

Federal Circuit Upholds Major Trade Secrets and Contract Damages Award in Dispute Stemming from Failed Merger Talks

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The recent Federal Circuit [decision](#) in [AMS-OSRAM USA Inc. v. Renesas Electronics America, Inc.](#) offers valuable lessons related to failed merger attempts, specifically the vast exposure that can result from a party breaching its confidentiality obligations. This protracted case—lasting more than 15 years and involving multiple trials and appeals—also highlights important principles about trade secret and contract remedies for the unauthorized use of proprietary technology.

After multiple trials and appeals, the Federal Circuit substantially affirmed an Eastern District of Texas judgment against the defendant, fka “Intersil,” for misappropriation the trade secrets of the plaintiff, fka “TAOS.” The dispute arose out of failed merger talks between the parties in 2004. The merger discussions were covered by a confidentiality agreement signed in June of 2004, and that agreement expired in June 2007. During the merger discussions, TAOS gave Intersil confidential business information regarding its ambient light sensor technology (the “CBI”). Shortly after the discussions ended in August of 2004, TOAS launched a product embodying the CBI and, contrary to the confidentiality agreement, Intersil began using the CBI to develop competing products, denoted “Primary Products” and “Derivative Products.” Intersil later sold sensor chips to Apple based on the CBI, after being approved as a vendor for specific products between September 2006 and March 2008. TAOS sued Intersil in November 2008 for patent infringement (a claim later dropped), for trade secret misappropriation, and for breach of the confidentiality agreement.

In the first trial in 2015, the jury found Intersil liable for misappropriation of trade secrets under Texas law and breach of the confidentiality agreement under California law, the choice of law in the agreement. The jury awarded disgorgement of TAOS profits of \$48M and exemplary damages of \$10M for the misappropriation, and a reasonable royalty of \$12M for the breach. On appeal, the Federal Circuit in 2018 affirmed the bases of both liability and exemplary damages for misappropriation, but it remanded the case to the district court to determine the amount of damages. The Federal Circuit held, in part, that disgorgement is an equitable remedy for the district judge to decide, and that certain facts needed to be found, notably “the length of any head start period” Intersil gained by its misappropriation.

In the second remand trial in 2021, the jury provided an advisory verdict on disgorgement of profits of \$8.5M for the Primary Products, finding the trade secret was not properly accessible to Intersil until

January 2006, and that the head-start period was 26 months. In addition, the jury awarded exemplary damages of \$64M and reasonable royalty damages of \$6.7M for breach of the confidentiality agreement with respect to the Derivative Products. Post trial, in its findings of facts and conclusions of law, the district court agreed with the jury that the proper disgorgement award was \$8.5M for the Primary Product but found that Texas law capped exemplary damages at twice the disgorgement sum, or \$17.0M. The final judgment reflected this \$25.5M trade secret award and \$7.3M in reasonable royalty damages, along with \$15M in prejudgment interest award and \$3.9M in attorneys' fees from work on the contract claim.

On the second appeal, the Federal Circuit substantially affirmed the monetary awards, except the prejudgment interest calculation. The court reversed the finding that the trade secret was not properly accessible until January 2006. It held that the lower court was wrong in concluding that proper accessibility should be based on when Intersil reverse-engineered TAOS's trade secrets. Instead, the court concluded under Texas law that proper accessibility is based on when Intersil *could* have reverse-engineered the trade secrets, which was in February 2005, shortly after TAOS released its product embodying the trade secret. It observed that the lower court must "ensure that a trade secret remedy is tailored to preventing or negating the unfair advantage derived from improper acquisition." Still, the court upheld the disgorgement award. First, it affirmed the 26-month head-start period finding, though measured from February 2005 (instead of January 2006) to April 2007. Second, it agreed that sales of the Primary Products after April 2007 were recoverable because Apple had approved the designs in September 2006, within the head-start period, and that the sales followed directly from the approval. Third, the court agreed that the entirety of the Primary Products profits were attributable to the misappropriation occurring during the head-start period.

The Federal Circuit also affirmed the reasonable royalty damages award. It first rejected Intersil's argument that the award resulted in an impermissible double recovery, holding that the disgorgement remedy related solely to the Primary Products sales and the reasonable royalty remedy related solely to the Derivative Products sales. The court held that TAOS had a reasonable expectation of compensation in the form of a reasonable royalty for breach, and it rejected Intersil's argument that the royalty award was unjustified because it was undisputed that the Derivative Products did not actually embody the trade secrets. It held that it was sufficient that there was substantial evidence that Intersil used TAOS's confidential information to develop the Derivative Products. "Under California law, a plaintiff may recover for the defendant's breach of a confidentiality agreement not only if the defendant wholly incorporated the plaintiff's contractually protected information into its own products but also if the defendant used the plaintiff's confidential information in the development or implementation of its own products."

Notable takeaways from *AMS-OSRAM USA* are as follows. First, in drafting agreements covering proposed mergers or other types of business transactions involving a sharing of technical information, consider negotiating terms designed to limit exposure in the event of a breach, including short confidentiality periods, limitations on liability, choice of law, and forum selection. Business lawyers may want to consult their brethren IP litigators in considering hypothetical scenarios and would be wise to avoid so-called "standard agreements." Second, in evaluating risk, legal advisors should consider that a bona fide claim of breach of a confidentiality agreement protecting technology is likely to be accompanied by a trade secret misappropriation claim, thus significantly increasing the risk of exposure because of the enhanced remedies available for misappropriation. Moreover, it is the author's belief that juries persuaded that a breach has occurred are likely to also include that misappropriation has occurred, particularly when the breach is egregious and economic harm or unjust enrichment can be traced to the breach.

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