

Series: Remedies Available to Companies Harmed by Industrial Espionage

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Section 1832 of the Economic Espionage Act of 1996 (the “Act”) criminalizes the theft of trade secrets “intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner.” 18 U.S.C. § 1832(a). The Defend Trade Secrets Act of 2016 (the “DTSA”) amends the Act to include a civil cause of action for the misappropriation of trade secrets. 18 U.S.C. § 1836(b)(1). Thus, victimized individuals or corporations whose trade secrets were stolen may seek an injunction, monetary damages, or attorneys’ fees. In extreme cases, parties may seek an ex parte seizure to prevent the misuse of stolen trade secrets.

Industrial espionage refers to various activities performed to gain an unfair competitive advantage, including the theft of trade secrets. In previous articles ([here](#) and [here](#)), we discussed how companies can legally and practically protect themselves from industrial espionage. However, where these protections fail, remedies are available.

Injunction

A court may grant an injunction “to prevent any actual or threatened misappropriation [of a trade secret] . . . on such terms as the court deems reasonable.” § 1836(b)(3)(A)(i). Such an injunction requires the defendant to take affirmative action to protect the secret. § 1836(b)(3)(A)(ii). Yet the court may deny the injunction, but allow the defendant to use the trade secret if they pay a “reasonable royalty” for a specified period of time. § 1836(b)(3)(A)(iii). Any injunction may not prevent the defendant from “entering into an employment relationship with another,” nor may it contradict any state laws “prohibiting restraints on the practice of a lawful profession, trade, or business.” §§ 1836(b)(3)(A)(i)(I)–(II).

In *Radiant Glob. Logistics, Inc. v. Furstenau*, a court found that the plaintiff, a logistics company, was entitled to injunctive relief. 368 F. Supp. 3d 1112, 1136 (E.D. Mich. 2019). The order came after an employee stole emails containing privileged information: financial forecasts, budgets, profit margin data, and customer lists. *Id.* at 1120. The employee planned to use the data to solicit the plaintiff's customers while working for another company. *Id.* at 1129. The court ruled these facts sufficient to sustain a preliminary injunction barring the defendant from disclosing or using any of the plaintiff's secrets and soliciting the company's clients. *Id.* at 1136.

Monetary damages

DTSA permits harmed companies to seek damages for "any actual loss caused by the misappropriation of the trade secret." § 1836(b)(3)(B)(i)(I). In addition to traditional compensatory damages, a plaintiff may obtain unjust enrichment damages or royalties from the defendant. §§ 1836(b)(3)(B)(i)–(ii). Courts may consider several factors when calculating unjust enrichment damages, including: (1) plaintiff's lost profits; (2) defendant's actual profits from using the trade secret; (3) the value a reasonable prudent investor would have paid for the trade secret; and (4) development costs avoided by the defendant by misappropriating the trade secret, and reasonable royalties. *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 879 (5th Cir. 2013). Additionally, many circuits have awarded damages based on the defendant's "avoided cost of developing the trade secret" on his own. See *E.J. Brooks Co. v. Cambridge Sec. Seals*, No. 12-CV-2937 (LAP), 2015 U.S. Dist. LEXIS 174447, at *13–15 (S.D.N.Y. Dec. 23, 2015) (collecting cases from Second, Third, Fifth, Sixth, Ninth, and Tenth Circuits).

If the trade secret is "willfully and maliciously misappropriated" a plaintiff may seek exemplary damages up to two times their award of compensatory damages. § 1836(b)(3)(C). DTSA does not define "willfully and maliciously." To determine what conduct constitutes willful and malicious misappropriation, courts look to the relevant state's version of the Uniform Trade Secrets Act. See *Smart Team Glob. LLC v. HumbleTech LLC*, No. 19-CV-4873 (AJN) (BCM), 2022 U.S. Dist. LEXIS 30281, at *29 (S.D.N.Y. Feb. 18, 2022), *report and recommendation adopted*, No. 19-CV-4873 (AJN) (BCM), 2022 U.S. Dist. LEXIS 30281 (S.D.N.Y. Mar. 22, 2022) (using Virginia's definition of "willfully and maliciously" to grant exemplary damages).

For example, in *Smart Team Global LLC v. Humbletech LLC*, an employee at a software company stole highly confidential source information in an attempt to start his own business. 2022 U.S. Dist. LEXIS 30281, at *2. To determine whether to grant exemplary damages, the court examined Virginia law, which defined "willfully and maliciously" as "acting consciously in disregard of another person's rights." *Id.* at *29 (quoting *Hair Club for Men, LLC v. Lailuma Ehson & Illusion Day Spa, LLC*, 2017 LEXIS 51370, *3 (E.D. Va. Apr. 3, 2017)). Using this definition, the court granted exemplary damages because the intentionality required to steal the data suggested the defendant acted with conscious disregard. See *id.* at *30 (noting that the way the defendant stole the source code suggested "he could not have believed he was entitled" to it, and that he thus acted with conscious disregard).

Attorneys' Fees

A plaintiff may demand reasonable attorneys' fees if the defendant "willfully and maliciously misappropriated" the trade secret. § 1836(b)(3)(D). A victim may also recover if the defendant moves to terminate an injunction in bad faith. *Id.* Plaintiffs should note that a *defendant* may also be eligible for attorneys' fees if the claim of misappropriation of a trade secret was made in bad faith. *Id.* This latter remedy hinges on the phrase "bad faith," which is not defined in the statute.

However, many courts have applied the *Stilwell* test to evaluate claims of bad faith in trade secret misappropriation cases. See, e.g., *Northstar Healthcare Consulting, LLC v. Magellan Health, Inc.*, No. 1:17-CV-1071-ODE, 2020 U.S. Dist. LEXIS 257494, at *84 (N.D. Ga. Feb. 20, 2020) (using *Stilwell* test to evaluate motion for attorneys' fees brought under the DTSA). The *Stilwell* test comes from *Stilwell Development Inc. v. Chen*, where a court found that the plaintiff's "knowing persistence" in asserting bad faith claims required them to pay the other party's attorneys' fees. No. CV86-4487-GHK, 1989 U.S. Dist. LEXIS 5971, at *13 (C.D. Cal. Apr. 25, 1989).

The *Stilwell* test requires that a party seeking attorneys' fees show the objective speciousness of the opposing party's claim and the subjective bad faith of the opposing party in bringing or maintaining the action for an improper purpose. *Id.* at *11–14. Objective speciousness is established when there is a complete lack of evidence as to every element of a prima facie misappropriation of trade secrets claim; i.e. "there was no misappropriation or threatened misappropriation, or the opposing party could not have suffered any economic harm." *Johnson Matthey Process Techs., Inc. v. G.W. Aru LLC*, No. CV420-322, 2022 U.S. Dist. LEXIS 60126, at *6 (S.D. Ga. Mar. 31, 2022) (quoting *Kipu Sys. Llc v. Zencharts Llc*, No. 17-24733-Civ-WILLIAMS/TORRES, 2021 U.S. Dist. LEXIS 67588, at *8 (S.D. Fl. Apr. 6, 2021)). Further, subjective bad faith exists if the plaintiff knowingly or recklessly brings a misappropriation claim with no merit — usually to cause unnecessary delay or harass the opposing party. *Id.* at *10.

Other Methods of Enforcement

Although not technically a "remedy," another recourse for victims is criminal prosecution. For individuals, violations of 18 U.S.C. § 1832 can result in a prison sentence of up to 10 years or a monetary penalty, or both. *Id.* § 1832(a). For organizations, the fine may be "not more than the greater of \$5,000,000 or 3 times the value of the stolen trade secret . . . including expenses for research and design and other costs of reproducing the trade secret." *Id.* § 1832(b).

In "extraordinary circumstances," § 1836 also allows for ex parte seizure, which empowers a court to order law enforcement to seize stolen trade secrets.^[1] § 1836(b)(2)(A)(i). There are eight requirements for issuing an ex parte seizure order: (i) injunctive relief is inadequate; (ii) an immediate and irreparable injury will occur if such seizure is not ordered; (iii) the harm to the plaintiff in denying the seizure outweighs the harm to the defendant; (iv) the plaintiff is likely to succeed in the misappropriation claim; (v) the defendant has actual possession of the trade secret; (vi) the matter to be seized has been described with reasonable particularity, and where possible the location of the matter has been identified; (vii) the plaintiff has shown that the defendant will destroy, move, hide or otherwise make the matter inaccessible; and (viii) the plaintiff has not publicized the requested seizure. § 1836(b)(2)(A)(i). While ex parte seizure provides recourse for plaintiffs in extreme circumstances, courts generally favor less extreme solutions, such as a Temporary Restraining Order. See, e.g., *OOO Brunswick Rain Mgmt. v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 U.S. Dist. LEXIS 2343, at *5–7 (N.D. Cal. Jan. 6, 2017) (imposing TRO instead of granting civil seizure).

Where protections fail, a plaintiff may consider the options discussed here for relief. Plaintiffs should act fast, however, as they will only have three years from the time they discover the misappropriation to file a civil action. § 1832(d).

FOOTNOTES

^[1] See generally Peter J. Toren, *The Defend Trade Secrets Act*, 28 No. 7 Intell. Prop. & Tech. L.J. 3 (2016).

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