

Jordan G. ([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.

Speaker 2 ([00:25](#)):

Hello, everyone. Welcome back to the Trade Secret Law Evolution Podcast, and August 2021. Today, we're going to discuss an interesting case involving proving compilation trade secrets. That is where the trade secret might contain public information, but together, the compilation rises to the level of protectable trade secret, and the issue of proving damages, even after you get a preliminary injunction. Of course, a preliminary injunction is an order at the beginning of the case when you've sued and you've asked the court to essentially stop the misappropriation that is going on now, and preserve the status quo before the misappropriation going forward. And you would think that if you get an injunction, that sort of, logically speaking, might cut off damages from that point, but it's more complicated than that. And this case addresses that issue, which is unique. And those are the kinds of issues we like.

Speaker 2 ([01:34](#)):

This case was out of the Eastern District of Texas this month, August 2021. And the plaintiff alleged that the defendants gave third parties access to the plaintiff's property management software platform, and that the defendants aided them in developing a competing software. The customers were only able to access the platform after signing a master subscription agreement, or MSA that imposes used restrictions and confidentiality obligations on the customer. That was a way that the plaintiff kept the platform confidential. The plaintiff alleges that after signing the MSA, the defendant one, defendant number one, there were two defendants, provided to defendant number two three non-transferable user IDs and passwords to the platform for the purpose of defendant two producing a competing software. And after a nine-day jury trial, the jury awarded 9.4 million in unjust enrichment damages arising from defendant one's misappropriation of trade secrets, 11.4 million in unjust enrichment damages arising from defendant two's misappropriation of trade secrets, and 40 million in exemplary damages or punitive damages arising from D one's, defendant one's misappropriation of trade secrets, and finally, 50 million in exemplary damages arising out of defendant two's misappropriation of trade secrets.

Speaker 2 ([03:17](#)):

Not surprisingly, the defendants challenged that substantial verdict by moving for judgment as a matter of law. And as I think we've discussed before in a motion for judgment as a matter of law, the issue is whether the "state of proof is such that reasonable and impartial minds could reach the conclusion the jury expressed in its verdict". In other words, if the jury was unreasonable, the verdict will get reversed. Now, the jury was instructed that to find for the plaintiff on its trade secret misappropriation claim, the plaintiff had to prove, one, "plaintiff is the owner of one or more trade secrets", two, "defendants misappropriated one or more such trade secrets", and three, "the misappropriation caused damages to the plaintiff". Defendants contest ownership of the trade secrets. In other words, whether the plaintiff actually owned trade secrets, and also contest damages.

Speaker 2 ([04:26](#)):

Now, as to trade secret ownership, the defendants first argued that the platform doesn't properly qualify as a trade secret because the plaintiff didn't prove the existence of a trade secret with specificity. And we've discussed that issue many times in this podcast. It's a pretty ubiquitous issue. Defendants are always arguing that the plaintiff's definition of a trade secret is not specific enough to rise to the level of an actionable trade secret. Now, as to what a trade secret is, remember, a trade secret essentially can be anything that is actually secret subject to reasonable measures to maintain secrecy, and valuable to the owner and competitors because of its secrecy. And that last requirement is sometimes called independent economic value.

Speaker 2 ([05:21](#)):

As to the specificity argument, the court said, "What constitutes a trade secret is not easily ascertained. In fact, the term trade secret is one of the most elusive and difficult concepts in the law to define. However, upon codification of the Defend Trade Secrets Act of 2016, that's the federal trade secret law, a broad definition was given. Under the plain language of the DTSA, a trade secret includes all forms and types of information, including technical information and any design, prototype, pattern, plan, compilation, program, whether tangible or intangible, and whether, or how compiled, so long as reasonable measures are used to ensure the secrecy of the information, and the information derives independent economic value from such secrecy, and the court said, 'Notably, the Fifth Circuit has specifically rejected the contention that a combination of disclosed technologies cannot itself constitute a trade secret. A trade secret can exist in a combination of characteristics and components, each of which by itself is in the public domain, but the unified process, design, and operation of which in unique combination affords a competitive advantage and is a protectable trade secret.'"

Speaker 2 ([06:53](#)):

The plaintiff presented evidence that the "functions, modules, and flows of its platform, and how those functions, modules, and flows work together, constitute a trade secret". The jury heard testimony about "how the platform works together, the work flows, how they function together, specifically how the users use the details of the application, that the entirety of that application is a trade secret". And while the plaintiff didn't claim trade secret status over the specific module, it was the inner workings of the platform as a whole that was secret. That was the theory. And the jury, and this is important, had access to a copy of the platform to use and examine during deliberations.

Speaker 2 ([07:50](#)):

Based on this evidence, the court found that claiming trade secret protection over the entire platform is supported by the Defend Trade Secrets Act broad definition of a trade secret. The court also found that the plaintiff proved that it took reasonable measures to protect the platform's secrecy, including storing it on secure cloud architecture, password protection, a two-factor authentication process, and ultimately, that master subscription agreement with customers that protects confidentiality, including prohibiting sharing credentials to the platform with others. And this was enough, because remember, under the Defend Trade Secrets Act and state laws, protection need not be absolute, it just has to be reasonable. That's why we're always saying, reasonable measures to protect secrecy, not perfect measures. There's probably no such thing as perfect measures.

Speaker 2 ([08:52](#)):

As to the independent economic value element, another trade secret requirement, the jury heard evidence of the plaintiff's substantial time and monetary investment in developing the platform, that

the software was not accessible to the public, and that the defendants and others paid monthly subscription fees for the product. And based on all of the above, the court found that the evidence supported the jury's finding as to the existence of a trade secret.

Speaker 2 ([09:22](#)):

Now, turning to damages. As to damages, the jury was instructed, "If you find that defendants misappropriated any of the plaintiff's trade secrets, you must then determine the damages, if any, caused by defendant's misappropriation of that trade secret. Plaintiff seeks damages measured by the defendant's unjust enrichment, if any, caused by misappropriation."

Speaker 2 ([09:50](#)):

As to unjust enrichment, the jury was instructed, "The law does not allow a person to profit by wrongdoing at the expense of another. Unjust enrichment is an equitable principle holding that one who receives benefits unjustly should make restitution for those benefits."

Speaker 2 ([10:10](#)):

Now, this gets interesting. At the beginning of the case, the court entered a preliminary injunction against the defendants, prohibiting further internal or commercial use of the defendant's competing product. Thus, the court said, "This case presents an unusual question. Does the existence of a preliminary injunction sever the causal link between harm and damages in a trade secret misappropriation case?" The court answered that, "It is ultimately persuaded that the answer to the question is no."

Speaker 2 ([10:52](#)):

The court explained, "Although defendants are correct, that in every previous case where the Fifth Circuit has upheld an unjust enrichment award based on avoidance of development costs, the defendant was able to achieve a headstart. Defendants have not provided the court with any Fifth Circuit cases rejecting the proposition that development costs may be avoided, even in the presence of a preliminary injunction." And here, the plaintiff "primarily sought damages based on avoided development costs. Under Fifth Circuit law, the value of what the defendant has gained as a result of the misappropriation can be measured by a number of methods, one of which is being damages measured by the costs saved by defendants".

Speaker 2 ([11:46](#)):

While the court's preliminary injunction may have halted the dissemination and use of the competing platform, the injunction did not prohibit the development of the software. And, "because defendants were free to continue developing the competing platform, and because defendants had already completed a significant portion of the platform by the date the injunction was entered, the court finds that the injunction did not sever the causal link between the plaintiff's harm and its damages. Judicial intervention may have prevented further harm from accruing due to defendant one's inability to commercially use the competing platform. However, it did nothing to remedy the harm already suffered by the plaintiff".

Speaker 2 ([12:37](#)):

And further, "if the court adopts defendant's reasoning, that the injunction prohibited damages from accruing, the same could be said for all trade secret cases where an injunction is entered. Such a result is absurd and ignores both the benefits conferred on defendants before the injunction was entered and benefits existing outside commercial use of the trade secret". Thus, the court did not overturn those huge damages awards.

Speaker 2 ([13:08](#)):

Now, to the takeaways. One, as we know, "a trade secret can exist in a combination of characteristics and components, each of which by itself is in the public domain, but the unified process, design, and operation of which in unique combination affords a competitive advantage and is a protectable trade secret". But to prove such a trade secret, such a compilation or combination trade secret, evidence of how these functions and modules work together can be sufficient. And it helps if the jury has access to the product, so it itself can see how the product works.

Speaker 2 ([13:50](#)):

Takeaway two is that a preliminary injunction in a trade secret case does not necessarily sever the causal link between harm and damages. For example, as in the Texas case, if the defendant saved development costs that it would not otherwise have saved, but for the misappropriation and injunction, will not cut off so-called headstart or unjust enrichment damages.

Speaker 2 ([14:17](#)):

That's it, everybody. I hope you are well. Talk to you next month. Bye.

Jordan G. ([14:24](#)):

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. 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.

Speaker 3 ([14:56](#)):

Greenberg Traurig has more than 2,000 attorneys and 39 offices in the United States, Latin America, Europe, Asia, and the Middle East. GT has been recognized for its philanthropic-giving, diversity, and innovation, and is constantly among the largest firms in the US on the Law360 400, and among the top 20 on the AmLaw Global 100.

Speaker 4 ([15:16](#)):

Content is for informational purposes only, and does not contain legal or other advice, and/or opinions. For more information, please visit bit.ly/gtlawdisclosures. This podcast is eligible for California self-study CLE credit. Certificates 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.