

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.

Jordan Grotzinger ([00:24](#)):

Hi, everybody. Welcome to episode 40 of the podcast. That sounds kind of funny to say. That's a lot of episodes, a lot of a California CLE credit. Today we're going to be talking about one case from the Sixth Circuit from last month where that court of appeals really did a deep dive into the trade secret misappropriation statute of limitations, and specifically the concept of continuing misappropriation and when the limitations period accrues.

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

So in this case, the plaintiff builds industrial equipment. In 2012, it began to hear from its customers that its former president and his new company might possess trade secret drawings belonging to the plaintiff. So the plaintiff filed a complaint with the FBI, because trade secret misappropriation can be a criminal offense, in July 2015, but the FBI declined to investigate. Then, almost three years later in February 2018, the plaintiff learned that the new company had been awarded a contract from the Navy to refurbish a large mixer, originally designed and built by the plaintiff's predecessor, and that the defendants were using the plaintiff's drawings to fulfill that contract.

Jordan Grotzinger ([01:53](#)):

So in May of that year, 2018, the plaintiff sued for misappropriation of trade secrets under the Federal Defend Trade Secrets Act and the Michigan Uniform Trade Secrets Act. But the district court, the trial court, granted summary judgment dismissing the claims as outside of the three-year statute of limitations period for trade secret misappropriation. So both the Michigan Uniform Trade Secrets Act and the Defend Trade Secrets Act were modeled on the Uniform Trade Secrets Act.

Jordan Grotzinger ([02:27](#)):

And before the Uniform Trade Secrets Act was drafted, jurisdictions were split on whether the limitations period ran only from the initial misappropriation, or as the court of appeals said, "Whether it was triggered anew with each act of misappropriation." The court explained, "The former approach rested on a view of misappropriation of trade secrets as a breach of the relationship between the parties, which is not breached anew with each use or disclosure. While the latter envisioned misappropriation of trade secrets as damage to property, which may be further damaged or destroyed by each additional use." And in declaring that a, "Continuing misappropriation constitutes a single claim close," the Uniform Trade Secrets Act expressly adopted the former relationship-based approach and rejected the latter property-based approach.

Jordan Grotzinger ([03:32](#)):

So in the Sixth Circuit the court said, "We too have endorsed the confidential relationship approach to the various iterations of the Uniform Trade Secrets Act. It is the relationship between the parties at the time the secret is disclosed that is protected, and the fabric of that relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated.

Thus, the first discovered or discoverable misappropriation of a trade secret commences the limitations period, placing the focus on the breach of the relationship between the parties at the time the secret is disclosed." I'm going to repeat that because it's key. Court said, "Thus, the first discovered or discoverable misappropriation of a trade secret commences the limitation period, placing the focus on the breach of the relationship between the parties at the time that secret is disclosed."

Jordan Grotzinger ([04:41](#)):

Stated differently, although the initial wrongful acquisition of the trade secret and each subsequent misuse are separate acts of misappropriation, a claim for misappropriation arises only once at the time of the initial misappropriation subject to the discovery rule. And we'll talk about the discovery rule. That's essentially a mechanism that can extend the limitations period if a reasonable person wouldn't have discovered the bad conduct.

Jordan Grotzinger ([05:15](#)):

"Each new misuse or wrongful disclosure is then viewed as augmenting a single claim of continuing misappropriation rather than as giving rise to a separate claim." And here's why the court said, "The goal of this rule is not to pressure the owner of a trade secret to file suit prematurely, but rather to ensure such an owner conducts a timely and reasonable investigation after learning of possible misappropriation. That obligation is wholly consistent with the nature of trade secrets because trade secrets are not subject to a filing system. Owners' diligence in taking affirmative steps to protect them is crucial."

Jordan Grotzinger ([06:03](#)):

So the district court held that the plaintiff's claim accrued no later than 2012 and was therefore time-barred when it filed suit in 2018. The court relied on the plaintiff's statements in the 2015 FBI complaint that it became "aware of possible trade secret misappropriation when, 'The information began appearing in 2012,' and that it believed the former president possessed, 'the entire electronic files of plaintiff's technical drawing.'"

Jordan Grotzinger ([06:38](#)):

Now, while the plaintiff argued that the defendants never had the electronic files and that it only discovered the misappropriation in 2018 when it became aware of the former president's possession of certain drawings, the court said the use of the drawings was merely a "continuing misappropriation," and the plaintiff's arguments to the contrary was an attempt to "revert back to a pre-Uniform Trade Secrets Act, property-based theory of trade secret misappropriation."

Jordan Grotzinger ([07:12](#)):

The Court of Appeals reasoned that, "The continuing misappropriation rule provides that the repeated misappropriation of a given trade secret forms a single claim, not multiple claims, because a confidential relationship once rent cannot be torn anew. Thus, it is the first discoverable misappropriation of a trade secret that commences the limitations period for a claim based on misappropriation of that trade secret. But nothing in the Michigan Uniform Trade Secrets Act, Defend Trade Secrets Act, or relevant case law suggests that a misappropriation of one trade secret can trigger the limitations period for a claim based on the misappropriation of a different trade secret." However, neither the Defend Trade Secrets Act or the Michigan Uniform Trade Secrets Act provides explicit guidance on when to classify particular pieces of information as different trade secrets.

Jordan Grotzinger ([08:14](#)):

And as, for example, the Colorado Supreme Court noted, "Avoiding arbitrariness in differentiating from another, therefore requires a controlling principle consistent with the purposes of the statutory accrual rule." The focus of the Uniform Trade Secrets Act discovery rule is on "the relationship between the parties at the time the secret is disclosed." So we might ask whether the same relationship has been ruptured in the same way, looking, for example, at who made the disclosure, to whom the disclosure was made, and the nature of timing and reasons for the disclosure, and "the subject matter of the different pieces of information may also be relevant depending on the circumstances."

Jordan Grotzinger ([09:07](#)):

Here the defendants did not actually possess the plaintiff's entire electronic files, but because of the district court's denial of the plaintiff's request for discovery to assess the scope of the misappropriation and an order from the district court limiting discovery to the subject matter in the drawing, it was "unclear what documents or drawings defendants did have, when they had them, and how they got them."

Jordan Grotzinger ([09:39](#)):

Based on that, the Court of Appeals held that, "Drawing inferences in plaintiff's favor as we must. A reasonable jury could conclude that the acquisition and use of the drawings in 2017 or 2018 was a new misappropriation because the drawings could not have been misappropriated by the former president before he obtained them. And at least on this record, the earlier alleged misappropriations represented a breach of only the president's relationship with the plaintiff. But the 2017 or 2018 acquisition derived from a former plaintiff salesperson's initial acquisition of the drawings by improper means, i.e., that is the breach of his confidential relationship with the plaintiff. That a different relationship was damaged supports the conclusion under the relationship-based approach of the Uniform Trade Secrets Act, the later acquisition and use gave rise to a new claim of misappropriation."

Jordan Grotzinger ([10:53](#)):

The defendants argued that the limitations period began to run when a plaintiff becomes aware of facts sufficient to encourage further investigation into a potential misappropriation, even if there is evidence suggesting that the misappropriation had not actually occurred at the time. But the Sixth Circuit rejected that argument and found quote, "It is well established that the limitations period for a given claim of misappropriation begins to run when it is discovered or reasonably discoverable. This necessarily requires an underlying alleged misappropriation because no amount of reasonable diligence would enable a plaintiff to discover an injury that has not yet occurred."

Jordan Grotzinger ([11:45](#)):

In addition, there was evidence to support the conclusion that the plaintiff conducted a reasonable investigation. Among other things, "The court said from 2012 to early 2015, multiple vendors on multiple occasions told the plaintiff that the former president had provided them with drawings that were identical or very similar to the plaintiff drawings." During this time, the plaintiff asked its vendors if they had received drawings or if they were doing anything for the former president, but the vendors provided no information that would point to actual misappropriation and, "The court said having reached a dead end, plaintiff decided to ask the FBI to investigate, but the FBI declined to prosecute."

Jordan Grotzinger ([12:34](#)):

So the Sixth Circuit held, "From this evidence, a jury could find that the plaintiff satisfied its obligation of conducting a reasonable investigation. It attempted to unearth evidence of misappropriation, but was stymied by a lack of documentation and its vendors' responses and thereafter turned to the FBI for assistance. Without drawings or further leads, the plaintiff was not in the position to file a lawsuit against defendants in good faith as defendants contend it should have."

Jordan Grotzinger ([13:09](#)):

And the court found, "There are multiple issues of fact relating to the defendant's alleged misappropriation of the drawings, including whether the president's receipt of drawings from the former salesman in 2017 or 2018 gave rise to a claim of misappropriation separate from his earlier acquisitions of plaintiff's drawings. And if it did not, whether plaintiff conducted a reasonable but unsuccessful investigation that would toll the statute of limitations until it learned about the project in the drawings in 2018." That is the discovery rule we referenced. Thus, "The district court's grant of summary judgment was premature and further factual development is required."

Jordan Grotzinger ([13:57](#)):

Okay, you got all that? All right. See you next time. I'm kidding. That is why we have takeaways. That was a mouthful. It's a lot of information, arguably dense, and we give you takeaways to hopefully crystallize what we talked about and give you a concrete data point that is actually understandable and usable. So, here's our crack at that. One, in the Sixth Circuit ... And by the way, the Sixth Circuit includes Kentucky, Michigan, Ohio, and Tennessee. "It is the relationship between the parties at the time the secret is disclosed that is protected. And the fabric of that relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated."

Jordan Grotzinger ([14:52](#)):

Takeaway two. Therefore, "The first discovered or discoverable misappropriation of a trade secret commences the limitation period, placing the focus on the breach of the relationship between the parties at the time the secret is disclosed. In other words, although the initial wrongful acquisition of the trade secret and each subsequent misuse are separate acts of misappropriation, a claim for misappropriation arises only once at the time of the initial misappropriation subject to the discovery rule, and each new misuse or wrongful disclosure is then viewed as augmenting a single claim of continuing misappropriation rather than as giving rise to a separate claim."

Jordan Grotzinger ([15:44](#)):

Third and last takeaway. "The limitations period begins to run not when the plaintiffs becomes aware of facts sufficient to encourage further investigation into a potential misappropriation, but rather the limitations period for a given claim of misappropriation begins to run when it is discovered or reasonably discoverable. This necessarily requires an underlying alleged misappropriation because no amount of reasonable diligence would enable a plaintiff to discover an injury that has not yet occurred." And that is the real end. We hope that was useful. Stay well, everybody. See you next month.

Jordan Grotzinger ([16:30](#)):

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](mailto:grotzingerj@gtlaw.com) or on LinkedIn. And if you like what you hear, please spread the word and feel

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free to review us. Also, please subscribe. We're on Apple Podcasts, Stitcher, Spotify, and other platforms. Thanks, everybody. Until next time.

Speaker 2 ([17:01](#)):

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Speaker 3 ([17:22](#)):

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