

Trade Secret Law Evolution Podcast

Episode 52: Year in Review

Greenberg Traurig, LLP

Speaker 1 ([00:00](#)):

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Jordan Grotzinger ([00:18](#)):

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. Happy New Year, everybody. We are back for the Trade Secret Law Evolution Podcast year four, if you can believe it. I've got my co-host, Greg Bombard, my partner out of our Boston office. We've done an episode before. Good morning. Good afternoon, Greg.

Greg Bombard ([00:54](#)):

How are you, Jordan?

Jordan Grotzinger ([00:56](#)):

I am doing well. It's been a little while since our last episode, which has really been gnawing at me, but as people in the big law business note, December is a little hectic and we wanted to make sure that the first episode is a year-in-review episode about the major developments in 2022. Greg, you've been working hard on that, including on a related project, so why don't you speak to that a little bit?

Greg Bombard ([01:23](#)):

Sure. First of all, thank you so much for having me back on. Appreciate any opportunity to appear here. This is just fun. This year-in-review project is a new thing that we're doing this year and we're really excited to share it with our clients. The idea here was we have this amazing group of attorneys who focus on trade secret law. We have over a hundred attorneys across Greenberg's offices, in 30 plus offices who focus on trade secret litigation and protection. All of those people together are keeping track of the various developments in trade secret case law, new regulatory and statutory changes that come out every year. We thought, well, if we get all of that brain power together, we can put together a really good summary of all of the important developments in trade secret law from 2022. So we put it all together as an original piece of work product that we're just finishing up now. We are going to be ready to share this with our clients soon.

([02:44](#)):

The idea is for busy clients who don't have time to keep up with all of various new case law from all over the country, it's an opportunity for them to just have a quick reference of the top cases from last year and we're hoping that it will help people stay on top of these issues.

Jordan Grotzinger ([03:04](#)):

That sounds great. Today, we're going to be talking about essentially some highlights from that summary and therefore, our format will be a little bit different than our usual format, which is the discussion of a case or more followed by takeaways. Instead, this is separated by trends and areas on which cases focused throughout 2022 and quick summaries of a few of the cases that you'll see in our summary. The first subject matter is damages trends. As those of you who follow this space may have seen, there was a trade secret damages verdict in excess of \$2 billion in 2022. That is the highest damages award in a trade secret case ever, and it was the biggest verdict in Virginia State Court ever. Those sorts of eye-popping numbers put a focus on damages theories in trade secret cases. Our first case deals with that subject matter and it is a Fourth Circuit opinion in which the court ruled that a plaintiff could recover reasonable royalty damages even without proving the defendant's use of the alleged secret.

([04:22](#)):

This was a case where the plaintiff alleged that a former employee took information but struggled to demonstrate damages from improper use. The plaintiff in the case develops and licenses an accounting software product that audits airline ticket sales. The defendant's employment contract required the return of confidential documents before leaving the company and prohibited sharing them with third parties, which is pretty standard in these cases. It also included an indemnity provision for damages arising out of "any material breach of any material provision" of the agreement. When the defendant resigned, he printed documents relating to a project he'd worked on and sent emails to his personal email account relating to another project which we will call the proration documents. He later took a job with a travel agency, which by the way, was not a competitor of the plaintiff, to which he sent two flow charts of ticket price rules and other information he'd created for the plaintiff.

([05:29](#)):

The Sixth Circuit ruled that the breaches of contract by not returning, taking, and sharing some information were not material because they did not cause damage or prejudice to the plaintiff. So the Sixth Circuit remanded for further proceedings as to whether the breach with respect to the probation documents was material. As to the trade secret claim, the court held that the flow charts were in fact trade secrets and that the defendant misappropriated them. Because the plaintiff couldn't prove any specific injury though, it sought reasonable royalty damages, which is a kind of damages one can seek in trade secret cases if you can't prove actual harm or damages. The Sixth Circuit held that the plaintiff need not show use of a trade secret to recover reasonable royalty damages because the Uniform Trade Secrets Act authorizes reasonable royalty damages for unauthorized disclosure, which is not dependent on use. Therefore, the court remanded for the district court to determine whether the plaintiff is entitled to a reasonable royalty, and if so, how much.

Greg Bombard ([06:45](#)):

That case is so interesting and this damage issue is so interesting because these are cases where you see this idea of a very, very broad, flexible, multiple ways of measuring damages as a policy matter playing out in real life. That case, very great example of that, where somewhat unusually, you have a case where the misappropriation is just the disclosure, not the use of the trade secret. Another example is this Third Circuit case where the plaintiff alleged that it developed a specialty glass for airplane windows and it

took 35 years and more than \$8 million to develop that type of glass. The plaintiff alleged that the defendant misappropriated the designs for that specialty glass by recruiting one of the plaintiff's employees and alleged that that employee provided a "treasure trove" of design materials related to that glass material. The defendant failed to appear. It was defaulted by the district court. The district court entered a default judgment and injunction against the use of those designs and money damages that were based on avoided cost of development, a very common theory in technical trade secret cases avoided cost of development.

[\(08:31\)](#):

The defendant only then appeared and argued that the evidence supporting that money judgment for avoided costs of development was improper for several reasons, appealed to the Third Circuit. The Third Circuit, in a very thorough opinion, rejected various of those arguments that the defendant raised. The first argument was that the defendant had obtained no commercial benefit from using the designs because it never launched its own product incorporating the designs. The Third Circuit there ruled that unjust enrichment damages can be measured by costs that are avoided by the defendant, not just profits that the defendant earns by using the trade secrets. It reasoned that by avoiding the development costs, even if the product was never launched, the defendant still gained a benefit. Second, the defendant argued that there was no nexus between the cost of development and the value of the misappropriated material, again, because there was no evidence that it used the misappropriated material.

[\(09:46\)](#):

The Third Circuit rejected that argument and reasoned that the defendant had avoided research and development entirely and it had attempted to proceed with manufacturing a product which that attempt was a use of the trade secrets under Third Circuit precedent. Notably in this case, the defendant had reached out to a manufacturer that the plaintiff used, a third party manufacturer and asked that manufacturer to use the same setup and the same designs that the plaintiff had been using. It was one of the ways that the plaintiff discovered the misappropriation in the first place and that third party manufacturer refused to go forward. They alerted the plaintiff. That's why the defendant never launched a product. Third, the defendant argued that the damage calculation was improperly calculated because it was based on the plaintiff's cost of development and that that was improper because it in fact reimbursed the plaintiff for its development costs. But the Third Circuit rejected that argument and ruled that the plaintiff's development costs could be evidence of what avoided development costs would have looked like for the defendant.

[\(11:13\)](#):

Finally, the court rejected the defendant's argument that awarding damages in addition of going forward injunction amounted to double recovery because it ruled that the damages for past use and the injunction against future use did not overlap.

Jordan Grotzinger [\(11:31\)](#):

Before we move on from the damages category, Greg, you made a comment a few minutes ago about how interesting these cases are and you referenced policy. It's very true. As maybe you can tell from listening from the descriptions of these cases, the law tries to remedy wrongs in this area even if the plaintiff can't prove that it was harmed. If the defendant gained by misappropriation, even if the plaintiff didn't lose anything necessarily by misappropriation, the law wants to make that right to dissuade misappropriation, that the law doesn't want to allow a loophole for misappropriation just because, well, the plaintiff can't really show that it was hurt, so stealing's okay. We're calling them damages. Technically, they're all a little different, but whether it's the defendant's gain or the plaintiff's loss or

neither, but there was misappropriation, the law tries to find a way to either or both, one, make the plaintiff whole or two, stop the stealing in the first place even if it doesn't really hurt anybody.

[\(13:09\)](#):

It is an interesting area to watch. As you can see from those cases, courts keep addressing it. The second subject we chose is compilation trade secrets and increasingly popular subject matter in trade secrets cases as more and more alleged trade secrets include information that's standing alone is not a secret, but is publicly available. The inclusion of publicly available information into a larger set of data or methods or anything else that might constitute a trade secret doesn't doom automatically its trade secret status. What matters is whether the combination itself, even if it includes public elements, is actually secret, valuable to the owner, and the competitors because of its secrecy and subject to reasonable means to keep its secret. That of course is the plain English definition of a trade secret. In this case, we looked at a Tenth Circuit case where the plaintiff claimed that its trade secret comprised a compilation of two ingredients and two production steps involved in the process of making bread.

[\(14:32\)](#):

The court rejected the argument ruling that the alleged secret was "really just a matter of trial and error trying all four elements at all different levels." The court ruled that the two ingredients were well-known and the two production steps were either known or readily ascertainable. Thus, the court reversed the trial court's denial of the defendant's motion for judgment as a matter of law. The takeaway there, as I mentioned, is a compilation trade secret is protectable, but either some of the contents or the way the elements are combined have to meet that three element definition of a trade secret.

Greg Bombard [\(15:11\)](#):

That case is an example of a series of cases we saw this year in which courts rejected plaintiff's claims that the information at issue was a trade secret. These cases taken together really show the limits of trade secret law. Trade secret law is intentionally malleable and can apply to all sorts of things. We've already talked about, on this episode, bread baking, ticket leads, and airplane glass, but there are limits. As an example, a Second Circuit case in which the Second Circuit agreed with the district court that where a third party was given access to the purported secret without any type of confidentiality agreement in place, and indeed with the intent that that third party would be providing access to the secret information to yet other parties, again with no requirement of confidentiality, that the plaintiff had not taken reasonable steps to protect its claimed secrets under the Defend Trade Secrets Act.

[\(16:30\)](#):

The fact that the eventual users of the software at issue were not able to reverse engineer the software once they had access to it wasn't sufficient to state a claim that the information was secret because the plaintiff had taken insufficient steps to protect the confidentiality of the information with respect to third parties.

Jordan Grotzinger [\(16:52\)](#):

To your point about the insufficient steps, that is the last element of what a trade secret is. It's reasonable measures to keep the information secret. If you don't have reasonable measures, they don't need to be perfect, your information data, whatever it is you're trying to protect, will not fit the definition of trade secrets. That element usually falls into a few buckets, contracts, corporate policies, and technology like passwords and firewalls, but it is precisely because of that element that in almost all of the cases we talk about, the parties had some sort of confidentiality agreement and that's key. I can't think off the top of my head of a trade secret that was sustained where there wasn't even a

confidentiality agreement. Maybe there is, but I can't think of one and I can think of a lot of cases, so it's that important.

[\(18:00\)](#):

With regard to the same issues, we looked at a Louisiana Court of Appeal opinion where it affirmed a trial court order denying a motion for a preliminary injunction on the ground that the plaintiff failed to demonstrate the existence of a protectable trade secret. The plaintiff was a software company that analyze phone systems for correctional facilities. The defendant was terminated from the plaintiff, formed her own company, and then won a bid for a contract that had previously been held by the plaintiff. The plaintiff claimed that the defendant's methods were too close to its own trade secret methods. In response, the defendant argued that her proposal was based on studying publicly available contracts and records from other RFP requests for proposal responses. The court also noted that the defendant's technology was "noticeably inferior in terms of technical sophistication and utility to the agency." The court also noted that if the defendant had misappropriated trade secrets, "the results would have been much closer to the original."

Greg Bombard [\(19:12\)](#):

One more variation on this theme comes from the Supreme Court of South Dakota. In that case, the plaintiff was a medical consulting company that filed a suit against its former employee, which was a medical coder, alleging that she had violated her non-compete agreement and misappropriated trade secrets when she began working for a medical provider. First, the court held that the scope of the non-compete agreement did not cover the employee's new work for a provider even though the employee performed medical coding in both roles. Second, the court ruled that the plaintiff's protocol notes that she took with her did not qualify as trade secrets because the plaintiff "has not produced evidence supporting that this is the type of information that could not be compiled by others with the general skills and knowledge in the medical coding industry." Further, because the protocol notes were changed daily, if not hourly, the court said, the court found the plaintiff failed to prove that disclosure of those notes would harm the plaintiff.

[\(20:33\)](#):

Third, the court found the plaintiff failed to show that the former employee was using or disclosing any confidential information as defined under her employment agreement, ruling that the plaintiff "offered no evidence beyond its speculation" in that regard. These three cases that we just talked about really show the limits of trade secret claims where the information is either well-known, within the employee's general skill or knowledge, or in fact, affirmatively disclosed to a third party. Those are the types of claims where you're going to have a real challenge demonstrating to a court that the information at issue is a trade secret.

Jordan Grotzinger [\(21:29\)](#):

Obviously, the common denominator in all of these cases is that you've got to prove, as the plaintiff, each of the three elements. In the cases where their claims failed, they didn't prove one or more of the three elements, actual secrecy, valuable to the owner and competitors because of its secrecy, and reasonable measures to keep the information secret. The next subject matter we looked at is injunctions, a common event in these cases. We looked at a case out of the Fifth Circuit where it denied an injunction against misappropriation because the plaintiff failed to show the existence of a trade secret and because the defendant had no continuing access to the purportedly secret information. That is very important in an injunction ask since an injunction is a means to stop something from continuing to happen. The plaintiff alleged that his former employee misappropriated transactional documents and

customer lists stored on his laptop in a Google Drive and sought an injunction against his use of that information on behalf of a competitor.

[\(22:43\)](#):

First, the court ruled that the plaintiff failed to show the plaintiff continued to have access to the allegedly misappropriated information because the defendant testified he had no further access to his laptop and a forensic analysis confirmed that he had deleted the documents from his cloud account. Second, the court ruled that the plaintiff failed to show the customer contact information at issue was not publicly available or ascertainable through proper means. And third, the court ruled that it was unreasonable to infer misappropriation of the plaintiff's confidential information from the results that the defendant achieved because of the finding that the defendant had no continuing access to the purportedly secret information. You see these fact patterns a lot where someone is accused of trade secret misappropriation. It's almost always going to happen if an employee of the plaintiff's company downloads stuff or sends data to his or her personal email address or continues to have access to a cloud account. That creates suspicion and very frequently results in a threatening demand letter from the plaintiff company to this employee who usually has just started a new job. Unpleasant thing.

[\(24:11\)](#):

It looks like this defendant, I don't know who performed the forensic analysis, but they nailed down that this employee no longer had access. The IT specialist confirmed that, so there was nothing left to enjoin.

Greg Bombard [\(24:27\)](#):

This case really shows, to your point, Jordan, the importance of a very thorough and careful response to demand letters like that. This defendant was able to avoid an injunction against his continuing to work for the defendant company. A big part of that was the fact that he was able to demonstrate that even though he had taken information from the plaintiff, that he had no continuing access to that information. It had been quarantined from him. It's a very powerful argument if the defendant is able to demonstrate through forensics that they have no ability to continue to access information even if it was originally misappropriated. If they're able to say that, "We don't have it anymore. It's been quarantined. It's with my lawyer," whatever it is, that can be a very powerful argument in the context of an injunction.

Jordan Grotzinger [\(25:32\)](#):

It is. I've seen that often in these cases. An employee who leaves a company and sends him or herself information or continues to view data because of access that wasn't shut off is not doing so with some plan in mind to steal data or use it to compete with the defendant. It's just sloppy. In those cases, as you said, it's very important for an employee like that and its new employer to stay in front of that, make sure that the defendant no longer has access to the prior company's information and confirm in a sound way like through an IT specialist that he or she really doesn't have the information. If you can make that showing early and be transparent, it becomes a huge waste and a risk really for the putative plaintiff to spend \$20,000 \$30,000 or more on an injunction when the judge may just look at that company and say, "Wait a minute. Enjoin what? Yeah, they took it, but they immediately cut off access and they've said they're not using it, so what do you want me to do here?"

[\(27:02\)](#):

It's a lot of money to throw away if you're dealing with a defendant who gets in front of that, is transparent and is cooperative and trying to do the right thing going forward.

Greg Bombard ([27:14](#)):

Okay. Bringing us to probably the most interesting fact pattern I thought in the cases from last year is a case in which the criminal misappropriation of trade secrets was an issue. With that introduction, you would not expect that the trade secret at issue was the location of a fishing reef off of Florida, but it was. The accused was a fisherman who hacked into a database that contained the coordinates of artificial fishing reefs that were owned and maintained by the victim company. He then attempted to extort the company and sell access back to them. They reported him to the FBI. The government convicted the defendant for criminal misappropriation of trade secrets in the Northern District of Florida. That's where the victim was located. On appeal however, the Eleventh Circuit vacated the conviction on the ground that venue was improper. The defendant resided in Alabama and all of the accused conduct occurred in Alabama. He did all of the hacking from Alabama.

[\(28:52\)](#):

The court, the Eleventh Circuit, rejected the government's argument that the effect of the crime was felt in the Northern District of Florida because that's where the victim was located. The reason for that was unlike a civil claim for misappropriation, the criminal statute actually does not require a victim. It does not require the government to demonstrate that anyone was harmed by the misappropriation and therefore, the location of the harm was not relevant to the claim, the Eleventh Circuit ruled.

Jordan Grotzinger ([29:30](#)):

That is an interesting one. I recall discussing that case, it must have been last year. I believe the words fishing coordinates were in the title of the episode. So yes, that was an interesting one for sure. So that's our sampling of our 2022 year-in-review. We will be circulating a written piece of work product about that as you said, Greg. We are determined not to leave out our fun fact section of the podcast, which we started last year. Since Greg, you've been on before and shared one of yours, I will share my own for the first time on the podcast. Trade secret law is my day job, but I also am a pro bono innocence lawyer. I got involved in that work about a year and a half ago through a funny set of circumstances, became friends with one of the original board members of the Innocence Project and now is probably the most known activist in that space.

[\(30:42\)](#):

I have a couple of cases at a time because I do have to pay the bills for clients that I believe truly were wrongfully convicted and are innocent. If you follow this space, it's pretty remarkable and disturbing how much that happens. Last week, I was in San Francisco arguing a federal habeas appeal for my client who is in his early 30s and was convicted, going on 12 years ago now, for first-degree murder. He was identified by a single witness who was a serial crack abuser, used crack over a hundred times, four to six times a day around the time of the crime, high at the time of the crime, changed our client's description by six inches, a hundred pounds, and skin color, effectively describing different people, and identified him three weeks late. There is no physical evidence. In state court post-conviction proceedings, two people came forward and swore it wasn't him. We just found a third witness who has done the same thing. Unfortunately, we can't use that in the federal appeal because of stringent criminal appeal standards with which I won't bore you at this time, but it was a really intense experience.

[\(32:12\)](#):

Greg, in our civil cases, anytime you're getting ready for a big motion or a trial or a hearing, you always want to do your best. It's always a challenge. Okay, when am I ready? When can I put this stuff down? You've been obsessing, working over the weekends and late nights and at some point, you got to just let it sink in and do your thing. Everything is finite and I certainly have felt that countless times in my day

job, civil practice. But this was funny, having studied the law on this, which essentially was case law going back years on the anti-terrorism and effective Death Penalty Act of 1996, which is quite the dense gauntlet for criminal defendants. Spent a lot of time, definitely got ready, but when I was approaching exhaustion and saying to myself, "Okay, putting this down now. I'm going to stop and I'm ready," the second you do so, it's like, well, wait a minute. Somebody's life is on the line and I can always do more. You can always do more.

[\(33:32\)](#):

Given the stakes, which are very different than in our civil practice, it struck me how difficult it was to put the books down and just trust that you were ready. Luckily, we were ready. I think the argument went as well as it could have gone. We're up against the high standard, but as I alluded to, regardless of what happens in the Ninth Circuit, this case is still very much alive. So that's my labor of love on the side.

Greg Bombard [\(34:08\)](#):

How do you think it came out in the end? How was the argument?

Jordan Grotzinger [\(34:14\)](#):

I think we gave him the best shot that anybody could. We had all the answers to the questions. It was a pretty hot panel. As expected, they weren't quite as steeped in the cases as I was having obsessed over it for weeks. But they asked the government questions too. It's a hard standard for a federal court to reverse a state court's findings. There are essentially two grounds to do it. It has to violate clear Supreme Court authority. Our primary argument wasn't under that prong. It was on the other prong, which was the state court unreasonably determined the fact and that means objective unreasonableness. So it's tough. We have a very plausible argument. I think it's the better one, obviously. The ADPA appeals are always a long shot, but as I said, luckily in this case, even if this is affirmed, we've got some new evidence that I think we will be able to use to reopen the state proceedings.

[\(35:26\)](#):

I think ultimately, we will achieve justice in this case, but man, in this area, you hear the expression, the wheels of justice turn slow. Boy, is that true. When you're dealing with somebody where you've got witnesses who said it wasn't him, where the primary witness was so compromised, you wish there was a standby, independent emergency panel at the relevant court whose job it is to say, "Okay, this really is one of those cases, so we're going to look at this quickly." That doesn't exist, and so you just got to grind through. Having been in this space now for more than a year, I hear so many stories of, if you follow some of the social feeds of these organizations like the Innocence Project, decades go by before justice is achieved. I hope that won't be the case in our matter, but all I can promise our client, which I've done, is that we won't stop. And that, as they say, is that. Great episode, Greg. Good to see you.

Greg Bombard [\(36:43\)](#):

Great to see you.

Jordan Grotzinger [\(36:45\)](#):

Love your background by the way. Hope to have you on again soon.

Greg Bombard [\(36:50\)](#):

Cool. Thanks, Jordan.

Jordan Grotzinger ([36:54](#)):

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. 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 ([37:26](#)):

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Speaker 4 ([37:47](#)):

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