Jordan Grotzinger (00:05):

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. This is a significant week because for the first time, in a long time, the California court of appeal came down with an important decision. And the subjects we're going to address this week are statute of limitations, which is the subject that the appellate court addressed the issue of trade secret identification, which we, uh, address all the time. And we're not going to actually address a decision like we usually do, but a high profile case and how that issue arose in that case. And we're going to talk about the protection or redaction of trade secret information in court proceedings, because as we've discussed a lot, if you make a trade secret public, it's not a secret, you have to always keep that in mind in trade secret litigation. So before we dive into the case, we have a new co-host. I would like to introduce Vanessa Krumbein, who is a new GT colleague of ours. Uh, Kevin, my probably my most frequent co-host was pulled into a deposition and of course work comes before podcasts. So hi Vanessa. Hi, welcome to the podcast. Thank you for having me. So how long have you been at GT?

Vanessa Krumbein (01:48):

I am I'm on week three or week four. We're starting to lose count now.

Jordan Grotzinger (01:53):

You know, You know how many weeks I've been at GT haha still counting no 18 years. Tell us a little bit about your practice because it does overlap with this subject matter, somewhat.

Vanessa Krumbein (02:03):

Sure. Um, I am an Greenberg. Traurig's labor and employment group. And within that role, I am primarily focused on giving day-to-day advice and counsel to both in-house counsel and human resource departments regarding any employee issues that come up as well as working with them on their policies and procedures and even their employment agreements. So such as those intended to protect trade secrets.

Jordan Grotzinger (02:29):

Great. And, and I do like to have employment lawyers as co-hosts because of the crossover, uh, as, as you listeners know, a lot of our cases involve former employees and executives that left and, uh, took trade secrets. So welcome Vanessa, glad to have you. And let's dive into this first case. This was a decision by the California court of appeal in October of this year, and it addresses the statute of limitations under the unit, the California uniform trade secrets act. And it's a big deal and in a way, a major cautionary tale in some, this was a dispute between toy companies over a brand of dolls. The case started as a copyright case in federal court. And in August of 2007, the plaintiff served discovery requests asking about the defendant's efforts to obtain the plaintiff's trade secrets. So the plaintiff appeared to be on to something in making those requests. Days later, the plaintiff asserted in an affirmative defense that the defendant acted with unclean hands, uh, including by spying on the plaintiff and attempting to gain access to its showrooms, merchandising displays, et cetera, on false pretenses,

Vanessa Krumbein (03:51):

Right? And here's where the problem comes in. The plaintiff waited three years and three days to finally file their counter claim for a violation of the uniform trade secrets act. The defendant then obviously raised a three year statute of limitations defense, but the district court ruled that the counterclaim was compulsory and that it had sufficiently related back to an earlier pleading. So the plaintiff was able to get a verdict on its trade secret misappropriation claim of more than $80 million plus an additional 80 million including damages. And then the ninth circuit ended up reversing the district courts ruling that the plaintiff's counterclaim was compulsory. It vacated that enormous verdict and it directed the district court to dismiss it without prejudice,

Jordan Grotzinger (04:42):

Pretty incredible alternative events. You know, you get this, um, compulsory counterclaim ruling case goes all the way to trial huge award. And then the ninth circuit says, wait, it wasn't compulsory all on done. That that's pretty huge. So the plaintiff filed it's trade secret case in state court now that it was out of federal court and the defendant moved for summary judgment on statute of limitations grounds, uh, alleging that the three-year period had run by the time the plaintiff filed its trade secret misappropriation claim in federal court, the court of appeal agreed and held that under California law quote, the same suspicions that allowed the plaintiff to request discovery and plead the unclean hands defense in federal court in 2007 were sufficient to trigger the statute of limitations close quote. So after all that, even that multimillion dollar award, uh, not only is the case dismissed, but the state court rules and the appellate court affirms that the case was time-barred

Vanessa Krumbein (05:51):

And the court stated the rule as follows. And this is important for, I think every attorney, not those involved in trade secret litigation quote, the statute of limitations begins to run when the plaintiff has reason to suspect an injury and some wrongful cause unless the plaintiff proves a reasonable investigation at the time would not have revealed a factual basis for the claim.

Jordan Grotzinger (06:15):

So the plaintiff argued that the statute of limitations didn't begin to run until a 2010 deposition of the defendants former market intelligence director, who testified about gaining access to competitor showrooms on false pretenses. The plaintiff also argued that the defendant didn't produce relevant documents in response to discovery until 2010. So it didn't, uh, have sufficient suspicions until then and argued that other defense witnesses gave misleading testimony essentially further covering up what the plaintiff said or argued it needed to know for its suspicion to be sufficiently triggered. And finally it argued the plaintiff argued that it promptly filed its trade secret claim in the federal litigation just a month after the market intelligence director's deposition testimony. Right?

Vanessa Krumbein (07:12):

And on the other side, in addition to the plaintiff's discovery requests and the unclean hands defense that the plaintiff had raised in federal court, the defendant presented evidence supporting the fact that the plaintiff had reason to be suspicious more than three years before the filing of its counterclaim and presented evidence such as deposition testimony from one of the plaintiff's executives that she had seen the defendant's market intelligence director at a plaintiff's showroom at a toy fair earlier, and was surprised because she thought it was wrong for him to be there because the plaintiff was showcasing some confidential unreleased products. Um, they also presented evidence that there was a 2003

interview of the plaintiff CEO, where he shared some concerns with the reporter about competitors sneaking into toy fairs. And there was also some discovery on the same issue.

Jordan Grotzinger (08:04):

So there was more evidence than just, or there was more support for the statute of limitations argument than just the discovery that the plaintiff had served in federal court asking about potential trade secret misappropriation, and that unclean hands defense, which was directed to alleged spying or trade secret misappropriation.

Vanessa Krumbein (08:27):

And that was a pretty specific affirmative defense that they had alleged. They had included some facts in that day.

Jordan Grotzinger (08:33):

They did. And, you know, that's, that's what you're supposed to do in federal court, right? Otherwise it could get stricken. So an interesting predicament that, that the plaintiff was in there. So a claim under the uniform trade secrets act, as we've discussed previously must be brought within three years after the misappropriation is discovered or by the exercise, reasonable diligence should have been discovered. The California rule on delayed discovery of a cause of action is that the statute begins to run quote when the plaintiff has reason to suspect an injury and some wrongful cause close quote. So the plaintiff need not be aware of the specific facts. If suspicion exists, the court said the plaintiff must go find the facts. That's what the appellate court said,

Vanessa Krumbein (09:23):

Right? And, uh, it went on to, I think, say that fraud only tolls the statute of limitations until such time as the plaintiff should have discovered it. So once the parties on notice of a potential claim, they can't just sit on their hands or bury their head in the sand. Um, and in this case, the court rejected the plaintiff's argument that discovery of some risk appropriation only starts the statute of limitations, uh, running for that and not all misappropriation. And that in any event, the plaintiff didn't actually discover any misappropriation until 2010, holding that there are based on a misapprehension of California law.

Jordan Grotzinger (10:00):

So as to the plaintiff's distinct injury argument, that is its argument that a new statute of limitations period runs for each act of misappropriation. The court clarified that California law only holds that in cases of single injuries caused by distinct wrongdoing, like for example, a medical malpractice and a defective product, the discovery rule can postpone the statute of limitations accrual on the newly discovered claim like products liability. So despite the plaintiff arguing that it had notice of at most two trade secrets that the defendant had misappropriated when it's filed it's affirmative defense, the court quote simply cannot agree with the plaintiff's compartmentalization of its suspicion of wrongdoing. A defendant in these circumstances cannot Don blinders to avoid the accrual of the statute of limitations close quote that the court said that kind of compartmentalizing defies common sense.

Vanessa Krumbein (11:06):

And as to the plaintiff's argument, that it didn't discover any misappropriation until 2010, the court found that the plaintiff had ignored the legal standard of statute of limitations accrual. So it's not when

the plaintiff received the documents, it's when the plaintiff was quote on notice of a potential claim. And with the exercise of reasonable diligence was, or should have been the law is not that the discovery rule prevents the statute of limitations from running until the plaintiff has sufficient evidence to support its case.

Jordan Grotzinger (11:37):

Finally, as to fraudulent concealment, which the court called a close cousin of the discovery rule, the under that doctrine, the culpable defendant should be a stopped or prevented from profiting from his own wrong, but only to the extent it hindered an otherwise diligent plaintiff in discovering its claim. And here, based on the evidence, uh, the court said the plaintiff had discovered its claimed by 2007. So no matter how egregious, and that was the court, that was the word the court used, no matter how egregious the defendants alleged concealment, it didn't toll the statute of limitations. In other words, it, the fraud can be real, but it doesn't matter if the plaintiff isn't diligent, so it can help toll, but it, but it's still subject to the plaintiff's diligence. So the judgment was affirmed and the defendant got is entitled to costs. Pretty incredible turn of events from federal court to state court after an $80 million plus verdict to the statute of limitations bar, defendant wins and recovers costs, big important case. The next case we're going to discuss is not a decision, but involves a prominent, uh, case in Northern California and is a criminal case against an executive of a ride share company that was brought based on alleged stealing of a self-driving car trade secrets from a competitor in a status conference. The judge told prosecutors that the trade secrets that the defendant is accused of stealing aren't laid out with enough specificity calling that question of what qualifies as a trade secret quote, the most important issue in the case,

Vanessa Krumbein (13:30):

Right? And the defense had argued that the prosecutors had merely mentioned design files, documents, and lengthy PowerPoints that don't contain specific technology. So the defendant can't even begin preparing his defense. And as a side note, I noticed that, so there's a 33 count grand jury indictment against this individual. And it's not even clear what the alleged trade secrets are. Yeah, that's, that's a bit scary.

Jordan Grotzinger (13:58):

It is. And it's an issue that we've addressed repeatedly in this podcast, although in the civil litigation context, not the criminal context, the judge said that, trying to identify the trade secrets in the files that the prosecutors claim contain them was like looking for a needle in a haystack. And he warned, um, at least, and this is consistent with all the cases we've talked about in the last 10 episodes, at least half of what people claim are, trade secrets, turn out not to be. And he noted that large companies tend to quote, lock everything up, including publicly available information that doesn't qualify as or include trade secrets.

Vanessa Krumbein (14:41):

So here are the judge ordered the parties to file briefs on the legal standard for the degree of specificity that has to be proven to assert a trade secret in the criminal. Um, so this is going to be an interesting one to see how it turns out

Jordan Grotzinger (14:54):

It is. And, and to your point about, you know, this is a criminal case and there's a multi-county indictment and the fundamental issue is still in play. It's, it's almost funny. I mean, probably the most

prominent subject on this podcast has been trade secret identification there's case after case, after case on it, it is always addressed. It is always fought over in every piece of litigation. And here in the end of 2019 in may be the most high profile trade secrets case pending in the world today, the judge is saying, I need briefs on what trade secret identification means. I mean, it's, you know, it's, it, it honestly goes back to why the title of this podcast is the trade secret evolution podcast because this, these issues are always developing, especially this one, there's so much law on it. And, and here in the most prominent case, we need briefs on what it means it's pretty wild, right?

Vanessa Krumbein (15:56):

It's sort of a counterintuitive proposition, right? On the one hand you are supposed to keep your trade secrets confidential and secret. On the other hand, the judge is asking you potentially do disclose some more information.

Jordan Grotzinger (16:08):

And on that point, that's a great segue into the last case we're going to discuss, which was a case out of the district of Colorado in October. Um, and this was a pretty narrow decision, but we thought it was worth discussing for exactly the issue or for exactly the reason that you just mentioned, Vanessa, which is, um, this counterintuitive situation of arguing over what's secret, but being careful not to publicly disclose any of it in, in a proceeding that is by definition public litigation. So in this case, the parties had agreed to in a, in an injunction proceeding to refer to the trade secrets at issue using generic names like trade secret, one trade secret, two, et cetera, but not withstanding that agreement. The plaintiff and counter defendant identified things like protein inhibitors and clinical candidates that were the subject of the trade secrets at issue.

Jordan Grotzinger (17:09):

And the other side said, wait a minute, we need to redact that because we can't have that sitting around in a public record because that would destroy the secrecy of our information and, and take away trade secret status. And so the court had to weigh the presumption that judicial proceedings are public versus the private interest or private interests that favor non-disclosure and ruled that the defendant and counter claimant had sufficiently ID'd the trade secrets and met its burden on non-disclosure. So the court ruled that the information sought to be redacted would reveal the nature of the trade and ordered that information to be redacted.

Vanessa Krumbein (17:52):

All right. So first take away for the statute of limitations to start running a plaintiff does not need to be aware of the specific facts. If a plaintiff is reasonably should be suspicious, the plaintiff must go and find the facts. Now this is a flexible standard and allows courts to second guessed and can be fatal to a claim

Jordan Grotzinger (18:12):

When you're dealing with an issue like statute of limitations, which can eviscerate and verdict worth tens of millions of dollars. And there's a flexible standard like that. You got to err on the side of caution, and that's why I called the case of cautionary tale. It's one of those ouch type cases also on the statute of limitations issue. Another takeaway is that the plaintiff cannot compartmentalize acts of misappropriation for statute of limitation purposes. The court essentially viewed trade secret misappropriation as a single act for statute of limitations purposes. So that separate act of misappropriation will not trigger the running of separate limitations periods.

Vanessa Krumbein (19:00):

Uh, the bank's takeaway is the plaintiff does not have to have sufficient evidence to support its case. Reasonable suspicion is all it takes

Jordan Grotzinger (19:09):

To that point. We saw how the plaintiff in the statute of limitations case was basically arguing that we didn't have enough to know if there were, if we could prove trade secret misappropriation. And so the, so the statute didn't begin to run and the courts saying, that's not the test. You don't need to have proof of your prime aphasia case, ladies and gentlemen in English. That means you don't need to have proof of your case. You just need to have reasonable suspicion. So you can't, uh, remember the plaintiff had propounded that discovery because it obviously wasn't sure I'd want it to get evidence on trade secret misappropriation. It didn't have it yet. Um, but, but that's not the test. If you're suspicious, if you're reasonably suspicious, that that will trigger the limitations period. And even agregious fraudulent conduct by a defendant, uh, alleged fraudulent conduct, won't toll the statute of limitations.

Jordan Grotzinger (20:14):

If the plaintiff should have suspected wrongdoing anyway, so fraudulent concealment can toll the statute of limitations. But if the plaintiff has suspicions, regardless of the alleged fraud, fraudulent concealment does not work. The next takeaway deals with trade secret identification, which is always evolving and is always seemingly disputed. So the takeaway is identify your trade secrets with enough specificity to distinguish them from public information, by for example, pointing to specific files or documents, if they're trade secrets, of course, and supporting your conclusion that they are trade secrets with facts and evidence about things like the time and investment put into your information, which as, as we've discussed in the past can show the value requirement for trade secrets.

Vanessa Krumbein (21:08):

Finally, be careful how you identify trade secrets and court proceedings, because those proceedings are public and public disclosure destroys secrecy. Therefore you're going to have to sometimes walk a fine line between sufficiently identifying the trade secret with keeping them secret and using tools like generic names, redactions, and filing under seal when necessary

Jordan Grotzinger (21:31):

More takeaway on the statute of limitations, which just occurred to me in our case, we had the executive of the plaintiff talking in some news article about how this kind of spying happens, that kind of thing. And that was used against the plaintiff for statute of limitations purposes. It was one of the pieces of evidence in addition to the defendants, uh, discovery asking for trade secrets and it's unclean hands defense that was turned against the plaintiff. So, um, as it's interesting, um, how sort of endless trade secret protection can be, but another item of protection can be to advise your people not to be talking about this in public because you never what's the purpose. I mean, what, what value did that company get from its officer talking in the news about how they're spied upon, right. I'm sitting here trying to think of any piece of value and I can't, and years later it was used to kill a multimillion dollar verdict.

Jordan Grotzinger (22:36):

Okay. Vanessa, you were really thrown into the fire here. I've just, just for the record, everybody. I pulled Vanessa into this, uh, what was it like four o'clock yesterday? Yep. Yeah. Penn cheddar. We met

like a week ago. No, this is great. I, you know, one of my goals for this podcast is to rotate in a small group of co-hosts that either practice in the area or practice in an area that's significantly okay. Relapsed like your practice, Vanessa. So I hope you come back. I think you were great, especially as a pinch hitter on less than 24 hours. Notice, so thank you. Great job by everybody. 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, 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, Greenberg Traurig

Jenna MacCabe (23:46):

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