

Speaker 1: Welcome to the trade secret law evolution podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host Jordan Grotzinger [inaudible]

Speaker 2: Everybody.

Speaker 3: And welcome to episode 36. That deafening [00:00:30] silence you hear is the sound of my office, which is surprisingly, uh, kind of cool. And, and before we get into our episode today, I just want to talk about that for a minute, because it's essentially been a year since I've come to the office to work. I was in the office maybe a half a dozen times over the past year, but about two weeks ago, we started [00:01:00] our soft opening and like a lot of people, I had really mixed feelings about whether I needed or wanted to go in. I have become used to working at home with all the interruptions. There are things about the flexibility that I, like. I sort of convinced myself that maybe I don't need to come in. And I had a productive year last year, and what's the point of [00:01:30] getting in the car and I'll just say that, uh, well, my son came back from college, so I lost my home office and I had a hearing, so I decided, okay, I'll come in.

Speaker 3: So I came in and it was surprisingly invigorating. And I say this for, for those folks who were kind of on the fence as to whether to keep working from home or go into your office to, um, not only is it incredible how quiet it is and how focused you can be [00:02:00] with no interruptions at all. But I did bump into a few others who I hadn't seen in a year, which was surprisingly nice, even though I'd been in touch with them on zoom. And maybe the coolest thing about it was I had all these piles of papers on my desk and all over my office. And my office looked like it was, you know, frozen in time from the day we all evacuated in March of 20, 20. It's like war broke out and [00:02:30] we just left and everything was just there. Like it was.

Speaker 3: And like so many other business people and lawyers I'd imagine you just save these piles of paper, not because you really need them, but because you're worried that you might, you know, what if I need this? What if I need that? Well, it turns out I didn't need any of it the whole past year plus. And so I put it in a gigantic pile and had it all thrown out. And now I have a completely uncluttered, [00:03:00] clean brand new feeling office, which is a really cool and, and helps me focus even more. I think. So I don't know how things are going to shake out. Ultimately, I don't see going in every day of every week on my old schedule, certainly I'll have some sort of hybrid type schedule I'd imagine. But, uh, if you can, going back to work might be cooler than you think.

Speaker 3: All right. And by the way, you get CLE credit for that, since this is still part of the podcast. So [00:03:30] here it goes. Uh, today we are going to talk about quote unquote avoided costs as damages for misappropriation and the protecting American intellectual property act of 2021. So let's dive right into the first case. This was a case out of the Southern district of New York from, uh, April of this year. And after a six day jury trial, the jury found in favor of the plaintiff's claims for trade secret misappropriation under the defend trade secrets act [00:04:00] and New York law and a copyright infringement claim. The jury awarded \$284,855,192 in compensatory damages and \$569,710,384 in

punitive damages. Those are big numbers, of course, and the defendants move for judgment as a matter [00:04:30] of law or alternatively for a new trial. And I don't want to get bogged down in the procedural aspects of this case, but a long story short at the end of a trial after a verdict, uh, if the defendant wants to challenge it, it can make a judgment, a motion for judgment as a matter of law, which basically says to the judge with the evidence that came in, if you apply the law, just to those facts and evidence, the verdict should have been, uh, another verdict [00:05:00] and emotion for a new trial is just that it's a request that based on certain alleged errors, uh, the defendant get, uh, or the losing party gets another chance to try the case.

Speaker 3: Also I'm referring to the parties as a plaintiff and a defendant, but actually, and technically in this case, the plaintiff here was really a counter claimant, uh, not the plaintiff, but for purposes of clarity, I'm just gonna refer to them as the plaintiff and defendant, because for all intents and purposes, the counter claimant and Victor, [00:05:30] um, was the plaintiff here. So about the case, the plaintiff developed software for health insurance companies, and one software product manages and automates processes for such companies, including claims processing. And I'm going to call that product very creatively, the product, instead of its name, the plaintiff also created software tools to facilitate and improve the products, installation, customization, and upgrade processes. [00:06:00] As part of its business. The plaintiff also provides customization and implementation consulting services about the product. The defendant is in the it business in 2010, the parties entered into a master services agreement under which the defendant agreed to provide software development and consulting services to the plaintiff's customers with the product in 2012, the parties amended the master services agreement or MSA and deleted [00:06:30] a provision that barred the defendant from competing with the plaintiff in 2014, the plaintiff was acquired by plaintiff number two, a competitor of the defendant and the plaintiff and the defendant terminated the MSA and their relationship.

Speaker 3: The defendant commenced this action in 2015, including breach of contract and other claims. And as I mentioned, the plaintiff asserted counterclaims discovery was protracted and the court found [00:07:00] that the defendant had engaged in discovery misconduct. As a result, the court entered a preclusion order that barred the defendant from one quote, offering or presenting any evidence that it did not misappropriate and unlawfully copy the plaintiff's product test cases and automation scripts, close quote, and to quote, offering or presenting any evidence that it independently developed any of the platform management [00:07:30] tools at issue. In this case close quote, I use the term preclusion order. What is a preclusion order? A preclusion order is an order, uh, usually after discovery misconduct that says party who engaged in the misconduct because of your misconduct, you are not allowed to use certain evidence. Uh, the best example of that is probably where something is requested in discovery [00:08:00] and improperly not produced in response to the discovery.

Speaker 3: The court will ultimately issue a preclusion order, uh, precluding, uh, any evidence that was requested, but not provided so fast forward to the jury trial and damages award. The jury, as I said, awarded \$284,855,192 in compensatory damages, total and punitive damages of double that amount. And the defendant [00:08:30] moved for judgment as

a matter of law or alternatively for a new trial, the court denied the motion and we address what we believe is the notable part of the analysis. Uh, the opinion also concerned several issues that we've addressed a lot in this podcast, but we think this, uh, the following is the most, uh, interesting. So at trial, the plaintiff argued that the defendant was unjustly by the amount of the compensatory award because the defendant [00:09:00] quote, avoided expending this amount in development costs by stealing and using the plaintiff's trade secrets, instead of incurring the cost of developing the trade secrets on its own close quote, the jury accepted this argument, but the defendant argues that avoided cost damages are an impermissible measure of damages.

Speaker 3: As a matter of law, the court rejected that argument, the court reason, quote, the DTSA, [00:09:30] the defend trade secrets act, which as you know, is the federal trade secret law expressly permits unjust enrichment as damages. The DTSA permits a plaintiff to seek inner quote damages for actual loss caused by the misappropriation and ellipsis damages for any unjust enrichment caused by the misappropriation ellipsis that is not addressed in computing damages for actual loss or ellipsis in lieu of damages [00:10:00] measured by those methods. The damages ellipsis measured by imposition of liability for a reasonable royalty for the miss appropriators, unauthorized disclosure, or use of the trade secret close quotes. And the court said, quote, unjust enrichment damages include that the parties called avoided costs. I E the development costs that the defendant avoided incurring when it misappropriated the plaintiff's trade secrets. [00:10:30] These avoided costs are recoverable as damages for unjust enrichment under the DTSA and it's state law counterparts derived from the uniform trade secrets act close quote.

Speaker 3: The defendant argued that a claimant like the plaintiff here is not entitled to recover the total value of a trade secret when the secret still has value to the claimant. But the court said this misconstrues, the damages award here, quote, the DTSA expressly [00:11:00] permits recovery of the loss to a claimant and or the unjust enrichment to a wrongdoer. As long as there is no double counting damages characterized as the total value of the trade secret belong in the former category, lost to a claimant and logically could not be awarded if the value in fact is not lost. However, avoided costs damages are in the latter category of unjust enrichment and represent the wrongful gain to [00:11:30] the party that misappropriated the trade secret. There is no legal or conceptual limitation on these damages based on the continuing value of the trade secret to the claimant unjust enrichment damages derived from a policy of preventing wrongdoers from keeping ill gotten gains, and therefore do not require a corresponding loss to the plaintiff close quote.

Speaker 3: The defendant also argued that avoided costs shouldn't be awarded because the [00:12:00] plaintiff's actual loss, namely lost profits and the defendants unjust enrichment in the form of increased revenue were measurable. The court rejected that argument to revenue and avoided costs. Quote, both are a form of unjust enrichment, but avoided costs may be a more appropriate measure of damages when the wrongdoer made only a modest profit as the defendant did here or no profit from use of the trade secrets, the wrongdoer [00:12:30] not the aggrieved party should bear the business risk

that the wrongdoers use of purloining trade secrets will not be profitable, close quote, we'll get to the takeaways as we do in every episode, but we thought that discussion was a useful measure of, uh, a kind of damages that you don't see. It addressed a lot in reported cases. Okay. Now to the protecting intellectual property act of 2021 [00:13:00] on April 21st of this year, senators Ben Sasse of Nebraska are Republican and Chris van Hollen of Maryland, a Democrat re-introduced the bipartisan protecting American intellectual property act, which quote is legislation to mandate strong economic penalties on firms and individuals involved in stealing American intellectual property close quote.

Speaker 3: The bill requires sanctions on individuals and firms found [00:13:30] to quote, engage in benefit from or enable the significant and serial theft of us intellectual property close quote. The legislation was passed unanimously by the Senate in December, 2020 to summarize the act requires a report to Congress within six months and annually thereafter identifying any individual or firm that has engaged in benefited from or provided support for [00:14:00] the significant theft of U S trade secrets. If that's theft constitutes a major threat to the national security foreign policy, economic health, or financial stability of the United States and the chief executive officers and board members of the reported firms, and whether those individuals have benefited from the significant theft of us trade, each report quote shall be submitted [00:14:30] in an unclassified form, but may include a classified annex close quote. In addition, for any firm identified in the report to Congress, the president must impose at least five sanctions, including property blocking sanctions, export prohibitions, the prohibition of loans, us and international financial institutions, procurement sanctions, and prohibition of banking transactions.

Speaker 3: And yes, I met [00:15:00] at least five sanctions, not just one of these, the access the president shall impose quote, not less than five close quote of one of the sanctions and the property blocking sanction for your information means the president is to quote, block and prohibit all transactions in all property and interests in property of the entity. If such property and interests in property are in the United States, come within the United States [00:15:30] or are, or come within the possession or control of United States person close quote. And for any individual identified in the report to Congress, the president must impose property blocking sanctions, and most must prohibit the individual's entry into the United States. The economic penalties imposed terminate. If the president certifies to Congress that the individual or firm is no longer engaged in the sanctionable [00:16:00] behavior. And finally, the act includes quote, a national interest waiver close quote by which the president can waive sanctions.

Speaker 3: If he or she quote, determines that such a waiver is in the national interest of the United States and not more than 15 days after issuing the waiver submits to the appropriate congressional committees, a notification of the waiver and the reasons for the waiver close quote as to the need for this act, Senator [00:16:30] van Hollen said, quote, many foreign companies. And especially those based in China are working overtime to steal us technology, damaging our economy, harming us job creation and threatening our national security in the process. The us must act to ensure these companies and the governments enabling them face meaningful consequences for their attempts to cheat

the system close quote and quote. This bill draws a line in the sand outlining [00:17:00] clear repercussions that these bad actors will face if they steal vital cutting edge American technology close quote, as to the timing of this legislation, I don't know, but we'll continue to monitor this.

Speaker 3: It might be imminent since a uniquely. This was bipartisan legislation now for the takeaways unjust enrichment damages include so-called avoided cost damages. That is the development costs that [00:17:30] a defendant avoided incurring when it misappropriated the plaintiff's trade secrets, unjust enrichment damages derived from a policy of preventing wrongdoers from keeping ill-gotten gains and therefore do not require corresponding loss to the plaintiff. Thirdly, the defendant's revenue and avoided costs, quote, both are a form of unjust enrichment, but avoided costs may be a more appropriate measure of damages. [00:18:00] When the wrongdoer made only a modest profit, the wrongdoer, not the aggrieved party should bear the business risk that the wrongdoers use of stolen trade secrets will not be profitable. And finally, under the protecting American intellectual property act of 2021, the president must report annually to Congress about culpable parties in trade secret theft, and for each such party, the president must impose at least five serious sanctions, [00:18:30] but there is discretion to waive sanctions in the national interest. All right, that's it folks. I hope you found that. Interesting. I hope you are healthy and have a chance to start getting back to normal until next time. Thanks or listening as always. Bye.

Speaker 1: Okay. That's a wrap. Thanks for joining us on this episode of the trade secret law evolution podcast as the law evolves. So will this podcast. So we value your feedback, [00:19:00] let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at grotzingerj@gtlaw.com or on LinkedIn. And if you like, what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on apple podcasts, Stitcher, Spotify, and other platforms. Thanks everybody. Until next time,

Speaker 4: Greenberg Traurig has more than 2000 attorneys and 39 offices in the United States, Latin America, Europe, Asia, and [00:19:30] the middle east GT has been recognized for its philanthropic, giving diversity and innovation, and is constantly among the largest firms in the U S on the law 360 400. And among the top 20 on the AmLaw global 100 content is for informational purposes only and does not contain legal or other advice and or opinions for more information, please visit the I T period, L Y slash GT law disclosures. This podcast is eligible for California self study. CLE credit certificates [00:20:00] of attendance will not be issued. California attorneys are responsible for self-reporting the amount of time they listened for all other jurisdictions. Please contact your state's MCLE board or committee for guidance on their rules and regulations as it relates to the self-study credit.