ArentFox Schiff

Trade Secrets, Non-Competes & Employee Mobility

# 2022 Trade Secrets End of Year Report

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# Contents



## Key Case Summaries

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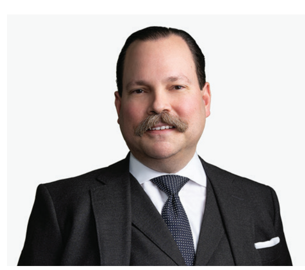

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# Executive Summary

# Executive Summary

*Linda M. Jackson, Alexander H. Spiegler, Pascal F. Naples, Lauren C. Schaefer*

2022 proved to be a consequential year for trade secrets, non-competes and other restrictive covenants. The Federal Trade Commission (FTC) and the US Department of Justice (DOJ) took substantial steps to curtail the use of non-competes and no poaching agreements writ-large. State governments continued to issue new legislation targeting these agreements. Litigators should also take note of the high number of reported decisions in trade secret cases across the country, which demands careful attention to the nuances of developing law in the areas in which they practice. Finally, plaintiffs with persuasive misappropriation claims achieved some of the largest jury verdicts to date and have been able to convince courts to award severe sanctions in cases of spoliation.

**The Federal Trade Commission Issues a Notice of Proposed Rulemaking on Non-competes**

In a move described by one member of the FTC as "a radical departure from hundreds of years of legal precedent," on January 5, 2023, the FTC issued a Notice of Proposed Rulemaking (NPRM) that would ban non-competes and require recission of existing non-competes for companies subject to its authority – which, in short, largely extends to "for profit" entities. The rule would apply broadly, not just to all employees, but also to independent contractors and any individual who performs work, whether paid or unpaid (e.g., externs, interns, volunteers, apprentices, or sole proprietors). It also would apply not just to non-competes that expressly prohibit certain post-employment opportunities, but also to any contractual provision that functions as a de facto non-compete, such as non-disclosure agreements written so broadly that they effectively preclude the worker from working in the same field and training repayment obligations that are not reasonably related to the training costs and which effectively preclude the worker from leaving. The proposed rule would not, however, apply to concurrent-employment restraints — i.e., restrictions on what the worker may do during the worker's employment with the employer. It also would not apply to non-competes in the context of sales of businesses or between franchisors and franchisees (although the franchisees' employees would be covered by the rule). The FTC is currently in its 60-day public comment period, and any final rule will take effect 180 days after its publication. There is an expectation that comments will address, and the final rule may include, carve outs for highly compensated executives, and an expectation that any final rule would be subject to litigation that questions the FTC's authority to act in this area.

Simultaneously, the FTC filed five administrative complaints (against three companies and two individuals) and corresponding consent decrees for non-competes allegedly in violation of Section 5 of Clayton Act. One of the complaints alleges that two Michigan-based companies and their owners required low-wage security guards to sign contracts prohibiting them from working for a competing business within a 100-mile radius for two years, and would impose a $100,000 penalty for any alleged violation of the non-compete. The other complaint alleged that two glass food and beverage container manufacturers imposed non-competes that banned salaried employees for one year after employment "from working for, owning, or being involved in any other way with any business in the United States selling similar products and/or services without the prior, written consent." In a press release, Rahul Rao, Deputy Director of the FTC's Bureau of Competition, indicated that these complaints may be the first of many, noting that the FTC "will continue to investigate, and where appropriate challenge, non-compete restrictions and other restrictive contractual terms that harm workers and competition."

**The DOJ and FTC Prosecute No Poaching Agreements**

In similar fashion, federal and state governments have stepped up scrutiny of no poach agreements. In April, DOJ took two criminal cases seeking to penalize business owners for no poaching agreements. In both cases, DOJ used antitrust law to pursue individuals affiliated with health care companies for unlawfully conspiring to restrict competition by paying lower rates and limiting practitioner mobility. Although juries acquitted both defendants on the antitrust claims, the federal government has not been deterred. In June, the *Wall Street Journal* reported that the FTC "has in recent months issued subpoenas to a variety of businesses suspected of imposing unnecessary non-compete clauses on workers." In late October, a Nevada health care staffing company (VDA OC LCC) pleaded guilty to colluding with a competitor by agreeing not to recruit or hire each other's nurses and not to raise the wages of their respective nurse employees. VDA agreed to pay a criminal fine in the amount of $62,000, restitution in the amount of $72,000 to the affected nurses, and a $400 special assessment. On December 2, a federal judge in Connecticut refused to dismiss criminal charges against a former manager of a major aerospace engineering company and five executives of outsource engineering suppliers, who were accused of conspiring to restrict employee movement between companies through no poach agreements and enforcement. At the state level, on December 6, the State of New York's Office of the Attorney General ordered an NY-based home care provider to pay $550,000 in penalties for an unlawful no poach agreement with another provider restricting movement of patients and caregivers between providers. Given the pronouncements at both the federal and state level, we expect that similar indictments may follow in 2023.

**States Continue to Enact Non-Compete Legislation**

Non-competes also continued to be the subject of significant legislative activity at the state level in 2022. Two states, Iowa and Nebraska, now have new statutes restricting non-competes. Another four states—Colorado, Illinois, Oregon, and DC—modified their statutes in 2022.

**Colorado** amended its non-compete statute on August 10, 2022, enhancing potential criminal penalties for improper use of restrictive covenants. The revised statute is not retroactive, meaning that it does not affect any agreements signed before its enactment. For those signed after, however, non-competes are enforceable against only those employees who earn at least $101,250 per year, and customer non-solicits are enforceable against only those who earn at least $60,750 per year. Among other things, the amended Colorado statute also overrides choice of law or venue provisions that attempt to apply non-Colorado law to a Colorado citizen or require a Colorado citizen to adjudicate the enforceability of their agreement anywhere other than in Colorado. Finally, the amended statute also subjects employers that use, or try to use, agreements in violation of the amended statute to enhanced penalties, including fines of up to $750 and/or imprisonment of up to 120 days. In private actions by the employee or in enforcement actions by either the Attorney General or the Division of Labor Standards and Statistics, employers can be liable for actual damages, plus a $5,000 statutory penalty and attorneys' fees and costs.

As we previewed last year in our [2021 Trade Secrets End of Year Report], **Illinois** also amended its non-compete statute, the Freedom to Work Act, which went into effect on January 1, 2022. Key changes include income thresholds (non-competes cannot be enforced against employees who earn $75,000 or less per year), and non-solicitation provisions (for both employees and customers, non-solicits cannot be enforced against employees who earn less than $45,000 per year). The amended act also requires employers to give employees a copy of any covenant 14 days in advance of its commencement along with express notice that employees may consult with an attorney regarding the covenant. Finally, employers are now liable for the attorneys' fees of employees who prevail when defending claims brought by employers under the covenant.

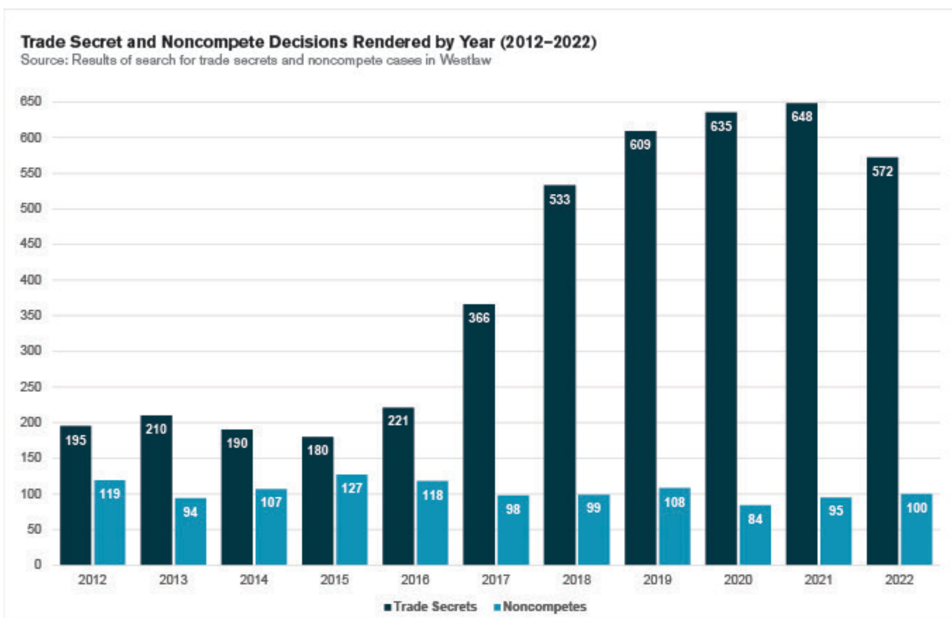
The amendments to **Oregon**'s existing non-compete statute also went into effect on January 1, 2022. Subject to limited carve-outs, the revised statute makes void—not merely void*able*—every non-compete entered after the statute's effective date if any of the following are true: (1) the restricted period extends more than 1 year; (2) the covenant attempts to restrict employees who are either not salaried or make $100,533 or less per year (adjusted annually for inflation); (3) the covenant was not given to the employee at least 2 weeks before his or her first day; or (4) the signed agreement was not provided to the employee within 30 days following his or her termination of employment. Furthermore, employers may only enforce non-compete agreements against employees who have access to trade secrets or confidential business information (unless the employee is on-air broadcasting talent).

After much back and forth, **DC**'s revised non-compete statute finally went into effect on October 1, 2022. The key provision in the new statute restricts non-compete agreements—with limited exceptions—to those employees who earn $150,000 or more per year (or $250,000 or more per year if a medical specialist). The statute is silent on non-solicit covenants (customer or employee), and it exempts, *inter alia*, non-competes in conjunction with the sale of a business. To be enforceable, every non-compete agreement must contain statutory language providing notice of the law to the employee, and employers must provide a copy of the agreement to the employee 14 days before commencing employment or, if already employed, 14 days before requiring signature.

This amounts to a true patchwork of legislation, with some states focusing on notice requirements, others on time limitations, others on salary restrictions, others with criminal provisions, and others with outright bans. As we reported last year, there is no reason to think that such legislative action will slow in 2023.

**Practitioners Take Note: The Number of Reported Decisions Rendered in Trade Secrets Cases Remains High Across the Country**

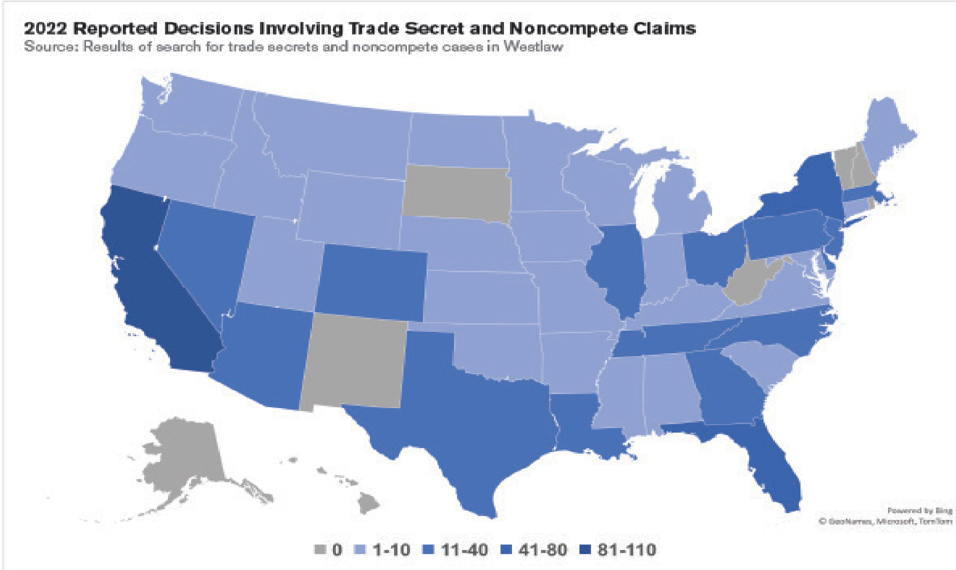
As the graph demonstrates, the number of reported decisions in cases involving trade secrets and non-competes remains high. The total of 672 decisions eclipses every year before 2019; however, it is slightly down from more recent years.




Although the graph shows reported decisions involving trade secrets and non-competes, decisions in cases involving non-competes have remained relatively flat. The real growth has been in decisions involving trade secrets, which have skyrocketed from a five-year average from 2018-2022 of 233 cases to a five-year average of 599 cases.

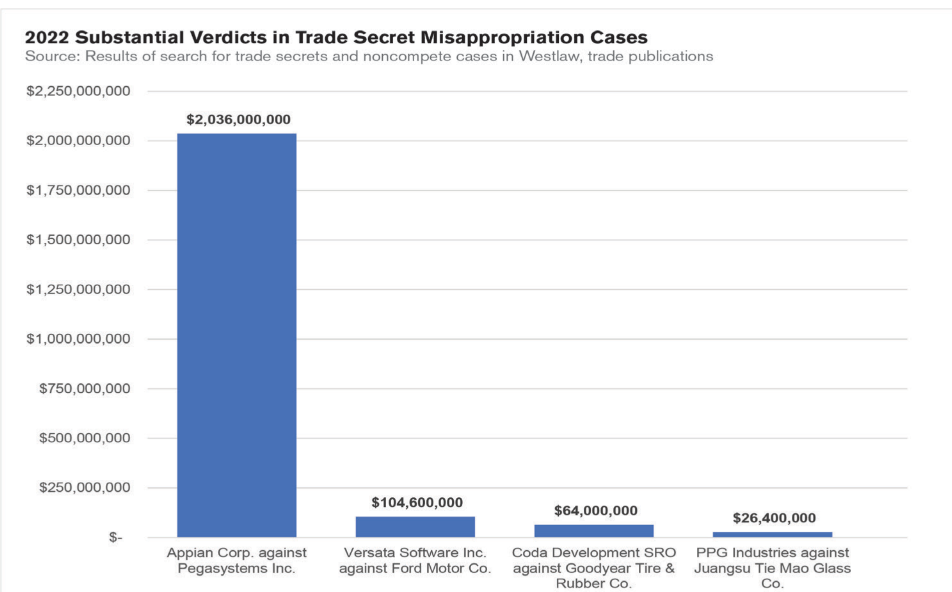
Geographically, numerous decisions have been rendered in virtually every jurisdiction. As the below visual indicates, the increase in cases involving trade secrets exists everywhere, and appears most prominent in California, New York, Texas, and Florida.

Ultimately, the takeaway for practitioners in every jurisdiction is to be careful to review the most recent precedent issued by the courts in which you practice. The jurisprudential landscape frequently shifts, and decisions from even five years ago may not reflect since-developed nuances in the law.




## Trade Secrets Cases See Substantial Verdicts

In these decisions, 2022 saw marked verdicts for plaintiffs in trade secrets cases who were able to succeed at trial.




In an eye-popping verdict, a jury awarded $2.036 Billion to Appian Corp. against Pegasystems Inc. in a Fairfax County Virginia trial court for trade secret misappropriation. In Detroit, a federal jury ordered Ford Motor Co to pay Versata Software Inc. $104.6 million in damages for breaching a 2004 licensing contract and misappropriating trade secrets.

In Ohio, a federal jury found that Goodyear Tire & Rubber Co. should pay an inventor $64 million for willfully and maliciously stealing his self-inflating tire technology.

We saw similar results at the appellate level. The U.S. Court of Appeals for the Eleventh Circuit revived a $100M+ trade secret misappropriation claim against Boeing Co., and in the Third Circuit, the Court upheld a $26.4 Million for PPG Industries for trade secret misappropriation claims. More often than not, these cases also feature substantial attorney fee awards, as in one case in Orange County, California, in which the Court entered a fee award of nearly $6M for the successful plaintiffs in a misappropriation case. In sum, when plaintiffs are able to overcome the legislative, administrative, and judicial hurdles to these claims, the verdicts can be substantial.

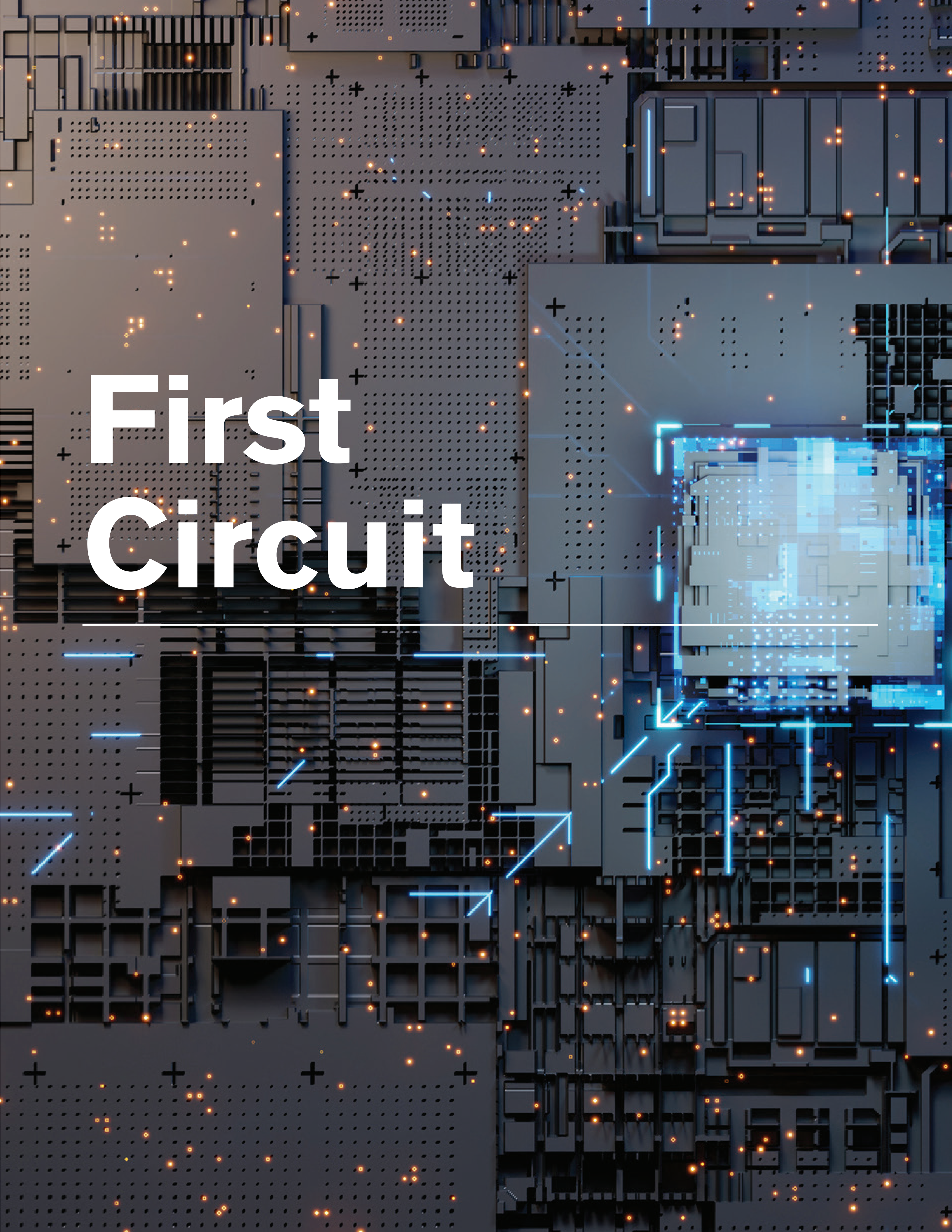
### Terminating Sanctions for Spoliation

As we detailed earlier this year, courts confronting spoliation in trade secrets cases have continued to award terminating sanctions, i.e., default judgment or dismissal. This is particularly the case when the spoliating party has engaged in a multiple spoliative events, e.g., repeated connection of external storage devices, use of deletion software, overwriting of files, manipulation of metadata, reformatting hard drives, physical destruction of devices, or concealment of relevant devices/online storage accounts; or repeatedly disregarded the court's authority, e.g., discovery delay tactics, failure to comply with discovery orders, or outright false testimony. Given the extent to which spoliation is a frequently litigated issue in trade secrets cases, parties should consider issuing offensive preservation letters and including preservation provisions in temporary restraining orders and preliminary injunctions, as well.

### 2023 and Beyond

2022 saw an explosion of activity for trade secrets, non-competes, and employee mobility, and there is no reason to think that 2023 will be any different. Companies need to pay careful attention to the shifting legal landscapes, as impermissible constraints can subject employers to both civil and criminal liability. This includes not only legislation in the states in which they are operating, but also ongoing action by DOJ and the FTC. Of course, trade secrets remain a serious source of competitive value, and companies would do well to self-audit and catalog their valuable trade secret information and revisit their non-compete and other restrictive covenant programs to ensure their enforceability in the event they are needed.

# First Circuit



# First Circuit

## Massachusetts

***Red Wolf Energy Trading, LLC v. Bia Cap. Mgmt., LLC,* No. CV 19-10119-MLW, 2022 WL 4112081 (D. Mass Sept. 8, 2022).**

**Industry:** Financial Services

**Takeaway:** The discovery process must not be viewed casually and parties must be mindful of courts' discretion to impose severe sanctions for discovery abuses and failures to comply with court orders, as occurred here with a default judgment entered against the offending party.

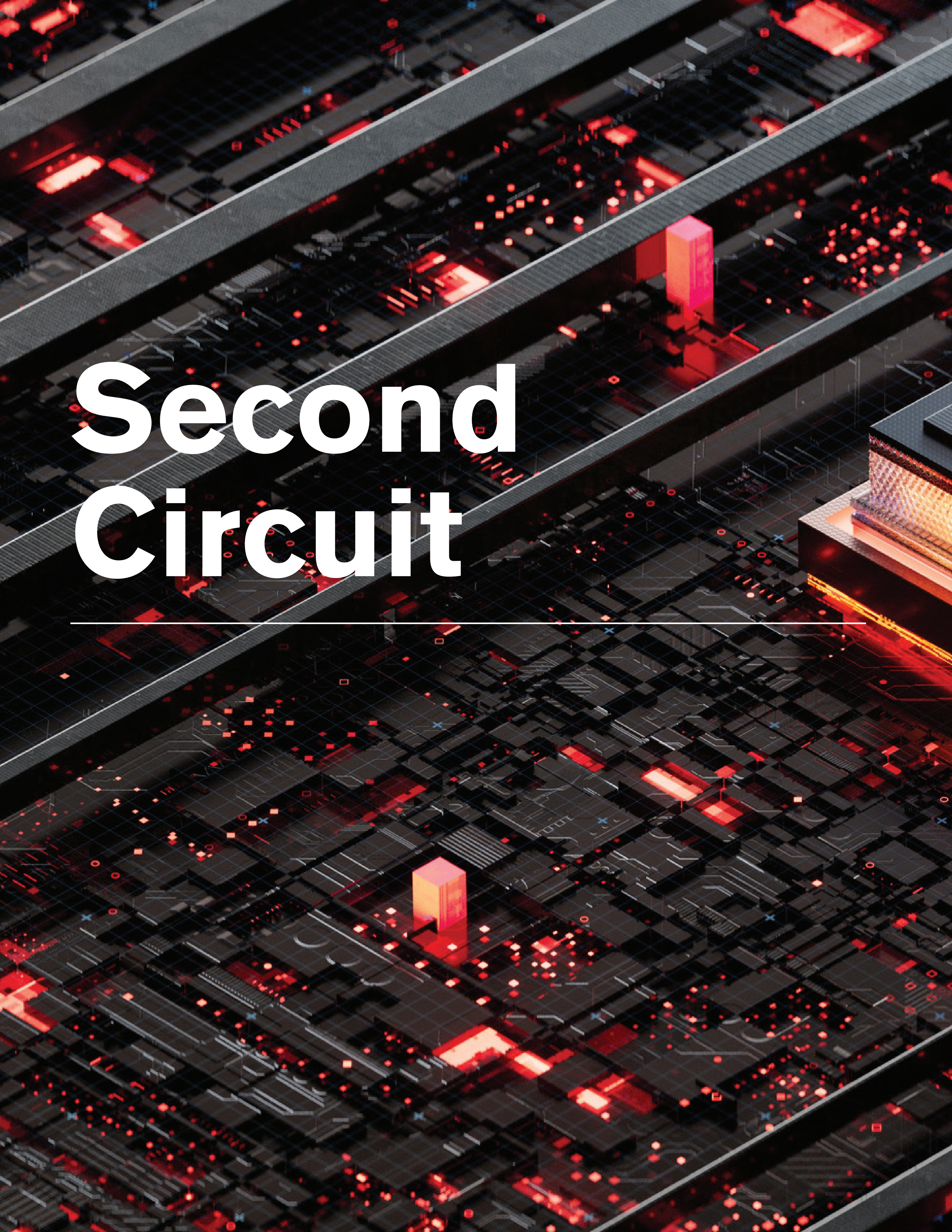
**Details:**

- **Procedural Posture:** During the discovery process, Defendant Bia Capital was compelled numerous times to produce documents and fulfill its discovery obligations, but repeatedly failed to comply even after being sanctioned, leading to a second motion for sanctions by Plaintiff. The second motion requested, among other relief, a default judgment in Plaintiff's favor.

- **Factual Background:** Plaintiff Red Wolf is a trading firm that deals with brokering purchases and sales of virtual electricity products. To effectuate that, it uses proprietary algorithms to predict what energy needs will be in the future. Red Wolf alleged that Defendant Bia Capital misappropriated its trade secrets to develop a similar trading platform. The case proceeded to discovery, during which Bia Capital engaged in repeated misconduct. Red Wolf was forced to file several motions to compel after Bia Capital failed to produce responsive documents. Moreover, the Defendants twice submitted sworn affidavits attesting that they had performed searches and reviews for responsive documents but did not locate any. Later on, that was discovered to be false when certain documents emerged with damning evidence of trade secret misappropriation by Defendants. Throughout all of these events, the court repeatedly warned Defendants about the risk of extreme sanctions if they did not meet their obligations in discovery. But even after that, Defendants continually failed to make comprehensive productions of documents, as evidenced by the eleventh-hour surfacing of text messages in which Defendants discussed concealing their misappropriation, which were responsive to previous orders to compel.

- **Court's Decision:** Due to the gratuitous and inexcusable discovery non-compliance by Defendants, the court granted default judgment in favor of Red Wolf. Due to the extreme nature of Defendants' misconduct throughout discovery, prejudice to Plaintiff because it could not depose witnesses properly for lack of documents, and to deter similar misconduct by other future offenders, the court granted a default judgment in favor of Plaintiff.

# Second Circuit



# Second Circuit

***JLM Couture, Inc. v. Gutman*, 24 F.4th 785 (2d Cir. 2022).**

**Industry:** Apparel Design and Marketing

**Takeaway:** In an action to enforce non-competition and other restrictive covenants contained in an employment agreement, the Second Circuit refused to find an implied right of the employee to terminate the employment agreement through her resignation, but did find that the district court exceeded its authority when it granted a preliminary injunction giving control of social media accounts to the employer.

**Details:**

- **Procedural Posture:** Following failed negotiations to extend the term of her employment agreement as a designer and creator for JLM Couture, Inc. (JLM), Hayley Paige Gutman began engaging in conduct that JLM claimed violated the non-competition covenants of her employment agreement. JLM sought and obtained a preliminary injunction. Gutman appealed and the Second Circuit affirmed in part and remanded in part, finding the district court exceeded its authority when it awarded control of Gutman's social media accounts to JLM without finding that JLM was the sole owner of those accounts.

- **Factual Background:** Hayley Paige Gutman is a wedding dress designer and creator of the "Hayley Paige" line of wedding dresses. She is also known as a social media "influencer" and has several "Miss Hayley Paige" accounts on platforms like Instagram and TikTok. In 2011, Gutman signed an employment agreement with JLM, a bridal design and fashion company, which included noncompetition and other restrictive covenants running through August 2022, the end of the contract term. The noncompetition covenant prevented Gutman from competing with JLM "during the period of her employment," and assigned JLM "exclusive world-wide right and license" to Gutman's name in connection with bridal wear for the term of the contract plus two years, unless JLM registered a trademark before that time. Only JLM had the right to terminate Gutman's contract, with or without cause. In 2019, negotiations to renew Gutman's contract deteriorated and eventually failed. Gutman then announced an independent appearance at a bridal expo, entered agreements to promote non-JLM brands on the JLM-affiliated social media pages, and locked JLM out of her social media accounts. JLM brought suit in the Southern District of New York for breach of contract, trademark dilution, and unfair competition, as well as conversion and trespass to chattels related to the social media accounts. JLM then moved for a preliminary injunction, and the district court granted JLM's motion, ordering Gutman not to compete with JLM, barring her from using her name and its derivatives in trade or commerce, and awarding control of her JLM-affiliated social media accounts to JLM. Gutman appealed.

- **Court's Decision:** The Second Circuit affirmed in part and reversed in part, focusing closely on the language of the employment agreement. The Second Circuit upheld the district court's order barring Gutman from competing with JLM and using the name "Hayley Paige Gutman" and its derivatives in trade or commerce, explaining that the plain language of the employment agreement was clear that only JLM had the right to terminate the contract, and Gutman's "resignation" did not foreclose JLM's ability to enforce the restrictive covenants for the full term of the agreement. However, the Second Circuit found the district court exceeded its discretion when it granted exclusive control over Gutman's JLM-affiliated social media accounts to JLM. The court reasoned that the parties "disagree vigorously about whose accounts they are"— JLM's or Gutman's — and the district court "did not address the predicate question of who likely owns" those accounts. Thus, it was "unclear on what basis the district court excluded Gutman from using the Disputed Accounts and granted total control to JLM" and "the breaches identified by the district court [were] insufficient by themselves to justify the relief it granted regarding control of the Disputed Accounts."

***Turret Labs USA, Inc. v. CargoSprint, LLC*, No. 21-952, 2022 WL 701161 (2d Cir. Mar. 9, 2022).**

**Industry:** Transportation & Mobility; FinTech

**Takeaway:** Where an alleged trade secret consists primarily of computer software's functionality, the determination of whether a company took reasonable measures to protect its alleged trade secret will include who is given access, and whether they are subject to a confidentiality or nondisclosure agreement.

**Details:**

- **Procedural Posture**: The District Court dismissed Plaintiff's Second Amended Complaint for failure to state a claim of misappropriation of trade secrets under DTSA and common law. Plaintiff appealed.

- **Factual Background:** Plaintiff Turret Labs brought a trade secret suit against CargoSprint, claiming that CargoSprint improperly gained access to Turret's proprietary freight software, Dock EnRoll, and used that access to reverse engineer a competing program. Turret alleged that it had licensed its software to Lufthansa, and CargoSprint gained access to Dock EnRoll by falsely representing to Lufthansa that it was a freight forwarder. The district court dismissed the complaint, finding that Turret failed to plead that Dock EnRoll was a trade secret because Turret did not adequately allege that it took reasonable measures to keep its information secret from third parties to include requiring confidentiality or nondisclosure agreements with its end users.

- **Court's Decision:** The Second Circuit affirmed dismissal, holding that Turret Labs had failed to take reasonable measures to protect its trade secrets. The Second Circuit was not persuaded by Turret's other "extensive" security measures such as keeping its physical servers in monitored cages and limiting access to the usernames and passwords approved by Lufthansa. Instead, the Second Circuit emphasized the nature of the underlying trade secret (here, a proprietary freight software program) as the key consideration as to whether a non-disclosure agreement was necessary measure to protect the trade secret.

## <u>Connecticut</u>

***Sunbelt Rentals, Inc. v. McAndrews,* No. 3:21CV774 (JBA), 2022 WL 603031 (D. Conn. Feb. 28, 2022).**

**Industry:** Rental and sale of tools and equipment

**Takeaway:** Court refuses to "blue pencil" restrictive covenant with an overly broad geographic scope.

**Details:**

- **Procedural Posture**: The court denied Plaintiff's motion for a preliminary injunction seeking to enforce a post-termination restrictive covenant in an employment agreement. The court also denied a motion for reconsideration.

- **Factual Background:** Sunbelt Rentals, Inc. (Sunbelt) sells and rents tools and equipment to contractors at industrial and manufacturing sites. Defendant McAndrews had been hired by Sunbelt as a Strategic Customer Manager and was assigned to a cost center that serviced eight stores in Texas, South Carolina, California, Maryland, Wisconsin, Florida and Pennsylvania. Sunbelt's employment agreement with McAndrews contained a one-year post-termination restrictive covenant prohibiting McAndrews from working for any company that directly or indirectly competes with Sunbelt within 50 miles of any Sunbelt store for which McAndrews had performed work in the 12 months preceding the termination of his employment. McAndrews resigned to work for Riggs Distler, a competitor of Sunbelt. Sunbelt sought a preliminary injunction precluding McAndrews from performing work for Riggs Distler within 50 miles of two specific Sunbelt stores. It did not seek to enforce the full scope of the restrictive covenant which would have encompassed all eight stores. Sunbelt argued that the severability provision of the employment agreement permitted the court to modify the geographic scope of the restrictive covenant and that the relief it sought was reasonable.

- **Court's Decision:** The court held that the full eight-store geographic scope of the restrictive covenant was overly broad and unenforceable. At the preliminary injunction stage, the court also refused Sunbelt's request to "blue pencil" the agreement by limiting the scope of the covenant to two stores only. The court noted that blue penciling was permissible under Connecticut law only if the agreement itself expressly permitted court modification. Sunbelt relied upon a severability paragraph in the agreement, but the court held that this paragraph merely permitted the court to *sever* unenforceable provisions of an agreement from those that are enforceable; it did not permit the court to *modify* an unenforceable restrictive covenant. On reconsideration, Sunbelt relied on a separate section of the agreement which appeared to permit court modification of unenforceable provisions. The court denied reconsideration because (i) Sunbelt had failed to raise or rely upon this modification provision in its preliminary injunction motion, and (ii) it was unclear whether the modification provision survived termination of the employment agreement.

## New York

***Core SWX, LLC v. Vitec Grp. US Holdings, Inc.*, No. 21CV1697JMAJMW, 2022 WL 3588081 (E.D.N.Y. July 14, 2022).**

**Industry:** Battery and charging solutions industry

**Takeaway:** Although there is no heightened pleading standard under the DTSA, district courts in the Second Circuit require that plaintiffs plead their trade secrets with sufficient specificity to inform the defendants of what they are alleged to have misappropriated.

**Details:**

- **Procedural Posture:** Core filed a complaint against Vitec alleging trademark infringement, breach of contract, unfair competition, tortious interference, and unjust enrichment. Vitec defendants filed a counterclaim against Core alleging, in relevant part, theft of trade secrets and misappropriation. Vitec filed a motion to dismiss for failure to state a claim.

- **Factual Background:** Vitec alleged that one of its former employees took detailed product plans and marketing strategy documents which the former employee shared with Core. Vitec further alleged that

Core subsequently released a product that was nearly identical to one of Vitec's products that had not yet been unreleased.

- **Court's Decision:** The court dismissed Vitec's trade secret counterclaims because Vitec did not sufficiently describe their alleged trade secret to put Core on notice as to what was allegedly misappropriated. Specifically, the counterclaim merely described general categories of documents purportedly tied to the products Vitec claimed were stolen. Vitec also did not have adequate safeguards for its alleged trade secret, and there were no allegations supporting misappropriation.

***New York Packaging II LLC v. Mustang Mktg .Group LLC and John Maerhoffer*, No. 21CV01629JMAARL, 2022 WL 604136 (E.D.N.Y. Mar. 1, 2022).**

**Industry:** Paper and plastic bags

**Takeaway:** A preliminary injunction is denied in DTSA claim where plaintiff fails to sufficiently describe the alleged trade secret. A preliminary injunction for breach of a post-termination non-solicit agreement is also denied for failure to adduce evidence of an actual or imminent loss of a customer relationship.

**Details:**

- **Procedural Posture:** Plaintiff New York Packaging II LLC d/b/a RediBag USA (RediBag) filed a motion for preliminary injunction requesting that the court enjoin defendants from violating a non-solicitation agreement and from using its pricing, sales, or technical product information, which it alleged were trade secrets.

- **Factual Background:** RediBag sells paper and plastic bags to groceries, restaurants and dry cleaners. Maerhoffer initially served as an independent (and non-exclusive) broker for RediBag, receiving a commission for sales he procured for the company. In 2016, Maerhoffer transitioned from an outside broker to a sales manager at RediBag where he received a salary and assisted in the hiring and training of the company's sales team. Maerhoffer executed a Non-Solicitation Agreement which imposed certain restrictions on his ability to solicit or perform work for customers in the industry in the two year period following the termination of his relationship with RediBag. Maerhoffer resigned in 2019 and the parties had a series of disputes concerning payment of commissions and other matters. RediBag filed an action against Maerhoffer and his company (Mustang) for breach of contract and misappropriation of trade secrets under DTSA and under state law.

- **Court's Decision:** The court found that RediBag had supplied only generalized and conclusory information concerning the trade secrets it alleged had been misappropriated. RediBags claimed that Maerhoffer had access to "technical product information," but failed to provide a precise description of what this was. The court rejected RediBag's claim that Maerhoffer possessed "confidential pricing" information. It noted that most of the pricing for RediBag's products was established through competitive bids where all participants had access to the various pricing bids. Pricing also was commonly disclosed to others in the market. The court held that RediBag had failed to establish irreparable harm with respect to its claim that defendants had violated the non-solicit agreement. Although Maerhoffer had engaged in some limited "one-off" sales arguably in breach of the restrictive covenant of his agreement, RediBag had not established any actual or imminent loss of a customer.

***Altman Stage Lighting, Inc. v. Smith*, No. 20 CV 2575 (NSR), 2022 WL 374590 (S.D.N.Y. Feb. 8, 2022).**

**Industry:** Lighting

**Takeaway:** Merely instructing employees not to discuss a new product is insufficient to establish that a business has taken "reasonable measures" to keep such information secret as required under the Defend Trade Secrets Act.

**Details:**

- **Procedural Posture:** Plaintiff brought suit against its former General Manager alleging a violation of the Defend Trade Secrets Act (DTSA) and certain common law claims. Defendant filed a motion for judgment on the pleadings under Fed. R. Civ. P 12 (c).

- **Factual Background:** Altman Stage Lighting, Inc. (Altman) is a vendor and manufacturer of lighting products specializing in theatre and architectural lighting products. Altman had assigned an employee (Maddox) to develop an LED grow light for agricultural products. It later hired Julie Smith as General Manager of the company. In that capacity, Smith oversaw Maddox and the development of the grow light. Altman had advised all engineers working on the project not to discuss the grow light project with others inside or outside the company. Maddox developed a prototype of the grow light and sent it to Smith's home. Smith informed the company, however, that Maddox had failed to perform work on the project and, as a result Maddox was terminated. When Smith later left the company, she retained the grow light prototype and became associated with another lighting company which developed and secured a patent for a similar grow light. When Altman discovered that Maddox had delivered a prototype to Smith, it brought suit against her. Following the filing of the complaint, Smith returned the prototype, one year after she had received it from Maddox.

- **Court's Decision:** The court granted Defendant's Rule 12(c) motion because Altman had failed to establish the first prong Section 1839 (3) of the DTSA which requires that a plaintiff demonstrate that it took "reasonable measures" to keep the product or information a secret. The court noted that there is no single definition of "reasonable measures." However, courts have generally looked to whether physical security measures or written confidentiality agreements are in place. Relying upon case law developed under the DTSA, the court held that merely informing employees that a project is a trade secret is insufficient to meet the "reasonable measures prong of the Act.

***Catalyst Advisors, L.P. v. Catalyst Advisors Invs. Glob. Inc.*, 602 F. Supp. 3d 663 (S.D.N.Y. 2022).**

**Industry:** Executive Recruitment Services

**Takeaway:** A candidate list may not always qualify as a trade secret if it is comprised primarily of readily obtainable information in a particular industry. However, where a Company exerts reasonable amounts of time and resources to create a list not readily duplicated through regular channels, they may be afforded trade secret protections.

**Details:**

- **Procedural Posture**: In response to the filing of the complaint, defendants filed a motion to dismiss.

- **Factual Background:** Plaintiff is an international recruitment firm that specializes in placing "C-suite" level positions in the biopharmaceutical and life sciences industry. As part of its business, plaintiff maintains a candidate list and other material it deems confidential. As part of their limited partnership agreement with plaintiff, defendants executed a confidentiality provision, non-compete provision, and non-solicitation provision. Defendants subsequently engaged in a series of acts to misappropriate or otherwise divert plaintiff's confidential information prior to ending their employment relationship with plaintiff. Further, defendants used said information to directly compete with plaintiff. Plaintiff filed suit for violation of the Defend Trade Secrets Act (DTSA) among other claims.

- **Court's Decision:** The Court, in denying defendant's motion, held that, at the pleading stage, a client list in a "niche industry" that required hundreds of hours to evaluate fit and eligibility for executive level positions merited trade secret protection. Specifically, the Court noted that plaintiff's Candidate list reflected more than an investment in marketable products or attendance at industry events; but rather the result of developing relationships, conducting interviews, and performing individualized assessments for particular positions.

***CrossBorder Sols., Inc. v. Macias, Gini, & O'Connell, LLP,*** **No. 20 CIV. 4877 (NSR), 2022 WL 562934 (S.D.N.Y. Feb. 23, 2022).**

**Industry:** Tax Solutions – Transfer Pricing Software

**Takeaway:** Very interesting case about whether the theft of trade secrets can be the basis for a RICO claim (it can't).

**Details:**

- **Procedural Posture:** Plaintiff seeks to amend its complaint, to assert an additional RICO claim, based on new facts that came to light, in a trade secrets litigation.

- **Factual Background:** Plaintiff CrossBorder employed Hoy, Song, and Tian, who had access to their master customer list. Hoy solicited other CrossBorder employees to leave with her, and downloaded CrossBorder's master customer list upon being terminated. Competitor MGO hired Hoy, Song, and Tian, and these Former Employees specifically told MGO that they could give them CrossBorder's clients. Former employees gave CrossBorder's master customer list to MGO.

- **Court's Decision:** The Plaintiff cannot prevail on the RICO claim. The DTSA defines the term "misappropriation" as, among other things, the "disclosure or use of a trade secret of another without express or implied consent...." Id. § 1839(5) (B) (emphasis added). While a plaintiff may bring a civil claim for the "use" of a stolen trade secret under § 1836, such "use" cannot constitute a predicate act under RICO because it is not an indictable criminal offense such that it falls under the definition of "racketeering activity" under the statute. It follows then, that since "the criminal statute is limited to the point in time that a trade secret falls into unauthorized hands, then the ongoing use of the trade secrets once obtained cannot be a predicate act to establish a threat of continued criminal activity."

***Golub Cap. LLC v. NB Alternatives Advisers LLC,*** **No. 21-CV-3991 (LJL), 2022 WL 540653 (S.D.N.Y. Feb. 22, 2022).**

**Industry:** Lending/ Finance/Investment

**Takeaway:** When drafting an NDA for purposes of due diligence, parties should have explicit knowledge of all recipients to the agreement, including a clear understanding of the primary and affiliated entities, and should clearly indicate what responsibilities the parties have to maintain highly confidential information.

**Details:**

- **Procedural Posture**: Plaintiff brought suit and sought a TRO to restrain Defendants from transferring Plaintiff's information during a merger between Defendants and one of Plaintiff's competitors. The court denied the request for a temporary restraining order, and treated the motion instead as one for a preliminary injunction. The court heard oral argument on the motion for a preliminary injunction and denied the motion. Defendants then filed a motion to dismiss Plaintiff's complaint for failure to state a claim, which the court granted with prejudice.

- **Factual Background:** Plaintiff Golub Capital LLC (Golub) is an alternative asset manager that provides direct lending and debt financing to middle-market companies. Defendants consist of Neuberger Berman Group LLC (NBG), an asset management firm, NB Alternative Advisers LLC (NBAA), an investment advisor affiliate with NBG. In 2018, Golub began discussing a potential minority investment opportunity with NBAA. As part of these negotiations, the parties executed a three-year NDA in May 2018 to allow for information sharing as part of due diligence, with NBAA signing on behalf of Dyal Capital Partners (Dyal), one of NBG's internal divisions overseeing Golub's potential investment The NDA included an exception for "information that constitutes a trade secret," which was not subject to the three-year timeframe. The NDA permitted disclosure to affiliates and representatives. Defendants later decided to merge Dyal with one of Plaintiff's competitors, which Plaintiff considered to be an anticipatory breach of the NDA. Golub subsequently asked NBAA to return or destroy all information that Golub had provided to NBAA, pursuant to the NDA. NBAA refused, contending that the NDA "allows it to retain copies of the information for regulatory and litigation purposes." Despite various conversations between Golub and NBAA, Defendants never made clear whether they would, or not would, transfer information to Plaintiff's competitors via Dyal and the proposed merger. Golub then brought suit alleging that Defendants breached the NDA by agreeing to sell Plaintiff's confidential information as part of the merger; that Defendants violated f the Defend Trade Secrets Act (DTSA), by transferring highly confidential information that Defendants had a duty to protect; and that Defendants misappropriated trade secrets by transferring Plaintiff's highly confidential information and trade secrets to a direct competitor for financial gain.

- **Court's Decision:** The court focused first on the breach of contract claim, noting that there is a threshold question: "whether the parties understood Dyal, and not NBAA (or not just NBAA) to be the Recipient under the NDA." This was significant because if Dayl was the "Recipient," it was "entitled to retain Information" and there would be no breach of the NDA. If Dyal was the recipient under the NDA, a "secondary question" would be "whether the agreement to sell Dyal" as part of the merger was "an anticipatory breach of the NDA." The court found that the terms of the NDA clearly show that Dyal was the intended Recipient. Since Dyal was the Recipient, Plaintiff's allegation that Defendant breached the NDA by transferring confidential information was futile — because Dyal was not named as defendant in the lawsuit. Plaintiff's misappropriation claim also failed because that claim stemmed from the breach of contract claim. Having found that Defendants were not in breach, the court likewise found that the misappropriation claim was improper. The court thus granted Defendants' motion to dismiss with prejudice.

***Locus Techs. v. Honeywell Int'l, Inc.*, No. 19CIV11532PGGKHP, 2022 WL 4592891 (S.D.N.Y. Sept. 30, 2022).**

**Industry:** Technology

**Takeaway:** A limitation of liability provision in a license agreement is not a "free pass" to misappropriate trade secrets.

**Details:**

- **Procedural Posture**: Plaintiff, a software company, brought suit against the defendant, a customer who purchased software, for breach of contract, trade secret misappropriation, and other claims. Defendant moved to dismiss.

- **Factual Background:** The parties' License Agreement granted Defendant a limited license to use Plaintiff's software products. The agreement also provided that Defendant would safeguard Plaintiff's confidential information and access to the software. It also contained a limitation of liability provision that purported to limit Plaintiff's ability to recover certain damages for breach of the agreement. The parties later signed a separate non-disclosure agreement, Plaintiff disclosed proprietary information to Defendant. Defendant later sought to terminate the License Agreement and find a new partner. Plaintiff alleged that Defendant misappropriated its trade secrets after Defendant disclosed Plaintiff's pricing structure and software details in an RFP to other software companies, who were Plaintiff's competitors.

- **Court's Decision:** The district court adopted the report and recommendation of the magistrate judge, which denied the motion to dismiss the trade secrets claim. The court held that the License Agreement's limitation of liability provision did not unambiguously bar all forms of potentially available damages on a trade secrets claim and further that there was no limitation of liability provision in the nondisclosure agreement. Moreover, the court noted that Plaintiff did not need to identify the specific damages suffered at the pleading stage pursuant to notice-pleading standards. Thus, the limitation of liability provision did not unambiguously show that Plaintiff was barred from seeking all damages or other relief on its misappropriation of trade secrets claim.

***TransPerfect Glob., Inc. v. Lionbridge Techs., Inc.*, No. 19cv3283, 2022 WL 195836 (S.D.N.Y. Jan. 21, 2022).**

**Industry:** Language Translation Services

**Takeaway:** In instances where a company legally obtains trade secrets in consideration of potential business dealings, the company providing the information must take adequate precaution to prevent improper usage. This includes using a confidentiality agreement that defines the information to which access is permitted, the permitted usage of the trade secrets, and an adequate provision providing for the destruction of said trade secret at the conclusion of the business dealing.

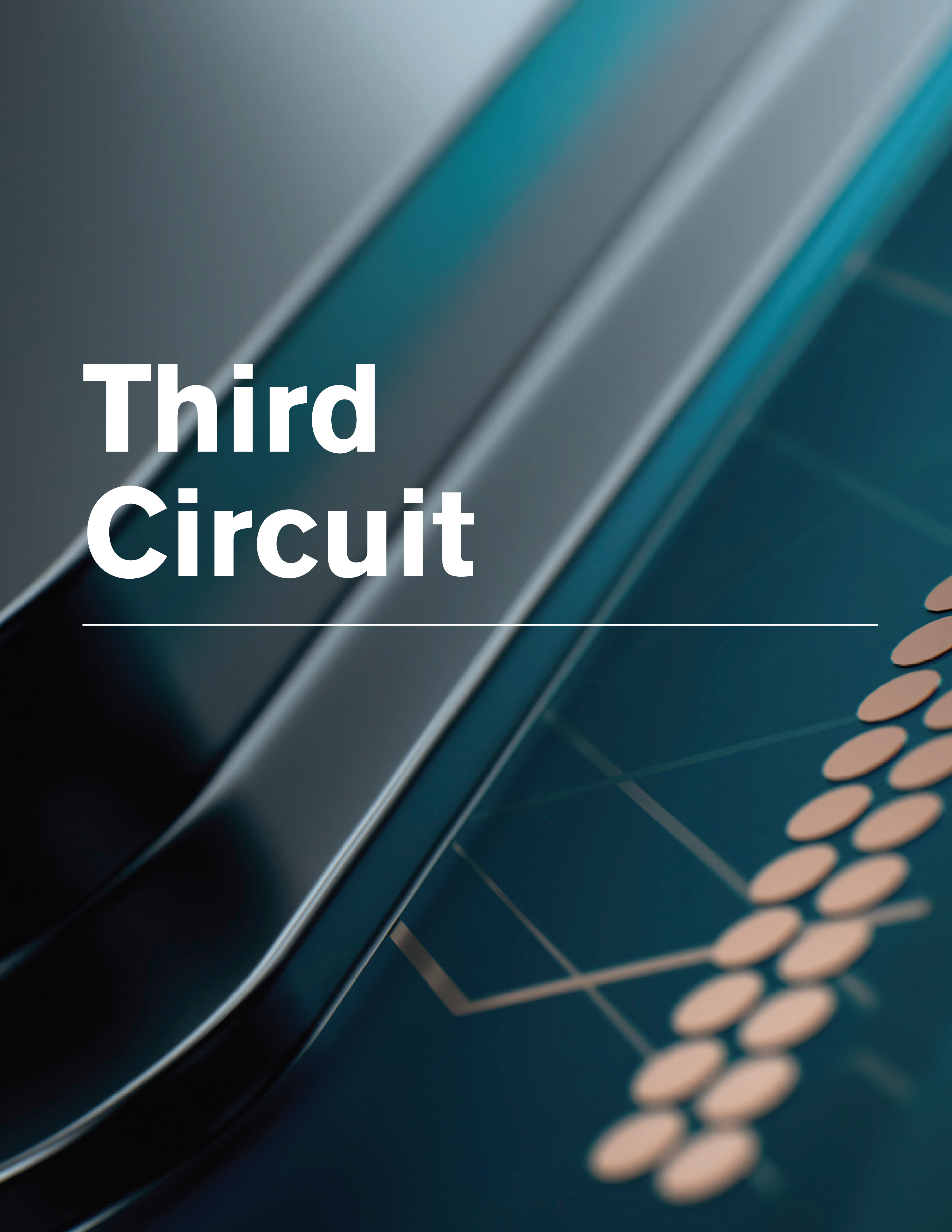
**Details:**

- **Procedural Posture**: At the conclusion of discovery, defendant filed a motion for summary judgment on the claim of misappropriation under the Defend Trade Secrets Act (DTSA) and applicable New York State law.

- **Factual Background:** The founders of Plaintiff company sought a court ordered dissolution and forced sale of the company in Delaware's Court of Chancery. The court appointed a custodian who subsequently retained Credit Suisse to oversee an auction of the company's shares. As part of the auction, defendant was given access to certain sensitive information for the purpose of evaluating the potential acquisition of plaintiff. Defendant was required to enter into a confidentiality agreement to access these documents. During the evaluation process, defendant's representatives were accidentally given access to customer names and revenue information related to the customers. Defendant's representatives used this information to create models for evaluating the potential acquisition. Plaintiff filed suit alleging trade secret misappropriation under the Defendant Trade Secrets Act and New York Law. Plaintiff alleged that defendant used misappropriated material to compete unfairly with plaintiff by trying to win business from two of the plaintiff's largest clients.

- **Court's Decision**: The court, in granting defendant's motion, held that plaintiff failed to offer any evidence that defendant disclosed or used its trade secrets for any purpose other than what was permitted as per the confidentiality agreement. Further, the court held that the defendants did not acquire the trade secret material by improper means as they were permitted to access the material pursuant to the agreement to evaluate the potential acquisition. Finally, the court held that plaintiff failed to offer any admissible evidence that it was damaged by any alleged misappropriation of trade secrets.

# Third Circuit



# Third Circuit

## New Jersey

***Cherry Hill Programs, Inc. v. Sullivan*, No. 121CV20248NLHSAK, 2022 WL 1094254 (D.N.J. Apr. 12, 2022).**

**Industry:** Entertainment

**Takeaways:**

- Former employees living out of state and sued for misappropriation may be subject to personal jurisdiction in the employer's state depending on trips to the state, seniority, and contacts with employees in the state.

- Spoliation and misrepresentation may compound an employer's potential irreparable harm and justify injunctive relief in a misappropriation case.

**Details:**

- **Procedural Posture:** Defendant, a former employee, moved to dismiss for lack of personal jurisdiction, and Plaintiff, his employer, moved for a preliminary injunction.

- **Factual Background:** Plaintiff, a company that arranges Santa meet-and-greets, sued Defendant, a former Senior Vice President, who, on the same day that he announced he would be resigning, downloaded approximately 4,000 files from his work computer onto an external USB drive. The company sued the former SVP for misappropriation of trade secrets.

- **Court's Decision:** Court granted motion for preliminary injunction in part and denied motion to dismiss.
  - As to personal jurisdiction, the Court held that it was sufficient that the employee travelled to the forum state a few times a year for work, his departments were located in the forum state, he returned his work laptop to the forum state, he made a substantial personal investment with the company in the forum state, and he was high up in management.

  - As to the preliminary injunction, the Court explained the company was likely to succeed on the merits because the SVP could steal business after taking customer lists. As to irreparable harm, the Court emphasized that the SVP erased the contents of a USB drive he was asked to preserve and affirmatively misrepresented that he had not retained anything. Finally, the court noted, a preliminary injunction would simply preserve the status quo.

## Pennsylvania

***Arnold's Office Furniture, LLC v. Borden*, No. 5:20-CV-05470-JMG, 2022 WL 523602 (E.D. Pa. Feb. 22, 2022).**

**Industry:** Retail

**Takeaway:** First, customer lists and pricing information may constitute trade secrets, even if obtained from a third party, if substantial time and money are spent to obtain and use those customer lists and pricing information. Second, an employer may waive the right to enforce a non-solicitation clause by continuing to employ a breaching employee after discovery of the breach.

**Details:**

– **Procedural Posture:** Parties filed cross-motions for summary judgment.

– **Factual Background:** Employer, a seller of personal protective equipment (PPE), sued a former salesperson, who created his own business to sell PPE during his employment and continued selling PPE after termination, for breach of contract, breach of fiduciary duties, and violation of the Defend Trade Secrets Act and the Pennsylvania Uniform Trade Secrets Act. Employer alleged that salesperson misappropriated customer lists, pricing information, and goodwill.

– **Court's Decision:** Court denied cross-motions for summary judgment.
  - As to the trade-secret misappropriation claims, the court held that reasonable juries could disagree as to whether existing and prospective customer lists, pricing information, and goodwill constituted protectable trade secrets. On the one hand, the court explained, evidence indicated this information was obtained from third-party sources, which tended to undermine the employer's claim that it constituted a trade secret. On the other hand, evidence also indicated that this information was obtained through a significant investment of time and expense, which tended to support the claim.

  - As to the breach of contract and fiduciary duty claims, the court held that reasonable juries could disagree as to whether the employer waived the non-solicitation clause by continuing to employ the salesperson despite knowledge of the side business and giving the salesperson a raise.

*In a later decision about the same case:*

***Arnold's Office Furniture, LLC v. Borden*, No. 5:20-CV-05470-JMG, 2022 WL 3597239 (E.D. Pa. Aug. 23, 2022).**

**Industry:** Retail

**Takeaway:** Jury finding of malicious and willful conduct does not automatically prove exemplary damages in DTSA claim.

**Details:**

- **Procedural Posture:** Plaintiff prevailed in a jury trial on misappropriation of trade secret claims, and requested the Court impose exemplary damages under the DTSA.

- **Factual Background:** Plaintiff, Arnold's Office Furniture, LLC, filed suit against former defendant Ian Borden, for breach of contract and misappropriation of trade secrets in violation of DTSA. After prevailing in a jury trial, Plaintiff sought exemplary damages.

- **Court's Decision:** The Court held that the jury's finding that Borgen had engaged in malicious and willful conduct did not automatically prove exemplary damages were available. The Court assessed other factors, including the duration of the conduct, defendant's consciousness of the resulting injury, and efforts to cover up malfeasance. The Court found that both duration and the efforts to cover up were not present, and so did not award exemplary damages.

***Asset Plan. Servs., LTD. v. Halvorsen*, No. CV 21-2021, 2022 WL 1104060 (E.D. Pa. Apr. 13, 2022).**

**Industry:** Financial Services

**Takeaways:**

- Mere continued employment may be insufficient consideration for post-employment restrictive covenants.

- Client lists, proprietary software, and binder of employee benefits can constitute trade secrets, when holder has taken steps to keep the information secret (e.g., computer security or firewalls).

- Loss of clients and revenue can be used to show misappropriation element of a trade secrets claim.

**Details:**

- **Procedural Posture:** Former-employee-defendant moved to dismiss for failure to state a claim, arguing that restrictive covenants in employee agreement failed for lack of consideration and that misappropriation claims were insufficiently pled.

- **Factual Background:** Wealth management company sued former VP of Corporate Advisory Services, who had signed Employee Agreement, roughly 17 years after joining the company, which contained non-disclosure provision, non-solicitation provision, and non-competition clause. Later, the former employee signed a Confidentiality Agreement. Company claimed that former employee breached both agreements, committed a variety of torts and contractual breaches, and misappropriated trade secrets after the employee created his own company, resigned, and then solicited the company's clients.

- **Court's Decision:** Court granted motion to dismiss as to claims related to restrictive covenants, but not as to other claims.

  - With respect to the former, the court emphasized that the restrictive covenants, which were executed after the employment began, were unenforceable because they were not supported by adequate consideration, emphasizing that mere continuation of employment is insufficient.

  - As to the latter, the court held that the company adequately pled that its client lists, proprietary software, and employee benefits binder constituted trade secrets, and that, by virtue of the amount of business that the company lost to the former employee, the trade secrets had been misappropriated.

***Garcia v. Vertical Screen*, No. CV 19-3184, 2022 WL 829767 (E.D. Pa. Mar. 21, 2022).**

**Industry:** Technology

**Takeaways:**

- Compilations of public information may constitute trade secrets depending on the efforts expended in creating the compilation.

- Employees who email trade secrets to their personal emails may be liable for transfer through improper means.

- The "gist of the action" doctrine likely does not apply to statutory misappropriation claims.

**Details:**

- **Procedural Posture:** Parties filed cross-motions for summary judgment on company's counterclaims.

- **Factual Background:** Former employee of employment screening company sued company for wrongful termination, among others, and company counterclaimed for breach of a confidentiality agreement and misappropriation of trade secrets, asserting that employee emailed himself a proprietary spreadsheet, among other information.

- **Court's Decision:** Issues of fact precluded summary judgment on the counterclaims for breach of the confidentiality agreement and misappropriation of trade secrets.
    - As to both claims, the court explained that the parties had opposing evidence as to whether the former employee in fact emailed himself the information in question. The company pointed to its own IT alert, which showed the spreadsheet reached the employee's personal email account, and the employee pointed to a forensic examination of his devices, which found nothing.

    - As to the misappropriation claim:
        - The court held that a question of fact existed as to whether the spreadsheet, which was a compilation of public information, constituted a protected trade secret, given the company's efforts involved in compiling the information.
        - The court also held, contrary to the employee's position, that the record supported an inference that the employee knew that sending the spreadsheet to his personal email, if it occurred, was improper.
        - Finally, the court rejected the notion that the "gist of the action" doctrine, which generally prohibits tort causes of action when the gist of the action lies in a contract between the parties, prohibits the misappropriation claim as the doctrine does not apply to actions founded in statute.

***Houser v. Feldman*, No. CV 21-0676, 2022 WL 1265818 (E.D. Pa. Apr. 28, 2022).**

**Industry:** Healthcare

**Takeaways:**

- Application of discovery rule to statute of limitations for a misappropriation claim is a question of fact that cannot be resolved at the pleadings stage.

- Publication of a trade secret after misappropriation does not negate the existence of the claim.

- Extraneous materials tending to undermine something's status as a trade secret cannot be considered at the pleadings stage.

- Whether an alleged trade secret is the focus of one's research or merely a tool is of no moment in determining whether it is a trade secret.

**Details:**

- **Procedural Posture:** University defendant and university doctor defendant moved to dismiss misappropriation action by university doctor plaintiff as time-barred.

- **Factual Background:** Plaintiff-doctor developed a model, samples, and data related to research into pigs as a model for the treatment of heart failure. Defendant-doctor lured an unsuspecting student into taking that research and using it for the defendant's own research and publishing a paper, making patent applications on the basis of that research, and continued prosecution of those patents.

- **Court's Decision:** Court granted motion to dismiss in part.
  - Claims based upon theft and publication were time barred because plaintiff alleged that he discovered them but failed to bring them within the time prescribed by statute; however, claims based upon patents could not be dismissed, at the pleadings stage, based on when plaintiff arguably should have known that patents had been filed, which was a question of fact.

  - Court rejects the notion that the research did not constitute a trade secret. First, the fact that the defendant published them after allegedly misappropriating them does not change the outcome. Second, the court could not consider studies undermining the alleged trade secret status at the motion to dismiss stage. Third, whether an alleged trade secret is the focus of one's research or merely a tool is of no moment in determining whether it is a trade secret.

***PetroChoice Holdings, Inc. v. Orobono*, No. 2:19-CV-06152-JMG, 2022 WL 138008 (E.D. Pa. Jan. 14, 2022).**

**Industry:** Energy

**Takeaway:** A former executive turned consultant was found to have violated the DTSA by downloading confidential files without authorization immediately prior to termination of his consulting agreement, but whether or not his conduct was willful or malicious was a question of fact for the jury.

**Details:**

- **Procedural Posture**: Orobono, a consultant for PetroChoice, downloaded 5,000 documents containing trade secrets from PetroChoice days before he resigned to work for a competitor. Shortly thereafter, PetroChoice's largest customer also left PetroChoice for the same competitor. PetroChoice filed suit against Orobono for misappropriation of trade secrets, breach of contract, and unjust enrichment. PetroChoice moved for summary judgment.

- **Factual Background:** Orobono served as Vice President of Sales for PetroChoice. He was subject to numerous restrictive covenants. In 2018, he ended his employment and thereafter served as an independent consultant for PetroChoice. Days before that consulting relationship ended, Orobono accessed PetroChoice's network and downloaded 5,000 files, including marketing plans, profit-loss statements, and sales data. Two months after the download, PetroChoice's largest customer ended its account with PetroChoice. PetroChoice then filed suit against Orobono alleging misappropriation of trade secrets under the DTSA and breach of contract.

- **Court's Decision:** The Court found Orobono violated the DTSA, but whether or not he willfully and maliciously misappropriated trade secrets was a question of fact for the jury. The Court reached this conclusion because: (1) Orobono failed to dispute PetroChoice's characterization of the downloaded documents as trade secrets; and (2) Orobono had no legitimate business use for the downloaded documents, and lacked authorization to access them. The Court found that it could not determine as a matter of law if Orobono's misappropriation of the documents was willful, because there was a dispute of fact as to his intention in accessing the documents.

***Robson Forensic, Inc. v. Shinsky*, No. 5:22-CV-1309, 2022 WL 1198228 (E.D. Pa. Apr. 22, 2022).**

**Industry:** Technology

**Takeaway:** Restrictive covenant entered into after employment relationship began lacked sufficient consideration under Pennsylvania law where employee received a one-time, $100 payment, and his terms and conditions of employment remained otherwise unchanged.

**Details:**

- **Procedural Posture**: Shinsky, a former employee of Robson Forensic, Inc. (RFI), was party to a non-competition agreement. Upon resigning, he left to work for a competitor, Exigent. RFI filed suit for breach of contract, misappropriation of trade secrets, and tortious interference with contract, and moved for injunctive relief.

- **Factual Background:** RFI provided forensic services. Shinsky was hired by RFI in 2014. In 2020, he signed an addendum to his employment agreement, which contained a noncompete provision. In March 2022, Shinsky resigned and went to work for a competitor, Exigent. RFI filed suit claiming breach of contract, misappropriation of trade secrets, and tortious interference with contract.

- **Court's Decision:** The court denied RFI's motion for injunctive relief. With respect to the misappropriation of trade secrets claims, the court found that RFI failed to establish any actual or threatened misappropriation of trade secrets. The sole specific claim was that Shinsky received specialized training on a device used to determine whether surfaces were unreasonably slippery. However, Shinsky established that this device, and its training, were commercially available, and thus not a trade secret. The court also found that the noncompete agreement, signed several years after Shinsky's employment had begun, was not supported by adequate consideration. Under Pennsylvania law, a noncompete entered into once the employment relationship has begun requires a change to the employee's compensation, bonus package, increase in responsibilities, or some other form of benefit change. Here, Shinsky received only a one-time $100 payment.

***United States v. Xue*, No. CR 18-122, 2022 WL 1027634 (E.D. Pa. Apr. 6, 2022).**

**Industry:** Pharmaceutical

**Takeaway:** Expert testimony could not use the term "trade secrets" or "secret" when describing nature of documents unlawfully obtained by the Defendant.

**Details:**

- **Procedural Posture**: Defendant Xue, indicted for conspiracy to steal trade secrets, filed a motion *in limine* to exclude expert witnesses from using the term "trade secret" in their testimony.

- **Factual Background:** Xue was indicted for his role in a conspiracy to steal biopharmaceutical trade secrets from GlaxoSmithKline LLC (GSK) related to monoclonal antibodies. The government sought to have three expert witnesses testify on its behalf regarding the information stolen by Xue, the significance of that information to the biopharmaceutical industry, and the confidential and trade secret nature of the information. Xue moved to exclude their testimony.

- **Court's Decision:** The court permitted the experts to testify, but required them to refrain from using the terms "trade secret" or "secret" in their testimony. Xue objected to the proposed testimony from the experts that the GSK information obtained by Xue were "trade secrets." The government argued that the term "trade secrets" was an industry term, and not related to the legal definition. The court found that it was appropriate to exclude the terms from the testimony because they were "legal terms of art" which should be explained by the court, not the experts. Additionally, there were appropriate synonyms that the experts could use, such as "confidential" or "proprietary" rather than trade secrets.

***West Chester Design Build, LLC v. Moses*, No. 22-1911, 2022 WL 15524950 (E.D. Pa. Oct. 27, 2022).**

**Industry:** Construction

**Takeaway:** To plead a claim under the Federal Defend Trade Secrets Act, there must be plausible, non-conclusory allegations that the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. Additionally, nontechnical information can constitute a trade secret if that information represents a material investment of the employer's time and money.

**Details:**

- **Procedural Posture**: Defendant moved to dismiss Plaintiff's complaint, which alleged that Defendant tortiously interfered with Plaintiff's prospective contracts and misappropriated trade secrets in violation of the Pennsylvania Uniform Trade Secrets Act (PUTSA) and the Federal Defend Trade Secrets Act of 2016 (DTSA).

- **Factual Background:** Defendant, Philip Moses, worked for Plaintiff, West Chester Design Build (Cocoon), a construction company, initially as a project manager, but eventually as part of the leadership team. He soon hired his friend as a project consultant, and not long after, started his own company and resigned from Cocoon. Moses then had his friend direct Cocoon's business to Moses's new company. Moses also obtained information, such as estimation documents, customer lists, business leads, construction agreement forms, and estimates. Cocoon brought suit alleging tortious interference with prospective contracts and violation of PUTSA and DTSA.

- **Court's Decision:** First, the court held that Cocoon had plausibly alleged its claim for interference with prospective contracts because there were plausible allegations that contracts would have materialized but for Moses's alleged interference. Second, the court dismissed Cocoon's DTSA claim because Cocoon failed to satisfy the DTSA's interstate or foreign commerce requirement. While Cocoon alleged that Moses would use its confidential information in interstate commerce, the Court held that conclusory allegation alone was insufficient under the DTSA. Cocoon did not allege that there were clients or projects outside of Pennsylvania, or that the company generally serves clients in other states. Finally, as to the PUTSA claim, the Court held that trade secrets need not be technical in nature, and thus even documents such as customer lists can constitute trade secrets if they represent a material investment of the employer's time and money. Accordingly, Cocoon had sufficiently pleaded that its customer lists were trade secrets because they were not readily known, had economic value, and were subject to protections, and that Moses had no legitimate business need to take the confidential information. The court therefore denied the motion to dismiss as to the tortious interference and PUTSA claims, but dismissed without prejudice the DTSA claim.

***BridgeTower OpCo, LLC v. Burns*, No. 1:21-CV-01869, 2022 WL 2811641 (M.D. Pa. July 18, 2022).**

**Industry:** Media

**Takeaway:** In Pennsylvania, it is premature to move for dismissal of a conversion claim based on preemption under the Pennsylvania Uniform Trade Secrets Act (PUTSA) where it has not yet been established that the allegedly converted property (information) was actually a trade secret.

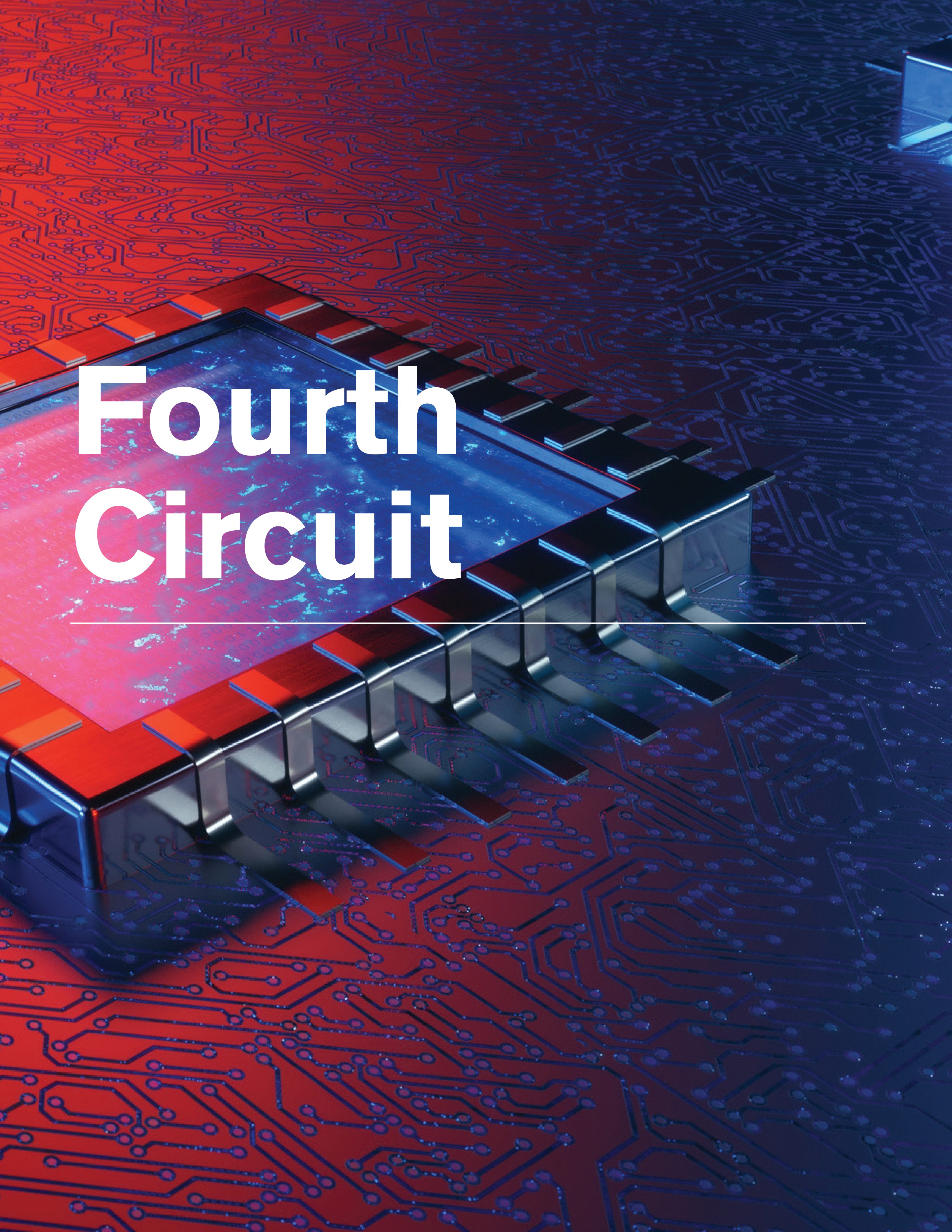
**Details:**

- **Procedural Posture:** The decision was issued on the defendant's motion to dismiss for failure to state a claim.

- **Factual Background:** The defendant formed a competing business before terminating her employment with the plaintiff. Upon termination of her employment, she began working for her newly formed, competing business. The plaintiff alleged that the defendant took the plaintiff's confidential trade secrets and materials to form the defendant's competing business.

- **Court's Decision:** After deciding that the plaintiff pleaded sufficient facts to state a plausible claim for misappropriation of trade secrets under the DTSA and PUTSA, the court evaluated next whether the plaintiff's conversion claim was preempted by PUTSA. The court held that it would be premature to determine whether the conversion claim was preempted by PUTSA because it was too early to decide whether the allegedly converted information was actually a trade secret. Finally, the court determined that the defendant's non-compete was valid because it sought to protect a legitimate business interest (trade secrets) and, thus, denied the defendant's motion to dismiss.

# Fourth Circuit



# Fourth Circuit

***AirFacts, Inc. v. Amezaga*, 30 F.4th 359 (4th Cir. 2022).**

**Industry:** Transportation; FinTech

**Takeaway:** Where the indemnification provision of an employee's confidentiality agreement required material breach of a material provision, the employee was not liable for fees and expenses under that provision where his conduct did not harm or prejudice the employer and as such deemed "immaterial."

**Details:**

- **Procedural Posture:** AirFacts brought suit against Amezaga for breaching his employment agreement and misappropriating trade secrets. Amezaga won a bench trial and AirFacts appealed. The Fourth Circuit vacated the district court's judgment on several breach-of-contract claims and one misappropriation claim ("AirFacts I"). On remand, the district court largely ruled in favor of Amezaga again. AirFacts appealed.

- **Factual Background:** Defendant Diego De Amezaga was a former employer of Plaintiff AirFacts. AirFacts develops and licenses accounting software for airline ticketing, among other industries. In the last week of his employment, Amezaga sent a software program and other data to his personal email address. After leaving AirFacts, Amezaga applied to work at another company in the travel industry. As part of his application, he submitted documents that he removed from AirFacts. AirFacts sued Amezaga for breaching his employment agreement and for misappropriating trade secrets under Maryland law.

- **Court's Decision:** The Fourth Circuit considered several points of error raised by AirFacts on appeal. As to AirFacts' argument that the district court erred by awarding AirFacts only nominal damages for certain contract claims the Fourth Circuit affirmed the district court's decision finding that the contract's indemnification clause had a two-pronged materiality requirement (the employee must materially breach a material provision) and that indemnification of fees and expenses were not warranted where the conduct did not harm or prejudice the employer.

## Maryland

***Blades of Green, Inc. v. Go Green Lawn & Pest, LLC*, No. CV SAG-22-00176, 2022 WL 326473 (D. Md. Feb. 3, 2022).**

**Industry:** Lawn Care

**Takeaway:** Requests for preliminary injunctive relief must be tailored to the evidence available to the court, and should not be based on mere speculation.

**Details:**

- **Procedural Posture**: Blades of Green (BOG) filed a motion for temporary restraining order against Go Green Lawn & Pest and certain of its employees (together, Defendants), seeking an order enjoining Defendants from using certain trade secret and confidential information and from soliciting BOG employees.

- **Factual Background:** BOG offers personalized lawn care and pest control under the "True Organic" brand. Go Green, a competitor in the industry, hired multiple former BOG employees and allegedly orchestrated a campaign to misappropriate BOG's trade secrets, hire away its employees, and falsely claim BOG's work product as its own. BOG sought injunctive relief (1) precluding further use or disclosure of its trade secrets, (2) preventing any further breach of confidentiality and non-solicitation agreements with its current and former employees, (3) allowing expedited discovery, and (4) barring Defendants from competing against it in Maryland for two years. BOG conceded at hearing that the final category of relief was not appropriate at this stage in the proceedings, so the court limited its analysis to the first three categories.

- **Court's Decision:** BOG succeeded on the first request for relief insofar as the court determined that its "CSR playbook," which included information regarding internal training and educational materials, descriptions of products and services, passwords and login information, and proprietary information provided by an outside consultant, was a trade secret that was acquired by Defendants in a manner that they knew or should have known was improper. Likewise, BOG's customer lists and pricing sheets contained trade secret information. The trade secret information was sufficiently protected because BOG used company-provided, password-protected computers, required all employees to sign confidentiality agreements, and mandated the return of company information upon the conclusion of employment. Although both the playbook and the pricing sheets/customer lists were trade secrets, BOG succeeded on the TRO only in relation to the playbook. The court ruled that BOG had failed to demonstrate that the pricing sheets/customer lists were acquired by Defendants. In particular, BOG did not show that the documents were emailed or otherwise transmitted from its servers to personal accounts, nor did it offer facts indicating that Defendants had actually targeted BOG's customers.

    - BOG failed to demonstrate a likelihood of success on the merits of its non-solicitation claim or its claim for r tortious interference with contract. In particular, factual disputes made it impossible for the court to determine whether the restrictions as drafted were so overbroad as to be unenforceable under Maryland law, and because any evidence of solicitation was too speculative to support a claim for injunctive relief.

***GlaxoSmithKline, LLC v. Brooks*, No. 8:22-cv-00364-PWG, 2022 WL 463070 (D. Md., Feb. 15, 2022).**

**Industry:** Pharmaceutical Manufacturing and Sales

**Takeaway:** In an action for misappropriation of trade secrets brought under federal and Maryland state law, the court granted a temporary restraining order to employer prohibiting former employee from disseminating or destroying employer's data, and ordered employee to produce her personal phone and laptop for forensic analysis.

**Details:**

- **Procedural Posture:** Following Defendant Denise Brooks' resignation from Plaintiff GlaxoSmithKline, LLC (GSK) in the wake of a misconduct investigation, GSK obtained forensic computer evidence suggesting that Brooks absconded with sensitive business information. GSK filed suit and sought a temporary restraining order (TRO) prohibiting Brooks from disseminating or destroying GSK data, and ordering Brooks to return GSK confidential data and to produce her personal devices and cloud-based storage accounts for third-party forensic analysis.

- **Factual Background:** Denise Brooks worked as a Quality Systems Lead for GSK, a global healthcare company that engages in research and development, manufacturing, and distribution of pharmaceuticals, vaccines, and other healthcare products. Brooks tendered her resignation after GSK initiated an internal investigation into the propriety of certain charges on Brooks' GSK-issued credit card. On her separation date, GSK alleges that Brooks absconded with sensitive business information saved locally on a GSK-issued laptop that Brooks failed to return. Through forensic analysis, GSK determined that Brooks subsequently downloaded sensitive GSK data onto various personal devices and cloud-based storage platforms, including highly sensitive business information involving GSK's pharmaceutical manufacturing processes and procedures that it classified as trade secrets and/or confidential information.

- **Court's Decision:** In granting the TRO, the district court found GSK had demonstrated it was likely to succeed on the merits of its misappropriation claims because it established, through declarations, that Brooks had access to a wide range of GSK materials during her employment, including documents containing trade secrets, and that Brooks likely "improperly obtained copies of those materials, which she was aware were intended to be kept confidential" in violation of GSK's policies. Second, the court held the confidential business information Brooks allegedly took, including information about GSK's pharmaceutical manufacturing processes, "could have a potentially devastating impact on GSK's business in the hands of a competitor," which was not quantifiable. Third, the court held that granting the TRO would pose no adverse consequences to the public, but, rather, would promote the strong interest in protecting trade secrets and preventing unfair business practices. Finally, the court held that the balancing of equities weighed in favor of granting the TRO because GSK was simply asking "for its data and its physical property to be preserved, protected, and returned in one piece." Thus, the court held, GSK's demands "cause no articulable injury to Ms. Brooks." The court so found even though the TRO included an order that Brooks prove compliance by submitting her personal devices and cloud-based storage accounts for third-party examination, which arguably implicated her privacy rights in personal information stored on those devices.

## South Carolina

***SmartLinx Solutions, LLC v. Zeif*, No. 2:21-cv-711-BHH, 2022 WL 939846 (D.S.C. Mar. 29, 2022).**

**Industry:** Software for Nursing and Long-Term Care Facilities

**Takeaway:** In action for misappropriation of trade secrets, the district court held that it was immaterial that former employee (i) was authorized to access the confidential data at issue, and (ii) only moved the data from one area on his work computer (a secured "Github") to another area (a non-secured local OneDrive) because the employer had policies and procedures in place restricting access to the Github and prohibiting downloading the data outside of the secured workspace. The court also found that the employer's failure to specifically allege that former employee gave the confidential data to a competitor did not defeat the misappropriation claim because a trier of fact could reasonably infer misappropriation from the close proximity between the unauthorized download of the data, the former employee's notice that he was resigning to go work for competitor, and the competitor's concurrent announcement of the planned release of a nearly identical product.

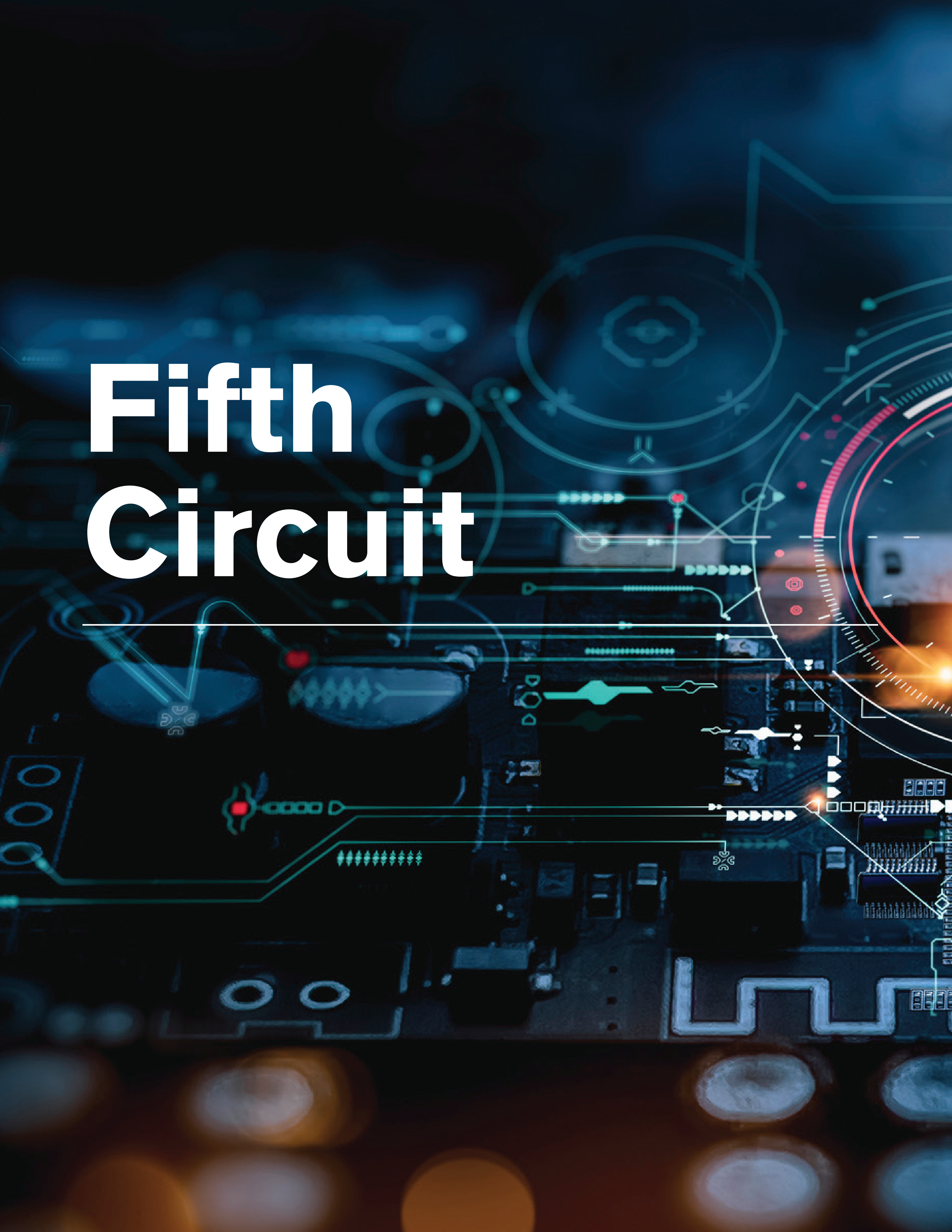
**Details:**

- **Procedural Posture:** Employer filed a complaint alleging its former employee misappropriated its trade secrets, including the source code for its proprietary scheduling software, and provided or intended to provide it to a competitor. Former employee filed a motion to dismiss arguing that the former employer failed to state a misappropriation claim because his access to the data at issue was legitimate and the complaint lacked any direct factual allegation that he provided the data to a competitor.

- **Factual Background:** Defendant Vitzeslav Zeif worked as a Project Manager at SmartLinx Solutions, Inc. (SSI), a manufacturer of advanced scheduling products and software for the long-term care and nursing marketplace. During his employment, Zeif worked closely with SSI's development team in developing and enhancing SSI's scheduling software and had direct access to the software's source code, "the 'DNA' of [SSI's] scheduling technology." During his employment, Zeif signed a Non-Disclosure and Non-Compete Agreement, which included a two year non-compete and a nondisclosure provision requiring Zeif to "maintain appropriate personal and equipment security precautions" to protect the company's sensitive data and acknowledging the proprietary and confidential status of the data. In February 2021, Zeif informed SSI management that he was resigning and planned to go to work for Intelycare, a competitor of SSI. Shortly after receiving Zeif's resignation, SSI became aware of a Forbes news article detailing Intelycare's plans to release a scheduling software that was almost identical to SSI's. SSI immediately audited Zeif's company-issued devices and obtained evidence indicating that Zeif had downloaded source codes from its secured "Github" repository to a local OneDrive on his company-issued laptop. The downloading of this information violated established SSI policy and protocol for those with access to the source code. SSI brought suit alleging misappropriation of trade secrets under federal and South Carolina law and Zeif filed a motion to dismiss.

- **Court's Decision:** At the motion to dismiss stage, Zeif argued that SSI had failed to plausibly allege misappropriation of trade secrets because the complaint merely alleged that a forensic audit showed that he had downloaded source code from the secure Github to a local OneDrive on his company-issued laptop. Zeif argued that there was no factual allegation beyond mere speculation that he downloaded the data to a personal device or provided it to any third-party. , Zeif claimed he had downloaded the data to "fix a bug" in the coding, which was part of his job. The court rejected this argument, explaining it "misses the fact that the . . . protocols that [SSI] placed on how the trade secrets were permitted to be accessed were precisely for the purpose of limiting access to the source code such that the modalities of access could be tightly monitored in order to prevent improper use. Once the source code left the GitHub repository there are many ways in which it could be misused that are potentially very difficult to detect." Additionally, the court noted that SSI's forensic audit showed that no other SSI employee with access to the source coding downloaded it off the GitHub and that Zeif's own activity only showed such downloading occurring in close proximity to his resignation date. Thus, the court held that SSI had adequately pled that Zeif misappropriated its trade secrets by downloading confidential information in a way that violated its policies and procedures. The court further held that whether Zeif had been implicitly authorized in his role to download data locally to "fix a bug" was a fact question that could not be resolved at the motion to dismiss stage. Finally, the court held that while the complaint did not include a specific factual allegation that Zeif gave SSI's source coding to Intelycare, the timing of the downloading and Intelycare's announcement of the anticipated release of a virtually identical scheduling software product shortly after Zief's departure from SSI was sufficient to raise an inference of misappropriation at the Rule 12(b)(6) stage.

# Fifth Circuit



# Fifth Circuit

***CAE Integrated, L.L.C. v. Moov Techs., Inc.*, 44 F.4th 257, 259 (5th Cir. 2022).**

**Industry:** Venture Capital & Emerging Businesses

**Takeaway:** When forensic analysis confirmed that former employee did not have access to former employer's trade secrets, a preliminary injunction was unwarranted.

**Details:**

- **Procedural Posture**: Plaintiff sued former employee and his current employer for trade secret misappropriation and moved for a preliminary injunction. The district court denied a preliminary injunction. Plaintiff appealed.

- **Factual Background:** Plaintiff, CAE, sells and trades semiconductor equipment. Defendant Nicholas Meissner worked at CAE as a trader, where he was responsible for cultivating customer relationships with buyers and sellers. Meissner signed a confidentiality agreement that had a one-year prohibition on soliciting customers. During his time at CAE, Meissner used his personal Macbook and Google Drive to store CAE files. After Meissner departed CAE, CAE attempted to delete all CAE files from the Macbook and returned it to Meisnner. Meissner later went to work for a competitor, Moov. Forensic analysis showed that Meissner had (i) not synchronized his Google Drive since he started at Moov, (ii) no access to the Google Drive by Moov or Meissner, or (iii) no continued access to any CAE files on the Macbook.

- **Court's Decision:** The court affirmed the denial of the preliminary injunction. The court found that CAE had failed to establish a likelihood of success on the merits because the forensic analysis showed that neither Meissner nor Moov accessed any of CAE's trade secrets to the extent they even existed on devices accessible by Meissner. As to CAE's customer lists specifically, the court held that CAE had not identified a single contact (out of the nearly 200 contacts CAE sought to prevent Meissner and Moov) that was not publicly available. Further, the majority of the 200 customers were in Moov's database before Meissner's employment. But even if CAE had established misappropriation, it failed to show the use or potential use of the trade secrets. Months before the litigation, Meissner relinquished access to his personal Google Drive and had no access to his Macbook, and therefore there was no threatened future use of trade secrets.

## Louisiana

***Terral v. AG Res. Holdings, LLC*, 335 So. 3d 1009 (La. App. 2022).**

**Industry:** Finance, Agriculture

**Takeaway:** Delaware choice of law provision did not apply to a restrictive covenant under Louisiana law where the employee did not ratify the employment agreement.

**Details:**

- **Procedural Posture**: Terral, former executive for AG Resource Holdings, LLC (AG), moved for declaratory judgment and injunctive relief that his non-competition agreement, which contained a Delaware choice of law provision, was void. Terral argued that Louisiana law applied, and that the non-competition agreement was void under Louisiana law. The district court agreed, and the Court of Appeal of Louisiana affirmed.

- **Factual Background:** Terral served as a senior executive of AG. In 2015, he signed an employment agreement which contained a nationwide, five year non-compete agreement. The agreement also contained a Delaware choice of law provision. Terral performed all of his duties in Louisiana, where his office was located and the agreement was executed. After his employment was terminated, he filed suit against AG seeking to void the noncompetition agreement on the grounds that it was invalid under Louisiana law, which he claimed should apply instead of Delaware law.

- **Court's Decision:** The court noted that the noncompetition agreement was clearly invalid under Louisiana law as unreasonable in geographic or temporal scope; thus, the primary question was whether the Delaware choice of law clause controlled. The court held that it did not. La. R.S. 23:921(A)(2) specifically prohibits forum selection and choice of law clauses in employment contracts, except where the clause is "expressly, knowingly, and voluntarily agreed to and ratified by the employee after the occurrence of the incident which is the subject of the civil . . . action." Here, Terral did not ratify the choice of law provision after the dispute arose. As a result, the court held that Louisiana law applied and the noncompete clause was invalid.

***SMH Enters., LLC v. Krispy Krunchy Foods, LLC*, 340 F.R.D. 554 (E.D. La. 2022).**

**Industry:** Software

**Takeaway:** A remarkable case in which the Plaintiff alleges that a mere investment into a company (whose software they helped developed) constituted trade secret misappropriation, because the company now sought to "aggressively expand."

**Details:**

- **Procedural Posture**: Motion to Amend complaint, to allege more facts to support trade secret violation.

- **Factual Background:** Krispy Krunch used SMH to provide software services, and eventually replaced them with Parthenon. SMH argued that Parthenon used its same general software. Additionally, an investment firm, MPP, invested into Krispy Krunch, and Krispy Krunch argues this investment constitutes a trade secret violation, because now the software would be used on a greater scale.

- **Court's Decision:** SMH does not put forward any factual allegations that either the Members or MPP had any personal role or involvement in Krispy Krunchy's alleged misappropriation of trade secrets. Rather, the only "action" by these new parties identified in the proposed amended complaint is that MPP "bought a controlling interest" in Krispy Krunchy from the Members, which SMH contends constitutes the purchase of a controlling interest in SMH's alleged trade secrets. Again, the mere acquisition of an ownership interest in an entity is wholly insufficient to support imposition of personal liability on the member for the misconduct of the LLC, particularly prior misconduct that occurred before the member even acquired any ownership interest. SMH cannot join the Members and MPP as defendants based only on the fact that the Members formerly owned, and MPP acquired, a controlling interest in Krispy Krunchy.

***Brown & Root Indus. Servs., LLC v. Brown*, No. CV 21-291-JWD-SDJ, 2022 WL 4492087 (M.D. La. Sept. 9, 2022),** *report and recommendation adopted*, **No. CV 21-291-JWD-SDJ, 2022 WL 4490136 (M.D. La. Sept. 27, 2022).**

**Industry:** Construction/Engineering

**Takeaway:** In Louisiana, a plaintiff need not be licensed to provide engineering services in the state in order to claim trade secrets protection of information related to the provision of engineering services within the state.

**Details:**

- **Procedural Posture:** The decision was issued on the defendants' motion to dismiss for failure to state a claim and sought to stay the proceedings under the Colorado River abstention doctrine (because one plaintiff previously had filed a substantially similar state court lawsuit against some of the defendants in the federal action).

- **Factual Background**: Defendants all worked for plaintiffs before leaving to join a competing company formed by one of the plaintiffs.

- **Court's Decision:** The court found that the plaintiffs had sufficiently pleaded a claim for misappropriation of trade secrets. In its analysis, the court rejected the defendants' assertion that the main plaintiff "is not licensed to provide engineering services in Louisiana" and that, as such, it "has no rightful legal or equitable right to claim ownership of any engineering related trade secrets for which it is not authorized to provide in Louisiana." The court determined that this was, at best, a misreading of the word "license" as used in the DTSA. Next, the court determined that the federal action should not be stayed under the Colorado River doctrine because the actions were not perfectly parallel (some parties and some claims were different) and the only "exception circumstance" weighing in favor of abstention was the order in which jurisdiction was obtained.

***H&E Equip. Servs., Inc. v. Harley*, No. CV 22-103-SDD-RLB, 2022 WL 541774 (M.D. La. Feb. 23, 2022).**

**Industry:** Construction Equipment

**Takeaway:** An example of trade secret misappropriation that doesn't involve competitors — the employee just forwarded screenshots to himself.

**Details:**

- **Procedural Posture:** This is a motion for a temporary restraining order on theft of trade secrets.

- **Factual Background:** Harley worked for plaintiff's business involving selling, renting, servicing, maintaining, and otherwise dealing in or with construction equipment, and signed a non-compete when he began employment. Plaintiff discovered that Defendant forwarded seventeen screenshots from his work computer reflecting client information, customer-specific billing rights, invoiced amounts, equipment rates, and market performance to his personal email. Plaintiff alleges this sending of screenshots is in violation of its policy on trade secrets.

- **Court's Decision:** Harley is enjoined from directly or indirectly possessing, disclosing, and/or transmitting Plaintiff's trade secrets, and must return all records and information to Plaintiffs. Plaintiff has demonstrated that the information at issue in this case constitutes legally protectable trade secrets.

Plaintiff has demonstrated that Defendant breached a duty of confidence owed to Plaintiff to maintain the secrecy of the proprietary information. The forwarding of emails additionally constitutes prima facie evidence of misappropriation. The other TRO standards of irreparable harm, balance of equities, and public interest are additionally fulfilled.

***MMR Constructors, Inc. v. JB Grp. of LA, LLC*, No. CV 22-00267-BAJ-RLB, 2022 WL 1223919 (M.D. La. Apr. 26, 2022).**

**Industry:** Telecommunications

**Takeaway:** This is a standard case of theft of trade secrets, but on a grand scale. The competitor in this case intentionally directed former employee to download 1500-plus files for over a month before changing companies.

**Details:**

- **Procedural Posture:** This is a motion for a temporary restraining order on theft of trade secrets.

- **Factual Background:** MMR and SIG are competitors in the telecommunications market, and each provide electrical and instrumentation services to clients in Louisiana and further afield. MMR researches customer needs, develops marketing strategies, creates financial forecasts and business forecasts, and develops proprietary pricing structures and estimating tools, efforts which are dependent on the accumulation, application, and secrecy of MMR's confidential business information, are crucial to MMR's success in the competitive market. Former MMR Project Engineer (and current ISG Employee) Kasey Kraft transferred documents from his work computer to an external storage device, and began working at competitor ISG. 8. The forensic analysis revealed that in the month before his resignation, Heroman downloaded over 1,500 files from MMR's systems to several electronic storage devices and personal Google Drive account.

- **Court's Decision:** The copied files and folders identified through MMR's third-party forensic investigation contain highly sensitive business information that is not generally known and gives MMR a competitive edge. Further, MMR took reasonable efforts to maintain the secrecy of this information by requiring employees to sign agreements and acknowledging policies protecting the confidentiality of the information; by limiting employee access to certain confidential business information and password protecting that information; and by monitoring transfer of confidential information through data loss prevention software. Irreparable injury standard is met because "defendant possess trade secrets and is in a position to use them." Balance of harms is met because MMR seeks narrowly tailored relief designed to protect its legitimate business interests and to ensure misappropriated information cannot be used further to unfairly compete. Granting TRO additionally does not disservice the public interest.

## Texas

***Clean Energy v. Trillium Transp. Fuels, LLC*, No. CV H-19-244, 2022 WL 4451865 (S.D. Tex. Aug. 24, 2022).**

**Industry:** Fossil Fuels

**Takeaway:** Compilations of data, including internal financial data, bid pricing models, and customer strategy documents used by companies to create bids for contracts is considered a trade secret.

**Details:**

- **Procedural Posture:** Plaintiff Clean Energy sued its competitor Trillium for violations of the Defend Trade Secrets Act, Texas Uniform Trade Secrets Act, and other causes of action. Trillium was granted partial summary judgment on the other causes of action and sought summary judgment on the DTSA and TUTSA claims.

- **Factual Background:** Clean Energy and Trillium are competitors in the business of building, operating, and maintaining CNG fueling stations for municipal transit agencies. Each company bids against each other and their other competitors for contracts with municipalities requiring the creation of bid materials to present in response to RFPs. One former employee of Clean Energy was recruited by a family member to join Trillium. This former employee then recruited a co-worker to join shortly thereafter. Before they each left Clean Energy for Trillium, they took copies of numerous confidential Clean Energy documents loaded on USB drives. One former employee also took about twenty notebooks containing confidential information concerning activities, meeting notes, and notes from business discussions and negotiations. Clean Energy alleged that all of these materials were trade secrets.

- **Court's Decision:** The court denied Defendant's motion for summary judgment. In particular, the court rejected Trillium's argument that Clean Energy's alleged trade secrets were not secret because the information was publicly available through FOIA requests. The court noted that Clean Energy's ultimate bid presented to municipalities was public and not secret, but the confidential information used to create the bid proposal's themselves were in fact trade secrets. The court also found that Clean Energy made efforts to keep the information by securing NDAs from all employees and that the trade secrets had value because it helped Clean Energy secure bids. The court rejected Trillium's argument that there was no evidence of misappropriation of Clean Energy's trade secrets. The court noted several instances where a jury could conclude that Trillium misappropriated the trade secrets, including changing its bid price to a price nearly identical to Clean Energy and text messages discussing poaching a current Clean Energy client. The court found there were enough triable issues of fact to deny Trillium's motion for summary judgment.

***Stress Eng'g Servs., Inc. v. Olson*, No. CV H-21-3210, 2022 WL 4086574 (S.D. Tex. Aug. 4, 2022),** *report and recommendation adopted*, **No. CV H-21-3210, 2022 WL 4084433 (S.D. Tex. Sept. 6, 2022).**

**Industry:** Manufacturing and Distribution; Technology

**Takeaway:** The precise scope of what causes of action, or which parts of causes of action, are preempted by the trade secrets acts is a continued subject of litigation. This case provides a useful survey of conflicting Texas precedent on the scope of preemption and the propriety of resolving preemption at the motion to dismiss stage.

**Details:**

- **Procedural Posture**: Defendants moved to dismiss on the basis of jurisdiction, abstention, and failure to state a claim upon which relief may be granted.

- **Factual Background:** Stress Engineering Services, Inc. (SES) sued its former employee, Brian Olson (Olson), and the competitor who hired him. Olson allegedly emailed Plaintiff's "Scientific Know-How" to the competitor, did not accept multiple offers to join the competitor in order to steal more information from SES, and then eventually joined the competitor's company.

- **Court's Decision:** SES alleged common law claims against Defendants, including Defendant competitor's interference with its agreement with Olson and civil conspiracy. The Texas Uniform Trade Secrets Act (TUTSA) expressly "displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret." Tex. Civ. Prac. & Rem. Code § 134A.007(a). Pursuant to subsection (b)(2) of the statute, it does not affect "other civil remedies that are not based upon misappropriation of a trade secret." Here, the court agreed with some other federal courts applying Texas law that TUTSA preemption would apply to "non-TUTSA causes of action based on proprietary, confidential business information that derives economic value from being confidential—trade secret or not," in part because the basis of the complaint is an allegation that a defendant misappropriated trade secrets, and such allegations duplicate a TUTSA claim. However, the court declined to comment on whether TUTSA preemption applied beyond the facts before it and noted that it could envision instances when TUTSA preemption would not preempt claims arising from misuse of confidential information.

***West Safety Med. Servs., LLC v. Arbor Envt'l, LLC*, No. 4:20-CV-0812, 2022 WL 2812195 (S.D. Tex. June 17, 2022),** *report and recommendation adopted*, **4:20-CV-0812, 2022 WL 2806544 (S.D. Tex. July 18, 2022).**

**Industry:** Consumer Products

**Takeaway:** A state law claim for conspiracy is preempted by the Texas Uniform Trade Secrets Act unless the plaintiff can show that the conspiracy claim is based on facts that are not related to the trade secret misappropriation claim. Additionally, where the information is a "unified process" comprised of both public and private information, a party can survive summary judgment on a misappropriation claim where the private information constitutes a trade secret.

**Details:**

- **Procedural Posture**: Plaintiff Vest Safety Medical Services brought suit against Arbor Environmental and its owners for violation of the Computer Fraud and Abuse Act (CFAA), the Defend Trade Secrets Act, the Texas Uniform Trade Secrets Act (TUTSA), breach of contract, and conspiracy. Defendants moved for summary judgment.

- **Factual Background:** Vest Safety Medical Services offers online respirator clearances to assign respirators to employees working in hazardous conditions. This process requires employees to answer a medical evaluation questionnaire that is then analyzed in order to assign the employee a respirator. Arbor Environmental, LLC launched a similar program after it had seen multiple of Vest's demonstrations, and after Arbor's owner created her own personal account where she could view and download Vest's medical evaluation questionnaire. As a result of the similar program, Vest brought suit against Arbor, claiming, among other items, conspiracy and misappropriation of trade secrets.

- **Court's Decision:** The court held that Vest's state law conspiracy claim could not survive alongside the TUTSA claim because the conspiracy claim was preempted by TUTSA, which states: "Except as provided in Subsection (b), this chapter displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret." While Vest attempted to save its conspiracy claim by relying upon Texas precedent, the court found that none of the cited cases actually discussed whether TUTSA preempts conspiracy claims based on trade secret misappropriation. Accordingly, the court decided that it agreed with several other federal district courts and that "state law conspiracy claims based on the same facts as trade secret misappropriation claims are preempted by TUTSA." Additionally, the court faced the question of whether the medical evaluation questionnaire, the "secret" part of the entire respirator assignment process, constituted a trade secret. The court found that the questionnaire was not widely known in the industry, that there was no information showing that the questionnaire was disclosed to employees absent a confidentiality agreement, that security measures were taken to guard the questionnaire, that the questionnaire provided Vest with millions of dollars of revenue and also provided Arbor with substantial revenue, that it cost Vest over $3,000,000.00 to develop the process, and that the questionnaire was not easily duplicated. Accordingly, and because the court also found that there was evidence of misappropriation and use, the court denied Defendants' motion for summary judgment as to the trade secrets claims. The court granted partial summary judgment in Defendants' favor on Plaintiffs' conspiracy and breach of contract claims and denied Defendants' motion for summary judgment with respect to Plaintiffs' CFAA, TUTSA, and DTSA claims.

***Direct Biologics, LLC v. McQueen*, No. 1:22-CV-381-SH, 2022 WL 1409984 (W.D. Tex. May 4, 2022).**

**Industry:** Biological Therapy

**Takeaway:** This is an example with confidential trade secrets being enjoined from working for a competitor, at the TRO stage.

**Details:**

- **Procedural Posture:** This is a motion for a temporary restraining order on theft of trade secrets.

- **Factual Background:** Defendant McQueen was a high-level sales and marketing executive for four years at Plaintiff Direct Biologics LLC. Direct Biologics alleges that McQueen was privy to "every detail of Direct Biologics' successful effort to fast-track an EV treatment." McQueen accepted a job as a senior executive with one of its direct competitors, Vivex, "in direct breach of his contractual covenants," as Direct Biologics alleges.

- **Court's Decision:** Direct Biologics is entitled to a TRO to enjoin McQueen from working for a competitor, including Vivex. There is substantial likelihood that Direct Biologics will prevail because Direct Biologics has presented evidence that McQueen used a link he created between his personal Dropbox account and Direct Biologics' file storage system to save copies of Direct Biologics' files into folders under his exclusive control, and this storage system had highly sensitive and valuable trade secrets. Direct Biologics has shown irreparable injury because McQueen likely possesses Direct Biologics' trade secrets and confidential information and is in a position to use them. The balance of harms tips in Direct Biologics' favor because the potential loss of trade secrets and status as the only company who makes certain proprietary products outweighs the burden associated with complying with state and federal law. In addition, "it is in the public interest to uphold contracts and to enforce a remedy to which the parties have expressly agreed.

***Maxim Healthcare Staffing Servs., Inc. v. Mata*, No. SA-21-CV-01100-XR, 2022 WL 106153 (W.D. Tex. Jan. 11, 2022).**

**Industry:** Medical Personnel

**Takeaway:** An example where competitor was compelled to return confidential trade secret information to plaintiff, due to hiring employee from them.

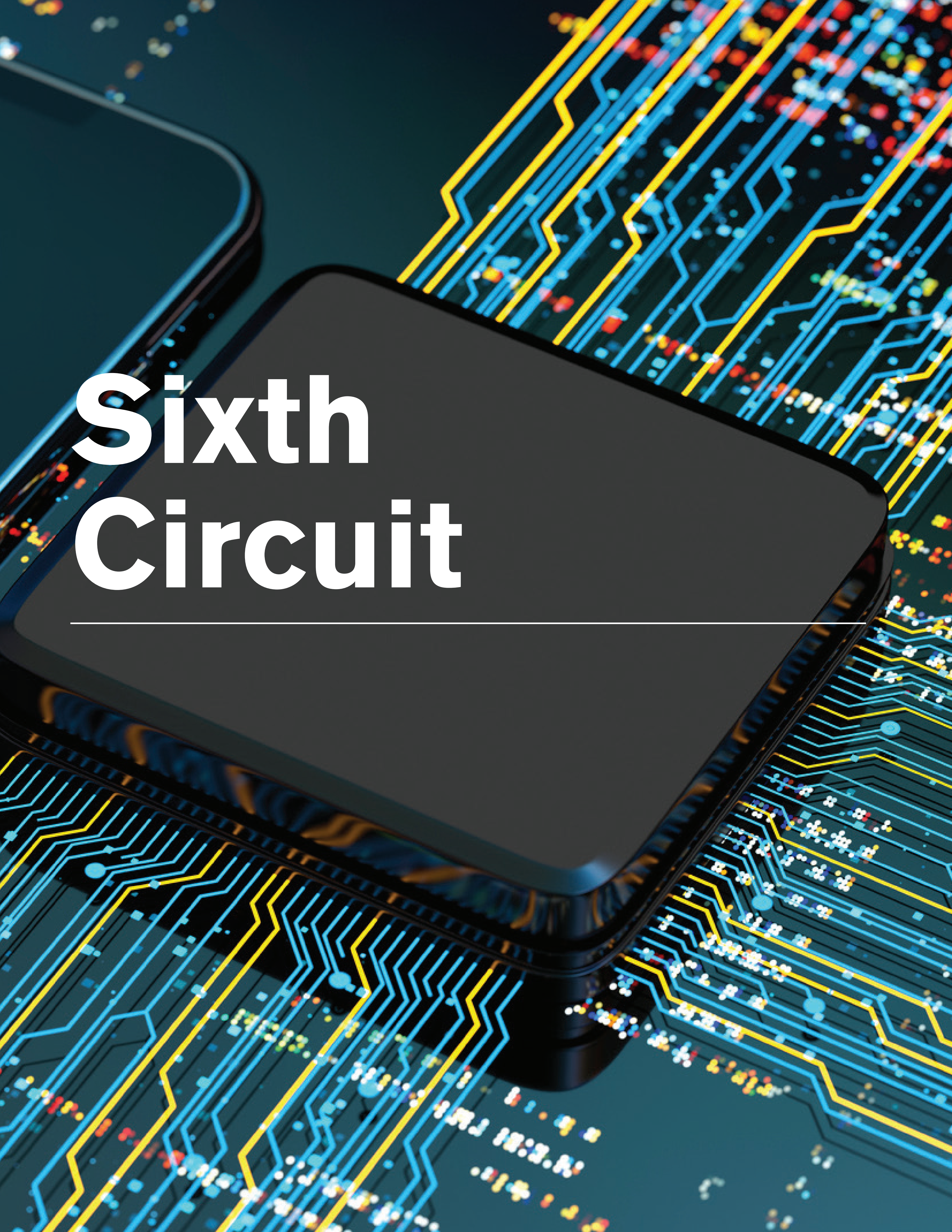
**Details:**

- **Procedural Posture:** This is a motion for a preliminary injunction, to compel competitor to return information to plaintiff.

- **Factual Background:** Mata was an employee working for Plaintiff Maxim, who provided staffing services to government agencies. Maxim had an "Industry Day," where it provided details about an upcoming contract for healthcare staffing services. Mata began working for a competitor, Nuwest, and sent portions of a proposal that Maxim had submitted to successfully procure a contract with ICE for personal assistance services.

- **Court's Decision:** Maxim is entitled to a preliminary injunction for competitor NuWest to return confidential trade secret information. Maxim was in possession of a trade secret, because certain information in the proposal was unique to Maxim, and Maxim took reasonable measures to keep the trade secret. NuWest had reason to know that it acquired information that is entitled to trade secret protection through improper means. Additionally, NuWest is in possession of and in a position to use information that is entitled to trade secret protection, due to Mata's actions. The remaining elements for a preliminary injunction are satisfied.

# Sixth Circuit



# Sixth Circuit

## Ohio

***Aerodyne Envt'l, Inc. v. Keirton, Inc.*, No. 1:22-CV-0118, 2022 WL 4243223 (N.D. Ohio Sept. 15, 2022).**

**Industry: Manufacturing**

**Takeaway:** A non-resident company in Ohio was not subject to personal jurisdiction for misappropriation of trade secrets where its only connection with the forum state was that its use of the trade secrets damaged the resident plaintiff.

**Details:**

- **Procedural Posture:** Plaintiff Aerodyne Environmental, Inc. alleged that Defendant SIDMAC Engineering & Manufacturing, Inc. misappropriated its trade secrets by reverse-engineering Aerodyne's proprietary technology. SIDMAC moved to dismiss for lack of personal jurisdiction.

- **Factual Background:** Plaintiff Aerodyne, an Ohio-based company, manufactured cyclone dust collectors for use in cannabis and hemp trimmers. Defendant Keirton, Inc. purchased multiple bespoke cyclones for its use; these cyclones contained a tag containing Aerodyne's name, address, location, model, and serial numbers. Keirton then provided the cyclones to SIDMAC (which had no connection to Ohio) and requested that they produce modified versions. Aerodyne brought suit against Keirton and SIDMAC in the U.S. District Court for the Northern District of Ohio, alleging claims related to misappropriation of trade secrets. SIDMAC moved for dismissal for lack of personal jurisdiction.

- **Court's Decision:** The Court dismissed SIDMAC for lack of personal jurisdiction. It found that SIDMAC was not aware that its conduct would purposefully harm Aerodyne, a requirement of the Ohio long-arm statute. Further, Aerodyne failed to allege facts suggesting that SIDMAC purposefully directed its conduct (using Aerodyne's intellectual property) at Ohio. Injury to Aerodyne, via SIDMAC's use of the intellectual property outside the forum state, was insufficient to confer jurisdiction.

## Tennessee

***CommonSpirit Health v. HealthTrust Purchasing Group, L.P.*, No. 3:21-cv-00460, 2022 WL 1432553 (M.D. Tenn. May 5, 2022).**

**Industry:** Health Care

**Takeaway:** Even when a party is rightfully in possession of trade secrets, it still may be liable under DTSA for misappropriation of those trade secrets if it can be established that the party induced others to improperly disclose them.

**Details:**

- **Procedural Posture:** CommonSpirit sued HealthTrust for alleged breach of the parties' contracts, breach of fiduciary duty, and other claims. HealthTrust later counterclaimed against CommonSpirit for misappropriation of trade secrets under the Defend Trade Secrets Act (DTSA) and breach of confidentiality provisions in the parties' contracts. CommonSpirit moved to dismiss the counterclaims under Rule 12(b)(6).

- **Factual Background:** Common Spirit and Health Trust were parties to certain contractual agreements including a Participation Agreement which contained an exclusivity provision requiring CommonSpirit to purchase a minimum of 80% of products and services from HealthTrust, a group purchasing organization ("GPO") which negotiates discounts on drugs, medical devices, and other products on behalf of medical providers. As the term of its agreement with HealthTrust came to an end, CommonSpirit solicited proposals from multiple GPOs and ultimately selected Premier, Inc ("Premier") as its new GPO. Premier is a competitor of HealthTrust. In its Complaint, HealthTrust alleged that CommonSpirit and Premier sent emails to vendors requesting that the t vendors provide pricing at least as favorable as the pricing provided to HealthTrust. The emails requested that vendors provide spreadsheets revealing their pricing arrangements with HealthTrust. The Complaint alleged, upon information and belief, that spreadsheets disclosing this pricing information had, in fact, been provided to CommonSpirit and Premier in breach of the confidentiality provisions of HealthTrust's contracts with its vendors. CommonSpirit had misappropriated its trade secrets (in the form of vendor pricing information) by inducing HealthTrust's vendors to breach their confidentiality agreements with HealthTrust "either directly to Premier, or indirectly to Premier through CommonSpirit."

- **Court's Decision:** The court determined that, viewing the Complaint in the light most favorable to the plaintiff, HealthTrust had established a claim for misappropriation under the DTSA. The Court noted that misappropriation under the DTSA includes the use of "improper means" to acquire knowledge of a trade secret derived from a person who is under a duty to keep the information secret. The term "improper means" is defined to include inducing a party to breach a confidentiality agreement. 18 U.S.C. 1839(5)(B)(ii)(III). Here, the Complaint sufficiently alleged that CommonSpirit induced vendors to breach the confidentiality agreements they had with HealthTrust by disclosing their pricing arrangements with HealthTrust to Premier.

***Windrock, Inc. v. Resonance Sys., Inc*., No.: 3:21-CV-288-TAV-HBG, 2022 WL 202891 (E.D. Tenn. Jan. 21, 2022).**

**Industry:** Software

**Takeaway:** A state statute governing misappropriation of trade secrets preempts claims for intentional interference of contract and statutory procurement of breach of contract under the "same proof" test.

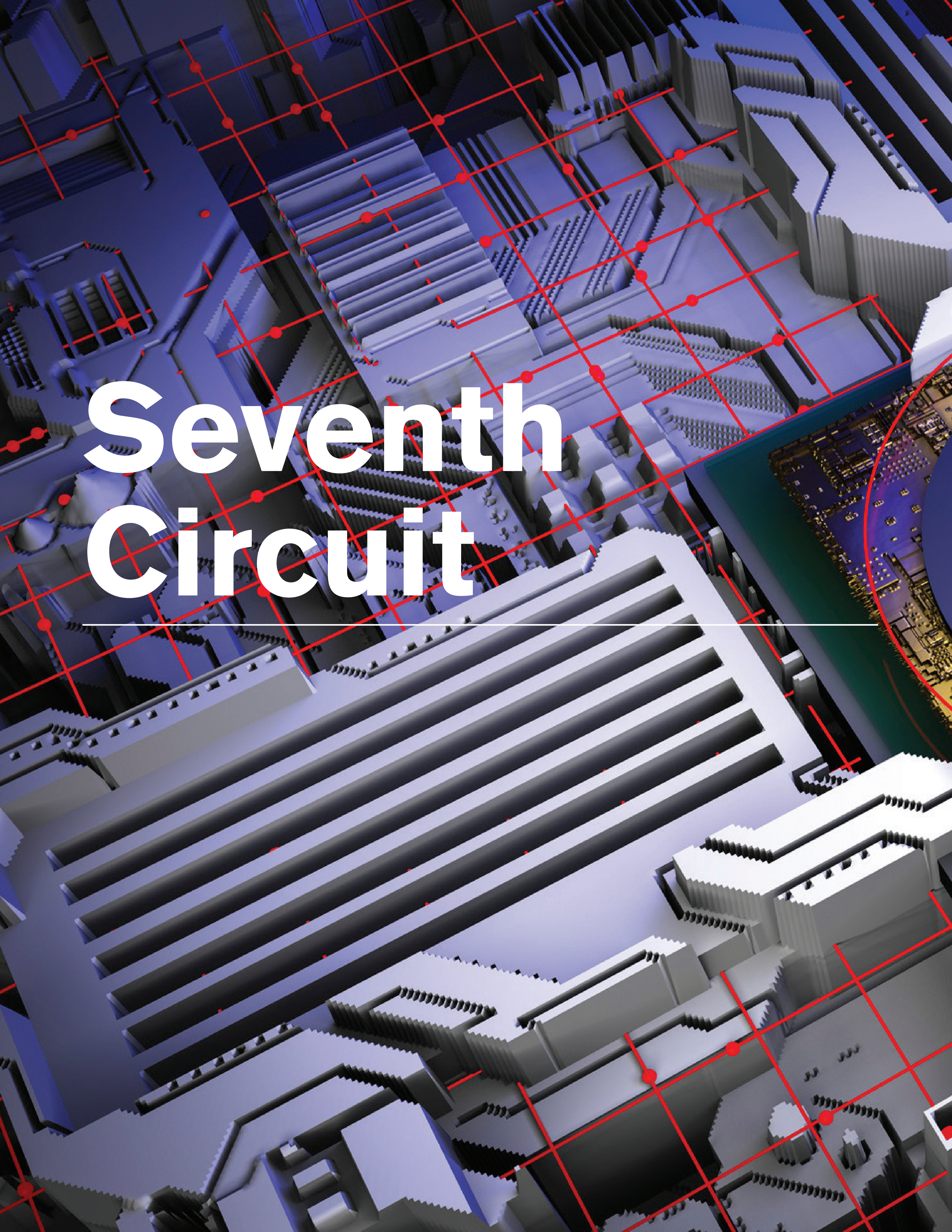
**Details:**

- **Procedural Posture:** Windrock asserted claims against Resonance Systems, Inc. (RSI) and its former employee, Josh Kelley (Kelley) under DTSA, and the Tennessee Uniform Trade Secrets Act (TUTSA). Windrock also asserted breach of contract claims against Kelley and claims for statutory procurement of breach of contract and tortious interference with contractual relations against RSI. RSI moved to dismiss the statutory procurement and intentional interference claims arguing that these claims were preempted by TUTSA.

- **Factual Background:** Windrock is a software and computer product designer which directly competes with RSI. Windrock alleged that Kelley, its former software developer, violated a confidentiality provision in a Retention Agreement (RA) and a similar clause in a Non-Disclosure Agreement (NDA) when he went to work for RSI. Specifically, Windrock alleged that Kelley used Windrock's confidential software code to develop a competing product at RSI.

- **Court's Decision:** RSI argued that Windrock's claims for statutory procurement and intentional interference were preempted by TUTSA because they would require evidence that Defendants misappropriated trade secrets. The Court applied the "same proof" test in analyzing preemption under TUTSA. Under this test, a claim is preempted when it necessarily rises or falls based on whether the defendant is found to have misappropriated a trade secret as defined under TUTSA. Thus, if proof of the other claim would also establish a violation of TUTSA, then the claim is preempted irrespective of whether other elements are needed to establish it. The Court determined that the statutory procurement and intentional interference claim would require Windrock to establish that RSI misappropriated trade secrets in violation of TUTSA and, as a result, these claims were preempted. Windrock had argued against preemption noting that the confidentiality provisions of the RA protected information that was confidential but not necessarily a trade secret under TUTSA. The Court agreed that that a confidentiality agreement can protect non-trade secret information and that a claim for breach of such an agreement would not be preempted by TUTSA. It held, however, that a claim against a third party for tortiously procuring such a breach would be preempted by TUTSA under the case law that had developed in the Sixth Circuit.

# Seventh Circuit



# Seventh Circuit

***REXA, Inc. v. Chester*, 42 F.4th 652 (7th Cir. 2022).**

**Industry:** Patent

**Takeaway:** While a district court enjoys substantial discretion in awarding attorneys' fees for litigation misconduct, it must provide a fulsome explanation and respond to objections when awarding substantial sums, such as the $2+ million awarded by the district court in this case.

**Details:**

- **Procedural Posture:** REXA brought suit against a former employee and his new company for alleged trade secret misappropriation and disclosure in a patent application. Cross-motions for summary judgment were filed, and the district court ruled in defendants' favor and further imposed attorneys' fees on REXA as a sanction for litigation misconduct. REXA appealed both the summary judgment and sanctions rulings.

- **Factual Background:** The individual defendant, Chester, was an engineer who worked on projects involving actuators, which are components of machines that produce motion. He previously worked for a company named Koso, Inc., which had acquired REXA a few years earlier. While at Koso, Chester ran projects seeking to develop an actuator but was not involved with every aspect. Chester eventually left Koso and went to work for MEA, Inc. There, he and his team later produced a successful actuator and filed a patent application, of which portions were granted. REXA then sued Chester and his employer for misappropriation of trade secrets and an implied contract claim, asserting that their actuator design used and disclosed confidential designs that it had rights to.

- **Court's Decision:** The court affirmed that Chester and his employer did not misappropriate from REXA, finding that REXA had identified only a vague and generalized description of what constituted its trade secrets. When trade secrets claim involve complicated and detailed methods or processes, a plaintiff must "present a specific element, or combination of elements" that are proprietary. Additionally, the court held that the claim for breach of implied-in-fact contract was preempted by the Illinois Trade Secrets Act. Finally, the court upheld the district court's imposition of attorneys' fees sanctions against REXA for litigation misconduct. REXA had improperly used altered exhibits during its deposition of Chester in an attempt to mislead Chester and induce him to make inaccurate admissions about his employment with Koso. The Seventh Circuit remanded for the district court to provide a more fulsome explanation and response to objections of the amount of attorneys' fees; the district court had awarded more than $2 million to the defendants.

## Illinois

***Busey Bank v. Turney*, No. 21 C 2900, 2022 WL 4079462 (N.D. Ill. Sept. 6, 2022).**

**Industry:** Finance

**Takeaway:** A DTSA claim against individual former employees must allege with specificity the material they misappropriated, and their use of that material with a competitor, to survive a motion to dismiss.

**Details:**

- **Procedural Posture:** Defendants filed motion to dismiss Plaintiff's DTSA claim.

- **Factual Background:** Plaintiff Busey Bank filed suit against 15 former employees and their new employer, a competitor, Flagstar Bank, FSB, for claims which included misappropriation of trade secrets under DTSA. Plaintiff provided only a general complaint, alleging that the former employees misappropriated documents which they used at a competitor, Flagstar Bank, FSB.

- **Court's Decision:** The court held that Plaintiff failed to adequately allege misappropriation. Plaintiff did not allege with specifics that the former employees took any trade secrets with them upon leaving. While the complaint contained general allegations that the group of employees took documents, it did not identify any single defendant as having committed misappropriation. Plaintiff could not rely on the inevitable disclosure doctrine because the complaint did not allege what roles or responsibilities the individual defendants had at Plaintiff's competitor.

***Groupon, Inc. v. Shin*, C.A. No. 21-C-6082, 2022 WL 60526 (Jan. 6, 2022).**

**Industry:** Technology/Software/Internet

**Takeaway:** Eighteen-month restrictive covenant barring defendant's employment with competitor was enforced in part because of court's finding that it would be virtually impossible for employee not to use trade secret or competitively sensitive information in connection with new employment.

**Details:**

- **Procedural Posture:** The decision arises from plaintiff Groupon's request for a preliminary injunction barring a former employee's continued employment by Yelp.

- **Factual Background:** The defendant, Mr. Shin, was hired to work at Groupon in a management role, and was well compensated for the same. Mr. Shin signed a restrictive covenant barring competition with Groupon for an 18-month period following Shin's departure from Groupon. After seven months at Groupon, Mr. Shin moved to Yelp, and the present suit ensued.

- **Court's Decision:** The court — which heard testimony before issuing a ruling on the preliminary injunction—found that the weight of evidence presented supported the conclusion that Yelp competed against Groupon, and that Mr. Shin (intentionally or unintentionally) was likely using Groupon's trade secrets while employed by Yelp and in competition against Groupon. The court's conclusion turned in part on what it deemed "common sense," noting that "the experiences of work life, particularly here, put the lie to [Mr. Shin's] claim" that nothing Mr. Shin learned or did at Groupon was relevant to his time at Yelp.

***LQD Business Fin., LLC v. Rose*, No. 19 C 4416, 2022 WL 4109715 (N.D. Ill. Sept. 8, 2022).**

**Industry:** Financial Services

**Takeaway:** A plaintiff's claim for spoliation sanctions related to its trade secret misappropriation claim was inadequate for lack of concrete facts supporting improper conduct. A spoliation motion requires much more than mere conjecture, particularly a request for an adverse inference.

**Details:**

– **Procedural Posture:** LQD, a financial entity which provides funding to businesses, brought suit against various defendants, including a former employee and other competitors, for misappropriation of trade secrets. The corporate defendants moved for summary judgment against LQD.

– **Factual Background:** LQD funneled cash advances to commercial businesses that were in need of alternative financing, for which one method is through an independent sales organization, or ISO. ISOs reach out to potential borrowers in order to begin brokering potential financing options for them. LQD and similar companies then contract with ISOs to provide the loans. The individual defendant, a former LQD employee, had access to proprietary information and according to LQD, used it to submit funding applications to work as an ISO for LQD's competitors, and was ultimately hired by one.

– **Court's Decision:** The court first determined that the funding applications submitted by the individual defendant did not qualify as LQD's trade secrets because they contained only basic financial and business details and lacked any semblance of proprietary information. Critically, the applications lacked potentially sensitive items such as analyses of prospective borrowers' eligibility for a loan. On the issue of LQD's so-called "output files," the court found that LQD could establish their status as trade secrets. The "output files" included customer lists, identities of potential future customers, and details of financial pricing and specific types of financing. But the corporate defendants averred that LQD could not establish they ever possessed information from the "output files," and the court agreed, granting summary judgment to them on that issue. LQD's last-ditch effort – asserting that the corporate defendants spoliated evidence by "conceal[ing] transmission of customer intelligence" – was also unsuccessful. The court declined to find spoliation occurred, let alone that the extreme sanction of an adverse inference was warranted, noting that all LQD relied upon were vague contentions that they had deleted the transmissions from the individual defendant which contained the "output files."

***Medcor, Inc. v. Garcia*, C.A. No. 21-cv-2164, 2022 WL 124163 (Jan. 13, 2022).**

**Industry:** Medical Devices/COVID Testing

**Takeaway:** Even where a party succeeds in showing that a defendant has violated a covenant not to compete and/or stolen trade secrets, the "irreparable harm" prong of the standard preliminary injunction balancing test makes a full injunction prohibiting future competition difficult.

**Details:**

- **Procedural Posture:** The case was before the court on plaintiff's request for a preliminary injunction barring the defendants and their company from continuing to (1) use the plaintiff's trade secrets and (2) compete against plaintiff.

- **Factual Background:** Plaintiff owned and operated a COVID testing company. It fired a key employee, who had restrictive covenants in his contract barring competition for six months after termination and the use of any trade secrets. The terminated employee nevertheless opened up a competing company and solicited a number of other of plaintiff's employees to join him, successfully winning clients from the plaintiff. Plaintiff alleged that terminated employee took photos on his telephone of key documents (which constituted trade secrets) during or immediately after his termination from the plaintiff-company.

- **Court's Decision:** The court concluded that the plaintiff had succeeded in showing a likelihood of success on the merits of its claims that (1) some of the defendants breached their restrictive covenants; and (2) some of the defendants had misappropriated the plaintiff's trade secrets. In ruling on the preliminary injunction, however, the court concluded that because the clients allegedly taken from the plaintiff were discreet in number, the harm to the plaintiff could be reduced to a dollar value. The court therefore enjoined the defendants from using the Plaintiff's trade secrets, but allowed them to continue to operate the competing company, concluding that the parties' non-compete did not toll during the non-compliance period and that the defendants were therefore allowed to compete.

## Indiana

***Custom Truck One Source, Inc. v. Norris et al.*, C.A. No. 1:22-cv-00046-HAB-SLC, 2022 WL 594142 (Feb. 28, 2022).**

**Industry:** Heavy Equipment/Trucking

**Takeaway:** In an era of increased telework, courts may be more reluctant to enforce geographic restrictions that do not serve legitimate business justifications.

**Details:**

- **Procedural Posture:** The case was before the court on the plaintiff's request for a temporary restraining order enjoining the continued work of the defendant, Aaron Norris, and his new company.

- **Factual Background:** Plaintiff operates a specialized truck and heavy equipment solutions company. Mr. Norris worked for the plaintiff, and as part of his employment relationship agreed to restrictive covenants that would prevent him, for one year following the termination of his employment, from competing with the plaintiff in any county or state in which Mr. Norris had worked for the plaintiff. Norris was also barred from soliciting his firm's clients. Norris left the plaintiff's employ and started a competing firm, which he ran from his home in the state of Alabama, where he had previously worked for the Plaintiff. Norris' new company was registered in Alabama, the record on which the court ruled demonstrated that the new entity did not actually offer services in the state of Alabama or compete with the plaintiff in the state of Alabama.

- **Court's Decision:** The court declined to issue a TRO, based on the record before it. The questions the court posed (which the Plaintiff was unable to satisfactorily answer) were: "[w]hat legitimate interest is [plaintiff] protecting by prohibiting Norris from competing in locations outside the Territory? What unfair competitive advantage does Norris receive from the place from which he generates emails if the customers receiving the emails are located outside the Territory? What is the competitive significance of Norris incorporating the state where he resides if he's directing his competitive activities (even if from his home within the Territory) outside the Territory? Does Norris gain some unfair competitive advantage over [plaintiff] by sitting in his living room in Alabama that he would not have if he were sitting in a cabana in Florida, using his cell phone to make calls and send emails to customers?"

## Wisconsin

***Kohler Co. v. Truenorth Collective LLC*, C.A. No. 21-cv-1307, 2022 WL 860624 (Mar. 23, 2022).**

**Industry:** Manufacturing/Kitchen and Bath Products

**Takeaway:** The Eastern District of Wisconsin's decision highlights the potential deference given under Wisconsin law to covenants not to compete at the Rule 12 stage of proceedings.

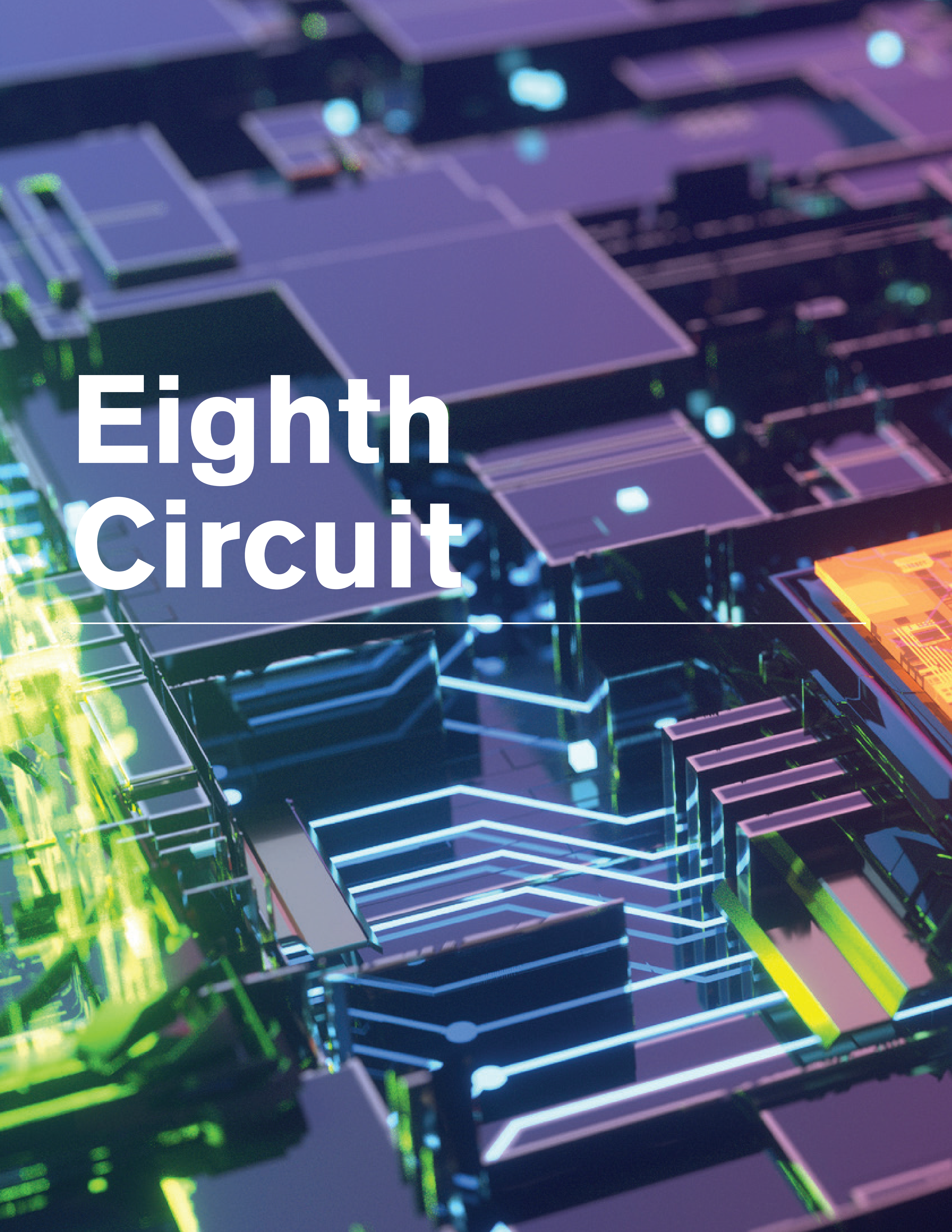
**Details:**

- **Procedural Posture:** The case was before the court on defendants' motion to dismiss Plaintiffs' complaint.

- **Factual Background:** Plaintiff sought to enforce covenants not to compete (CNTC) and enjoin misappropriation of trade secrets against former employees who had departed Plaintiff's employ and had begun competing against plaintiff for defendant Truenorth Collective LLC, a company formed by one of the former employees. The CNTC did not have a geographic restriction, but were limited to scenarios in which subsequent employment "is in a capacity in which the Confidential Information I have acquired during the twelve months prior to termination of my employment would be competitively valuable."

- **Court's Decision:** The court noted that, under Wisconsin state law, restrictive covenants are viewed with suspicion. The court further explained that — to defeat a restrictive covenant claim based on unreasonableness at the motion to dismiss stage — a defendant must show that such restrictive covenant is "unreasonable per se." Such showing is a "heavy burden." After considering the CNTC's terms, the court found: (1) Wisconsin law did not per se bar CNTCs without geographic restrictions; and (2) plaintiff had adequately shown (for purposes of the motion to dismiss) that its restrictive covenants were sufficiently limited to "geographic areas in which the unauthorized use or disclosure of confidential information would be competitively valuable." For that reason, the Court denied the pending motions to dismiss.

# Eighth Circuit



# Eighth Circuit

***Progressive Tech., Inc. v. Chaffin Holdings, Inc.*, 33 F.4th 481 (8th Cir. 2022).**

**Industry:** Security Products and Services

**Takeaway:** The Eighth Circuit reversed the district court's granting of a preliminary injunction for plaintiff-employer enforcing a five-year non-compete agreement, reasoning that Arkansas applies "stricter scrutiny" to non-competition covenants in employment agreements rather than those related to sale of a business.

**Details:**

- **Procedural Posture:** Following the sale of his business, defendant, seller of the business, continued working for plaintiff-purchaser under an employment agreement that included various restrictive covenants, including a five-year non-compete and customer non-solicit agreement. Defendant was terminated more than six years after the purchase-and-sale, at which point plaintiff learned that defendant was soliciting customers for a competitive business, in violation of the employment agreement. Purchaser sought and obtained a preliminary injunction enjoining defendant from continuing to violate his non-compete agreement. Defendant appealed and the Eighth Circuit reversed.

- **Factual Background:** Defendant-appellant David Chaffin owned Arkansas State Security, a seller and installer of low voltage cabling, security, and technology solutions. In 2013, Chaffin entered into an asset purchase agreement with Plaintiff-appellee Progressive Technologies, Inc., whereby Progressive would purchase the business and its assets. Chaffin concurrently entered into an employment agreement with Progressive, under which Progressive agreed to employ Chaffin for a one-year term followed by indefinite at-will employment. As part of the employment agreement, Chaffin signed non-compete and customer non-solicit restrictions, which prohibited Chaffin from being involved in the "Video Security Business" throughout the state of Arkansas, and from soliciting any current or prospective customer of Progressive, for five years post-employment. After the initial one-year term expired, Chaffin continued working for Progressive for another five-and-a-half years until he was terminated. Following his termination, Chaffin allegedly solicited several Progressive customers for a competitor. Progressive brought suit against Chaffin alleging breach of contract, civil conspiracy, and tortious interference, and sought a preliminary injunction. The district court granted the preliminary injunction and enjoined Chaffin from violating his non-compete and customer non-solicit restrictions.

- **Court's Decision:** The Eighth Circuit first noted that Arkansas courts disfavor non-compete agreements and apply "stricter scrutiny" to non-compete agreements "in employment contracts," as opposed to "those connected with a sale of a business." Though it was a "close call" in this case, the court held that Chaffin's non-compete and customer non-solicit agreements were properly classified as part of an employment contract "because under the terms of the agreement it was Progressive's termination of Chaffin's employment — six-and-a-half years after the business sale and more than three years after Progressive's payment plan for the business ended — that triggered the non-compete agreement's obligations." Applying "stricter scrutiny," the court held that the five-year duration of the non-compete was overbroad and unenforceable.

## Arkansas

***Brown v. Crossett Health Found.*, 2022 Ark. App. 363 (2022),** *reh'g denied* **(Oct. 26, 2022).**

**Industry:** Medical/Healthcare

**Takeaway:** In Arkansas, a challenge by a restricted former employee to the validity of his or her non-compete is not mooted by the fact that the employee has accepted non-infringing employment so long as the non-compete is still in effect.

**Details:**

- **Procedural Posture:** Plaintiff filed a declaratory judgment action seeking a judgment that his noncompete was invalid. The defendant moved for and was granted summary judgment, and this decision was issued following plaintiff's appeal from the entry of summary judgment against him.

- **Factual Background:** The defendant hospital informed the plaintiff doctor that it would not renew his employment contract, which included a non-compete clause. The plaintiff sought work at a nearby hospital, which contacted the defendant hospital and was informed of the plaintiff's non-compete. The plaintiff filed the declaratory judgment action before finding employment, which did not violate his non-compete, in another state.

- **Court's Decision:** The Arkansas Court of Appeals reviewed the trial court's decision to grant the defendant hospital's motion for summary judgment based on the reasoning that there was "not now, nor was there ever an actual controversy" between the parties since the plaintiff found new, non-infringing employment. The Court of Appeals reversed the trial court's grant of summary judgment because the non-compete still restricted the plaintiff from gaining employment within the geographic locations in which he still sought (but could not obtain) employment. The Court of Appeals held that the fact that the plaintiff "accepted employment elsewhere to support himself and his wife does not nullify the fact that Dr. Brown will still be subject to this covenant not to compete until it expires on January 31, 2023, so this matter is not moot.

## Minnesota

***Wilson v. Corning, Inc.*, No. 13-210, 2022 WL 2318557 (E.D. Minn. June 28, 2022).**

**Industry:** Life Sciences

**Takeaway:** Trade secret misappropriation and breach of contract claims seeking disgorgement of defendant's profits are equitable in nature, and therefore the Seventh Amendment does not guarantee a right to trial by jury for those claims.

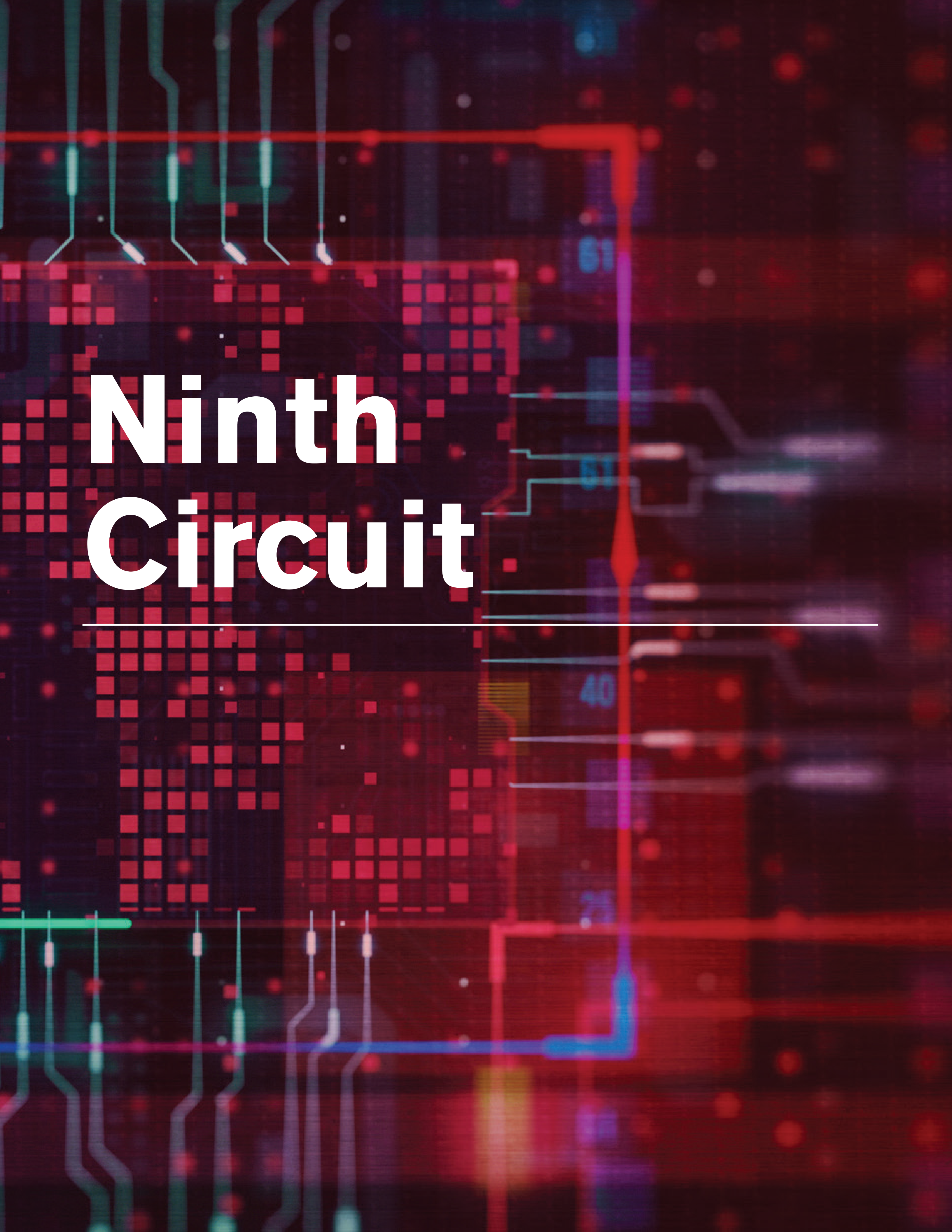
**Details:**

- **Procedural Posture**: Plaintiff Wilson brought a complaint against Defendant Corning, Inc., claiming trade secret misappropriation, breach of contract, and correction of inventorship. Plaintiff demanded a jury trial, and Defendant moved to strike the jury demand.

- **Factual Background:** Plaintiff Wilson owned cell-culture technology that was protected by a confidentiality agreement. Plaintiff alleged that Defendant obtained that technology, and then wrongfully used it to develop and commercialize cell-culturing products of its own. Plaintiff claimed damages for unjust enrichment in the form of disgorgement of Defendant Corning's revenues earned on their relevant cell-culturing products. Plaintiff also claimed compensatory damages for the transaction that Plaintiff and Defendant would have entered into absent the misappropriation. Plaintiff argued that its claims were legal in nature, and therefore entitled to a jury trial under the Seventh Amendment.

– **Court's Decision:** The court rejected Plaintiff's argument that claims brought under the Minnesota Uniform Trade Secrets Act are necessarily legal in nature. The court held that because the unjust enrichment damages and compensatory damages were measured using actual and projected revenues/profits, all of the damages were equitable in nature. This is true regardless of whether the defendant's profits are used to show evidence of a plaintiff's losses, or whether the remedies based off profits are used to punish a defendant. The court thus concluded that the demand for a jury trial should be stricken. For the same reasons, the court further held that the breach of contract claim seeking disgorgement was not entitled to be tried to a jury.

# Ninth Circuit



# Ninth Circuit

***Citcon USA, LLC v. RiverPay Inc.*, No. 20-16929, 2022 WL 287563 (9th Cir. Jan. 31, 2022).**

**Industry:** FinTech

**Takeaway:** Injunctive relief does not automatically flow from the successful prosecution of a trade secrets claim.

**Details:**

- **Procedural Posture**: Citcon sued two former executives and their new employer, and a former contractor, for trade secret misappropriation and other unfair business practices. A jury trial found in favor of Citcon and required the Defendants to pay $1.5 million. Citcon appealed, among other things, the district court's denial of a permanent injunction.

- **Factual Background:** Plaintiff Citcon provides services to United States merchants to facilitate payments that use Chinese payment systems. Citcon alleged that two former employees misappropriated source code and used that source code to create a competing service at a competitor, RiverPay.

- **Court's Decision:** The Court affirmed the district court's denial of its motion for a permanent injunction. Citcon essentially argued that injunctive relief "automatically flows" from a successful trade secret misappropriation claim, because of the presumption of future irreparable harm. The Ninth Circuit found that argument "untenable." The burden of establishing the necessity of injunctive relief is on the movant, and Citron failed to show why it needed injunctive relief or why the $1.5 million damages award was inadequate.

## Arizona

***BMO Harris Bank NA v. Corley*, No. CV-22-00547-PHX-DWL, 2022 WL 4781944 (D. Ariz. Oct. 3, 2022).**

**Industry:** Financial/Banking

**Takeaway:** In Arizona, tortious interference is barred by the economic loss rule when it relies on the same conduct that is forbidden by a contract, and a customer nonsolicitation clause is reasonable even without geographic restriction if limited to current customers with whom the former employee had contact.

**Details:**

- **Procedural Posture:** The decision was issued on the Defendants' motion to dismiss for failure to state a claim.

- **Factual Background:** Defendants were all former employees of BMO's Wealth Management group. Each one had entered into a Restricted Share Unit Plan (RSU Plan), which included (1) an employee nonsolicitation agreement, (2) a customer nonsolicitation agreement, and (3) a confidentiality agreement. The defendants simultaneously resigned and began working at a competitor of BMO. Over time, various BMO clients transferred their accounts to the defendants' new employer, resulting in a loss of $60 million in assets under management and $450,000 in annual revenue to BMO.

- **Court's Decision:** The court granted in part and denied in part the defendants' motion to dismiss. It dismissed the claims for (1) breach of fiduciary duty of loyalty, finding that "the act of planning to move to a competitor does not, in itself, constitute a breach of loyalty or breach of fiduciary duty," especially where the plaintiff's allegation lacked detail; (2) tortious interference, holding that Arizona's economic loss rule barred this claim because it relied on the defendants' alleged failure to abide by the terms of contracts between the plaintiff and each defendant, thus limiting the plaintiff to contractual remedies; and (3) the civil conspiracy claim, reasoning that without the underlying tort of tortious interference, the civil conspiracy claim could not stand under Arizona law.

  The court allowed the following claims to remain: (1) misappropriation of trade secrets (under DTSA and AUTSA), reasoning that customer lists—especially those of "ultra-high net worth clients"—was a trade secret and that the plaintiff sufficiently protected these trade secrets by using restrictive agreements that forbade disclosure of the lists and required return of all information upon termination of employment and by sending letters to the defendants after their resignation reminding them of these obligations; (2) breach of contract (containing a nonsolicitation covenant), reasoning that a 12-month prohibition on the solicitation of the plaintiff's current clients with whom the defendants had contact was reasonable even without geographic limitation.

***Stella Mgmt. Inc. v. CastleBlack LLC*, No. CV-22-00490-TUC-JCH, 2022 WL 16572011 (D. Ariz. Nov. 1, 2022).**

**Industry:** Advertising, Data Collection & Privacy

**Takeaway:** Despite converting a stipulated TRO into a preliminary injunction, the court denied plaintiff's request for expedited discovery. The case serves as a reminder that litigants should not take for granted the availability of expedited discovery solely because the court granted preliminary injunctive relief and that, depending upon local practice, a separate motion for expedited discovery is necessary.

**Details:**

- **Procedural Posture**: At a prior status conference, the parties had stipulated to an indefinite TRO. The court converted that stipulated TRO into a preliminary injunction. Plaintiff sought expedited discovery in the form of a request for "preliminary relief."

- **Factual Background:** Plaintiff was a Michigan corporation operating in Arizona to provide newsletter publications and political donor information services. Plaintiff owned an email list (the List) of Republican political donors, which Plaintiff transferred to Defendants under a Brokerage Agreement (the Agreement). Under the Agreement, Plaintiff was to remain the List's sole owner at all times and Defendants had a duty not to disclose confidential information except to perform its obligations. Defendants then allegedly improperly mixed Plaintiff's List with a third party's list.

- **Court's Decision:** The Court denied Plaintiff's request for expedited discovery because the Court "could not understand" Plaintiff's argument as to why Defendants' misuse of Plaintiff's data would expose it to unwarranted third-party lawsuits. Plaintiff failed to meet its burden of showing risk of immediate irreparable harm to support its request and sought relief using the wrong procedural vehicle.

## California

***Suzhou Angela Online Game Tech. Co. v. Snail Games USA Inc.*, No. 221CV09552CASSKX, 2022 WL 326725 (C.D. Cal. Jan. 31, 2022), *aff'd*, No. 22-55137, 2022 WL 5240656 (9th Cir. Oct. 6, 2022).**

**Industry:** Technology

**Takeaway:** This case reiterates the heavy burden that a movant seeking a mandatory preliminary injunction faces and discusses trustworthy methods of comparing software code.

**Details:**

- **Procedural Posture**: Plaintiffs filed claims for declaratory relief and sought preliminary and permanent injunctions against Defendants to force Defendants to rescind a take-down notice sent to a distributor of Plaintiffs' videogame. Defendants filed copyright infringement and trade secret misappropriation counterclaims against Plaintiffs and a third party distributer of the videogame that was allegedly made from source code that was stolen from Defendants.

- **Factual Background:** Before litigation commenced, Defendants sent a take-down request to a third-party distributor to request that the distributor stop distributing Plaintiffs' video game. The take-down request asserted that Plaintiffs had stolen Defendants' source code as suggested by circumstantial evidence, including that Plaintiffs had hired 60 of Defendants' former-employees. Plaintiffs filed suit and sought preliminary and permanent injunctive relief to force Defendants to withdraw the take-down letter and thus stop interfering with distribution of Plaintiffs' videogame.

- **Court's Decision:** The district court held that a preliminary injunction was not appropriate because, "defendants have offered a plethora of circumstantial evidence related to their counterclaims…sufficient to defeat plaintiffs' motion for a preliminary injunction." The Ninth Circuit affirmed, finding no abuse of discretion and noting that Plaintiffs faced a particularly high burden because they sought a mandatory injunction that would have required Defendants to take action as opposed to merely refrain from taking action.

***Dairy, LLC v. Milk Moovement, Inc*., No. 2:21-CV-02233 WBS AC, 2022 WL 1103822 (E.D. Cal. Apr. 13, 2022).**

**Industry:** Technology Software

**Takeaway:** The court viewed the elements of the DTSA and California Uniform Trade Secrets Act (CUTSA) claim as substantially similar. The Plaintiff is required to "describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or special knowledge of those persons…skilled in the trade."

**Details:**

- **Procedural Posture:** Dairy LLC filed an action against the Defendants Milk Moovement for trade secret misappropriation under the DTSA along with the CUTSA. The court had previously denied the Plaintiff's request for temporary restraining order and a preliminary injunction, and the court was considering a 12(b)(6) motion to dismiss. The defendants move to dismiss all claims.

- **Factual Background:** The Plaintiff alleges that CDI (one of the Plaintiff's customers) and Defendants had a call in which confidential trade secret information was shared. The Plaintiffs argued that despite having a user agreement with CDI that restricted CDI from sharing this information, Defendant disseminated this information.

– **Court's Decision:** The amended complaint identified the trade secret with particularity without revealing details of the trade secret. In particular, the amended complaint specifically identified the pooling methodology used as a trade secret, and provided the court with more than "naked assertions made upon information and belief and includes further factual enhancement about defendants' need for the trade secret information…" As such, the court acknowledged that the amended complaint had sufficiently alleged misappropriation for the pleading stage, and denied Defendants motion to dismiss.

***Zoom Imaging Solutions, Inc. v. Roe*, No. 2:19-cv-01544, 2022 WL 4025293 (E.D. Cal. Sept. 2, 2022).**

**Industry:** Consumer Products

**Takeaway:** For a misappropriation of trade secrets claim, a plaintiff cannot withstand a no-evidence summary judgment motion merely by relying upon the fact that a defendant happens to be a sales representative and that others misappropriated information. Additionally, customer lists can constitute trade secrets under certain circumstances if they have economic value and the holder took reasonable steps to keep them secret.

**Details:**

- **Procedural Posture**: Plaintiff Zoom Imaging Solutions brought suit against a number of former employees, alleging wrongful conduct in violation of their employment agreements, and a competitor. Plaintiff moved for partial summary judgment, two of the defendants together moved for summary judgment, and the remaining five defendants together moved for summary judgment.

– **Factual Background:** Plaintiff Zoom provides imaging and document solutions. Defendant Roe was Zoom's president from 2017 until April 2019, but in March 2019 created his own company, Defendant Power, that would provide similar services to Zoom. A number of employees who worked for Zoom eventually left to work for Power. Plaintiff brought a number of claims against Roe, Power, and other former employees, including violation of the California Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act. In large part, Zoom claimed that materials such as customer lists, information on Zoom's service contracts, employee costs, and costs of maintenance services constituted trade secrets that were misappropriated.

– **Court's Decision:** First, the court held that, as to one of the defendant employees, simply claiming that the employee was a sales representative for prospective customers of Power was not sufficient to create a genuine dispute of material fact that the employee misappropriated client information. The court therefore granted summary judgment in favor of that defendant on the trade secrets claims. Second, the court addressed whether customer lists constituted trade secrets and held that under certain circumstances customer lists may qualify as trade secrets. The court noted that the customer lists at issue had economic value in that they may show customers who already have a willingness to partake in the offered services. Additionally, customer lists are often not available to the public, and businesses takes efforts to protect them. The court held that, at the summary judgment stage, Zoom presented sufficient evidence to proceed to trial on its claim that the customer lists were trade secrets.

***Arthur J. Gallagher & Co. v. Tarantino*, No. 20-CV-05505-EMC, 2022 WL 4092673 (N.D. Cal. July 27, 2022).**

**Industry:** Insurance

**Takeaway:** An employment agreement did not need to define trade secrets in its confidentiality provision in order for employer to state claim for breach of contract due to misappropriation of trade secrets.

**Details:**

- **Procedural Posture:** Both parties filed summary judgment motions in breach of contract and misappropriation of trade secrets litigation.

- **Factual Background:** Plaintiff Arthur J. Gallagher & Co. filed suit against four former employees and a competitor, Alliant, alleging that Alliant poached the employees and conspired with the individual defendants to steal trade secrets. The individual defendants misappropriated key information, including client reports, pricing information, and other sensitive data. Plaintiff alleged the individual defendants breached their employment agreements, which contained confidentiality obligations. The defendants argued that the employment agreements did not define trade secrets, and used an overbroad definition of confidential information.

- **Court's Decision:** The court denied summary judgment, finding that whether or not "trade secrets" was defined in the employment agreement was not relevant to the breach of contract question. Rather, the court found that confidential information is "not defined in the agreement as that which is equivalent to trade secrets. It is defined by contract."

***Comet Techs. USA Inc. v. XP Power LLC*, No. 20-CV-06408-NC, 2022 WL 1131729 (N.D. Cal. Feb. 7, 2022).**

**Industry:** Electrical industry

**Takeaway:** Storage by employees of a former employer's (and competitor's) confidential trade secret materials in personal devices may be enough to establish a triable issue of fact concerning misappropriation at the summary judgment phase.

**Details:**

- **Procedural Posture:** Plaintiff Comet Technologies USA Inc. sued three former employees and its competitor XP Power LLC for, among other things, violations of the Defend Trade Secrets Act and California Uniform Trade Secrets Act. At this stage, both parties filed cross motions for summary judgment. Particularly relevant here is that XP sought summary judgment on Comet's DTSA and CUTSA claims.

- **Factual Background:** In 2017, XP acquired another company to enter the RF generator and matching network market. XP thereafter began to expand its efforts to increase its presence in the RF market by hiring multiple lead RF engineers away from Comet. Prior to leaving Comet, these engineers all downloaded large files of Comet's confidential information. At least one former employee downloaded information into a personal external storage device. Comet first sued the former employees, but later amended its complaint to add the DTSA and CUTSA claims against XP. XP sought summary judgment claiming that Comet did not meet its burden to show a genuine dispute of material fact as to ownership of trade secrets and misappropriation of trade secrets.

- **Court's Decision:** The court denied XP's motion for summary judgment. First, the court rejected XP's argument concerning misappropriation and instead found that there was significant evidence from which a trier of fact could conclude that XP accessed and used Comet's trade secrets to develop XP products. In particular, Comet presented evidence that at least one former employee attached a hard drive to his XP workstation and opened numerous Comet documents. The court then rejected XP's argument concerning ownership because there were genuine disputes of material fact as to whether Comet actually owned the trade secrets it alleged were misappropriated.

***Genasys Inc. v. Vector Acoustics, LLC*, No. 22-CV-152 TWR (BLM), 2022 WL 16577872 (S.D. Cal. Nov. 1, 2022).**

**Industry:** Energy and Cleantech

**Takeaway:** Defendants secured a near-complete victory on a motion to dismiss due to plaintiff's "impermissibly conclusory" allegations.

**Details:**

- **Procedural Posture:** Defendants moved to dismiss Plaintiff's complaint, or alternatively, for a more definite statement.

- **Factual Background:** Plaintiff, Genasys, is a long-range acoustic device company. Shortly after leaving Genasys, two former high-level employees started their own business and sold products that Genasys alleges "were mere reproductions" of Genasys's products that relied on Genasys's confidential data. Genasys brought claims for breach of contract, violation of state and federal trade secret acts, unjust enrichment, and violation of California's unfair business practices statute.

- **Court's Decision:** As to the breach of contract claim, the court held that Genasys failed to state a claim. The employment agreements signed by the two defendants only instructed employees to "disclose complete information" and that any inventions were "the sole property of Genasys." There was nothing in the employment agreements that was relevant to factual allegations of misappropriating alleged trade secrets. Further, even if the contracts were relevant, the court said, they would be invalid under California law because of the unlawfully overbroad intellectual property assignment provisions. The court also dismissed the trade secret claims as "impermissibly conclusory." Instead of detailing how and why the materials were trade secrets, Genasys "relie[d] on conclusory buzzwords pulled from CUTSA and DTSA." The only claim left standing after the court's order was the California unfair competition claim. The defendants argued that the claim was preempted by California's trade secrets act, but the Court held that because Genasys's allegations failed to allege any trade secret, the Court could not determine whether the claim was preempted at the motion to dismiss stage.

***Kimera Labs Inc. v. Jayashankar*, No. 21-CV-2137-MMA (DDL), 2022 WL 11965058 (S.D. Cal. Oct. 20, 2022).**

**Industry:** Technology; Life Sciences

**Takeaway:** To claim indirect trade secret misappropriation, the plaintiff must plead how the defendant obtained the trade secrets; allegations that the trade secrets were simply in the defendant's possession are insufficient. Further, the California Uniform Trade Secrets Act's "particularity" pleading requirement does not apply to the Federal Defend Trade Secrets Act (DTSA). Finally, to survive a motion to dismiss for failure to state a claim, the trade secrets in question should be detailed and generalized descriptions are insufficient.

**Details:**

- **Procedural Posture**: Plaintiff brought suit against five defendants for misappropriation of trade secrets, civil conspiracy to commit tortious interference with business relations, tortious interference with business relations, unjust enrichment, and unfair competition. Four of the defendants together brought a motion to dismiss for failure to state a claim. The fifth defendant also brought a motion to dismiss for lack of personal jurisdiction or in the alternative, for failure to state a claim.

– **Factual Background:** Plaintiff is a company that focuses on scientific research regarding exosomes and stem cells, and was able to produce the first clinically available exosome product in the world. Plaintiff alleged that one of its employees, Dr. Selinger, engaged in espionage and created a new exosome product with the remaining defendants, by using Plaintiff's trade secrets.

– **Court's Decision:** After granting one defendant's motion to dismiss for lack of personal jurisdiction, the court addressed whether Plaintiff stated a plausible trade secret misappropriation claim against the remaining defendants. The court dismissed without prejudice the DTSA claim because Plaintiff failed to plausibly allege misappropriation. The court described that there is both direct and indirect trade secret misappropriation. Indirect misappropriation occurs when the trade secrets are obtained through someone other than the plaintiff who had the duty to maintain the secrecy of the trade secrets. Here, the court held that plaintiff had not pleaded direct misappropriation and failed to plausibly allege indirect misappropriation because Plaintiff merely pleaded that Defendants possessed the trade secrets, rather than how the trade secrets were transferred to and used by Defendants. Additionally, the court held that Plaintiff had plausibly alleged that its customer list and Kimera Process, Plaintiff's process by which exosomes are grown, harvested, and isolated, constituted trade secrets. While the court acknowledged Defendants' argument that the Kimera Process, while sounding foreign to those not in the industry, was standard and widely known to those in the industry, the court reasoned that the description was, at the very least, sufficient to survive a motion to dismiss. The court noted that such an argument was more appropriate at the summary judgment stage. Finally, the court refused to apply California Uniform Trade Secrets Act's "particularity" pleading requirement to Plaintiff's DTSA claims.

***XpandOrtho, Inc. v. Zimmer Biomet Holdings, Inc.*, No. 321CV00105BENKSC, 2022 WL 801743 (S.D. Cal. Mar. 15, 2022).**

**Industry:** Medical Devices /Technology/Health

**Takeaway:** When making a claim for misappropriation of trade secrets, a plaintiff must describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade, and to permit the Defendant to ascertain at least the boundaries within which the alleged secrets lie.

**Details:**

- **Procedural Posture:** XpandOrtho filed suit against Zimmer Biomet for alleged misuse of confidential information. Zimmer Biomet moved to dismiss all of Plaintiff's claims in their FAC.

– **Factual Background:** XpandOrtho and Zimmer Biomet entered acquisition discussions, pursuant to which Zimmer Biomet would acquire XpandOrtho and assist it in bringing its new technology to market. Prior to disclosing any confidential information, the parties entered into a non-disclosure agreement. The plaintiffs alleged that Zimmer Biomet ignored confidentiality obligations between 2011 and 2021 during the due diligence process.

– **Court's Decision:** The court found that the Plaintiffs sufficiently plead misappropriation of their trade secrets. The heightened fraud pleading requirement was determined to not apply here. The Plaintiffs listed thirteen trade secrets with supplemental explanations in their complaint, demonstrating a detailed description of the trade secret's importance in their operations. Similarly, the Plaintiffs provided the court with an explanation of the efforts taken to maintain the secrecy of the trade secrets through non-disclosure agreements and restricting physical access to the facilities. The court denied the Defendant's motion to dismiss claims for trade secret misappropriation for failure to state a claim. Additionally, because of the fact-specific nature of the analysis needed to determine whether the information did constitute a trade secret, the court denied Defendant's motion to dismiss plaintiff's claims for fraud, intentional interference with prospective economic advantage. The court also did not find clear publications of the alleged trade secrets on the face of the documents provided by Defendants who argued Plaintiff's trade secrets were publicized.

## Nevada

***Brown v. State*, 512 P.3d 269 (Nev. 2022).**

**Industry:** Law Enforcement/Technology

**Takeaway:** Although clearly not a "standard" trade secrets case, it contains a useful evaluation as to how a court should balance a criminal defendant's right to confront witnesses against a company's right to protect its trade secrets. Spoiler alert: the defendant loses.

**Details:**

- **Procedural Posture:** The decision was issued on appellate review of judgment of the defendant's murder conviction.

- **Factual Background:** The defendant was convicted of murder and appealed his conviction arguing, inter alia, that the trial court violated his constitutional right under the Confrontation Clause by limiting his cross-examination of a Cellebrite employee. The cross-examination was limited to protect Cellebrite's proprietary information and trade secrets, and the defendant argued that these limitations prevented him from understanding Cellebrite's practices and methods and offering adequate rebuttal evidence.

- **Court's Decision:** The court ultimately held that the trial court did not abuse its discretion by limiting the defendant's cross-examination of the Cellebrite employee. In reaching this holding, the court considered "whether, given the importance of the private interest at stake, the cross-examination is designed to harass, annoy, or humiliate the witness; whether it would cause prejudice or place the witness in danger; and whether it would confuse the issues, be repetitive of other testimony, be speculative or vague, or be only marginally relevant." The court found that (1) "the circumstances under which Cellebrite would be unable to unlock a phone [wa]s of little, if any, relevance here and limiting that line of questioning was proper" and (2) the defendant failed to provide an reason why Cellebrite's extraction process was not reliable so the "general limits on cross-examining Cellebrite regarding the details of its technology" was also proper.

  In conclusion, the court determined that the record did "not show that limiting the testimony left the jury with insufficient information to judge [the Cellebrite employee's] credibility regarding the core issues or that a reasonable jury would have received a significantly different impression of [the Cellebrite employee's] credibility had the district court not limited the scope of cross-examination."

***Elko, Inc. v. Peters*, No. 322CV00015MMDCLB, 2022 WL 256975 (D. Nev. Jan. 27, 2022).**

**Industry**: Transportation

**Takeaway**: Former employee's misappropriation of trade secret information is not alone sufficient to demonstrate unauthorized disclosure of such information to new employer.

**Details:**

- **Procedural Posture**: Plaintiff Elko, Inc (Coach Elko) moved for a preliminary injunction against its former employees, Corey Peters (Peters) and Yolanda Perez (Perez) as well as their new employer, WTH Commercial Services, LLC (WTH). Coach Elko requested an order precluding these defendants from misappropriating its trade secrets and soliciting or providing services to its customers.

- **Factual Background**: Coach Elko and WTH both provided transportation services to employees of various Nevada mining companies. Peters, the company's former Vice President and Perez, former Direct of Operations, resigned their employment to work for WTH. Coach Elko provided evidence that Peters had sent confidential and trade secret information to his personal computer during the two years prior to his resignation in violation of company policy. The confidential information included marketing strategies, pricing spreadsheets and pricing formulas. Peters admitted that he had not returned the information to Coach Elko following his resignation. All of the defendants denied that any Coach Elko trade secret had been disclosed to WTH or used in the solicitation of customers, however.

- **Court's Decision**: The court found that Peters had violated the Nevada Uniform Trade Secrets Act and the Defend Trade Secrets Act by misappropriating and retaining Coach Elko's confidential information. However, the court denied the requested injunction because there was no evidence that Peters had disclosed this confidential information to his new employer. Although WTH had secured certain Coach Elko customers following Peters' departure, the court credited the defendants' testimony that there were independent business reasons for these customers to retain WTH. The court would not simply infer that WTH utilized the confidential information in Elko's possession in soliciting the new business.

## Oregon

***Kinship Partners, Inc. v. Embark Veterinary, Inc.*, No. 3:21-CV-01631-HZ, 2022 WL 72123 (D. Or. Jan. 3, 2022).**

**Industry:** Canine DNA testing

**Takeaway:** Evidence that an employee accessed and downloaded confidential information in advance of his departure is not sufficient to demonstrate actual misappropriation under the DTSA or the Oregon UTSA absent some additional evidence of bad faith conduct. A claim under the Inevitable Disclosure Doctrine is not viable under the DTSA or the Oregon UTSA.

**Details:**

- **Procedural Posture**: Kinship Partners sought a preliminary injunction against its former employee, Robin P. Smith, and Smith's new employer, Embark Veterinary. The proposed injunction sought to (i) enjoin each defendant from possessing or using Kinship's trade secret information, and (ii) preclude Smith from working at Embark for twelve (12) months.

– **Factual Background:** Kinship and Embark are the world leaders in canine DNA testing services and direct competitors. Smith was hired as an at-will employee by Kinship in December 2020. He signed an IP Agreement and Confidentiality Agreement as part of his employment. He was never asked nor did he sign a non-competition agreement. Smith oversaw and led all aspects of the product development, user experience and visual design with respect to Kinship's "Wisdom" brand of DNA testing services. Smith, while still with Kinship, signed an offer of employment with Embark on October 31, 2022. His new work at Embark was supposed to focus on new products and improving the company's research and development operations. Smith resigned in November 2022. After his resignation, Kinship conducted a forensic review of Smith's activity on company systems which revealed that Smith had downloaded 27 confidential documents from a Kinship shared drive. The forensics also demonstrated that Smith had accessed numerous confidential files and documents in the three months before his resignation.

– **Court's Decision:** The Court denied the requested injunctive relief after determining that Kinship had not demonstrated a likelihood of success on its DTSA or Oregon UTSA claims. The court agreed that the information at issue constituted a trade secret, but it found no evidence that Smith had used improper means to access or download the information. Nor was there any other evidence of bad faith conduct. Kinship had no policy preventing employees from downloading files. Further, there was no evidence suggesting that Smith accessed or downloaded documents for other than a legitimate business purpose. There also was no evidence that he retained the confidential material after he left Kinship. The court also rejected Kinship's claim under the inevitable disclosure doctrine as first articulated in *PepsiCo, Inc v. Redmond*, 54 F3.d1262 (7th Cir 1995). Kinship argued that, even if Smith had not improperly accessed information, given the level of his knowledge concerning Kinship's trade secrets and market strategies, it was inevitable that he would use such information at Embark. The court noted that the typical remedy under the inevitable disclosure doctrine is an injunction preventing an employee from working for a competitor for some period of time. The court held that such a remedy is not available under DTSA because the statute precludes the issuance of an injunction that prevents a person from entering into an employment relationship. Finally, the court indicated that Oregon had never adopted the inevitable disclosure doctrine and it was unlikely to adopt any rule that might result in imposing a *de facto* non-compete agreement upon an employee.

***Valmarc Corp. v. Nike, Inc.*, No. 3:21-CV-01556-IM, 2022 WL 2315071 (D. Or. June 28, 2022).**

**Industry:** Fashion

**Takeaway:** A plaintiff sharing information with a defendant without an express nondisclosure agreement does not, standing alone as a matter of law, preclude a plaintiff from showing that it took reasonable measures to protect its trade secrets.

**Details:**

- **Procedural Posture**: Plaintiff filed suit under state and federal trade secrets acts. Defendant moved to dismiss, arguing that Plaintiff failed to state a claim because, among other reasons, Plaintiff disclosed information to Defendant without an express nondisclosure agreement in place between the parties.

– **Factual Background:** Plaintiff VALMARC Corp., doing business as Vi3, filed suit against Nike, Inc. (Nike) for trade secret misappropriation of Vi3's "proprietary anticounterfeiting and brand protection system." The two parties allegedly met over the course of 2015, during which Vi3 provided Nike with "a wealth of confidential information" related to technical aspects of its anticounterfeiting and brand protection system. Although the parties never entered into a nondisclosure agreement, Vi3 argued that all parties understood the confidential nature of their information exchanges. Vi3 further argued that a former Nike employee and publicly available information supported its allegation that Nike misappropriated Vi3's trade secrets.

– **Court's Decision:** The court held that a lack of a nondisclosure agreement did not prevent Plaintiff Vi3 from alleging that it took other reasonable measures to maintain confidentiality or that Nike otherwise had notice of the information's confidentiality. The court held that Plaintiff Vi3 adequately alleged the elements of trade secret misappropriation under both the Oregon and Federal trade secret acts. The court therefore denied Nike's motion to dismiss.

## Washington

***Drut Techs., Inc. v. Microsoft Corp.*, No. 2:21-CV-01653-BJR, 2022 WL 2156962 (W.D. Wash. June 15, 2022).**

**Industry:** Computer software industry

**Takeaway:** The contract language in vendor/supplier agreements can negate otherwise viable trade secret misappropriation claims.

**Details:**

- **Procedural Posture:** Drut Technologies, Inc. filed a lawsuit against Microsoft Corporation for (1) declaratory relief; (2) trade secret misappropriation in violation of DTSA and Washington state law; (3) breach of contract; (4) breach of the implied covenant of good faith and fair dealing; (5) conversion; (6) unjust enrichment; (7) quantum meruit; and (8) violation of Washington's Consumer Protection Act. Microsoft moved to partially dismiss Drut's complaint, including the DTSA and CUTSA claims.

- **Factual Background:** Pursuant to a supplier services agreement, Drut provided Microsoft with access to its source code and other proprietary technology related to technology for use in cloud-based servers. After some time, Microsoft refused to continue its payment obligations under the agreement and later rolled out its own product that Drut claimed was the exact product and service it was providing Microsoft. Drut alleged that Microsoft used its proprietary hardware and software configurations, without authorization, to further develop its new product.

- **Court's Decision:** The Court dismissed Drut's trade secret misappropriation claims in their entirety. Microsoft argued that it did not misappropriate Drut's trade secrets because it had a license to use the information it requested from Drut. The Court concluded that Drut failed to adequately plead a claim of misappropriation because there was no alleged improper acquisition and the trade secrets were not disclosed without consent.

***Tori Belle Cosms. LLC v. Meek*, No. C21-0066RSL, 2022 WL 670923 (W.D. Wash. Mar. 7, 2022).**

**Industry:** Cosmetic

**Takeaway:** The DTSA "confers a private action on an owner of a trade secret that is misappropriated…if the trade secret is related to a product or service used in or intended for use in interstate of foreign commerce." Misappropriation occurs when a trade secret is disclosed without the express or implied consent of the person the information originated from.

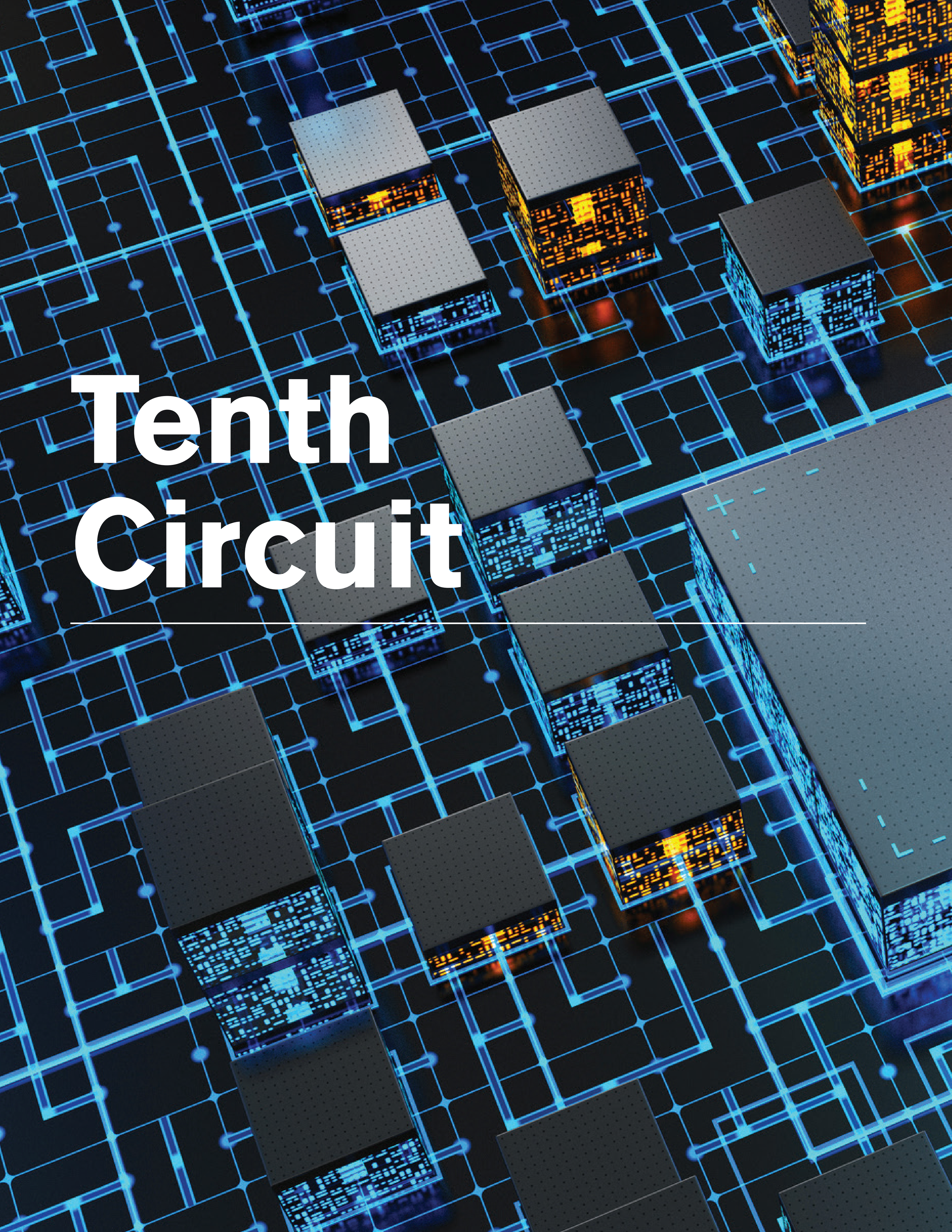
**Details:**

- **Procedural Posture:** Plaintiffs claimed breach of contract, tortious interference with contract and prospective business expectancy, violation of DTSA, civil conspiracy, and conversion. Defendant sought dismissal of all claims with prejudice. Defendants' motion to dismiss was granted in part and denied in part.

- **Factual Background:** Plaintiff alleged that five previous Affiliates (employees) used social media communication developed during their time as Tori Belle Affiliates for a competing venture. Tori Belle sold cosmetics through a network of salespeople known as Affiliates. The Affiliate Agreement identified confidential contact information regarding the customers and relevant materials used in the daily functions of the company. Plaintiffs alleged that former Affiliates used Tori Belle's trade secret training materials and other confidential information to create a competing line of products, other materials, and to attain customers. The Plaintiff alleged they owned the training program and contact lists related to their sales and business. Defendant Meek argued that the training program was not maintained in secrecy and that the Meek's Facebook activity did not belong to Plaintiff.

- **Court's Decision:** Tori Belle wanted to protect the list of Affiliates along with their personal information and employment information. Tori Belle's agreement with the Affiliates included customer and affiliate lists as confidential and prevented their disclosure in competition with the brand. The court found that Plaintiffs had adequately alleged this information was confidential and that the former Affiliates breached the promise to maintain confidentiality. The court found the plaintiff adequately plead a DTSA violation because the former Affiliate defendants used trade secrets in service of their competing company, causing Tori Belle financial harm. The motion to dismiss was granted in part and denied in part.

# Tenth Circuit



# Tenth Circuit

## Utah

***Gen. Water Techs. Inc. v. Zweden*, 515 P.3d 956 (Utah App. Sept. 6, 2022).**

**Industry:** Healthcare

**Takeaway:** The appellate court partially reversed a jury verdict in plaintiff's favor on its trade secret misappropriation claim because there was insufficient evidence that one of the trade secrets was not generally known or readily ascertainable.

**Details:**

- **Procedural Posture**: A jury found two former employees (but not their new employer) liable for misappropriating two categories of trade secrets. The former employees appealed.

- **Factual Background:** Plaintiff Gen Water produces and sells water filtration systems for use in medical facilities. Defendants are two former employees of Gen Water that now work at one of Gen Water's biggest competitors and another named defendant, Med Water. While employed at Gen Water, one of the defendants began communicating with one of Gen Water's largest customers, but did so on behalf of Med Water, claiming that Med Water could provide the same services at a lower cost. Shortly after the customer's contract ended, the customer informed Gen Water that it was moving its business to Med Water. Gen Water discovered the correspondence between its former employee and the customer and promptly filed suit, seeking damages and an injunction under Utah's trade secret statute. In its lawsuit, Gen Water alleged that it was losing business to Med Water because of the misappropriation of their trade secrets by the two former employees, including the (i) design of Gen Water's water purification system and (ii) pricing information.

- **Court's Decision:** On appeal, the former employees argued that the trial court erred because Gen Water failed to prove the existence of a protectable trade secret. The appellate court found that Gen Water had alleged the existence of a trade secret for the design of the purification system but not for its pricing information. On the design trade secret, the court rejected defendants' arguments that a design cannot be secret when the machine is composed entirely of third-party components. The court cited the well-known principle that a compilation of information in the public domain can still qualify as a trade secret as long as the compilation, when considered as a whole, is not generally known or ascertainable. For similar reasons, the court also rejected the argument that the design cannot be a trade secret because Gen Water's customers could simply open the machine and "discover the design secret." On the pricing information, however, the court held that it was not a trade secret because Gen Water presented no evidence that it spent great time or money to develop its pricing, that it had a unique process for calculating its prices, or that the information could not be readily duplicated. Finally, the court rejected the defendants' argument that Gen Water failed to take reasonable measures to protect its trade secrets by failing to have them sign confidentiality or non-competition agreements. The court held that the absence of such agreements does not, as a matter of law, mean that Gen Water failed to take reasonable measures in light of Gen Water's other efforts.

## Wyoming

***Hassler v. Circle C Res.*, 505 P.3d 169 (Wyo. 2022).**

**Industry:** Healthcare

**Takeaway:** Court overruled its prior adoption of the liberal blue pencil, which permitted courts to narrow the terms of a non-compete to make it reasonable and enforceable.

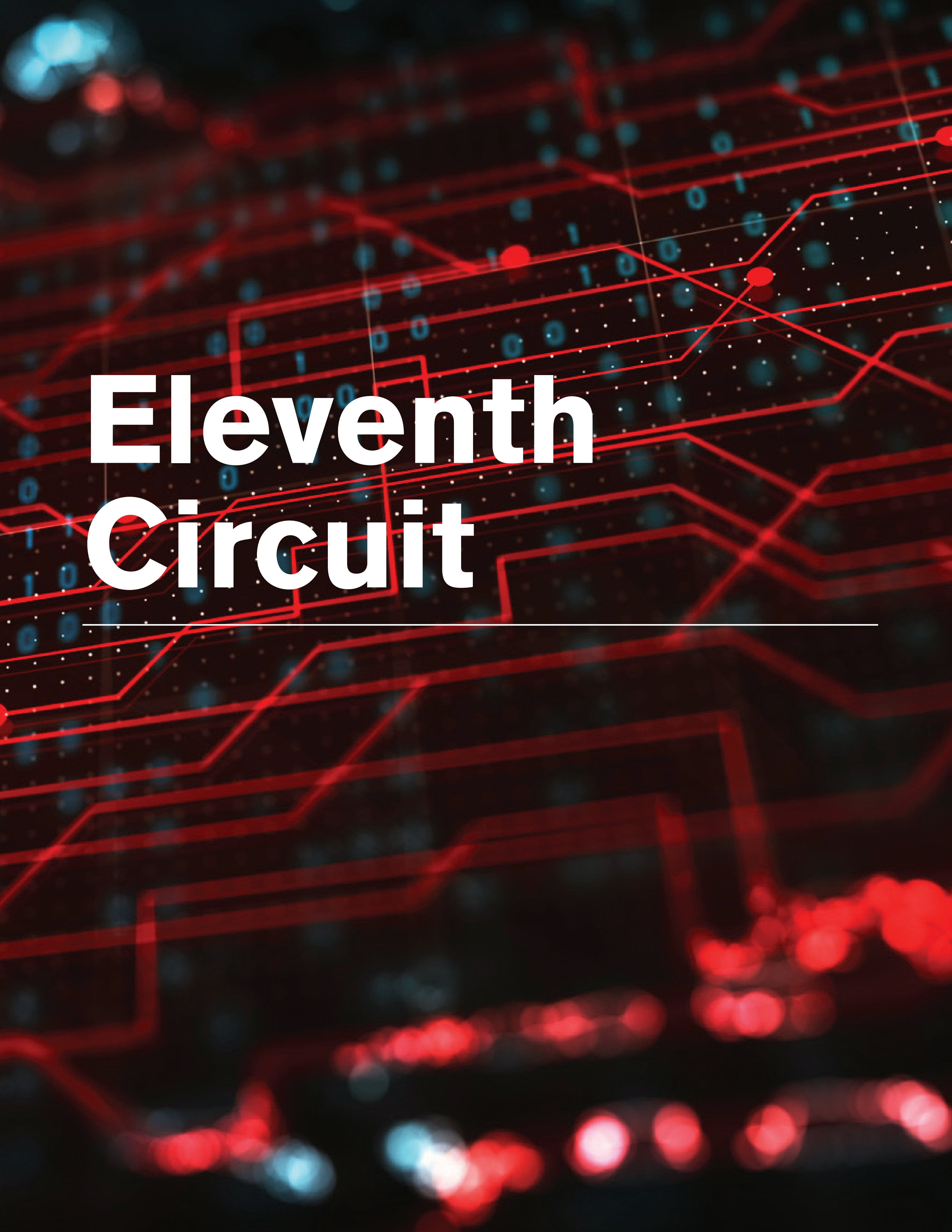
**Details:**

- **Procedural Posture**: Employer sued former employee for breach of the parties' non-compete. The court entered summary judgment for the employer after using the blue pencil rule to narrow the geographical area subject to restriction and to change the duration of the restriction from 24 to 12 months. Employee appealed.

- **Factual Background:** Circle C provides day and residential habilitation services to disabled clients. Circle C hired Ms. Hassler, a CNA, to provide residential habilitation care in her home in Converse County for one of its long-term adult clients (Client). At the time of her hire, Ms. Hassler signed Circle C's "Confidentiality and Noncompetition Agreement." Client became unsatisfied with Circle C and decided to find another provider. Ms. Hassler left her employment and obtained her own Medicaid number so that she could be a provider. Ms. Hassler started providing services to the Client. Circle C sued Ms. Hassler for breach of the non-compete. The trial court blue penciled the non-compete, and entered summary judgment for Circle C. Ms. Hassler appealed.

  **Court's Decision:** The appellate court overruled the lower court and found the non-compete unreasonable on its face and therefore, void. The court expressly overruled the adoption by its 1993 case, *Hopper,* of the "partial enforcement" or "liberal blue pencil rule" approach which permitted courts to narrow the terms of a non-compete to make it reasonable. The court overruled the liberal blue pencil rule, stating that it is contrary to traditional contract law, has worked an injustice on employees, has contributed to uncertainty in business relationships by encouraging employers to draft overly broad, unreasonable restraints on trade, and stating that it is not the court's role to rewrite contracts that violate public policy as written.

# Eleventh Circuit



# Eleventh Circuit

***United States v. Smith*, 22 F.4th 1236 (11th Cir. 2022).**

**Industry:** FinTech; Food & Beverage; Criminal

**Takeaway:** Venue is improper in a federal criminal trade secret case when a defendant did not commit any essential conduct within that venue. In this case, the defendant, while residing in Mobile, Alabama, stole trade secrets concerning the coordinates of artificial fishing reefs in the Gulf of Mexico. The trade secrets were located on servers in Orlando, which is located in the Middle District of Florida. The defendant was tried and convicted in the Northern District of Florida, which was an improper venue because none of his essential conduct took place in there. The court rejected arguments that the effects of the defendant's conduct was a sufficient nexus to establish the proper venue.

**Details:**

- **Procedural Posture:** Following arrest for theft of trade secrets and extortion, the defendant was convicted in the Northern District of Florida. Smith appealed, arguing, among other things, that venue was improper.

- **Factual Background:** Defendant Timothy Smith is a software engineer and an avid fisher. From his home in Mobile, Alabama, Smith stole trade secrets concerning the coordinates of artificial fishing reefs in the Gulf of Mexico from a company called StrikeLine. The trade secrets were housed on servers in Orlando, which is in the Middle District of Florida. Smith shared the coordinates with his friends and posted on Facebook that he possessed all of StrikeLine's artificial reef coordinates. Smith contacted StrikeLine and offered to remove his Facebook post and not share the coordinates further if StrikeLine would provide the coordinates of valuable fishing holes for deep-sea grouper fishing. StrikeLine contacted the authorities and Smith was arrested. A federal grand jury indicted Smith on three counts in the Northern District of Florida, where StrikeLine's office is located. Smith was convicted of theft of trade secrets and extortion.

- **Court's Decision:** The Eleventh Circuit held that the Northern District of Florida was an improper venue for the theft of trade secrets count. Based on established precedent, a court must perform a two-step venue inquiry. First, the court must identify the essential conduct elements of the charged crime, and second, the court must "discern the location of the commission of the essential conduct elements." The location of the commission of the essential elements must be the same as the location of the trial. The essential element of the trade secrets charge is that the defendant "must steal, take without authorization, or obtain by fraud or deception trade-secret information." The parties agreed that Smith remained in Mobile, Alabama during the commission of the crime, and they also agreed that the data was taken from servers located in Orlando, which is in the Middle District of Florida. Because Smith did not commit any essential conduct of his trade secret theft in the Northern District of Florida, venue was improper.

## Alabama

***AQuate II, LLC v. Myers*, No. 5:22-CV-00360-AKK, 2022 WL 2919626 (N.D. Ala. July 25, 2022).**

**Industry:** Government Contracting/Security

**Takeaway:** A tribal entity does not waive sovereign immunity with respect to a claim for misappropriation of trade secrets by participating in a government contracting bid.

**Details:**

- **Procedural Posture**: Defendants moved to dismiss Plaintiff AQuate's misappropriation of trade secrets claims on the basis of sovereign immunity.

- **Factual Background:** Plaintiff AQuate, a tribal-owned government contractor, provided security services to the government. Defendant Jessica Myers, a former AQuate employee, helped prepare AQuate's contracting bids. Myers resigned from AQuate to provide similar services for Kituwah Services, another tribal entity. AQuate accused Myers of stealing its contracting data and for soliciting former employees in breach of her employment agreement. It also brought suit against Kituwah for knowingly possessing and using AQuate's trade secrets. Kituwah moved to dismiss on sovereign immunity grounds.

- **Court's Decision:** The Court held that Kituwah did not waive sovereign immunity by competing for a government contract. While Kituwah agreed to waive sovereign immunity with respect to certain government contracting bids, AQuate's claims were not based on Kituwah's participation in those bids. Rather, AQuate based its claims more generally on the misappropriation of trade secrets. The Court also found that Kituwah was a necessary party, and thus dismissed the trade secrets claims brought against both Myers and Kituwah. The breach of the employment agreement claims survived.

***HB&G Bldg. Prod., Inc. v. Digger Specialties Inc.*, No. 2:22-CV-329-ECM, 2022 WL 1913604, (M.D. Ala. June 3, 2022).**

**Industry:** Construction

**Takeaway:** A temporary restraining order was warranted when a high-level employee surreptitiously downloaded confidential information on formulations, costing, and profitability of the company's popular product line and then disseminated that information to executives at the company's biggest competitor.

**Details:**

- **Procedural Posture**: Renewed motion for temporary restraining order.

- **Factual Background:** Plaintiff, HB&G and, Defendant, Digger, compete in the outdoor living products industry. Defendant Brittain Russell previously worked at HB&G in a high level position. Russell signed a confidentiality agreement where he agreed that, among other things, he would not disclose HB&G confidential information, would not copy information, and would return confidential information upon separation. In August 2021, Russell looked for an opportunity to leverage HB&G's confidential information to obtain a position from Digger. Digger was receptive and Russell quickly began to meet with Digger executives and pass along confidential information on formulations, compositions, costs, and profitability on HB&G's products. Digger eventually offered a job to Russell, but Russell actually used the offer to get better compensation at HB&G. Within weeks though, Russell became upset with HB&G and moved to Digger. Before resigning, Russell downloaded additional confidential information. HB&G learned of Russell's actions after hiring a forensic investigations firm. HB&G filed suit shortly thereafter, seeking monetary damages and injunctive relief.

– **Court's Decision:** The court granted HB&G's motion for a temporary restraining order. The court found that HB&G had shown a likelihood of success as the files downloaded and sent by Russell likely qualify as trade secrets and that Russell and Digger acquired those trade secrets by improper means. The court found irreparable injury because HB&G stood to lose its competitive advantage and customer base because of the misuse of the trade secrets. The balance of harms and public interest likewise weighed in the plaintiff's favor. The court granted a TRO but rejected plaintiff's request to require Digger and Russell to submit their computers and electronic devices for analysis at such an early stage of litigation and refused to enjoin Russell from any employment at Digger altogether because Digger and Russell were barred by the TRO from using HB&G's trade secrets.

## Florida

***Forbes v. Millionaire Gallery, Inc.*, 335 So.3d 1260 (Fla. App. Ct. 2022).**

**Industry:** Entertainment and Sports Memorabilia

**Takeaway:** In action against former employee and the competitive business he created, the Florida district court of appeals found that the former employer's confidential customer lists and images of its inventory constituted protectable trade secrets under the Florida Uniform Trade Secrets Act.

**Details:**

- **Procedural Posture:** Employer brought action against former employee and his new company claiming misappropriation of a trade secret under the Florida Uniform Trade Secrets Act (FUTSA). Following a jury trial, the circuit court entered judgment in favor of employer and denied former employee's motion for directed verdict and judgment notwithstanding the verdict. The district court of appeal affirmed.

- **Factual Background:** Richard Forbes worked as an accountant and Chief Financial Officer at Millionaire Gallery, Inc. (MGI), which produces, markets, and sells entertainment and sports memorabilia. In October 2011, Forbes resigned from MGI, but continued providing accounting services to the company until March 2012. On March 9, 2012, while he was still providing accounting services to MGI, Forbes formed Investment Ink, LLC d/b/a Signature Royale, which also sold sports and entertainment memorabilia. Signature Royale populated its website and Facebook page with approximately 300 images of MGI's memorabilia products and sent email blasts to individuals on MGI's customer contact list. MGI brought suit alleging misappropriation of trade secrets and argued that its confidential customer lists constituted a protectable trade secret under FUTSA. At trial, MGI's expert testified that during Signature Royale's first partial year of business in 2012, 82% of Signature Royale's sales were made to MGI customers, followed by 71% in 2013, and close to 50% in the next three years. The jury returned a verdict finding Forbes and Signature Royale jointly and severally liable for misappropriating MGI's trade secrets and awarded MGI over $1.5 million in damages. The trial court denied Forbes's motion for a directed verdict and for judgment notwithstanding the verdict, rejecting his argument that the customer lists and images of MGI's inventory displayed on Signature Royale's website did not constitute protectable trade secrets.

- **Court's Decision:** The district court of appeal affirmed the trial court's order denying Forbes's motion for a directed verdict or a judgment notwithstanding the verdict finding competent, substantial evidence supported the jury's verdict, including that MGI's confidential customer lists that were used by Forbes to send email blasts promoting Signature Royale a constituted a protectable trade secret that Forbes and Signature Royal misappropriated. The court also found that competent expert testimony regarding

Signature Royal's profits from sales to MGI customers supported the jury's award of over $1.5 million in damages.

***Alonso-Llamazares v. Int'l Dermatology Rsch., Inc.*, No. 3D20-0985, 2022 WL 163814 (Fla. Dist. Ct. App. Jan. 19, 2022).**

**Industry:** Healthcare

**Takeaway:** An employment agreement should contain express language showing that the parties intend for a non-compete to survive the expiration or termination of the agreement. This way, the non-compete remains in for force where the agreement expires but the employment continues.

**Details:**

- **Procedural Posture**: Employer, a medical practice management business that utilized dermatologists to conduct clinical research projects in area of dermatology, filed suit against former employee for breach of contract and tortious interference with contractual relations, and sought temporary and injunctive relief to enforce non-compete clause in employment contract. The court issued a temporary injunction and the employee appealed.

- **Factual Background:** On October 4, 2011, IDR and Dr. Alonso entered into an Agreement for Management Services and Clinical Research Services with subsequent amendments (the "Agreement"), such that the Term of the Agreement went through December 31, 2017. Dr. Alonso, however, continued to work for IDR after December 31, 2017. IDR terminated Dr. Alonso in November 2019. Dr. Alonso then began operating Driven Research LLC on January 2, 2020. Dr. Alonso does not dispute that he began Driven Research to conduct clinical trials and that as of January 2, 2020, he was competing with IDR. Instead, Dr. Alonso argued that because the Agreement expired on December 31, 2017 and the 2-year non-compete provision expired on December 31, 2019. IDR filed suit against Dr. Alonso, seeking temporary and permanent injunctions and asserting claims for breach of contract and tortious interference with contractual relations based on Dr. Alonso's active competition against IDR. The court issued a temporary injunction and Dr. Alonso appealed.

- **Court's Decision:** On appeal, Dr. Alonso argued that the court erred in finding that the non-compete provision was valid and enforceable because it expired before he started Driven Research. The court disagreed explaining that the agreement had a survival clause stating that the non-compete clause survived the expiration of the contract and thus it was triggered upon IDR's termination of Dr. Alonso's employment.

***Blue-Grace Logistics LLC v. Fahey*, 340 F.R.D. 460 (M.D. Fla. 2022).**

**Industry:** Transportation

**Takeaway:** A company seeking to enforce a non-competition agreement could not show irreparable harm where it waited 13 months to move for injunctive relief, even though procedural hurdles contributed in part to that delay.

**Details:**

- **Procedural Posture**: Fahey, a former employee of Blue-Grace Logistics, LLC (BGL), breached his non-competition agreement by resigning to work for a competitor. BGL moved for injunctive relief in the

Middle District of Florida. The Court denied the motion for injunctive relief.

- **Factual Background:** Fahey worked as a salesperson for BGL, a transportation logistics company. His employment agreement contained a nationwide, two year non-competition agreement. On November 27, 2020, Fahey resigned and went to work for Traffic Tech, a BGL competitor. On December 1, 2020, BGL sued Fahey in state court and moved for a TRO. On January 7, 2021, Fahey removed to federal court. BGL moved for a TRO the same day. On January 12, 2021, the federal court denied the motion on procedural grounds. BGL moved to remand to state court, and the court granted the motion on April 20, 2021. BGL then amended the complaint to add Traffic Tech as a defendant. On October 27, 2021, Traffic Tech removed the case to federal court. On October 29, 2021, BGL moved for a preliminary injunction. On November 22, 2021, before a ruling on its motion for preliminary injunction, BGL moved to amend the complaint and preliminary injunction motion to add three additional employees who had left to work for Traffic Tech. Briefing on the preliminary injunction motion was completed January 13, 2022.

- **Court's Decision:** The court denied the preliminary injunction motion on the basis that BGL's extensive delays rebutted any presumption of irreparable harm. After its initial motion for preliminary injunction was denied on procedural grounds, BGL waited months before renewing. In that time, it amended its complaint multiple times to add new defendants, moved to strike affirmative defenses and dismiss counterclaims, and asked for extensions to file briefing. This produced delays of at least nine months, attributable to BGL. As this delay demonstrated a lack of urgency, the court found there was no presumption of irreparable harm and therefore no basis for injunctive relief.

***Perma-Liner Indus., LLC v. D'Hulster*, No. 8:21-cv-715-CEH-TGW, 2022 WL 772736 (M.D. Fla. Feb. 9, 2022).**

**Industry:** Sewer System Repair/Cured-In-Place-Pipe (CIPP)

**Takeaway:** Customer lists, pricing specifications, and products developed through extensive research and development each qualify as trade secrets for pleading purposes under the Florida Uniform Trade Secrets Act (FUTSA) and Defend Trade Secrets Act (DTSA).

**Details:**

- **Procedural Posture:** Perma-Liner filed a lawsuit in 2020 and later filed their Second Amended Verified Complaint. D'Hulster moved to dismiss for failure to state a claim and failure to join an indispensable party.

- **Factual Background:** D'Hulster is the founder and former president of Perma-Liner Industries, a company that repairs existing sewer systems without any excavation. Prior to D'Hulster's departure, both parties signed restrictive covenants including a restriction against disclosing Perma-Liner's confidential information and trade secrets. D'Hulster founded a competing company that allegedly used customers lists and intimate knowledge of Perma-Liner's operations to solicit Perma-Liner's customers. Additionally, D'Hulster developed product that allegedly "overlap[ped] with product lines that were developed by [Perma-Liner] through extensive research and development." Lastly, D'Hulster's company purportedly undercut Perma-Liner's product pricing.

- **Court's Decision:** The court first recognized that FUTSA is substantively like DTSA and that both parties agreed to use the FUTSA analysis for both claims. The court then noted that the "the bar for what counts as 'use' of a trade secret is generally low." Next, the court recognized Perma-Liner's highly developed and maintained customer lists, pricing specifications, and product information can be trade secrets. The court also acknowledged Perma-Liner's efforts to maintain secrecy by requiring employees to maintain confidentiality. Additionally, misappropriation was found plausible because D'Hulster poached customers and providers, undercut Perma-Liner's prices, and had similar product information in the catalog. Therefore, Perma-Liner had stated a cognizable claim under FUTSA.

***Verbena Prods. LLC v. Del Toro*, No. 22-20218-Civ-Scola, 2022 WL 910666 (S.D. Fla. Mar. 29, 2022).**

**Industry:** Ecommerce; Cosmetic and Beauty Products

**Takeaway:** The way publicly available software programs are "programmed, integrated and configured to work together," in conjunction with details about the use and function of a Plaintiff's proprietary configurations are sufficient to allege "trade secrets" at the pleading stage.

**Details:**

- **Procedural Posture:** Del Toro, a former employee, was arrested after Verbena noticed discrepancies in its inventory. Verbena later initiated a Defend Trade Secrets Act (DTSA) claim and Del Toro moved to dismiss it.

- **Factual Background:** Verbena is an online retailer specializing in cosmetic products and caters to multiple online marketplaces. Del Toro was hired by Verbena in 2016 although he had no prior ecommerce experience. Throughout his employment, Del Toro learned about and worked with Verbena's proprietary configurations. After Verbena noticed discrepancies in its inventory, Del Toro was investigated and subsequently arrested. Later that year, Del Toro started a competing ecommerce retailer that sold similar and identical products as Verbena. That prompted Verbena to allege its trade secrets were misappropriated. Del Toro moved to dismiss, stating that Verbena failed to plausibly allege all three prongs of a DTSA claim.4

- **Court's Decision:** First, the court focused on whether Verbena had alleged a "trade secret with sufficient particularity" — more than "identifying broad categories of information." Del Toro argued that Verbena's alleged trade secrets are third-party programs generally available to the public. Verbena argued the program configurations were trade secrets because the systems were specifically configured by Verbena to be compatible with various ecommerce platforms. Additionally, Verbena detailed the configurations' order and product tracking functions to distinguish it from a "broad category" of information. The court agreed with Verbena, noting that other courts "have held that such software configurations can constitute trade secrets." Second, the court reasoned that the configurations had independent economic value because they allowed Verbena to increase productivity. Third, the court accepted Verbena's statement alleging that it owned the trade secrets. Fourth, the court reasoned Verbena had taken reasonable steps to protect its secrets by giving employees sign a confidentiality agreement in the employee handbook. That fact also showed that Del Toro knew he had a duty to maintain secrecy. Lastly, the court found an inference of disclosure because Del Toro, without prior ecommerce experience, started a competing e-retailer that mirrored Verbena's offerings. Because Verbena sufficiently plead, the court denied Del Toro's motion to dismiss.

## Georgia

***Angel Oak Mort. Solutions LLC v. Mastronardi*, No. 1:20-cv-4583-MLB, 2022 WL 875910 (N.D. Ga. Mar. 23, 2022).**

**Industry:** Mortgage Loan Lenders

**Takeaway:** The Georgia Trade Secret Act (GTSA) preempts non-contractual claims providing civil remedies for misappropriation of trade secrets. Further, the GTSA preempts "lesser and alternative" claims based on the same facts underlying the trade secret claim, regardless of whether a trade secret is later found. Additionally, misappropriation does not occur when an authorized person moves information from an area in their control to their personal email account. Lastly, improper retention of confidential information does not equate to improper acquisition.

**Details:**

- **Procedural Posture:** Plaintiffs filed suit in 2020 after Defendants sent a variety of business information to their personal email accounts. Defendants moved to dismiss some claims on the grounds that GTSA preempted them. In the alternative, Defendants argued the Defend Trade Secrets Act (DTSA) and GTSA claim were not properly stated because there was not a "misappropriation" of trade secrets.

- **Factual Background:** Individual defendants Mastronardi, David, Garcia, and Friedberg (Defendants) left Angel Oak Mortgage to work for LendSure Mortgage Group. While still employed, Defendants sent a variety of business information under their control to their personal email accounts. Angel Oak characterized the sent information as (1) confidential and trade secrets; (2) non-trade secret information; or (3) information that Angel Oak declined to characterize. Angel Oak further alleged that some of its information ended up on LendSure's computers. Lastly, Angel Oak claimed its information was misappropriated because Defendants violated written provisions stating that Defendants would not divulge information and would return all information after termination.

- **Court's Decision:**
    - The defendants first argue that most Angel Oak's claims are preempted by the GTSA. The court disagreed and cited Georgia Supreme Court's holding in Robbins. There, the Georgia Supreme Court held that the "GTSA preempts claims that rely on the same allegations as those underlying the plaintiff's claim for misappropriation of a trade secret." The defendants then argue that some district courts allow the GTSA to preempt a claim based on misappropriation of any information. However, the court refused to acknowledge those non-binding decisions. Additionally, the court examined the act's legislative history and found that the act applied only to the statutory category of "trade secrets" because the legislature explicitly said so. Therefore, because of Robbins and legislative history, the court held that GTSA preempts trade secret claims and "lesser and alternate" claims based on the same facts. Thus, the claims based on the information that Angel Oak characterized as "trade secrets" were dismissed.

    - The court then turned to the "misappropriation" issue by defining "misappropriation" as improper acquisition or unauthorized disclosure. First, the court found no disclosure, divulging, or improper acquisition because Defendants moved the information from an area under their control during their employment to their personal email. The court also reasoned there may be improper retention since the Defendants had returned the information, but retention did not equal acquisition. Because there was no misappropriation, this claim was dismissed.

***Baldwin v. Express Oil Change, LLC*, No. 1:21-CV-3874-AT, 2022 WL 401470 (N.D. Ga. Jan. 31, 2022).**

**Industry:** Automotive

**Takeaway:** A senior employee's four-year, nationwide noncompete and non-solicitation agreement was held overly broad under the Georgia Restrictive Covenants Act (GRCA). The covenants however were blue-penciled by the Court. The employee was entitled to keep the full consideration he received for the covenants, and was not required to return any of the consideration as a result of the blue-penciling.

**Details:**

- **Procedural Posture**: After signing a restrictive covenant agreement in connection with the sale of the company in which he worked, Baldwin sought a declaratory judgment that the restrictive covenant violated Georgia law and moved for a preliminary injunction. The case was removed to federal court in the Northern District of Georgia. The Court held an evidentiary hearing before ruling on the injunction.

- **Factual Background:** Baldwin was employed as senior vice president of operations for two franchisees of Express Oil Change (EOC), an automotive repair company. He also held 15% phantom equity interest in the franchises. EOC bought the franchises, and required Baldwin to sign a non-compete and non-solicitation agreement, which was effectively nationwide and four years in scope. Baldwin received $2 million in compensation — which exceeded his 15% phantom equity — in consideration after the purchase was finalized. Following the purchase, Baldwin attempted to open his own automotive repair ship. After EOC objected on the grounds that the location violated the non-compete agreement, Baldwin moved for declaratory judgment that the restrictive covenant violated Georgia law.

- **Court's Decision:** The court conducted a standard preliminary injunction analysis, weighing the likelihood of success, irreparable harm, balance of the equities, and public interest. Under the GRCA, geographic scope must be limited to areas where the employee had contact with customers. Accordingly, a nationwide injunction was inappropriate, as Baldwin only performed work in Georgia. The temporal scope of four years, though appropriate for sellers of a company, was inappropriate as applied to Baldwin, who was only an employee. Despite holding a 15% phantom equity interest, Baldwin did not own a "material part" of the assets sold — a requirement under the GRCA. The court limited the geographic scope to within a five mile radius of a franchise previously overseen by Baldwin, and reduced the temporal scope to 24 months. Finally, the court found that it lacked the authority to require Baldwin to reimburse EOC for part of the $2 million in consideration.

***RoadSync, Inc. v. Relay Payments, Inc.*, No. 1:21-cv-3420-MLB, 2022 WL 4715656 (N.D. Ga. Sept. 30, 2022).**

**Industry:** Software and Logistics

**Takeaway:** Courts continue to dismiss claims based on preemption grounds when the claims rely upon or overlap with misappropriation of trade secrets. In certain instances, such as here, this may result in only parts of claims being preempted by the state trade secrets acts.

**Details:**

- **Procedural Posture:** RoadSync, a technology company focused on software assistance in the logistics industry, sued a competitor (Relay Payments) and several of its employees for misappropriation of trade secrets, unlawful use of its computer network, and other claims. Defendants moved to dismiss.

- **Factual Background:** RoadSync developed a unique software product that streamlined the process to pay companies for loading or unloading commercial freight. Two high-level executives of RoadSync grew unhappy with the company's focus and were terminated, but before leaving they accessed RoadSync's computer network and absconded with a Google drive containing a trove of proprietary information. A year later, they formed Relay Payments to directly compete with RoadSync, hired multiple RoadSync employees, went after its customers, and created a nearly identical software program. Among the information allegedly taken from RoadSync was source code, financial information, and customer lists.

- **Court's Decision:** The court considered whether and to what extent the trade secrets misappropriation statute preempted RoadSync's common law and statutory claims. The court held that part of Plaintiff's statutory computer theft claim was preempted but that other allegations – that the fired executives had also accessed the network to delete work emails to cover their trail – was sufficiently divorced from the misappropriation allegations to survive preemption. The court similarly held that part of Plaintiff's breach of fiduciary duty claim was preempted and part survived. The court also partially dismissed certain aspects of Plaintiff's trade secrets claim because Plaintiff had failed to identify certain categories of information with sufficient particularity.

## Smart In Your World

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