

Be careful what you ask for: Unjust enrichment in trade secret misappropriation

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According to Lex Machina's 2018 Trade Secret Litigation Report, the number of trade secret cases pursued in U.S. federal courts has increased rapidly since the 2016 enactment of the Defend Trade Secrets Act (DTSA), which granted federal court subject matter jurisdiction over claims raised under the Act.

Last year provided a number of interesting precedential decisions on various topics within the realm of trade secrets law, many of which will no doubt shape litigation tactics (and expectations) going forward.

One decision of particular note came from the Federal Circuit Court of Appeals addressed to the issue of whether unjust enrichment claims were entitled to a jury determination.

Although the case did not specifically deal with claims raised under the DTSA, it nonetheless could impact who is entitled to determine certain types of monetary remedies requested in trade secret cases.

The Federal Circuit, in *Texas Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304 (Fed. Cir. 2018), held that a plaintiff claiming trade secret misappropriation and seeking unjust enrichment damages (sometimes referred to as "disgorgement") has no constitutional right to a jury decision on the amount to be awarded.

There, the owner of a patent for ambient light sensors used in electronic devices sued a competitor for, among other things, misappropriation of trade secrets under Texas common law.

Due to the timing of the claimed misappropriation, the plaintiff in *Texas Advanced* could not bring any statutory trade secret misappropriation claim, either under the DTSA or the then recently minted Texas adoption of the Uniform Trade Secrets Act.

Nonetheless, this decision could foreshadow how federal courts will treat unjust enrichment claims sought in any trade secret matter, even beyond those sounding in common law.

As a general matter, equitable remedies, including injunctions and requests for contract specific performance, are the sole province of the court.

Legal remedies, such as "compensatory damages", are determined by the finder of fact, which is, more often than not, an empaneled jury.

Specifically, our federal Constitution provides a wronged party the right to a jury trial on legal remedies where the value in controversy exceeds \$20.

After a trial on the merits, the Texas Advanced court instructed the jury on, among other things, plaintiff's unjust enrichment claim.

Following deliberations, the jury awarded "damages" in the form of disgorgement of the defendant's profits attributable to the claimed misappropriation.

On appeal, the Federal Circuit held, after significant pontification on the subject, plaintiff did not have a Seventh Amendment right to a jury on its unjust enrichment claim.

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In its analysis, the Federal Circuit first determined that "disgorgement" as a remedy was not available at law in 1791 (when the Seventh Amendment was ratified), for wrongs based on other intellectual property-type claims, such as patent or copyright infringement.

The Court then reasoned that, under what it found to be an analogous "trade secret" claim, a plaintiff would not have been entitled to a jury trial in 1791.

Thus, according to the Federal Circuit, no "disgorgement" remedy is available at law (i.e., entitled to jury determination) for a claim of trade secret misappropriation brought today.

The Federal Circuit noted that "reasonable royalty" is a legal remedy which could be decided by a jury, but because "disgorgement" was an "equitable remedy" it must be determined by the court.

Under the Uniform Trade Secrets Act ("UTSA"), passed in 1985 by the National Conference of Commissioners on Uniform State Laws, and subsequently adopted, at least in some form by 49 states, a

plaintiff can seek several possibly monetary remedies for misappropriation.

As provided in section 3 of the UTSA, “damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.”

The DTSA, largely modeled on the UTSA, includes a similar provision, seemingly defining allowable monetary damages to include a defendant’s “unjust enrichment.”

Historically, claims for misappropriation under state variations of the UTSA have been generally triable to a jury, including both liability and monetary remedies.

Historically, claims for misappropriation under state variations of the Uniform Trade Secrets Act have been generally triable to a jury, including both liability and monetary remedies.

For example, the Sixth Circuit has on numerous occasions, affirmed rare secret misappropriation jury verdicts awarding unjust enrichment “damages.”¹

Other courts considering the issue have similarly concluded that actions seeking “damages” for the misappropriation of trade secrets are legal in nature and thus a plaintiff is entitled to a jury trial on the claimed damages, including those couched as “unjust enrichment.”²

WHAT DOES THIS MEAN FOR YOU?

Texas Advance’s seemingly contrary holding represents a new consideration for plaintiffs seeking unjust enrichment “damages” in trade secret misappropriation claims.

This is particularly so when “unjust enrichment” is the sole measure of monetary relief sought. Other courts may distinguish between the *Texas Advanced* ruling (brought only under Texas common law) from claims brought under statutory rights of action which expressly provide for the recovery of unjust enrichment as “damages” (such as the DTSA or a particular state’s enacted version of the UTSA).

Courts may, however, adopt the reasoning of *Texas Advanced* to retain the power to determine the amount of unjust enrichment and prevent monetary awards from being overturned as being duplicative with any actual damages awarded.

Until this matter is further developed by the individual circuits, trade secret litigants should be aware of and prepared to address this issue prior to trial.

NOTES

¹ See *Mike’s Train House v. Lionel LLC*, 472 F.3d 398 (6th Cir. 2006); *Avery Dennison Corp. v. Four Pillars Entm’t Co.*, 45 F.App’x 479 (6th Cir. 2002).

² See *Newark Group Inc. v. Sauter*, No. 01-cv-1247, 2004 WL 5782100 (S.D. Ohio April 6, 2004) (holding that a right to a jury trial existed under the Ohio Uniform Trade Secrets Act for misappropriation where the plaintiff sought damages only under an unjust enrichment theory); *Control Ctr. LLC v. Lauer*, 288 B.R. 269 (M.D. Fla. 2002) (holding that the plaintiff had a Seventh Amendment right to trial by jury on his damages claim under the Florida Uniform Trade Secrets Act).

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