

Trade Secret Law Podcast

Episode 60

Greenberg Traurig, LLP

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.

([00:33](#)):

Hi everybody. This is episode 60 and the last episode of 2023. Today it's just me and I'm going to discuss two cases in two states, different approaches to the doctrine of preemption. The first case is a case out of the District of Minnesota from September. Now usually I discuss cases more contemporaneously, but here if you're a listener, we got great opportunities in the interim to talk with a general counsel of Sun World International and District Judge William Young, out of the district of Massachusetts. So I had to take those opportunities, so we're a little late on this case. The second case is more recent and from just a few days ago. In this first case out of Minnesota, the plaintiff manufactured recreational vehicles including snow bike conversion kits, which basically convert a dirt bike motorcycles into bikes that can ride on the snow. The plaintiff purchased a company, we're going to call it Company, from the defendant and his wife.

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The defendant then participated in the development of the plaintiff's intellectual property related to the snow bike conversion kits, which Company had designed and produced prior to the company purchase. As part of the purchase transaction, the parties signed agreements that required the defendant to transfer Company's intellectual property to the plaintiff and prohibited the defendant and his wife from using any of Company's trade secrets. The defendant later resigned from his job at the plaintiff and signed a letter agreement reiterating his post-employment confidentiality obligations and also signed a separate independent contractor agreement or ICA with the plaintiff to retain his services.

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The ICA also imposed confidentiality obligations. In addition, the ICA required that the defendant return all of the plaintiff's property upon termination of the agreement. Later, the plaintiff terminated the ICA, but the defendant allegedly returned only a single box of materials to the plaintiff, which did not contain all of the property that the defendant was required to return pursuant to the ICA. And approximately one month after the end of the non-compete provision in the ICA, the defendant announced the launch

of a new snow bike conversion kit business, including a new product which we will call creatively the product.

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The plaintiff sued the defendant, his wife, and the new company for violation of the Defend Trade Secrets Act and the Minnesota Uniform Trade Secrets Act and asserted claims for conversion, unjust enrichment, and unfair competition against all defendants and against the defendant alone for breach of contract and civil theft. The defendants move to dismiss the claims for conversion, civil theft, unjust enrichment, and unfair competition, arguing that these claims are displaced or preempted by the Minnesota Uniform Trade Secrets Act, which replaces other civil remedies for misappropriation of a trade secret. We've heard about this subject on prior episodes of the podcast. Defendants argued that the plaintiff, "Makes no factual differentiation between allegedly misappropriated trade secrets and confidential information and know-how subject to the challenge claims, and that such differentiation is a necessary element of maintaining both Minnesota Uniform Trade Secrets Act and other tort claims in the same action".

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And this is the doctrine we've discussed and referred to in the past as preemption or super session, as many states do. The plaintiff argues that the causes of action are not displaced or preempted as, "They all apply to the plaintiff's company property a broader set of property than that meeting the definition of a trade secret". The Minnesota Uniform Trade Secrets Act states that it, "Displaces conflicting tort, restitutionary and other law of Minnesota providing civil remedies for misappropriation of a trade secret". As such, "The Minnesota Uniform Trade Secrets Act does not affect contractual or civil remedies that are not based upon misappropriation of a trade secret". Therefore, a plaintiff may maintain separate causes of action to the extent that the causes of action have more to their factual allegations than the mere misuse or misappropriation of trade secrets here that the parties dispute "A, whether the plaintiff alleged more than misappropriation of trade secrets, and B, whether the plaintiff adequately pleaded in the alternative."

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Here, the court said the plaintiff, "Is correct that the complaint defines plaintiff's company property more broadly than information that constitutes trade secrets. For example, the plaintiff alleges that the defendant did not return notebooks used to record his work conducted under the employment agreement and under the independent contractor agreement, and that these notebooks contain both plaintiff's confidential information and know-how and trade secrets. However, the notebooks are still company property in and of themselves". Also, the plaintiff alleges that the defendant's new company has listed, "Customers and suppliers identical to those listed in the SPA, that's stock purchase agreement, disclosure schedules as confidential information despite the agreement by defendant and his wife to treat and hold all such information as confidential and not use that information."

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The court said, "This is information that the plaintiff alleges is confidential but does not constitute a trade secret and as such supports the challenged causes of action". And, "While defendants concentrate on the overlap between trade secrets and confidential information and know-how exemplified by the complaint's focus on the plaintiff's proprietary snow bike features, plaintiffs still points to at least two specific types of property that do not constitute trade secrets, but which defendants are allegedly misusing or in wrongful possession thereof". The court concluded, "Whether or not the allegedly unreturned property may be found to contain trade secrets, confidential information that is not a trade secret, both or neither, this determination is not properly an issue for the court prior to discovery and

the party's examination of these materials. As such, the plaintiff's claims are not displaced". Interesting take given the other court's treatment of the issue of preemption, which generally does encompass confidential information that might not arise to the level of trade secret because of the uniform, focus on uniform, Trade Secrets Act policy to make laws about confidential information, guess what? Uniform.

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On that note, a case out of the Southern district of Texas from the 12th of this month, December 2023, took a different, and I would opine, a more mainstream approach. This case involved the alleged theft of trade secrets used in the manufacturing of polycarbonate or PC. PC is used to make eyeglasses, glass and other products. The plaintiff alleges misappropriation of various trade secrets relating to PC against a former employee of a plaintiff affiliate and others under the Defend Trade Secrets Act, but also brings Texas common law claims for misappropriation of confidential information. The plaintiff's state common law claims concern the same PC trade secrets that are the basis of its Defend Trade Secrets Act claims.

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The operative complaint pleads, "To the extent that the information comprising the polycarbonate trade secrets does not constitute trade secrets, but instead constitutes confidential information. Plaintiff hereby alternatively asserts this claim for common law misappropriation." So the defendants move for summary judgment on the common law claims, arguing that the Texas Uniform Trade Secrets Act preempts state law claims for misappropriation of trade secrets and for misappropriation of mere confidential information. The Texas Uniform Act has the following preemption provision, "This chapter displaces conflicting tort, restitutionary and other law of this state providing civil remedies for misappropriation of a trade secret". It further states that the preemption provision, "Does not affect other civil remedies that are not based on misappropriation of a trade secret".

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The parties dispute the scope of this preemption clause like in the Minnesota case and here the Supreme Court of Texas had yet to rule or has yet to rule on this issue. The defendants argued that the goal of the Texas Uniform Act is, "To preempt any common law for the alleged misuse of confidential and proprietary information that duplicates the plaintiff's statutory claim for misappropriation of trade secrets". Since, "Plaintiff's alleged trade secrets and alleged confidential information are both based on the same underlying facts, defendants argue that the misappropriation of confidential information claims are preempted". On the other hand, the plaintiff argues that the Texas Uniform Acts preemption only preempts state law claims for misappropriation of trade secrets, not misappropriation of confidential information, noting that the text of the preemption provision only uses the phrase, "trade secret".

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The court analyzed the issue and found that recent Texas Appellate Court cases provided guidance as one court explained, "The underlying purpose of the Texas Uniform Trade Secrets Act preemption provision is, as many courts have noted, to prevent inconsistent theories of relief for the same underlying harm by eliminating alternative theories of common law recovery which are premised on the misappropriation of a trade secret". And, "To narrow the preemption's application exclusively to information that qualifies as a trade secret under the statute would frustrate that purpose". District courts have followed the same analysis when addressing this issue. Accordingly, after analyzing Texas Appellate Court rulings on the issue, the court found that, "Where a plaintiff brings a common law misappropriation of confidential information claim based on the same underlying wrongful acts and concerning the same information as its misappropriation of trade secrets claim, the Texas Uniform Trade Secrets Act preemption applies. This approach prevents inconsistent theories of relief for the same

underlying harm". The court noted that the plaintiff has not brought a claim under the Texas Uniform Trade Secrets Act rather the plaintiff's trade secrets claim was brought under the Federal Defend Trade Secrets Act.

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But the court said, "This is immaterial for the purpose of analyzing whether the plaintiff's common law claim for misappropriation of confidential business information is preempted by the statute". So here are the takeaways. In Minnesota, a plaintiff may maintain separate causes of action to the extent that the causes of action have "more" to their factual allegations than the mere misuse or misappropriation of trade secrets. Otherwise, why would the court have asked for more discovery on this issue? And according to this case, that means that the misuse of confidential information that doesn't rise to the level of trade secret may support claims besides misappropriation of trade secrets. To me, and I believe according to cases in other jurisdictions like California, this ruling seems contrary or strikes me as contrary to the goal of the, "Uniform Trade Secrets Act", which is adopted in 48 states, including Minnesota, to truly make uniform claims and remedies for the misuse of secret information.

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For example, we've discussed California cases where claims over confidential information, whether trade secret or not, can only be brought as a trade secret claim and not as an overlapping tort claim, which would be preempted or superseded as we call it here by the Uniform Trade Secrets Act. On the other hand, Texas for now at least, follows a different approach which recognizes the goal of the Uniform Trade Secrets Act. There, claims for confidential information that don't rise to the level of trade secret are preempted. This approach seems more defensible given the Uniform Trade Secrets Act goal of uniformity.

[\(14:14\)](#):

Okay guys, it's been quite a year. Thank you for listening. We'll be back in January with our traditional year-end Review. Love you. See you later. Happy Holidays.

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.