# Third Circuit Clarifies Requirements for Pleading a Trade Secret Misappropriation Claim under the Federal Defend Trade Secrets Act

July 26, 2021

*Source: New Jersey Federal Practice Alert*

In a recent published, precedential opinion, Oakwood Laboratories LLC v. Thanoo, 999 F.3d 892 (3d Cir. 2021), the Third Circuit clarified the pleading standard necessary to allege a trade secret misappropriation claim under the federal Defend Trade Secrets Act ("DTSA"). This critical guidance provides a roadmap on how district courts in the Third Circuit will examine such claims, and thus how to defend or attack attempts to assert them at the pleading stage:

- Pleadings must identify the allegedly-misappropriated information with enough specificity to place a defendant on notice of the bases of the claim against it.
- It is *not* necessary to allege that the defendant replicated the misappropriated information. Instead, the pleading may allege improper acquisition, disclosure *or* use of a trade secret without consent as the foundation for a misappropriation claim.
- When alleging use of the misappropriated information, the pleading standard is plausibility, not probability.
- It is *not* necessary to allege that the trade secret information was the only source by which the defendant could develop its product.
- Misappropriation, without more, is sufficient harm to support a DTSA claim; harm can be loss of exclusivity, deprivation of market share, a lead start of entry into the industry by the defendant, or cost cutting of research and development for the defendant.

In Oakwood, plaintiff Oakwood Laboratories LLC ("Oakwood") sued its former Vice President of Product Development (Dr. Thanoo), and his subsequent employer Aurobindo Pharma U.S.A., Inc. and several of its related corporate entities (collectively "Aurobindo" or the "Competitor"), alleging claims of trade secret misappropriation, breach of contract, and tortious interference with contractual relations.

Oakwood alleged that it is a technology-based specialty pharmaceutical company which focuses on hard-to-develop injectable drugs, including those involving microsphere systems, a highly sophisticated formulation method for sustained release of an active pharmaceutical ingredient.

Oakwood alleged that it invested more than $130 million and the efforts of dozens of full-time employees for two decades to develop its microsphere technology. Dr. Thanoo was hired in 1997, signing a non-disclosure agreement which prohibited the misuse/disclosure of proprietary information, and was extensively involved in the development of Oakwood's microsphere technology.

Around 2013, the Competitor contacted Oakwood to discuss potential collaboration on Oakwood's microsphere technology, and subject to a confidentiality agreement, acquired some of Oakwood's trade secret information. During those discussions, Dr. Thanoo was introduced to the Competitor's CEO. Eventually, the Competitor informed Oakwood it was not interested in pursuing the business opportunity, and then, six months later, hired Dr. Thanoo. Within months, the Competitor began developing microsphere technology and informed investors it was working on microsphere products and expected to submit abbreviated new drug applications (ANDAs) concerning them to the Food and Drug Administration.

Oakwood alleged that, given the difficult nature of developing specialized microsphere products, such technology is not capable of being replicated in 1-4 years and by expending just $6 million. Based on these factual allegations, Oakwood alleged that the Competitor developed its microsphere products with the knowledge and help of Dr. Thanoo and the trade secret information it obtained during the business negotiations.

The Honorable Peter G. Sheridan of the District of New Jersey granted defendants' Motion to Dismiss the trade secret claims. The Court determined that Oakwood had identified trade secrets but did not identify which trade secrets had allegedly been misappropriated, and did not show whether the defendants acquired and misappropriated trade secrets with knowledge of their confidentiality, how the defendants used the trade secrets, and whether Oakwood suffered any harm. The District Court also determined that Oakwood did not show that Oakwood's trade secrets were the only way the Competitor could have developed its microsphere products or that Oakwood's microsphere technology was replicated. Oakwood appealed.

The Third Circuit panel first indicated that, under the DTSA, a plaintiff must establish: (1) the existence of a trade secret; (2) that is related to a product or service used in, or intended for use in, interstate or foreign commerce; and (3) the misappropriation of that trade secret. In this case, whether Oakwood sufficiently pleaded the first and third elements was at issue.

Concerning the first element, Oakwood alleged its trade secrets to be the information laying out its design, research and development, test methods and results, manufacturing processes, quality assurance, marketing strategies, and regulatory compliance related to its development of a microsphere system for drug delivery. It also identified as trade secrets the variables that affect the development of its microsphere products which it collected through extensive trial and error testing. Oakwood was able to identify the confidential information the Competitor had access to during the parties' business negotiations. The Third Circuit determined that all of this was more than sufficient at the pleading stage to identify the trade secret at issue and the District Court's demand for further precision was misplaced.

Concerning the third element, the panel explained that there are three ways to establish misappropriation under the DTSA: improper acquisition, disclosure, or use of a trade secret

without consent. The District Court had determined that Oakwood's pleadings merely alleged that the Competitor was developing a microsphere product that involved the same two peptides as Oakwood's microsphere products, but the Third Circuit held that this finding erroneously equated "use" under the DTSA with actual replication of Oakwood's trade secret. The Third Circuit instead determined that "use" of a trade secret under the DTSA encompasses all the ways a party can take advantage of trade secret information to obtain an economic benefit, competitive advantage, or other commercial value, or to accomplish a similar exploitative purpose. Of note, the District Court had not been convinced by Oakwood's circumstantial support for its allegations that the Competitor could not have so quickly developed microsphere products without using Oakwood's trade secrets, but the Third Circuit highlighted that direct proof of misappropriation is not required at the pleading stage. Given all this, the Third Circuit found that the factual allegations were more than sufficient to meet the burden of pleading use, and thus misappropriation, of a trade secret.

Finally, the Third Circuit clarified that trade secret misappropriation constitutes actual injury, as the loss of secrecy depreciates the value of the trade secret, and thus held that Oakwood sufficiently pleaded harm even though the Competitor had not yet launched its products.

As such, the panel vacated the District Court opinion and remanded the matter, which should now proceed to discovery.

A copy of the Third Circuit opinion can be found at the following link.

***Note:*** *While Saiber has represented Aurobindo in the past, we did not represent the company in the above matter. This Alert is for informational purposes only based on the facts of the cited decision.*