

Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 71

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

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Jordan Grotzinger ([00:17](#)):

Hi everybody and welcome to episode 71. Today we're going to be discussing two cases, one about the statute of limitations and specifically the importance of destroy or certify clauses in an NDA. And two, the irreparable harm requirement for a preliminary injunction. As to the statute of limitations case, this was out of the Western District of Washington, actually from September. In this case, the two parties are in the business of silly carbon composites for use in rechargeable lithium-ion batteries. In connection with potential merger discussions, they entered an NDA dated April 4th, 2016 and exchanged certain confidential information. The merger discussions fell through and the parties went their separate ways.

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The plaintiff sued the defendant for trade secret misappropriation under the Defend Trade Secrets Act, the Federal Trade Secret law, and the Washington Uniform Trade Secrets Act. And the defendant moved for summary judgment on the ground among others that these claims were time-barred. Now, the trade secret misappropriation statute of limitations, as we've discussed, is three years. More specifically, a civil action under the Defend Trade Secrets Act, "May not be commenced later than three years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered." Similarly, Washington's Uniform Trade Secrets Act also requires that an action be brought, "Within three years after the misappropriation is discovered, or by the exercise of reasonable diligence should have been discovered." Now, a plaintiff facing a statute of limitations defense often invokes what's called the discovery rule, which is alluded to in those two statutes I quoted, which basically means that the limitations period shouldn't start running until the plaintiff discovered or should have discovered the basis of the claim.

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As the court explained here, "Under Washington Law, when a plaintiff invokes the discovery rule to counter a statute of limitations defense, the plaintiff bears the burden to show that the facts constituting the cause of action were not discovered and could not have been discovered by due diligence within the limitations." In this case, September 23rd, 2019 was three years prior to the plaintiff's filing of the lawsuit. Here the court explained it was the termination of the party's NDA that started the clock running, citing a 2020 case with analogous facts. In that case, the court said, "On the day before the parties met to discuss the defendant's acquisition of the plaintiff's business or its tax preparation software, they executed a confidentiality agreement which required the defendant in the event a purchase and sale transaction did not proceed to promptly return or confirm in writing the destruction of the plaintiff's confidential information." That is key here.

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The party's deal was abandoned in April 2012, but the plaintiff did not assert its trade secret misappropriation claims until October 2018. The court concluded that the plaintiffs' Defend Trade Secrets Act and Uniform Trade Secrets Act claims were time-barred reasoning that, "The plaintiff should have known of its misappropriation claim no later than April 2012 when the defendant failed to deliver or certify as destroyed the plaintiff's confidential materials." Thus, that court said the plaintiffs' Defend Trade Secrets Act and Uniform Trade Secrets Act claims accrued upon the defendant's improper retention of the plaintiff's alleged trade secrets about which the plaintiff knew or should have known. Here the court said, as in that case, "The party's NDA has a return or certify as destroyed clause. Moreover, the NDA terminated immediately upon the completion or abandonment of the last operative research protocol." And research protocol was defined in the NDA as, "Development testing and corroboration of enhanced performance of defendant's silicon materials when incorporated into carbon silicon composite employing the plaintiff's technologies."

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The parties didn't dispute that, "After January 25th, 2018 when the defendant withdrew its offer to acquire the plaintiff, no composite training materials or samples were sent by either entity to the other one, and no further testing as envisioned in the research protocol occurred." The defendant therefore argued that the NDA terminated on January 25th, 2018, but the plaintiff argued that the parties continued to engage thereafter. But the court said the plaintiff, "Has not identified any correspondence or other item in the record that one, suggests the research protocol had not been completed or abandoned at the latest November 8th, 2018 or two, might have breathed new life into the NDA after that date."

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Thus, the court concluded that, "As a matter of law, the research protocol was completed or abandoned by, and that the NDA terminated on November 8th, 2018. The NDA's termination on November 8th, 2018 gave rise to the defendant's duty to return or certify as destroyed any confidential information provided by the plaintiff, including any trade secrets. And the defendant's retention of any of plaintiff's trade secrets after November 8th, 2018 was not authorized. On this date as a matter of law, the plaintiff's Defend Trade Secrets Act and Uniform Trade Secrets Act claims accrued."

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Also, the court noted before this date, the plaintiff's CEO had received two emails suggesting that the defendant was, "Working feverishly to keep pace" with the technology issue. Thus considering the record as a whole, the court ruled, "As a matter of law that by November 8th, 2018, the plaintiff had reason to know about the injury that is the premise of its Defend Trade Secrets Act, and Uniform Trade Secrets Act claims." And therefore the plaintiff's, "Federal and state trade secret misappropriation claims, which were brought more than three years after November 8th, 2018, are time-barred. The defendant is entitled to summary judgment on that basis and the plaintiff's Defend Trade Secrets Act and Uniform Trade Secrets Act claims are dismissed with prejudice." The next case focuses on irreparable harm and that requirement for preliminary injunctions.

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This case came out of the Eastern District of Virginia on November 7th of this year. The plaintiff there is in the business of durable medical equipment. The defendant is a former sales representative, then became a business development manager whose job it was to service clients and get business and who had access to information about the plaintiff's marketing method and customers. "The defendant signed two confidentiality agreements and a non-compete agreement with the plaintiff. The plaintiff alleges that the defendant violated these agreements in various ways, including by emailing patient records

from her work email to the personal email account, and emailing the plaintiff's proprietary and unique language used in documents sent to healthcare providers to her personal email account. Plaintiff also claims that the defendant diverted business from the plaintiff to its competitors, co-defendants, and that she was simultaneously employed at one co-defendant while working for the plaintiff."

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So the plaintiff sued for violation of the Defend Trade Secrets Act again, the Virginia Uniform Trade Secrets Act and makes related claims. Plaintiff moved for a preliminary injunction. As we've discussed, a party seeking a preliminary injunction, "Must establish that they're likely to succeed on the merits, that they are likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in their favor and that an injunction is in the public interest." The court's ruling focused on the irreparable harm requirement. The court ruled, "Although the plaintiff has demonstrated some likelihood of success in enforcing the non-solicitation provision, any harm resulting from such breach would not result in irreparable harm at this stage of the proceedings." The defendant argues that the plaintiff, "Merely alleges a possibility of harm and that if the plaintiff is or is about to suffer irreparable harm, it would've made efforts to seek relief sooner by requesting a hearing and mitigating its harm by hiring a replacement for the defendant."

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On the other hand, the plaintiff argues that, "The possibility of permanent loss of customers to a competitor or loss of goodwill," satisfies the irreparable injury [inaudible 00:09:52]. But the case on which the plaintiff relied for that argument, which was 30 years old, is expressly overruled by a more recent case, which stated that the possibility standard is too lenient directly rejecting the irreparable harm injury standard articulated in that older case. Issuing a preliminary injunction based only on a possibility of irreparable harm, the court noted is inconsistent with the supreme Court's characterization of injunctive relief as an extraordinary remedy.

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Thus, the court said, "Irreparable harm must be actual or imminent, not remote or speculative." Further, "The possibility that adequate compensatory or other corrective relief will be available at a later date weighs heavily against the claim of irreparable harm." Generally, "Irreparable injury is suffered when monetary damages are difficult to ascertain or are inadequate," and "At this stage in the litigation, serious factual disputes still exist as to whether the plaintiff has lost customers, whether the customers were the plaintiffs to begin with, and whether the losses alleged resulted from the defendant alleged breach of the non-solicitation clause or from some other factors."

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And the court said, "Even if its losses are proven to result from a breach of the non-solicitation provision, these losses should be readily capable of calculation." Thus, the court said, "The plaintiff's allegations of lost business remain speculative under the preliminary injunction standard, and it has a strong possibility of receiving adequate relief in the future. Because the plaintiff cannot show that it will suffer irreparable harm absent a preliminary injunction, the plaintiff's motion for a preliminary injunction is denied." And now for the two takeaways, takeaway one about statute of limitations. If your NDA or confidentiality agreement or joint venture agreement has a so-called destroy or certify clause requiring the parties to destroy confidential information or certify its destruction within a certain time, don't forget it. It can be the key basis for a finding that the statute of limitations has started running. In other words, if you're keeping an alleged trade secret past when you're contractually allowed by an NDA, a court can find that the other party knew or should have known of misappropriation once the deadline to destroy or certify has passed, which starts the statute of limitations.

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So pay attention to those clauses. They're directly relevant to the statute of limitations. Takeaway two, according to the Eastern District of Virginia, for purposes of preliminary injunctions, the possibility of irreparable harm is inconsistent with the Supreme Court's characterization of injunctive relief as an extraordinary remedy. And irreparable harm must be actual or imminent, not remote or speculative. And that makes sense. And as a reminder that your irreparable harm showing must be as concrete as possible rather than speculative. Thank you for listening. It is the Tuesday before Thanksgiving. Happy Thanksgiving. I am grateful for all of you. See you next time.