

Trade Secret Law Evolution Podcast
Episode 61
Greenberg Traurig

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.

Hi everybody. It is January 30th, so I think I can still say Happy New Year and it's not stale, but it is very close to stale. So that will probably be the last time I say those words this year. I welcome back my co-host Greg Bombard from our Boston office. Greg, how are you doing?

Greg Bombard ([00:59](#)):

Good. Great to be here. Happy New Year to you.

Jordan Grotzinger ([01:02](#)):

Excellent.

Greg Bombard ([01:03](#)):

Somebody was giving me trouble about saying Happy New Year on January 10th so I'm with you.

Jordan Grotzinger ([01:09](#)):

I feel like it gets [inaudible 00:01:09] pretty quickly to tell you the truth, but this is the first time our listeners are hearing from us. It is still January, so I'm throwing it out there. So this is our annual year-end review of developments and cases in 2023. Before we jump into the trends that we saw and some of the case highlights that we saw, Greg, can you talk about our Year in Review publication? And before you do just one sort of preface, as the listeners know, generally our format is that we'll talk about cases and at the end we will discuss takeaways. The format of this, I guess since it's a Year in Review, it's already a group of takeaways, so there's not a separate takeaway section at the end of this. But with that said, Greg, if you could talk about our Year in Review publication.

Greg Bombard ([02:09](#)):

Absolutely. This is one of the cool things that we do as a group in our trade secret group at Greenberg. We come together at the end of the year and we compile what we think are the most interesting, the most unusual, or the most presidential new opinions from federal and state courts all over the country that came out in the proceeding year. We write summaries of each of the cases and we compile them into a compendium that we think is helpful for practitioners. Anyone who is outside counsel practicing in this area, it's great to stay up on the law. Anyone who listens to this podcast, I'm sure is interested in

keeping up with trends in trade secret law. So it's a great resource for anyone who's interested in that. And for clients as well. For clients who are trying to protect their own confidential information or are concerned about the possibility of contamination of another company's confidential information, it's a great resource for clients as well.

[\(03:20\)](#):

Today what we did was we picked out... These are by no means the only significant cases of the year, maybe not even the most significant, but we picked out a few that really stood out to us from that compendium as being interesting and significant to talk about on the podcast today.

Jordan Grotzinger [\(03:40\)](#):

Greg, do you know when our Year in Review is going to be published on our website or approximately?

Greg Bombard [\(03:47\)](#):

It should be up in the next couple of days. I think it's ready. And so by the time this is out, it should be up.

Jordan Grotzinger [\(03:55\)](#):

Great. So let's touch on some trends that we saw. I'll go over a couple in California. And then Greg, maybe you could talk about one that you had mentioned about New York. The overall trend that we saw was a real pressure on non-compete agreements. That already existed in the law, but it became more acute last year. The FTC proposed a ban in January of 2023. And in California, two significant bills were passed. One was Senate Bills 699, which was enacted in September, which essentially makes California a non-compete sanctuary state and impose a civil liability on employers who attempt to enter into or enforce a non-compete agreement. The other one is Assembly Bill 1076, which became effective I believe on the first of this year. And that requires, among other things, notice to employees and certain former employees who entered non-compete agreements or an agreement with a non-compete clause that the clause is void. And what about the New York development, Greg?

Greg Bombard [\(05:11\)](#):

The New York one was interesting, got a lot of attention, a lot of press, and it was an attempt to pass a statute banning non-compete agreements similar to California's longstanding ban. It made it all the way to the governor's desk and it was veto. The governor in that veto reiterated that she is in favor of banning non-competes or at least restricting them for middle class and low wage workers. So there very well may be more to come on that next year in New York, additional legislative pressure on non-compete agreements. As many people know, Massachusetts recently passed a non-compete reform bill. So there's just a lot of activity now in the last 10 years or so, pressure on non-compete agreements, which of course puts a lot of renewed interest back into trade secret law.

[\(06:20\)](#):

California practitioners have been doing this forever, but the rest of the country maybe is catching up that if you can't enforce the blunt instrument of a non-compete agreement, it really, really underscores the need to have good trade secret protections in place, make sure that your confidential information policies are up-to-date because you still have the ability to, in Massachusetts, in California, in any of these states where you have these restrictions on enforcement of non-compete agreements. You still have the ability in the event of actual misappropriation of confidential information to take action. So if non-compete agreements are limited or banned, we'll see where things go with the FTC with these

other legislative issues. But if they're restricted or banned, we still have the backup of trade secret protections.

Jordan Grotzinger ([07:16](#)):

And that's an important point because the non-compete laws and pressure we are seeing doesn't allow trade secret misappropriation. It says that people are allowed to switch jobs and move to competitors and provisions like you can't work for a competitor for a certain amount of time won't be valid in states like California. But all of that is independent from trade secret law. So to your point, Greg, it remains especially important to protect those secrets. Particularly if employee X can go from one company to a competitor freely, you want to make sure that employee X does not take trade secrets with him or her. And of course there's various ways to mitigate that risk, which we've talked about.

([08:25](#)):

So we saw that trend, probably the primary trend relating to this subject matter this year, looking at the cases and we get alerts of essentially every trade secret proceeding in the country, probably more than anything you see motions to dismiss at the pleading stage about our favorite issue, trade secret identification often and other issues. There wasn't sort of a blockbuster trade secret identification case this year, even though, not that I've actually crunched the numbers, but I think that is the most prominent issue. But there were a lot of interesting cases for folks like us who follow this area. So why don't we jump in with the first case, and this was one out of the Eighth Circuit in 2023, which addressed pleading standards. Greg, you want to talk about that case?

Greg Bombard ([09:23](#)):

Sure. In this one, we had a equipment renting business was the plaintiff. The plaintiff sued two competitors. One of them was a new equipment leasing company that the plaintiff alleged had raided the plaintiff. So the first defendant was sort of the classic trade secret defendant and it was a company that had allegedly hired a series of employees from the plaintiff and through those employees had obtained confidential information about the plaintiff's business, the plaintiff's trade secrets.

([10:03](#)):

The second defendant was an entity that had a close business relationship with the first defendant and the plaintiff alleged that this close business relationship made them essentially one and the same. And that the second defendant, on information and belief, had benefited from the first defendant's misappropriation. So the Eighth Circuit was reviewing a motion to dismiss that had been granted by the district court and the district court said that on information and belief pleading is not good enough and that the facts alleged in the complaint were not sufficient to show that the second defendant had actually misappropriated anything, that it had obtained the confidential information in under circumstances that it knew or should have known that the information had been obtained improperly.

([11:04](#)):

On appeal, the Eighth Circuit reversed and said that first of all, just because the pleadings started with on information and belief doesn't take anything away from them. They still have to be treated as true on a motion to dismiss and then also catalogued the factual pleadings in the complaint that made it plausible that the second defendant knew or should have known that the information it was using came from the plaintiff and in particular focused on this close business relationship between the two companies.

([11:45](#)):

So we highlighted this one for two reasons. One is information and belief. Obviously in this practice you see a lot of that. The second related issue here is this case underscores an issue that plaintiffs have all the time, which is, "I know what I know from publicly available information from the investigation I've been able to do to date." And plaintiffs encounter this issue a lot where they've done an investigation, they know the facts that they've been able to uncover about potential misappropriation. But of course as a plaintiff you may not know all the facts. So the Eighth Circuit was sympathetic to that concept saying that it's only the defendants, the first defendant and the second defendant who are going to know whether the second defendant obtained this information knowing that it had been unlawfully obtained in the first place. And discovery is going to show whether that claim stands up.

Jordan Grotzinger ([12:48](#)):

Right. So information and belief for the non-lawyers listening, that refers to a type of pleading in a complaint. A complaint is just another word for a lawsuit where the plaintiff, the person or company suing describes the facts and lists the legal claims that he she or it has. And frequently, as the plaintiff and as you alluded to, Greg, it often doesn't have all the facts. I mean that's almost always doesn't have all the facts. Otherwise, I guess litigation would be less likely. And so frequently, you'll get references in a complaint that say, "On information and belief the defendant did so-and-so" or "Plaintiff alleges on information and belief that the defendant had access to trade secret X and misappropriated it because the plaintiff doesn't have proof yet, but the circumstances indicate that that is what happened." And so information and belief pleading is a common practice. I would say it's in the vast majority of pleadings. And so that's what this case referred to.

([14:09](#)):

The Eighth Circuit concluded that contrary to the district court that had thrown the complaint out, that information and belief allegations are permissible if they are "based on information that is within the possession and control of the defendant or are supported by sufficient factual material that makes the inference of culpability plausible."

([14:35](#)):

The second case was out of the Eleventh Circuit from last year and it addressed the issue of trade secret ownership or put another way standing to bring a trade secret case. The plaintiff was a consulting group and sued the defendant, a former employee for misappropriation of trade secrets under the Federal Defense Trade Secrets Act. At trial, the jury returned a verdict for \$1.2 million in the plaintiff's favor. And on appeal, the defendant said to the Eleventh Circuit Court of Appeals that the plaintiff failed to prove that the plaintiff, as opposed to one of the plaintiff's foreign affiliates, was the owner of the trade secrets at issue as required by the defendant Trade Secrets Act.

([15:23](#)):

The Eleventh Circuit rejected the defendant's argument because each page of the trade secret documents was stamped with the plaintiff's marketing name. Also, testimony from the plaintiff corporation's owner regarding the documents was such that a jury could reasonably infer that the plaintiff owned the documents despite the documents containing the trade secrets having been used by the plaintiff's foreign affiliates.

([15:51](#)):

Greg, you want to talk about the next case out of the Seventh Circuit?

Greg Bombard ([15:55](#)):

Absolutely. So this is one about an interesting and complicated forum selection clause. In this case, you had a district court dismiss the plaintiff's trade secret claim because of a foreign forum selection clause. And that was a contractual agreement between the plaintiff and the defendant in a software licensing contract. That clause said, "The parties will initiate any lawsuits in connection with the agreement in Toronto, Ontario, Canada, and irrevocably a torn to the exclusive personal jurisdiction and venue of the courts sitting therein in."

[\(16:47\)](#):

Well, the plaintiff argued that it was not bringing claims under the agreement or in connection with the agreement but rather that it was a trade secret claim, a US separate independent claim and that if they fell outside the scope of the forms selection clause. Well, in this case, the Eighth Circuit declined to read the forum selection clause quite so narrowly and explained that the plaintiff's complaint for trade secret misappropriation relied heavily on the existence of the contractual relationship with the defendant. The court said the plaintiff suggests it never would have provided the confidential information central to its claim absent the contract and any claims regarding the information's misuse, therefore bear a strong connection to the agreement.

Jordan Grotzinger [\(17:41\)](#):

Makes sense. The next case was from October of last year out of the Second Circuit and it addressed the failure to take reasonable measures to maintain secrecy. The defendant argued that the plaintiff failed to take such measures regarding a financial modeling spreadsheet which was claimed to be a trade secret. The plaintiff argued, one, the plaintiff... Well, it argued that it did take reasonable measures, because one, it sent the spreadsheets to only a core group of individuals at a bank and only when necessary to show the basis for his advice. Two, two bank employees with whom he shared the spreadsheets orally agreed to keep them and the model secret. Three, in many instances, he placed his initials on the spreadsheet. And four, on two occasions, the bank requested permission to share the spreadsheet with third parties and the plaintiff refused and the bank complied.

[\(18:42\)](#):

The Second Circuit ruled that the complaint was devoid of allegations that the plaintiff password protected, encrypted or expressly labeled his spreadsheets as confidential. The plaintiff sent the spreadsheet to at least three other individuals at the bank without confidentiality assurances and there was no allegation of a formal NDA or confidentiality agreement. So the court ruled that reasonable measures were not taken. And it also noted that the bank employees agreement not to share the spreadsheets with third parties was an informal agreement at best.

[\(19:21\)](#):

And so I talked at the top of the podcast about how these are sort of self-contained takeaways, but that's an important one. The more formal you can be on protections, the better. I mean just it's often a function of common sense. What's going to hold up in court better? An oral assurance that you're not going to do anything or a written contract that spells out the prohibitions, including that you're restricted access to certain information or you can't use it, it's password protected, et cetera? There's no black and white test for reasonable measures. It doesn't have to be perfect measures, that's why it's called reasonable measures, but the more concrete, the better.

Greg Bombard [\(20:10\)](#):

I love this case because it confirms one of my favorite statistics, which is a quantitative analysis of court decisions wherein this academic paper found that plaintiffs are 25 times more likely, 25 times more

likely to succeed in a trade secret case where they can prove the existence of a confidentiality agreement. And you think obviously that's such an obvious one, but this case really shows an example of one that may have been on the fence. There were certainly arguments for the plaintiff. He had four arguments as to why he had taken reasonable measures to protect the confidentiality. But in the end, no NDA, no formal agreement to keep the spreadsheets confidential. And as a result, the Second Circuit says his claim fails.

Jordan Grotzinger ([21:03](#)):

I didn't know about that statistic. It's an interesting one and I'm not surprised that it's 25%. I wouldn't have been surprised if it were higher, but good to know.

Greg Bombard ([21:14](#)):

The last case on our list here is another Second Circuit case and probably one of the more impactful cases for trade secret litigation because it affects the appropriate measure of damages.

([21:30](#)):

This is a case where the theory of recovery was avoided cost of development. The theory there is that unjust enrichment of a defendant can be measured by the amount of research and development expense and time that the defendant misappropriated avoided by misappropriating the trade secrets.

([22:01](#)):

You see this theory very frequently, especially in cases where neither the plaintiff nor the defendant has strong evidence of profits or revenue. So for example, in cases where you have startups, biotechs, companies that don't have a commercialized product but they certainly have a lot of intellectual property, those are cases where you see this theory of avoided cost of development.

([22:35](#)):

Well, the Second Circuit held in this case that avoided cost of development were not available where a permanent injunction had effectively stopped the defendant's use of the trade secret and the misappropriation itself had not diminished the trade secret's value to the plaintiff. The factors that the court said it would consider in future cases for determining whether to apply avoided cost of development damages would be, one, the extent to which the defendant has used the trade secrets in developing its own competing product. Two, the extent to which the defendant's misappropriation destroyed the secrets value for its original owner. And three, the extent to which the defendant could be stopped from profiting further from the misappropriation in the future. This case was really significant because many other jurisdictions have either expressly adopted the concept of avoided cost of development damages, or at the very least had not ruled that it was improper.

([23:47](#)):

New York State a few years ago, the New York State Supreme Court had rejected and avoided cost of development theory under New York's common law of trade secrets. And this case was the Second Circuit doing essentially the same thing or similar for the Defend Trade Secrets Act. And interestingly on this one, one other point is CERT was actually denied that despite what is now a circuit split that was acknowledged in the Second Circuit's decision, they noted that the Third Circuit and others had expressly adopted avoided cost of development damages. The Supreme Court nevertheless declined to take up this case.

Jordan Grotzinger ([24:30](#)):

Thank you for that, Greg. That is our summary for 2023. Greg, thanks as always for coming on. I expect you back many times this year, and 2024 should be fun. Should be quite a rise.

Greg Bombard ([24:45](#)):

Looking forward to it.

Jordan Grotzinger ([24:47](#)):

Okay, guys. Bye everybody.

Jordan Grotzinger ([24:51](#)):

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.