political subdivision thereof. Moreover, diversity of citizenship is not required under the DTSA because the statute provides for original jurisdiction in federal court.<sup>8</sup>

The DTSA defines a “trade secret” as “financial, business, scientific, technical, economic, or engineering information” that (A) the owner thereof has taken reasonable measures to keep secret; and which (B) 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.<sup>9</sup>

“Misappropriation” occurs under the DTSA where there is an “acquisition” of a trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means; or the “disclosure or use” of a trade secret without express or implied consent by a person who used improper means to acquire knowledge of the trade secret or knew or had reason to know that the knowledge was gained through a person who

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6. 18 U.S.C. § 1836(b)(1) (2016) (emphasis added).

7. 18 U.S.C. § 1839(4) (2016).

8. 18 U.S.C. § 1836(c) (2016).

9. 18 U.S.C. § 1839(3) (2016).

had improperly acquired it or owed a duty to maintain its secrecy.<sup>10</sup> The DTSA only provides a cause of action for acts of misappropriation that occurred on or after the date of its enactment, May 11, 2016.<sup>11</sup>

A court may issue an injunction under the DTSA to prevent any actual or threatened misappropriation of trade secrets provided that the order does not prevent a person from entering into an employment relationship, conditions placed on such employment be based on threatened misappropriation and not merely on the information the person knows, and the order does not otherwise conflict with an applicable state law prohibiting restraints on the practice of a lawful profession, trade, or business.<sup>12</sup> In “extraordinary circumstances,” a plaintiff may seek an ex parte order to seize “property necessary to prevent the propagation or dissemination of the trade secret.”<sup>13</sup> An ex parte seizure order may be appropriate when “a defendant is seeking to flee the country or planning to disclose the trade secret to a third party immediately or is otherwise not amenable to the enforcement of the court’s orders.”<sup>14</sup>

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10. 18 U.S.C. § 1839(5) (2016).

11. Defend Trade Secrets Act of 2016 (DTSA), Pub. L. No. 114-153, 130 Stat. 376, 381–82 (May 11, 2016); *Veronica Foods Co. v. Ecklin*, No. 16-CV-07223-JCS, 2017 WL 2806706, at \*13 (N.D. Cal. June 29, 2017). Courts have generally held that the DTSA applies to acts of misappropriation that began prior to May 11, 2016 and continue after that date. *See Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp.*, No. CV 16-2499, 2017 WL 1105648, at \*4 (E.D. Pa. Mar. 24, 2017) (collecting district court decisions nationwide).

12. 18 U.S.C. § 1836(b)(3)(A) (2016).

13. 18 U.S.C. § 1836(b)(2)(A)(i) (2016).

14. H.R. REP. NO. 114-529, at 10 (2016); S. REP. NO. 114-220, at 6 (2016).

*B. Interpretation of 18 U.S.C. § 1837*

It is a “longstanding principle of American law ‘that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.’”<sup>15</sup> As discussed below, courts thus far have found that such contrary intent appears in 18 USC § 1837, which specifies the circumstances in which Chapter 90 of Title 18 governs extra-territorial conduct, and in the “Sense of Congress” portion of the DTSA, which expresses an unmistakable congressional concern about trade secret theft “around the world.”<sup>16</sup> Thus, under this view, in the circumstances specified in 18 USC § 1837, the DTSA will likely be interpreted to apply outside the borders of the United States. Further indicative of the requisite congressional intent, section 4 of the DTSA titled “Report on Theft of Trade Secrets Occurring Abroad” requires the Director of the U.S. Patent and Trademark Office to issue regular reports on the “scope and breadth of the theft of trade secrets of United States companies occurring outside of the United States” and the “threat posed” by such acts.<sup>17</sup> In addition, Congress noted that “whenever [trade secret theft] occurs, [it] harms the companies that own the trade secrets and the employees of the companies[.]”<sup>18</sup> The House committee report on the DTSA states:

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15. *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1328 (Fed. Cir. 2011) (quoting *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991)); see also *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 115 (2013); *RJR Nabisco, Inc. v. European Cmty.*, 579 U.S. 325, 339, 346–47 (2016) (holding that the Racketeer Influenced and Corrupt Organizations Act (RICO) can apply extraterritorially to the extent that the underlying predicate statutes do and that RICO’s private right of action requires a domestic injury).

16. *Defend Trade Secrets Act of 2016*, Pub. L. No. 114-153, 130 Stat. 376 § 5 (May 11, 2016) (uncodified).

17. *Id.* at § 4(b)(1) (emphasis added).

18. *Id.* at § 5(2).

“Misappropriation can take many forms, whether it is an employee selling blueprints to a competitor or a foreign agent hacking into a server.”<sup>19</sup> Given this legislative expression of concern over foreign activity, “a strong case can be made that Congress intended [the DTSA’s] reach to be coextensive with constitutional standards and limitations under the ‘effects test’ for establishing personal jurisdiction in U.S. courts over a foreign defendant.”<sup>20</sup>

Despite these clear international concerns, however, Congress did not include specific language in the DTSA as such authorizing extraterritorial reach of the DTSA. Nevertheless, the DTSA was not enacted as a standalone statute, but rather incorporated a civil cause of action into the Economic Espionage Act of 1996 (EEA). Section 1837 of the EEA, titled “[a]pplicability to conduct outside the United States,” specifies the circumstances in which the statute governs extraterritorial conduct under “[t]his chapter,” meaning Chapter 90 of Title 18.<sup>21</sup> Because the DTSA amends Chapter 90 (titled “Protection of Trade Secrets”), some courts have concluded that section 1837’s extraterritorial

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19. 162 CONG. REC. H2031 (daily ed. Apr. 27, 2016) (statement of Rep. Goodlatte).

20. JAMES POOLEY, TRADE SECRETS § 2.05[8] (2016). The “effects test,” originally set forth in the U.S. Supreme Court opinion of *Calder v. Jones*, 465 U.S. 783 (1984), looks to the harm, or the domestic effects of a defendant’s conduct on a plaintiff in the U.S., as opposed to focusing on where defendant’s unlawful conduct took place. *See, e.g., Applied Materials, Inc. v. Advanced Micro-Fabrication Equip., Inc.*, No. C07-05248 JW, 2008 WL 11398913 (N.D. Cal. Feb. 29, 2008) (applying the effects test to a state law claim).

21. *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1330 n.4 (Fed. Cir. 2011) (stating that enactment of the Economic Espionage Act of 1996 “recognized that misappropriation of U.S. trade secrets can, and does, occur abroad, and that it is appropriate to remedy that overseas misappropriation when it has a domestic nexus”).

provisions also apply to the DTSA.<sup>22</sup> Under this interpretation of section 1837, a DTSA misappropriation claim can be based on “conduct occurring outside the United States” either where (i) the “offender”<sup>23</sup> is a natural person who is a citizen or permanent resident alien of the United States, or an “organization” organized under the laws of the United States or a state or political

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22. *See, e.g.,* vPersonalize Inc. v. Magnetize Consultants Ltd., 437 F. Supp. 3d 860, 878–79 (W.D. Wash. 2020) (stating that “18 U.S.C. § 1837 authorizes civil enforcement actions against foreign entities to the same extent as criminal actions” and collecting cases); T&S Brass & Bronze Works, Inc. v. Slanina, No. CV 6:16-03687-MGL, 2017 WL 1734362, at \*12 (D.S.C. May 4, 2017) (applying section 1837 to a DTSA claim without analysis); Micron Tech., Inc. v. United Microelectronics Corp., No. 17-CV-06932-MMC, 2019 WL 1959487, at \*4, 8 (N.D. Cal. May 2, 2019) (stating that sections 1832 and 1836 apply if “an act in furtherance of the [misappropriation] was committed in the United States” and citing section 1837 when noting that “federal law provides for jurisdiction over misappropriation occurring outside the United States”) (citation omitted); Luminati Networks Ltd. v. BI Science Inc., No. 2:18-CV-00483-JRG, 2019 WL 2084426, at \*9 (E.D. Tex. May 13, 2019) (summarily finding that the DTSA “applies to conduct occurring outside the United States if . . . an act in furtherance of the offense was committed in the United States.”) (citations omitted).

23. Because section 1837 refers to an “offender” and an “offense,” terms only used in the criminal sections of Chapter 90 of Title 18, those terms arguably do not refer to a section 1836 civil claim or action. *See, e.g.,* 18 U.S.C. § 3559 (2006) (“Sentencing classification of *offenses*”) (emphasis added); Kellogg Brown & Root Servs., Inc. v. U.S. *ex rel.* Carter, 575 U.S. 650, 658 (2015) (discussing how the “term ‘offense’ is most commonly used to refer to crimes . . . in Title 18 . . . where no provision appears to employ ‘offense’ to denote a civil violation . . .”); *see also* 22 C.J.S. CRIMINAL LAW: SUBSTANTIVE PRINCIPLES § 3 (2013) (“The terms ‘crime,’ ‘offense,’ and ‘criminal offense’ are all said to be synonymous, and ordinarily used interchangeably.” (footnote omitted)). *But see* Motorola Sols., Inc. v. Hytera Commc’ns Corp., 436 F. Supp. 3d 1150, 1163–65 (N.D. Ill. 2020) (discussing a broad interpretation of “offenses” that encompasses trade secret misappropriation).

subdivision thereof; or where (ii) “an act in furtherance of the offense was committed in the United States.”<sup>24</sup>

The courts that have addressed the potential applicability of the DTSA to conduct outside the United States have uniformly found that section 1837 applies to DTSA civil misappropriation claims.<sup>25</sup> In the decisions that have applied section 1837 to DTSA claims, courts have adopted two separate tests to determine if the “act in furtherance” is satisfied. First, the Northern District of California applied a “but for” analysis to find that DTSA misappropriation claims arise out of U.S. acts when the claim would not arise “but for” the U.S. activities in furtherance of the misappropriation.<sup>26</sup> Second, the Eastern District of Texas adopted a

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24. 18 U.S.C. § 1837 (1996); see *Micron Tech., Inc.*, 2019 WL 1959487, at \*3–4 (motion to dismiss denied where complaint sufficiently alleged facts to support a finding that recruitment efforts at a U.S. job fair and meetings with semiconductor equipment vendors in the U.S. forum were acts made in furtherance of misappropriation); *Vendavo, Inc. v. Price f(x) AG*, No. 17-cv-06930-RS, 2018 WL 1456697, at \*3–4, \*7 (N.D. Cal. Mar. 23, 2018) (granting motion to dismiss given the territorial and temporal limits of the DTSA).

25. *vPersonalize Inc.*, 437 F. Supp. 3d at 878–79 (stating that “18 U.S.C. § 1837 authorizes civil enforcement actions against foreign entities to the same extent as criminal actions” and collecting cases); *Motorola Sols.*, 436 F. Supp. 3d at 1165 (holding that Section 1836 may have extraterritorial reach subject to the restrictions in Section 1837). In some cases involving foreign defendants and conduct, courts address personal jurisdiction without discussing if the DTSA even applies extraterritorially. See, e.g., *Genentech, Inc. v. JHL Biotech, Inc.*, No. C 18-06582 WHA, 2019 WL 1045911, at \*4–8 (N.D. Cal. Mar. 5, 2019) (analyzing personal jurisdiction over foreign defendant JHL without addressing extraterritorial reach of the statute itself); *Austar Int’l Ltd. v. AustarPharma LLC*, 425 F. Supp. 3d 336, 360–62 (D.N.J. 2019) (same).

26. *Micron Tech.*, 2019 WL 1959487, at \*4 (finding that section 1837 applied, despite significant acts of misappropriation alleged to have occurred overseas, because defendants’ alleged development and manufacturing activities in China using the stolen trade secrets was alleged to have been furthered by



narrower interpretation from common conspiracy law, concluding that an act in furtherance need not be the offense itself nor any element of the offense, but it must “manifest that the [offense] is at work” and is not simply “a project in the minds of the” offenders or a “fully completed operation.”<sup>27</sup>

Courts have found a broad range of actions that constitute an “act in furtherance” sufficient to establish extraterritorial reach under the DTSA.<sup>28</sup> As one court observed, courts “have established a relatively low bar” for such acts.<sup>29</sup> In that case, the defendant accessing data on the plaintiff’s U.S.-based server (among other acts) was sufficient.<sup>30</sup> The court concluded that the “cases demonstrate that courts place less import on the scope of

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defendants’ U.S.-based activities of recruiting Dynamic Random-access Memory engineers and meeting with equipment suppliers).

27. *Luminati Networks Ltd.*, 2019 WL 2084426, at \*9–10.

28. *See, e.g., Medcenter Holdings Inc. v. WebMD Health Corp.*, No. 1:20-cv-00053 (ALC), 2021 WL 1178129, at \*6 (S.D.N.Y. Mar. 29, 2021) (finding that meetings in the U.S. where the parties negotiated contracts under which plaintiff revealed trade secrets to defendant were a “trojan horse” that constituted acts in furtherance); *MACOM Tech. Sols. Inc. v. Litrinium, Inc.*, No. SACV 19-220 JVS (JDEx), 2019 WL 4282906, at \*4–5 (C.D. Cal. June 3, 2019) (concluding plaintiffs sufficiently alleged conduct occurring in California under the DTSA and California Uniform Trade Secrets Act where defendant uses trade secrets in products that are in the stream of interstate commerce, a California company and its CEO recruited a French employee and coordinated the alleged misappropriation during his trips to California, and plaintiff’s California locations assisted in developing the trade secrets).

29. *Dmarcian, Inc. v. Dmarcian Europe BV*, No. 1:21-CV-00067-MR, 2021 WL 2144915, at \*22 (W.D.N.C. 2021), *amended in part*, No. 1:21-CV-00067-MR, 2021 WL 3561182 (W.D. N.C. 2021).

30. *Id.*; *see also MedImpact Healthcare Sys., Inc. v. IQVIA Inc.*, No. 19CV1865-GPC(LL), 2020 WL 5064253, at \*14–15 (S.D. Cal. Aug. 27, 2020) (finding that defendants accessing U.S. servers and communicating with U.S. plaintiffs through phone calls, virtual meetings, board meetings, and correspondence sufficiently pled that misappropriation was “at work” and acts in furtherance were committed in the U.S.).

the actions committed within the United States than the tie between those actions and the misappropriation.”<sup>31</sup>

Although Congress did not include an express jurisdiction clause in the DTSA to address its concern with international trade secret misappropriation (as reflected in the legislative history and the “Sense of Congress” provision), the DTSA’s potential adoption of the EEA’s “act in furtherance” requirement arguably combats misappropriation occurring abroad as long as there is some nexus to the United States. The few courts that have applied the EEA’s “act in furtherance” language to the DTSA, whether appropriate or not, likely satisfy constitutional due process requirements, as it is not “arbitrary or fundamentally unfair” to expect application of U.S. law against one who commits an act in furtherance of the offense (or misappropriation) in the United States.<sup>32</sup> If the U.S. connection constitutes an “act in furtherance,” then foreign actors are on notice that U.S. law may apply. Under a few courts’ current readings of section 1837, where there is a sufficient domestic nexus, a court may enjoin defendants under the DTSA from engaging in wrongful conduct within *and* outside of the territory of the United States.<sup>33</sup>

### C. *Extraterritorial Reach of State Trade Secret Laws*

When evaluating the protection of trade secrets outside the United States, one must also consider the applicability of state trade secret laws. The DTSA was crafted as an additional federal claim of trade secret protection, but unlike many other federal claims expressly does not preempt state claims, including trade

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31. *Dmarcian*, 2021 WL 2144915, at \*22.

32. *United States v. Ali*, 718 F.3d 929, 944 (D.C. Cir. 2013) (addressing due process requirements when applying a U.S. criminal law to conduct outside the U.S.) (citation omitted).

33. *See T&S Brass and Bronze Works, Inc. v. Slanina*, No. CV 6:16-03687-MGL, 2017 WL 1734362, at \*12 (D.S.C. May 4, 2017).

secret misappropriation. Section 1838 (“Construction with other laws”) provides:

Except as provided in section 1833(b),<sup>34</sup> this chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret . . . .<sup>35</sup>

Thus, because state trade secret laws are not preempted, plaintiffs may pursue state trade secret claims (in addition to or in lieu of a DTSA claim). State trade secret claims also may have extraterritorial application, under standards that could differ from the DTSA. However, state trade secret statutes are typically unclear or silent on their extraterritorial reach, and courts have provided limited guidance.

In general, a state’s adjudicative jurisdiction is limited by the Constitution’s due process clause.<sup>36</sup> A state statute’s

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34. Section 1833(b) includes a whistleblower mechanism that allows individuals to disclose trade secrets to the government or in a court filing without creating liability.

35. 18 U.S.C. § 1838 (2016).

36. *Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102, 113 (1987) (states may not exercise jurisdiction over a foreign person if to do so would run afoul of “traditional notions of fair play and substantial justice”) (citation omitted).

extraterritorial jurisdiction, while a separate issue,<sup>37</sup> is similarly limited.<sup>38</sup> When testing the due process limits on extraterritorial jurisdiction, the Supreme Court often relies on tests similar to those used when weighing personal jurisdiction. In *Hellenic Lines Ltd. v. Rhoditis*, the Court stated “[t]here must be at least some minimal contact between a State and the regulated subject before it can, consistently with the requirements of due process, exercise legislative jurisdiction.”<sup>39</sup> For example, in *Home Insurance Co. v. Dick*, the Court concluded that a Texas insurance statute could not be applied to invalidate a provision contained in an insurance policy that had been issued in Mexico because the contacts with Texas were lacking.<sup>40</sup> Without sufficient contacts, the Court concluded that Texas was without power to apply its law to alter the insurance contract without violating due process.<sup>41</sup> Thus, the Constitution generally does not permit a state to apply its law when the contacts between it and the transaction are too attenuated,<sup>42</sup> but few decisions have tested the

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37. See, e.g., *Sec. Inv’r Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC* (*In re Madoff*), Adv. P. No. 08-01789 (SMB), 2016 WL 6900689, at \*18 (Bankr. S.D.N.Y. Nov. 21, 2016) (noting that personal jurisdiction over a party and the extraterritorial application of a statute are two separate inquiries), *vacated on other grounds by In re Picard, Trustee for Liquidation of Bernard L. Madoff Inv. Sec. LLC*, 917 F.3d 85 (2d. Cir. 2019).

38. *Allstate Ins. Co. v. Hague*, 449 U.S. 302, 312–13 (1981) (a state may not apply its substantive law if to do so would be fundamentally unfair).

39. 398 U.S. 306, 314 n.2 (1970) (Harlan, J., dissenting); see also *McCluney v. Jos. Schlitz Brewing Co.*, 649 F.2d 578, 581 (8th Cir. 1981) (observing that until *Hague* “it was unclear whether the due process limitation upon a state’s extraterritorial application of law mirrored the due process analysis for determining the limits of a state court’s judicial jurisdiction.”), *aff’d*, 454 U.S. 1071 (1981).

40. 281 U.S. 397, 407–10 (1930).

41. See *id.* at 408.

42. See *John Hancock Mut. Life Ins. Co. v. Yates*, 299 U.S. 178, 182 (1936) (examining the relationship between a transaction to be regulated and the

conditional limits of a state trade secret statute's extraterritorial reach.<sup>43</sup>

Outside of constitutionality concerns, some states require that a state statute should not have extraterritorial effect absent clear statutory intent.<sup>44</sup> For example, there is a "long-standing rule of construction in Illinois which holds that a 'statute is without extraterritorial effect unless a clear intent in this respect appears from the express provisions of the statute.'" <sup>45</sup> Despite Illinois's presumption against extraterritorial application, some Illinois courts have determined that the Illinois Trade Secrets Act does have extraterritorial effect.<sup>46</sup> Like Illinois, California

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state when the contacts are attenuated); *see also Hague*, 449 U.S. at 310–11 ("Dick and Yates stand for the proposition that if a State has only an insignificant contact with the parties and the occurrence or transaction, application of its law is unconstitutional.").

43. Courts are rarely clear on these issues. *See, e.g.*, *Westco Sci. Instruments, Inc. v. Georgiou*, No. CV064005637S, 2006 WL 1828628, at \*2 n.2 (Conn. Super. Ct. June 21, 2006) (questioning whether the Connecticut Uniform Trade Secrets Act has extraterritorial effect when analyzing personal jurisdiction); *Dow Chem. Co. v. Organik Kimya Holding A.S.*, No. CV 12090-VCG, 2018 WL 2382802, at \*5 (Del. Ch. May 25, 2018) (treating an extraterritoriality argument concerning the Delaware Uniform Trade Secrets Act as one of a choice of law).

44. *See, e.g.*, *Turnkey Sols. Corp. v. Hewlett Packard Enter. Co.*, No. 15-CV-01541-CMA-CBS, 2017 WL 3425140, at \*7–8 (D. Col. Aug. 9, 2017) (applying the presumption against extraterritoriality from *RJR Nabisco, Inc. v. European Cmty.*, 579 U.S. 325 (2016), to the Colorado Uniform Trade Secrets Act).

45. *Avery v. State Farm Mut. Auto. Ins. Co.*, 835 N.E.2d 801, 852 (Ill. 2005) (citation omitted).

46. *Miller UK Ltd. v. Caterpillar Inc.*, No. 10-CV-03770, 2017 WL 1196963, at \*7 (N.D. Ill. Mar. 31, 2017) (concluding that the Illinois Trade Secrets Act (ITSA) does have extraterritorial effect because the ITSA specifically states that "a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty.") (citation omitted); *IPOX Schuster, LLC v. Nikko Asset Mgmt. Co.*, 304 F. Supp. 3d 746, 759 (N.D. Ill.

courts similarly recognize a presumption against a state statute's extraterritorial application,<sup>47</sup> "unless such intention is clearly expressed or reasonably to be inferred from the language of the act or from its purpose, subject matter or history."<sup>48</sup> However, unlike Illinois, some California courts have found that the California Uniform Trade Secrets Act does not apply to conduct occurring outside of California, because "the California Supreme Court has made clear that [extraterritorial] limitations are presumed to be present unless the legislature's contrary intention 'is clearly expressed or reasonably to be inferred from the language of the act or from its purpose, subject matter or history.'"<sup>49</sup> As these examples demonstrate, both trade secret

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2018) (agreeing with the reasoning set forth in *Miller* without substantive discussion). *But see* *Motorola Sols., Inc. v. Hytera Commc'ns. Corp.*, 436 F. Supp. 3d 1150, 1169–70 (N.D. Ill. 2020) (disagreeing with *Miller* and holding that the ITSA does not have extraterritorial effect).

47. *Sullivan v. Oracle Corp.*, 254 P.3d 237, 248 (Cal. 2011) ("However far the Legislature's power may theoretically extend, we presume the Legislature did not intend a statute to be 'operative, with respect to occurrences outside the state . . .'" (citation omitted). As under federal law, whether the California Uniform Trade Secrets Act applies extraterritorially is considered a merits question. *Meggitt San Juan Capistrano, Inc. v. Yongzhong*, 575 F. App'x 801, 803 (9th Cir. 2014) ("Subject matter jurisdiction 'refers to a tribunal's power to hear a case' and presents a separate question from whether the California Uniform Trade Secrets Act [] applies extraterritorially.") (quoting *Morrison v. Nat'l Austl. Bank, Ltd.*, 561 U.S. 247 (2010)).

48. *Sullivan*, 254 P.3d at 248 (quoting *Diamond Multimedia Sys., Inc. v. Superior Court*, 968 P.2d 539 (1999)).

49. *Cave Consulting Grp., Inc. v. Truven Health Analytics, Inc.*, No. 15-CV-02177-SI, 2017 WL 1436044, at \*6 (N.D. Cal. Apr. 24, 2017) (quoting *O'Connor v. Uber Techs., Inc.*, 58 F. Supp. 3d 989, 1004 (N.D. Cal. 2014)); *Micron Tech., Inc. v. United Microelectronics Corp.*, No. 17-CV-06932-MMC, 2019 WL 1959487, at \*13 (N.D. Cal. May 2, 2019) (following the holding in *Cave Consulting*). *But see* *Applied Materials, Inc. v. Advanced Micro-Fabrication Equip. Co.*, No. C 07-05248 JW, 2009 WL 10692715, at \*7 (N.D. Cal. Nov. 30, 2009) (finding that the California Uniform Trade Secrets Act applied

plaintiffs and defendants should carefully consider the potential applicability of state law trade secret claims to overseas conduct.

*D. The International Trade Commission*

The U.S. International Trade Commission (ITC) provides a venue where trade secret claimants can seek partial but significant nonmonetary remedies for trade secret misappropriation outside of the United States. Under 19 U.S.C. § 1337 (“Section 337”), the ITC has the authority to block the importation of articles into the U.S. that were manufactured using misappropriated trade secrets through an exclusion order and to issue a cease-and-desist order blocking further distribution, marketing, or sale of any offending merchandise already in the United States.

An ITC exclusion order blocks products from entry into the U.S. market. It has certain limitations, as it does not provide for damages, nor can it require a respondent to cease further exploitation of a trade secret outside of the United States or take any other affirmative act. However, given the size and importance of the U.S. market, the remedy can have a very significant effect. Also, denying the U.S. market to a respondent may give a complainant the leverage it needs to reach a desirable settlement.

With respect to extraterritorial application, as confirmed in *TianRui Group Co. v. International Trade Commission*,<sup>50</sup> Section 337 provides potential remedies even if the acts of misappropriation occurred entirely outside the United States. Before *TianRui*, the ITC had addressed trade secret claims, but their extraterritorial reach was uncertain.<sup>51</sup> In *TianRui*, the respondent TianRui imported

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because California law “reaches extraterritorial transactions or conduct which cause an injury in California.”) (citations omitted).

50. 661 F.3d 1322 (Fed. Cir. 2011).

51. A claim under section 337 based on trade secret misappropriation requires proof of four elements: (1) an imported product; (2) the importation

railway wheels made using trade secrets misappropriated from complainant's licensee in China.<sup>52</sup> The misappropriation took place wholly abroad, but the Commission issued a 10-year exclusion order.<sup>53</sup> Notably, not only did the misappropriation occur abroad, but the complainant no longer used the trade secret to manufacture in the United States.<sup>54</sup> The Federal Circuit affirmed, explaining that Section 337 applies to unfair acts in the *importation* of articles.<sup>55</sup> In determining that Section 337 applies extraterritorially in the trade secret context, the court highlighted the congressional intent to cover conduct abroad, and section 337's focus on an inherently international transaction (importation).<sup>56</sup> Thus, the ITC provides a forum for trade secret disputes involving imported goods even if all acts of misappropriation occur outside of the United States.

Since *TianRui*, the use of the ITC to address overseas trade secret activities has increased. While patent claims continue to dominate the Section 337 portion of the ITC's docket, there have been at least 20 ITC investigations based on trade secrets since *TianRui*, many of which concern foreign acts of misappropriation. The following chart lists investigations that have been instituted prior to publication:

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or sale of which arises from unfair methods of competition or unfair acts in the importation of goods; (3) the importation will destroy, substantially injure, or prevent the establishment of a U.S. industry; and (4) injury to the complainant. *Id.* at 1329–35.

52. *Id.* at 1324.

53. *Id.* at 1326–37.

54. *Id.* at 1324.

55. *Id.*

56. *Id.* at 1329, 1333.



ITC Investig. No.	Parties	Articles	Result
655	<i>Amsted v. TianRui</i>	Railway Wheels	Violation found 10-year exclusion order Court of Appeals for the Federal Circuit (CAFC) affirmed
698	<i>Richtek v. uPI and others</i>	DC-DC Controllers	Settlement/ consent order 10-year exclusion order
791/826	<i>Twin-Star v. Reliap</i>	Electric Fireplaces	Default 5-year exclusion order
849	<i>SI Group v. Sino Legend</i>	Rubber Resins	Violation found 10-year exclusion order CAFC affirmed
863	<i>Fellowes v. New United</i>	Paper Shredders	Settlement 5-year exclusion order
869	<i>Innovation First v. Zuru Toys</i>	Robotic Toys	Settlement License Agreement
883	<i>Rohm &amp; Haas and Dow v. Organik Kimya</i>	Opaque Polymers	Default due to spoliation of evidence 25-year exclusion order CAFC affirmed

887	<i>Manitowoc v. Sany</i>	Crawler Cranes	Violation 10-year exclusion CAFC affirmed
933	<i>Valbruna v. Viraj</i>	Stainless Steel Products	Default due to spoliation of evidence 16.7-year exclusion CAFC affirmed
963	<i>Jawbone v. Fitbit</i>	Activity Tracking Devices	No violation, on the merits Subject of other U.S. civil litigation and criminal prosecution
1002	<i>U.S. Steel v. Baosteel</i>	Carbon and Alloy Steel Products	Voluntarily withdrew trade secret claims (allegations based on cybertheft)
1078	<i>Hitachi Metals &amp; Metglas, Inc. v. Qingdao Yunlu Energy Tech. Co., Ltd. et al.</i>	Certain Amorphous Metal and Products Containing Same	Voluntarily withdrew claim, reportedly after failure to find evidence in discovery
1145	<i>Medytox Inc. et al. v. Daewong Pharmaceuticals Co., Ltd. et al.</i>	Certain Botulinium Toxic Products	Violation found, but the Commission partially reversed the Initial Determination

1153	<i>Heraeus Medical LLC and Heraeus Medical GmbH v. Zimmer Biomet Holdings, Inc., et al.</i>	Certain Bone Cements, Components Thereof and Products Containing the Same	No violation, due to failure to prove substantial injury to a domestic industry
1159	<i>LG Chem Ltd. and LG Chem Michigan Inc. v. SKI Innovation Co., Ltd. and SK Battery America, Inc.</i>	Certain Lithium Ion Batteries, Battery Cells, Battery Modules, Battery Packs, Components Thereof, and Processes Therefore	Default due to spoliation of evidence 10-year exclusion, with transition periods due to public interest
1166	<i>Illinois Tool Works Inc. et al. v. Guangzhou Rebenet Catering Equipment Manufacturing Co., Ltd et al.</i>	In the Matter of Certain Food-service Equipment and Components Thereof	No violation, due to failure to meet domestic industry requirement
1175	<i>Zimmer, Inc., and Zimmer US, Inc. v. Heraeus Medical GmbH and Heraeus Medical LLC</i>	Certain Bone Cements and Bone Cement Accessories	No violation, on the merits
1186	<i>Knowles Corporation et al. v. Liang Li et al.</i>	Certain Balanced Armature Devices, Products Containing Same, and Components Thereof	Violation 26-year exclusion order

1274	<i>Criterion Technology, Inc. v. Velodyne Lidar USA, Inc. and Fujian Fran Optics Co., Ltd.</i>	Certain Optical Enclosures, Components Thereof, and Products Containing the Same	Voluntarily withdrew complaint
1296	<i>AbbVie Inc. et al. v. Alvotech hf. et al.</i>	Certain Adalimumab, Processes for Manufacturing or Relating to Same, and Products Containing Same	Pending

While the ITC provides a potential forum and nonmonetary remedies for extraterritorial claims, it does not relieve the challenge of obtaining evidence in other countries. However, it may be easier to obtain foreign discovery and depositions from parties to an ITC proceeding without the need to proceed through the Hague Convention, compared with a district court.

#### *E. Criminal Prosecution*

In addition to potential state and federal civil trade secret liability, those who misappropriate trade secrets also face potential criminal liability in the United States. The DTSA amended Chapter 90 of Title 18, "Protection of Trade Secrets," to provide a federal civil cause of action for the misappropriation of trade secrets. Title 18 had been previously added by the Economic Espionage Act of 1996, which criminalized the theft of trade secrets and conspiracies or attempts to steal trade secrets. The federal statutory framework of the earlier EEA provides for criminal prosecution and penalties for two primary activities, "economic

espionage” (section 1831) and “theft of trade secrets” (section 1832).<sup>57</sup>

Sections 1831 and 1832 both criminalize, among other acts, the theft, duplication, or receipt of trade secrets.<sup>58</sup> However, section 1831 violations require intent or knowledge that the trade secret misappropriation “benefit any foreign government, foreign instrumentality or foreign agent,”<sup>59</sup> while section 1832 violations require intent to convert a trade secret that is “related to a product or service used in or intended for use in interstate or foreign commerce.” Although the civil liability from a trade secret suit can have severe consequences, including damages and an injunction, federal criminal liability for economic espionage or theft of trade secrets under the EEA can be even more devastating. Prison, significant criminal fines, forfeiture of ill-gotten profits, and restitution to the aggrieved party are all possible.<sup>60</sup>

Because the DTSA and the EEA share the same definition of what constitutes a trade secret, any confidential and proprietary information of value, whether financial, business, technical, or other nature, can be viewed as a trade secret by federal prosecutors.<sup>61</sup> Thus, in many instances, acts that constitute civil trade

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57. The DTSA added trade secret theft, 18 U.S.C. §§ 1831–32, to a laundry list of predicate acts upon which a party may premise a civil RICO claim. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376, 382 (May 11, 2016); *see* 18 U.S.C. § 1961(1). Thus, a civil RICO claim premised on trade secret theft that causes domestic injury can apply extraterritorially pursuant to Section 1837. *RJR Nabisco v. European Cmty.*, 579 U.S. 325, 340, 346 (2016).

58. 18 U.S.C. §§ 1831–32 (2012).

59. 18 U.S.C. § 1831 (2013).

60. 18 U.S.C. §§ 1834, 2323 (2008).

61. [T]he term “trade secret” means 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

secret misappropriation under section 1836 may also constitute criminal economic espionage or criminal theft of trade secrets under sections 1831 or 1832.<sup>62</sup> For example, in the matter involving Micron Technology, Inc.'s trade secrets, defendant United Microelectronics Corporation pled guilty to criminal trade secret theft in violation of 18 U.S.C. § 1832(a)(3).<sup>63</sup> Even if the subject information is not a trade secret, federal prosecutors can still pursue indictments if an attempt or conspiracy existed to obtain what was thought to be trade secrets.<sup>64</sup> Since the EEA carries a five-year statute of limitations<sup>65</sup> that begins from the date the

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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, the public.”

18 U.S.C. § 1839 (2016).

62. *Compare* Criminal Indictment, *United States v. United Microelectronics Corp.*, 3:18-CR-00465 (N.D. Cal. Sept. 27, 2018), *with* Civil Complaint, *Micron Tech., Inc. v. United Microelectronics Corp.*, No. 17-CV-06932-MMC, (N.D. Cal. Dec. 5, 2017); *compare* Criminal Indictment, *United States v. Huawei Device Co.*, 2:19-CR-00010 (W.D. Wash. Jan. 16, 2019), *with* Civil Complaint, *T-Mobile USA, Inc., v. Huawei Device USA, Inc.*, 2:14-CV-01351 (W.D. Wash. Sept. 2, 2014); *compare* Criminal Complaint, *United States v. Hou*, 2:17-MJ-07049 (D.N.J. Apr. 6, 2017), *with* Civil Complaint, *E.I. Du Pont De Nemours & Co. v. Hou*, 1:17-CV-00224 (D. Del. Mar. 2, 2017); *compare* Criminal Indictment, *United States v. Kolon Indus., Inc.*, 3:12-CR-00137 (E.D. Va. Aug. 21, 2012), *with* Civil Complaint, *E.I. Du Pont De Nemours & Co. v. Kolon Indus., Inc.*, No. 3:09-CV-00058 (E.D. Va. Feb. 3, 2009).

63. *United States v. United Microelectronics Corp.*, 3:18-CR-00465 (N.D. Cal.), Dkt. 148 (Oct. 28, 2020).

64. 18 U.S.C. § 1832(a)(5) (2012).

65. *See id.* § 1832(a); 18 U.S.C. § 3282(a) (2003).

offense is “committed,”<sup>66</sup> federal prosecutors may also pursue cases involving older wrongful acts based on conspiracy theories, for which the limitations period begins on the date of the last “overt act” committed in furtherance of the conspiracy.<sup>67</sup> Thus, in some instances, criminal liability may exist where civil liability is already time-barred.

As explained earlier, the extraterritorial reach of a DTSA civil cause of action is unsettled. Unlike the DTSA, however, the EEA is specific on its extraterritorial reach. Section 1837 of the EEA, “[a]pplicability to conduct outside the United States[,]” provides:

This chapter also applies to conduct occurring outside the United States if—

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or

an organization organized under the laws of the United States or a State or political subdivision thereof;

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66. See 18 U.S.C. § 3282(a).

67. Both the U.S. Department of Justice and courts have recognized as such. See U.S. DEPT. OF JUSTICE, CRIMINAL RESOURCE RES. MANUAL § 652. STATUTE OF LIMITATIONS FOR CONSPIRACY, <http://www.justice.gov/usam/criminal-resource-manual-652-statute-limitations-conspiracy> (last updated Jan 22, 2020) (acknowledging that for conspiracy statutes that contain an overt act requirement, the “statute of limitations begins to run on the date of the last overt act”) (citations omitted); *United States v. Case*, No. 3:06-CR-210, 2008 WL 1932403, at \*7-9 (S.D. Miss. Apr. 25, 2008) (applying a five-year limitations period under 18 U.S.C. § 3282 to an indictment alleging conspiracy under 18 U.S.C. § 1832(a)(5)), *aff’d in relevant part*, 309 F. App’x. 883 (5th Cir. 2009); see also *United States v. Hsu*, 155 F.3d 189, 204 n.21 (3d Cir. 1998) (acknowledging that section 1832(a)(5) contains an “overt act” requirement).

or

(2) an act in furtherance of the offense was committed in the United States.<sup>68</sup>

The EEA therefore reaches two groups. First, the criminal offenses of the EEA apply if the offender is a citizen or permanent resident alien of the United States or an organization formed under U.S. laws. These U.S. entities may be held liable for even criminal trade secret activities committed entirely outside of the United States. Second, the EEA's criminal provisions apply to foreign persons and organizations if an act in furtherance of the offense takes place on U.S. soil.<sup>69</sup>

While case law defining the “act in furtherance” requirement of section 1837 in the context of criminal prosecution is limited thus far, federal prosecutors have predicated indictments under the EEA on a broad array of relatively minor acts directed toward the United States. For example, in criminal cases involving Chinese defendants, extraterritorial jurisdiction is often predicated on emails, chats, and other activity directed from China.<sup>70</sup> U.S. prosecutors could view activities that have only a slight nexus to the United States as sufficient to support jurisdiction over potential criminal defendants, including (i) conducting a meeting in the United States with the intent to obtain trade

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68. 18 U.S.C. § 1837 (1996).

69. *See id.* § 1837(2).

70. *United States v. Sinovel Wind Grp. Co.*, No. 3:13-CR-00084, D.I. 25, Indictment at ¶ 24, Count 2 (W.D. Wis. June 27, 2013) (relying on emails, Skype chats, and other activity directed from China, including conduct that caused the use of stolen software in the U.S.); *United States v. Huawei Device Co.*, No. 2:19-CR-00010, D.I. 1, Indictment at ¶¶ 1–50; Count 1 (W.D. Wash. Jan. 16, 2019) (relying on unauthorized activity in the U.S. and emails directed to a U.S. subsidiary); *United States v. Yanjun Xu*, No. 1:18-CR-00043, D.I. 1, Indictment at ¶¶ 11–14; Count 1 (S.D. Ohio, Apr. 4, 2018) (relying on communications from China directed to the U.S.).



secrets abroad, (ii) sending an email to trade secret holders in the United States, (iii) conducting an interview of a potential lateral employee, contractor, or consultant with U.S. connections, or (iv) engaging in a contract with a U.S. entity.<sup>71</sup> How courts might view the sufficiency of such acts as the basis for an EEA claim remains to be seen. However, one indication is how courts have interpreted this same requirement in the context of a civil DTSA claim. One civil court has employed an interpretation that likely would support such actions as the basis for a claim, applying a “but for” analysis to find that a claim arises out of U.S. acts if the claim would not arise “but for” the acts in the United States.<sup>72</sup> On the other hand, a different civil court adopted a somewhat narrower interpretation from common conspiracy law.<sup>73</sup>

Section 1837 of the EEA therefore provides one avenue by which foreign criminal trade secret activity can fall within U.S. criminal jurisdiction.<sup>74</sup> And unlike some situations in the civil context, entirely foreign criminal defendants cannot avoid

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71. The Detering Espionage by Foreign Entities through National Defense Act of 2018 proposed even further broadening the extraterritorial reach of the statute by amending section 1837 to also encompass any offense that “causes substantial economic harm in the United States.” DEFEND Act, S. 3743, 115th Cong. (2d Sess. 2018).

72. *Micron Tech., Inc. v. United Microelectronics Corp.*, No. 17-CV-06932-MMC, 2019 WL 1959487, at \*4 (N.D. Cal. May 2, 2019) (applying a “but for” test to satisfy section 1837 for United States-based activities constituting “acts in furtherance” of misappropriation).

73. *Luminati Networks Ltd. v. BI Science Inc.*, No. 2:18-CV-00483-JRG, 2019 WL 2084426, at \*9–10 (E.D. Tex. May 13, 2019).

74. Many state laws also criminalize trade secret theft; these laws are sometimes applicable to acts outside the state, including overseas, but ordinarily only in cases where there is some clear nexus to the state. Thus, aggrieved trade secret owners should also consider approaching state criminal authorities when the state criminal statute at issue has the potential to reach extraterritorial conduct.

service of criminal indictments due to a lack of a physical presence in the United States.<sup>75</sup> The EEA can therefore provide U.S. criminal liability where civil liability under the UTSA or DTSA might be impossible or have significant weaknesses from, for example, issues with stating a viable claim,<sup>76</sup> service of process, statute of limitations, or the extraterritorial reach of the statute itself. In these situations, aggrieved trade secret owners should evaluate reaching out to U.S. authorities about potential criminal prosecution over foreign actors.<sup>77</sup>

#### *F. Extrajudicial Regulatory Remedies Against Foreign Wrongdoers*

Two nonjudicial remedies have proven effective in combating trade secret misappropriation by foreign wrongdoers. Both involve the U.S. government's intervention, and both invoke regulatory schemes as mechanisms to assist victims of trade secret misappropriation. For the first remedy, the government places the misappropriator on the "Entity List," banning the wrongdoer from acquiring exports of U.S.-origin items. For the

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75. In 2016, Federal Rule of Criminal Procedure 4 was expanded to authorize service at a place not within a judicial district of the U.S. See John G. Roberts, Proposed Amendments to the Federal Rules of Criminal Procedure (Apr. 28, 2016), [https://www.supremecourt.gov/orders/courtorders/frcr16\\_mj80.pdf](https://www.supremecourt.gov/orders/courtorders/frcr16_mj80.pdf). This amendment made it more difficult for foreign persons and businesses (sometimes in countries that do not recognize U.S. service of process) to avoid U.S. criminal service of process. See FED. R. CRIM. P. 4(c)(2) and 4(c)(3)(D).

76. For example, criminal charges for conspiracies or attempts to steal trade secrets are sometimes more viable than civil UTSA or DTSA misappropriation claims, particularly when many of the acts of misappropriation occur abroad and are difficult to discover.

77. The decision to approach federal prosecutors requires careful evaluation of many additional factors beyond those mentioned here. See generally OFFICE OF LEGAL EDUCATION, EXECUTIVE OFFICE FOR UNITED STATES ATTORNEYS, PROSECUTING INTELLECTUAL PROPERTY CRIMES (4th ed. 2013), available at <https://www.justice.gov/file/442151/download>.

second remedy, the government names the misappropriator on the “Specially Designated Nationals and Blocked Persons (SDN) List,” which prohibits U.S. persons from engaging in transactions with the wrongdoer. Both remedies can mitigate harm for trade secret victims.

The first remedy, the Entity List, is a list administered by the Department of Commerce as part of the Export Administration Regulations (EAR). Here, the victim approaches the End-User Review Committee, composed of representatives from the Departments of Commerce, State, Defense, Energy and, where appropriate, Treasury, requesting that a foreign wrongdoer be added to the Entity List. Names on this list see additional restrictions on exports of U.S.-origin items (if those items contain more than a *de minimis* amount of U.S. content).

The End-User Review Committee can add entities to the Entity List where there is “reasonable cause to believe, based on specific and articulable facts, that the entity has been involved, is involved, or poses a significant risk of being or becoming involved in activities that are contrary to the national security or foreign policy interests of the United States . . . .”<sup>78</sup> The EAR provides five examples of activity that could be contrary to the national security or foreign policy interests of the United States, one of which is most relevant here: “[e]ngaging in conduct that poses a risk of violating the EAR when such conduct raises sufficient concern that the End-User Review committee believes that prior review of exports, reexports, or transfers (in-country) involving the party and the possible imposition of license

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78. 15 C.F.R. § 744.11 (b) (2009).

conditions or license denial enhances [the Bureau of Industry and Security's] ability to prevent violations of the EAR."<sup>79</sup> <sup>80</sup>

On October 30, 2018, the Department of Commerce invoked the Entity List and restricted exports to Fujian Jinhua Integrated Circuit Company, Ltd. ("Jinhua"), which stands accused of misappropriation of Dynamic Random-access Memory (DRAM) technology from U.S.-based semiconductor manufacturer Micron Technology, Inc.<sup>81</sup> The government's announcement of Jinhua's placement on the Entity List stated that "Jinhua Integrated Circuit Company poses a significant risk of becoming involved in activities that could have a negative impact on the national security interests of the United States." In reference to Jinhua nearing completion of production capacity for DRAM-integrated circuits, the Department of Commerce's announcement referred to that production as "likely U.S.-origin technology" — suggesting the action was based on claims of trade secret

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79. 15 C.F.R. § 744.11(b)(5) (2009).

80. The other four examples of activities relate to acts of terror, terrorism, certain uses of weapons, and preventing accomplishment of an end-use check. The last category seems most relevant to a potential misappropriation of trade secrets. It includes preventing accomplishment of an end-use check conducted by or on behalf of the Bureau of Industry and Security or the Directorate of Defense Trade Controls of the Department of State by precluding access to, refusing to provide information about, or providing false or misleading information about parties to the transaction or the item to be checked. Examples of such conduct include expressly refusing to permit a check, providing false or misleading information, or engaging in dilatory or evasive conduct that effectively prevents the check from occurring or makes the check inaccurate or useless. A nexus between the conduct of the party to be listed and the failure to produce a complete, accurate, and useful check is required, even though an express refusal by the party to be listed is not required.

81. See Addition of an Entity to the Entity List, 83 Fed. Reg. 54519-20 (Oct. 30, 2018).

misappropriation by U.S.-based Micron.<sup>82</sup> The announcement further stated that Jinhua's anticipated production of DRAM "threatens the long term viability of U.S. suppliers of these essential components of U.S. military systems."<sup>83</sup> Thus, Jinhua's placement on the Entity List as an alleged misappropriator of trade secrets resulted from the DRAM technology at issue in the dispute having importance to U.S. military systems. Jinhua's inclusion on the Entity List reportedly stalled its efforts to ramp up production of DRAM, as it was no longer able to acquire necessary DRAM manufacturing equipment from U.S. suppliers.

For the second remedy to combat misappropriation, a complainant can contact the U.S. Department of the Treasury's Office of Foreign Assets Control to demand that a foreign wrongdoer be named to the SDN List under Executive Order 13757 for

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82. Micron Tech., Inc. sued Jinhua and another entity for trade secret misappropriation in the Northern District of California. *Micron Tech., Inc. v. United Microelectronics Corp.*, No. 17-CV-06932-MMC, 2019 WL 1959487 (N.D. Cal. May 2, 2019). The United States brought a criminal case against Jinhua for conspiracy to commit theft of trade secrets from Micron and a civil injunction case seeking to enjoin Jinhua and others from using Micron's trade secrets (Northern District of California Case Nos. CR 18-465-MMC and 3:18-CV-06643-MMC). The criminal indictment against Jinhua was filed under seal on Sept. 27, 2018, and unsealed on Nov. 1, 2018, just two days after Jinhua's Oct. 30, 2018, placement on the Entity List.

83. The Department of Commerce's press announcement further quotes Secretary of Commerce Wilbur Ross stating "When a foreign company engages in activity contrary to our national security interests, we will take strong action to protect our national security. Placing Jinhua on the Entity List will limit its ability to threaten the supply chain for essential components in our military systems." Press Release, U.S. Dep't of Commerce, Addition of Fujian Jinhua Integrated Circuit Company, Ltd (Jinhua) to the Entity List (Oct. 29, 2018), <https://2017-2021.commerce.gov/news/press-releases/2018/10/addition-fujian-jinhua-integrated-circuit-company-ltd-jinhua-entity-list.html>.

engaging in significant malicious cyber-enabled activities. U.S. persons are prohibited from engaging in any transactions with foreign wrongdoers named to this list, and non-U.S. persons who engage with the foreign wrongdoer in significant transactions (including investments or major deals or partnerships) can incur sanctions for doing so.

With Executive Order 13757 signed December 28, 2016, the U.S. government can name to the SDN list any person determined by the U.S. government to be

. . . responsible for or complicit in, or to have engaged in, directly or indirectly, cyber-enabled activities originated from, or directed by persons located, in whole or in substantial part, outside the United States that are reasonably likely to result in, or have materially contributed to, a significant threat to the national security, foreign policy, or economic health or financial stability of the United States and that have the purpose or effect of . . . (D) causing a significant misappropriation of funds or economic resources, trade secrets, personal identifiers, or financial information for commercial or competitive advantage or private financial gain.<sup>84</sup>

Executive Order 13757 also provides authority to name to the SDN List any person the U.S. government deems to be

. . . responsible for or complicit in, or to have engaged in, the receipt or use for commercial or competitive advantage or private financial gain, or by a commercial entity, outside of the United States of trade secrets misappropriated through cyber-

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84. Exec. Order No. 13,757, 82 F.R. 1 (Dec. 28, 2016).

enabled means,<sup>85</sup> knowing they have been misappropriated, where the misappropriation of such trade secrets is reasonably likely to result in, or has materially contributed to, a significant threat to the national security, foreign policy, or economy of the United States.<sup>86</sup>

Both of these extrajudicial remedies for trade secret misappropriation, the Entity List and SDN List, can aid in combatting bad acts. But since both require government action, victims should marshal their facts and consider submitting a letter to the appropriate government review committee in order to spur action.

### *G. Litigation Abroad*

While a comprehensive survey of trade secret remedies throughout the world is beyond the scope of this project, a brief survey is appropriate. This section provides an overview of the international litigation framework, considers some significant ways in which laws vary among countries, and considers certain major issues that litigants may face when pursuing remedies in other countries.

The intent of this section is to provide an overview to lawyers immersed in U.S. law and make them aware of certain key issues.<sup>87</sup>

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85. While neither “cyber-enabled activities” nor “cyber-enabled means” is defined in the executive order or accompanying regulations, Merriam-Webster defines “cyber” as “of, relating to, or involving computers or computer networks (such as the Internet).”

86. Exec. Order No. 13,757, 82 F.R. 1 (Dec. 28, 2016).

87. For some comprehensive resources surveying national trade secret laws, see Melvin F. Jager, *Trade Secrets Throughout the World* (2020); Mark F. Schultz & Douglas C. Lippoldt, *Approaches to Protection of Undisclosed*

## 1. The international framework for trade secret protection

The World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)<sup>88</sup> was the first multilateral agreement to force its members to protect trade secrets.

Article 39 of the TRIPS Agreement sets forth this obligation: 39(1) requires members to "protect undisclosed information," and 39(2) defines the subject matter of this obligation:

Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

- (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (b) has commercial value because it is secret; and
- (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

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Information (Trade Secrets), OECD Trade Policy Papers No. 162, at 7–8 (2014), *available at* <http://dx.doi.org/10.1787/5jz9z43w0jnw-en>.

88. Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Trade-Related Aspects of Intellectual Property Rights, arts. 39.1, 39.2, 1869 U.N.T.S. 299 (Apr. 15, 1994).



The definition set forth in TRIPS has led to a great deal of convergence among countries with respect to how their laws define a trade secret, but some countries still deviate from the norm.<sup>89</sup>

TRIPS also mandates basic enforcement requirements for all IP rights that it covers, including trade secrets. Thus, member states' laws must include:

- Civil judicial procedures to enforce rights (Article 42)
- Judicial authorities who have the authority to require the production of evidence (Article 43)
- And remedies, including injunctions (Article 44), damages (Article 45), and seizure and destruction of infringing goods (Article 46).

Beyond these basics, the TRIPS Agreement does not provide much guidance on the national systems needed to protect trade secrets. TRIPS also leaves latitude to its members regarding enforcement procedures, access to evidence, the protection of secrets during litigation, and other key issues. As one might expect, TRIPS does not require a unique judicial system for the enforcement of intellectual property rights or prioritization of intellectual property (IP) enforcement. Article 41, paragraph 5 makes these points clear, stating that it "does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general." Article 41 also does not oblige TRIPS

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89. DOUGLAS C. LIPPOLDT & MARK F. SCHULTZ, *TRADE SECRETS, INNOVATION AND THE WTO 1* (Aug. 2014), *available at* <http://e15initiative.org/wp-content/uploads/2015/09/E15-Innovation-LippoldtSchultz-FINAL.pdf> (stating that "[f]ollowing TRIPS, this definition has been widely adopted into national laws.").

members to prioritize enforcement of IP rights versus enforcement of other laws.

In sum, TRIPS provides a definition of trade secrecy and specifies the availability of basic procedures for enforcement of rights. Beyond that, many details of drafting and implementing laws are left to each individual country. Not surprisingly, there is great variance with respect to how countries draft and enforce trade secret rights.

## 2. Notable variations in national laws protecting trade secrets

One of the fundamental principles of the global IP system is territoriality. This principle means that IP rights do not extend beyond the country in which they are granted and are independent from those granted by other countries. In fact, there are exceptions to this rule, many of which are explored in this *Framework*. However, territoriality remains a fundamental principle and an important starting point for considering trade secret protection throughout the world.

In short, one should expect differences regarding how trade secret laws are drafted and enforced among countries. Lawyers with training and experience in one country will likely find some of those differences unfamiliar and perhaps unexpected.

Some of the key differences among countries include:

- Consequential differences in definition and scope of protection
- Access to evidence
- The security of secrets in litigation

While there are many other differences and pitfalls for the unwary and uninformed, research shows that these issues are

often cited by trade secret owners as reasons they forego pursuing a claim for trade secret misappropriation.<sup>90</sup>

a. Consequential differences in definition and scope of protection

While the laws of most countries have converged with respect to the definition of trade secrecy since TRIPS, importance differences remain in key jurisdictions. First, jurisdictions may effectively, or *de facto*, narrow the definition of what may be a trade secret by imposing additional qualifications or requirements. While most do not require that trade secrets be embodied in a tangible form, the laws of some expressly or effectively require this. For example, Mexico requires that trade secrets be embodied in a physical medium, as Article 83 of its Industrial Property Law states that trade secrets “consist of documents, electronic or magnetic media, optical disks, microfilms, films or other similar instruments.”<sup>91</sup> And Russia mandates extra steps to qualify for trade secret protection in the “regime of commercial secrecy” set forth in Article 10 of the Commercial Secrets Law.<sup>92</sup> These steps include extensive record-keeping requirements and written notices and labels.

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90. BAKER MCKENZIE, STUDY ON TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION IN THE INTERNAL MARKET 3–10 (Apr. 2013), <https://ec.europa.eu/docsroom/documents/14838/attachments/1/translations/en/renditions/pdf>.

91. Ley de la Propiedad Industrial [LPI], Diario Oficial de la Federación [DOF] 27-06-1991, últimas reformas DOF 13-03-2018 (Mex.); Industrial Property Law of June 25, 1991, art. 83 (as amended March 13, 2018), <https://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf>.

92. Federal’nyi Zakon RF o Kommercheskoi Taine [Federal Law of the Russian Federation on Commercial Secrets], Sobranie Zakonodatel’sтва Rossiiskoi Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2004, No. 98, art. 10 (s ism. i dop., vnesennimi Federal’nim zakonom ot 29 July 2004). Federal Law No. 98-FZ on Commercial Secrecy, art. 10 (July 29, 2004)

In China, experts advise that there is a de facto requirement that trade secrets be reduced to writing because the courts prefer documentary evidence.<sup>93</sup>

Second, the scope of protection is narrower in some countries, as unrelated third parties have no duty to respect trade secrets. Thus, competitors who engage in economic espionage by unfair means—but who do not involve employees, for example—may avoid liability. This is the case in some common law jurisdictions, as older English cases did not impose a duty to keep secrets unless there was an express agreement or a relationship of trust between the parties, such as an employment relationship. While the law in most common law jurisdictions, including the U.K., has evolved to impose a duty on unrelated third parties, India and New Zealand still do not impose a duty on third parties.

#### b. Access to evidence

Access to evidence in trade secret litigation is often an outcome-determinative issue, since the best evidence may be in the other party's hands. Evidence regarding trade secrets is often difficult to obtain, since trade secrets are by nature capable of concealment, and parties have strong incentives to keep them concealed—to meet legal requirements, maintain competitive advantage, and, in the case of defendants, avoid liability. The ability to obtain evidence from the opposing party is thus often essential.

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(as amended July 24, 2007), [https://www.wto.org/english/thewto\\_e/acc\\_e/rus\\_e/WTACCRUS58\\_LEG\\_370.pdf](https://www.wto.org/english/thewto_e/acc_e/rus_e/WTACCRUS58_LEG_370.pdf).

93. See TERRENCE F. MACLAREN & CHIANG LING LI, TRADE SECRETS THROUGHOUT THE WORLD § 8.52 (2012); J. Benjamin Bai & Guoping Da, *Strategies for Trade Secrets Protection in China*, 9 NW. J. TECH. & INTELL. PROP. 351, 374–75 (2011).

From the perspective of U.S.-trained lawyers, many countries offer extremely limited opportunities to obtain evidence. In fact, arguably no country provides access to evidence as extensive as that afforded by the U.S. discovery system, nor are duties to disclose unfavorable evidence as robust (if present at all). While common law legal systems afford some opportunities to obtain evidence before a trial, opportunities are particularly limited in civil law systems, which constitute a majority of the world's legal systems—e.g., China, Japan, Germany, France, Brazil, and Korea.

Despite these limitations, litigants in other countries do find ways to obtain necessary evidence. For example, some parties urge prosecutors to first file criminal trade secret cases and use the evidence obtained in such a case to initiate a private lawsuit. Such is the case in Germany.<sup>94</sup> In both common law countries and civil law countries, litigants are often able to use preliminary searches to preserve evidence to obtain the evidence they need; in common law countries, these are referred to as “Anton Pillar” orders. Parties in overseas litigation may also be able to use American courts to obtain evidence for use in a non-U.S. case where there is evidence in the United States pursuant to 28 U.S.C. § 1782. This provision allows a foreign party to apply to a U.S. court to obtain evidence for use in the non-U.S. proceeding if it meets the requirements of the statute. The Sedona Conference's Working Group 10 will address these cross-border discovery issues in patent and trade secret cases in a forthcoming Commentary.

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94. Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, App. 2, at 93; MACLAREN, *supra* note 93, § 15:29.

### c. Security of secrets during litigation

In most countries, including the United States, lawsuits are public proceedings, with open hearings and public filings. There are exceptions to this rule in the United States, where accompanying practices and procedures are well established to protect confidential information, including trade secrets. But such practices and procedures to preserve secrecy are unavailable in many countries and unfamiliar in many more, which presents a challenge for trade secret litigants.<sup>95</sup>

Concerns about the security of secrets during litigation was one of the issues that motivated the European Union's (EU) Trade Secrets Directive. Research authorized by the European Commission found that many parties who experienced trade secret theft decided to forego claims because of fears of further loss in court.<sup>96</sup> The Commission also found that several EU members lacked protection for secrets in litigation or had legal requirements that undermined it. Thus, the Trade Secrets Directive has required EU member states to provide sufficient secrecy during litigation.<sup>97</sup>

While the situation regarding this issue has improved for litigants in the EU, the issue persists in other countries. Parties and their counsel thus need to consider and investigate this issue when deciding whether to litigate in a particular country.

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95. For full discussion on these issues, *see* The Sedona Conference, *Commentary on Protecting Trade Secrets in Litigation About Them*, 23 SEDONA CONF. J. 741 (2022), available at [https://thesedonaconference.org/publication/Commentary\\_on\\_Protecting\\_Trade\\_Secrets\\_in\\_Litigation\\_About\\_Them](https://thesedonaconference.org/publication/Commentary_on_Protecting_Trade_Secrets_in_Litigation_About_Them).

96. BAKER MCKENZIE, *supra* note 90.

97. Directive 2016/943, of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, art. 9, 2016 O.J. (L 157/1) (EU), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0943&from=EN>.

The issues highlighted here are only a small sample of the issues that must be considered in deciding whether to bring a trade secret claim outside of the United States. Parties and attorneys will find it necessary to consult local experts to consider whether such a claim is feasible and what form it might take.

### III. CHALLENGES AND ISSUES WHEN ATTEMPTING TO REACH CONDUCT ABROAD

#### A. *Sovereign Immunity*

In the United States, claims for misappropriation of trade secrets against foreign states or their political subdivisions, agencies, or instrumentalities will likely trigger the assertion of a jurisdictional defense based on sovereign immunity. The Foreign Sovereign Immunities Act of 1976 (FSIA) provides that foreign states and their political subdivisions, agencies, and instrumentalities<sup>98</sup> are immune from the jurisdiction of the federal and state courts of the United States unless one of the FSIA's statutorily defined exceptions applies.<sup>99</sup> Under the FSIA's commercial activity exception, section 1605(a)(2), a foreign state shall not be immune from the jurisdiction of the United States or of the states in any case in which the action is:

[1] based upon a commercial activity carried on in the United States by the foreign state; or [2] upon an act performed in the United States in connection with a commercial activity of the foreign state elsewhere; or [3] upon an act outside the territory of the United States in connection with a

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98. The FSIA defines an "agency or instrumentality of a foreign state" as any entity "(1) which is a separate legal person, corporate or otherwise, and (2) which is an organ of a foreign state or political subdivision thereof, or a majority of whose shares or other ownership interest is owned by a foreign state or political subdivision thereof, and (3) which is neither a citizen of a State of the United States as defined in section 1332 (c) and (e) of this title, nor created under the laws of any third country." 28 U.S.C. § 1603(b) (2005).

99. 28 U.S.C. §§ 1604–07 (2016); *Republic of Argentina v. Weltover, Inc.*, 504 U.S. 607, 610–11 (1992); 28 U.S.C. § 1603 (2005). In addition to jurisdictional immunity, the FSIA provides that property in the U.S. shall be immune from attachment, arrest, and execution except as provided in sections 1610 and 1611. *See* 28 U.S.C. § 1609 (1976).



commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States[.]<sup>100</sup>

The FSIA defines “commercial activity” as “either a regular course of commercial conduct or a particular commercial transaction or act.”<sup>101</sup> The central inquiry is whether the foreign government has engaged in activities “in the manner of a private player within’ the market.”<sup>102</sup> The FSIA defines the phrase “commercial activity carried on in the United States” as meaning “commercial activity carried on by [a foreign] state and having substantial contact with the United States.”<sup>103</sup> Proof of substantial contact requires more than minimum contacts sufficient to satisfy due process in establishing personal jurisdiction.<sup>104</sup>

Courts have applied the FSIA’s commercial activity exception to claims for misappropriation of trade secrets brought against foreign states and their wholly owned companies.<sup>105</sup> For

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100. 28 U.S.C. § 1605(a)(2) (2016). “Under international law, states are not immune from the jurisdiction of foreign courts insofar as their commercial activities are concerned, and their commercial property may be levied upon for the satisfaction of judgments rendered against them in connection with their commercial activities.” 28 U.S.C. § 1602 (1976).

101. 28 U.S.C. § 1603(d) (2005).

102. *Saudi Arabia v. Nelson*, 507 U.S. 349, 360 (1993) (citing *Republic of Argentina*, 504 U.S. at 614). “The commercial character of an activity shall be determined by reference to the nature of the course of conduct or particular transaction or act, rather than by reference to its purpose.” 28 U.S.C. § 1603(d) (2005).

103. 28 U.S.C. § 1603(e) (2005).

104. *Int’l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945); *BP Chemicals Ltd. v. Jiangsu Sopo Corp.*, 285 F.3d 677, 686 (8th Cir. 2002) (citing *Maritime Int’l Nominees Establishment v. Republic of Guinea*, 693 F.2d 1094, 1109 n.23 (D.C. Cir. 1983)).

105. *See, e.g., Cybersitter, LLC v. People’s Republic of China*, 805 F. Supp. 2d 958, 974–76 (C.D. Cal. 2011) (finding that the FSIA’s commercial activity

example, the U.S. Court of Appeals for the Eighth Circuit held that a Chinese company, Sopo, owned by the Chinese government, was not immune from suit for misappropriation of trade secrets under the commercial activity exception to the FSIA.<sup>106</sup> The plaintiff, BP Chemicals, an English corporation, alleged that Sopo's attempts through an agent to contact American vendors to produce goods needed to build a manufacturing plant in China constituted commercial activity carried on in the United States.<sup>107</sup> The Chinese government required Sopo's representatives to participate in vendor meetings in the United States, during which equipment utilizing trade secrets stolen from the plaintiff was discussed, inspected, and tested.<sup>108</sup> Based on findings that at least twenty representatives of Sopo attended these meetings and actively participated in technical discussions, inspections, and tests of the equipment, the Eighth Circuit found that Sopo engaged in commercial activity in the United States connected to the use of the plaintiff's trade secrets.<sup>109</sup>

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exception applies where China intentionally misappropriated plaintiff's copyrighted software and trade secrets by licensing, sublicensing, and distributing the program); *Supra Med. Corp. v. McGonigle*, 955 F. Supp. 374, 380 (E.D. Pa. 1997) (finding that the FSIA's commercial activity exception would apply, assuming defendants are entitled to immunity, where misappropriation related to testing in Great Britain of a U.S. corporation's product). *But see* *TJGEM LLC v. Republic of Ghana*, 26 F. Supp. 3d 1, 10–11 (D.D.C. 2013) (finding that the FSIA commercial activity exception did not apply to Ghana and the alleged misappropriation did not have any "direct effect" in the U.S. beyond an alleged loss to an American individual and firm).

106. *BP Chemicals.*, 285 F.3d at 688.

107. *Id.* at 686–88.

108. *BP Chemicals Ltd. v. Jiangsu Sopo Corp.*, 420 F.3d 810, 817–18 (8th Cir. 2005).

109. *Id.* at 818.

## B. *Choice-of-Law Issues*

State trade secret claims that address acts of foreign misappropriation could also be subject to choice-of-law challenges if a conflict exists between multiple trade secret laws.<sup>110</sup> This conflict of law could arise between the trade secret laws of different states (e.g., an interstate trade secret conflict),<sup>111</sup> or, as potentially relevant to actions involving foreign acts of misappropriation, could arise between state trade secret law and the laws of another country (e.g., an international trade secret conflict). For example, in *BP Chemicals Ltd. v. Formosa Chemical & Fibre Corp.*, the Third Circuit held that Taiwanese trade secret law should govern instead of New Jersey law (at least to the extent that a conflict of law actually existed).<sup>112</sup> Similarly, in *SciGrip, Inc. v. Osae*, a North Carolina court concluded that the North Carolina Trade Secrets Protection Act did not apply to misappropriation that occurred in the United Kingdom.<sup>113</sup>

When presented with a potential choice-of-law challenge in diversity cases, courts typically apply the choice-of-law principles of the forum state to determine the applicable law.<sup>114</sup> Where

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110. Courts ordinarily do not apply conflict-of-laws determinations to federal claims because if the statute does not reach the conduct in question, then the claim is generally dismissed. Thus, state trade secret claims are more prone to conflicts-of-law challenges than federal DTSA claims.

111. Although nearly all U.S. states have adopted the Uniform Trade Secret Act (UTSA), conflicts may still arise, as the enacted version of UTSA deviates from the model version in many states, and there are differences among state courts regarding interpretation.

112. 229 F.3d 254, 268 (3d Cir. 2000).

113. No. 13 CVS 2854, 2018 WL 632950, at \*5–6 (N.C. Super. Jan. 30, 2018), *aff'd*, 373 N.C. 409 (2020).

114. *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 496–97 (1941); *see also, e.g., Bigio v. Coca-Cola Co.*, 675 F.3d 163, 169 (2d Cir. 2012) (applying choice-of-law rules of the forum state, New York, where jurisdiction is based on the diversity of the parties' citizenship).

there is no substantive conflict among the laws of multiple jurisdictions,<sup>115</sup> then the choice-of-law analysis is generally not necessary,<sup>116</sup> and courts typically will apply the law of the forum state.<sup>117</sup>

States have varying choice-of-law tests, although many are modeled after the Second Restatement of the Conflict of Laws. For example, North Carolina courts sometimes apply the traditional *lex loci delicti* rule to trade secret misappropriation actions sounding in tort.<sup>118</sup> Under the *lex loci* test, the focus is the state “where the last act occurred giving rise to [the] injury.”<sup>119</sup> Thus, the North Carolina inquiry “is not the place where the information was learned, but where the tortious act of misappropriation and use of the trade secret occurred.”<sup>120</sup> Similarly, in

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115. Because many states’ trade secret laws are grounded in the UTSA, in many instances, state trade secret laws may not conflict on substantive issues. See *Tradesmen Int’l, Inc. v. Black*, No. 10-2098, 2011 WL 5330589, at \*4 (C.D. Ill. Nov. 7, 2011) (finding no conflict of law between the trade secret statutes of Ohio, Indiana, and Illinois); *Jano Justice Sys., Inc. v. Burton*, No. 08-cv-3209, 2010 WL 2012941, at \*6 n.2 (C.D. Ill. May 20, 2010) (finding no conflict of law between the trade secret statutes of Illinois and Mississippi). Substantive conflicts between state and foreign trade secret laws therefore are more likely, depending on the country at issue.

116. *Phillips Petroleum Co. v. Shutts*, 472 U.S. 797, 816 (1985).

117. See, e.g., *Gould v. Artisoft, Inc.*, 1 F.3d 544, 549 n.7 (7th Cir. 1993) (“Where the parties have not identified a conflict between the two bodies of state law that might apply to their dispute, we will apply the law of the forum state . . . .”) (citations omitted).

118. *SciGrip, Inc. v. Osaе*, No. 13 CVS 2854, 2018 WL 632950, at \*5–6 (N.C. Super. Jan. 30, 2018) (applying the *lex loci* rule to resolve an international trade secret conflict), *aff’d*, 373 N.C. 409 (2020).

119. *Harco Nat’l Ins. Co. v. Grant Thornton LLP*, 206 N.C. App. 687, 694 (2010) (alteration in original) (quoting *United Virginia Bank v. Air-Lift Assocs., Inc.*, 79 N.C. App. 315, 321 (1986)).

120. *Domtar AI Inc. v. J.D. Irving, Ltd.*, 43 F. Supp. 3d 635, 641 (E.D. N.C. 2014) (finding a claim under North Carolina’s trade secret act inappropriate

Virginia, the “place of the wrong . . . is defined as the place where the last event necessary to make an act liable for an alleged tort takes place.”<sup>121</sup> As such, “Virginia’s choice of law rule selects the law of the state in which the wrongful act took place, wherever the effects of that act are felt.”<sup>122</sup> As opposed to those conduct-focused tests, Delaware courts focus on the jurisdiction with the most significant relationship to the occurrence and the parties under the Restatement (Second) of the Conflict of Laws, which is guided by four factors: (1) where the injury occurred; (2) the place where the conduct causing the injury occurred; (3) the parties’ domicile, residence, nationality, place of incorporation, and place of business; and (4) where the parties’ relationship, if any, is centered.<sup>123</sup> New York courts—which operate under the Restatement of Torts, since the state has not adopted some form of the UTSA—often take a slightly different view, focusing on the locus of the misappropriation to determine the

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when the alleged misappropriation occurred in Canada); 3A Composites USA, Inc. v. United Indus., Inc., No. 5:14-CV-5147, 2015 WL 5437119, at \*4 (W.D. Ark. Sept. 15, 2015) (following the approach taken in *Domtar*); Chatterly Int’l, Inc. v. JoLida, Inc., No. WDQ-10-2236, 2012 WL 1454158, at \*3 (D. Md. Apr. 24, 2012) (applying the *lex loci delicti* rule and noting that “[m]isappropriation occurs where the misappropriated information is received and used, not necessarily where it was taken or where the economic harm is felt”).

121. *Hilb Rogal & Hobbs Co. v. Rick Strategy Partners, Inc.*, No. 3:05CV355, 2006 WL 5908727, at \*5 (E.D. Va. Feb. 10, 2006) (internal quotation marks omitted); *Jones v. R.S. Jones & Assocs., Inc.*, 431 S.E. 2d 33, 34 (Va. 1993) (Virginia choice of law rules for tort claims apply the “*lex loci delicti*, or place of the wrong, standard that [is] the settled rule in Virginia.”) (internal quotation marks omitted).

122. *Milton v. IIT Research Inst.*, 138 F.3d 519, 522 (4th Cir. 1998).

123. *See, e.g., Dow Chem. Co. v. Organik Kimya Holding A.S.*, No. CV 12090-VCG, 2018 WL 2382802, at \*5 (Del. Ch. May 25, 2018) (quoting the Restatement (Second) of Conflict of Laws § 145(2) (1971) when analyzing a possible conflict of trade secret law).

locus of the tort and the state with the greatest interest.<sup>124</sup> New York courts thus generally apply to trade secret actions a two-factor analysis to determine the forum with the greater interest,<sup>125</sup> and sometimes apply the “last event necessary” rule, which finds the locus to be the place where the last event necessary to render the defendant liable occurred.<sup>126</sup>

Because courts apply different choice-of-law tests, interstate and international conflicts of law could have widely varying results, depending on a courts’ chosen choice-of-law methodology and the underlying facts. In addition, the appropriate law could vary for each trade secret misappropriation claim. As the above exemplary choice-of-law rules demonstrate, if specific and sufficient alleged acts of trade secret misappropriation occurred outside of the United States, then the laws of the foreign jurisdiction could apply, as occurred in *BP Chemicals*.<sup>127</sup> Accordingly, both forum selection and trade secret claim selection could dictate whether a court’s choice-of-law rules allow application of state trade secret law to overseas activity, regardless of the state law’s potential extraterritorial reach.

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124. See *Nostrum Pharms., LLC v. Dixit*, No. 13 CIV. 8718(CM)(AP), 2015 WL 2208167, at \*6 (S.D.N.Y. May 8, 2015) (reciting New York’s choice-of-law test for trade secret conflicts of law); *Sarkissian Mason, Inc. v. Enter. Holdings, Inc.*, 955 F. Supp. 2d 247, 254 (S.D.N.Y. 2013) (same).

125. See *Fedders Corp v. Haier Am. Trading, LLC*, No. 00-CV-5583-JSM, 2002 WL 519733, at \*3 (S.D.N.Y. Apr. 4, 2002) (inquiring into “(1) what are the significant contacts and in which jurisdiction are they located and (2) whether the purpose of the law is to regulate conduct or allocate loss”) (citation omitted).

126. See *Reed Const. Data Inc. v. McGraw-Hill Cos.*, 49 F. Supp. 3d 385, 425–26 (S.D.N.Y. 2014) (reciting the “last event necessary” rule in a trade secret conflict-of-law analysis).

127. *BP Chems. Ltd. v. Formosa Chem. & Fibre Corp.*, 229 F.3d 254, 261(3d Cir. 2000).

### C. *Jurisdiction and Venue*

#### 1. Subject-matter jurisdiction

As explained earlier, the DTSA establishes a federal private right of action under the EEA for trade secret misappropriation and economic espionage, and it authorizes a variety of remedies, including injunctions, damages, and seizure of property.<sup>128</sup> Although the DTSA does not preempt state law, the statute provides federal courts original section 1331 jurisdiction to hear civil trade secret claims,<sup>129</sup> but it is not exclusive—state courts may hear DTSA claims as well.<sup>130</sup> The scope of the DTSA is more limited than that of traditional state law trade secret statutes. Specifically, section 1836(b)(1) of the DTSA provides a cause of action for misappropriation of trade secret cases “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”<sup>131</sup>

##### a. Nexus to interstate and foreign commerce

The weight of authority interprets the DTSA’s “interstate commerce” provision as jurisdictional, requiring a nexus between the alleged trade secret and interstate or foreign commerce.<sup>132</sup> However, courts vary in their interpretation of what

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128. 18 U.S.C. § 1836 (2018).

129. 28 U.S.C. § 1331 (2018).

130. *See, e.g.*, *Universal Plant Servs., Inc. v. Dresser-Rand Grp., Inc.*, 571 S.W.3d 346, 352 (Tex. App. 2018).

131. 18 U.S.C. § 1836(b)(1) (2016).

132. *See, e.g.*, *United States v. Agrawal*, 726 F.3d 235, 246 (2d Cir. 2013) (recognizing the interstate commerce requirement as jurisdictional); *Gov’t Emps. Ins. Co. v. Nealey*, 262 F. Supp. 3d 153, 172 (E.D. Pa. June 13, 2017) (same); *Hydrogen Masters Rights, Ltd. v. Weston*, 228 F. Supp. 3d 320, 338 (D. Del. Feb. 6, 2017) (dismissing a complaint that “fail[ed] to allege any nexus between interstate or foreign commerce and the [products or services at

must be pled to meet this nexus requirement. For instance, a U.S. district court in the Northern District of Illinois found that at the motion to dismiss phase, it was reasonable to infer that the goods at issue were used in or intended for use in interstate commerce even though an interstate meeting to discuss the goods between the plaintiff and a third party was canceled prior to its occurrence.<sup>133</sup> On the other hand, a district court in Hawaii dismissed a plaintiff's claim under the DTSA because the plaintiff failed to establish subject-matter jurisdiction.<sup>134</sup> Since the dispute was between Hawaii-based corporations (serving Hawaiian residents) and a Hawaiian-resident employee, the court rejected the argument that there was a sufficient interstate nexus based on the plaintiff's services being "subject to federal law relating to receipt of federal funds" and their clients' federal registration numbers.<sup>135</sup>

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issue]"); *Islands Hospice, Inc. v. Duick*, No. CV 19-00202-JMS-WRP, 2019 WL 4620369, at \*3 (D. Haw. Sept. 23, 2019); *Officia Imaging, Inc. v. Langridge*, No. SA CV 17-2228-DOC-DFMX, 2018 WL 6137183, at \*6 (C.D. Cal. Aug. 7, 2018) (holding that the "interstate commerce" requirement is jurisdictional); *Cave Consulting Grp., Inc. v. Truven Health Analytics Inc.*, No. 15-CV-02177-SI, 2017 WL 1436044, at \*3 (N.D. Cal. Apr. 24, 2017) (same); *Hawkins v. Fishbeck*, 301 F. Supp. 3d 650, 657 (W.D. Va. Oct. 16, 2017) (stating that "[i]n order to plead a violation of the Act, [a p]laintiff must allege . . . that the trade secret implicates interstate or foreign commerce.").

133. *Wells Lamont Indus. Grp. LLC v. Richard Mendoza & Radians, Inc.*, No. 17 C 1136, 2017 WL 3235682, at \*2-3 (N.D. Ill. July 31, 2017) (holding that plaintiff had adequately alleged the nexus, but observed that, "[b]ecause the DTSA was enacted only recently, there is limited case law relating to whether pleading this specific aspect of a DTSA claim is required").

134. *DLMC, Inc. v. Flores*, No. CV 18-00352 DKW-RT, 2019 WL 309754 (D. Haw. Jan. 23, 2019).

135. *Id.* at \*2.



## b. Supplemental jurisdiction

As in other cases, federal courts can exercise supplemental jurisdiction over state law claims when original jurisdiction is premised on the DTSA. However, also as in other cases, if a district court dismisses the DTSA claim, it can also refuse jurisdiction over the state law claims. “[I]n the usual case in which all federal-law claims are eliminated before trial, the balance of factors to be considered under the pendent jurisdiction doctrine—judicial economy, convenience, fairness, and comity—will point toward declining to exercise jurisdiction over the remaining state-law claims.”<sup>136</sup> In a contrary outcome, a district court in Louisiana continued to exercise jurisdiction over supplemental state law claims, despite granting defendants’ summary judgment motion on the DTSA cause of action, finding that the plaintiffs’ amended complaint was “drafted in such a way as to interweave all predicate facts in the fabric of each and every legal claim,” and therefore, the federal and state claims clearly formed part of the same case or controversy satisfying section 1367(a).<sup>137</sup>

## 2. Personal jurisdiction

Because the DTSA does not contain a “special jurisdictional hook,” like the Securities Act of 1933 or the Securities Exchange Act of 1934, issues remain as to whether U.S. courts can obtain personal jurisdiction over foreigners who commit an act within

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136. *Carnegie–Mellon Univ. v. Cohill*, 484 U.S. 343, 350 n.7 (1988), *superseded on other grounds by statute as recognized in Fent v. Okla. Water Res. Bd.*, 235 F.3d 553, 557 (10th Cir. 2000); *DLMC, Inc. v. Flores*, No. CV 18-00352 DKW-RT, 2019 WL 985275, at \*2 (D. Haw. Feb. 27, 2019) (finding that the balance of factors, including comity with state courts, weighed in favor of dismissal of the claim arising under the state trade secret act).

137. *Sapienza v. Trahan*, No. 6:16-CV-01701, 2019 WL 348820, at \*14 (W.D. La. Jan. 28, 2019).

the United States and whether any resulting judgment can be enforced. Not surprisingly then, courts use a variety of tests and tools to determine if they can exercise personal jurisdiction. This inconsistent treatment of the DTSA across the district courts must be considered in the litigation calculus, particularly if subject-matter jurisdiction is rooted in the DTSA.

a. Federal Rule of Civil Procedure 4(k)(2)

Whether a federal court has personal jurisdiction in a DTSA case is determined by Federal Rule of Civil Procedure 4(k)(1)(A), which allows federal courts to use the long-arm statute of the forum state, or by Rule 4(k)(2), which serves as a federal long-arm statute as long as the plaintiff can show that the exercise of jurisdiction comports with due process.<sup>138</sup> Pursuant to Rule 4(k)(2), a foreign citizen or foreign company may be subject to personal jurisdiction in federal court for federal trade secret claims as long as those defendants are not subject to personal jurisdiction in any U.S. state and have “minimum contacts” with the United States as a whole.<sup>139</sup> Instead of requiring a plaintiff to demonstrate that the defendant is not subject to personal jurisdiction in any of the individual states, most federal courts of appeal require a defendant who seeks to preclude application of Rule 4(k)(2) to identify a state in which the suit could proceed.<sup>140</sup> If a federal court has 4(k)(2) personal jurisdiction

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138. *ZVELO, Inc. v. Check Point Software Techs., Ltd.*, 418 F. Supp. 3d 664, 668 (D. Colo. 2019).

139. *Id.*; *see also* *United States v. Swiss Am. Bank, Ltd.*, 116 F. Supp. 2d 217 (D. Mass. 2000), *aff'd*, 274 F.3d 610 (1st Cir. 2001).

140. *E.g.*, *ISI Int'l, Inc. v. Borden Ladner Gervais LLP*, 256 F.3d 548, 552 (7th Cir. 2001) (citations omitted); *Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1415 (Fed. Cir. 2009); *Holland Am. Line, Inc. v. Wartsila N.A., Inc.*, 485 F.3d 450, 461 (9th Cir. 2007); *Mwani v. Bin Laden*, 417 F.3d 1, 11 (D.C. Cir. 2005); *Adams v. Unione Mediterranea Di Sicurta*, 364 F.3d 646, 651 (5th Cir. 2004).

over a defendant for a DTSA claim, this may also give rise to supplemental personal jurisdiction for state law trade secret claims.

b. Minimum contacts

The touchstone of the constitutional analysis of whether a court can exercise personal jurisdiction over a defendant is whether the defendant has certain “minimum contacts” with the forum.<sup>141</sup> Complicating this analysis is the question of whether intangible harms can be treated as minimum contacts.

c. *Calder* effects test

When minimum contacts are lacking under traditional tests, courts can also rely on the “*Calder* effects” test, which is used to establish personal jurisdiction in intentional tort cases.<sup>142</sup> Under the *Calder* effects test, specific personal jurisdiction is established if:

- (1) the defendant committed an intentional tort,
- (2) the plaintiff felt the brunt of the harm in the forum such that the forum can be said to be the focal point of the harm suffered by the plaintiff as a result of that tort, and
- (3) the defendant “expressly aimed” its tortious conduct at the forum state such that the forum can be said to be the “focal point” of the tortious activity.<sup>143</sup>

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141. *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

142. *See Calder v. Jones*, 465 U.S. 783 (1984); *see also Austar Int'l Ltd. v. AustarPharma LLC*, 425 F. Supp. 3d 336, 360–62 (D.N.J. 2019) (finding personal jurisdiction over Chinese company based on *Calder* effects test where defendant misappropriated trade secrets developed in New Jersey and hired away employees from a New Jersey company).

143. *Gov't Emps. Ins. Co. v. Nealey*, 262 F. Supp. 3d 153, 163 (E.D. Pa. 2017).

Thus, parties litigating personal jurisdiction over a foreign defendant in federal court would be well served to consider both Rule 4(k)(2) of the Federal Rules of Civil Procedure and the *Calder* effects test in evaluating venue.

### 3. Venue

Even when personal jurisdiction is established, venue is not a foregone conclusion—the application of *forum non conveniens*, particularly in federal court, can have a dispositive effect. *Forum non conveniens* is a common law doctrine under which a court has discretion to dismiss a lawsuit with otherwise proper venue and personal jurisdiction when a foreign forum would be more convenient. In federal courts, the application of *forum non conveniens* is limited to cases where the alternate forum is abroad, or “in rare instances where a state or territorial court serves litigational convenience best.”<sup>144</sup> Although some courts continue to observe that *forum non conveniens* is “an exceptional tool to be employed sparingly,” the doctrine has become a backstop in cases involving foreign activity where a minimum contact with an American forum might exist and the exercise of jurisdiction seems burdensome or unfair.<sup>145</sup> As the United States Supreme Court has articulated, “[a]t bottom, the doctrine of *forum non conveniens* is nothing more or less than a supervening venue provision, permitting displacement of the ordinary rules of venue when, in light of certain conditions, the trial court thinks that jurisdiction ought to be declined.”<sup>146</sup> And because dismissal on *forum non conveniens* is a non-merits determination, a trial

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144. *Sinochem Int’l Co. v. Malaysia Int’l Shipping Corp.*, 549 U.S. 422, 430 (2007).

145. *See Carijano v. Occidental Petroleum Corp.*, 643 F.3d 1216, 1224 (9th Cir. 2011) (quoting *Dole Food Co. v. Watts*, 303 F.3d 1104, 1118 (9th Cir. 2002)).

146. *Am. Dredging Co. v. Miller*, 510 U.S. 443, 453 (1994).

court may dispose of a case on *forum non conveniens* grounds without first deciding issues of subject matter and personal jurisdiction (though generally, a court must analyze both before proceeding to other issues).<sup>147</sup>

In deciding *forum non conveniens* issues, a court will consider a number of public and private factors to determine whether the court should decline to hear a case because another forum would be a more appropriate venue for resolution of the dispute. There are two threshold questions in the *forum non conveniens* analysis. First, courts consider whether there is an adequate alternative forum in which the defendant is amenable to process.<sup>148</sup> Second, courts consider whether foreign law applies.<sup>149</sup> If the answer to either of these questions is no, *forum non conveniens* is inapplicable.<sup>150</sup> If the answer to both questions is yes, the court proceeds to weigh the private and public interests bearing on *forum non conveniens*.<sup>151</sup>

Private interests include the: (1) relative ease of access to sources of proof; (2) availability of compulsory process for compelling attendance of witnesses; (3) cost of obtaining attendance of willing non-party witnesses; (4) possibility of a view of the premises, if appropriate; and (5) other practical problems that make trial of the case easy, expeditious, and inexpensive.<sup>152</sup> Courts may also consider the enforceability of a judgment if

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147. *Sinochem*, 549 U.S. at 432.

148. *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 254 n.22 (1981).

149. *See Rivendell Forest Prod., Ltd. v. Canadian Pac. Ltd.*, 2 F.3d 990, 994 (10th Cir. 1993).

150. *Gschwind v. Cessna Aircraft Co.*, 161 F.3d 602, 605–06 (10th Cir. 1998).

151. *Id.* at 606.

152. *See Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 508 (1947), *superseded by statute as recognized in Hartford Fire Ins. Co. v. Westinghouse Elec. Corp.*, 725 F. Supp. 317, 320–21 (S.D. Miss. 1989).

obtained as well as the relative advantages and obstacles to a fair trial.<sup>153</sup>

Public-interest factors include: (1) the administrative burdens of the respective courts; (2) the relationship between the litigation and the chosen forum; (3) the court's own familiarity with the applicable substantive law; and (4) whether the alternative forum can provide an adequate—even if less favorable—level of relief.<sup>154</sup> These issues may also involve a conflicts-of-law analysis, or contractual interpretation if a forum-selection clause is at issue. Generally, a plaintiff's choice of forum is favored<sup>155</sup> and *forum non conveniens* is inapplicable when the alternative forum would effectively leave the plaintiff with “no remedy at all.”<sup>156</sup> But as globalization has expanded American interests abroad, courts have observed that “parties who choose to engage in international transactions should know that when their foreign operations lead to litigation[,] they cannot expect always to bring their foreign opponents into a United States forum when every reasonable consideration leads to the conclusion that the site of the litigation should be elsewhere.”<sup>157</sup>

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153. *Id.*

154. *Id.*

155. *Atl. Marine Constr. Co. v. U.S. Dist. Court*, 571 U.S. 49, 62 n.6 (2013); *Sinochem Int'l Co. v. Malaysia Int'l Shipping Corp.*, 549 U.S. 422, 430 (2007) (stating that “[a] defendant invoking *forum non conveniens* ordinarily bears a heavy burden in opposing the plaintiff's chosen forum”); *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 255 (1981) (holding that public and private factors must “clearly point” to the alternate forum being preferable to overcome a “strong presumption” in favor of plaintiff's choice of forum).

156. *Id.* at 254.

157. *DTEX, LLC v. BBVA Bancomer, S.A.*, 508 F.3d 785, 795 (5th Cir. 2007) (quoting *Contact Lumber Co. v. P.T. Moges Shipping Co., Ltd.*, 918 F.2d 1446, 1450 (9th Cir. 1990)); *Lehman v. Humphrey Cayman, Ltd.*, 713 F.2d 339, 346 (8th Cir. 1983) (quoting *Founding Church of Scientology v. Verlag*, 536 F.2d 429, 435 (D.C. Cir. 1976)).

In trade secret cases, the issue of whether a foreign tribunal can afford appropriate relief is of particular importance. Trial courts have declined to apply *forum non conveniens* in cases where the defendant failed to establish that the foreign tribunal would have subject-matter jurisdiction over the trade secret causes of action.<sup>158</sup> Courts have also been reluctant to have foreign tribunals apply American law, though the application of foreign law is not, in and of itself, dispositive.<sup>159</sup> But the unavailability of certain hallmarks of the U.S. legal system, such as a jury trial, does not render a foreign tribunal inadequate.<sup>160</sup> Neither do differences in discovery between the competing fora.<sup>161</sup> Courts are also persuaded if there is related litigation already in the foreign court.<sup>162</sup>

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158. *E.g.*, *Del Monte Fresh Produce Co. v. Dole Food Co.*, 136 F. Supp. 2d 1271, 1278 (S.D. Fla. 2001) (finding that plaintiff's affidavit established that Costa Rican courts would lack subject-matter jurisdiction over the trade secret claims because the claims were exclusively between American parties contesting U.S. property rights, despite defendant's consent to personal jurisdiction in Costa Rica), *superseded on other grounds by statute as recognized in* *Bailey v. St. Louis*, 196 So. 3d 375, 383 (Fla. Dist. Ct. App. 2001).

159. *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 504, 508–09 (1947), *superseded by statute as recognized in* *Hartford Fire Ins. Co. v. Westinghouse Elec. Corp.*, 725 F. Supp. 317, 320–21 (S.D. Miss. 1989); *K-V Pharm. Co. v. J. Uriach & CIA, S.A.*, 648 F.3d 588, 598 (8th Cir. 2011). *But see* *Flynn v. Gen. Motors, Inc.*, 141 F.R.D. 5, 10 (E.D. N.Y. 1992) (observing that “it is well settled that the application of foreign law is not in itself a reason to dismiss under *forum non conveniens*”).

160. *Adams v. Merck & Co. Inc.*, 353 F. App'x 960, 964 (5th Cir. 2009); *Logan Int'l Inc. v. 1556311 Alberta Ltd.*, 929 F. Supp. 2d 625, 633 (S.D. Tex. 2012).

161. *Mercier v. Sheraton Int'l, Inc.*, 981 F.2d 1345, 1352 (1st Cir. 1992); *In re Union Carbide Corp. Gas Plant Disaster at Bhopal, India in December, 1984*, 809 F.2d 195, 205–06 (2d Cir. 1987).

162. *See, e.g., Logan*, 929 F. Supp. 2d at 633.

#### *D. Where and How to Get Evidence*

For a detailed discussion on enforcing access to proof in cross-border discovery, see *The Sedona Conference, Commentary on Cross-Border Discovery in U.S. Patent and Trade Secret Cases* (May 2021 public comment version).<sup>163</sup>

#### *E. Enforceability of Trade Secret Judgments Against Foreign Entities*

Once a party prevails or receives a favorable arbitration decision in a trade secret case against a foreign entity, the next issue is enforcement. Given the importance of enforcement, a party should think about it early on. Execution of judgments in the federal courts is governed by Rule 69 of the Federal Rules of Civil Procedure. The procedure of execution as well as proceedings supplementary to and in aid of judgment or execution must accord with the procedure of the state where the federal court is located, but a federal statute governs to the extent it applies.<sup>164</sup> Rule 69(b) also contemplates obtaining discovery consistent with the Federal Rules of Civil Procedure or the forum state's Rules of Civil Procedure to assist in the execution.<sup>165</sup>

Judgments issued by a court in the United States are enforceable in every state as a result of the Full Faith and Credit Clause,<sup>166</sup> usually involving a simple registration process. At the federal level, the judgment "may be registered by filing a certified copy of the judgment" in another district, which gives it "the same effect as a judgment of the district court of the district

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163. Available at [https://thesedonaconference.org/publication/Commentary\\_on\\_Cross-Border\\_Discovery\\_in\\_US\\_Patent\\_and\\_Trade\\_Secret\\_Cases](https://thesedonaconference.org/publication/Commentary_on_Cross-Border_Discovery_in_US_Patent_and_Trade_Secret_Cases).

164. FED. R. CIV. P. 69(a)(1) (2007).

165. FED. R. CIV. P. 69(a)(2) (2007).

166. U.S. CONST. art. IV, § 1.



where registered and may be enforced in like manner.”<sup>167</sup> The process can be similar at the state level. For example, in New York, a party must file a copy of an authenticated judgment “in the office of any county clerk[.]”<sup>168</sup> If a party taking action against a foreign entity decides to forego litigation for arbitration, there are procedural differences. For example, the creditor party is required to get the award confirmed by a court within a year before the party can execute the order.<sup>169</sup> Typically the confirming court must be located in the “jurisdiction of the situs,” or place where the arbitration occurred. There are only a few reasons a court will deny confirmation.<sup>170</sup> Accordingly, when a foreign corporation has been found liable for trade secret misappropriation and is subject to personal jurisdiction by a state or federal court, execution of that judgment may be similar to executing a judgment against a domestic entity.<sup>171</sup> When a foreign individual or entity has been found liable for misappropriation of trade secrets and a court judgment or arbitral award has been entered against that party in the United States, for example, it may be possible to enforce that judgment or award in another country where the individual or entity resides or has substantial assets. In many foreign countries, it is generally more difficult to obtain enforcement of a judgment from a U.S. court than an arbitral award entered in the U.S., because the

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167. 28 U.S.C. § 1963 (2018).

168. N.Y. C.P.L.R. § 5402(a)–(b) (McKinney 2018).

169. 9 U.S.C. § 9 (2018).

170. 9 U.S.C. § 9–11 (2018).

171. To the extent that a foreign court judgment is involved, a claimant should consider proceeding in accordance with the Uniform Foreign Money-Judgments Recognition Act, as it may have been adopted in the particular state where enforcement is sought. *See, e.g.*, DEL. CODE ANN. tit. 10, §§ 4801–08 (West 2011). If an arbitral award is obtained in a foreign country, the party that obtained the award may be able to seek enforcement of it in the United States under the New York Convention, discussed *infra* note 173.

procedures in litigation in our state and federal courts, such as those regarding discovery, differ significantly from the procedures in those other countries.<sup>172</sup> Because the United States is one of more than 140 Contracting States under the New York Convention regarding arbitration, however, U.S.-based arbitral awards are likely to be enforced in other Contracting States much the same way they would be enforced in U.S. courts.<sup>173</sup>

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172. See Christopher S. Gibson, *Arbitration, Civilization and Public Policy: Seeking Counterpoise Between Arbitral Autonomy and the Public Policy Defense in View of Foreign Mandatory Public Law*, 113 PENN ST. L. REV. 1227, 1251 n.109 (2009).

173. The Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted in 1958 by the United Nations Conference on International Commercial Arbitration (the “New York Convention”) has received high praise as the most successful treaty in private international law, is adhered to by more than 140 nations and has been the subject of more than 1,400 court decisions reported in the Yearbook: Commercial Arbitration, which reportedly shows an enforcement rate of arbitral awards approaching 90 percent. Albert Jan van den Berg, *Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, U.N. AUDIOVISUAL LIBR. INT’L L., 2008, [http://legal.un.org/avl/pdf/ha/crefaa/crefaa\\_e.pdf](http://legal.un.org/avl/pdf/ha/crefaa/crefaa_e.pdf). Among other things, the New York Convention deals with recognition and enforcement of foreign arbitral awards—i.e., awards made in the territory of another Contracting State. Article III, for example, sets forth the general obligation for the Contracting States to recognize such awards as binding and to enforce them in accordance with their rules of procedure. A party seeking enforcement of a foreign award needs to supply to the court (a) the arbitral award and (b) a written arbitration agreement. The New York Convention, art. IV(1), June 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 3. Through a procedure somewhat analogous to that prescribed in the Federal Arbitration Act in the United States, 9 U.S.C. §§ 9–11 (2018), the party against whom enforcement is sought can object to the enforcement by submitting proof of one of five grounds for refusal of enforcement listed in Article V(1) of the New York Convention. The court in the country where recognition and enforcement of the arbitral award is sought also may refuse to enforce it, if that court finds that enforcing the award would be contrary to the public policy of that country. The New York Convention, art. V(2)(b), June 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 3.

As discussed earlier, litigation involving a foreign entity that constitutes a “foreign state” poses a particular challenge because the FSIA immunizes foreign sovereigns from suit unless an exception applies.<sup>174</sup> To the extent that a party seeks to invoke a federal court’s jurisdiction in a separate action to enforce a trade secret judgment or award, the court must first consider, even if not raised by the parties, whether it has subject-matter jurisdiction over this separate action on the basis of any of these exceptions.<sup>175</sup> The plaintiff bears the initial burden of demonstrating that one of the statutory exceptions to FSIA immunity applies to confer subject-matter jurisdiction, and then “the burden shifts to the defendant to prove, by a preponderance of the evidence, that the plaintiff’s claims do not fall within that exception.”<sup>176</sup>

Even when a foreign state is subject to the court’s subject-matter jurisdiction, the FSIA provides a second form of immunity “from attachment and execution of property.”<sup>177</sup> However, section 1610 of the Act enumerates exceptions to FSIA immunity from attachment or execution for U.S. property owned by a foreign state that is used for commercial activity in the United States, if:

- (1) the foreign state has waived its immunity from attachment explicitly or by implication, notwithstanding any withdrawal of the waiver the foreign state may purport to effect except in accordance

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174. 28 U.S.C. §§ 1603(a)–(b) (2005); 28 U.S.C. § 1605(a)(2) (2016); *CYBERSITTER, LLC v. People’s Republic of China*, 805 F. Supp. 2d 958, 975 (C.D. Cal. 2011).

175. *Verlinden B.V. v. Cent. Bank of Nigeria*, 461 U.S. 480, 493 n.20 (1983); *Walters v. Indus. & Commercial Bank of China, Ltd.*, 651 F.3d 280, 287 (2d Cir. 2011).

176. *Butler v. Sukhoi Co.*, 579 F.3d 1307, 1313 (11th Cir. 2009).

177. 28 U.S.C. § 1609 (1976).

with the terms of the waiver; (2) the property is or was used for the commercial activity upon which the claim is based; (3) the execution relates to a judgment establishing rights in property which has been taken in violation of international law or has been exchanged for property taken in violation of international law, (4) the execution relates to a judgment establishing rights in property which is acquired by succession or gift or which is immovable and situated in the U.S.: *Provided*, That such property is not used for purposes of a diplomatic or consular mission or residence of the Chief of such mission); (5) the property consists of any contractual obligation or any proceeds from such a contractual obligation to indemnify or hold harmless the foreign state or its employees under a policy of automobile or other liability or casualty insurance covering the claim which merged into the judgment; (6) the judgment is based on an order confirming an arbitral award rendered against the foreign state, provided that attachment in aid of execution, or execution, would not be inconsistent with any provision of the arbitral agreement; or (7) the judgment relates to a claim for which the foreign state is not immune under 28 U.S.C. §§ 1605A or 1605(a)(7) . . . .<sup>178</sup>

The FSIA also says that two types of property are always immune from execution: (1) “that of a foreign central bank or monetary authority,” and (2) property “used in connection with a

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178. 28 U.S.C. § 1610(a) (2018) (effective Jan. 27, 2008), as related to terrorism.

military activity.”<sup>179</sup> Again, courts hold that they can *sua sponte* consider immunity from execution<sup>180</sup> and have observed that the exceptions to attachment immunity are narrower than the exceptions to jurisdictional immunity. “Although there is some overlap between the exceptions to jurisdictional immunity and those for immunity from execution and attachment, there is no escaping the fact that the latter are more narrowly drawn.”<sup>181</sup> Courts have noted that attachment immunity is specific to a particular property alleged to be exempt.<sup>182</sup>

There are also practical concerns to execution through attachment. First, the property must be in the United States.<sup>183</sup> Tangible property, such as real property, provides the easiest opportunity for attachment and execution.<sup>184</sup> However, this requires a party to locate such property. Intangible property is more difficult to pursue and locate.<sup>185</sup> Regardless of the type of property, the party looking to collect must be aware of the property’s existence, which requires time and effort. Second, obtaining both a court judgment and an arbitration award take time. By the time a party registers the judgment or confirmation of the

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179. 28 U.S.C. § 1611(b) (1996).

180. *Rubin v. Islamic Republic of Iran*, 637 F.3d 783, 799 (7th Cir. 2011), as corrected (Apr. 1, 2011); *Peterson v. Islamic Republic Of Iran*, 627 F.3d 1117, 1124 (9th Cir. 2010); *FG Hemisphere Assocs., LLC v. Republique du Congo*, 455 F.3d 575, 590–91 (5th Cir. 2006).

181. *Rubin*, 637 F.3d at 796 (quoting *Connecticut Bank of Commerce v. Republic of Congo*, 309 F.3d 240, 252 (5th Cir. 2002)).

182. *Autotech Techs. LP v. Integral Res. & Dev. Corp.*, 499 F.3d 737, 750 (7th Cir. 2007).

183. 28 U.S.C. § 1610(a) (2012).

184. *See, e.g.* *Permanent Mission of India to the United Nations v. City of New York*, 551 U.S. 193, 195 (2007).

185. *See, e.g.*, *Af-Cap Inc. v. Republic of Congo*, 383 F.3d 361, 371 (5th Cir. 2004).

arbitral order, years may have passed. Timing matters, as a foreign entity may move or sell funds or physical property quickly. If a party is aware of property ahead of time, it may be wise to move for prejudgment attachment, though the same concerns with respect to the FSIA may apply.<sup>186</sup>

Parties who want to attach a foreign entity's property for purposes of executing a judgment or award in a trade secret misappropriation case should consider these issues during the litigation rather than waiting until postjudgment or postaward. Those parties should also seek targeted discovery on what property or assets were involved in the commercial activity upon which the misappropriation claim is based when permitted under Rule 26(b)(1) or the corresponding state Rule of Civil Procedure.

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The extraterritorial reach of U.S. federal and state trade secret law is an issue of growing importance as cross-border trade secret disputes grow in prevalence. However, this remains largely uncharted territory because of the relatively limited number of lower court opinions addressing many of these issues and no appellate rulings thus far. As more cases emerge and are decided through trial and appellate courts, so will greater clarity in this area.

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186. See 28 U.S.C. § 1610(d) (2012).





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