KILPATRICK TOWNSEND

Corporate Espionage

Quarterly News & Notes

Content

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Injunctive relief for trade secret misuse

The facts at issue in the Federal Circuit's recent decision in *Core Laboratories, LP v. Spectrum Tracer Services, L.L.C.*, are all too typical. Two former employees of Core Labs formed Spectrum Tracer to compete with Core Labs as a service provider in the hydraulic fracturing or "fracking" industry. Core Labs sued Spectrum Tracer and the former employees in federal court asserting that Spectrum Tracer misappropriated Core Labs' trade secrets (under Texas law) and later amended its complaint adding claims for patent and copyright infringement. Core Labs then moved for a preliminary injunction. The district court denied Core Labs' motion on the ground that it had failed to establish the irreparable harm requirement for injunctive relief, holding that any harm Core Labs suffered as a result of the infringement could be compensated by money damages.

Nearly one year after the district court denied the motion, Core Labs received a whistleblower email from a Spectrum Tracer employee who stated that his employer was in possession of certain Core Labs software and that he had been directed to recreate it for Spectrum Tracer. Core Labs filed an emergency motion to enjoin Spectrum Tracer from using Core Labs' trade secrets and proprietary information, which motion was also denied because Core Labs could be compensated by a monetary award. Core Labs appealed to the Federal Circuit.

Applying Texas law, the Federal Circuit found that Spectrum Tracer was in possession of Core Labs' trade secrets, was in a position to use them, and, therefore, harm to Core Labs could be presumed. The court went further, holding that such threatened disclosure of Core Labs' trade secrets constituted irreparable harm as a matter of law. Proof that Core Labs had already lost over $1 million in business to Spectrum Tracer demonstrated competitive injury sufficient to warrant injunctive relief under Texas law, according to the Federal Circuit, who reversed the denial of the trade secret injunction but affirmed denial of patent infringement.

Interestingly, in cases involving both trade secret and patent claims, injunctive relief may be easier to obtain for trade secret misuse. Under Texas law, for example, Spectrum Tracer's mere possession and threatened disclosure of Core Labs' trade secrets was sufficient to establish irreparable harm whereas the same showing would likely be insufficient to establish irreparable harm in the patent infringement context. Importantly, the Federal Circuit found Core Labs' arguments to be "convincing for the kind of information at issue here, even if it was not convincing for the patent infringement at issue earlier."

Attorneys' fees for "maintaining" a trade secret misappropriation claim in bad faith

The Uniform Trade Secrets Act, which has now been enacted in every state except New York, North Carolina and Massachusetts, provides for an award of attorneys' fees in the case of willful and malicious misappropriation. It also allows a defendant to recover fees in the case of a "claim of misappropriation . . . made in bad faith." Recently, courts have found bad faith on the part of plaintiffs, and awards to defendants of their attorneys' fees are becoming more common. *See, e.g.*, *All American Semiconductor, LLC v. APX Technology Corp.*, 2013 Cal. App. Unpub. LEXIS 5718 (Cal. App. 4th Dist. Aug. 18, 2013); *Loparex, LLC v. MPI Release, LLC*, 2012 WL 3065428 (S.D. Ind., July 27, 2012); *Sasco v. Rosendin Electric, Inc.*, 143 Cal.Rptr.3d 828 (July 11, 2012). The Seventh Circuit's recent decision in *Tradesmen Int'l Inc. v. Black* highlights risk in commencing *or maintaining* weak misappropriation claims.

The defendants, four former Tradesmen employees, were alleged to have formed a competing construction staffing company in violation of their restrictive covenants and by misappropriating Tradesmen's trade secrets. Tradesmen filed suit against the defendants asserting claims for trade secret misappropriation, tortious interference and breach of contract and sought permanent injunctive relief with respect to the enforcement of the restrictive covenant. Applying Illinois law, the district court granted summary judgment and dismissed all of Tradesmen's claims except a declaratory judgment count. Yet the court denied the defendants' motion for attorneys' fees, holding that the misappropriation claim was not "made" in bad faith because there was no evidence that Tradesmen acted in bad faith at the time it filed suit.

On appeal, the Seventh Circuit rejected the district court's narrow interpretation and held that a claim is "made" in bad faith when it is "initiated or maintained" in bad faith. Tradesmen initially may have had a good faith basis to sue defendants upon learning they had emailed certain Tradesmen information to themselves before departing the company, but the district court should have considered whether the case was maintained in bad faith when Tradesmen knew it could not prevail on the merits of its claims.

Trade secret litigation, by its very nature, moves quickly and often requires filing of a suit before all facts are known. Further investigation, including forensic analysis of computers, PDAs and mobile phones, may reveal evidence in support of the claims, or it may exculpate the alleged misappropriators. In the latter case, it may ill behoove the plaintiff to "double down" in litigation in the hopes of leveraging a quick settlement and/or recouping legal expenditures to date. Continuing such litigation exposes the plaintiff not just to its own legal fees, but quite possibly a claim for attorneys' fees from a vindicated defendant.

Proposed amendments to federal trade secrets laws

Recently Congress began to take action in response to President Obama's call to mitigate the theft of U.S. trade secrets. Still pending in the House of Representatives are two bills proposed by Representative Zoe Lofgren that address trade secret protection. They are not, however, united in the purpose of expanding legal protection for trade secret owners. Instead, in an apparent attempt to balance the interests of Internet activists and trade secret owners, the bills seem to maintain the *status quo* by shifting a private right of action for certain trade secret claims from the Computer Fraud and Abuse Act ("CFAA") to the Economic Espionage Act ("EEA").

Aaron's Law Act of 2013 is named after Aaron Swartz, the Internet "open access" advocate who took his own life while facing federal prosecution for alleged violations of the CFAA. This law would amend the CFAA to narrow its scope and only prohibit "hacking," not activity such as obtaining electronic information for a disloyal purpose. This amendment would resolve the current circuit split over the scope of the CFAA.

On the same date that she proposed Aaron's Law, Representative Lofgren also introduced the Private Right of Action Against Theft of Trade Secrets Act of 2013 ("PRATTSA"). PRATTSA amends the EEA to establish a civil federal cause of action for trade secret misuse.

Representative Lofgren's proposed compromise is likely not what trade secret owners expected from the President's mandate to Congress that it increase relevant protections at the federal level. Although a private right of action under the EEA would apply to a broader array of trade secret theft than the CFAA, which only afforded protection against the misuse of electronic information, the EEA does not, as currently enacted, offer remedies as broad as state trade secrets acts. A comprehensive federal trade secrets reform act, such as the Protecting American Trade Secrets and Innovation Act introduced in the Senate in 2012, does not appear to be on the immediate horizon, and we will have to continue to wait for broader trade secret protection at the federal level.