

Jordan Grotzinger ([00:05](#)):

Hello, and welcome to Greenberg Traurig trade secret law evolution podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends and trade secret law. We want you to stay current and ahead of the curve on how best to protect your company's most valuable assets. We're your hosts, Jordan Grotzinger and Jenna MacCabe. This is episode two of the trade secret law evolution podcast. And we're going to talk about development in the last few weeks. We said in the pilot episode that we'll be talking about cases since the last episode. Technically speaking, some of these might've come down a few days before the episode, but we'll be talking about new developments that were not addressed in the prior. So there are five subjects that we're going to address in this episode, relating to trade secret law agency, statute of limitations, the inevitable disclosure doctrine, the identification of trade secrets and sovereign immunity. So I want to talk about the agency case.

Jenna MacCabe ([01:11](#)):

Yeah, let's jump in.

Jordan Grotzinger ([01:12](#)):

Let's do it.

Jenna MacCabe ([01:13](#)):

Okay. So in the Eastern district of California, a case came down about a plaintiff who's in the business of chemical water treatment for agriculture irrigation. So the plaintiff uses fertilizers that are custom blended through proprietary methods, and they apply it to crops. And they've had confidentiality agreements that they strictly enforced with their employees and they restrict access to their trade secrets and their confidential information, and a former CEO gain unauthorized access to some of their trade secrets and took them to start a new company that was a direct competitor with the plaintiff, right?

Jordan Grotzinger ([01:50](#)):

So the CEO and the new company mimic this technology and the plaintiff company pretty much did its job. When it came to protecting its trade secrets, it had the right agreements and restricted access, uh, but the CEO gained it and took some files and started this competitor using mimicked technology. So the CEO then sues the plaintiff company in an employment case and they settled. And the settlement agreement provided that the CEO would agree to be bound by the confidentiality agreement and return the plaintiff company's property. And the settlement also recited that the plaintiff company intended before the settlement to Sue the CEO for misappropriation of trade secrets and the settlement agreement contained broad release language.

Jenna MacCabe ([02:46](#)):

Yes. And then later on, the plaintiff sued the new company and also the CEO and another person at the company and the new company argued. The CEO was an agent of that company. And so because of the settlement agreement, that new company and both the former CEO of the old company and another employee could not be held liable for trade secret misappropriation.

Jordan Grotzinger ([03:14](#)):

So the defendant company was essentially saying that because of the broad release language in the CEO's settlement agreement with the plaintiff company, that release encompassed the CEO's new company, the defendant company in this case, and, and therefore the defendant company should be dismissed. So the court rejected that argument for two reasons. Reason. Number one was that while an officer of a corporation is in fact, an agent of the corporation, there were no allegations in this case that the CEO was acting in the capacity of a CEO of the defendant company when he allegedly stole the trade secrets. And in fact, the defendant competitor company wasn't even formed until sometime after the trade secret misappropriation.

Jenna MacCabe ([04:08](#)):

And the second reason is because an officer can be liable individually for their own actions, because this was intentional tortious conduct the corporation and the defendant individual could both be liable separately,

Jordan Grotzinger ([04:22](#)):

Right? So this case was an interesting, uh, application of agency law to trade secrets. And as we'll do in every episode, we'll talk about the takeaways from this case and the others. We're going to talk about this next one was about statute of limitations. And this one was an interesting one. This was out of the third circuit in June, 2019, and the plaintiff company had a secret recipe for bone cement used in artificial joints. The defendant company was a chemical manufacturer for the plaintiff's main competitor. And the issue was whether the case was time-barred under Pennsylvania's uniform trade secret act. And the court held that under Pennsylvania law, the rule of separate accrual for continuing trade secret misappropriation applies, and therefore the plaintiff could Sue for misappropriation that occurred within three years before the filing, even though there was some misappropriation earlier than three years before the filing.

Jenna MacCabe ([05:24](#)):

So to expand a little bit, the competitor obtained the plaintiff's trade secrets through a series of corporate transactions that involved other parties and distribution of the summit. And then the competitor launched the competing in summit and the plaintiff sued in Germany for trade secret misappropriation after filing another suit in the U.S. For discovery against the defendant, the plaintiff learned that the defendant had participated in the trade secret misappropriation. And just short of three years later, the plaintiff sued that defendant in the Eastern district of Pennsylvania for violating the Pennsylvania uniform trade secrets act.

Jordan Grotzinger ([05:58](#)):

So the defendant moves for summary judgment and district court, and under the three year trade secret statute of limitations and the court granted the motion holding that to adopt the separate accrual rule. And of course what we mean by that is the rule that if misappropriation started before the limitations period, but continued into it, um, unless there's a separate accrual rule, the claim would be barred because the misappropriation started before the three-year period. So the court held the district court held that to adopt the separate accrual rule in this case would essentially eliminate the statute of limitations by allowing plaintiffs to stand by for years, as long as, as little as one act of misappropriation, uh, occurred within the limitation.

Jenna MacCabe ([06:46](#)):

And third circuit reverse noting that the discovery rule applied and that the misappropriation occurring earlier than three years before the filing date were barred, but later misappropriations were not barred under the separate accrual rule.

Jordan Grotzinger ([07:00](#)):

And the main reason the third circuit had for that reversal was statutory construction. It noted that while the Pennsylvania uniform trade secret act is of course, based on the uniform trade secret act, the Pennsylvania act, uh, diverged from the uniform act in its treatment of continuing misappropriation by omitting the last sentence in the uniform trade secret act statute of limitations. And I'm going to read that sentence. That sentence is for the purposes of this section, a continuing misappropriation constitutes a single claim and as all trade secret lawyers know that's the sentence in, for example, the defend trade secrets act under federal law, the California uniform trade secrets act, and many others that usually bars continuing misappropriations with some exceptions, like use, which we discussed in episode one. But because of that deliberate omission, the third circuit said Pennsylvania law followed the separate accrual rule

Jenna MacCabe ([08:12](#)):

And the court had some other reasons too. One of those reasons is that Pennsylvania's common law views, trade secret misappropriation as a violation of a property right. Pennsylvania also adopted the restatement of torts, which recognizes unauthorized use as misappropriation. So combining those things, as well as what Jordan just talked about, the court found that the separate accrual rule applies,

Jordan Grotzinger ([08:34](#)):

Right? And, and then the opinion got pretty, uh, interesting. The third circuit engages in a discussion, which I thought was rather gray about the subtle distinction between continuing violations and continuing misappropriation. So it reasoned continuing violations. First statute of limitations purposes are part of an unlawful pattern of conduct that began before the limitations period. Um, and those are generally barred, but that is distinguished. The third circuit said from continuing misappropriations, which the court said is considered a new act of misappropriation. And then, and this is where it got frankly, a little difficult to follow for me. The court tried to reconcile how a continuing misappropriation can also be a new misappropriation. I mean, it does seem contradictory, right, but that's really the reconciliation. The third circuit was attempting. And what it said was that, well, the use of a trade secret can be a new misappropriation in and of itself.

Jordan Grotzinger ([09:54](#)):

Okay. I mean, if you take that in a vacuum, I guess it makes sense, but the discussion went on that, for example, the continued employment of trade secrets falls within the broad meaning of use that that was the court's rationale as to why a use can be a new misappropriation. So this reconciliation between how a misappropriation can be continuing and at the same time, be new is difficult. Just like how can the continued employment of a trade secret be new, just because it falls within the broad meaning of use. So I think the one certain thing that comes out of this case is that there will be more litigation over it. And, uh, it'll be interesting to see, uh, what happens when this issue is raised. Again, whether that's on an appeal or in other cases,

Jenna MacCabe ([10:53](#)):

That's very interesting. The next case that we have talks about the inevitable disclosure doctrine, which is a doctor and that's followed in some uniform trade secrets acts, depending on which state that you're in. And in this case, it was in the Northern district of Illinois in June and accompany with software analytics that measured the life and efficiency of its machineries sued its former employees and the former employees, new company for trade secret misappropriation, the defendants moved to dismiss and the court went through the facts about how the employees had signed confidentiality and non-solicitation agreements with the plaintiff and the plaintiff had sued for violations of the Illinois trade secrets act, the defend trade secrets act as well as other claims based on all of these violations,

Jordan Grotzinger ([11:40](#)):

Right? So the employees that signed confidentiality agreements and non-solicitation agreements with the plaintiff, but the plaintiff's computer showed that the employees had the plaintiff's trade secrets. So plaintiff sued for violation of the Illinois trade secrets act and the defend trade secrets act. And the court held that the plaintiff sufficiently identified the trade secrets. And as you noted, uh, just a short while ago, Jenna, we looked at the complaint. It was actually a pretty general identification, which is an issue that comes up constantly in these cases. And it is in fact, the subject of the next case we'll talk about, but it wasn't an issue in this case. So the trade secrets were sufficiently identified according to the court and the district court held on this motion to dismiss that the inevitable disclosure doctrine allows a plaintiff to prove trade secret misappropriation. By showing that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.

Jenna MacCabe ([12:44](#)):

Macquarie had distinguished between the general skills and knowledge and a business and the knowledge of particular lies, plans, processes, or information that would give a new company an advantage and application of the inevitable disclosure doctrine depends on a couple of different factors. The first one is the level of competition between the employers. The second one is whether the employees positions are comparable and the third is actions of the new employer to prevent trade secret misappropriation.

Jordan Grotzinger ([13:13](#)):

And the court found that the pleading stage that the, um, plaintiff had alleged enough under those factors to continue the case. So the court allowed the plaintiff to state a claim under the Illinois trade secrets act and the defend trade secrets act pursuant to the inevitable disclosure doctrine, referring to some Illinois district court decisions that upheld the defend trade secrets act claims under the inevitable disclosure doctrine. And we have a view on that. Don't we,

Jenna MacCabe ([13:47](#)):

We do, if you check out our bio's, you'll see that we have a daily journal article written about this because these decisions are wrong. The defend trade secrets act rejects the inevitable disclosure doctrine, actually both the California and the federal act both don't recognize it. But for some reason, the Northern district of Illinois has a couple of decisions that say otherwise.

Jordan Grotzinger ([14:09](#)):

So the court referred to some district court decisions out of Illinois, upholding defend trade secrets act claims under the inevitable disclosure doctrine. But, uh, in fact, as we've addressed in one of our articles, the defend trade secrets act rejects the inevitable disclosure doctrine. And for our fellow

Californians, the California uniform trade secrets act does as well. So the next case deals with the identification of trade secrets, which we will be addressing over and over

Jenna MacCabe ([14:45](#)):

In this case that came out of the Northern district of California. The plaintiff had sued for a violation under the California uniform trade secrets act and the defend trade secrets act and moved for an injunction to prevent trade secret misappropriation of its source code. Among other things, the court had found that the plaintiff failed to identify the source code with sufficient particularity and denied the injunction.

Jordan Grotzinger ([15:06](#)):

So this was a third amended complaint and the plaintiff tried to identify the trade secrets source code here by listing five payment processing algorithms. And the court held that the party seeking injunctive relief has to identify trade secrets with sufficient particularity. And that here the listing of algorithms was exemplary and not comprehensive. And that's important because it essentially, it means it's open-ended and not specific. And the court distinguished this case where the plaintiff just gave some examples of these algorithms from another recent case where the plaintiff had filed a 22 page identification of 10 specific trade secrets with the description of the functionality of each along with named files, reflecting the source code specific to each trade secret. So that's an example of how an identification can be sufficiently specific versus an open-ended one, uh, that is not. And speaking of open-ended, the court also noted that the plaintiff left open its definition more broadly seeking an injunction against misappropriation of trade secrets, quote, and other proprietary information such as, but not limited to and quote, and it went on. So it expressly left open this definition in its injunction papers, which you definitely do not want to do if you want.

Jenna MacCabe ([16:44](#)):

No, because that will prevent the court from understanding what the plaintiff is alleging was misappropriated.

Jordan Grotzinger ([16:49](#)):

So the next and final case, we'll talk about raising an issue that you wouldn't necessarily expect to see in trade secret case.

Jenna MacCabe ([16:57](#)):

No, you would not. So this issue is whether a claim for a violation under the Georgia, uh, trade secrets act against the state entity is barred by sovereign immunity. In this case, an employee of a state entity allegedly distributed some of the claimant's trade secret materials to a competitor after the state entity received as part of its requests for proposals.

Jordan Grotzinger ([17:16](#)):

So the court of appeals observed that statutes can contain waivers of sovereign immunity, but the Georgia trade secrets act lacked an express or implied waiver because it didn't identify within its definition of a person that can be liable for trade secret misappropriation, the state. And because of that omission, from the definition of persons that can be liable, the court held that there wasn't an express or implied waiver of sovereign immunity in the Georgia trade secrets act

Jenna MacCabe ([17:57](#)):

Because the trade secret misappropriation constitutes a tort under Georgia law. And because the Georgia tort claims act provides that the state has waived sovereign immunity. There are certain exceptions that don't include trade secret misappropriation, but this means that the litigant can bring a trade secret misappropriation claim against the state actor under the tort claims act.

Jordan Grotzinger ([18:17](#)):

So basically, even though the trade secrets act didn't have a waiver because trade secret misappropriation is an intentional tort and the Georgia tort claims act does provide a waiver. They could state a claim. Right? Okay. So those are the cases for this episode. So let's talk about our takeaways. The first one had to do with agency. And the takeaway is that if you are settling a trade secret case with an agent like a CEO or an officer specifically carve out, uh, any principal or company that you may want to assert a claim against in a settlement agreement. So the other side can't even argue that the release of the CEO or the agent encompasses the principal, carve it out because even though the motion to dismiss was denied in that case, the court did note that, you know, there was no allegation that the CEO was acting in his capacity as CEO of the new company. So it's just an easy thing to be a little more careful and include that carve out in any such settlement. Then, then, then we wouldn't even be talking about that case.

Jenna MacCabe ([19:35](#)):

Our next takeaway is that the third circuit is applying the separate accrual rule for trade secret misappropriation. So unless it's reversed or limited, and you're suing under the Pennsylvania uniform trade secrets act, you may have a claim if the misappropriation started before the three years, but has now continued afterwards,

Jordan Grotzinger ([19:53](#)):

Which will of course result in further litigation over what that means, because, uh, there will need to be more explanation as to why a continuing misappropriation is different from a new misappropriation, which the third circuit says, uh, can be timely as discussed. You know, the example that the third circuit used about the continued employment of trade secrets and how that can be a new use is going to, uh, result in some more litigation and is going to need some clarification. So it'll be interesting to see how that plays out next takeaway is that under Illinois law, you can state a trade secret misappropriation claim under the inevitable disclosure.

Jenna MacCabe ([20:41](#)):

So if you're worried about your employees who have left and gone to another company, and you know, that there's way they can act in that employment capacity without using your trade secrets, you can Sue under Illinois law.

Jordan Grotzinger ([20:53](#)):

Yes. And that is distinguished from a lot of other jurisdictions, including ours, California, and federal law.

Jenna MacCabe ([21:00](#)):

The fourth takeaway is if you're moving to enjoin trade secret misappropriation, you need to identify your trade secrets with sufficient. Particularity don't just be exemplary or give open-ended statements

like including, but not limited to you really need to be specific and explain what it is that your trade secrets are.

Jordan Grotzinger ([21:19](#)):

Yeah. I mean, you see language like that in junction motions generally because you don't know what the bad guy's gonna do. And so it's typical for folks to include language like including, but not limited to in case they do this in case they do that, doesn't work in the trade secret context, uh, or, or I should say more specifically the identification of trade secrets, the misappropriation of which you're seeking to enjoin. If the court is to know what to do, you need to identify what secrets are at issue so that the court can order what should be stopped. The fifth and final takeaway here is that in Georgia, a litigant can bring a trade secret misappropriation claim against the state actor, despite the doctrine of sovereign immunity under the Georgia tort claims act, not under the trade secrets act under the tort claims act because the tort claims act, unlike the trade secrets act waives sovereign immunity against state actors and trade secret misappropriation is not accepted from that waiver

Jenna MacCabe ([22:29](#)):

And in Georgia trade secret misappropriation counts as an intentional story,

Jordan Grotzinger ([22:34](#)):

Right? So it's in the scope of the tort claims act, which is how the court got there. All right, there, you have it folks, there are the takeaways we hope that was helpful. And we'll be back in a couple of weeks with some more cases. Thanks.

Jordan Grotzinger ([22:48](#)):

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 us by email GrotzingerJ@gtlaw.com or Maccabej@gtlaw.com or on LinkedIn. If you like, what you hear, please spread the word and feel free to review us on iTunes. Thank you until next time,

Jenna MacCabe ([23:16](#)):

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