

Jordan Grotzinger ([00:05](#)):

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 ([00:25](#)):

[inaudible]

Jordan Grotzinger ([00:26](#)):

Welcome back everybody. It is seasoned. Is it season two or year two, Ashley season two of the trade secret law evolution podcast. We're really happy to be back. It feels like a long layoff, just about three weeks, but, uh, didn't want to bore everybody to death over the holidays. So Ashley Farrell Pickett is back with us today, which is great. Ashley. Hi, good to see you. Um, let's dive right in. We're going to discuss two cases that address a few important issues. What constitutes a trade secret, the meaning of misappropriation and California's uniform trade secret act preemption and what that means? So, uh, the first case we'll discuss is from the Supreme court of Idaho from December, 2019. And this was a broad dispute between an insurance company and a former agents, but we focus here on the insurance companies trade secret claim against the agent. The agent was an independent contractor whose contract had a non-compete clause, which, uh, as is typical prohibited disclosure of information about the insurance company's policies, insureds rates, et cetera, two competitors parties got into a dispute. The agent was terminated and sued the insurance company for overdue commission.

Ashley Farrell Pickett ([01:49](#)):

Yeah. And so after his termination, the agent generated a list that had the names and addresses of, I believe it was hundreds of individuals, some of who were the insurance company's customers. And he had compiled that list from personal contacts in his phone, old commission statements, old calendars, and just his personal knowledge. Um, he later began working for a competitor of the insurance company, began soliciting the insurance company's customers and the insurance company responded by counter claiming against his claim for overdue commissions, with claims, for violation of the Idaho trade secret act, the district court, the lower court, granted summary judgment dismiss the claim and the insurance company appealed. And that's what took us to the Supreme court.

Jordan Grotzinger ([02:36](#)):

So the Supreme court analyzed whether the agents list constituted a trade secret and whether the use of it Rose to actionable misappropriation, the insurance company argued that the agent's admission that the list was compiled in part from commission statements and calendars was actually an admission that the agent used the insurance company's customer lists.

Ashley Farrell Pickett ([03:02](#)):

Yeah. And I do have to admit that reading or reading the case, I should say I was underlining commission statements and calendars because that's kind of a red flag usually, but here it was, it was a little bit different. I believe it was something like 20 of the hundreds of contacts were actually from the commission statements and calendars. And he also had access to those same names and other places. So it was a bit of a factually distinct case from others that we typically see, but getting back to it, the

Supreme court recited the elements of trade secret, um, which again, for everybody is information that derives independent economic value from being secret. And second is subject to reasonable efforts to maintain that secrecy. And it also looked interestingly to the restatement of torts section seven 57, which lists six additional factors bearing on whether information is a trade secret or not. The first factor is the extent to which the information is known outside of the plaintiff's business. The second is the extent to which it is known within the business. The third is the measures taken to guard secrecy. The fourth is the value of the information to the business and to competitors. The fifth is the amount invested by the plaintiff in developing the information and six is the ease or difficulty with which it can be duplicated by others.

Jordan Grotzinger ([04:21](#)):

So a couple of things for the non lawyer listeners out there, the restatement of torts is a publication of legal doctrines that courts sometimes refer to when interpreting the law and this restatement of torts seven 57 deals with the definition of trade secrets. And those factors that Ashley just recited are as we have addressed on prior episodes, not mostly not elements of what a trade secret is per se, which as you said, Ashley is just secret information that derives value from being secret and subject to reasonable measures to maintain secrecy. But most of these factors are independent, but related considerations that you should be thinking about when advocating or or well when advocating that something is, or is not a trade secret, because all of these things support the definition of the statutory definition of, of what a trade secret is. So the court noted that quote, these factors are not required, but address the issue of whether the information is generally known or readily ascertainable.

Ashley Farrell Pickett ([05:38](#)):

Yeah. So considering the trade secret definition and these six restatement factors, the court affirmed the lower court and held that the list was not a trade secret. The court noted that while customer lists can of course constitute trade secrets, not all of them innately are trade secrets. And here the list was wholly quote, almost wholly generated from alternative and independent sources. It contained generally known information and the insurance company took few efforts to maintain its secrecy. Um, the, so essentially the court went into the fact that court list generated from independent sources, such as those identified in this case, do not automatically constitute trade secrets. Again, here, the list was mostly generated from the agent's personal knowledge and phone contacts and contact information can be determined in a variety of ways, which makes it essentially public information.

Jordan Grotzinger ([06:30](#)):

And the insurance company here also did something which really undermined its position that this material was trade secret information. It had a practice to provide terminated employees with a copy of their contacts from, from, uh, from the insurance company's servers. So

Ashley Farrell Pickett ([06:49](#)):

They can't really claim a secret if they're providing it to the employees, especially it wasn't just during their employment. It was after they were terminated, they provide this information,

Jordan Grotzinger ([06:59](#)):

Uh, a generous practice, but one that is not conducive to establishing trade secrecy. Also the commission statements that the insurance company provided to the agent lacked any confidentiality language, nor did the company have a policy of informing the agents, that the information in those

commission statements was confidential. And of course, like we talked about the contact information on them, wasn't really secret. Anyway. So the court concluded the insurance company didn't meet the reasonable efforts to maintain secrecy requirement. Yeah.

Ashley Farrell Pickett ([07:35](#)):

And finally, the court held that the agent's conduct did not rise the level of misappropriation merely using the knowledge that the agent brought with him from one employer to another does not constitute misappropriation, rather quote, the legislature did not intend the Idaho trade secret act to be read so broadly that merely hiring a competitor's employee constitutes acquiring a trade secret because employees will naturally take with them the skills training and knowledge acquired from a previous employment. So the agent didn't acquire any of the info via any improper means like after bribery. So there was no misappropriation here.

Jordan Grotzinger ([08:15](#)):

The next case deals with California uniform trade secret act preemption sometimes called super session. And that basically deals with the doctrine that says you generally can't assert a legal claim that while not called trade secret misappropriation in effect alleges trade secret misappropriation. So this case was about a coffee extract manufacturer. The plaintiff that kept its extract process as a trade secret, the individual defendant was a former employee and actually co-founder of the plaintiff who assigned his rights in that secret process to the plaintiff company.

Ashley Farrell Pickett ([09:01](#)):

Yeah. And so this was a case before a California district court also in December of last year and the individual defendant that Jordan was just referring to became president of a separate corporation who was also named as a defendant in this lawsuit. And the plaintiff's alleged that the defendants misused their trade secrets by disclosing them in public patent applications. And that the individual defendant assigned those patents to the corporate defendant, um, and therefore sued for first violations of the defend trade secrets act and the California uniform trade secrets act. And secondly, for internet intentional interference with a contract specifically that the defendant company had interfered with the individual defendants contract with the plaintiff. Um, they also sought declaratory judgment that they own the patents.

Jordan Grotzinger ([09:57](#)):

So the defendants moved to dismiss and argued that the plaintiff's interference with contract claim was quote unquote preempted by the California uniform trade secrets act. So, uh, and I don't think we've addressed this subject in the podcast before, but it comes up with some frequency. What is preemption under the uniform trade secrets act well under California law? And remember this is a uniform trade secrets act across the country with the exception of New York and North Carolina under California law. The uniform trade secrets act provides the exclusive civil remedy for conduct falling within its terms and preempts or supersedes other civil remedies for trade secret misappropriation. In other words, it quote the court said preempts claims based on the same nucleus of facts as trade secret misappropriation and quote at the pleading stage, the preemption analysis asks whether stripped of facts, supporting trade secret misappropriation, the remaining factual allegations can be reassembled or independently support other claims for relief, close quote. So claims based on a spectrum of conduct broader than trade secret misappropriation are not preempted.

Ashley Farrell Pickett ([11:18](#)):

Yeah. So here the plaintiff company alleged that the corporate defendant interfered with the individual defendants contractual duty to assign the patents, which included both trade secrets and non trade secret confidential information to the plaintiff company. So therefore planets argued that their allegations sufficiently pled wrongful conduct distinct from trade secret misappropriation, and the court held that quote to the extent these allegations are based on the trade secret information, the court that the intentional interference claims should be preempted. However, of course, to the extent that they were not based on the trade secret claim, they were not preempted.

Jordan Grotzinger ([12:02](#)):

So the motion to dismiss was denied except to the extent the allegations are based on non trade secret information. And this whole concept of uniform trade secrets act preemption or super session has been the subject of prior important case law. And one particularly important California case said it this way, quote information can not be stolen unless it constitutes property and information is not property unless some law makes it. So if the plaintiff identifies no property right outside of trade secrets law, then he has no remedy outside that law. And there is nothing unsound or unjust about holding other theories, superseded close quote. And what that court was saying was essentially the intent of the legislature in making a uniform trade secrets act was to eliminate what it called this web of potentially overlapping claims that implicate the same rights and make them uniform under one law. And so the point of that case was if it's not a protectable piece of property, like a trade secret, or you don't have some property interest in it, uh, and it, otherwise the claim otherwise arises from the same nucleus of facts as a misappropriation claim, that's preempted by the trade secrets act. So to our takeaways.

Ashley Farrell Pickett ([13:37](#)):

Great. So the first takeaway is that you should also consider the restatement factors in addition to the statutory elements of a trade secret when arguing that something is, or is not a trade secret. Also information generated from independent sources is generally not a trade secret. And of course that is consistent with trade secret law. That reverse engineering is permissible.

Jordan Grotzinger ([14:00](#)):

Also general language in a contract prohibiting disclosure of a businesses information will not automatically render that information, a trade secret, like as we saw the contact information in the commission statements given by that insurer to the agent, you know, so there, you had broad contractual language that the insurer probably intended to mean, you know, everything we give you, we consider confidential and therefore it's a trade secret, but that case essentially held, if you want to protect your information, your contract language and your policies should be reasonably specific, like for example, a corporate policy that certain kinds of information or documents should be treated confidentially, you'll recall that the, uh, the court and the, that insurance case talked about how the insurer, um, didn't have, you know, there was no marking on the commission statement about confidentiality nor was there a policy that they should be treated as confidential. And those factors weighed against a conclusion of trade secret protection, notwithstanding the general contractual language in the agents confidentiality contract.

Ashley Farrell Pickett ([15:19](#)):

Yeah. So you really just can't have a universal policy that anything and everything is confidential. You need to, as much as possible, try to really narrow that down and be specific as to what is to be, to treat

treated confidentially, if you want to be able to rely on that clause. Yes. Another takeaway is that misappropriation requires more than use of information that you learned on the job with the plaintiff. Um, the information must have been acquired by some improper means or under circumstances imposing a duty to maintain secrecy on the defendant.

Jordan Grotzinger ([15:54](#)):

And finally, under the California uniform trade secrets act claims based on the same nucleus of facts as a trade secret misappropriation claim are preempted by the uniform trade secrets act. What does that mean for the non-lawyers without putting all of you to sleep, you file a lawsuit for violation of the uniform trade secrets act, and also add a claim for say, unfair competition, but the unfair competition claim really just parrots the trade secret claim. You know, the defendant also competed unfairly or acted unlawfully because it took the plaintiff's confidential information. Well, that kind of claim, even though it's framed as a different legal theory, arises from the same nucleus of facts as a trade secret claim, therefore what the court will do is throw out that unfair competition claim and only let the trade secret claim stand. Uh, so that's the preemption doctrine in a nutshell, and one more thing which was not addressed by the court in the coffee extract case, uh, under the California uniform trade secrets act, there are, there are essentially two exceptions to preemption and that is, uh, claims arising in contract or criminal, uh, claims with that we will sign off from the first episode of season two, Ashley, thanks a lot.

Jordan Grotzinger ([17:23](#)):

Hope to see a lot more of you.

Ashley Farrell Pickett ([17:25](#)):

Bye everybody. Bye everyone.

Jordan Grotzinger ([17:32](#)):

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 GrotzingerJ@gtlaw.com or on LinkedIn.

Ashley Farrell Pickett ([17:50](#)):

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 ([18:03](#)):

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