Trade Secret Law Evolution Podcast

Episode 53

Greenberg Traurig, LLP

Speaker 1:

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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.

So, here we are for episode 53 of the podcast, and I have with me today my partner, Blakeley Oranburg, in our LA office. Hi, Blakeley.

Blakeley Oranburg:

Hi, Jordan.

Jordan Grotzinger:

Can you say a few words about yourself and your practice?

Blakeley Oranburg:

Sure. As Jordan said, I am in the LA office with him. I am in the litigation group. I have a pretty general practice, mostly commercial litigation, some real estate litigation, and a little bit of trust and estate. So, I have a broad docket.

Jordan Grotzinger:

You are leaving out, modestly, your trade secret experience, and I know you have some because we handled the case together, I think it was right before the pandemic, like January, 2020 if I'm remembering correctly. And we went in and got an injunction in a trade secret case in LA right before the world changed. So, don't sell yourself short, but welcome to the podcast.

We're going to be following our usual format today. We're going to be talking about two cases on two subjects. The first subject is pleading on information and belief and whether that is sufficient in trade secret cases, and the time period for which trade secret damages are recoverable.

So, the first case was out of the Eighth Circuit in February of 2023, and the plaintiff alleged that two competitors misappropriated its trade secrets to gain an unfair advantage in the construction equipment rental industry. The plaintiff provided heavy equipment rental and repair services and sells

equipment. It has locations across the country and 60 years of experience in the equipment rental industry. In other words, this was a very established business in its space.

To protect its confidential information, the plaintiff did what we've all heard about a lot in this podcast, things like requiring its employees to sign non-disclosure, non-solicitation and non-competition agreements, and its employee handbook explicitly requires employees to safeguard the company's confidential information, including customer and vendor lists, pricing and marketing data, sales systems, training materials, and personnel data.

There were two defendants in the case. The first defendant was a much newer company, but grew quickly and had hired many of the plaintiff's former employees.

Blakeley Oranburg:

The plaintiff alleges that the two defendants in this case are effectively one and the same. The plaintiff also alleges, based on information and belief, that the second defendant was using the, quote, "customer lists, rental information, pricing information, and marketing strategies," close quote, that the first defendant illegally obtained from the plaintiff to, quote, "monitor, service and place its user's equipment," close quote. The plaintiff also alleged that the second defendant had, quote, "knowledge that this information was illegally obtained by the first defendant from the plaintiff," close quote. And the plaintiff sued for violation of the Defend Trade Secrets Act and asserted related claims.

Jordan Grotzinger:

The district court dismissed the second defendant from the lawsuit, having taken, quote, "issue with several paragraphs in plaintiff's complaint alleging the second defendant's involvement and knowledge, which are all pled upon information and belief," close quote. The court later dismissed the first defendant, holding that the plaintiff didn't state a plausible claim for trade secret misappropriation.

The plaintiff appealed to the Eighth Circuit. The court stated the standard for surviving motions to dismiss in federal court as follows, quote, "to survive a motion to dismiss, a complaint must contain sufficient factual matter accepted as true to state a claim to relief that is plausible on its face. A claim is facially plausible if the plaintiff pleads facts that allow the court to draw the reasonable inference that the defendant is liable for the misconduct alleged," close quote.

If, on the other hand, the plaintiff pleads facts that are merely consistent with the defendant's liability, the complaint, quote, "stop short of the line between possibility and plausibility of entitlement to relief, close quote.

So, that is a pleading standard that you see in every motion to dismiss in federal court now, post certain Supreme Court cases that laid out this standard several years ago, and in short, to plead a viable case in federal court, you can no longer state conclusions. You need some factual support for those conclusions, which as the Eighth Circuit recited here, pushes the pleading over the line of possibility to plausibility. Go ahead, Blakeley.

Blakeley Oranburg:

The Eighth Circuit noted that the district court dismissed the plaintiff's complaint against the second defendant primarily because the complaint alleged the second defendant's involvement in the first defendant's scheme only, quote, "upon information and belief," close quote. So, for example, in that case, the plaintiff alleged based on, quote, "information and belief," close quote, that, quote, "the first defendant had contracted with the second defendant to use plaintiff's confidential, proprietary and/or trade secret information to continue the illegal attack upon plaintiff's business," close quote.

Jordan Grotzinger:

Some of our non-lawyer listeners might be wondering about this phrase, information and belief. Of course, it's very common to us, but might sound cryptic outside of the legal world. What that means is that often, when you file a lawsuit, you don't know all the facts. You know enough facts to file your lawsuit, but you don't know all the facts, necessarily. That's what discovery is for.

And so, frequently you need to fill certain gaps when you're pleading your case, even when you don't know a fact, but suspect it to be true. And in that case, you can allege it on what's called information and belief. And so, the way that sounds in a pleading, if I'm suing you Blakeley, I'm saying that Jordan Grotzinger is informed, informed and believes that Blakeley Oranburg did X, Y, Z. That's all information and belief means. It's a pleading based on a belief, but not quite a knowledge, because of where you are in the case and the reality that discovery hasn't occurred yet. So, that's what information and belief is all about.

So, back to our case. The court also noted, however, as to this kind of pleading that, quote, "pleading on information and belief is expressly contemplated by the federal rules of civil procedure, citing rule 11B-3, whereby, quote, "an attorney or unrepresented party certifies to the best of the person's knowledge, information, and belief formed after an inquiry reasonable under the circumstances the factual contentions have evidentiary support, or if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery," close quote.

That's a legalistic way of saying what I said before, which is where you don't know something but suspect something in good faith, you can allege it on information and belief. However, the court said, it, the court, had never, quote, "fully articulated when plaintiffs may use upon information and belief pleadings in a complaint to satisfy Twombly's plausibility requirement," close quote. Now, Twombly is that Supreme Court case I referred to a couple of minutes ago that sets forth the federal pleading standard that we just discussed.

Blakeley Oranburg:

The Eighth Circuit held, quote, "the threadbare recitals of the element of a cause of action supported by a mere conclusory statements do not suffice. We cannot always expect plaintiffs to provide robust evidentiary support for their allegations at the pleading stage because in some contexts, that information may not be available to them before discovery. Thus, based on the federal rules of civil procedure and our own precedent pleading on information and belief must be permitted in at least some circumstances," close quote.

Jordan Grotzinger:

And the court noted that, quote, "our sister circuits have largely agreed that factual allegations pled on information and belief should not be summarily rejected under Twombly, where the facts are peculiarly within the possession and control of the defendant, or where the belief is based on factual information that makes the inference of culpability plausible," close quote.

And that statement by the Eighth Circuit was citing decisions by the First, Second, Third, Fifth, Seventh, Ninth, and DC Circuits. Thus, the court held, quote, "we adopt this prevailing standard today and hold that allegations pled on information and belief are not categorically insufficient to state a claim for relief where the proof supporting the allegation is within the sole possession and control of the defendant, or where the belief is based on sufficient factual material that makes the inference of culpability plausible," close quote.

Blakeley Oranburg:

So, turning to the allegations that were specifically before the court in this case, the, quote, "close question," quote, was whether the plaintiff plausibly alleged that the trade secrets, which again were customer lists, rental information, pricing information, and marketing strategies, were misappropriated. And again, misappropriation is defined as the, quote, "disclosure or use of a trade secret of another without express or implied consent by someone who at the time of disclosure or use knew or had reason to know that the knowledge of the trade secret was derived from or through a person who had used improper means to acquire the trade secret," close quote.

Jordan Grotzinger:

The court held that the plaintiff's complaint, quote, "provides sufficient factual material to allow us to draw the reasonable inference that misappropriation occurred. The complaint details with specific factual allegations that the second defendant and the first defendant have a close business relationship. For example, the complaint describes how the second defendant requires its users to use the first defendant's programs to service their equipment and maximize rental rates. Further, the plaintiff alleges that would-be rental owners seeking to participate in the second defendant's rental cooperative must purchase their equipment through the strategic partnership between the defendants. According to the plaintiff, the first defendant developed these programs by exploiting the plaintiff's trade secrets. The plaintiff also alleges that the market information used by the second defendant to develop profitable utilization and rental rates is based on the plaintiff's trade secrets illegally obtained by the first defendant. Taking all factual allegations as true, the plaintiff pleads enough facts to make it entirely plausible that the second defendant is at least using systems developed by the first defendant through the exploitation of the plaintiff's trade secrets," close quote.

Blakeley Oranburg:

But the court said, quote, "to state a claim for misappropriation, the plaintiff must plausibly allege that the second defendant knew or had reason to know that these trade secrets were improperly acquired by the first defendant," close quote. And on this point, the plaintiff's allegations are pled only on, quote, "information and belief," close quote, and the court held that this was appropriate. Quote, "the rest of plaintiff's detailed allegations taken as true made clear that the first defendant's programs were at the core of the second defendant's operations. Based on these detailed allegations, it is entirely plausible to infer that the second defendant knew it was using programs developed through the exploitation of trade secrets. Further, any hard evidence of the second defendant's knowledge is within the sole control of the second defendant or the first defendant. In other words, plaintiff has provided enough factual material to make the inference of culpability plausible, but plaintiff can prove the second defendant's culpability only through discovery. Thus, plaintiff's allegations put on information and belief are sufficient to nudge its complaint across the line between possibility and plausibility, and the Eighth Circuit reversed.

Jordan Grotzinger:

The second case is a district court case out of the southern district of Ohio from January of this year, and in that case, the parties were in the patio furniture business and both sell patio coolers. In 2016, the plaintiff designed coolers with certain designs. I'm going to call them the plaintiff coolers. The plaintiff had provided a proprietary rendering of one cooler to a Chinese cooler factory, which manufactured that cooler for a time. The plaintiff also provided a proprietary rendering of another cooler to solicit a bid, but the plaintiff didn't hire the factory to make that cooler.

The plaintiff later discovered that the defendant was selling coolers through online vendors that appeared to be knockoffs of the plaintiff's coolers, and the defendant's coolers were manufactured by the same factory to which the plaintiff had provided renderings of its coolers. So, quote, "based on the short amount of time between the plaintiff's creation of the one cooler and the defendant's offer for sale of its substantially similar item, the plaintiff surmised that the factory must have improperly used the plaintiff's design renderings to create the defendant's coolers," close quote. The plaintiff sued for violation of the Defend Trade Secrets Act and the Ohio Uniform Trade Secrets Act and asserted related claims. The defendant moved to dismiss.

The court reviewed the Defend Trade Secrets Act and the Ohio Uniform Trade Secrets Act claims together, as they're substantially similar, and set forth the definition of a trade secret under the Ohio Uniform Trade Secret Act as, quote, "information including the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, pattern, compilation." I'm skipping ahead, I'll tell you why in a second. "That, one, derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use. Two, it is the subject of efforts that are reasonable under the circumstances to maintain its secrecy," close quote.

Why did I skip ahead of that definition that included a million different kinds of data? It's because, in plain English, all that definition means is that a trade secret can be almost anything, as long as it is, one, actually secret, two, valuable to the owner and to its competitors because it is secret. That's that term, independent economic value. That's what that means. And three, subject to reasonable measures by the owner to maintain secrecy.

Blakeley Oranburg:

The Ohio Uniform Trade Secrets Act also defines misappropriation. It defines misappropriation as, quote, "one, acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means, or two, disclosure or use of a trade secret of another without the express or implied consent of the other person by a person who did any of the following: A, used improper means to acquire knowledge of the trade secret. B, at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret that the person acquired was derived from or through a person who had utilized improper means to acquire it, was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or was derived from through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use. And C, before a material change of their position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake," close quote.

Jordan Grotzinger:

Essentially, misappropriation requires that the acquisition use or disclosure be somehow wrongful, including the examples that Blakeley just set forth in that statute. You knew or had reasoned to know that it belonged to somebody else or was acquired by improper means. If it was wrong to acquire, use or disclose it, it's probably misappropriation. So, that's the definition of misappropriation under the Uniform Trade Secrets Act.

And the court said here, however, quote, "it is undisputed as a matter of law that information disclosed by a marketed product cannot be secret. Matters of public knowledge or general knowledge in the industry or ideas which are well known or easily ascertainable cannot be trade secrets. Similarly, matters disclosed by a marketed product cannot be secret," close quote.

Therefore, the court said, quote, "once the plaintiff voluntarily released one of the coolers into the market in 2018, and likewise voluntarily released the other cooler into the market in the first quarter of 2021, any alleged trade secret in their designs became readily ascertainable by the public and could no longer be legally protected," close quote. Thus, the court said, quote, "the only possible remaining question is whether there is a plausible claim of misappropriation of a trade secret existing for the design of the 2021 cooler prior to its release to market," close quote.

And on this issue, the plaintiff alleged, and I'm not going to say all of them, because it's quite an exhaustive list, but I'll give some examples. Quote, "in seeking competitive bids for the 2021 cooler's production, the plaintiff provided a confidential rendering to the factory in late summer 2020. The design rendering bore a proprietary ledger alongside the plaintiff's brand stamp and showed a bottle opener and catch tray. Throughout the development and manufacturing of its coolers, the plaintiff maintained the designs as confidential trade secrets. The '21 cooler was manufactured without a bottle opener and catch tray, and the plaintiff began selling that cooler in the first quarter of 2021, and the defendant started selling a knockoff version of the cooler in the second quarter of 2021 that included a bottle opener and catch tray, as was included in the plaintiff's original rendering. And so, that was enough for a claim based on the 2021 cooler to survive.

The court held that while the claims about the 2018 cooler failed because the plaintiff had been selling the product since 2018, before the time of the alleged misappropriation, the claims based on the 2021 cooler can proceed, but, quote, "must be limited to any alleged damages resulting from misappropriation between the time the factory received the plaintiff's design rendering in late summer 2020, and when the plaintiff started selling the cooler in the first quarter of 2021. Any claims to misappropriation after the first quarter of 2021 fail as a matter of law," close quote. So, now to our takeaways. Blakeley, why don't you recite those?

Blakeley Oranburg:

So, our takeaways from these two cases are, first, misappropriation can be pled on, quote, "information and belief," quote, but the more details alleged, the better chance a plaintiff can, quote, "cross the line between possibility and plausibility," close quote, which as Jordan discussed earlier, that's what the federal pleading standard requires. Our second takeaway from the district court case is that trade secret damages are only recoverable for the time period in which the trade secret actually remains a secret. So if, for example, a design is secret, but then you sell a piece of furniture with that design, it's no longer secret and you can't get damages from that point.

Jordan Grotzinger:

And now for our favorite section of the podcast, which has nothing to do with trade secret law or law at all. Blakeley, do you have an interesting fact about yourself that can compete with serving as a state trooper or breaking your arm while arm wrestling a document venter? What do you got?

Blakeley Oranburg:

My fun fact, I don't know how fun it is, I am missing a vertebrae.

Jordan Grotzinger:

Wow.

Blakeley Oranburg:

Yeah. And I always think that's why I didn't make it to six feet tall. I think if I had that, I would have gotten there.

Jordan Grotzinger:

That's that's an interesting one, for sure.

Blakeley Oranburg:

Yeah.

Jordan Grotzinger:

I would say not the best, not the worst.

Blakeley Oranburg:

You know, that's all I was going for. I don't want to be on your list of terribles. And I don't need to, ouch. I've never broken an arm in a wrestling match, so.

Jordan Grotzinger:

You avoided the worst and that's a good one. And I'm sure, yes, you would have been noticeably taller, but...

Blakeley Oranburg:

I think so.

Jordan Grotzinger:

Those are the cards you're dealt.

Blakeley Oranburg:

I know.

Jordan Grotzinger:

All right. Well, great to have you on. Congratulations on your promotion. Can't wait to...

Blakeley Oranburg:

Thank you, Jordan.

Jordan Grotzinger:

Keep building our practice together and have you on again.

Blakeley Oranburg:

Thanks, Jordan. Thanks for having me.

Jordan Grotzinger:

My pleasure. Okay. Bye everybody.

Blakeley Oranburg:

Bye.

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 5:

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