

Trade Secrets Year in Review: 2022



From the Editors

We are proud to present Greenberg Traurig's Trade Secrets 2022 Year in Review, a high-level overview of some of 2022's most significant trade secret decisions in the United States. 2022 was another active year in trade secret litigation, and the decisions summarized here touch on the most important issues in trade secret litigation.

Notably, 2022 saw a series of rulings that purportedly confidential information does not qualify for trade secret protection because it is either known or readily ascertainable by proper means. For example, in *Turret Labs USA, Inc. v. CargoSprint, LLC*, the Second Circuit ruled that where a third party was given access to the information at issue without any type of confidentiality agreement, the plaintiff had not taken reasonable steps under the Defend Trade Secrets Act (DTSA) to protect its claimed trade secrets. Similarly, in *Bimbo Bakeries USA, Inc. v. Sycamore*, the Tenth Circuit ruled that a combination of two known ingredients and two known techniques for bread baking did not together constitute a trade secret because they were ascertainable by trial and error. Several of the other decisions summarized herein are similar. These rulings serve as a reminder that, even under the broad definitions of trade secrets under state and federal law, there are limits to what type of information qualifies for trade secret protection.

2022 also saw several significant damages cases. For example, in *Airfacts, Inc. v. Amezaga*, the Fourth Circuit ruled a plaintiff could recover reasonable royalty damages even without proving the defendant's use of the alleged secret. In *PPG Indus. v. Jiangsu Tie Mao Glass Co.*, the Third Circuit affirmed the use of avoided cost of development as a disgorgement damages theory, and allowed the plaintiff to use its own cost of development as evidence of what costs the defendant avoided. 2022 also saw one of the largest trade secret verdicts in history, more than \$2 billion, demonstrating that courts are willing to award substantial damages in exceptional cases.

With 2023 underway, we anticipate more activity in trade secret counseling and litigation. The long echo of the "great resignation" of 2021-22 will continue to produce instances of insider theft of confidential information. And, when business partnerships dissolve, intellectual property disputes tend to follow. Adding to the mix, the Federal Trade Commission kicked off 2023 by [proposing a rule banning noncompete agreements](#) in mostly all contexts at the federal level. The prospect of losing the protections of noncompete agreements (in states that presently allow them) could leave trade secret law as the only viable game in town. And that means it is a great time to be thinking about auditing and improving trade secret protection policies and procedures.

The [Greenberg Traurig Trade Secrets team](#), highly ranked by *The Legal 500 U.S.* since 2018 and which includes over 100 lawyers in over 30 offices, helps clients navigate the evolving law and practice of trade secret litigation and zealously advocates on their behalf. Please visit [GT'S Trade Secret Law Evolution Podcast](#), where we regularly summarize significant cases and trends and provide key takeaways on trade secret protection. [Click here](#) to view recent GT trade secret articles and client alerts.

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Noteworthy 2022 Federal Cases

***Turret Labs USA, Inc. v. CargoSprint, LLC*, No. 21-952, 2022 U.S. App. LEXIS 6070 (2d Cir. Mar. 9, 2022)**

This unsuccessful appeal of the district court's dismissal of a DTSA claim on a motion to dismiss turns on whether the plaintiff company took reasonable steps to protect the confidentiality of its claimed trade secret. The Second Circuit [agreed](#) with the district court that where a third party was given access to the information at issue without any type of confidentiality agreement, and with the intent that the third party would be providing access to yet other third parties, again with no requirement of a confidentiality agreement, the company had not taken reasonable steps to protect its claimed trade secrets under the DTSA. That the eventual users of the software could reverse engineer the software once they had access to it did not suffice to state a claim because insufficient steps had been taken to protect the confidentiality vis-à-vis third parties.

***PPG Indus. v. Jiangsu Tie Mao Glass Co.*, 47 F.4th 156 (3d Cir. 2022)**

This is an important Third Circuit case on trade secret damages on an avoided cost of development theory. Plaintiff alleged it developed a specialty glass for airplane windows over the course of 35 years and at a cost of more than eight million dollars. Defendant allegedly misappropriated the designs by recruiting one of plaintiff's employees, who provided a "treasure trove" of design materials. Defendant failed to appear, and the district court entered a default judgment for an injunction and money damages based on avoided costs of development. The issue on appeal was whether plaintiff's R&D expenditures were a proper measure of defendant's avoided costs of development. First, the court [rejected](#) defendant's claim that it "obtained no commercial benefit" because it never launched a product incorporating the designs. The court ruled that unjust enrichment damages can be measured by the costs avoided by a defendant, not just the profits gained. Second, the Court rejected defendant's argument that there was no "nexus" between the costs of development and the value of the misappropriated material and that there was no evidence of use of the material. The Court reasoned that defendant had avoided R&D entirely and attempted to proceed with manufacturing a product, which is a "use" of the trade secrets under Third Circuit precedent. Third, the Court rejected defendant's argument that the damage calculation improperly reimbursed plaintiff for its costs rather than measuring defendant's avoided costs. The Court ruled that plaintiff's costs of development could be evidence of defendant's avoided costs. Finally, the Court rejected defendant's argument that awarding damages in addition to a going-forward injunction amounted to "double recovery." The Court ruled that the damages for past use and the injunction against future use did not overlap.

***Airfacts, Inc. v. Amezaga*, 30 F.4th 359 (4th Cir. 2022)**

Plaintiff provided evidence that a former employee took information but struggled to demonstrate damages from improper use. Plaintiff develops and licenses an accounting software product that audits airline ticket sales. Defendant's employment contract required the return of confidential documents before leaving the company and prohibited sharing them with third parties. It also included an indemnity provision for damages arising out of "any material breach of any material provision" of the agreement. When defendant resigned, he printed documents relating to a project he'd worked on and sent emails to his personal email account relating to another project (the "proration documents"). He later took a job with a travel agency (not a competitor of plaintiff's), to which he sent two flowcharts of ticket price rules and other information he'd created for plaintiff. The Fourth Circuit [ruled](#) the breaches of contract (by not returning, taking, and sharing some information) were not material because they did not cause damage or prejudice to plaintiff. The Fourth Circuit remanded for further findings as to whether the breach with respect to the proration documents was material.

As to the trade secret claim, the Court held the flowcharts were trade secrets and that defendant misappropriated them. Because plaintiff couldn't prove any specific injury, it sought reasonable royalty damages. The Fourth Circuit held that plaintiff need not show use of a trade secret to recover reasonable royalty damages, because the Maryland Uniform Trade Secrets Act authorizes reasonable royalty damages for unauthorized disclosure. Therefore, the Court remanded for the district court to determine whether plaintiff is entitled to reasonable royalty damages and, if so, how much.

***CAE Integrated, L.L.C. v. Moov Techs., Inc.*, 44 F.4th 257 (5th Cir. 2022)**

The Fifth Circuit **denied** an injunction against misappropriation because plaintiff failed to show the existence of a trade secret and because defendant had no continuing access to the purportedly secret information. Plaintiff alleged its former employee misappropriated transactional documents and customer lists stored on his laptop and a Google drive and sought an injunction against his use of that information on behalf of a competitor. First, the Court ruled that plaintiff failed to show it continued to have access to the allegedly misappropriated information because defendant testified he had no further access to his laptop, and a forensic analysis confirmed he had deleted the documents from his cloud account. Second, the Court ruled plaintiff failed to show the customer contact information at issue was not publicly available or ascertainable through proper means. Third, the Court ruled it was unreasonable to infer misappropriation of plaintiff's confidential information from the results that defendant achieved because of the finding that defendant had no continuing access to the purportedly secret information.

***Thomas v. Hughes*, 27 F.4th 995 (5th Cir. 2022)**

The Fifth Circuit **held** a lawyer and her client jointly and severally liable for misappropriation of trade secrets, among other claims. The only real issue on appeal was whether the district court had properly determined damages. The Fifth Circuit affirmed the damages award based on reasonable royalties and lost profits that had been determined in a previous case between the parties. The Court noted that Texas recognizes several different methods of calculating damages in misappropriation cases. In particular, damages will be considered sufficiently precise when the parties have agreed on an amount in a licensing agreement.

***REXA, Inc. v. Chester*, 42 F.4th 652 (7th Cir. 2022)**

The Seventh Circuit **addressed** trade secret identification and the standard of proof for misappropriation of an alleged trade secret. The case involved hydraulic actuators, which regulate the flow of working fluids. Plaintiff sued its former employee, an engineer. Eleven years after his employment with plaintiff, defendant worked on an actuator prototype for a new employer. With respect to trade secret identification, plaintiff pointed only to "the 2002 Designs" for its product as its secret, and the Court ruled that the product was public and that the concept of adding a particular type of valve to an actuator was well known. The Court ruled that "no other aspect of the 2002 actuator prototype has been identified with sufficient specificity to defeat summary judgment." With respect to misappropriation, the Court ruled plaintiff's theory rested on "a series of untenable inferences" because the engineer departed plaintiff's employment 11 years before the alleged misappropriation and took no documents with him. "[T]he eleven-year gap renders the inferences that [plaintiff] asks us to draw exceptionally unreasonable."

***Bimbo Bakeries USA, Inc. v. Sycamore*, 39 F.4th 1250 (10th Cir. 2022)**

This case addresses a purported trade secret based on an alleged combination of otherwise public elements. Plaintiff claimed that its trade secret comprised a compilation of two ingredients and two production steps involved in the bread-making process. The Court **rejected** the argument, ruling that the alleged secret was “really just a matter of trial and error, trying all four elements at all different levels.” The Court ruled that the two ingredients were well-known, and the two production steps were either known or readily ascertainable. Thus, the Court reversed the trial court’s denial of defendants’ motion for judgment as a matter of law.

***United States v. Smith*, 22 F.4th 1236, 29 Fla. L. Weekly Fed. C 721 (11th Cir. 2022)**

This case addresses proper venue for a criminal prosecution for misappropriation of trade secrets. The accused, an avid angler, averred he spent up to 1,500 hours per year fishing. The government alleged he hacked the coordinates of artificial fishing reefs owned by StrikeLines. Defendant was convicted under 18 U.S.C. § 1832 of trade secret misappropriation in the Northern District of Florida. On appeal, the Eleventh Circuit **vacated** the conviction on the ground that venue was improper. Defendant resided in Alabama, where all of his accused conduct occurred. The Court rejected the government’s argument that the effect of the crime was felt in the Northern District of Florida, where StrikeLine was located, because harm to a victim is not an element of a criminal theft of trade secrets.

***Masimo Corp. v. True Wearables, Inc.*, No. 2021-2146, 2022 U.S. App. LEXIS 1923 (Fed. Cir. Jan. 24, 2022)**

This case emphasizes the nexus between patent and trade secret law. In the underlying case, Masimo Corporation sued rival company True Wearables and ex-employee Dr. Lamego for breach of contract, misappropriation of trade secrets, and patent infringement, all in connection with hemoglobin detection devices to be placed on a patient’s fingertip. Masimo claimed that a True Wearable patent application was based on trade secret research and algorithms Dr. Lamego developed while employed by Masimo subsidiary Cercacor. Because that patent application was nearing publication, Masimo sought and obtained a preliminary injunction preventing the application from becoming public. The Federal Circuit, applying Ninth Circuit law, **concluded** that plaintiff would suffer irreparable harm if the patent application were published and therefore affirmed the injunction. Though evidence suggested that the trade secret algorithm had been published and was widely known in a different field, plaintiff nevertheless successfully argued that the algorithm (one of several hundred possible algorithms) was not generally known to members of the relevant industry. Because “the publication of the [patent application] would destroy that trade secret by making it public,” the Federal Circuit upheld an injunction against publication despite the patentee’s harm in suffering a loss of patent term (a point that the patentee had not raised below and hence waived).

Noteworthy 2022 State Cases

***Alegre, Inc. v. Hyde Component Sales, Inc.*, 2022-Ohio-542 (Ct. App.)**

This case examines the standard of proof required for an award of attorney’s fees under Ohio’s Uniform Trade Secrets Act (OUTSA). A jury found in plaintiffs’ favor on a breach of contract and trade secret misappropriation claim, awarding \$5,000 against each defendant for trade secret misappropriation. There was no award for punitive damages. The trial court awarded \$110,000 in fees. The Ohio appellate court **addressed** whether, as appellants maintained on appeal, the trial court’s award of \$110,000 in attorney’s fees under OUTSA is contingent on a punitive damage award. As appellants argued, both awards require a finding of willful and malicious conduct. The Court of Appeal ruled that there did not need to be a nexus to a jury finding of punitive damages. The concurring opinion dives a bit deeper on the issue and notes that this result is due to a different burden of proof: for punitive damages the evidence must be clear and convincing, but for statutory attorney’s fees under OUTSA, it is the less rigorous preponderance-of-the-evidence standard.

***American Med. Home Health Servs., LLC v. Legacy Home Health Agency, Inc.*, No. 04-20-00494-CV, 2022 Tex. App. LEXIS 2089 (Tex. Ct. App. Mar. 30, 2022)**

Plaintiff sought an injunction under the Texas Uniform Trade Secrets Act (TUTSA) when former marketing employees departed for defendant, a competitor. The trial court granted the injunction and enjoined the defendants from “attempting to directly or indirectly call on, solicit, persuade, induce or attempt to take away any clients/patients . . . [and] directly or indirectly disclosing, transmitting, publishing, relying upon or otherwise using Confidential Information for any purpose whatsoever.” Plaintiff returned to the lower court for a second injunction and alleged defendants were violating the first injunction. The court found plaintiff had established the information was entitled to trade secret protection under TUTSA until a trial on the merits and granted the second injunction where the former employees continued to possess, use, and disclose plaintiff’s client list; solicit plaintiff’s clients; and disclose plaintiff’s confidential information and trade secrets to their new employer, despite the first injunction. Specifically, the trial court found a former employee had departed with over 2,000 pages of confidential documents stored on her phone along with her acquired knowledge of client lists. The court of appeals [held](#) there was no abuse of discretion and affirmed both the first and second injunctions.

***DT-Trak Consulting, Inc. v. Kolda*, 979 N.W.2d 304 (S.D. 2022)**

The Supreme Court of South Dakota [held](#) that there was insufficient evidence to support a former employer’s trade secret claims and noncompete claims. Plaintiff was a medical consulting company and filed suit against its former employee, a medical coder, alleging that she violated her noncompete agreement and misappropriated trade secrets when she began working for a medical provider. First, the Court held that the scope of the noncompete agreement did not cover the employee’s new work for a provider, notwithstanding the employee performed medical coding in both roles. Second, the Court ruled that plaintiff’s protocol notes did not qualify as trade secrets because plaintiff “has not produced evidence supporting that this is the type of information that could not be compiled by others with the general skills and knowledge in the medical coding industry.” Further, because the protocol notes were changed daily, if not hourly, the Court found plaintiff failed to prove that disclosure would harm plaintiff. Third, the Court found plaintiff failed to show that the former employee was using or disclosing any “confidential” information as defined under her employment agreement, ruling that plaintiff offered “no evidence beyond its speculation” in that regard.

***General Water Techs. Inc. v. Van Zweden*, 515 P.3d 956 (Utah Ct. App. 2022)**

In this case, the Court [ruled](#) that a technical design qualified for trade secret protection, but pricing and sales information did not. Plaintiff sued two former employees and their new employer for misappropriation of its trade secrets relating to its (1) water filtration system design and (2) pricing information. The Court found plaintiff failed to present evidence that it had invested a significant amount of time, effort, or financial resources in developing its pricing information, or that the pricing was based on some unique process or formula or was different from pricing otherwise used and readily ascertainable in the industry. Thus, the Court concluded that the individual defendants were entitled to judgment notwithstanding the verdict on the pricing information trade secret. In contrast, the Court found there was evidence supporting the jury’s finding that plaintiff’s filtration system design was not readily ascertainable; could not be readily reversed engineered despite being sold to medical facilities where the system could theoretically be taken apart and rebuilt; and the filtration system was the subject of reasonable efforts to maintain its secrecy despite not requiring the individual defendants to sign non-disclosure agreements. Finally, the Court found the injunction the trial court imposed after the jury verdict did not need to be clarified to expressly exclude defendants’ new employer, even though the new employer had been found not liable. The new employer could be liable for knowingly assisting in a violation of the injunction, just as any other non-party.

Praeses, L.L.C. v. Bell, 343 So. 3d 933 (La. Ct. App. 2022)

Public availability of information dooms a trade secret claim. The Louisiana Court of Appeals [affirmed](#) a trial court order denying a motion for preliminary injunction on the ground that plaintiff failed to demonstrate the existence of a protectable trade secret. Plaintiff was a software company that analyzed phone systems for correctional facilities. Defendant was terminated from plaintiff, formed her own company, and then won a bid for a contract that had previously been held by plaintiff. Plaintiff claimed that defendant's methods were "too close" to its own trade secret methods. In response, defendant argued her proposal was based on studying publicly available contracts and records from other RFP responses. The Court also noted that defendant's technology was "noticeably inferior . . . in terms of technical sophistication and utility to the agency." The Court ruled that if defendant had misappropriated trade secrets, "the results would have been much closer to the original."

Sullivan v. National Election Defense Coalition, 182 N.E.3d 859 (Ind. Ct. App. 2022)

This case involves the intersection of trade secrets and public records law. Plaintiff sought access to certain public records relating to election security. The Indiana secretary of state withheld access to some records as trade secret exceptions to the Indiana Access to Public Records Act. Plaintiff filed suit for wrongfully denying access. The trial court ruled that the secretary failed to demonstrate the withheld records were excepted from disclosure. The Indiana intermediate court [affirmed](#) the trial court. In reviewing the emails the secretary submitted, and applying the Indiana Uniform Trade Secrets Act, the appellate court reasoned that the secretary was quoting each element of a trade secret and simply making conclusory statements that the emails met each of the elements. The secretary did not designate any evidence to establish the content of the records with adequate specificity or in support of its assertion that it derives economic value from the content of the emails.

Nevada Indep. v. Whitley, 506 P.3d 1037 (Nev. 2022)

Where trade secrets and public records requests collide, confidential information submitted to a government agency is not subject to a public records request. Nevada state law requires pharmaceutical manufacturers to submit documentation about the cost structure of insulin and other common prescription drugs to the Nevada Department of Health and Human Services (DHHS). Under the Nevada Public Records Act, a journalist made a public records request for all reports submitted by pharmaceutical manufacturers.

As a matter of first impression, the Nevada Supreme Court [held](#) that the federal Defend Trade Secrets Act (DTSA) classified the documents from the pharmaceutical companies submitted to DHHS as trade secrets, and therefore, not subject to the public records request. The Court reasoned that because these pharmaceutical companies were statutorily obligated to provide this information, its trade secret protection was not removed because they satisfied all measures to protect this information. In balancing the needs and requirements of both laws the Court reasoned, "Nevada's public records law shines a light on government conduct. It permits Nevadans insight into whether the officials they elected are holding true to their promises. But this law's illumination ends where statutory confidentiality provisions begin."

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