

Jordan Grotzinger:

Come 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 we're back for episode 16 of the trade secret law evolution podcast. I'm here with Ashley Farrell Pickett again. And we have a major announcement, which I announced on LinkedIn. So some of you may know, but this podcast is now California CLE eligible for self study credit. So in English, that means if you're a California lawyer, you can start getting CLE credit now by listening, you self-report it's self study, each episode that's recorded is already approved. And the reason that I said eligible is just because each episode has to be reviewed for legal content before it is approved, but will be approved when it's recorded. So you've got hours and hours of content going back to June of last year and future episodes will be approved, but this is a great, easy way to get CLE credit when you otherwise couldn't be spending that time. Uh, for that purpose. I mean, usually my self study credit involves sitting in front of a computer and listening to a seminar and drinking a ton of coffee to stay awake while I could be working. But now you could do it in your car or the gym or anywhere else. You can listen to podcasts. And so we are really excited about that and hope it helps everybody. The details are in our website. There's no certificates of attendance. So it is an honor system as self-study often is. Uh, but we wanted to let you know that and we're very excited about it. So digging into the content this week, we're going to discuss cases that address the tangibility of a trade secret. What improper means means for purposes of misappropriation, because misappropriation has to be some act by improper means how to establish irreparable harm to obtain a preliminary injunction, reasonable efforts to maintain secrecy when an employee resigns or is terminated and establishing independent economic value. So the first case they're all in January of 2020 was out of the Southern district of California.

Jordan Grotzinger:

And in this case, the plaintiff provided accounting and business advisory services, which allegedly developed quote, a proven set of accounting and finance best practices, processes, and procedures, specifically designed, uh, electronic tools and other trade secrets, coupled with financial guidance to ensure the financial health and success of plaintiff's clients, close quote, which plaintiff says distinguish it from its competitors. So the definition of a trade secret is not a tangible thing. It's a pretty broad description of processes and procedures. The defendants are former employees who had access to the plaintiff's information and a competitor for which those defendants now work. As we see often when the individuals left the plaintiff, they refuse to sign plaintiff's reminder of confidentiality form. And after the individual defendants left, the plaintiff conducted a forensic examination of the plaintiff's laptops and found that they copied sweeping files, including quote, many of plaintiff's most valuable assets and proprietary trade secrets, close quote. So the plaintiff moves for a preliminary injunction, asserting claims under the California uniform trade secrets act and the defend trade secrets act.

Ashley Farrell Pickett:

Yeah. And so as most of you probably know for a preliminary injunction, the court considers a likelihood of success for the plaintiff and here the court noted that to establish a trade secret quote, a plaintiff need not spell out the details of a trade secret, close quote, but instead must describe the subject matter with sufficient particularity to separate it from matters of general knowledge in the trade or of special persons who are skilled in the trade and to permit the defendant, to ascertain at least the boundaries within which the secret lies. So that comports with the number of the cases that we've talked about thus far on this podcast, but it really went to the fact that there's a broad definition of

trade secrets under both the California uniform trade secrets act and the defend trade secrets act. And that includes all forms and types of information like patterns, plans, processes, formulas, programs, procedures on and on. So it's almost as if the legislature tried to include every synonym for information in the non-exclusive list. But of course the information also must be subject to reasonable measures to maintain secrecy and drive independent economic value from its secrecy.

Jordan Grotzinger:

So the plaintiff listed the trade secrets here at it. It described a little more specifically what it meant by those, uh, the processes and procedures it was referring to. And it listed its trade secrets as follows QuickBooks accounting files containing the plaintiff's financial records and customer lists, proprietary sales and marketing materials, a utilization report and training materials.

Ashley Farrell Pickett:

Yeah. So the defendants tried to argue that these were not trade secrets because they were essentially Microsoft templates, but the court disagreed. And it found that because plaintiff established that the Excel workbooks were quote, designed to automate the export of vast amounts of information from QuickBooks into a formatted Excel file that had been pre-programmed to run calculations in tie out a company's financial information close quote, using the formulas created by plaintiff. They were in fact, a trade secret.

Jordan Grotzinger:

The defendants also argued that the claim trade secrets included former client's own financial data. In other words, not the plaintiff's secrets, but again, the court found that the defendants missed the point because the plaintiff was quote, seeking to protect the software and codes in the Excel spreadsheets, not the data from the clients that is inputted into the spreadsheets close quote.

Ashley Farrell Pickett:

Yeah. So the court also found that plaintiff use reasonable efforts to maintain secrecy here. Um, specifically referred to that the plaintiff only allowed certain employees access to these files, um, that had a network and computers that were encrypted and required passwords for access. And when actually gave the reports to clients, it provided not the Excel sheet for instance, but instead a PDF of that. So that it's formulas, I guess you would call it, um, were still protected even from its own clients. So it's accounting processes. The court said, and software templates were valuable due to their secrecy. And the court found that plaintiff would likely establish that the information was a protectable trade secret.

Jordan Grotzinger:

The court also found like the likelihood of success on the misappropriation requirement as to certain defendants, not all of them, because, and this seems obvious, but it's worth repeating, downloading and emailing files without permission is sufficient to show acquisition by improper means. And we see that a lot in these cases and the court found irreparable harm, another element of injunctive relief because the plaintiff showed that it is lost and could lose more customers as a result of the misappropriation and the value of the trade secrets like customer lists had been diminished due to the misappropriation. So for all those reasons, the preliminary injunction was,

Ashley Farrell Pickett:

Yeah. And so turning now to the second case, it's a case out of the Northern district of Illinois. I mean, it speaks to the reasonable efforts to maintain secrecy when an employee resigns or is terminated. Um, in this case, the plaintiffs owned auto dealerships and they attributed much of their success to their secure customer relationship system, which they turned to CRS, which included customer lists, purchase histories, notes of customer purchasing habits and related information. And they would keep their CRS is confidential by requiring passwords, restricting the level of information given to certain employees based on their job duties and titles and imposing a confidentiality policy and its employee handbook. The defendant here was a former GM with the company who had access to this confidential information. He unexpectedly resigned on January 28, 2019 and returned his plaintiff issue, laptop and cell phone the very next, however, plaintiff's discovered upon looking at those laptops and cell phones that he logged on to the CRS eight times in the day of his resignation and the day after, until his access was ultimately terminated. The next day on January 29th, he then soon thereafter began working for a competitor and solicited another of plaintiff's employees in violation of defendant's agreement with plaintiffs to not solicit. Um, the other employee similarly accessed the CRS system many times before actually telling plaintiffs that he was going to be resigning. And then three times between his resignation and plaintiff's terminating his access to the CRS system. So that employee was also sued. And here again, the plaintiff's move for a preliminary injunction.

Jordan Grotzinger:

So the defendants opposed by contesting, whether the plaintiffs took reasonable measures to maintain secrecy and specifically they argued that the plaintiffs failed to do so by not terminating the employee's CRS access immediately. Remember, as you said, there was a day or two or three between the, uh, the, the employee leaving and the access being shut off. However, the court said, uh, both employees resigned unexpectedly and their access was terminated one or two days later, respectively, the court found that the plaintiffs acted quote swiftly and quote declines to Rob plaintiffs of their trade secret protection when they acted swiftly, but not immediately close quote. And why did it, uh, make that decision? Because efforts to maintain secrecy as provided in the statutes must be reasonable. It doesn't say perfect. So it doesn't say, you know, perfect deck efforts to maintain secrecy. It says reasonable efforts. And that's why, uh, shutting it off between one and two days was reasonable enough.

Ashley Farrell Pickett:

So going to our third and final case of the day, um, this is a case out of the Western district of Kentucky and it speaks to establishing independent economic value. Um, this is in my opinion, a pretty clever legal argument that ultimately didn't succeed as we'll discuss. But the background of this case is defendant was in the pharmaceutical business and was sued by former employees after a data breach in which the employee's personal identifiable information or PII was obtained by cybercriminals. This is becoming very common these days. It's a big issue for a lot of employers and other companies that I'm sure everyone knows, but the plaintiffs here Sue the defendant for among other things, misappropriation of trade secrets and defendants moved to dismiss.

Jordan Grotzinger:

So aside from other issues, and there were other issues as to whether the PII constituted a trade secret, the court focused on the economic value element, the plaintiff's basis for this element was that quote, the cyber criminals who obtained the plaintiff's W2 information may continue to exploit the data themselves and, or sell the data in so-called dark markets, close quote, the court held that speculating the criminals may sell the PII does not adequately allege independent economic value. Also the plaintiffs

don't claim that they'd sell their own PII or that its value was diminished by the cybercriminals possession of it. So the motion to dismiss was granted.

Ashley Farrell Pickett:

Yeah, I just, as a bit of an aside, you know, this area of law concerning concerning cyber criminals and you know, their ability to steal information specifically from employers, um, it's constantly evolving of course, but this is the first time I've seen this in a trade secret. Um, brought as a trade secret claim. It's usually brought as either negligence or breach of contract. And in those cases, the plaintiffs argue and they've been successful in certain jurisdictions, um, that they have standing and that they were actually harmed because they, for instance, need to expend money to get a, you know, LifeLock or something like that to review their credit and information, given the personal information that was,

Jordan Grotzinger:

And that sounds like a more viable theory and calling it a trade secret. I think the court was right to say, wait a minute. I mean there, and as I said, there were other issues besides the independent economic value, but that was an easy, um, and easy way to, to grant the, the motion to dismiss. So onto our takeaways. First takeaway is this a trade secret does not have to be a tangible thing like a list or a formula, even though of course it can be, it can be almost anything if it is a secret derives value from its secrecy and is subject to reasonable efforts to maintain secrecy. Like in that case where we had, we had the Excel workbooks, which were off the shelf software, but designed to automate the export of information from QuickBooks to an Excel file that was pre-programmed to run calculations and tie out a company's financial information using formulas created by that plaintiff.

Jordan Grotzinger:

So a trade seeker can even incorporate something public like off the shelf software. But if the plaintiff's software templates, for example, are specifically designed to accomplish a secret, valuable, protected process, they can be a trade secret. And I emphasize those three words because those are essentially the elements of a trade secret. It's something not generally known I E secret that has independent economic value in English. That means it's valuable because it's secret and it's protected in other words, subject to reasonable measures to maintain secrecy. So that very broad definition that we read from the statute at the beginning about what can be a trade secret information, formulas, processes, procedures, this, that like one of us said, I can't remember who, uh, it's almost as if the court used every synonym. I think you said this Ashley for information, because as long as it has those other qualifiers secret, valuable and protected, it can be a trade secret.

Ashley Farrell Pickett:

Yeah, exactly. Another good takeaway is that improper means for purposes of misappropriation does include downloading or emailing files without permission. That seems obvious, but it bears repeating since you see it all the time in these types of cases.

Jordan Grotzinger:

Another takeaway is that irreparable harm for purposes of a preliminary injunction means not only losing customers in the example of, uh, in the case of, for example, a customer list, but devaluation of the trade secret, like a customer list due to the misappropriation.

Ashley Farrell Pickett:

And we learned that courts will not condone a game of gotcha. When it comes to reasonable efforts to maintain secrecy, for example, cutting off or resigning employees, computer access with flea, but not immediately, that can be reasonable. So the standard again is reasonableness. It's not perfection with that said of course the sooner the better don't unnecessarily delay, but you don't need to be doing it immediately.

Jordan Grotzinger:

That is correct. But I, I do emphasize, as you said, Ashley, the sooner the better, I mean, it's always better to just cut off a potential argument and the longer you wait, the more that argument grows. And so it's always a best practice to cut off confidential access. As soon as the employee is no longer an employee immediacy as best perfection is not required, but the faster, the better, the last takeaway, and this is another obvious point, but you see it as we did in this case, may doesn't cut it a permissive word like may is not going to get you the showing you need to survive a pleading or get an injunction. For example, the side that in that case with the cybercriminals that took the PII that they may sell, the PII does not establish independent economic value, let alone, without a showing that the plaintiffs could sell their PII or that the HACC diminished its value. This goes for all elements of trade secret misappropriation. And, and that goes back to a fundamental of evidence and improve may is legally meaningless. And in civil cases with some exceptions, your burden of proof is preponderance of the evidence, which is a more than 50% may does not mean more than 50%. It means may. It is pure speculation and it's pretty worthless, uh, when, when using it in advocacy, that's it folks. So we look forward

Jordan Grotzinger:

To our next episode and get your credit for California self study. Bye bye-bye. 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 4:

Greenberg Traurig has more than 2000 attorneys and 39 offices in the United States, Latin America, Europe, Asia, and the middle east GT has been recognized for its philanthropic, giving diversity and innovation, and is constantly among the largest firms in the U S on the law three 6,400. And among the top 20 on the AmLaw global 100 content is for informational purposes only and does not contain legal or other advice and or opinions for more information, please visit B I T . L Y / G T L A W disclosures.