

Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 74

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

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Hi everybody, and welcome to episode 74 of the podcast. Today, we are going to discuss cases involving three subject matters, a couple of which I don't think we've addressed on the podcast before. The first subject is the first-to-file rule. The second is res judicata, which involves a lawsuit over issues that have already been litigated. And the third, which is an issue we have addressed, is statute of limitations. The first case we're going to discuss was out of the DC District and decided this month the facts and allegations are as follows. The plaintiff was a federal government contractor and it sued several corporate defendants and a former employee of the plaintiff for misappropriation of trade secrets, breach of contract and tortious interference with contract, and what's called prospective business relationships.

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The plaintiff alleged that the defendants misappropriated its trade secrets during the 2021 bidding process for a contract with the US Department of Veteran Affairs, which the plaintiff lost to certain defendants. The allegations included that the former plaintiff employee, now with one of the corporate defendants, was involved in the misappropriation, sort of a classic scenario in this space. The plaintiff sent a demand letter to the defendants in August 2024 threatening legal action if a settlement was not discussed. And then, and this happens sometimes when you send a demand letter instead of just filing a lawsuit, two of the corporate defendants filed a preemptive lawsuit in the Southern District of California seeking a declaratory judgment as to the plaintiff's claims. A declaratory relief case is essentially, and it's often a preemptive case, where you say to the court "Court, we've got this dispute. The claimant is alleging so-and-so. We think it's wrong. Decide who's right." That's a deck relief case in a nutshell.

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So, this case is about the so-called first-to-file rule. What is the first-to-file rule? The court explained as follows, "Given the inefficiency of having parallel litigation of factually related cases in separate fora, District Courts have discretion to dismiss or stay a pending suit while a parallel suit proceeds. The usual rule in this circuit has been that where two cases between the same parties on the same cause of action are commenced in two different federal courts, the one which is commenced first is to be allowed to proceed to its conclusion first. The decisions recognizing the first-in-time rule note, however, that equitable considerations may weigh against applying it in particular cases." Here, the court found that the California action was filed as a strategic move to preempt the plaintiff's lawsuit that it threatened in the demand letter, and that weighed heavily against applying the first-to-file rule.

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The court stated, "The preemptive and declaratory nature of the defendant's California action is a strong factor, therefore counseling against the rigid application of the first-to-file rule." And just for clarity, the words California and therefore were added by me in captions for context. Also, the court determined

that it was better suited to adjudicate all related issues as all parties involved in the dispute were present in the District of Columbia area, making it more efficient to proceed there. The court noted that also that most witnesses and relevant facts were connected to the DC area, further supporting the decision to proceed in this forum. And the court found that neither the California action nor the DC case had progressed significantly, and the DC cases were further along, which weighed against applying the first-to-file rule, the DC case. All of the above are the equitable factors that the court mentioned.

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So, the court denied the motion to dismiss or stay the litigation based on the first-to-file rule. What are the takeaways from this case? In the first-to-file analysis, courts will focus on equitable considerations over the mechanical application of the first-to-file rule. So, winning the race to the courthouse is not always dispositive as to who's going to get to go first. Second, the factors include the significance of the forum's connection to the parties and the dispute, as well as the strategic nature of the defendant's preemptive filing. Third, if the first-filed case is a preemptive strike to secure a preferred forum, that weighs against application of the first-to-file rule. Also note that some preemptive cases, like the ones we're talking about, may not just be filed to get a preferred forum, but also to take the role of plaintiff for a party that would otherwise be a defendant. So, like in this case, the defendant's got, or, well, the respondents technically got a demand letter from the plaintiff threatening a lawsuit, and they ran to court and filed this preemptive deck relief claim first.

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Not only had they won this issue would they have secured the forum they chose, but they'd get to present their case first if it goes to trial. That's one of the benefits of being a plaintiff. And we can debate how valuable that really is, how much it really matters, but that's another reason why parties sometimes jump the gun and file preemptively. And lastly, as to takeaways, the ruling underscores the court's discretion in balancing convenience, efficiency and fairness in determining the appropriate forum for litigation. So, that's how the first-to-file rule applied in a recent trade secret case. Comes up in all kinds of cases, but we don't see it a lot in trade secret cases, so we thought it was worth discussing. The second case was decided by the US Court of Appeals for the Fifth Circuit, and this decision was on February 3rd, 2025. Here is a summary of the facts and allegations.

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The plaintiff was established to create an application for streamlining the purchase of workers' compensation insurance. The company alleged that a consultant misappropriated the app idea and shared it with a third person, leading to the creation of what I'll call P, as in Paul, Insurance Holdings and its affiliates, which allegedly profited from the idea. The plaintiff sued the consultant, third person and P Insurance holdings for misappropriation of trade secrets under the Mississippi Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act, among other claims. The District Court dismissed these claims without prejudice, citing insufficient detail and allowed the plaintiff to amend its complaint, which the plaintiff declined to do, opting to appeal instead. And without prejudice just means as the court did, it's not final, but rather the plaintiff was invited to file an amended complaint to cure the deficiencies in the original complaint, which the court here said was a lack of specificity, something we see a lot in trade secret cases.

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So, the court dismisses the claim without prejudice, citing insufficient detail and says, "Plaintiff, you can amend the complaint." Plaintiff declines to do so and instead goes right to the Court of Appeal. Court of Appeal said, "The District Court gave the plaintiff 30 days to amend its complaint when granting the motion to dismiss. The District Court's 23-page opinion provided a road map for curing the deficiencies

in the plaintiff's complaint and surviving the motion to dismiss." While the appeal was pending, the plaintiff filed a new lawsuit, and we'll call that lawsuit P2, against additional parties alleging the same claims as in the first lawsuit, which I'll call P1. The defendants there moved to dismiss and that motion was granted on res judicata grounds. And here's a summary of the discussion of the doctrine of res judicata and how it applied here. Court explained, "Res judicata applies when litigants have either failed to persuade a tribunal of the merit of their claims or have slept on their rights."

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Here, res judicata was deemed applicable because the dismissal in P1, although without prejudice, became a final judgment on the merits when the plaintiff chose to appeal rather than amend its complaint. The court explained, "Notwithstanding the clear finality of P1, the plaintiff argues that P1 cannot be a final judgment for res judicata purposes because as a dismissal without prejudice, it was not a final judgment on the merits. It is true that dismissals without prejudice are not typically considered decisions on the merits. But an important distinction exists here. After the District Court dismissed the P1 claims without prejudice, the plaintiff declined the opportunity to amend its complaint in the District Court and chose instead to appeal. Although we have not directly addressed the application of res judicata in these unique circumstances, our case law suggests that there is a final judgment on the merits in such a case. When a prior action is dismissed without prejudice, and the plaintiff declining the opportunity to amend the complaint appeals, the dismissal without prejudice converts to a dismissal with prejudice and constitutes a final judgment on the merits for res judicata purposes."

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And the court explained that, "Res judicata applies when litigants have either failed to persuade a tribunal of the merit of their claims or have slept on their rights. Stated differently, res judicata applies to the litigant who has already asserted the arguments he wishes to assert and has received an adverse judgment, or the litigant who failed to assert the arguments when he should have done so." This case falls squarely within that standard, the court said. So, the key and important takeaway here is that appealing rather than amending a complaint after being invited to do so can lead to a final judgment on the merits and preclude further litigation on the same issues, a major red flag to look out for in that procedural circumstance. The last case we're going to discuss was out of the District Court for the Northern District of California last month, January 13th.

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And the facts and allegations are as follows. The plaintiff developed a semiconductor technology known as Local Critical Area Analysis, "Local CAA", in April 2010, which it held as a trade secret. The plaintiff alleged that the corporate defendant and an individual misappropriated the Local CAA source code and incorporated it into their products by December 31st, 2010. The plaintiff didn't file a lawsuit until September 30th, 2020, claiming it only became aware of the misappropriation in 2019 when it discovered a patent application filed by the individual in 2011 that contained the trade secrets. So, the defendants move for summary judgment on statute of limitations grounds. As we've discussed, the statute of limitations is three years for trade secret claims under both federal and California law, starting when the misappropriation is discovered or should have been discovered. As the court said, "The fundamental purpose of the statute of limitations is to give the defendants reasonable repose. That is, to protect parties from defending stale claims."

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Also, "This does not mean that a plaintiff needs to have sufficient facts to prove its claim before the statute begins running since acquiring proof is a process contemplated by pretrial discovery. Rather, the limitations period begins when the plaintiff suspects or should suspect that she has been wrong." Also,

"Plaintiff must go find the facts when there is a suspicion. She cannot wait for the facts to find her." Here, the court said, "The plaintiff filed suit well after three years after the alleged misappropriation occurred, so it relies on the discovery rule to render its trade secret claims timely. As such, the plaintiff has the ultimate burden at trial of demonstrating its entitlement to delayed accrual of its causes of action under the discovery rule. To satisfy this burden, the plaintiff must prove, one, the time and manner of discovery, and two, the inability to have made earlier discovery despite reasonable diligence."

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The court found that the plaintiff had actual notice of the patent application by May 3rd, 2013, which described the trade secrets in detail. Thus, the plaintiff should have suspected misappropriation by May 2013, starting the limitations period at that time. And the plaintiff's arguments against this conclusion, including claims of fraudulent concealment and lack of actual knowledge, were found unpersuasive as they lacked supporting evidence. Also, the court noted any alleged concealment occurred after the limitations period had already run. And on those grounds, the court granted summary judgment. So, the key takeaway here, which remains the law, but it's always important to think about is that, suspicion of a claim, not proof, triggers the statute of limitations, and the plaintiff was required to investigate upon receiving the patent application in our case. I hope that was helpful everybody. Have a good month. We will see you soon.