

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. Ashley, how are you doing good. How are you doing? I am fine back.

Jordan Grotzinger:

Yes. Yes. It's great to have you back. Although, very different view right now I'm in my garage studio and you are where you are, and usually we're sitting across the table from each other. Very strange. I miss you guys. What's it been like two months? That's crazy, but yeah, it is you holding up. Okay. Yeah, no, we're good. Um, I, it's funny you say you're in your garage. My husband's in our garage because I sold the inside office, which will be a nursery and a couple of months I kicked him out into the crowd. Um, but speaking of which, you know, as I've warned our listeners, um, in the last, however many quarantined episodes expect background noise and, you know, kids running through and maybe an or an Amazon messenger ringing the doorbell, but let's power through this. So we're on episode 22, another quarantine edition.

Jordan Grotzinger:

And in this episode, we're going to discuss the concept of trade secret ownership, which I think is, or will be the first time we discussed this specific topic in this podcast, we're going to address the pleading of misappropriation and also the concept of inevitable disclosure. So jumping right in the first case was from the district of Massachusetts. From April. The plaintiff was a paper, an envelope supplier that sued its former chief operating officer who was responsible for customer service inventory and client relationship management. She became dissatisfied at the company and entered into an agreement to make her an independent contractor instead of an employee. The agreement had a confidentiality clause that was central to the case and defined confidential information as quote, any scientific technical trade or business secrets of plaintiff, which was actually two companies here and any scientific technical trade or business materials that plaintiff treats, or is obligated to treat as confidential or including, but not limited to confidential information obtained by or given to the plaintiff about or belonging to its suppliers, licensors, licensees, partners, affiliates, customers, potential customers or others close quote. That was a mouthful, but you'll see why it's relevant.

Ashley Farrell Pickett:

Yeah. So prior to the separation, defendant worked with a competitor slash corporate defendant, which was one of plaintiff's clients. And after the separation, the defendant started working for the competitor as it CMO and the relationship deteriorated and plaintiff alleged that defendant used confidential information about its clients pricing to secure business for that competitor and sued under the Massachusetts Tracy act under state and federal law and defendant moved to dismiss,

Jordan Grotzinger:

Right? So this was about the customers pricing and the motion to dismiss was based on a single ground that the plaintiff failed to allege ownership of the confidential information. And the court noted that quote ownership is central to the defend trade secrets act, which defines an owner as the person or entity in whom or in which rightful legal or equitable title to or license in the trade secret is reposed close quote. And the court then cited cases from around the country confirming this ownership requirement for the defend trade secrets act.

Ashley Farrell Pickett:

So the court then analyze plaintiff's allegations and in some, the plaintiff alleged that it quote maintained in quote, the pricing information of its clients and that the, or excuse me, that plaintiff was privy to it. The agreement that defendant entered into required defendant to quote, maintain in confidence and not utilize any confidential information she was privy to from plaintiff's suppliers, licensed stores, licensees partners, affiliates customers, potential customers, or others and quotes. So the court rejected plaintiff's allegation that it owned the trade secret. It's stated that quote, although plaintiff initially makes the conclusory allegation that it created the customer's pricing information, subsequent allegations make clear that even plaintiff believes that information belongs to the customers, not to plaintiff. For example, plaintiff alleged that defendant quote became privy to the customer's pricing,

Jordan Grotzinger:

Right? And so the plaintiff, the court said, quote fails to allege that it had rightful legal or equitable title to or license in the pricing information that it alleges was a trade secret, close quote. And as a result, the defend trade secrets act was dismissed. And you know, this is funny. We usually Ashley, we're kind of looking each other in eye and it's easy not to talk over each other. So bear with us, this will happen again. And it is what it is. Um, hopefully we could just focus on the substance and not the form here, but the bottom line with this case was that that the client's pricing information was the plaintiff's trade secret, but the facts made clear that really the, uh, the plaintiff was just privy to it and not an owner of it. And that's an interesting distinction. Number one, because of the requirement for ownership under the defend trade secrets act, but also because frequently a company with a broad confidentiality clause, like the one here may treat, you know, pricing information that it's privy to, and doesn't want to get out as its own trade secret, even though it might not actually own it and be, and just be privy to it.

Jordan Grotzinger:

Like, like this point, it was just privy to its customers pricing and didn't really own it. So it's important to focus on that ownership element in these circumstances. The next case is about pleading misappropriation and inevitable disclosure. This case also was from April and out of the district of Kansas. This was a classic case where we're an employer sued a former employees suspected of taking trade secrets. When he left, the plaintiff was in the crop insurance business. And the defendant was its district marketing director who had access to customer information, pricing, marketing, and sales data that the plaintiff considered confidential. The defendant had a company issued laptop and had signed a standard confidentiality agreement.

Ashley Farrell Pickett:

Yeah. So as part of a relative mass resignation of a number of employees, defendant allegedly accessed a wide variety and unusually large number of plaintiff's documents that contained confidential information and trade secrets, including customer information and on eight different dates before his resignation defendant actually attach an external memory device to his work laptop and access confidential information and trade secrets of the company. So you see these kinds of allegations a lot in trade secret cases. And this conduct obviously makes employers very concerned, but the plaintiff alleged quote on information and belief that defendant used plaintiff's trade secrets for the benefit of himself and his new employer, which is a competitor of plaintiff and quote, this is another common allegation or concern in these cases, but it was not enough to stay to claim,

Jordan Grotzinger:

Right? So the court said, quote, the sum of plaintiffs misappropriation claim is that the defendant, while he was a plaintiff employee with access to trade secrets, attached, external memory devices to his work laptop and access files that contain trade secrets shortly after he resigned from the plaintiffs and went to work for a competitor though, the nature and duties of his job are not alleged based on these facts and on quote information and belief close quote, the plaintiff alleges that the defendant had misappropriated and continues to misappropriate plaintiff's trade secrets. The complaint contains or includes no facts about how the defendant has allegedly done this or any facts that form the plaintiff's quote information and belief close quote.

Ashley Farrell Pickett:

Yeah. So the court rejected plaintiff's argument that quote, all it must do is put defendant on notice that is alleging he misappropriated trade secrets and quotes. And instead how that quote speculation and conclusory statements are not entitled to the presumption of truth standard plating practice. Um, so therefore the court cannot and did not simply presume that plaintiff's suspicions about defendant were correct. Again, something more was needed.

Jordan Grotzinger:

The court said, quote, the fact that the defendant access files that he apparently had access to as part of his job before he resigned, does not give rise to a reasonable inference of misappropriation. And the court also noted that the defendant was not asked to return files and there were no allegations that he disclosed them to someone else in addition to just accessing them.

Ashley Farrell Pickett:

Exactly. And so finally, the court also rejected plaintiff's inevitable disclosure theory. And you may recall this is the misappropriation theory that says that a defendant will inevitably disclose trade secrets, belonging to a prior employer. When working with a new employer who is a competitor, and some states recognized this theory, some states don't in any event here, the court stated that this theory is inevitable disclosure theory does require some facts about the employee's new position so that the court can evaluate the inevitable illness of the disclosure and hear the complaint was silent on this issue. There was nothing for the court to draw from, and therefore the defend trade secrets act claim was dismissed by the court.

Jordan Grotzinger:

So turning to our takeaways on the ownership issue to state a claim under the defend trade secrets act, the plaintiff must alleged facts supporting quote, rightful legal or equitable title two or license in close quote, the alleged trade secret material privy to the confidential information. Even despite an agreement that might prohibit the disclosure of the information is not enough.

Ashley Farrell Pickett:

Exactly. And also the second point is really to plead misappropriation. You need more than just access to trade secret information and suspicion, for example, attaching external memory device to a laptop, that confidential information

Jordan Grotzinger:

On it. And even showing that that confidential information was accessed while rightfully concerning, of course, to an employer may not be enough to actually state a claim. You really need more facts showing improper use or disclosure, for example, refuse or refusal to refute, turn the information to the employer. This comes up a lot. So always look for those extra facts that push the misappropriation claim from speculation to plausibility. Yes, it is very important to look for those. And sometimes they might seem like, you know, relatively small facts, like they refuse to return the information, something like that, something that is a circumstantial potential proof that something wrong was going on, uh, because, you know, while access to confidential information by someone who is about to leave the company and then does can cause rightfully a great concern on the part of the employer, who's losing that employee suspicion alone isn't enough.

Jordan Grotzinger:

So you need those kinds of facts. Many of them are going to be circumstantial and that's fine to get over the, uh, the speculative, uh, hurdle and, and, and make your claim survive at the pleading stage. And finally, uh, as to inevitable disclosure, if it's recognized in your jurisdiction, you still need to plead why, or you should plead why the disclosure is inevitable, for example, because the former employees, new job with a competitor to D depends on her or his knowledge of, or use of the information, it's not enough, or wasn't in this case anyway, even in a jurisdiction that might recognize inevitable disclosure, just to say that the disclosure is inevitable. You need some facts suggesting why. And the classic example is that, you know, it's the same job in the new company and the, the employee would need to know that information, the trade secret information from the old employer to perform his or her job at the new employer, facts like that can, um, can make your inevitable disclosure theory work. So that's that. And, uh, Ashley, great to talk to you. And, uh, I hope we do this again.

Jordan Grotzinger:

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](mailto: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, Greenberg Traurig has than 2000 attorneys

Speaker 4:

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