Speaker 1 (00:00):

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Jordan Grotzinger (00:18):

Welcome to the Trade Secret Law Evolution Podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host, Jordan Grotzinger.

(00:39):

Hello everybody. Welcome to a big episode of the Trade Secret Law Evolution Podcast. This is episode 50, if you can believe it. We started this in 2019. Here we are three years later and 50 episodes in. Very exciting. And I have with me again today my partner, Bina Palnitkar. Hey Bina, how are you?

Bina Palnitkar (01:01):

Hi, Jordan. I'm great. Congratulations. This a celebration.

Jordan Grotzinger (01:05):

Thank you. So I put a lot of thought into what could we do that is special for this episode and I came up with some kind of gimmicky stuff, but nothing really stuck for me. And I figured, you know what, the purpose of this thing is to give takeaways to the dozens of people around the country who are interested in this area. And so we picked two cases to discuss and we're going to do the same thing, followed by our still somewhat new interesting fact segment. So with that, today we're going to discuss two cases. One deals with properly pleading misappropriation and the inevitable disclosure doctrine. And the other one deals with the doctrine of preemption under the Uniform Trade Secrets Act.

Bina Palnitkar (02:01):

Are you saying that are people don't properly plead trade secrets misappropriation? Is that what's happened?

Jordan Grotzinger (02:07):

If you can believe it, that occurs once in a while. Yes. So the first case is out of the Northern District of Illinois from September of this year. And in that case, the plaintiff bank sued 15 of its former employees and their new employer, which we're going to call the defendant bank or the second bank. The former employee defendants were all involved in the mortgage loan business. And the plaintiff bank alleged that the defendant bank rated its employees and that the defendants are misusing the plaintiff bank's proprietary and trade secret information. So a pretty typical scenario in trade secret litigation. The plaintiff bank sued for misappropriation of trade secrets in violation of the Illinois Trade Secrets Act and the Federal Defend Trade Secrets Act and also alleged related claims. And the defendants moved to dismiss.

Bina Palnitkar (03:05):

So there was the first bank, the plaintiff bank as I understand it, and they had a mortgage loan business, many employees. And then they alleged that the second bank, the defendant bank came and raided and took all their employees, took information with them, and that's why they sued for-

Jordan Grotzinger (03:24):

Yes.

Bina Palnitkar (03:25):

... misappropriation? Okay. For Illinois Trade Secrets Act and the Defense's Trade Secrets Act. Okay. I think there was one senior vice president in the First bank, one of the defendants that's named, and he had access during that time to the first plaintiff bank's client records. And he had direct supervision over many of those former employees that are now the defendants in this suit. He also worked with the second bank to recruit the former employee defendants over to the second defendant bank.

(03:58):

And at that second defendant bank or the defendant bank, the former employee defendants had access to the plaintiff banks clients' records and information. The plaintiff bank paid that senior VP and provided him with the opportunities to develop those client relationships. And many of those clients ended up moving over to the defendant bank. So it was established in the record that that plaintiff bank took the actions to preserve the confidentiality of its client information, so much that the court found in a prior ruling that that plaintiff bank had adequately alleged the client information as a trade secret and that it was actually secret to that plaintiff bank and it was valuable to the bank and its competitors because of its secrecy. And it was maintained with reasonable measures by the plaintiff bank to maintain that secrecy.

Jordan Grotzinger (04:49):

Right. So typical scenario in a trade secret case, right? You got two competing companies, a bunch of employees at the first company, an officer from the first company leaves, goes to the second company, takes a bunch of people with him, and those employees had access to the first employer's confidential information. And as you noted, being the court found in a prior ruling of a motion to dismiss that the plaintiff had adequately alleged that that confidential information constituted trade secrets because it was actually secret valuable to the bank and its competitors because of its secrecy, otherwise known as independent economic value and subject to reasonable measures to maintain that secrecy.

(05:37):

So the defendant's argue in a second motion to dismiss in this case that the plaintiff bank, while it may have alleged that the confidential information rose to the level of protected trade secrets, the defendants argued that the plaintiff bank failed to adequately allege misappropriation of the trade secrets. The court noted that misappropriation under the Defend Trade Secrets Act includes the "acquisition of a trade secret by another, by improper means and disclosure or use of a trade secret of another without express or implied consent" under certain conditions. Similarly, the court noted under the Illinois Trade Secrets Act, "a plaintiff can show misappropriation in one of three ways, improper acquisition, unauthorized disclosure, or unauthorized use."

Bina Palnitkar (06:34):

The plaintiff bank alleged, at that time that the defendants, which includes the defendant bank as well as the former employees, misappropriated its trade secrets by unauthorized disclosure and

unauthorized use. So the last two prongs of those three ways, and "which requires a defendant to use the alleged trade secrets or disclose them to others for purposes other than serving the interests of the owner of the trade secrets." So that means they're going to take the trade secrets by unauthorized disclosure by showing them to someone without permission or by using them without permission for interests other than those which the owner of the trade secrets demands.

(07:22):

So the defendants then argued that the plaintiff bank "does not identify any specific unauthorized disclosure or use of those trade secrets by any individual former employee defendant, and cannot simply speculate that the former employee defendants must have used its trade secrets to compete." So here they're saying you didn't say a specific instance of when these alleged misappropriations occurred or when they were allegedly used, you have to specify something. The plaintiff bank then argued that it can plead misappropriation on so-called information and belief because "the defendants are uniquely in possession of the facts concerning the alleged misappropriation." So the plaintiff bank is saying just because they had them, we can plead that you had this information and that you used it.

Jordan Grotzinger (08:14):

Right. And for the non-lawyers out there being a, you mentioned information and belief that is a term of art in pleading, which means that the plaintiff might not know for a fact or have proof that the defendant did or did not do something. So the plaintiff can plead on so-called information and belief. In other words, I might not have proof yet, but I am informed and believe that the defendant did X, Y, Z. And that was the plaintiff's argument here because, as you said, as the plaintiff argued, the defendants are uniquely in possession of the facts concerning the misappropriation.

Bina Palnitkar (09:02):

So Jordan, the plaintiff bank must have had some kind of evidence. They have information and belief, but they must have had some kind of evidence within their possession that led them to know about this. Do you know about that?

Jordan Grotzinger (09:15):

Yes. And in fact, to support its allegation of misappropriation, the plaintiff bank attached to its amended complaint printouts of various emails in which the former employees sent customer lists and related attachments to their personal email addresses of something you see a lot in this kind of litigation. And the bank, the plaintiff bank also alleged that one person took physical documents upon his or her resignation and therefore it was reasonable to infer that the former employee defendants also took physical documents at the senior vice presidents and the defendant bank's direction. However, the amended complaint doesn't provide any support for this allegation, the court noted, "Much less enough to provide a reasonable suspicion that any one particular defendant in this case committed this kind of misappropriation close."

(10:18):

The court noted, "Liability is personal and must put each defendant on notice of their actions." Therefore, the court explained, plaintiffs can't just lump defendants together under blanket allegations of misconduct. And that was a really key point in this ruling because as we just discussed and as you noted, Bina, the plaintiff bank did have some evidence suggesting that confidential information was moved from one bank to the other. But the way this was plead was such that the plaintiff kind of lumped all the defendants together and said some people sent emails to themselves. And so this applies

to everybody and this court said that's not good enough. You can't just lump the defendants together. You got to say what each one allegedly did.

Bina Palnitkar (11:15):

And support it with evidence. Yeah. Well, the court further found that the plaintiff bank failed to adequately allege the actual misappropriation. They said that, "Mere possession of trade secrets does not suffice to plausibly allege disclosure or use of those trade secrets even when considered in conjunction with solicitations of former clients." So the plaintiff bank's allegations that it lost business to the defendant bank don't support that misappropriation because the quote said that, "Lost business alone is not enough to support a claim of trade secret misappropriation. And a plaintiff must adequately allege that the defendant has done more than legally compete in the normal course of business." So here, having evidence that the former employees have emails, have customer lists, and at the bank competes in the same industry, is still not enough for a proper allegation of misappropriation.

Jordan Grotzinger (12:18):

Right. And so the plaintiff bank tried another theory which we've addressed before, and which is called the inevitable disclosure doctrine. So there, the plaintiff bank argued that, "A plaintiff may prove trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." The court explained that, "In order to trigger the inevitable disclosure doctrine, a plaintiff must show more than the possibility that defendants could misuse the trade secrets. It must show that the defendants will misuse those secrets." And the factors to determine whether disclosure of trade secrets is inevitable are, "One, the level of competition between the former employer and the new employer. Two, whether the employee's position with the new employer is comparable to the position he held with the former employer. And three, the actions the new employer has taken to prevent the former employee from using or disclosing trade secrets of the former employer."

Bina Palnitkar (13:33):

Well, here the plaintiff bank responded and argued that it did have those three factors to show inevitable disclosure. They argued that the disclosure of its protected customer data was inevitable because, number one, the defendant bank is now, but it was not before the corporate raid, but it is now a direct competitor with the plaintiff bank in the Illinois mortgage services sector. Secondly, they said the former employee defendants took on identical roles, especially this senior vice president who's managing the same individuals as at the plaintiff bank. And third, they alleged that the defendant bank took no actions. And they said allegedly, that the defendant bank encouraged the former employee defendants to use the plaintiff's bank's confidential information as shown by the large number of loans transferred from the plaintiff bank to the defendant bank over a short period of time. And I think I read in the case here, it was something like a hundred million dollars worth of loans that they allege came over from the plaintiff bank to the defendant bank.

(14:40):

So here plaintiff bank thinks that they do have all the three factors for the inevitable disclosure doctrine, but the court noted that the amended complaint filed by the plaintiff bank, this, "Does not give any specifics as to the former or new positions of any of the former employee defendants except for that senior vice president who is alleged to hold another manager managerial position overseeing the same individuals at the plaintiff bank." So the court is saying that this lack of detail on the defendants who are

not that one senior vice president cannot support the inference that that person would inevitably use the plaintiff bank's confidential customer data in their new role.

Jordan Grotzinger (15:24):

And the court noted as for the Senior Vice President himself, "The mere fact that a person assumed a similar position at a competitor does not without more make it inevitable that he will use or disclose trade secret information." Rather, the plaintiff bank must plead, "a showing of intent or a high probability that the employee will use secrets," and the court ruled here that the plaintiff bank failed to do so because, "it does not explain why supervising the same individuals means that the senior vice president would be highly likely to use it. And the amended complaint does not even allege that the Senior Vice President solicited loans in his new role."

(16:20):

Court also noted that the amended complaint doesn't demonstrate that the Senior Vice President, "cannot avoid taking into account the confidential information carried with him from the plaintiff bank in performing his new role." And that was the ruling. And because the plaintiff had already been given the opportunity to amend its complaint and try to firm up its trade secret allegations before, because the court found that this was insufficient, it dismissed the Defend Trade Secrets Act claim with prejudice, meaning it cannot be amended and refiled. So pretty good ruling for the defense there.

Bina Palnitkar (17:05):

Yeah, it seems that if you're going to allege something, you really need to tie it with a bow, give specifics show instances on not just the first two prongs of the fact that it's a trade secret and that it was misappropriated. But that third prong here comes into play that is actually used. Your misappropriated trade secrets are actually used to take away from the owner of those trade secrets. That's what seemed to be missing here.

Jordan Grotzinger (17:32):

Right. So the second case is out of the Western District of North Carolina from September 26th of this year, and this one dealt with preemption under the Uniform Trade Secrets Act. According to the complaint in this case, the plaintiff, a corporation based in North Carolina, began developing a mobile phone application to assist patients with tracking and treating migraines. The defendant, a corporation based in Indiana, was also developing a migraine app and expressed interest in entering into a potential partnership with the plaintiff.

Bina Palnitkar (18:12):

Here, the parties exchanged a term sheet and entered into a due diligence while they were overlooking this possible partnership. And during that time, the plaintiff provided confidential information acquired through the development and implementation of its app and provided that to the defendant. Later, the defendant informed the plaintiff that it was terminating the due diligence and would not pursue partnership, but instead it would continue developing its app, which it later then launched. Plaintiff sued for Unfair Competition Fraud and Unjust Enrichment Seeking Damages and Injunctive Relief to "prohibit the defendant from further using plaintiff's confidential information," which includes removing the defendant's app from the Apple App Store.

Jordan Grotzinger (19:01):

So the court ruled that there was an issue as to what law applied because the companies were from different states. The court ruled that Indiana law applied and therefore it considered the issue of whether the plaintiff's claims, non-trade secret claims, I should say, were viable in light of Indiana's Uniform Trade Secrets Act. And that refers to the preemption doctrine. So the court explained, "To accomplish the ACT's general purpose of making the law regarding misappropriation of trade secrets uniform, hence the name, among the adopting jurisdictions, the act states that the Indiana Uniform Trade Secrets Act displaces all conflicting law of this state pertaining to the misappropriation of trade secrets except contract law and criminal law."

Bina Palnitkar (19:57):

Wow, that just happened.

Jordan Grotzinger (20:00):

What just happened?

Bina Palnitkar (20:02):

It displaced everything.

Jordan Grotzinger (20:04):

Yes. Yeah, indeed it did. So put another way, a claim is preempted by the act where it "necessarily rises or falls based on whether the defendant is found to have misappropriated a trade secret as those two terms are defined in the Uniform Trade Secrets Act."

Bina Palnitkar (20:27):

Put another way, the court said, "If proof of a non-uniform trade secrets acts claim would also simultaneously establish a claim for misappropriation of trade secrets, it is preempted irrespective of what surplus elements or proof were necessary to establish it." The majority of courts applying the Uniform Trade Secrets Act examine "the factual allegations underlying each claim to determine whether a claim, whatever its label, is based upon misappropriation of a trade secret."

Jordan Grotzinger (21:02):

So here, the court ruled that the causes of action in the amended complaint rise or fall and are based on the defendant's alleged misappropriation and use of the plaintiff's confidential business information to develop its complete competing application. Specifically, the plaintiff claims that the defendant fraudulently misrepresented its intentions to enter a business relationship and concealed its use of the plaintiff's information and used the plaintiff's confidential information in developing and marketing its own application. In other words, the non-trade secret claims substantively overlapped, essentially said the same thing as the trade secret claim. And under the preemption doctrine, unless you've got a breach of contract theory or you're being prosecuted criminally, those claims will be preempted because they rise or fall with the trade secret allegations. And so in this case, based on the preemption doctrine, the defendant had moved for summary judgment to knock out those claims. And because the court found that it applied, the motion was granted.

Bina Palnitkar (22:20):

It always goes back to that nucleus effects we learned about in law school, coming out of that same nucleus effects.

Jordan Grotzinger (22:26):

Yeah. Okay. Now for the takeaways, and we've got a few today. One, as to misappropriation, mere possession of trade secrets does not suffice to plausibly alleged disclosure or use of those trade secrets even when considered in conjunction with solicitations of former clients.

Bina Palnitkar (22:49):

Another takeaway, this kind of goes against what most people believe just in a general sense, is that lost business alone is not enough to support a claim of trade secret misappropriation. And a plaintiff must adequately allege that the defendant has done more than just legally compete in the normal course of business.

Jordan Grotzinger (23:12):

Third, under the inevitable disclosure doctrine, in order to trigger the doctrine, a plaintiff must show more than the possibility that the defendants could misuse the plaintiff's trade secrets. It must show that the defendants will misuse those secrets.

Bina Palnitkar (23:30):

And in showing that the defendants will misuse those secrets, the plaintiff must actually plead a showing of intent or a high probability that that employee will use the trade secrets.

Jordan Grotzinger (23:44):

And second to last, to trigger the inevitable disclosure doctrine, the plaintiff should plead that the defendant cannot avoid taking into account the confidential information carried with him or her from the plaintiff in performing his or her new role. So that's kind of the answer to how do you plead a high probability other than just stating the conclusion, "Well, here's a way to do it." If the facts in good faith support the allegation, you plead that the defendant can't avoid taking into account the confidential information taken from the plaintiff in performing the new role.

Bina Palnitkar (24:26):

And that wasn't applied adequately in this case. And that's what ended it. The last takeaway from our second case is that for purposes of preemption by the Uniform Trade Secrets Act, except for breach of contract and except for criminal claims, if proof of a non-Uniform Trade Secrets Act claim would also simultaneously establish a claim for misappropriation of trade secrets, it's preempted irrespective of whatever surplus elements or proof were necessary to establish it. It's preempt.

Jordan Grotzinger (25:00):

So if a claim pled as another cause of action like interference or fraud or another claim, as long as it's not breach of contract or a criminal claim, if it substantively overlaps or, as you said, if it arises from the same nucleus of facts as a trade secret claim, it will be preempted.

Bina Palnitkar (25:24):

That's right.

Jordan Grotzinger (25:26):

Look who it is.

Bina Palnitkar (25:28):

No way.

Jordan Grotzinger (25:30):

Brian, thanks. And for those listeners, this is our very own Greenberg Traurig CEO, Brian Duffy, and this is the 50th episode. So we invited him on and we're very happy he's joined us. And the reason I thought of you, Brian, is because as you may recall, about a year ago, we were on the phone, you were talking me off some cliff, and the conversation turned to this podcast and you said, "You really should do a segment at the end of each one where you ask your co-host to say something interesting about themselves." And that has actually been one of the highlights of this podcast for the last year since we've started doing this. So pressure is on, my friend. You're an interesting guy. I hope you have come up with something equally interesting about yourself to share with us.

Brian Duffy (26:24):

Well, I mean, well, Bina and Jordan, thanks for having me on. Second of all, I am a lawyer, so by definition there's not very much interesting about me. Today, the most interesting thing is it's my birthday. So-

Jordan Grotzinger (26:39):

Today?

Brian Duffy (26:40):

Today is my birthday.

Jordan Grotzinger (26:41):

Really?

Bina Palnitkar (26:42):

Happy birthday.

Brian Duffy (26:43):

I think I'm the [inaudible 00:26:45] you've ever had who came on his birthday. And so I want to claim that meant-

Jordan Grotzinger (26:51):

Happy birthday.

Bina Palnitkar (26:52):

Well, we definitely got big times today on this 50th anniversary.

Brian Duffy (26:57):

And I've hit that age right where time starts running backwards. So I'm going to say I'm 50 on your 50th, so I'm going to, might as well go there. The other thing is I'm in Bentonville, Arkansas, the home of Walmart, one of our great clients. And when on one of my birthdays many years ago in this town, this is my fun fact, on my birthday, I was arm wrestling, my arm in [inaudible 00:27:29] in a spiral fracture. So PTSD today, but that's my fun fact. On this day, I guess 13 years ago, I got arm wrestled. Tonight, I'm going to get on a home and have a lovely dinner, hopefully with my family.

Jordan Grotzinger (27:47):

Excellent. Who did you arm wrestle?

Brian Duffy (27:50):

I'm not sure what her name was, but she was tough. She was tough.

Jordan Grotzinger (27:55):

Did you win?

Brian Duffy (27:58):

Well, Bina, I ended up in the hospital and so I think by definition I probably lost, but we were arm wrestling over the check and I didn't have to pay the check. So it's kind of a 50/50 proposition.

Bina Palnitkar (28:11):

I didn't know if you used brute force in order to take her down. And as a result, fractured yourself. It could have gone either way.

Brian Duffy (28:17):

All joking aside, it was a guy by the name of Buddy who worked for a document management company by the name of [inaudible 00:28:26] and Roger Miller, the owner of [inaudible 00:28:31] said, "Well, let's arm wrestle for who's going to pay for this bill." Because it was a whole bunch of ... Our respective teams had just finished a big project. It was a celebratory dinner, and so we were just messing around. But apparently the guy that I was arm wrestling didn't know that this was just kind of fake and I broke my arm. So there, the lesson is on your birthday, do not arm wrestle in a bar in Arkansas against a guy by the name of Buddy who outweighs you by a couple hundred. Those are life lessons, Jordan, that you can learn from.

Jordan Grotzinger (29:04):

Absolutely. I got to say, we've had some really interesting, fun facts. This has got to be the winner. This is really good.

Brian Duffy (29:15):

It all eventually, it all goes full circle at some point, Jordan.

Jordan Grotzinger (29:20):

I love it. I love it. Well, happy birthday my friend. Really appreciate you coming on. Safe travels and have a great night with your family.

Brian Duffy (29:29):

Thanks. I appreciate it. Bye, Bina. Bye, Jordan.

Bina Palnitkar (29:31):

Bye.

Jordan Grotzinger (29:31):

Bye, guys. Wow, that was right on time, just money.

Bina Palnitkar (29:38):

That was great. And it was his birthday. What a special treat.

Jordan Grotzinger (29:42):

Really, really awesome. All right, well, hope the listeners enjoyed that. That was really fun for me. Bina, always a pleasure. Episode 51 is next. Until next time. Bye, everybody.

Bina Palnitkar (29:54):

Thanks, Jordan.

Jordan Grotzinger (29:57):

Okay, that's a wrap. Thanks for joining us on this episode of the Trade Secret Law Evolution Podcast. As the law evolves, so will this podcast. So we value your feedback. Let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at GrotzingerJ@GTLaw.com or on LinkedIn. And if you like what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on Apple Podcasts, Stitcher, Spotify, and other platforms. Thanks, everybody. Until next time.

Speaker 5 (30:29):

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Speaker 6 (30:49):

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