

Trade Secret Law Evolution
Episode 63
Greenberg Traurig, LLP

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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 [00:00:30] your company's most valuable assets. I'm your host, Jordan Grotzinger.

Hi everybody. It is 11:11 on Tuesday, April 9th in Los Angeles, California, and welcome to episode 63 of the Trade Secret Law Evolution Podcast. Today we're going to talk about subject matter jurisdiction under the Federal Defend Trade Secrets Act, trade secret ownership, [00:01:00] and the concept of presumed injunctive relief. What does that mean? It means that where a statute like the Defend Trade Secrets Act provides that a claimant is entitled to injunctive relief to stop trade secret misappropriation, are they automatically entitled to that relief once they prove misappropriation or must they also prove the traditional elements [00:01:30] of injunctive relief like irreparable harm, inadequate legal remedy, et cetera?

So the first case concerns subject matter jurisdiction. This was a case out of the Middle District of Florida in early March of this year. The plaintiff was a real estate brokerage firm and the defendant was its managing broker who executed a non-compete non-solicit agreement with the plaintiff. He also signed an operating agreement [00:02:00] that gave him 45% ownership of the firm. The defendant predictably had access to the plaintiff's confidential information. The relationship deteriorated and the defendant resigned and started a competing business. The plaintiff alleges that he had been effectively running a competing business with the plaintiff's confidential information while he still worked for the plaintiff. So the plaintiff sued for violation of the Federal Defend Trade Secrets Act [00:02:30] and related claims.

The defendant moved to dismiss on multiple grounds, but we addressed the argument against the Defend Trade Secrets Act claim. To state a claim under the DTSA, a plaintiff must allege three elements. One, the plaintiff owns a valid trade secret. Two, the trade secret relates to a product or service used in or intended for use in, interstate commerce. And three, the defendant [00:03:00] misappropriated the trade secret. Here, the defendant challenges the second element, which is subject matter jurisdiction. As to subject matter jurisdiction,

the complaint alleged, "This confidential and trade secret information relates, among other things, to products or services that are used in or intended for use in interstate commerce."

The defendant argues predictably that the allegation is too conclusory. The plaintiff argued that it's sufficient [00:03:30] given the other allegations that the defendant misappropriated customer lists and other confidential information. The court sided with the defendant holding the, "Factual assertion that the defendant misappropriated certain information, does not provide supplemental facts showing a relation to interstate commerce." The court cited a case where a Defend Trade Secret Act case was dismissed on subject matter jurisdiction grounds [00:04:00] because, "No facts were pled to support the complaint's conclusion that the trade secrets relate to services used in or intended for use in interstate commerce." The plaintiff argued in its opposition brief that the trade secret at issue is related to interstate commerce because the plaintiff, "Advertises its services to customers interstate via its website and the client information the defendant [00:04:30] allegedly took, relates to customers with principle places of business or managers located outside of Florida."

But the court said the complaint itself doesn't say that, "Facts contained in a motion or brief," the court said, "Cannot substitute for missing allegations in the complaint." Thus, the court granted the motion as to lack of subject matter jurisdiction and like with every time, we will get to the takeaways [00:05:00] at the end of the episode.

The next case involved trade secret ownership. This was a case out of the Southern District of Texas, actually a day after the Florida case I just discussed. The plaintiff was in the oil business. The plaintiff and the defendant entered into a contract by which defendant was to be the plaintiff's exclusive sales representative in North America for a certain base oil product. We'll call it the product in this episode. The relationship started [00:05:30] well with the defendant leveraging its relationships and selling the product in the contract's first year, but it soured after the plaintiff learned that the defendant had been seeking outside investors, which resulted in a partnership between the defendant and a third party. I'll call that party "third party." The defendant and the third party had discussions about the defendant selling its own base oil product, but no competition actually materialized. As the contract reached the end of [00:06:00] its term, the plaintiff's new CEO began contacting customers outside of the defendant's presence.

The defendant found out and sued the plaintiff in state court to get an injunction against the plaintiff reaching out directly to customer source by the defendant, which it got. Later, the plaintiff received an analysis of the defendant's own base oil product from a customer of both the plaintiff and the defendant. The plaintiff believed that the analysis showed that the defendant [00:06:30] was selling the kind of base oil that the defendant had agreed to sell exclusively for the plaintiff, which the defendant denied. Plaintiff sued in federal court for breach of contract and trade secret misappropriation under state and

federal law. In the trade secret claims, the plaintiff alleged that the defendant used the plaintiff's trade secrets regarding pricing in an email which, "Listed an average selling price for" product formulations. After [00:07:00] a bench trial, the court ruled that the evidence on whether the pricing information rose to the level of a trade secret or was misappropriated was mixed.

But in any event, the court ruled, the plaintiff didn't prove it owned this alleged trade secret information. Under the Federal Defend Trade Secrets Act, the court said, "The term owner, with respect to a trade secret, means the person or entity in whom or in which rightful, legal [00:07:30] or equitable title to or license in the trade secret is reposed." The court found that the plaintiff, "Has not proven it is the owner of the above trade secrets, or rather that it is the exclusive owner as compared to" the defendant. The contract the court noted is silent on the issue of who owns the pricing information. While the prices were approved by the plaintiff, the prices were, "Created [00:08:00] or obtained, compiled, stored, and maintained by" the defendant. And, "The evidence shows that creating, maintaining and using product pricing information was a joint effort" by the parties. Thus, the court found the parties, "Shared joint ownership and license in the alleged trade secrets." Therefore, the plaintiff did not prove this claim.

And the last case [00:08:30] involves the concept of presumed injunctive relief. This case was out of the Western District of Pennsylvania in late March of this year, and it involves the fudge business. The plaintiff sued for trade secret misappropriation over a fudge recipe, which, of course, a recipe is a classic example of a trade secret that evokes the most famous trade secret of all, the formula for a certain soda. A jury ruled for the plaintiffs. As a [00:09:00] result, the plaintiffs moved for a permanent injunction, barring the defendants from any further use of the recipe and seeking related relief.

First, the court rejected based on recent decisions, the concept of so-called presumed injunctive relief. That is, the plaintiff is presumed to be entitled to an injunction just by proving trade secret misappropriation, regardless of the traditional requirements for injunctive relief, like irreparable harm, inadequate remedy at [00:09:30] law, that is damages won't suffice, et cetera.

Thus, the court analyzed these requirements and found that the plaintiff was not entitled to a permanent injunction. First, the court found that the plaintiff submitted no admissible evidence, that the defendant continued to use the trade secret, the recipe.

Next, to turn to the elements required for a permanent injunction. The first is irreparable harm. The court found that the plaintiff didn't prove that, precisely because there was no evidence or admissible evidence [00:10:00] that the defendant continued to use the recipe. Also, the court found the plaintiffs didn't support their contention that they, "Will suffer irreparable harm if the public perceives the plaintiffs are unable to protect" the trade secret. But as the court said, "There has been no showing that the public is even aware of this

controversy." As to the inadequate legal remedy element, the plaintiffs, the court said, haven't shown that monetary damages [00:10:30] would be insufficient. Contrary to the plaintiff's argument, there wasn't any proof that the plaintiff's reputation or goodwill was harmed, which might meet the inadequate legal remedy element, but it didn't here.

And finally, the plaintiffs argued that a permanent injunction was in the public interest. The court rejected this position too. The plaintiffs "presented no evidence that there is any public interest here at all. Simply put, this is a [00:11:00] controversy between the parties about a recipe for making fudge, nothing more."

Here are the takeaways. One. Subject matter jurisdiction for a Defend Trade Secret Act claim requires that the trade secret relate to a product or service used in, or intended for use in, interstate commerce and it's not enough to just conclude that. The plaintiff needs to allege facts supporting this element, and it must do so in [00:11:30] the complaint itself. An argument in opposition to a motion to dismiss like in a brief, is not sufficient.

Two, under the Defend Trade Secrets Act, the term owner with respect to a trade secret, means the person or entity in whom or in which rightful legal or equitable title to or license in, the trade secret is reposed. If the evidence is that the parties jointly created, maintained, and used a trade secret, absent [00:12:00] proof to the contrary, like a contractual term that says otherwise, the parties could be found to be joint owners, in which case the plaintiff will not prevail on a trade secret misappropriation claim.

And finally, the concept of presumed injunctive relief has been rejected by many courts in trade secret misappropriation cases. Just because the trade secret statutes authorize injunctive relief, claimants need to address the elements of injunctions even if they prevail [00:12:30] in proving misappropriation. That is it for this month. We will be back in May. Thanks for listening, everybody.

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 [00:13:00] 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.