

Speaker 1: 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.

Speaker 2: Hey everybody. Welcome to episode 34 of the trade secret law [00:00:30] evolution podcast. I have with me today, a cohost with whom I work out of our Atlanta office. Justin Victor. Welcome Justin. Nice to be here. Thank you, Jordan. Uh, Justin, can you stay a few words about your practice?

Speaker 3: Certainly. So I'm an of Counsel in Greenberg for our Atlanta office. I started my career practicing predominantly in Delaware, and I have almost a decade of Delaware [00:01:00] litigation experience in both labor and employment and also corporate governance disputes.

Speaker 2: Thanks for that. And you know, you mentioned two reasons why we thought it would be interesting for you to be a guest once. And as we've discussed before, there's a lot of crossover between trade secret law and labor and employment law frequently. These issues arise, uh, when employees leave or, or try to compete. And secondly, uh, your [00:01:30] Delaware experience is valuable because although the trade secret law may be, uh, uniform as compared to the rest of the country. And it is it's one of the 48 states that follow the uniform trade secrets act, it is much more corporate or business friendly, uh, which comes into play in our context. When you talk about, uh, non-compete agreements and, um, as to being business friendly, you know, [00:02:00] our listeners may know that many corporations are incorporated in Delaware, uh, which might seem random to some, but, uh, all the big ones are incorporated there. And, and, and it it's business friendly climate is why. So, um, today we're going to talk about cases that highlight two important questions that should be considered before filing a complaint or a lawsuit for misappropriation of trade secrets. And that is, is the plaintiff bringing [00:02:30] their claims in the right forum, the right place, and is the plaintiff bringing the right causes of action that accompany the misappropriation of trade secrets claim.

Speaker 3: So to talk about forum selection, generally they say in real estate location, location, location is, is the most important thing. And when, when I'm thinking about pursuing a potential cause of action, I think the same thing for lawsuits, it's really important that you're bringing the cause [00:03:00] of action in the right location and in the best location. And you touched on it earlier, Jordan, that a lot of corporations are incorporated in Delaware. And I just want to add due to my experience litigating there. I think a big part of it is the predictability of the courts in Delaware and the consistency in which the courts in Delaware, both in state and federal court apply the law and the well-established track record of case law. And so that removes some [00:03:30] of maybe the inconsistency or the unknown in complex litigation and for corporations. So there, there's certainly a variety of reasons, you know, from tax reasons to other reasons why companies incorporate in Delaware.

Speaker 3: But I have to say in my experience with the judiciary, I'm always impressed by the judges there. And I think that's, that's a big reason why companies like to litigate claims in

Delaware as opposed to other jurisdictions, not disparaging other jurisdictions, but I think that's a big reason. [00:04:00] So commonly, when a party brings a trade secrets claim, they also may include a breach of contract claim. And this, this can arise in numerous contexts. When you have a employment agreement where you're alleging that the employee was the individual who took the trade secrets, you also might have an employment agreement with protections over proprietary information or a non-compete or non [00:04:30] solicit restriction in the context of an asset purchase agreement, where a company is buying a business from another company or buying a business from an individual, there also might be non-compete restrictions or other agreements that go along with the purchase of not just the business or the trade secrets.

Speaker 2: Yeah. And in most of these agreements, the contracts will include a choice of law provisions and venue [00:05:00] selection provisions. And those are distinct choice of law is a provision that says what law applies to a dispute or the interpretation of the agreement. Whereas the venue selection provision, uh, sets forth where, uh, a dispute will be litigated and Delaware, uh, is a common choice for choice of law and venue due to the prevalence of companies incorporated there. And as, as we'll discuss the enforceability of a Delaware choice [00:05:30] of law and venue, selection provision will depend on the facts, uh, surrounding the specific agreement, what kind of agreement it was and where the plaintiff is alleging a breach of contract. So we're going to talk about a couple of cases. Justin, you want to start with the one out of, uh, there was a recent one out of the Delaware Chancery court from February of this year,

Speaker 3: Certainly. And, and just to get a little bit of background that the Delaware court of Chancery is this is a state court [00:06:00] and it's a court of equity. So you have the Supreme court of Delaware and you have the superior court of Delaware, which is like the trial court. But if you're seeking injunctive relief, which is very common in a, in a trade secrets matter, you frequently will go to the court of equity, which is the Chancery court. And that's kind of a unique wrinkle to Delaware law. So, so this this matter was a February 10, uh, 2021 Delaware, Delaware, Chancery [00:06:30] court opinion. In this matter, the plaintiff was a Delaware incorporated, LLC in the agricultural lending business, the defendant was a co-founder of that business who had sold his equity share. And prior to selling his equity share, he was a signatory to numerous agreements, including an LLC operating agreement that had Delaware choice of law provisions and [00:07:00] Delaware choice of venue provisions.

Speaker 3: In addition to these choice of law and choice of venue provisions, there were numerous restrictive covenants, including a non-compete. Now, in addition to the operating agreement that the defendant cofounder executed, he also executed an employment agreement with the plaintiff that also contained restrictive covenants and also contained, um, a dialogue where, uh, choice of law provision and just pausing for [00:07:30] a second. This is very common frequently when somebody buys a business from an owner there, they're going to look at the previous operating agreement of that business as a controlling document. And then if they want that owner to stay on and continue to assist with the business that are then going to enter into not just the purchase agreement, but they will enter into a separate employment agreement with

that individual to have them assist and help with the business now in an employment capacity.

Speaker 2: [00:08:00] Right. And you know, that that is arguably a little bit dense, but, but just so the listeners stay with us. What, what matters here, uh, as, as you'll see, is the different types of agreements and the different types of claims. Obviously we're going to be talking about a trade secret misappropriation claim and a breach of contract claim. And here with, with those claims in mind, we had an operating agreement and an employment agreement, [00:08:30] and those, those facts matter as we'll discuss. So after the equity sale, the plaintiff agriculture lending business became aware that the defendant was secretly planning to launch a competitive business. And as a result, they terminated him. So the former co-founder defendant filed a lawsuit in Louisiana seeking a declaratory judgment that the non-compete provisions within the employment agreement, we're Nolan void under Louisiana law. [00:09:00] And four days later, the plaintiff agriculture lending business filed an action in Delaware. The one in the Delaware Chancery court seeking specific performance of the LLC and employment agreements and an injunction to prevent future breaches of the employment agreement and to protect the plaintiff's confidential information and trade secrets. And for the, for the non-lawyers out there specific performance [00:09:30] is essentially what it sounds like. It's a request, uh, to the court that the, uh, the party being accused specifically, uh, perform its contractual obligations. In other words, there should be specific performance of the contract at issue.

Speaker 3: So meanwhile, while this was going on in Delaware, the Louisiana court took action. And in fact, in joined, so prevented the plaintiff from enforcing the employment agreement [00:10:00] against the former co-founder defendant in Delaware, determining that the Delaware choice of law provisions within the employment agreement were null and void and that the non-compete provisions were unenforceable because they were not narrowly tailored to follow Louisiana strict statutory guidelines. Now, I think it's, this is a good point to kind of pause and discuss the differences between different states approach to non-competes Jordan, where you sit [00:10:30] in California as a very unique approach to non-competes essentially saying you can't have them in employment agreements. We're not going to enforce them. The wheezy Ana to also take a very strict narrow approach to the enforcement of non-competes. I think basically you need to specify which parish or county the geographic restriction is going to apply to, or there isn't, they're not going to enforce the non-compete.

Speaker 3: So they really are adverse to enforcing non-compete and other restrictive covenants [00:11:00] against employees in the state of Louisiana. Now, this is a completely different approach to Delaware, which is usually going to say whatever the parties agree, do whatever you put on paper, as long as it's somewhat reasonable, we're going to enforce it, that they defer to the parties to negotiate what's reasonable when it comes to restrictive covenants. So the court in Louisiana took, took a look at these restrictive covenants within the employment agreement, despite the Delaware choice of law provisions said, no, [00:11:30] we're we're, we're not going to enforce these.

Speaker 2: Yeah. And you're absolutely right about, uh, California law non-competes are not enforceable. So some people say except with respect to trade secret misappropriation, but, um, you know, it's, it's not really an exception. Uh, trade secret law is trade secret law, and you can enforce that in California. And to me, uh, the non-compete issue is sort of separate. So a non-compete will not be enforced [00:12:00] in California, but it is still unlawful to misappropriate trade secret. So an employee or someone at company a can leave and go compete, uh, with company a, um, even if they had an agreement that they wouldn't so long as they're not misappropriating company A's, uh, trade secrets. So back to the case, following the Louisiana court's decision, the defendant filed [00:12:30] a motion to dismiss or a motion to stay, uh, essentially D stop the case in Delaware requesting that the Delaware court, uh, allow all the claims to go forward in Louisiana, but the court in Delaware denied that motion in part, and granted it in part splitting its decision based on, uh, the two agreements at issue with respect to the breach of contract claims relating to the employment agreement, the Delaware court [00:13:00] determined that the plaintiff's cause of action should be stayed, uh, in favor of the Louisiana, uh, action in which the court had refused to enforce the non-compete.

Speaker 2: And the Delaware court explained that the parties choice of law dispute concerning whether Delaware law or Louisiana law should apply to the employment agreement was a real conflict because Delaware and Louisiana have dramatically different approaches to [00:13:30] the enforcement of restrictive covenants, just as Delaware and California do where, you know, Justin, you explained Delaware differs more to the parties. Whereas a state like California will defer more to policy and in this case pro employee policy, uh, so as a result, the court conducted a, uh, conflict of law analysis and determined that Louisiana maintained a strong public policy interest in ensuring its law, [00:14:00] uh, concerning the rights of citizens working within the state are respected. And the court noted that the defendant, the Delaware court noted that the defendant was a resident of Louisiana performed services for the plaintiff in Louisiana and executed the employment, uh, agreement in Louisiana.

Speaker 3: Conversely, the Delaware court took a completely different approach when it came to the defendant's motion to dismiss or stay the claims related to the operating agreement, [00:14:30] denying the defendant's motion. The court, the court explained that contrary to the employment agreement. There was no compelling reason to ignore the operating agreements, Delaware choice of law and Delaware forum selection provisions instead because the operating agreement concerned a Delaware, LLC. So a Delaware entity, the court that determined Delaware, not Louisiana had a strong public policy interest in overseeing the conduct of a Delaware [00:15:00] corporate fiduciary and the contractual dispute concerning a Delaware entity. And I just, I just want to pause for a second and kind of highlight the distinction the court made here. If you're an employee and you're working in Louisiana or a company that just so happens to be incorporated in Delaware, and there's a dispute related to your employment, that's really a Louisiana issue and the wheezy and or should care about it more because it's a person working in Louisiana.

Speaker 3: However, if this is [00:15:30] a corporate issue or it involves like a fundamental agreement with a corporate entity, we Delaware care about that. And we want

Delaware corporations, I think, to be able to sleep at night, that issues related to Delaware, corporate governance are of concern in public policy in Delaware. And we are going to keep those types of disputes in Delaware. And that type of reasoning, that type of logic is a trend that we are seeing in Delaware all the time, because so many disputes [00:16:00] have Delaware forum selection, um, or Delaware choice of law provision. So this is the reasoning that we're seeing in the superior court, the district court and the Chancery court.

Speaker 2: That's great. Thanks Justin. And like always, we'll, we'll sum this up, uh, with takeaways at the end of the episode, we're gonna talk about one more case also out of the Delaware Chancery court from January of this year. And, uh, this case concerned a subject we've addressed before, which [00:16:30] is a preemption by the uniform trade secrets act. That is when is a claim that is potentially redundant of a trade secrets claim preempted by the trade secrets claim so that you can't state it, but only state the trade secrets claim. So in that case, the plaintiff was an email marketing company and the defendant was a former customer of the plaintiff that later became a reseller of the plaintiff's products pursuant to [00:17:00] a retailer agreement. In 2019, the defendant began exploring the possibility of acquiring some or all of the plaintiff's business during a meeting between the companies, the defendant presented information concerning the rollout of an upcoming product that the defendant planned on implementing and the plaintiff and looking at the description and explanation of the product accused the defendant of misappropriating the plaintiff's trade secrets.

Speaker 3: The plaintiff declined [00:17:30] the defendant's offer to purchase the company. And shortly after that meeting, that defendant launched the competitive product that the plaintiff claimed was created using the plaintiff's proprietary information and trade secrets. So the plaintiff filed a complaint in Delaware, Chancery court alleging first a breach of the reseller agreement to misappropriation of trade secrets under the Delaware uniform trade secrets act, and third [00:18:00] unjust enrichment. The defendant moved to dismiss only claim three. So only the unjust enrichment claim arguing that the plaintiff's Delaware uniform crates secrets act claim preempted, the unjust enrichment claim.

Speaker 2: So, and agreed with the defendant, holding that the uniform trade secrets act claim encompass the elements and purpose of the common law unjust enrichment claim, dismissing that claim on preemption grounds. [00:18:30] And it looked at the law on preemption and the specific section of the Delaware, a uniform trade secrets act, which provides quote, except as provided in subsection B of the section, this chapter displaces conflicting torts restitutionary and other law of this state providing civil remedies for misappropriation of a trade secret and closing the quote right there. And before I recite [00:19:00] the rest, you know, for, for the non lawyers and just to say that in English, because I use the words like toward and restitutionary and other law of the state, all that means is this displaces claims that are redundant of the trade secret claim. Now back to the, uh, the, the law on preemption, it also says, quote, and this is the subsection B that I referenced, or rather that the statute references this chapter does not affect one [00:19:30] contractual remedies, whether or not based on misappropriation of a trade secret to other civil remedies that are not based upon a

misappropriation of a trade secret or three criminal remedies, whether or not based on misappropriation of a trade secret, close quote

Speaker 3: In determining that the unjust enrichment claim was preempted. The court noted that Delaware has joined the majority view that this language [00:20:00] that was just cited, that we just discussed from the uniform trade secrets act has been widely adopted, including in California and precludes common law claims based on misappropriation of business information. The court explained that under settled law, what matters for preemption purposes is what are the trade secrets and unjust enrichment claims are based on the same alleged wrongful conduct. If so, the unjust enrichment claim must be dismissed.

Speaker 2: [00:20:30] All right. Uh, now to our takeaways, takeaway number one is when drafting a forum selection or choice of law clause and considering initiating causes of action, uh, in a forum based on a forum selection or choice of law clause, it's critical to consider the enforceability of those provisions based on the facts surrounding the contractual arrangement and in litigation over employment agreements that attempt to enforce [00:21:00] restrictive covenants. For example, courts typically find that the state where the employee works has such a significant public policy interest, that courts are willing to ignore choice of law or venue provisions and defer to the forum and choice of law where that individual employee actually works.

Speaker 3: Firstly, if there's a forum selection clause or choice of law provision within an asset purchase agreement within a sale agreement within [00:21:30] an operating agreement, courts will typically enforce those agreements as drafted, especially when the forum selection clause or choice of law provision aligns with the place of incorporation of an entity that is a signatory to one of those agreements.

Speaker 2: And lastly, a uniform trade secrets act claim can preempt an unjust enrichment claim as we saw in that case. And other claims if the trade secrets claim and the other claim or claims [00:22:00] are based on the same alleged wrongful conduct. So as I said in, and I think plainer English, if your claim is just redundant of the trade secret claim, it will be preempted and you can't assert it with certain exceptions. And that is a trade secret claim will not preempt a breach of contract claim, uh, civil remedies or other claims that are not based on, uh, the same conduct. In other [00:22:30] words, not redundant claims and any criminal claims. And that's all we got for today. Justin, this was great. I really enjoyed the discussion and I'm looking forward to having you back on the podcast.

Speaker 1: Thanks for having me. I appreciate it. All right. Fire buddy. 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 [00:23:00] 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,

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