

INVESTIGATION EXPENSES

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Misappropriating trade secrets is usually done in secret. After all, those taking another's trade secret in violation of state and federal law rarely openly tout their misdeeds. As a result, trade secret owners do not always immediately realize that their trade secret has been misappropriated and must spend significant resources investigating whether misappropriation has occurred and, if so, by whom and to what extent.

An important question frequently arising over the last several years but overlooked in the scholarly literature is whether a trade secret owner's investigation expenses are recoverable as "actual loss" under state and federal trade secret laws. This article provides the first comprehensive analysis of the cases addressing this issue and shows that courts have diverged. Some courts permit trade secret owners to recover investigation expenses, while others have denied or significantly limited recovery of investigation expenses.

This article argues that the best interpretation of the statutes permits recovery of investigation expenses. However, to guard against the risks of awarding these expenses, courts should emphasize and enforce the causation requirement and limit recovery to reasonable investigation expenses. This approach is consistent with the principles underlying the myriad theoretical foundations of trade secrecy and furthers important policy considerations benefitting trade secret owners and misappropriators.

I. INTRODUCTION

Misappropriating trade secrets is usually done in secret.¹ After all, those taking another's trade secret in violation of state and federal law² rarely openly tout their misdeeds.³ As a result, trade secret owners do not always immediately realize that their trade secret has been misappropriated and must spend

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1. Mark A. Lemley, *The Fruit of the Poisonous Tree in IP Law*, 103 IOWA L. REV. 245, 266 (2017) (“[M]isappropriation of trade secrets, like the secrets themselves, is usually concealed from public view.”); Robert G. Bone, *Secondary Liability for Trade Secret Misappropriation: A Comment*, 22 SANTA CLARA COMP. & HIGH TECH. L.J. 529, 534 (2006) (“Because information can be taken without leaving a trace behind, it can be extremely difficult to establish that a trade secret has been misappropriated, and equally difficult to identify the perpetrator.”); see also Zoe Argento, *Killing the Golden Goose: The Dangers of Strengthening Domestic Trade Secret Rights in Response to Cyber-Misappropriation*, 16 YALE J.L. & TECH. 172, 195 (2014) (describing misappropriation by advanced persistent threat as requiring “stealth from the attacker over a long period of time”).

2. UNIF. TRADE SECRETS ACT §§ 1–3 (UNIF. L. COMM’N 1985) (providing a civil cause of action for trade secret misappropriation); 18 U.S.C. § 1836(b) (providing a federal civil cause of action for trade secret misappropriation); 18 U.S.C. §§ 1831–1832 (providing for criminal liability for economic espionage and trade secret theft).

3. Lemley, *supra* note 1, at 266–67 (“[M]isappropriated trade secrets may never see the light of day because they are intended to be used in internal processes rather than sold to the world.”).

significant resources investigating whether misappropriation has occurred and, if so, by whom and to what extent.⁴

An important question frequently arising over the last several years, but overlooked in the scholarly literature, is whether a trade secret owner's investigation expenses are recoverable as "actual loss" under the Uniform Trade Secrets Act (UTSA) and the Defend Trade Secrets Act (DTSA).⁵ Courts diverge on this issue.⁶ Some permit trade secret owners to recover investigation expenses.⁷ Others reject or severely limit recovery of investigation expenses.⁸ This split of authority is particularly troublesome under the UTSA, which is supposed to be a uniform act consistently applied across the forty-eight states that have adopted it,⁹ and the DTSA, a federal law that should be uniformly interpreted nationwide.¹⁰

This article argues that the best interpretation of the UTSA and DTSA is to permit recovery of investigation expenses. However, to guard against the risks of awarding these expenses, courts should emphasize and enforce the causation requirement and limit recovery to reasonable investigation expenses. This approach is consistent with the principles underlying the myriad theoretical foundations of trade secrecy and furthers important policy considerations benefitting trade secret owners and misappropriators.

Part I describes various trade secret misappropriation scenarios and the types of investigation expenses that trade secret owners undertake to discover whether misappropriation occurred, who the responsible parties are, and the

4. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 278 (1998) ("[D]etection of trade secret theft is likely to be very difficult. Unlike tangible property, information can be stolen without depriving the owner of anything observable and without leaving any physical trace of the deed whatsoever."); Bone, *supra* note 1, at 534 ("[D]etection and investigation can be very costly . . ."); ERIC D. SHAW & HARLEY V. STOCK, BEHAVIORAL RISK INDICATORS OF MALICIOUS INSIDER THEFT OF INTELLECTUAL PROPERTY: MISREADING THE WRITING ON THE WALL 14 (2011), <https://www.nationalinsiderthreatsig.org/itrmresources/Behavioral%20Indicators%20For%20Malicious%20Insider%20Theft%20Of%20Intellectual%20Property.pdf> [<https://perma.cc/237S-NCLC>] ("Sometimes the company involved was unaware of the theft until law enforcement notified them after discovering it during a related investigation.").

5. See *infra* Part II.

6. See *infra* Part II.

7. See *infra* Part II.A.

8. See *infra* Part II.B.

9. *Trade Secrets Act: Enactment Status Map*, UNIF. L. COMM'N, <https://www.uniformlaws.org/committees/community-home?communitykey=3a2538fb-e030-4e2d-a9e2-90373dc05792> [<https://perma.cc/P4RX-7SCL>] (last visited Jan. 6, 2026). The only two states that have not adopted the UTSA are New York and North Carolina. However, North Carolina has a statute that is similar to the UTSA. See N.C. GEN. STAT. §§ 66-152 to -157. Although there is some variation among the states regarding specific doctrines, the core of trade secret law is uniform. See Robert G. Bone, *The (Still) Shaky Foundations of Trade Secret Law*, 92 TEX. L. REV. 1803, 1805 (2014) ("[I]he basic features of trade secret law are fairly uniform across states.").

10. See Peter S. Menell & Ryan Vacca, *Breaking the Vicious Cycle Fragmenting National Law*, 2024 U. ILL. L. REV. 353, 359-61 (describing the effects of fragmentation of federal law as generating confusion and inefficiencies, promoting forum shopping, undermining the rule of law, harming competition, producing wasteful litigation, and unnecessarily burdening district and circuit court judges).

scope of the misappropriation. Part II explains the UTSA and DTSA's statutory language relating to the recovery of damages and the courts' different interpretations of this language as applied to investigation expenses. Part III uses numerous tools of statutory interpretation to demonstrate that the better approach is to permit the recovery of investigation expenses. Part IV explicates an approach to investigation expenses that limits the risks and minimizes the concerns about awarding investigation expenses.

I. MISAPPROPRIATION & INVESTIGATION EXPENSES

Under the UTSA and DTSA, misappropriation occurs when one acquires, uses, or discloses a trade secret by improper means.¹¹ “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means”¹² A former employee emailing themselves or copying a protected customer list or formula onto a flash drive in breach of the former employee's contractual obligation is liable for misappropriation.¹³ Fraudulently pretending to conduct business negotiations to obtain trade secrets is also misappropriation,¹⁴ as is using such secret information in the manufacturing, production, or development of new products.¹⁵ In addition to tortious, criminal, or contract-breaching behavior constituting improper means, the term also includes other activities offending commercial morality.¹⁶

Although industrial espionage occurs, trade secret misappropriation involving departing employees is one of the most common forms.¹⁷ Liability for misappropriation can also extend beyond the employee. A third party, such as a new employer, can be liable for misappropriation when it acquires the trade

11. UNIF. TRADE SECRETS ACT § 1(2) (UNIF. L. COMM'N 1985); Bone, *supra* note 4, at 250.

12. UNIF. TRADE SECRETS ACT § 1(1) (UNIF. L. COMM'N 1985).

13. *See, e.g.*, Allergan, Inc. v. Merz Pharms., LLC, No. 11-cv-00446, 2012 WL 781705, *11–12 (C.D. Cal. Mar. 9, 2012); WeRide Corp. v. Kun Huang, 379 F. Supp. 3d 834, 848 (N.D. Cal. 2019); Iacovacci v. Brevet Holdings, LLC, 437 F. Supp. 3d 367, 381 (S.D.N.Y. 2020); *see also* PETER S. MENELL ET AL., TRADE SECRET CASE MANAGEMENT JUDICIAL GUIDE § 8.2.6 (2023) (“An increasingly common fact pattern in trade secret litigation involves an employee who, just prior to resigning, downloads a number of sensitive files and places them on a separate drive or forwards them to a personal email address or cloud storage.”); Charles Tait Graves & Camilla A. Hrdy, *Workplace “Acquisition” of Trade Secrets*, in THE RESEARCH HANDBOOK ON TRADE SECRECY IN DATA AND DATA INFRASTRUCTURE (R. Dreyfuss, K. Strandburg & C. Morten eds., forthcoming 2025) (manuscript at 1–2, 6) (on file with author).

14. *See* Duncan v. Stuetzle, 76 F.3d 1480, 1488 (9th Cir. 1996).

15. *See id.*

16. Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law*, 32 BERKELEY TECH. L.J. 829, 907–08 (2017); Bone, *supra* note 4, at 250; *see also, e.g.*, E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1015 (5th Cir. 1970) (finding that the law recognizes a “higher standard[] of commercial morality” for businesses (quoting Hyde Corp. v. Huffines, 314 S.W.2d 763, 773 (Tex. 1958))).

17. Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357, 359 (2017) (“[D]espite the widely publicized concerns over cyber-espionage, the vast majority of civil trade secret cases feature an alleged thief who is not a stranger or unknown entity, but an employee or former employee of the plaintiff.”); Camilla A. Hrdy, *The Value in Secrecy*, 91 FORDHAM L. REV. 557, 585 (2022).

secret with knowledge or reason to know that it was acquired by improper means.¹⁸ Furthermore, a third party can be liable when it discloses or uses the trade secret with knowledge or reason to know that its knowledge of the trade secret was derived from another who used improper means to acquire it¹⁹ or derived from another who owed a duty to the trade secret owner to maintain its secrecy or limit its use.²⁰ Finally, a third party can be liable if, before a material change in its position, it knew or had reason to know that the information was a trade secret and was acquired by accident or mistake.²¹ A typical scenario involving third-party liability is when new employers hire the trade secret owner's former employees and know that the employees brought the trade secret and are using it in connection with their new employment.²²

Trade secret misappropriation can be difficult to detect.²³ Common clues left by departing employees include unusual log-in activities, accessing, downloading, or deleting documents without a business need or just before the employee's departure, forwarding files to personal or unknown accounts, wiping business devices before returning them, and using mass-storage devices before their departure.²⁴ Other activities causing a trade secret owner to believe something is amiss include an employee leaving for a competitor and receiving a salary much more than the market rate, or a competitor hiring a recently departed employee and quickly developing a similar product covered by the trade secret or suddenly succeeding after a long period of unsuccessful attempts to create the similar product.²⁵

18. UNIF. TRADE SECRETS ACT § 1(2)(i) (UNIF. L. COMM'N 1985).

19. *Id.* § 1(2)(ii)(B)(I).

20. *Id.* § 1(2)(ii)(B)(III).

21. *Id.* § 1(2)(ii)(C).

22. *See, e.g.,* Salsbury Lab'ys, Inc. v. Merieux Lab'ys, Inc., 908 F.2d 706, 713–14 (11th Cir. 1990); Diamond Power Int'l v. Davidson, 540 F. Supp. 2d 1322, 1329–31 (N.D. Ga. 2007); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40, illus. 2 (A.L.I. 1995) (illustrating how a court may find an employer liable for misappropriating another's trade secrets if they knew an employee made unauthorized disclosures of their previous employer's trade secrets); Bone, *supra* note 1, at 537–38 (“[M]any trade secret cases involve employees who take their former employer's trade secrets to their new employment.”); Charles Tait Graves & Sonia K. Katyal, *From Trade Secrecy to Seclusion*, 109 GEO. L.J. 1337, 1346 (2021) (“In the most common form of the traditional case, a company sues a departing employee—and perhaps also the new employer—to enjoin the use or disclosure of trade secrets [or] to seek damages for misappropriation of a trade secret . . .”).

23. *See supra* notes 1–4 and accompanying text; *see also* James H.A. Pooley, Mark A. Lemley & Peter J. Torren, *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 224 (1997) (“Information loss is inherently difficult to detect, since the original property remains intact, apparently untouched. Only surrounding circumstances—such as an employee's furtive behavior or a competitor's inexplicably quick product development—may provide clues.”); Lemley, *supra* note 1, at 267 (“[E]ven when the misappropriation is done by departing employees who might reasonably be suspected of taking secrets with them, it is hard to tell whether they did and, if so, what use has been made of those secrets.”).

24. Janet Craycroft, *Advising the Corporate Client When an Employee Departs for a Competitor*, in TRADE SECRET LITIGATION & PROTECTION 107 (Randall E. Kay, Rebecca Edelson & Robert Milligan eds., 2022); *see also* DAVID COWEN, COMPUTER FORENSICS 206 (2013) (describing typical scenarios of employees misappropriating company information).

25. ROGER M. MILGRIM & ERIC E. BENSEN, 4 MILGRIM ON TRADE SECRETS § 16.01[5][i].

These activities may raise suspicions of trade secret misappropriation, but investigations to uncover the likelihood and details of the misappropriation are more extensive.²⁶ Deceptive behavior, the widespread use of personal devices, and the commingling of personal and work information make detecting misappropriation even more challenging once the employee departs.²⁷

Trade secret misappropriation investigations frequently use forensic methodologies to uncover evidence of whether misappropriation has occurred and to answer the “who, what, why, when, and how” questions surrounding how the misappropriation occurred.²⁸ Because of the incredible amount of digital information used in business,²⁹ digital forensics is frequently used.³⁰ Digital forensics “is the science of preserving and analyzing the files and information contained on [digital devices and sites] for the purpose of presenting findings or opinions about the use and content of that information in court.”³¹ Digital forensic tools (hardware and software) are very specialized; comprehensive investigations typically use multiple tools.³² The more tools used, the more expensive the investigation.³³

The investigation team has several objectives during its investigation.³⁴ These objectives include coordinating the logistics and efforts, creating a

26. James D. Vaughn & Michael Bandemer, *Digital Forensics in Trade Secret Investigations*, in TRADE SECRET LITIGATION & PROTECTION 364 (Randall E. Kay, Rebecca Edelson & Robert Milligan eds., 2022); see also, e.g., *Allergan, Inc. v. Merz Pharms., LLC*, No. 11-cv-00446, 2012 WL 781705, *4 (C.D. Cal. Mar. 9, 2012) (after learning that former employees were leaving for a competitor, the trade secret owner began an investigation into the employees’ activities, including a forensic examination of the employees’ computers and an analysis of their network activity).

27. Vaughn & Bandemer, *supra* note 26, at 366.

28. *Id.* at 364 (“In a trade secret matter, the analysis of evidence obtained from computers, networks, mobile devices, and other electronic storage media has become common.”); MENELL ET AL., *supra* note 13 (“This sort of proof requires highly trained experts who can recreate the path taken, and who can compare the misappropriated information to later work by the defendant to determine whether the secret has been used.”).

29. See Hrdy, *supra* note 17, at 581 (noting “increasing digitization of information” in the workplace).

30. See, e.g., *Solvay Specialty Polymers USA, LLC v. Liu*, No. 18-cv-02120, slip op. at 5–6 (N.D. Ga. Nov. 22, 2019); *AFT Mich. v. Project Veritas*, No. 17-cv-13292, 2024 WL 1344642, at *2 (E.D. Mich. Mar. 29, 2024); *21st Century Sys., Inc. v. Perot Sys. Gov’t Servs., Inc.*, 726 S.E.2d 236, 244 (Va. 2012); *Tank Connection, LLC v. Haight*, 161 F. Supp. 3d 957, 960 (D. Kan. 2016); *Applied Med. Distrib. Corp. v. Jarrells*, 319 Cal. Rptr. 3d 205, 229 (Cal. Ct. App. 2024).

31. Vaughn & Bandemer, *supra* note 26, at 364; see also ROBERT C. NEWMAN, *COMPUTER FORENSICS: EVIDENCE COLLECTION AND MANAGEMENT* 5 (2007) (“Computer forensic science is the science of acquiring, retrieving, preserving, and presenting data that has been processed electronically and stored on computer media.”); COWEN, *supra* note 24, at 4 (“Computer forensics is the practice of determining the past actions that have taken place on a computer system using computer forensic techniques and understanding artifacts.”).

32. Vaughn & Bandemer, *supra* note 26, at 364–65; NEWMAN, *supra* note 31, at 117–18 (“Special tools, equipment, and software are required to collect computer and electronic evidence.”); COWEN, *supra* note 24, at 10 (“Computer forensic tools come in two major categories: *forensic suites* that attempt to provide an overall forensic workbench for an examiner to begin an investigation and *specialized tools* that are designed to pull out artifacts related to a single application.” (emphasis original)).

33. See COWEN, *supra* note 24, at 10, 39; see also NEWMAN, *supra* note 31, at 118 (discussing the wide variety of digital forensic tools and services that commercial vendors offer).

34. Vaughn & Bandemer, *supra* note 26, at 368.

timeline, identifying key players, identifying key data sources, properly preserving data, communicating with the trade secret owner and third parties, examining the collected evidence, and presenting the findings.³⁵

The investigation team can include multiple individuals who perform a variety of roles and tasks.³⁶ The team can include attorneys who interview key players, provide guidance on communication and privacy, report to business leaders, and make strategic decisions.³⁷ The team inevitably includes business leaders or managers who provide background information and identify the key players, data sources, locations, and trade secrets.³⁸ A human resources team member is often included to provide employment information about key players or suspected misappropriators.³⁹ One or more internal information technology members are usually included to provide control and access to the computer systems and data sources.⁴⁰ And, finally, external forensic consultants are used to collect and examine electronic evidence.⁴¹

Once the investigation team has been formed, one of the first important tasks is to identify the potential data sources, which includes understanding the infrastructure and how users can access the data therein.⁴² This step may include interviewing IT personnel to understand “how the servers are accessed by users, what types and frequencies of backups exist, and what logs may exist that cannot be found on the workstation or servers.”⁴³ It also involves understanding what systems are and are not standard, “the use and access of third-party repositories,” and the users’ routine activities on their work computers, such as the websites they visit, whether they use removable devices, what files they regularly use, and their security level clearances.⁴⁴

After identifying the data sources, the next and most crucial step is preserving and collecting digital evidence.⁴⁵ Some of the most important information gathered during an investigation is document and file-system metadata.⁴⁶ Document metadata is the underlying information about particular

35. *Id.*

36. *Id.* at 369.

37. *Id.*

38. *Id.*

39. *Id.*

40. *Id.*

41. *Id.*

42. *Id.* at 370; THOMAS J. HOLT ET AL., CYBERCRIME AND DIGITAL FORENSICS 331–33 (2015) (describing the identification step of forensic investigations).

43. Vaughn & Bandemer, *supra* note 26, at 370.

44. *Id.*

45. *Id.*; HOLT ET AL., *supra* note 42, at 333 (describing the collection and preservation stage of forensic investigations); ALBERT J. MARCELLA, JR. & FREDERIC GUILLOSSOU, CYBER FORENSICS: FROM DATA TO DIGITAL EVIDENCE 216 (2012).

46. Vaughn & Bandemer, *supra* note 26, at 372; NEWMAN, *supra* note 31, at 253 (“Often it is this hidden data that contains vital evidence to prove or disprove a case.”); MARCELLA & GUILLOSSOU, *supra* note 45, at 242 (describing timestamps as being found in file-system metadata or application metadata).

files generated by the program associated with the specific file (e.g., Microsoft Word or Excel).⁴⁷ The program may generate metadata capturing when the file was created, who accessed or saved it, when it was printed, how much time was spent editing it, and any changes to the file.⁴⁸ In contrast, file-system metadata is information the operating system generates, including when the file was created, altered, copied, or deleted.⁴⁹ Because “trade secret investigations rely on large amounts of metadata that can be altered,” gathering data untimely or improperly risks losing this valuable evidence.⁵⁰

Forensic investigators can collect and preserve data and metadata in several ways, including forensic imaging, targeted collections, and cloud collections.⁵¹ Regardless of the type of collection, the underlying goal is to create an image and preserve the integrity of the data.⁵² Forensic imaging involves using particular software and hardware “to capture the entire contents of media while the source is in ‘read only’ mode.”⁵³ In contrast, a targeted collection involves “captur[ing] and . . . verify[ing] selected active files and folders from media.”⁵⁴ Finally, cloud collections “involve gaining user credential[s] for the account and then using third party software to extract data and metadata from the account or by using the cloud service provider’s built-in retrieval platform.”⁵⁵ Following the preservation of the data, the forensic investigator must verify that an unaltered copy has been created.⁵⁶ With all these techniques, the investigator must properly document the steps taken and the processes used to establish the investigator’s credibility and demonstrate compliance with industry standards.⁵⁷

47. Vaughn & Bandemer, *supra* note 26, at 372.

48. *Id.* at 372–73; MARCELLA & GUILLOSSOU, *supra* note 45, at 244–45 (describing various timestamps related to files).

49. Vaughn & Bandemer, *supra* note 26, at 372.

50. *Id.* at 370; NEWMAN, *supra* note 31, at 100 (“It is essential that investigators realize that special precautions must be taken in the collection, preservation, and examination of this evidence. Electronic evidence can easily be altered, damaged, or destroyed on these electronic and computing devices.”).

51. Vaughn & Bandemer, *supra* note 26, at 371.

52. MARCELLA & GUILLOSSOU, *supra* note 45, at 221 (“The acquisition of evidence generally refers to the imaging of the evidence in a forensically sound manner. A forensically sound manner is one in which the evidence is not altered.”).

53. Vaughn & Bandemer, *supra* note 26, at 371; HOLT ET AL., *supra* note 42, at 351–53 (describing write-blocker devices as allowing read-only access to the data on the drive); COWEN, *supra* note 24, at 38–39 (describing the importance of write blockers in digital forensics); MARCELLA & GUILLOSSOU, *supra* note 45, at 224 (noting that it is imperative to use a write blocker).

54. Vaughn & Bandemer, *supra* note 26, at 371; MARCELLA & GUILLOSSOU, *supra* note 45, at 226 (describing acquisition of particular files or file types).

55. Vaughn & Bandemer, *supra* note 26, at 371.

56. HOLT ET AL., *supra* note 42, at 353–56 (describing the verification process); MARCELLA & GUILLOSSOU, *supra* note 45, at 224 (“[I]t is important that every action taken during the investigative process on will do absolutely nothing to destroy, manipulate, change or alter that evidence in any way. The importance of this cannot be overstated.”).

57. Vaughn & Bandemer, *supra* note 26, at 371; NEWMAN, *supra* note 31, at 172 (“Documentation is an ongoing requirement throughout any incident scene investigation. It is very important to accurately record specific details concerning the location and placement of electronic devices, computers, storage media, and any other conventional evidence.”); COWEN, *supra* note 24, at 61 (describing the importance of documenting

After preserving and collecting data, the forensic investigator begins their analysis.⁵⁸ One common step at this stage includes “[r]eviewing the operating system to determine when the operating system was installed or upgraded and what version is currently installed.”⁵⁹ Depending on the circumstances, this “may indicate that there was an inadvertent or deliberate reinstallation of the operating system causing the deletion of all previously existing user profiles and information.”⁶⁰ Installing or upgrading the operating system is a method of overwriting existing data to cover up improper activities.⁶¹

Another common step is “[d]etermining the user profiles that have been created on the computer and the first and last login dates and times.”⁶² In addition, the forensic investigator will “[r]eview[] the system for attempts to obfuscate data on the computer.”⁶³ This involves “reviewing the operating system files for installed and executed applications that have the ability to wipe or clean the system of typical sought-after artifacts such as Internet history, external storage devices connected, or recently opened documents.”⁶⁴ Finally, the forensic investigator will collect and sort the relevant files to understand whether the computer was used during the relevant period and to determine if usage spikes indicate “mass deletion, copying or uploading of files.”⁶⁵

During the investigation, the forensic expert is trying to discover if there has been movement of data⁶⁶ or finding data matching the investigation criteria, such as particular keywords, individuals, or filenames.⁶⁷ Evidence of data movement will support, disprove, or demonstrate the inconclusiveness that misappropriation occurred.⁶⁸ Depending on the specific circumstances of the suspected misappropriation, the forensic investigator may analyze internet histories (e.g., websites, searches, and online repositories), email activities (e.g., use of personal email accounts, messages opened, attachments sent or received, and identifying recipients), instant messaging activities (e.g., discussions about activities or attachments), cloud storage (e.g., installation or use of backups or synchronization programs), mobile device activity (e.g., installation and use of apps, backups of the device, SMS and MMS messages, and app-based messages), removable devices (e.g., what devices were connected, when was the

the testing environment, what the forensic investigator tested against, and their results); MARCELLA & GUILLOSSOU, *supra* note 45, at 218 (noting the importance of proper documentation).

58. Vaughn & Bandemer, *supra* note 26, at 373; *see also* HOLT ET AL., *supra* note 42, at 333, 364–77 (describing the analysis stage of forensic investigations).

59. Vaughn & Bandemer, *supra* note 26, at 373.

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.* at 374.

66. *Id.*

67. MARCELLA & GUILLOSSOU, *supra* note 45, at 234.

68. Vaughn & Bandemer, *supra* note 26, at 374.

device first and last connected, files opened from the device, and reasons for inferring mass copying to the device), and audit logs (e.g., use of cloud-based email that produces audit logs, existence of a data loss prevention system, and use of a virtual private network that keeps audit logs).⁶⁹

Not every misappropriation investigation needs to be a full-fledged investigation. However, as this description of common techniques illustrates, forensic investigations can be major undertakings and cost the suspecting party a significant amount of money if done correctly.⁷⁰ Whether these investigation expenses are recoverable in a successful trade secret misappropriation claim is a question that has sharply divided the courts.

II. DIVERGENCE OVER “ACTUAL LOSS”

Section 3(a) of the UTSA provides, in relevant part: “[A] complainant is entitled to recover damages for misappropriation. 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.”⁷¹ The DTSA similarly provides: “In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may . . . award . . . damages for actual loss caused by the misappropriation of the trade secret”⁷² The key statutory language under both statutes is “actual loss caused by [the] misappropriation.”⁷³

Although courts can theoretically interpret the DTSA differently from the UTSA,⁷⁴ in practice, courts have treated the DTSA and UTSA identically in

69. See *id.* at 374–75; NEWMAN, *supra* note 31, at 175 (“It is also very important to maintain an audit log of any activities associated with the electronic components, data, and information.”); see also COWEN, *supra* note 24, at 208–15 (describing the types of data sources that forensic investigators can analyze in a misappropriation case).

70. See NEWMAN, *supra* note 31, at 177 (“A note of caution: this expertise [knowledge of the evidence-seizure phase of an investigation] is not cheap.”); Danielle J. Reid, Note, *Combating the Enemy Within: Regulating Employee Misappropriation of Business Information*, 71 VAND. L. REV. 1033, 1047 (2018) (noting that forensic investigations “can be an extremely costly endeavor for employers”).

71. UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM’N 1985). Prior to the 1985 amendment, the UTSA’s damages provision stated: “[A] complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.” UNIF. TRADE SECRETS ACT § 3(a) (1979) (UNIF. L. COMM’N, amended 1985). The major changes to section 3(a) in the 1985 amendment were adding a provision for recovery of a reasonable royalty as an alternative form of recovery and restricting damages for an innocent misappropriator. UNIF. TRADE SECRETS ACT § 3 cmt. (UNIF. L. COMM’N 1985).

72. 18 U.S.C. § 1836(b)(3)(B)(i)(I).

73. UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM’N 1985).

74. Sandeen & Seaman, *supra* note 16, at 833.

circumstances where the DTSA uses similar language.⁷⁵ Congress directly drew the DTSA's damages provisions from the UTSA.⁷⁶

This section provides a comprehensive review of the cases addressing whether investigation expenses count as “actual loss” under the UTSA and DTSA and analyzes how and why the courts have split on this issue. Some courts have permitted recovery of investigation expenses,⁷⁷ while others have denied investigation expenses altogether or significantly limited potential recovery to a subset of expenses.⁷⁸

A. Recovery Permitted

In the following six cases, the courts held that investigation expenses were recoverable as actual loss under the DTSA and their state's version of the UTSA.⁷⁹

In *Food Services of America, Inc. v. Carrington*,⁸⁰ a food-product distributor sued its former employees for misappropriating trade secrets, including customer information and the plaintiff's business strategies.⁸¹ One of the employees went into the office when he was not scheduled to work, accessed the employer's computer system, and emailed several hundred email strings, which included protected trade secrets.⁸² After terminating their employment, the employer

75. See, e.g., *Source Prod. & Equip. Co., Inc. v. Schehr*, No. 16-cv-17528, 2017 WL 3721543, at *2 (E.D. La. Aug. 28, 2017) (noting that the definitional sections of the UTSA and DTSA are very similar and that state law informs the court's interpretation of the DTSA); *Phyllis Schlafly Revocable Tr. v. Cori*, No. 16-cv-01631, 2016 WL 6611133, at *2 (E.D. Mo. Nov. 9, 2016) (“The elements of Plaintiffs’ trade secret misappropriation claims under the DTSA and [Missouri UTSA] are essentially the same.”); *Enchant Christmas Light Maze & Mkt. Ltd. v. Glowco, LLC*, No. 19-cv-00966, 2019 WL 5964531, at *5 (M.D. Tenn. Nov. 13, 2019) (“The requirements for establishing misappropriation of a trade secret are largely the same under the DTSA and the Uniform Act.”); see also Josh J. Leopold, Comment, *Searching for Standing: Are Improper Acquisition or Threatened Misappropriation of Trade Secrets Cognizable Injuries Sufficient for Article III Standing?*, 90 U. CHI. L. REV. 2261, 2282 (2023) (noting that courts interpreting the DTSA rely on state trade secret law based on the UTSA).

76. H.R. REP. 114-529 at 12 (2016); see also *Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Grp.*, 68 F.4th 792 (2nd Cir. 2023) (explaining that the DTSA's remedial scheme is based on the UTSA and that UTSA cases are effectively examining the DTSA).

77. See *infra* Part II.A.

78. See *infra* Part II.B. Following the courts' similar treatments of similar provisions under the UTSA and DTSA, courts have not distinguished between the UTSA and DTSA when it comes to investigation expenses. See *Syntel Sterling*, 68 F.4th at 808.

79. In addition to these six cases, in *CTC Global Corp. v. Huang*, No. 17-cv-02202, 2019 WL 4148184 (C.D. Cal. July 29, 2019), the defendants argued that investigation expenses were not recoverable as a matter of law and filed a motion in limine to exclude the plaintiff's evidence of its investigation expenses. Defendants' Notice of Motion and Motion in Limine to Exclude Evidence of CTC's Investigation Costs at 4, *CTC Glob. Corp. v. Huang*, No. 17-cv-02202 (C.D. Cal. July 15, 2019), ECF No. 231. The court denied the defendants' motion in limine. Minutes of Pretrial Conference at 3, *CTC Glob. Corp. v. Huang*, No. 17-CV-02202 (C.D. Cal. July 15, 2019), ECF No. 270. This suggests that the court did not believe that investigation expenses are unrecoverable as a matter of law.

80. No. 12-cv-00175, 2013 WL 4507593 (D. Ariz. Aug. 23, 2013).

81. *Id.* at *1.

82. *Id.* at *2.

demanded the return of any documents in the employees' possession.⁸³ The employees either denied possessing any such documents or failed to respond.⁸⁴ Months later, the employer investigated one of the employees' accounts and discovered the emails that had been sent.⁸⁵

The employer alleged that the employees had unlawfully acquired and disclosed the trade secrets⁸⁶ and that even if the employees did not use the trade secrets, the employer was still harmed because ten of its "employees spent in excess of 75 employee hours reviewing the documents' that were misappropriated by Defendants."⁸⁷

The court denied the employees' motion for summary judgment. It held that the employer provided evidence of its investigation expenses, demonstrated that these expenses were "incurred as a direct result of [the employees'] conduct," and therefore established damages under the Arizona UTSA.⁸⁸ The court relied on precedent from the Arizona Supreme Court, which determined that "when the wrongful act of a defendant 'makes it necessary to incur expense to protect [the plaintiff's] interest, such costs and expenses . . . should be treated as the legal consequences of the original wrongful act and may be recovered as damages."⁸⁹

In *SJ Medconnect, Inc. v. Boice*,⁹⁰ the plaintiff asserted violations of the DTSA and the Florida UTSA because the defendant had used and disclosed trade secrets after his employment was terminated when he put them on publicly accessible websites.⁹¹ The plaintiff claimed compensatory damages of \$25,524, which represented the amount it paid "to five internal employees and one external consultant to investigate and remediate Defendant's misappropriation of Plaintiff's trade secrets."⁹² The court held that this constituted "actual loss caused by the misappropriation."⁹³

In *Solvay Specialty Polymers USA, LLC v. Liu*,⁹⁴ an employer sued its former employee for trade secret misappropriation under the DTSA and Georgia UTSA when the employee "accessed hundreds of confidential documents containing trade secrets, copied them to thumb drives, and absconded with

83. *Id.*

84. *Id.*

85. *Id.*

86. *Id.* at *11.

87. *Id.* at *14.

88. *Id.*

89. *Id.* (alterations in original) (quoting *United States Fid. & Guar. Co. v. Frohmler*, 227 P.2d 1007, 1009 (Ariz. 1951)).

90. No. 20-cv-00903, 2022 WL 3136798 (M.D. Fla. June 17, 2022), *report and recommendation adopted as modified* by 2022 WL 2981073 (M.D. Fla. July 28, 2022).

91. *Id.* at *2.

92. *Id.* at *5.

93. *Id.* (quoting 18 U.S.C. § 1836(b)(3)(B)(i)(I)).

94. No. 18-cv-02120, slip. op. (N.D. Ga. Nov. 22, 2019).

them.”⁹⁵ Among other relief, the employer sought actual damages of \$21,931.43, which included the expenses that the employer “incurred in engaging the services of outside forensic experts to assess the extent of [the former employee’s] unauthorized activity and potential damage to its system.”⁹⁶ The employer provided invoices from the forensic experts, which detailed their rates and the hours that they spent assessing the computer systems.⁹⁷ The court found the expenses to be reasonable and awarded the employer the full amount of the actual damages it requested.⁹⁸

In *AFT Michigan v. Project Veritas*,⁹⁹ the plaintiff sued the defendants under the Michigan UTSA.¹⁰⁰ It alleged that one defendant, acting on behalf of the other, “misrepresented herself to secure an unpaid, three-month internship with [the plaintiff]” and “[d]uring her internship, . . . covertly obtained [the plaintiff’s] documents and recorded the conversations of [the plaintiff’s] staff members.”¹⁰¹

The defendants filed a motion to disqualify and exclude the plaintiff’s expert, who would testify about the damages that the plaintiff suffered due to the misappropriation.¹⁰² In particular, the expert was prepared to testify that the plaintiff was damaged in the amount of time that its “employees spent responding to the infiltration,” including “trying to identify the extent of the infiltration (e.g., the documents [the defendant] gained access to), meeting with other employees and [the plaintiff’s] leadership and legal counsel, and involvement in this litigation.”¹⁰³ The expert would also discuss the expenses that the plaintiff incurred when it hired a forensic investigator “to assess the documents and information [the defendant] accessed.”¹⁰⁴

The court rejected the defendants’ challenge and held that the expert’s opinion was admissible.¹⁰⁵ The court held that these investigation expenses were “foreseeable and direct harms flowing from Defendants’ actions.”¹⁰⁶ The court distinguished the time that the plaintiff’s employees spent in connection with the lawsuit from these other investigation expenses; it reserved judgment on those expenses until further briefing had occurred.¹⁰⁷

95. *Id.* at 1–2.

96. *Id.* at 6.

97. *Id.*

98. *Id.*

99. No. 17-cv-13292, 2024 WL 1344642 (E.D. Mich. Mar. 29, 2024).

100. *Id.* at *1.

101. *Id.*

102. *Id.*

103. *Id.* at *2.

104. *Id.*

105. *Id.* at *6.

106. *Id.* at *5.

107. *Id.*

In *Capital City Home Loans, LLC v. Darnell*,¹⁰⁸ a departing employee took client information from her former employer and used it in connection with her new employment.¹⁰⁹ The former employer sued under the DTSA and the Florida UTSA.¹¹⁰ The former employer sought \$5,636.25 in investigation expenses as “actual loss” under the statutes.¹¹¹ The district court emphasized that there must be a causal connection between the actual loss and the misappropriation and noted that but-for causation is sufficient.¹¹² There was no dispute that, but for the employee’s misappropriation, the former employer “would not have had to investigate her misappropriation,” and therefore, the investigation expenses were recoverable.¹¹³

On appeal, the defendant argued that the investigation expenses should not be recoverable because they were incurred by the plaintiff hiring “a law firm to investigate and remediate [the defendant’s] theft before suing her.”¹¹⁴ The Eleventh Circuit affirmed the judgment and held that neither the DTSA nor the FUTSA precludes prelitigation legal bills involving the investigation of misappropriation as “actual loss” and that these “expenses were proximate enough to [the defendant’s] misappropriation to count as actual losses.”¹¹⁵

Finally, in *21st Century Systems, Inc. v. Perot Systems Government Services, Inc.*,¹¹⁶ an employer sued its former employees for misappropriation under the Virginia UTSA.¹¹⁷ As part of its misappropriation claim, the plaintiff sought damages to compensate it for the expenses that it incurred for “a forensic investigation to determine the extent to which [the plaintiff’s] confidential files and trade secrets had been compromised.”¹¹⁸

At trial, the plaintiff’s president “testified that the almost simultaneous departures of a number of [plaintiff’s] executives was ‘[v]ery much out of the ordinary,’ and, as a result, [he] ‘asked [his] team to just make sure that [they were] not going to lose any proprietary information.’”¹¹⁹ Later, the plaintiff learned that some defendants were working together to copy files from the system right after their resignations.¹²⁰ Because of this, the plaintiff hired a forensic investigator to help the plaintiff “figure out what exactly [was] going

108. No. 21-cv-228, 2023 WL 4169614 (N.D. Fla. May 11, 2023), *aff’d*, 2024 WL 4534567 (11th Cir. Oct. 21, 2024).

109. *Id.* at *1.

110. *Id.*

111. *Id.*

112. *Id.*

113. *Id.*

114. *Capital City Home Loans, LLC v. Darnell*, No. 23-cv-12066, 2024 WL 4534567, at *3 (11th Cir. Oct. 21, 2024).

115. *Id.* at *5–6.

116. 726 S.E.2d 236 (Va. 2012).

117. *Id.* at 238.

118. *Id.*

119. *Id.* at 244 (some alterations in original).

120. *Id.*

on.”¹²¹ The investigator submitted a highly detailed invoice for \$371,002 relating to the investigation that it conducted for the plaintiff.¹²²

After a jury verdict in favor of the plaintiff, the trial court awarded \$371,002 in computer forensic expenses.¹²³ On appeal, the defendants argued that the investigation expenses were litigation costs and were not recoverable as damages.¹²⁴ The Virginia Supreme Court rejected this argument and held that the trial court did not err in refusing to set aside the investigation expenses as damages.¹²⁵

Although these cases held that investigation expenses were recoverable as actual loss, the courts failed to note the split of authority on the issue and did not provide thorough reasoning to justify their conclusions.¹²⁶

B. Recovery Denied

Despite these cases recognizing that investigation expenses are recoverable as actual loss, in the following three cases, the courts rejected or partially rejected including investigation expenses as part of the actual loss that the plaintiffs suffered.

In *News America Marketing In-Store, Inc. v. Marquis*,¹²⁷ a former employer sued its former employee and his new employer for trade secret misappropriation under the Connecticut UTSA.¹²⁸ At trial, the plaintiff proved that one day before its former vice president of retail marketing submitted his resignation, he took hard copies of various documents (including emails, store-list materials, and presentations containing revenue information from the plaintiff) and brought the materials to his home.¹²⁹ Only the store-list materials were deemed trade secrets.¹³⁰ After the defendant resigned, the plaintiff paid \$4,990 to a third party to investigate the former employee’s computer; another employee

121. *Id.* (alteration in original).

122. *Id.*

123. *Id.* at 240.

124. *Id.* at 244.

125. *Id.* at 245.

126. *See generally* *Food Servs. of Am., Inc. v. Carrington*, No. 12-cv-00175, 2013 WL 4507593 (D. Ariz. Aug. 23, 2013) (failing to note the split of authority as to whether investigation expenses are recoverable as actual loss); *SJ Medconnect, Inc. v. Boice*, No. 20-cv-00903, 2022 WL 3136798 (M.D. Fla. June 17, 2022) (same), *report and recommendation adopted as modified* by 2022 WL 2981073 (M.D. Fla. July 28, 2022); *Solvay Specialty Polymers USA, LLC v. Liu*, 18-CV-02120, slip. op. (N.D. Ga. Nov. 22, 2019) (same); *AFT Mich. v. Project Veritas*, No. 17-cv-13292, 2024 WL 1344642 (E.D. Mich. Mar. 29, 2024) (same); *Capital City Home Loans, LLC v. Darnell*, No. 21-cv-00228, 2023 WL 4169614 (N.D. Fla. May 11, 2023) (same), *aff’d*, 2024 WL 4534567 (11th Cir. Oct. 21, 2024); *21st Century Sys.*, 726 S.E.2d at 236 (same).

127. 862 A.2d 837 (Conn. App. Ct. 2004).

128. *Id.* at 840.

129. *Id.* at 841.

130. *Id.* at 841–42.

participated in the investigation, and \$8,653 of his salary was tied to the investigation.¹³¹

The trial court determined that the former employee had misappropriated the plaintiff's trade secret, but the court concluded that the plaintiff failed to prove that it suffered actual loss.¹³² An issue on appeal was whether the expenses of investigating what, if any, information was taken by the defendant, so that the plaintiff could determine whether it should pursue litigation, constituted "actual loss" under the Connecticut UTSA.¹³³

The plaintiff argued that the defendant's misconduct forced it to investigate, and therefore the expenses that it incurred in connection with the investigation constituted actual loss.¹³⁴ The appellate court rejected this argument.¹³⁵

The court said that it was unaware of any Connecticut authority permitting investigation expenses to count as actual damages.¹³⁶ It distinguished a case in which the court permitted a plaintiff to recover its "out-of-pocket expenses" by saying that that case involved the use (not just acquisition) of the misappropriated trade secret by a competitor, which caused actual (i.e., competitive) harm.¹³⁷ Furthermore, the plaintiff's expenses in that case were used to attempt to mitigate the harm caused by the defendant's use of the trade secret.¹³⁸ In contrast, in *News America*, the expenses were "incurred in the course of investigating *whether* the plaintiff had suffered an injury as a result of [the defendant's] misconduct."¹³⁹

The court saw the investigation expenses as a litigation cost, which each party normally bears.¹⁴⁰ In addition, the court explained that allowing a plaintiff to recover its investigation expenses as actual damages "would effectively eliminate the plaintiff's burden of proving actual harm resulting from [the defendant's] alleged violation of the trade secrets act."¹⁴¹

The *News America* court's distinctions are problematic. The court gave no reason as to why misappropriation by *using* the trade secret entitles the plaintiff to recover its investigation expenses, whereas misappropriation by *acquisition*

131. *Id.* at 842.

132. *Id.* at 844–45.

133. *Id.* at 845.

134. *Id.* at 846.

135. *Id.*

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.* (emphasis in original). The Sedona Conference endorses this view. *See* The Sedona Conference, *Commentary on Monetary Remedies in Trade Secret Litigation*, 24 SEDONA CONF. J. 349, 377–78 (2023) (opining that increased costs or expenses that are proximately caused by the misappropriation may be recoverable, but expenses for investigating whether misappropriation occurred are not necessarily recoverable in the absence of the defendant using, as opposed to acquiring, the trade secret).

140. *News Am. Mktg. In-Store, Inc.*, 862 A.2d at 846.

141. *Id.*

does not.¹⁴² Instead, it relied on another distinction: the presence or absence of competitive harm.¹⁴³ But whether additional harm has been demonstrated does not logically command a broader or narrower understanding of the term “actual loss.”

In *Tank Connection, LLC v. Haight*,¹⁴⁴ an employer filed suit against a former employee alleging that when the employee left to work for a competitor, the employee took the plaintiff’s trade secrets in violation of the Kansas UTSA.¹⁴⁵ During his employment, the defendant regularly, and with consent, copied and transferred files from the plaintiff’s servers to his laptop and flash drives.¹⁴⁶

Eventually, the defendant was contacted by a competitor about prospective employment.¹⁴⁷ After attempting to renegotiate his compensation with the plaintiff, he resigned.¹⁴⁸ He left his laptop and several flash drives in his office.¹⁴⁹ Several days later, the defendant deleted the plaintiff’s files from his personal flash drives, collected other items in his possession (promotional materials and three flash drives), and returned them to the plaintiff.¹⁵⁰

The plaintiff searched the laptop and flash drives and sent them to forensic experts to see if they “contained ‘evidence of data harvesting.’”¹⁵¹ Additional flash drives and the defendant’s new computer were also examined during the litigation.¹⁵²

The examination results showed that the defendant “accessed numerous directories and files” the day before his resignation.¹⁵³ The investigation also showed that a device was used on the computer, the defendant copied files to the device, and the defendant “accessed various files and directories from the device after they were copied from the laptop.”¹⁵⁴ Furthermore, the investigation showed that the defendant accessed directories and files on the plaintiff’s server, including a file with information on 276 contacts.¹⁵⁵ Notably, the forensic expert determined that the thumb drive used the day before the defendant’s resignation was not accounted for in the devices that the defendant had returned to the plaintiff.¹⁵⁶ The plaintiff paid one forensic expert \$33,386.25

142. *See id.*

143. *Id.* at 846.

144. 161 F. Supp. 3d 957 (D. Kan. 2016).

145. *Id.* at 958–59.

146. *Id.* at 959.

147. *Id.*

148. *Id.* at 959–60.

149. *Id.* at 960.

150. *Id.*

151. *Id.*

152. *Id.*

153. *Id.* at 961.

154. *Id.*

155. *Id.*

156. *Id.*

for its investigation of the laptop and another expert \$5,187.50 for its examination of the flash drives produced during the litigation.¹⁵⁷

The defendant moved for summary judgment on the Kansas UTSA claim, arguing that the plaintiff did not suffer actual damages from the alleged misappropriation; the court agreed.¹⁵⁸ As part of its losses from the misappropriation, the plaintiff asserted the \$33,386.25 and \$5,187.50 that it paid as part of the investigation.¹⁵⁹

The court noted a split in the jurisdictions on whether investigation expenses can be recovered as actual loss under the UTSA.¹⁶⁰ Relying on *News America*, the court held that the investigation expenses were not “actual loss caused by misappropriation.”¹⁶¹ Instead, the court reasoned, these expenses were “incurred by [the plaintiff] based on its suspicions that [the defendant] might have taken data,”¹⁶² and the “plaintiff would have incurred the expenses regardless of the outcome of the examination—i.e., regardless of whether any misappropriation had occurred.”¹⁶³ The *Tank Connection* court saw the investigation expenses as “an attempt to find proof of . . . misappropriation, [rather than] a loss resulting from . . . misappropriation.”¹⁶⁴ In effect, the court saw investigation expenses as problematic from both a causation perspective and substantively as a type of loss—i.e., investigation expenses are unrecoverable even if causation was satisfied. As a result, the court granted the defendant’s motion for summary judgment.¹⁶⁵ As described more fully in Part IV.B, this is an unduly narrow interpretation of causation.¹⁶⁶

And, finally, in *Applied Medical Distribution Corp. v. Jarrells*,¹⁶⁷ an employer sued its former employee for trade secret misappropriation under the California UTSA.¹⁶⁸ Before resigning to take a job with a competitor, the defendant secretly copied trade secrets to his laptop, copied these files to a thumb drive, and then uploaded them onto a computer issued to him by his new employer.¹⁶⁹ He then wiped his original computer and network drives and returned his original computer to the plaintiff.¹⁷⁰ The plaintiff noticed increased downloads

157. *Id.* at 962.

158. *Id.* at 962–64.

159. *Id.* at 965–66.

160. *Id.*

161. *Id.* at 966.

162. *Id.*

163. *Id.*

164. *Id.*

165. *Id.* at 967.

166. *See infra* Part IV.B.

167. 319 Cal. Rptr. 3d 205 (Cal. Ct. App. 2024).

168. *Id.* at 214.

169. *Id.* at 213–14.

170. *Id.* at 214.

and transfer data and “hired an outside forensic expert to investigate the nature and extent of what [the defendant] had done.”¹⁷¹

A jury found that the defendant had misappropriated the plaintiff’s trade secrets, but the misappropriation was not a substantial factor in causing damage to the plaintiff.¹⁷² At trial, the plaintiff’s damages expert was expected to include \$80,000 in fees paid to the forensic expert as investigation damages, but the defendant objected.¹⁷³ The trial court sustained the objection.¹⁷⁴ The jury awarded no damages.¹⁷⁵

On appeal, the plaintiff argued that the fees it paid to the forensic expert “to determine the existence and extent of any trade secret misappropriation . . . and to stop or mitigate the misappropriation” were recoverable.¹⁷⁶ Ultimately, the court held that expert fees incurred to stop or mitigate misappropriation were recoverable, but the fees incurred to investigate the suspected misappropriation were not.¹⁷⁷

In reaching its conclusion, the appellate court first noted that California’s version of the UTSA contains an additional provision permitting a prevailing party to recover costs, which include “a reasonable sum to cover the services of expert witnesses, who are not regular employees of any party, actually incurred and reasonably necessary in either, or both, preparation for trial or arbitration, or during trial or arbitration, of the case by the prevailing party.”¹⁷⁸ Such costs are only available to plaintiffs in limited circumstances, such as when the misappropriation is willful and malicious.¹⁷⁹ Such a provision does not exist in the UTSA.¹⁸⁰ The court reasoned that because this provision permits recovery of expert fees only in limited circumstances, this was a “strong indication the Legislature did not intend such fees to be awarded as ‘actual loss[es]’ caused by misappropriation.”¹⁸¹

The appellate court also looked at cases from other jurisdictions and noted the “split on whether expert fees are awardable as ‘actual loss’ damages.”¹⁸² Relying on *News America* and *Tank Connection*, the *Jarrells* court distinguished between the expenses associated with stopping or mitigating the

171. *Id.*

172. *Id.*

173. *Id.* at 229.

174. *Id.*

175. *Id.* at 214–15.

176. *Id.* at 212.

177. *Id.*

178. CAL. CIV. CODE § 3426.4 (West 2007).

179. *Id.*

180. Compare *id.* (permitting recovery of costs in the case of willful and malicious misappropriation), with UNIF. TRADE SECRETS ACT § 4 (UNIF. L. COMM’N 1985) (permitting recovery of attorney fees).

181. *Jarrells*, 319 Cal. Rptr. 3d at 229 (alteration in original).

182. *Id.*

misappropriation and the expenses of investigating whether and how the misappropriation occurred.¹⁸³

In the first stage of the investigation, the forensic expert examined the defendant's laptop and the data loss prevention log to see what had been downloaded and transferred to the thumb drive.¹⁸⁴ According to the expert,

at the time all the company knew was that there was a download, they weren't sure whether . . . and to what extent there was a breach of their system. And that's why they sought out assistance as to . . . how to further investigate that, how to preserve the evidence and examine it to determine exactly what happened.¹⁸⁵

During the second stage of the investigation, the forensic expert examined the thumb drive and the defendant's new laptop to see where the files containing the trade secrets ended up.¹⁸⁶ The second stage also involved identifying files that the defendant had deleted after being served with the complaint and the notice to preserve evidence.¹⁸⁷

The \$80,000 bill for the investigation covered both stages but did not break down the expenses between the two.¹⁸⁸ The court held that the plaintiff could recover for the stage-two investigation and that the trial court had erred in refusing to allow those expenses to be included in calculating "actual losses."¹⁸⁹ The stage-one investigation expenses were unrecoverable.¹⁹⁰

III. CONSTRUING THE STATUTES

Ultimately, whether investigation expenses are recoverable as "actual loss" is a matter of statutory construction. This part uses several common tools of statutory interpretation—the statutory text, legislative history, general principles and analogous cases from other areas of the law that serve as theoretical foundations for trade secrecy, and policy considerations—to conclude that the better interpretation is to permit the recovery of investigation expenses.

183. *Id.* at 232.

184. *Id.*

185. *Id.* at 232–33 (alterations in original).

186. *Id.* at 233.

187. *Id.*

188. *Id.*

189. *Id.* at 233–34.

190. *Id.*

A. Statutory Text

The UTSA and DTSA are statutes, so the logical place to begin analyzing what the phrase “actual loss” means is the statutory text itself.¹⁹¹ Unfortunately, the term “actual loss” is not defined in the UTSA or DTSA,¹⁹² so looking elsewhere is necessary to determine whether “actual loss” covers investigation expenses.

For textualists,¹⁹³ dictionary definitions have been a popular tool for giving statutes meaning.¹⁹⁴ What, if anything, do dictionaries from around the passage of the UTSA tell us? The fifth edition of Black’s Law Dictionary, published in 1979—the same year the UTSA was approved—contains an entry for “actual loss.”¹⁹⁵ “Actual loss” is defined as “[o]ne resulting from the real and substantial destruction of the property insured.”¹⁹⁶ This definition is unhelpful for two reasons. First, it clearly contemplates a connection to an insurance contract, which is not the context in which trade secret misappropriation occurs. Second, this definition focuses on the destruction of property, which is not required for trade secret misappropriation.¹⁹⁷ Although disclosure or use of a trade secret can destroy its ability to continue as a trade secret,¹⁹⁸ this is not always the case; a trade secret may persist after misappropriation.¹⁹⁹

191. See *Consumer Prod. Safety Comm’n v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980) (“We begin with the familiar canon of statutory construction that the starting point for interpreting a statute is the language of the statute itself.”). *But see* Adam M. Samaha, *Starting with the Text—On Sequencing Effects in Statutory Interpretation and Beyond*, 8 J. LEGAL ANALYSIS 439, 443–69 (2016) (questioning the usefulness of the call to “start with the text”).

192. See UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM’N 1985); 18 U.S.C. § 1839.

193. During a 2015 interview, Justice Kagan stated, “We’re all textualists now.” HARVARD LAW SCHOOL, *The 2015 Scalia Lecture Series: A Dialogue with Justice Elena Kagan on Reading of Statutes*, at 08:29 (YouTube, Nov. 25, 2015), <https://www.youtube.com/watch?v=dpEtszFT0Tg> [<https://perma.cc/WN8N-E56R>]. However, seven years later, in a dissenting opinion, she stated, “Some years ago, I remarked that ‘[w]e’re all textualists now.’ It seems I was wrong. The current Court is textualist only when being so suits it.” *West Virginia v. EPA*, 597 U.S. 697, 779 (2022) (Kagan, J., dissenting) (alteration in original) (citations omitted).

194. James J. Brudney & Lawrence Baum, *Oasis or Mirage: The Supreme Court’s Thirst for Dictionaries in the Rehnquist and Roberts Eras*, 55 WM. & MARY L. REV. 483, 486 (2013). *But see id.* at 502–04 (describing limitations of dictionaries in interpreting statutes).

195. *Actual loss*, BLACK’S LAW DICTIONARY (5th ed. 1979).

196. *Id.*

197. Leopold, *supra* note 75, at 2291 (“[A]fter each instance of improper acquisition or threat, the benefit to the trade secret holder might remain the same as it did before the improper acquisition or threat . . .”).

198. See, e.g., *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 954 (D.C. Cir. 1966) (“Once the secret is published to the ‘whole world,’ however, it loses its protected status and becomes available to others for use and copying without fear of legal reprisal from the original possessor.”); see also Matthew R. Millikin, Note, *www.misappropriation.com: Protecting Trade Secrets After Mass Dissemination on the Internet*, 78 WASH. U. L.Q. 931, 936 (2000) (“The problem with trade secrets and the Internet, however, is that once someone posts information on the Web, the information becomes available for the entire world to see, and it ceases to be a secret.” (footnote omitted)).

199. Leopold, *supra* note 75, at 2291.

Although the dictionary definition of “actual loss” is unhelpful, Black’s Law Dictionary also defines both “actual” and “loss” separately.²⁰⁰ Concatenating these definitions might provide more guidance. The definition of “actual,” in relevant part, is “[r]eal; substantial; existing presently in act; having a valid objective existence as opposed to that which is merely theoretical or possible. Opposed to potential, possible, virtual, theoretical, hypothetical, or nominal.”²⁰¹ “Loss” is defined, in relevant part, as “a generic and relative term. It signifies the act of losing or the thing lost; it is not a word of limited, hard and fast meaning.”²⁰² Read together, these definitions suggest that the phrase “actual loss” is a flexible and broad term covering a variety of damages, with the only limitation being that the loss cannot be theoretical or hypothetical.

This interpretation of “actual loss” seems to include investigation expenses. Investigation expenses are actual dollars spent in connection with the misappropriation rather than hypothetical amounts that the trade secret owner could have incurred if it had pursued the investigation.²⁰³

Moving beyond dictionary definitions, taking note of the entire language of the UTSA’s and DTSA’s damages provisions might provide further guidance.²⁰⁴ Looking to adjacent language in the same statute can help courts determine the meaning of “actual loss.”

The UTSA currently provides:

Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a

200. *Actual*, BLACK’S LAW DICTIONARY (5th ed. 1979); *loss*, BLACK’S LAW DICTIONARY (5th ed. 1979).

201. *Actual*, BLACK’S LAW DICTIONARY (5th ed. 1979). One lay dictionary has a similar definition: “Existing in fact or reality; being existing, or acting at the present moment; current; corresponding to all human facts; based on fact: an actual account.” *Actual*, THE AMERICAN HERITAGE DICTIONARY (2nd ed. 1982).

202. *Loss*, BLACK’S LAW DICTIONARY (5th ed. 1979). One lay dictionary has a similar definition: “The act or an instance of losing; . . . [t]he harm or suffering caused by losing or being lost . . .” *Loss*, THE AMERICAN HERITAGE DICTIONARY (2nd ed. 1982).

203. To be clear, the focus on actual versus hypothetical is on the amounts spent by the plaintiff, not on whether the plaintiff’s claim is actual or hypothetical. The courts in *News America*, *Tank Connection*, and *Jarrells*, distinguishing between investigating whether misappropriation occurred (i.e., a hypothetical claim) and mitigating harm from the misappropriation (i.e., an actual claim), may have drawn this distinction based on a similar misunderstanding. *See News Am. Mktg. In-Store, Inc. v. Marquis*, 885 A.2d 758, 760 (Conn. 2005); *Tank Connection, LLC v. Haight*, 161 F. Supp. 3d 957, 965 (D. Kan. 2016); *Applied Med. Distrib. Corp. v. Jarrells*, 319 Cal. Rptr. 3d 205, 230 (Cal. Ct. App. 2024). To the extent that these courts misunderstood this concept, it further erodes the persuasiveness of their argument that investigation costs are not recoverable.

204. *See, e.g., Imhof v. Walton Cnty.*, 328 So. 3d 32, 41 (Fla. Dist. Ct. App. 2021) (looking at surrounding provisions and related statutes to construe a statutory term); *United Sav. Ass’n of Texas v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (“Statutory construction, however, is a holistic endeavor. A provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme . . . because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law . . .” (citations omitted)); *State ex rel. Coventry Police Dep’t v. Charlwood*, 224 A.3d 467, 471 (R.I. 2020) (“[T]he ‘whole act rule’ of statutory construction ‘requires that we consider the entirety of a statute or ordinance, rather than view specific provisions in isolation.’” (quoting *Ryan v. City of Providence*, 11 A.3d 68, 74 (R.I. 2011))).

monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. 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. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.²⁰⁵

The DTSA provides:

In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may . . . award (i)(I) damages for actual loss caused by the misappropriation of the trade secret; and (II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or (ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret²⁰⁶

Read together, these provisions cover a wide range of damages: actual loss, unjust enrichment, and reasonable royalties. Because of this wide variety of damages, a leading treatise notes the “flexible nature of damage awards” and that “[t]he computation of damages in a trade secret misappropriation case is not ‘cut and dried.’”²⁰⁷ It continues, “The courts should remain imaginative and flexible when determining trade secret damages under the DTSA”²⁰⁸ (and, by implication, the UTSA).

Given the broad array of monetary relief and the flexible approach to these remedies, it appears that the UTSA and DTSA do not take a narrow interpretation of damages. A broader interpretation better aligns with this approach and supports a view that includes investigation expenses.

B. *Legislative History*

Legislative history is another common tool used in statutory construction. Although there are strong opinions about the utility of legislative history,²⁰⁹ it can, in some circumstances, help us understand the purpose of the law and what it means.²¹⁰

Unfortunately, the legislative history of the UTSA and DTSA sheds no light on whether “actual loss” covers investigation expenses. My research assistant

205. UNIF. TRADE SECRETS ACT § 3 (UNIF. L. COMM'N 1985).

206. 18 U.S.C. § 1836(b)(3)(B)(i)–(ii).

207. MELVIN F. JAGER, TRADE SECRETS LAW § 4:11 (2025).

208. *Id.*

209. ROBERT A. KATZMANN, JUDGING STATUTES 39–43 (2014) (describing the textualist critique of legislative history).

210. *Id.* at 35–38.

and I reviewed the draft reports and correspondence relating to the UTSA from the National Council of Commissioners of Uniform State Law (now the Uniform Law Commission)²¹¹ and the legislative history of the DTSA, including bills, reports, videos of congressional hearings, statements of senators and representatives, and the presidential signing statement.²¹²

Although the legislative history of the UTSA addresses remedies, these discussions focus on the importance of providing the panoply of remedies available in the UTSA: actual damages, unjust enrichment, reasonable royalties, exemplary damages, and attorney fees.²¹³ There is no mention in these documents about what the terms “damage” or “actual loss” mean.²¹⁴ The legislative history of the DTSA was similarly unhelpful. Senate and House reports simply confirm that the DTSA’s provision on damages was “drawn directly from § 3 of the UTSA.”²¹⁵

It is worth noting that section 3(a) of the UTSA was amended in 1985. Both the original 1979 version and the amended 1985 version of the UTSA use the term “actual loss.”²¹⁶ The major change to section 3(a) was the addition of reasonable royalties as an alternative measure of damages.²¹⁷ There is no suggestion in the UTSA’s legislative history that the amendment affected the meaning of “actual loss.”²¹⁸

C. *Theoretical Foundations & Analogous Causes of Action*

Another interpretive tool for construing whether “actual loss” covers investigation expenses is to analyze the theoretical foundations underlying trade secrecy and look to general principles undergirding recovery of damages. There is great debate about whether trade secret law is best grounded in tort, contract, property, intellectual property, criminal law, or employment law.²¹⁹ This

211. Thank you to Professor Sharon Sandeen for making this treasure trove of documents available.

212. See William H. Manz, *Defend Trade Secrets Act of 2016: A Legislative History of Public Law No. 114-153* (2017), <https://heinonline.org/HOL/P?h=hein.leghis/deftresca0001&ci=1> [<https://perma.cc/J3KA-8D56>]; DREXEL UNIV. THOMAS R. KLINE SCH. OF L., *Legislative History of the Defend Trade Secrets Act of 2016* (last updated Aug. 19, 2022), <https://klinelaw.libguides.com/c.php?g=488526&p=3340869> [<https://perma.cc/7PLJ-R4KR>].

213. Manz, *supra* note 212, at Doc. No. 21.

214. See generally Manz, *supra* note 212 (failing to discuss the meaning of the terms “damage” or “actual loss”).

215. S. REP. NO. 114-220, at 9 (2016); H.R. REP. NO. 114-529, at 13 (2016).

216. UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM’N 1985) (providing a redline version of the legislation illustrating the amendment).

217. Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493, 537–38 (2010) (describing the 1985 amendments to section 3 of the UTSA).

218. See UNIF. TRADE SECRETS ACT Prefatory Note (UNIF. L. COMM’N 1985).

219. Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 312 (2008) (“Courts, lawyers, scholars, and treatise writers argue over whether trade secrets are a creature of contract, of tort, of property, or even of criminal law.”); *id.* at 316 (“[Trade secret law] also evolved out of a

“multiplicity of origins” provides additional lenses from which to understand what “actual loss” means.²²⁰

This section examines general principles of tort and unfair competition law, contract law, intellectual property law, and employment law to reveal how courts should interpret “actual loss” under the UTSA and DTSA. This section also analogizes to cases within some of these theoretical bases and cases interpreting a federal statute governing computer fraud and abuse to support the view that “actual loss” covers investigation expenses.

1. *Tort & Unfair Competition Law*

There is little doubt that trade secret law “evolved out of a series of related common law torts: breach of confidence, breach of confidential relationship, common law misappropriation, unfair competition, unjust enrichment, and torts related to trespass or unauthorized access to a plaintiff’s property.”²²¹ Looking to earlier and contemporaneous sources of tort and unfair competition remedies may shed light.

Before the enactment of the UTSA and DTSA, trade secret law was a common law creation, and most courts cited the Restatement (First) of Torts as authority.²²² Sections 902 and 903 of the Restatement supply slight support for “actual loss” covering investigation expenses. Section 902 explains that “[d]amages’ means a sum of money awarded to a person injured by the tort of another.”²²³ The comments then explain that “[d]amages flow from an injury,” distinguish injury from harm, and note that a cause of action may exist even in the absence of harm because there has still been an injury.²²⁴ They follow with an example of awarding nominal or punitive damages to a landowner for trespass to land which “causes no harm to the land or to the feelings or the pecuniary interests of the landowner.”²²⁵ This commentary and example suggest a broad conception of damages and that a remedy is warranted even in the absence of actual harm. A trade secret owner who incurs investigation expenses

series of legal rules—contract and common law—governing the employment relationship.”); Bone, *supra* note 4, at 304 (arguing that trade secret law lacks a foundation but that most of it can be handled by contract law); James W. Hill, *Trade Secrets, Unjust Enrichment, and the Classification of Obligations*, 4 V.A. J.L. & TECH. 2, at 124 (1999) (“Currently, trade-secret law is a [sic] primarily a fusion of tort and unjust-enrichment law.”); Graves & Katyal, *supra* note 22, at 1345 (“Rather than attributing a unitary origin story to the development of trade secret law, research efforts show a multiplicity of origins stemming from an overlapping web of tort, property, and contract principles.”).

220. Graves & Katyal, *supra* note 22, at 1345.

221. Lemley, *supra* note 219, at 316; *see also* Hrdy, *supra* note 17, at 566 (prior to the UTSA, “trade secret law . . . was generally lumped within a larger body of law called unfair competition”).

222. *See* Hrdy, *supra* note 17, at 566.

223. RESTATEMENT (FIRST) OF TORTS § 902 (A.L.I. 1939).

224. *Id.* at § 902 cmt. a.

225. *Id.*

as a result of misappropriation seems more entitled to monetary relief than the landowner who suffers no financial harm as a result of a trespass.

Section 903 of the Restatement further supports coverage. Like section 902, section 903 also uses broad language. Section 903 defines “compensatory damages” as “the damages awarded to a person as compensation, indemnity or restitution for harm sustained by him.”²²⁶ The comments then explain that “[w]here there has been harm only to the pecuniary interests of a person, compensatory damages are designed to place him in a position substantially equivalent in a pecuniary way to that which he would occupy had no tort been committed.”²²⁷ As applied to trade secret owners, the courts should put them in the position that they would have been in had the misappropriation not occurred. With investigation expenses, the trade secret owner would not have spent money on the investigation had the defendant not misappropriated the trade secret.²²⁸ As discussed in detail later, there are some scenarios where the causal link between the misappropriation and the investigation expenses fails.²²⁹ But, as explained in that section, in general, causation can be established.²³⁰

These same broad principles have been adopted as part of the Restatement (Third) of Torts, which provides that “[a] plaintiff who establishes a defendant’s liability in tort generally is entitled to a remedy or remedies that will place that plaintiff, as nearly as possible, in the position the plaintiff would have occupied if the tort had not been committed.”²³¹ Similar to the analysis under the First Restatement, the trade secret owner should be entitled to remedies that will place it in the same position that it would have been in had the misappropriation not occurred. Without the misappropriation, the trade secret owner would not have spent money on the investigation.²³²

Finally, we can look to the Restatement (Third) of Unfair Competition for guidance.²³³ Section 45 spells out the remedies available for trade secret misappropriation.²³⁴ Like the Restatement of Torts, the Restatement of Unfair Competition takes a broad and flexible view of what damages a trade secret

226. *Id.* § 903.

227. *Id.* § 903 cmt. a.

228. A counterargument is that the trade secret owner would have spent money on the investigation even if the investigation revealed no misappropriation. This counterargument is addressed below in the discussion about causation. *See infra* Part IV.B.

229. *See id.*

230. *See id.*

231. RESTATEMENT (THIRD) OF TORTS: REMEDIES § 2 (A.L.I. Tentative Draft No. 1, 2022).

232. Again, the causation limitations and nuances will be explained below. *See infra* Part IV.B.

233. Although the Restatement (Third) of Unfair Competition was not published until after the enactment of the UTSA, it accurately captures the law under the UTSA. *See* James Pooley, *A Brief History of U.S. Trade Secret Law*, 50 AIPLA Q.J. 683, 695 (2022) (“In general, the law as expressed in the new Restatement is identical to that codified in the UTSA or the DTSA, with the exception that ‘reasonable efforts’ to protect secrecy remains a factor to be considered rather than a requirement to establish the existence of a protectable secret.”).

234. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 (A.L.I. 1995).

owner is entitled to: the pecuniary loss caused by the appropriation.²³⁵ The comments to section 45 explain that trade secret owners can “recover any other proven pecuniary loss attributable to the appropriation”²³⁶ and note that “[c]ourts have permitted recovery of the costs of remedial efforts such as promotional expenses undertaken to recapture customers lost as a result of the defendant’s appropriation.”²³⁷ Although the example does not specifically address investigation expenses, the broad first sentence about recovery of loss attributable to the misappropriation encompasses a variety of losses, including losses due to investigations.

Other influential sources describing tort-based remedies suggest damages for misappropriation should be broad, and that investigation expenses should be recoverable. For example, Callmann on Unfair Competition, Trademarks, and Monopolies notes that “[a]ctual damages may arise out of the expense and time involved in tracing the effect of the defendant’s acts”²³⁸ and “as with other torts, the perpetrator of a competitive tort should answer for all the consequences naturally resulting from his wrongful act. Recoverable damages, therefore, include compensation for all injury to a plaintiff’s business naturally and proximately caused by the defendant’s tortious act.”²³⁹

Likewise, the Federal Judicial Center’s Trade Secret Case Management Judicial Guide notes that compensation in trade secret misappropriation cases is “rooted in the common law development of misappropriation as a tort,” the goal is “making the plaintiff whole,” and achieving this may require flexibility and creativity.²⁴⁰ This guide specifically addresses investigation expenses:

When calculating a plaintiff’s loss, courts may consider a range of issues including lost sales, price erosion, reduced probability of success for products not yet marketed, lost business opportunities, reputational harm, *costs and expenses incurred in investigating and/or mitigating the misappropriation*, and fair market value of a trade secret if it has been destroyed through public disclosure.²⁴¹

Although not overwhelmingly supportive of the argument that investigation expenses are recoverable as actual losses, it seems clear that tort law generally, and unfair competition law specifically, take a broad view of what damages are recoverable.²⁴² Putting the plaintiff in the position that they would have been in but for the defendant’s tortious conduct is the goal.²⁴³

235. *Id.*

236. *Id.* § 45 cmt. e.

237. *Id.*

238. MALLA POLLACK, 5 CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 23B:22 (4th ed. July 2024).

239. *Id.* § 23B:18.

240. MENELL ET AL., *supra* note 13, § 8.2.5.

241. *Id.* § 7.3.4 (emphasis added).

242. *See supra* notes 223–24, 231, 234, 236 and accompanying text.

243. *See supra* notes 223, 231 and accompanying text.

Compensating a trade secret owner for its investigation expenses caused by the misappropriator squares nicely with this principle.

Few tort cases involve plaintiffs seeking investigation expenses as actual damages.²⁴⁴ This may be because many types of torts are committed in the open, or because it is easy to determine who committed the tort or how it was committed. However, one case involving fraud permitted the recovery of investigation expenses.

In *Gibson v. Kentucky Farm Bureau Mutual Insurance Co.*,²⁴⁵ the two defendants reported their truck stolen on June 1, 2005 and received an insurance payout.²⁴⁶ Later, a third party, Mendez, tried to register the truck and provided the original certificate of title with the defendants' notarized signatures on the back and a date of March 22, 2005.²⁴⁷ These circumstances raised the insurance company's suspicion about the truck being stolen and the company initiated an investigation.²⁴⁸ The investigation revealed a series of poorly documented transfers demonstrating that the defendants sold the truck in March 2005 but claimed that it was stolen a few months later.²⁴⁹

The insurance company filed suit against the defendants alleging fraud, and the jury returned a verdict in the insurance company's favor for \$43,778.53.²⁵⁰ \$16,500 of this award was for the expenses of investigating the claim.²⁵¹ On appeal, the defendants argued that investigation expenses were not recoverable under Kentucky law, and the insurance company argued that such expenses were correctly awarded as compensatory damages.²⁵²

The court of appeals held that Kentucky law permits the recovery of investigation expenses.²⁵³ The court cited section 549 of the Restatement (Second) of Torts, which governs damages for fraudulent misrepresentation.²⁵⁴ Like the Restatement provisions discussed earlier,²⁵⁵ section 549 permits recovery of "compensatory damages, *plus all reasonable investigation and litigation*

244. Investigation expenses in tort cases are typically borne by the plaintiff's counsel, who is compensated by the counsel's fee. See Curtis Lee, *What Are "Costs" in a Personal Injury Case?*, NOLO (Jan. 4, 2024), <https://www.nolo.com/legal-encyclopedia/what-are-costs-in-a-personal-injury-case.html> [<https://perma.cc/87DR-RY7Q>]. These expenses are thus not recoverable as actual damages, but only as attorney fees, which are rarely awarded in tort cases. Aaron Bartholomew & Sharon Yamen, *Business Beware: The Changing Face of Attorney-Fee Awards in U.S. Courts*, 13 AM. U. BUS. L. REV. 1, 5–6 (2024).

245. 328 S.W.3d 195 (Ky. Ct. App. 2010).

246. *Id.* at 198.

247. *Id.*

248. *Id.*

249. See *id.* at 198–99.

250. *Id.* at 199.

251. *Id.* at 204.

252. *Id.* at 203.

253. *Id.* at 204.

254. *Id.*

255. See *supra* notes 223–24, 231, 234, 236 and accompanying text.

expenses.”²⁵⁶ This lends some support to the view that investigation expenses for trade secret misappropriation claims should be recoverable. However, it is important to note that the court also cited a Kentucky criminal statute that provides that those damaged as a result of fraud have a cause of action “to recover compensatory damages, *plus all reasonable investigation and litigation expenses.*”²⁵⁷ Of course, the UTSA’s and DTSA’s lack of specific language permitting recovery of investigation expenses serves as a basis for distinguishing this case. Still, the additional discussion of section 549 of the Restatement suggests that such expenses would be recoverable even without the criminal statute.

2. Contract Law

Contract law, another foundation for trade secrecy, also reinforces the view that investigation expenses are recoverable. This is based on the nonbreaching party’s ability to recover incidental damages for loss.²⁵⁸ Cases involving breaches of confidentiality and nonsolicitation agreements are commonly asserted alongside and most analogous to trade secret misappropriation claims.²⁵⁹ These cases support the recovery of investigation expenses.²⁶⁰ Additional support involves the sale of goods under the Uniform Commercial Code (UCC).²⁶¹

a. Nondisclosure & Nonsolicitation Agreements

Turning first to common law breach of contract claims relating to confidentiality and nonsolicitation agreements, two cases are illustrative. In *Sandberg v. STMicroelectronics, Inc.*,²⁶² STMicroelectronics (ST) hired Jerome Sandberg, an accountant and attorney, as an employee.²⁶³ Sandberg signed a confidentiality agreement, which prohibited him from using or disclosing ST’s

256. *Gibson*, 328 S.W.3d at 205; RESTATEMENT (SECOND) OF TORTS § 549 (A.L.I. 1977) (emphasis in original).

257. *Gibson*, 328 S.W.3d at 204–05 (quoting KY. REV. STAT. ANN. § 304.47-020(6) (West 2021) (emphasis in original)).

258. RESTATEMENT (SECOND) OF CONTS. § 347 (A.L.I. 1981) (“[T]he injured party has a right to damages based on his expectation interest as measured by . . . any other loss, including incidental or consequential loss, caused by the breach”); U.C.C. §§ 2-712, -713, -714 (A.L.I. & UNIF. L. COMM’N 2022) (permitting recovery of incidental damages).

259. See Camilla A. Hrdy & Christopher B. Seaman, *Beyond Trade Secrecy: Confidentiality Agreements that Act like Noncompetes*, 133 YALE L.J. 669, 685 (2024) (“Confidentiality agreements frequently appear in trade secret lawsuits brought against current or former employees.”); Charles Tait Graves, *Questioning the Employee Non-Solicitation Covenant*, 55 LOY. L.A. L. REV. 959, 964 (2022) (“[E]fforts to enforce co-worker non-solicitation covenants are often brought alongside more significant claims for trade secret misappropriation”).

260. See *infra* Part III.C.2.a.

261. See *infra* Part III.C.2.b.

262. 600 S.W.3d 511 (Tex. App. 2020).

263. *Id.* at 518–19.

information and required him to promptly return all such information upon his termination.²⁶⁴

After ST notified Sandberg that his employment was being terminated, Sandberg downloaded numerous files onto thumb drives and refused to turn over his laptop even after repeated reminders not to copy any files.²⁶⁵ A few days later, Sandberg returned the laptop.²⁶⁶ Suspicious that Sandberg had copied confidential files, ST hired an investigator “to conduct a forensic analysis of the computer to determine whether Sandberg had copied any files after his termination.”²⁶⁷ The investigation revealed that Sandberg had copied the files.²⁶⁸

ST alleged a breach of the confidentiality agreement and prevailed at trial.²⁶⁹ The jury awarded ST damages to compensate ST for the money that it paid to the investigator for analyzing the computer.²⁷⁰ On appeal, Sandberg argued that the investigation expenses were not recoverable as damages under the breach of contract claim.²⁷¹ The court of appeals disagreed and affirmed ST’s award of the investigation expenses.²⁷² The court of appeals held that “[t]he jury could find that, when Sandberg returned the computer four days later without certifying that he had not copied any files, ST had to have the computer examined to determine whether Sandberg had copied any files.”²⁷³ The fees paid to the investigator for the forensic examination “to determine whether Sandberg had copied information and . . . whether any information copied was returned” were recoverable.²⁷⁴

Similarly, in *Saturn Systems, Inc. v. Militare*,²⁷⁵ Saturn Systems, a debt-collection agency, employed Delbert Militare as a sales agent.²⁷⁶ The employment agreement contained a confidentiality agreement, which prohibited Militare from soliciting Saturn Systems’s clients for one year following termination of the contract.²⁷⁷ A couple years later, Militare left to join one of Saturn Systems’s competitors and solicited Saturn Systems’s clients.²⁷⁸ After learning about the solicitation of one client and unauthorized access to its website, Saturn Systems hired a computer specialist to investigate

264. *Id.* at 519.

265. *Id.*

266. *Id.* at 520.

267. *Id.*

268. *Id.*

269. *Id.* at 521.

270. *Id.*

271. *Id.* at 527.

272. *Id.* at 529.

273. *Id.* at 528.

274. *Id.*

275. 252 P.3d 516 (Colo. App. 2011).

276. *Id.* at 519–20.

277. *Id.* at 520.

278. *Id.*

Militare's activities.²⁷⁹ The investigation confirmed that Militare had accessed fifteen client accounts after his termination.²⁸⁰ The trial court awarded Saturn Systems damages for breach of the nonsolicitation agreement, which included the amount paid to the computer specialist to investigate the breach.²⁸¹

On appeal, Militare argued that investigation expenses were not recoverable as breach of contract damages, but the court of appeals disagreed.²⁸² The court explained that “[t]he measure of damages in a breach of contract action is the amount it takes to place the plaintiff in the position it would have occupied had the breach not occurred.”²⁸³ It held that the expenses paid to investigate the breach of the nonsolicitation agreement “w[ere] traceable to and the direct result of Militare’s breach of the nonsolicitation [agreement].”²⁸⁴

As *Sandberg* and *Saturn Systems* illustrate, breach of contract cases analogous to trade secret misappropriation claims support the view that investigation expenses should be recoverable as actual loss under the UTSA and DTSA.

b. Uniform Commercial Code

Additional support for the recovery of investigation expenses is found in the UCC. UCC section 2-715 explains, “Incidental damages resulting from the seller’s breach include expenses reasonably incurred in inspection . . . of goods rightfully rejected . . . and any other reasonable expense incident to the delay or other breach.”²⁸⁵ Three important aspects of 2-715 stand out. First, although phrased as “inspection,” this section expressly covers investigation expenses—investigating whether the goods are defective and acceptable.²⁸⁶

For example, in *Carbo Indus., Inc. v. Becker Chevrolet, Inc.*,²⁸⁷ the plaintiffs—the owner and lessee of an automobile—filed suit against the defendants, the sellers of the automobile.²⁸⁸ The plaintiffs experienced mechanical problems, and after several rounds of repairs and towing, it was determined that the engine had seized.²⁸⁹ Eventually, the plaintiffs filed suit against the defendants for breach of warranty.²⁹⁰ At the close of the plaintiffs’ case, the defendants argued, in part, that the plaintiffs had not suffered any recoverable damages, and the trial court dismissed the claim.²⁹¹ The appellate court disagreed and held that

279. *Id.*

280. *Id.*

281. *Id.* at 521.

282. *Id.* at 529.

283. *Id.*

284. *Id.*

285. U.C.C. § 2-715(1) (A.L.I. & UNIF. L. COMM’N 2022).

286. Roy R. Anderson, *Incidental and Consequential Damages*, 7 J.L. & COM. 327, 340–41 (1987).

287. 491 N.Y.S.2d 786 (N.Y. App. Div. 1985).

288. *Id.* at 336–37.

289. *Id.* at 337.

290. *Id.* at 336.

291. *Id.* at 338.

“[t]he towing charges and other charges incurred by plaintiffs in diagnosing the problem with the car could have been found to constitute compensable incidental damages.”²⁹²

Similarly, in *Warren v. Guttanit, Inc.*,²⁹³ which involved breach of warranty claims for defective roofing materials, the plaintiffs spent more than \$8,000 having the roofing materials inspected and tested.²⁹⁴ The trial court denied recovery because it determined “that the inspection was made solely for the purposes of this litigation.”²⁹⁵ But the appellate court reversed and, citing UCC section 2-715(1), held that the inspection expenses were recoverable.²⁹⁶ It acknowledged that “expenses incurred solely for the purposes of litigation are generally not recoverable as damages either in contract or tort.”²⁹⁷ However, because the plaintiffs’ inspection expenses were to determine whether the leaking roof was due to improper installation or defective roofing materials, these expenses were recoverable even though the inspection turned out to be helpful to the plaintiffs in the litigation.²⁹⁸ As the court explained, “Before plaintiffs could sensibly determine what to do about their leaking roof, it was necessary to ascertain whether the roof leaked because of the shoddy composition of the materials or because of faulty installation.”²⁹⁹

Diagnosing the problem with a defective car and determining the cause of a leaking roof are similar to investigating whether and how a trade secret misappropriation has occurred; the investigation is simply a diagnosis of the misappropriation. This aspect of contract law and the cases permitting recovery of inspection or investigation expenses strengthen the argument that the UTSA and DTSA should be construed similarly.

The two other notable aspects of incidental damages under contract law are not geared toward supporting or undermining the recovery of investigation expenses under the UTSA and DTSA. Instead, they help establish a foundation for imposing guardrails to control abuse and frivolousness in trade secret investigations.³⁰⁰

The second notable aspect of UCC section 2-715(1) is that it limits the expenses to those “reasonably incurred.”³⁰¹ This requirement substantively limits the amount of incidental damages to those expenses that would be foreseeable and implies that unreasonable expenses are not foreseeable.³⁰² As

292. *Id.* at 340.

293. 317 S.E.2d 5 (N.C. Ct. App. 1984).

294. *Id.* at 13.

295. *Id.*

296. *Id.*

297. *Id.*

298. *Id.*

299. *Id.*

300. See *infra* Part IV.

301. U.C.C. § 2-715(1) (A.L.I. & UNIF. L. COMM’N 2022).

302. Anderson, *supra* note 286, at 343.

Professor Roy Anderson has explained, “If the buyer pays far more in expenses than he should reasonably have spent elsewhere, the court will almost certainly find that the expenses were not ‘reasonably incurred.’”³⁰³ In essence, this imposes a mitigation requirement on the nonbreaching party.³⁰⁴

The third notable aspect—the requirement that such damages be “incident to the delay or . . . breach”³⁰⁵—imposes a causation requirement. Incidental damages are limited to those that “would not have occurred but for the seller’s breach.”³⁰⁶ In contrast, expenses incurred regardless of the breach fail this causation requirement.³⁰⁷ For example, in a case where the defendant sold a defective boring mill, the plaintiff’s expenses in “disassembling, packing, loading and transporting the mill to [the] factory, and the cost of installing the mill” could not be recovered because the plaintiff would have incurred these expenses regardless of whether a breach had occurred.³⁰⁸ Reasonableness of the expenses also plays into causation.³⁰⁹ Unreasonable expenses can be avoided; therefore, they are not caused by the breach.³¹⁰

In addition to providing a theoretical foundation for trade secrecy and analogous support for the recovery of investigation expenses, the reasonableness limitation and causation requirement imposed by contract law can serve as guardrails to control abuse and frivolousness in trade secret investigations.³¹¹

3. Intellectual Property Law

Because trade secrets are a form of intellectual property,³¹² looking to other intellectual property statutes may be a helpful tool. As Professor William Johnson Jr. recognized when the UTSA was being finalized, judges interpreting the law regarding trade secret damages “have a convenient body of law to look to for guidance,” namely the federal statutes covering intellectual property

303. *Id.* at 344.

304. *Id.*

305. *Id.* at 343.

306. *Id.*

307. *Id.* at 344.

308. *Id.* (citing *City Mach. & Mfg. Co. v. A&A Mach. Corp.*, 4 Fed. R. Serv. (Callaghan) 461, 1967 WL 8832 (E.D.N.Y. 1967)). Although it is possible to argue that investigation expenses cannot be causally linked to the misappropriation because the investigation would have occurred regardless of the outcome of the investigation, this is an incorrect understanding of how courts have approached the causal connection in other contexts. *See infra* Part IV.B.

309. Anderson, *supra* note 286, at 344–45.

310. *Id.* at 345.

311. *See infra* Part IV.

312. David S. Levine & Christopher B. Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 WAKE FOREST L. REV. 105, 107 n.3 (2018) (noting that trade secret law is part of intellectual property law but that it receives less attention than copyright, patent, and trademark law); Lital Helman, *Trade Secrets and Personal Secrets*, 55 U. RICH. L. REV. 447, 453 (2021).

law.³¹³ In particular, examining trademark and copyright cases³¹⁴ can provide guidance in construing “actual loss” under the UTSA and DTSA.

a. Trademark Law

Federal trademark law, governed by the Lanham Act, permits a successful plaintiff to recover “any damages sustained by the plaintiff.”³¹⁵ The statute also permits the court to “enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount.”³¹⁶ Importantly, the statute notes the sum awarded “shall constitute compensation and not a penalty.”³¹⁷ Although the language differs from the UTSA and DTSA, some cases applying this statute have permitted the recovery of investigation expenses.³¹⁸

For example, in *ALPO Petfoods, Inc. v. Ralston Purina Co.*,³¹⁹ ALPO filed suit against Ralston Purina for false and deceptive advertising relating to puppy food that “could ameliorate and help prevent degenerative joint disease and canine hip dysplasia.”³²⁰ The court found that Ralston Purina had engaged in false and deceptive advertising and that ALPO had been damaged.³²¹

The court determined that ALPO had suffered several million dollars in damages but then enhanced the damages award by fifty percent.³²² Part of the reason for the enhancement was that the damages did not adequately compensate ALPO for the investigation that it undertook to discover the false advertising.³²³ Notably, per the statute, the enhancement to actual damages is not punitive but compensatory.³²⁴ Therefore, the court determined that the

313. William F. Johnson, Jr., *Remedies in Trade Secret Litigation*, 72 NW. U. L. REV. 1004, 1010, 1014 (1978).

314. Patent cases would also be relevant to this analysis. However, neither I nor my research assistants were able to find any reported cases where a court addressed whether investigation expenses were recoverable as “damages adequate to compensate for the [patent] infringement” under 35 U.S.C. § 284.

315. 15 U.S.C. § 1117(a).

316. *Id.*

317. *Id.*

318. One can argue that, because the Lanham Act predates the DTSA, Congress could have used this broader language in the DTSA to permit recovery of investigation expenses just like under the Lanham Act. In theory, that is true. However, because Congress deliberately modeled much of the DTSA after the UTSA (including the damages provision), significantly changing the language to mimic the Lanham Act would likely have caused more confusion about how to properly interpret the DTSA consistently with the UTSA. *See supra* note 215 and accompanying text; Sandeen & Seaman, *supra* note 16, at 857 (noting that “the DTSA is modeled after the UTSA, [and] incorporat[es] several of its provisions verbatim”).

319. 778 F. Supp. 555 (D.D.C. 1991), *aff'd in part, rev'd in part on other grounds*, 997 F.2d 949 (D.C. Cir. 1993).

320. *Id.* at 557.

321. *Id.*

322. *Id.* at 566. This enhancement was also due to other factors. *See id.* at 564–66.

323. *Id.* at 565–66.

324. 15 U.S.C. § 1117(a).

investigation expenses were part of the compensation necessary to make ALPO whole.³²⁵

*Metaquotes Ltd. v. Metaquotes Software Corp.*³²⁶ provides further support for the recovery of investigation expenses. In *Metaquotes*, the plaintiff, a software company, sued the defendant for representing to a potential customer that he worked for the plaintiff and could offer its software in exchange for the customer agreeing to the defendant's license agreement and paying him a license fee.³²⁷ The license agreements that the defendant used included the plaintiff's trademarks.³²⁸

After the customer suspected the defendant was committing fraud, the customer contacted the plaintiff, who immediately began an investigation.³²⁹ The investigation consisted of four employees spending four weeks looking into the defendant's scheme and the plaintiff hiring outside counsel to investigate the activities.³³⁰ Based on the employees' salaries and the outside counsel's fees, the plaintiff spent \$45,691 investigating the defendant's activities.³³¹

After quoting the Lanham Act's provision on damages, the court noted that the statute "confers a wide scope of discretion upon the district judge in the fashioning of a remedy for a violation of the Act."³³² It also observed that in assessing damages, it does so "in the same manner as in tort damages: the reasonably foreseeable harms caused by the wrong."³³³ Concerning investigation expenses, the court held the plaintiff's "actual damages consist of its costs already incurred investigating [the defendant's] infringement in the amount of \$45,691."³³⁴

In *Metaquotes*, unlike in *ALPO*, the court held that the investigation expenses were part of the actual damages themselves rather than enhancements to make the plaintiff whole.³³⁵ But, in both cases, courts recognized that the plaintiffs suffered actual economic losses by investigating the illegal activity and

325. *ALPO*, 778 F. Supp. at 565. The court did not award attorney fees to ALPO. *Id.* at 565 n.4. Although some courts award investigation expenses as part of attorney fees if the investigation is done at the direction of an attorney, *ALPO* supports the recovery of investigation expenses as actual damages. Compare *id.* (awarding investigation expenses as part of actual damages), with *Clark Equip. Co. v. Walls*, No. 21-cv-05886, 2024 WL 841460, *2 (W.D. Wash. Feb. 28, 2024) (permitting recovery of reasonable investigation fees charged by third party as part of attorney fees), and *Chanel, Inc. v. Giodani Jewelry, Inc.*, No. 07-cv-02448, 2009 WL 10672021, *8 (C.D. Cal. Mar. 9, 2009) (same).

326. No. 22-cv-00462, 2023 WL 3506413, *1 (C.D. Cal. May 17, 2023).

327. *Id.* at *1–3.

328. *Id.* at *3.

329. *Id.* at *6.

330. *Id.*

331. *Id.* at *7.

332. *Id.* at *11–12 (quoting *Skydive Ariz., Inc. v. Quattrocchi*, 673 F.3d 1105, 1113 (9th Cir. 2012)).

333. *Id.* at *12 (quoting *Skydive Ariz.*, 673 F.3d at 1112).

334. *Id.*

335. *Id.*

were entitled to compensation for these losses.³³⁶ This is analogous to investigation expenses incurred in connection with trade secret misappropriation.

b. Copyright Law

The link between the recovery of investigation expenses under the Copyright Act and the UTSA and DTSA is more attenuated. Section 504 of the Copyright Act permits plaintiffs “to recover the actual damages suffered by him or her as a result of the infringement.”³³⁷ Section 505 gives the court the discretion to “allow the recovery of full costs by or against any party.”³³⁸ Before 2019, there were cases permitting plaintiffs to recover investigation expenses as “costs” under section 505.³³⁹ Because the term “costs” was interpreted broadly under section 505, there was no need to address whether investigation expenses were recoverable as actual damages under section 504.

However, in 2019, the Supreme Court unanimously decided *Rimini Street, Inc. v. Oracle USA, Inc.*³⁴⁰ and held that the term “full costs” under section 505 was limited to categories of litigation expenses specified in the general statute governing the awards of costs.³⁴¹ These categories are limited to:

- (1) Fees of the clerk and marshal;
- (2) Fees for printed or electronically recorded transcripts necessarily obtained for use in the case;
- (3) Fees and disbursements for printing and witnesses;
- (4) Fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case;
- (5) Docket fees under [28 U.S.C. § 1923]; [and]
- (6) Compensation of court appointed experts, compensation of interpreters, and salaries, fees, expenses, and costs of special interpretation services under [28 U.S.C. § 1828].³⁴²

Investigation expenses are not listed.

As a result of *Rimini Street*, investigation expenses are not recoverable under section 505 of the Copyright Act. But this does not necessarily preclude recovery of investigation expenses as actual damages under section 504. No cases have addressed this issue.

336. *Id.*; *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 778 F. Supp. 555, 565–66 (D.D.C. 1991), *aff’d in part, rev’d in part on other grounds*, 997 F.2d 949 (D.C. Cir. 1993).

337. 17 U.S.C. § 504(b).

338. *Id.* § 505.

339. *See, e.g.*, *Brown v. Party Poopers*, No. 00-cv-04799, 2001 WL 1380536, at *7 (S.D.N.Y. July 9, 2001).

340. 586 U.S. 334, 335 (2019).

341. *Id.* at 336–37.

342. *Id.* at 338 n.1 (quoting 28 U.S.C. § 1920). Section 1821 also permits the recovery of reimbursement for witnesses’ per diem and mileage expenses. 28 U.S.C. § 1821.

But even if courts conclude that investigation expenses are not recoverable under section 504 because section 505 is the exclusive (albeit limited) provision addressing costs, this should not preclude recovery of investigation expenses under the UTSA and DTSA. Neither the UTSA nor DTSA have separate provisions regulating the recovery of costs. Therefore, reading “actual loss” in the UTSA and DTSA more broadly than “actual damages” in the Copyright Act is permissible.

4. *Employment Law*

In addition to tort, unfair competition, contract, and intellectual property law, trade secret law “also evolved out of a series of legal rules—contract and common law—governing the employment relationship.”³⁴³ Although causes of action regarding employment relationships run the gamut from employment discrimination to workers’ compensation, breach of fiduciary duty is most similar to trade secret misappropriation. A multitude of remedies exist for breaches of fiduciary duties,³⁴⁴ but one remedy is an action for losses,³⁴⁵ which generally incorporates tort or contract principles.³⁴⁶

Astra USA, Inc. v. Bildman,³⁴⁷ a case involving an employee’s breach of their fiduciary duty to their employer, supports investigation expenses being recoverable. In short, Lars Bildman, President and CEO of Astra USA, Inc., committed many acts of sexual harassment against Astra USA employees over several years.³⁴⁸ In connection with this harassment, Bildman had Astra USA pay to settle the claims but hid this from Astra AB, its parent company.³⁴⁹

Eventually, Bildman learned that Business Week was investigating the sexual harassment at Astra USA, which included his misconduct and that of other senior managers.³⁵⁰ Rather than coming forward with information about the sexual harassment, Bildman assembled a task force not to investigate the sexual harassment but “to determine Business Week’s sources of information and to control the flow of information to Business Week and Astra AB.”³⁵¹ Bildman subsequently told Astra AB executives that Astra USA was investigating the issue and that it was “very unlikely that an article will be written” but failed to mention that Bildman was a target of the investigation.³⁵² A report was prepared and submitted by Bildman to Astra AB, which concluded

343. Lemley, *supra* note 219, at 316.

344. RESTATEMENT (SECOND) OF AGENCY § 399 (A.L.I. 1958).

345. *Id.* § 399(b).

346. *Id.* § 401 cmt. a.

347. 914 N.E.2d 36, 36 (Mass. 2009).

348. *Id.* at 40–41.

349. *Id.* at 41.

350. *Id.*

351. *Id.*

352. *Id.*

that Astra USA had a good record on sexual harassment.³⁵³ In subsequent meetings with the board, Bildman assured it that Astra USA had “very good records” when it came to sexual harassment.³⁵⁴

After the Business Week reporter reached out to Astra USA and Astra AB, Astra USA suspended Bildman and formed a committee to investigate “sexual harassment and other improprieties or failures to abide by [Astra USA’s] policies and procedures.”³⁵⁵ The committee hired a law firm to conduct the investigation.³⁵⁶ Bildman was asked to cooperate with the investigation.³⁵⁷ Instead, he refused to meet with investigators, reached out to former and current Astra USA employees to encourage them to deny the sexual harassment, threatened other employees with termination if they cooperated, shredded documents, and ordered computer records to be erased.³⁵⁸

Eventually, Astra USA terminated Bildman’s employment and filed suit against him, alleging several causes of action, including breach of fiduciary duty.³⁵⁹ The damages Astra USA sought included \$905,080 in investigation expenses that it paid to the law firm to investigate the sexual harassment claims.³⁶⁰ The trial court refused to let Astra USA argue that Bildman was responsible for the investigation expenses and denied Astra USA’s motion for post-verdict damages to cover those expenses.³⁶¹ The trial court reasoned that introducing evidence about the law firm’s investigation would be too confusing and time-consuming; the jury had already sat for seven weeks.³⁶²

On appeal, the Supreme Judicial Court of Massachusetts affirmed the trial court’s denial of the investigation expenses.³⁶³ However, the court acknowledged that “an employer may be entitled to recover for compensatory costs incurred as a result of a breach of fiduciary duty, including the costs of investigation.”³⁶⁴ Importantly, the court warned that “damages for investigative costs . . . [are] not an entitlement; the employer must still meet its settled burden of proving that the damages sought were caused by the employee”; the misconduct cannot simply be a substantial factor in causing the harm.³⁶⁵ As applied in *Bildman*, the court held that because the investigation expenses included not just Bildman’s misconduct but also misconduct by others, there

353. *Id.*

354. *Id.* at 42.

355. *Id.*

356. *Id.*

357. *Id.*

358. *Id.* at 42–43.

359. *Id.* at 43–44.

360. *Id.* at 52.

361. *Id.*

362. *Id.*

363. *Id.*

364. *Id.* (citing *Aramony v. United Way Replacement Benefit Plan*, 191 F.3d 140, 154 (2d Cir. 1999)).

365. *Id.* at 52–53.

was a lack of causal connection between Bildman's breaches and the entire \$905,080 in investigation expenses.³⁶⁶

Similarly, in *Hampshire Group, Ltd. v. Kuttner*,³⁶⁷ two former corporate officers violated their fiduciary duties to their employer "by failing to act with due care, and by using their positions to further [the CEO's] interests at the expense of the company."³⁶⁸ When these allegations were brought to the employer's attention, it hired law firms and consulting companies to investigate.³⁶⁹ The investigators substantiated some, but not all, of the allegations.³⁷⁰ The total investigation expenses were approximately \$5.5 million.³⁷¹ The court permitted the employer to recover its investigation expenses but limited recovery to the expenses related to the substantiated allegations and the reasonable costs of some of the investigations.³⁷²

The courts' willingness to permit employers to recover properly proved investigation expenses as damages provides support for interpreting the UTSA and DTSA the same way.

5. *Computer Fraud & Abuse Act*

It is common for plaintiffs in trade secret misappropriation cases to assert a cause of action under the federal Computer Fraud and Abuse Act (CFAA).³⁷³ The overlap between these causes of action and the underlying misdeeds provides another tool for best understanding whether investigation expenses are recoverable under the UTSA and DTSA's actual loss provisions. However, dicta from a recent Supreme Court decision and a continuing split in the lower courts complicate the issue.³⁷⁴

In the mid-1980s, Congress enacted the CFAA to create federal crimes related to computer hacking in various contexts.³⁷⁵ In 1994, a civil provision was added so that victims could recover damages.³⁷⁶ Under this provision, "[a]ny person who suffers damage or loss by reason of a violation of [the

366. *Id.* at 53.

367. No. 3607-VCS, 2010 WL 2739995 (Del. Ch. July 12, 2010).

368. *Id.* at *11.

369. *Id.* at *7.

370. *Id.* at *8.

371. *Id.* at *51.

372. *Id.* at *51–52.

373. See, e.g., *University Sports Publ'n Co. v. Playmakers Media Co.*, 725 F. Supp. 2d 378, 380 (S.D.N.Y. 2010); *Power Equip. Maint., Inc. v. AIRCO Power Servs., Inc.*, 953 F. Supp. 2d 1290, 1293 (S.D. Ga. 2013); *Teva Pharm. USA, Inc. v. Sandhu*, 291 F. Supp. 3d 659, 667 (E.D. Pa. 2018).

374. See Riana Pfefferkorn, *Shooting the Messenger: Remediation of Disclosed Vulnerabilities as CFAA "Loss"*, 29 RICH. J.L. & TECH. 89, 118–119 (2022).

375. See Orin S. Kerr, *Vagueness Challenges to the Computer Fraud and Abuse Act*, 94 MINN. L. REV. 1561, 1563–65 (2010).

376. See *id.* at 1566 (citing Computer Abuse Amendments Act of 1994, Pub. L. No. 103-322, tit. XXIX, 108 Stat. 2097, 2098).

CFAA]” has a private cause of action against the defendant and can obtain compensatory damages and equitable relief.³⁷⁷

However, not every hacking victim has a civil claim.³⁷⁸ The most common basis for jurisdiction is when the unlawful activity “caused . . . loss to 1 or more persons during any 1-year period . . . aggregating at least \$5,000 in value.”³⁷⁹ The term “loss” is defined as “any reasonable cost to any victim, including the cost of responding to an offense, conducting a damage assessment, and restoring the data, program, system, or information to its condition prior to the offense, and any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service.”³⁸⁰

Before June 2021, there was a split among the circuits about how broadly “loss” should be construed.³⁸¹ For example, the Ninth Circuit and district courts in the Second and Eighth Circuits construed “loss” (and in particular “cost of responding to an offense”) narrowly so as to only cover situations involving “actual computer impairment” and “harms caused by computer intrusions, not general injuries unrelated to the hacking itself.”³⁸² In contrast, the Fourth, Sixth, and Eleventh Circuits construed the term more broadly.³⁸³

But in 2021, the U.S. Supreme Court decided *Van Buren v. United States*.³⁸⁴ Although *Van Buren*’s holding addressed another provision of the CFAA, the Court, in dicta, opined on the meaning of “loss.”³⁸⁵ The Court explained:

The statutory definitions of “damage” and “loss” thus focus on technological harms—such as the corruption of files—of the type unauthorized users cause to computer systems and data. Limiting “damage” and “loss” in this way makes sense in a scheme “aimed at preventing the typical consequences of hacking.” The term’s definitions are ill fitted, however, to remediating “misuse” of sensitive information that employees may permissibly access using their computers.³⁸⁶

According to the Court, to constitute “loss” under the CFAA, which includes “the cost of responding to an offense” and “conducting a damage assessment,” an expense must relate not to investigating the taking or improper use of information, but to the destruction or corruption of the files or computer

377. 18 U.S.C. § 1030(g).

378. *Id.* (“A civil action for a violation of this section may be brought only if the conduct involves 1 of the factors set forth in subclauses (I), (II), (III), (IV), or (V) of subsection (c)(4)(A)(i).” (footnote omitted)).

379. *Id.* § 1030(c)(4)(A)(i)(I); see also Pfefferkorn, *supra* note 374, at 97 (noting that this is the most common basis for a civil action under the CFAA).

380. 18 U.S.C. § 1030(e)(11).

381. Pfefferkorn, *supra* note 374, at 97–100.

382. *Id.* at 97–98 (first quoting *Burnett v. Grundy*, No. 14-cv-00301, 2014 WL 12616808, at *2 (W.D. Mo. Oct. 28, 2014); and then quoting *Andrews v. Sirius XM Radio Inc.*, 932 F.3d 1253, 1262–63 (9th Cir. 2019)).

383. *Id.* at 98–99.

384. 593 U.S. 374 (2021).

385. *Id.* at 391–92.

386. *Id.* (citations omitted).

system.³⁸⁷ Despite this dictum from the Court, *Van Buren* has had little effect on the lower courts' interpretations of "loss."³⁸⁸ The lower courts generally continue to apply their pre-*Van Buren* precedents, and in jurisdictions where the issue first arose after *Van Buren*, the courts have mostly ignored the Court's dicta.³⁸⁹

At first blush, *Van Buren* seems to undermine interpreting the UTSA and DTSA to permit recovery of investigation expenses. But upon closer inspection, the CFAA's definition of "loss," which effectively includes investigation expenses, supports recovery under trade secret law. First, as the lower courts have recognized, the statement in *Van Buren* is dicta, so the broad view of "loss" could be adopted.³⁹⁰

Second, even if the *Van Buren* dicta is ultimately adopted and controlling, it is important to note that the UTSA and DTSA do not have the same technologically limiting language as the CFAA.³⁹¹ Thus, there is no reason to interpret the trade secret laws as narrowly; a broader interpretation is permitted.

Finally, even courts adopting a narrow interpretation of "loss" would permit investigation expenses to count as loss under the CFAA if they relate to the technological harm (i.e., harm to the location where the information is stored or harm to the information itself).³⁹² Because the UTSA and DTSA focus on different types of harm—acquisition, use, or disclosure of trade secret information³⁹³—it follows that courts should permit investigation expenses relating to those types of harm.

D. Policy Considerations

A final tool for statutory interpretation is considering the policy implications of an interpretation and determining whether the implications are consistent with the underlying objectives and values of the law.³⁹⁴ If courts interpret "actual loss" to cover investigation expenses, what are the implications, and are they consistent with the goals of trade secrecy law?

387. *Id.* at 392; 18 U.S.C. § 1030(e)(11).

388. Pfefferkorn, *supra* note 374, at 118.

389. *Id.* at 125–27.

390. *Id.* at 125–26.

391. *See* UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM'N 1985); 18 U.S.C. § 1839.

392. Pfefferkorn, *supra* note 374, at 126–27.

393. UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM'N 1985); 18 U.S.C. § 1832.

394. Wilson R. Huhn, *Teaching Legal Analysis Using a Pluralistic Model of Law*, 36 GONZ. L. REV. 433, 446–49 (2001); *see also* J. Clark Kelso & Charles D. Kelso, *Statutory Interpretation: Four Theories in Disarray*, 53 SMU L. REV. 81, 87 (2000) (describing instrumentalism as having a premise "that the legislature intended good results from its enactments and that the courts, in interpreting and applying legislation, should facilitate those good results"); Mark Seidenfeld, *Textualism's Theoretical Bankruptcy and Its Implications for Statutory Interpretation*, 100 B.U. L. REV. 1817, 1841 (2020) (describing why policy considerations may "lead to a more accurate assessment of the outcome that the legislature would have envisioned had it known the particular circumstances of the case").

One policy implication of permitting recovery of investigation expenses is that it may incentivize trade secret owners to investigate, or to investigate more thoroughly. If trade secret owners conduct investigations, they may discover the misappropriation earlier than they otherwise would have, which positions them to mitigate their noninvestigatory damages. Alternatively, the trade secret owner encouraged to investigate suspected misappropriation might discover that there was, in fact, no misappropriation. In such a case, the trade secret owner would avoid the lawsuit, and both parties are better off—the trade secret owner avoids the expenses of moving forward with an unsuccessful claim, and the defendant avoids the cost of defending against it. In sum, permitting recovery of investigation expenses may encourage investigations and benefit the trade secret owner, the suspected misappropriator, and the actual misappropriator.³⁹⁵ But, even if damages are not mitigated, the actual misappropriator who needs to pay additional damages is the least sympathetic of all the stakeholders.

A second potential policy implication is a concern that permitting recovery of investigation expenses encourages (or at least does not discourage) sloppy data management. That is, if a trade secret owner knows that they can recover their investigation expenses, they are less likely to take steps to have their information and systems highly organized.

This policy concern seems unlikely to come to fruition. First, it is unclear that trade secret law takes a position on how well-organized a trade secret owner's information and systems are maintained.³⁹⁶ So, whether sloppy management is encouraged or discouraged is not terribly helpful when conducting a policy analysis. Second, it seems unlikely that recovery of investigation expenses would encourage sloppiness, because that would also make internal use of the data or system more difficult. This might be counterproductive to the trade secret owner's business goals. Third, sloppy maintenance would likely slow down the investigation. In many trade secret misappropriation cases, quickly identifying and stopping the misappropriation or its effects is key because it may result in the continued validity of the trade secret. Like *Maverick* and *Goose*, trade secret owners feel the need for speed.³⁹⁷

A third policy concern is whether we really want companies to recover (and bring suit) if they have only suffered losses related to investigation expenses. This concern is only likely to arise in cases of misappropriation by acquisition, not disclosure or use cases, because, in the latter scenarios, the trade secret owner has likely suffered some other types of harm. As a matter of economic

395. Of course, the investigation may yield ambiguous results that require discovery to flesh out whether misappropriation occurred. These additional discovery expenses would be borne by each party. FED. R. CIV. P. 26(b).

396. But trade secret law does require that reasonable steps are taken to maintain secrecy. UNIF. TRADE SECRETS ACT § 1(4)(ii) (UNIF. L. COMM'N 1985).

397. See *TOP GUN* (Paramount Pictures 1986) ("I feel the need—the need for speed!").

efficiency, the argument goes that recovery for only acquiring a trade secret does not make much sense.

That may very well be true, but with policy considerations, we need to be sure not to let pragmatic policy concerns annul the statutory text.³⁹⁸ Both the UTSA and DTSA define misappropriation as including acquisition³⁹⁹ and give the trade secret owner monetary relief for misappropriation.⁴⁰⁰ Courts must give these provisions some meaning. The most natural reading of these provisions is that the drafters wanted victims of misappropriation to recover monetary relief, and, because misappropriation is defined as including acquisition, we reason that unlawful acquisition of a trade secret entitles the trade secret owner to monetary relief.

One can argue that perhaps misappropriation by acquisition should only yield injunctive rather than monetary relief. This also deprives the statutory text of meaning. The UTSA and DTSA provide for injunctive relief for actual or threatened misappropriation.⁴⁰¹ If the drafters wanted to treat acquisition as threatened misappropriation and limit the remedy to injunctive relief, all they had to do was drop acquisition from the definition of misappropriation. After all, acquisition of a trade secret by improper means seems to entail a strong likelihood of threatened disclosure or use of the trade secret. But, because acquisition is included along with disclosure and used in the definition of misappropriation, interpreting misappropriation by acquisition to mean “injunction only” would make it redundant with provisions providing injunctive relief for threatened misappropriation. Interpretations creating redundancy should be avoided.⁴⁰²

Objections leveled at investigation expenses for acquisition claims without other damages are misplaced. The objection seems to be about whether misappropriation by acquisition should be recognized at all.⁴⁰³ That is a different question from whether the statutes, as written, authorize investigation expenses.

A fourth policy concern, and one that is related to the third, is that giving employers the ability to successfully sue departing employees for acquiring the

398. See, e.g., *United States v. Tohono O’Odham Nation*, 563 U.S. 307, 317 (2011) (“[C]onsiderations of policy divorced from the statute’s text and purpose could not override its meaning.”); *In re Howell*, 27 N.E.3d 723, 728 (Ind. 2015) (“And when the statutory terms—or at least textual canons—are dispositive, ‘considerations of policy divorced from the statute’s text and purpose [can] not override its meaning.’” (alteration in original) (quoting *Tohono O’Odham Nation*, 563 U.S. at 317)); *Capitol Records, LLC v. ReDigi Inc.*, 910 F.3d 649, 664 (2d Cir. 2018) (refusing to interpret the statutory language in the Copyright Act broadly to effectuate policy concern when the statutory text required a narrow interpretation).

399. UNIF. TRADE SECRETS ACT § 1(2)(i) (UNIF. L. COMM’N 1985); 18 U.S.C. § 1839(5)(A).

400. UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM’N 1985); 18 U.S.C. § 1836(b)(3)(B).

401. UNIF. TRADE SECRETS ACT § 2(a) (UNIF. L. COMM’N 1985); 18 U.S.C. § 1836(b)(3)(A)(i).

402. See Cass R. Sunstein, *Interpreting Statutes in the Regulatory State*, 103 HARV. L. REV. 405, 425 (1989).

403. For a thorough discussion of how misappropriation by acquisition came to be, see Sharon K. Sandeen, *Out of Thin Air: Trade Secrets, Cybersecurity, and the Wrongful Acquisition Tort*, 19 MINN. J.L. SCI. & TECH. 373, 380–92 (2018).

trade secret will give too much power to employers and upset the delicate balance that trade secret law tries to strike between protecting employers' investments into developing trade secrets and protecting employees' mobility.⁴⁰⁴ This is a risk, but the scope of the harm is likely more limited than critics hypothesize.

Misappropriation by acquisition requires departing employees to have acquired the trade secret by improper means and to know of the impropriety.⁴⁰⁵ As Professors Charles Tait Graves and Camilla Hrdy explain, courts have been reluctant to impose liability on employees merely for passively retaining trade secrets,⁴⁰⁶ and even when the employees transfer files to themselves just before departing, most courts focus on the employees' actions and their knowledge of their impropriety.⁴⁰⁷ They correctly urge the courts to continue scrutinizing acquisition claims and to ensure that the UTSA's and DTSA's requirements of improper means and knowledge are adhered to.⁴⁰⁸ If courts do so, this will restrict the number of departing employees subject to overreaching employers.

But even after limiting the pool of potential defendants to departing employees who actually satisfy the requirements for misappropriation by acquisition, the limiting principles discussed next (reasonableness and causation) will afford some relief to curb some of the abuse or overreaching by employers.⁴⁰⁹

* * *

Common tools of statutory interpretation—statutory text, legislative history, general principles and analogous cases from laws serving as the theoretical foundations for trade secrecy, and policy considerations—favor (or at least do not disfavor) construing the term “actual loss” under the UTSA and DTSA to cover investigation expenses.

IV. LIMITING PRINCIPLES

Even though the better interpretation of “actual loss” is to permit the recovery of investigation expenses, two limiting principles can help quell critics'

404. See Dan L. Burk & Brett H. McDonnell, *The Goldilocks Hypothesis: Balancing Intellectual Property Rights at the Boundary of the Firm*, 2007 U. ILL. L. REV. 575, 592 (describing the balance between protecting the employer's assets and employees' mobility); Graves & Hrdy, *supra* note 13, at 18 (noting the potential for employers to overreach by using misappropriation by acquisition claims).

405. UNIF. TRADE SECRETS ACT § 1(2)(i) (UNIF. L. COMM'N 1985); 18 U.S.C. § 1839(5)(A); Graves & Hrdy, *supra* note 13, at 4 (“[T]o prove misappropriation based on an acquisition theory, the plaintiff . . . must show that the defendant acquired the plaintiff's trade secrets through improper means, and that the defendant knew or had ‘reason to know’ their actions were improper.”).

406. Graves & Hrdy, *supra* note 13, at 8–10.

407. *Id.* at 12.

408. *Id.* at 18–19.

409. See *infra* Part IV.

fears and lead to more just results. The first is limiting recovery to *reasonable* investigation expenses.⁴¹⁰ The second is ensuring that courts give full meaning to the phrase “actual loss caused by misappropriation” by focusing on the causal connection between the misappropriation and the investigation expenses.⁴¹¹

A. Reasonable Investigation Expenses

One concern that courts and defendants may have about trade secret owners recovering investigation expenses is that plaintiffs may go overboard with the investigation, especially after learning of the misappropriation and the identity of the misappropriator. Such abuse should not be tolerated.

The fear of purposefully driving up investigation expenses may be exaggerated. If the trade secret owner is legitimately trying to determine whether misappropriation occurred, it is incentivized to be frugal in its investigation. If the investigation reveals no misappropriation, the trade secret owner will not have a claim, much less be entitled to damages.

But when the plaintiff abuses its ability to recover investigation expenses, courts should limit the plaintiff’s recovery to *reasonable* investigation expenses. Borrowing from contract law helps to establish this limitation. As explained earlier, the UCC limits incidental damages to expenses “reasonably incurred.”⁴¹² Under the UCC, the plaintiff bears the burden of proving that its incidental damages were reasonable.⁴¹³

This same limitation should apply to investigation expenses under the UTSA and DTSA. In a misappropriation case involving investigation expenses, the trade secret owner should be required to demonstrate that it incurred the investigation expenses and prove by a preponderance of the evidence that these expenses were reasonable. Of course, the alleged misappropriator should have the opportunity to present contrary evidence demonstrating that the expenses were unreasonable. Without adequate evidence of reasonableness, investigation expenses should be unrecoverable.

410. See *infra* Part IV.A.

411. See *infra* Part IV.B; UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM’N 1985); 18 U.S.C. § 1836(b)(3)(B)(i)(I).

412. U.C.C. § 2-715(1) (A.L.I. & UNIF. L. COMM’N 2022); see also *supra* notes 302–04 and accompanying text (describing the UCC’s method of restricting recovery to *reasonable* expenses, functionally imposing a mitigation requirement on plaintiffs).

413. RICHARD A. LORD, 24 WILLISTON ON CONTRACTS §§ 66:29, :56 (4th ed. 2024) (“[Sellers or] buyer[s] seeking incidental damages under this Code provision need not prove that they were foreseeable, but only that they were commercially reasonable.”); see also *Firwood Mfg. Co. v. General Tire, Inc.*, 96 F.3d 163, 170 n.2 (6th Cir. 1996) (“Buyers and sellers seeking incidental damages need not prove that such charges were foreseeable; they merely must show that they were commercially reasonable.”); *Sack v. Lawton*, No. 01-cv-00285, 2003 WL 22682043, *5 (S.D.N.Y. Aug. 28, 2003) (holding that the plaintiffs were not entitled to incidental damages because they did not provide any evidence demonstrating that the expenses that they claimed were reasonably incurred).

Imposing a reasonableness requirement on trade secret owners is not a panacea. Judges may struggle with determining whether forensic investigation expenses are reasonable. Unlike determining the reasonableness of attorney fees,⁴¹⁴ which most judges have experience with because of their own former experiences as attorneys, most judges likely lack practical experience with forensic investigations. And, even if they do have experience, it might be obsolete in light of today's practices.

But judges regularly make reasonableness determinations about industries that they have no previous experience with. For example, judges are regularly asked to determine reasonable royalties in patent cases.⁴¹⁵ The Federal Judicial Center has developed manuals to aid judges in these determinations.⁴¹⁶ There is no reason that similar guidance would not be accorded in trade secret cases to help judges determine whether investigation expenses exceed reasonable limits.

B. *Causal Connection*

One justification for prohibiting the recovery of investigation expenses is that the trade secret owner would have incurred the expenses regardless of the outcome of the investigation.⁴¹⁷ Although the courts have not clearly articulated it as a causation issue, this is effectively the concern. As noted earlier, other areas providing the theoretical foundations for trade secrecy require causality.⁴¹⁸ The UTSA and DTSA both require a causal link between the misappropriation and damages; the key statutory language under both statutes is “actual loss *caused* by [the] misappropriation.”⁴¹⁹

Lack of causation is a valid objection to recovering investigation expenses in trade secret cases. As such, plaintiffs should bear the burden of proving causation of the investigation expenses. The defendant, of course, should have the opportunity to present evidence that, despite the plaintiff incurring investigation expenses, these expenses would have resulted regardless of whether misappropriation occurred. For example, if the plaintiff has a policy or practice of investigating after the termination of every employee (or the subset

414. See, e.g., *Phoenix Lighting Grp., LLC v. Genlyte Thomas Grp., LLC*, 153 N.E.3d 30, 35–40 (Ohio 2020) (describing the process for determining reasonable attorney fees); *Smith v. Snyder*, 839 A.2d 589, 599–603 (Conn. 2004) (same).

415. See, e.g., *AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1337 (Fed. Cir. 2015) (affirming district court's reasonable royalty decision); *Medtronic Sofamor Danek USA, Inc. v. Globus Med., Inc.*, 637 F. Supp. 2d 290, 309–12 (E.D. Pa. 2009) (calculating a reasonable royalty rate for infringement of spinal surgery devices and methods).

416. See WILLIAM C. ROOKLIDGE ET AL., *COMPENSATORY DAMAGES ISSUES IN PATENT INFRINGEMENT CASES* 12–35 (2d ed. 2017).

417. See *supra* notes 163, 228, 308 and accompanying text.

418. See *supra* notes 305–10 and accompanying text.

419. UNIF. TRADE SECRETS ACT § 3(a) (UNIF. L. COMM'N 1985); 18 U.S.C. § 1836(b)(3)(B)(i)(I) (emphasis added).

of employees who had access to trade secrets), then it cannot be said that the misappropriation caused the investigation; the investigation would have occurred anyway. The defendant in this scenario should also have the opportunity to demonstrate the lack of causation. If the plaintiff fails to carry its burden on causation of the investigation expenses, then recovery should be precluded.

Similarly, if a plaintiff has a trade secret protection program in place to maintain the secrecy of the information and this program includes systems to detect misappropriation, the plaintiff should be unable to recover the expenses associated with the program. Trade secret law requires an owner to take reasonable steps to maintain the information's secrecy.⁴²⁰ Plaintiffs should not be able to recover for the reasonable measures that they use to acquire or maintain trade secret protection. Such expenses are aimed at the initial protection of the information as a trade secret rather than subsequent detection; this breaks the causal chain.

Despite this limitation, causation should not be interpreted too strictly so that investigation expenses cannot be recovered if there is doubt about whether misappropriation has occurred. Under a strict interpretation of but-for causation, a trade secret owner investigating whether misappropriation occurred would fail the causation requirement. If the investigation proves that no misappropriation occurred, the trade secret owner still incurs the investigation expenses; misappropriation was not the cause of the investigation expenses.

Such a strict interpretation is improper for three reasons. First, as illustrated above, several other areas of the law (trademarks, fraud, contracts, and the CFAA) permit recovery of investigation expenses.⁴²¹ A strict causation requirement for trade secrets would apply equally to these other areas. It seems peculiar that numerous courts across several areas of the law would all arrive at the same erroneous interpretation.

Second, some of the courts that are resistant to recovery in trade secret cases would still permit recovery of investigation expenses for mitigation purposes.⁴²² However, the same strict logic applies to investigation expenses for mitigation. For example, suppose that the trade secret owner suspects that misappropriation has occurred. In that case, it may investigate how to avoid further harm and take those steps to protect its trade secret and related business interests. In this scenario, the trade secret owner might not know whether the suspected party misappropriated. Under a strict interpretation, but-for

420. UNIF. TRADE SECRETS ACT § 1(4)(ii) (UNIF. L. COMM'N 1985); 18 U.S.C. § 1839(3)(A).

421. See *supra* Part III.C.

422. See *supra* notes 138–39, 177, 183–90 and accompanying text.

causation is lacking. But even the more restrictive courts would still allow the trade secret owner to recover the investigation expenses.⁴²³

Third, if but-for causation is interpreted strictly, this would preclude other types of damages, such as mitigation costs in contract actions or restitution in criminal cases. In contract law, nonbreaching parties are encouraged to take steps to mitigate the damages that they suffer as a result of the breach.⁴²⁴ If the nonbreaching party reasonably attempts to mitigate its damages, it can recover its expenses relating to its mitigation efforts.⁴²⁵ If but-for causation is applied strictly, then the plaintiff who takes steps to mitigate its losses after an alleged breach would not be able to recover because it would have taken those mitigating steps anyway to avoid further loss. In other words, the plaintiff would have taken the mitigating steps regardless of whether the defendant actually breached; perhaps the defendant had a valid defense, or its performance was excused.

For example, assume that A hires B to perform particular services for \$10,000. Upon successful completion by B, A will earn \$3,000 in profits. B fails to show up, so A hires C to perform the services for \$11,000 and also incurs \$500 in advertising expenses to hire C. Under the standard benefit-of-the-bargain measure, A would recover \$1,000 from B. However, because A also paid \$500 for the advertising, A would recover \$1,500 from B as part of its mitigation damages. Of course, if B's performance was excused for some reason, B would not be liable to A at all. There may be some doubt as to B's eventual liability. Contract law does not say that, if B turns out to be liable, then A cannot recover the \$500 in mitigation expenses because A would have paid it anyway for business reasons (i.e., to profit from the work being completed).⁴²⁶

Further support for a flexible approach to but-for causation is found in courts' interpretations of criminal restitution statutes. For example, a Florida statute provides restitution to crime victims for damage or loss caused by the defendant's offense.⁴²⁷ In *Glanbius v. State*,⁴²⁸ the Florida Supreme Court resolved a conflict in the appellate courts about whether investigation expenses are recoverable by victims under the statute.⁴²⁹ It held that investigation

423. See *News Am. Mktg. In-Store, Inc. v. Marquis*, 862 A.2d 837, 846 (Conn. App. Ct. 2004); *Applied Med. Distrib. Corp. v. Jarrells*, 319 Cal. Rptr. 3d 205, 212 (Cal. Ct. App. 2024).

424. RESTATEMENT (SECOND) OF CONTS. § 350 (A.L.L. 1981).

425. RICHARD A. LORD, 24 WILLISTON ON CONTRACTS § 64:33 (4th ed. 2024) ("If the attempt is reasonable, whether it proves successful or not, the injured party can recover for the expense or for the loss caused by lack of success."); see also RESTATEMENT (SECOND) OF CONTS. § 347 cmt. c (A.L.L. 1981) ("Incidental losses include costs incurred in a reasonable effort, whether successful or not, to avoid loss, as where a party pays brokerage fees in arranging or attempting to arrange a substitute transaction.")

426. See *Stockton E. Water Dist. v. United States*, 109 Fed. Cl. 760, 809 (2013) (explaining that breach need not be the sole factor or cause of the mitigating damages; multiple reasons for trying to mitigate damages do not preclude recovery).

427. FLA. STAT. § 775.089 (2021).

428. 688 So. 2d 913 (Fla. 1997).

429. *Id.* at 914.

expenses are recoverable.⁴³⁰ More importantly, however, it explained that the investigation expenses are recoverable when the victim only suspected the crime had occurred,⁴³¹ and it expressly rejected the lower courts' approach that there could be no but-for causal connection between the offense and the investigation expenses because the victim would have incurred the expenses regardless of the outcome of the investigation.⁴³² Other jurisdictions have adopted a similar approach.⁴³³

In sum, courts should adhere to the UTSA and DTSA's causation requirement when deciding whether investigation expenses are recoverable. However, they should adopt a more flexible interpretation of causality to be consistent with trade secrecy's theoretical foundations.⁴³⁴

VI. CONCLUSION

The treatment of investigation expenses under trade secret law is more than a technical question—it reflects the evolving challenges of protecting intangible assets in an increasingly digital and interconnected world. As misappropriation methods grow more sophisticated, courts have an opportunity to reinforce the

430. *Id.*

431. *Id.*

432. *Id.* at 915.

433. *See, e.g.,* State v. Wilson, 995 P.2d 1260, 1264 (Wash. Ct. App. 2000) (holding that investigation expenses are recoverable under the Washington restitution statute and that there was a but-for causal connection).

434. A similar argument exists concerning an attorney's or unrepresented party's duty to conduct a prelifting inquiry under Federal Rule of Civil Procedure 11(b) and state-law equivalents. Rule 11(b) imposes a duty of certification on the attorney or unrepresented party that "formed after an inquiry reasonable under the circumstances . . . the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery." FED. R. CIV. P. 11(b)(3). The argument is that, because Rule 11 imposes a prelifting investigation duty, this is the cause of the investigation expenses (or at least some of them) rather than the defendant's misappropriation.

However, as the Supreme Court has explained, this rule "is 'aimed at curbing abuses of the judicial system.'" *Business Guides, Inc. v. Chromatic Commc'ns Enters., Inc.*, 498 U.S. 533, 542 (1991) (quoting *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 397 (1990)). And the Advisory Committee Notes explain that "the purpose of Rule 11 sanctions is to deter rather than to compensate . . . [and that] if a monetary sanction is imposed, it should ordinarily be paid into court as a penalty." FED. R. CIV. P. 11 advisory committee's notes to 1993 amendment.

If the trade secret owner's prelifting investigation duty broke the causal link and diminished or eliminated the trade secret owner's recovery of its investigation expenses, this would have the perverse incentive of encouraging trade secret owners to conduct minimal investigations that barely comply with Rule 11's standard rather than thoroughly investigating and evaluating the alleged misappropriation. It is difficult to imagine the Advisory Committee encouraging less rather than more investigation.

In addition, because Rule 11 monetary sanctions are generally limited to amounts paid to the court for deterrence purposes rather than compensatory purposes for the other party, *id.*, this makes it hard to imagine that the Advisory Committee would desire to use Rule 11 to effectively reward the defendant by refusing to fully compensate the trade secret owner who complied with its obligations under Rule 11.

Finally, Rule 11 must be read in light of Rule 1's command that the rules "be construed, administered, and employed by the court[s] . . . to secure the just . . . determination of every action and proceeding." FED. R. CIV. P. 1. Using Rule 11 to deny making the trade secret owner whole seems unjust.

efficacy of trade secret law by clarifying the recoverability of these expenses. Recognizing reasonable investigation costs as “actual loss” not only compensates trade secret owners for the tangible consequences of misappropriation, but also fosters early detection of misappropriation and responsible stewardship of proprietary information.

A careful analysis of the statutory text, legislative history, analogous legal principles and causes of action, and policy considerations suggests that permitting recovery of investigation expenses aligns with the broader objectives of trade secret law. Constrained by requirements of causation and reasonableness, allowing such recovery can adequately balance the interests of trade secret owners and misappropriators.

Ultimately, recognizing investigation expenses as recoverable as “actual loss” aligns with the correct interpretation of the UTSA’s and DTSA’s statutory language and reinforces the fundamental goal of making plaintiffs whole in the wake of trade secret misappropriation. As courts grapple with these issues, adopting a framework emphasizing causation and reasonableness will help to ensure fair and equitable outcomes, preserving the integrity and utility of trade secret protection.