Jordan Grotzinger:

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

Jordan Grotzinger:

Welcome to the trade secret law evolution podcast, episode 21 quarantine edition. I'm recording from my improvised garage studio without my team. The acoustics are not going to be as good as usual. Background noise is inevitable. And so I appreciate you listening. I hope everybody's well, let's get right to it. In this episode, we're going to discuss subject matter jurisdiction under the defend trade secrets act, distinguishing trade secrets from other confidential information that may have been misappropriated and how courts treat that. And the concept of indirect misappropriation, which we addressed in the last episode, the first case comes out of the district of Massachusetts from late March, 2020. The plaintiff was a life sciences consulting firm that sued its business development manager for allegedly disclosing confidential information to her fiance. Also a defendant who worked at a competing firm, the confidential information consisted of client and consultant leads and proprietary documents, including a supplier agreement and a commission report.

Jordan Grotzinger:

The plaintiff sued under the defend trade secrets act and related claims. And the defendants argued that the plaintiffs failed to establish subject matter jurisdiction under the federal defend trade secrets act. As we've discussed, uh, the test for subject matter jurisdiction under the defend trade secrets act as whether quote the trade secret is related to a product or service used in or intended for use in interstate or foreign commerce close quote, the defendants argued that because all parties were Massachusetts based and the conduct was alleged to have occurred in Massachusetts. The subject matter jurisdiction test wasn't satisfied, but the court found that the plaintiff had alleged a quote colorable nexus with interstate commerce for pleading purposes, close quote, according to the amended complaint, quote, both the plaintiff and its clients, life sciences firms conducted business across state lines and the former business development manager funneled to her fiance, not only information concerning a specific Massachusetts based client, but also information derived from the plaintiff's proprietary database as supplier agreement and a commission report that may impact the plaintiff's interstate business relations close quote.

Jordan Grotzinger:

That was enough according to the district of Massachusetts to allege subject matter jurisdiction at the pleading stage. And we'll get to the takeaway away from that case, as we always do at the end of the episode, the next case came out of the Northern district of California in April, 2020, the, and this case deals with how to distinguished trade secrets or the extent you need to distinguish trade secrets from other confidential information that is alleged to have been stolen. And it also addresses the concept of indirect misappropriation. So in this case, the plaintiffs were in the aluminum alloy supply business and hired the individual defendant as a vice-president to develop business, the defendant, allegedly siphoned business to a competing company. He formed and formed another company to act as a sales arm of a company with which he'd made a deal while working for the plaintiffs.

Jordan Grotzinger:

The plaintiff sued the defendant and the other companies for violations of the defend trade secrets act and the California uniform trade secrets act. And the defendants moved to dismiss. Now we've talked about the requirement of trade secret identification repeatedly. It's probably the most addressed subject on our podcast. And that is how a plaintiff has to allege enough particularity to distinguish the trade secret from general knowledge and informed the defendant and the court of the quote unquote boundaries in which the trade secret lies. So the defendant and the court know what we're fighting over here. The defendant's argument was a little more specific than just they didn't identify the trade secrets specifically enough here. The defendants argued that the plaintiffs do not quote distinguish the trade secrets. They alleged were misappropriated from the more nebulous, larger bucket of confidential information close quote. And they relied for that argument on cases holding that the California uniform trade secrets act may supersede claims based on confidential information.

Jordan Grotzinger:

Even if that information doesn't qualify as a trade secret, we've caught, we've talked about that super session doctrine in this podcast before, but the court said, quote, such a rule is not supported by case law and defendants do not cite any cases that have dismissed a trade secret misappropriation claim for this reason, close quote quote, thus the court need not decide on a motion to dismiss whether some parts of the alleged trade secret may after not qualify as a trade secret instead of plaintiff need only describe the alleged trade secret with sufficient detail to, for example, separate the trade secret from matters of general knowledge close quote. This is an important case and issue because frequently, um, as in this case, the plaintiff finds out about an alleged misappropriation and in the fog of this urgent discovery, uh, frequently does not know exactly what was misappropriated yet.

Jordan Grotzinger:

How could it without discovery absent very clear proof, which often is not, uh, available or visible at the very beginning of the case. So the court said, in other words, trade secret identification did not require the plaintiffs at the pleading stage to distinguish what constituted a trade secret within the larger bucket of confidential information, allegedly stolen. As long as they described the misappropriated trade secrets, that is the trade secrets that they knew were misappropriated with sufficient particularities. The court also addressed the theory of indirect misappropriation, which we discussed in the last episode. And that is a theory that can be used against someone who did not actually misappropriate the trade secrets here. The corporate defendants argued that they shouldn't be liable for the former, uh, plaintiffs by vice-presidents misappropriation. In other words, the, uh, the plaintiff's former vice-president is the one who was alleged to have done the misappropriating and given those trade secrets to those other corporate defendants and the corporate defendants raise the indirect misappropriation doctrine and argued they shouldn't be liable.

Jordan Grotzinger:

So this theory of indirect misappropriation requires a showing that the defendant quote knew or had reason to know before the use or disclosure that the information was a trade secret and knew, or had reason to know that the disclosing party had acquired it through improper means, or was breaching a duty of confidentiality by disclosing it or knew, or had reason to know it was a trade secret. And that the disclosure was a mistake close quote. That is a mouthful. So let me summarize it in a sentence. What that means is indirect misappropriation or indirect defendants in trade secret cases should have known that they were getting something that was wrongfully taken. It's all about wrongfulness. Now, this showing can be made by things like clear labeling. Um, you know, if you, I don't want to date myself, but

if you, uh, you talk about, uh, a CD or a disc with a label on it that says confidential or trade secret, that that puts a defendant on notice that they are getting something that is confidential.

Jordan Grotzinger:

So things like clear labeling or being told that the information was subject to a pending patent application or some non-disclosure agreement. These concrete examples of informing a defendant that the information was trade secret or confidential can get you that hook for indirect misappropriation liability. But here, the plaintiff's only concluded in their complaint that the defendants had quote reason to know that the confidential information and trade secrets were acquired under circumstances, giving rise to the duty to maintain their secrecy or limit their use close quote. In other words, they just kind of parroted the language of the statute without pleading facts. Okay. And that kind of conclusory allegation the court said wasn't enough. So the corporate defendants were dismissed. They were, they were not liable on an indirect misappropriation theory under that pleading. And the court also said that if the plaintiffs amend their complaint, they should identify what each defendant did and not lump them together.

Jordan Grotzinger:

Okay. The takeaways for purposes of subject matter jurisdiction under the federal defend trade secrets act lead to a product or service used in or intended for use in interstate or foreign commerce. In other words, the test for some subject matter jurisdiction can include at least in Massachusetts doing business across state lines and stolen information that impact the plaintiff's interstate business relationships, not very specific, but this was a pleading case where courts give more leeway to claims. And the court in Massachusetts said that those allegations were enough. Uh, as I always say, uh, the more you can plead factually the better, uh, because something like that might not hold up in other courts. And it's a developing test. Second takeaway trade secret. Yeah. Identification does not require the plaintiff, at least in the Northern district of California and at the pleading stage to distinguish between the misappropriated trade secrets and potentially a larger bucket of confidential information, allegedly stolen.

Jordan Grotzinger:

As long as the misappropriated trade secrets are described with sufficient particularity, the latter can be sorted out in discovery. And that's an interesting decision because it balances the practical reality of a plaintiff who is suing for trade secret misappropriation, not necessarily knowing the extent of what was misappropriated that fog I described against the pleading requirement of trade secret identification, which is to describe the trade secret with sufficient particularity to distinguish it from general knowledge and identify boundaries for the defendant and the court, so that the parties know what they're fighting over. Inevitably, some courts are going to be stricter, but this is a good decision for plaintiffs who like many plaintiffs who recently learned of some theft or corporate espionage don't know the full extent of what was misappropriated. Next indirect misappropriation requires a showing of facts establishing the indirect defendant's knowledge like labeling or being told that something was confidential.

Jordan Grotzinger:

Conclusory allegations won't stand. And finally, when you are pleading a trade secret case, when you're framing your allegations, don't lump all the defendants together and say, defendants did XYZ with respect to misappropriation, and it's always better to break up what each defendant allegedly did if

possible, to avoid those, a motion to dismiss arguments that as they say is that, um, I, uh, I miss my office. I miss my colleagues and, uh, I hope everybody's making the most of this time. It's challenging. Uh, and I hope that people are preparing for when things get better because they will and not just

Jordan Grotzinger:

Surviving. All right, bye. Everybody. Good to talk to you. 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 3:

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Speaker 4:

[inaudible].