

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:

Hello everybody. Back for episode 23, we're going to discuss one case, a quite interesting case out of the 11th circuit court of appeals. And this circuit addresses misappropriation improper means and trade secret protection of compilations that may include public information. So this case came out this month and as the court said, a warning, this gets pretty dense and difficult pretty quickly. So have your coffee stay with us. Uh, but we did try to distill this as much as possible so that, uh, the takeaways at the end are clear. So in this case, the plaintiff developed and marketed a computerized mechanism for calculating organizing and comparing life insurance quotes and alleged that one of its competitors hacked its way into its system and stole its proprietary data. The case went to a bench trial, which means a trial just before a judge and not a jury. And the judge ruled for the defendants, but the 11th circuit reversed.

Ashley Farrell Pickett:

Yeah. So getting a little bit more into the facts plaintiffs and the defendants were direct competitors in generating life insurance quotes and plaintiff specifically maintained a database of insurance premium information to which it sold access. And I called it the quote transformative database. So the database was valuable because it contained current information on life insurance premium rate tables and therefore allowed for comparison of different rates. And although the transformative database is based on publicly available information, it can't be replicated without a specialized method and formula that was only known to the plaintiff here.

Jordan Grotzinger:

So it was a compilation that included some public information and the plaintiff sold to different kinds of access to this transformative database, a so-called PC version and an internet engine version and sold these two, uh, types of access by a unique license, both pieces of software contained an encrypted copy of the database. Uh, the PC version software allowed licensees to install copies of the quoter on their PC. Whereas the internet engine license permits a licensee to host the plaintiff's internet quote engines. So as

Ashley Farrell Pickett:

I referred to earlier, defendants and plaintiffs were direct competitors and defendants also generated life insurance quotes, but they did so through a website through which they offered a service that quote was at least partially copied from plaintiff's web coder. So plaintiff claims that defendant stole the data in two different ways, which formed the basis of actually two separate lawsuits, one called the oh eight case and the second called the 42 case. And they remained consolidated on the appeal that we're talking about. So the oh eight case, um, in the oh eight case plaintiff contended that defendants gained access to their transformative database under false pretenses. I reporting to work for a licensed customer of plaintiff in the 42 case plaintiff alleged that the defendants hired a hacker to scrape. And we'll go into what that is data from its server. And so scraping is a technique where you extract data

from a website. Um, definitely, you know, kind of interesting sexy facts here. And this one in terms of the misappropriation and the actions that were taken by defendant.

Jordan Grotzinger:

Yeah. Sort of classic corporate espionage type stuff. And for the listeners, if you hear the dings in the background, um, that's just, uh, my son texting me such as such as the world of podcasting and quarantine, um, the plaintiff alleged that the defendants then use the scrape data to generate quotes on their own websites. And the defendants didn't agree. Didn't disagree with that, but claim that they didn't know the source of the scrape data and innocently purchased it from a third party.

Ashley Farrell Pickett:

So plaintiff sued in the Southern district of Florida and the oh eight case plaintiff alleged that defendants misappropriate its trade secret by X accessing the transformative database on a server to generate quotes without permission. And in the 42 case, plaintiff's alleged that defense was appropriated their trade secrets by scraping data from its website. So just want to get those two theories clear for everybody. So I know we're throwing a lot at you.

Jordan Grotzinger:

Yeah. So the magistrate ju yeah. And just to recap that that's a great point, Ashley. So the two types of alleged misappropriation were accessing the transformative database on a server to generate quotes without permission. And in the other case, uh, by scraping data from its website. So those are the two alleged means of misappropriation. The magistrate ruled though that the defendants hadn't misappropriated any trade secrets and the plaintiffs appealed to the 11th circuit. So the 11th circuit analyzed the Florida uniform trade secrets act, Florida is one of the, uh, majority of states that adopts the uniform trade secrets act and noted that a party can misappropriate and others trade secret either by acquisition disclosure or use here, the plaintiff alleged misappropriation by acquisition and use, and a person misappropriate a trade secret by acquisition when he or she acquires it and quote knows, or has reason to know that the trade secret was acquired by improper means closed quote, a person misappropriate it's a secret by use if he or she uses it, quote without express or implied consent close quote and use improper means to acquire it or should have known that his or her knowledge was derived from someone else's improper acquisition or breach of duty to maintain secrecy.

Jordan Grotzinger:

So I've always thought that that jumble of language, particularly to non lawyers, uh, is a confusing way of saying it had to be taken wrongly. Uh, either the defendant knew or should have known that he or she took it wrongly or knew, or should've known that the way he or she got it was from somebody else or something else that was wrong in plain English.

Ashley Farrell Pickett:

Exactly. And so the 11th circuit focused on the definition of improper means, and that term is defined to include theft, bribery, misrepresentation, breach, or inducement of a breach of a duty to maintain secrecy or espionage through electronic or other means. So in the law of trade secrets, more generally theft wiretapping, or even aerial reconnaissance can constitute in proper means, but independent invention, accidental disclosure or reverse engineering can not. The 11th circuit said that quote, the inadequacy of measures taken by the trade secret owner to protect the secret cannot alone render a means of acquisition proper. So long as the precautions taken were reasonable. It doesn't matter that

the defendant found a way to circumvent them. Indeed, even if a trade secret owner took no measures to protect the seeker from a certain type of reconnaissance, that method may still constitute improper means, which is, which is pretty interesting

Jordan Grotzinger:

Directly, uh, reconciles the elements of improper means, um, which is required for misappropriation and, uh, the requirement of reasonable efforts to maintain secrecy. So that, that was an interesting little discussion. And the point of it is even if you're not strong on the reasonable efforts to maintain secrecy, uh, an acquisition can still be wrong and actionable. So in finding that there was no misappropriation, the 11th circuit held that the magistrate judges analysis contained two flaws first in the so-called oh eight case. The judge found that the plaintiff had quote failed to prove the existence of the duty critical, critical to its claims of trade secret misappropriation through use close quote and the 11th. But the 11th circuit said, quote, the judge erred in considering only varieties of misappropriation by use that require a violation of some legal duty, external to the statute close quote. As we mentioned before, some types of use misappropriation do require proof of an external duty under, under the Florida uniform trade secrets act like when the defendant uses a trade secret, knowing that he acquired the knowledge because of someone else's breach of duty to maintain secrecy.

Jordan Grotzinger:

So in that example, a duty is required, but the court said, quote, the same statute describes other kinds of use misappropriation that do not depend on the existence of an external duty. When for instance, a defendant knows that his knowledge of a trade secret was acquired using improper means, or that he has acquired knowledge of the trade secret by accident or mistake, and still uses it such use as actionable misappropriation close quote. So even assuming the defendants had no duty not to use the plaintiff's trade secret, they nonetheless may have used it in violation of the uniform trade secrets act.

Ashley Farrell Pickett:

The, the magistrate judge never considered these possibilities is really what the 11th circuit held. And it held quote, there was clearly enough evidence of these other non-duty based varieties of use misappropriation that the magistrate judge should have discussed them for dismissing them, given really the suspicious circumstances in which the defendants can access to plaintiff server and the transformative DuPont database.

Jordan Grotzinger:

Also the magistrate judge should have considered the 11th circuit, said misappropriation by use in the 42 case, but apparently only seems to have considered misappropriation by acquisition. So in the 42 case, the defendants admitted to hiring the hacker and quote to observing her take actions consistent with a scraping attack, close quote, therefore quote, it's hard to see how the defendants didn't at least have reason to know that the hacker had acquired knowledge of a trade secret for them by improper, if indeed the scraping attack amounted to improper means close quote, and the 11th circuit said the magistrate judge failed to consider that possibility as well. And also the judge reasoned improperly, I'll just make this quick point, Ashley, um, that the transformative database couldn't have been misappropriated by acquisition because the quotes that the hacker scraped were available to the public.

Ashley Farrell Pickett:

Yeah. And so what's interesting, there is that the magistrate judge failed to consider the important possibility of so much of the transformative database was taken really in a bit by bit fashion that a protected portion of the trade secret was actually acquired. And so the 11th circuit held the magistrate judge was correct to conclude that the scraped quotes were not individually protectable trade secrets because each is relatively available to the public, but that does not in and of itself resolve the question, whether in effect the database as a whole was misappropriated. So even if the quotes aren't trade secrets on their own, taking enough of them must amount to misappropriation of the underlying secret. At some point, otherwise there would be no substance to trade secret protections for compilations, which is something that the law clearly provides.

Jordan Grotzinger:

Right? So this, um, that was, uh, an important point because frequently trade secret cases involve material that include public information. Um, and this court recognized that if you analyze misappropriation through a, uh, bit by bit lens, so to speak, and the individual bits are public, you really missed the test because a trade secret can include public information. So, you know, the court's point was if you take enough of this, uh, at some point, if, as long as the overall compilation is, uh, and the method of putting it together is secret and valuable because it's secret and subject to reasonable measures than, um, taking enough of it can constitute misappropriation. And as the court said, otherwise, there would be no meaning to the rule that compilations that include public information can be, can have trade secret status. Another issue the 11th circuit addressed was that although the plaintiff had quote, given the world implicit permission to access as many quotes as is humanly possible, a robot can collect more quotes than any human practicably could.

Jordan Grotzinger:

So while manually accessing quotes from the plaintiff's database is unlikely ever to constitute in proper means. And that's because the quotes were public themselves using a bot to collect an otherwise infeasible amount of data may well be in the same way that using aerial photography may be improper when a secret exposed is exposed to view from above. Uh, thus for example, there was one case to which the 11th circuit referred that held that hacking a, even a public facing website with a bot, uh, mounted to improper means. And in that case, uh, the trade secrets owners failure to place YouTube usage restrictions on the website did not automatically mean the hacking was okay.

Ashley Farrell Pickett:

Yeah. And so remember, the uniform trade secret act protects information that derives independent economic value from not being readily ascertainable. And it's, it is a subject of efforts that are reasonable other than during those circumstances to maintain a secret seat. So the magistrate judge treated the wrong question as decisive, namely whether the quotes taken work individually protectable, he left undecided at the truly determinative questions. One whether the block of data that the defendants took was large enough to constitute misappropriation of the transformative database itself and to whether the means they employed were improper. And these are the issues that were ordered to be addressed on remand by the 11th.

Jordan Grotzinger:

And that does it for the summary of this case. So the takeaways here are under the uniform trade secrets act misappropriation generally, and quote improper means specifically do not always require the breach of a duty like the defendants obtaining the trade secret because someone else breached the

duty to maintain secrecy. As long as the trade secret was obtained wrongly, it can constitute misappropriation. That's why misappropriation includes things like theft, bribery, MIS misrepresentation, or espionage things that do not require the breach of a duty.

Ashley Farrell Pickett:

Yeah. Yeah, exactly. And also compilations can be protected trade secrets, importantly, even if they contain public information and are not readily ascertainable, thus it's improper to deny trade secret protection of a compilation just because it has individual data within it. That is public. The question really is whether the compilation as a whole is not readily ascertainable absence and improper means.

Jordan Grotzinger:

Yeah. And I, I found the, the readily ascertainable point to be important and an interesting way to look at what secret for purposes of a trade secret means a trade secret can include a lot of stuff that's not secret, but if it's compiled in a way in a, in a method that someone's invested a lot of time and money developing so that it is not easy to get all of the information in this compilation, the compilation can constitute a secret. And that's why, for example, the court said, you know, it's, it's different. You know, if someone chose to go through every bit of the compilation and handpick the public information, maybe that would be okay, but using a bot or software to hack and scrape all of this compilation that took perhaps years and a lot of money to develop is misappropriation because that shows that it wasn't readily ascertainable, conversely, that it was secret. So sort of a common sense conclusion from a rather dense but important discussion because you see these compilation cases a lot. So there you have it. I really hope, uh, the recording worked and, um, Ashley, great to see you on video as well. I'll see you soon. Hope you're well, sounds good. All right. Bye everybody.

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 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:

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