Jordan Grotzinger (00:05):

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 this is episode 13 of our podcast, and this'll be the second to last one for this year, which is pretty incredible, discuss a few cases that address what constitutes a trade secret and the value of circumstantial evidence in trade secret cases. The first two cases deal with the first issue, which is what constitutes trade secret. And this first case was, was pretty dense. And I hope an example of the value we bring to this podcast by sort of sorting out the immaterial stuff. So people aren't falling asleep in front of their computers trying to learn this.

Jordan Grotzinger (01:01):

So, so we'll try to keep this crisp as possible. No pun intended since this podcast, uh, deals with lettuce, literally. So this is a case from the California court of appeal from November, uh, another one from the California court of appeal. So that's two and about a few weeks, uh, after a pretty long dry spell of California appellate cases, and this one addressed a protein based coding company that claimed as a trade secret, uh, formula and process. And that is key for treating field cord, iceberg lettuce. What is field cord, iceberg lettuce? It is iceberg lettuce that is cord in the field. Apparently there's a cord iceberg lettuce, and you can remove it and you can do so in a field. I hope you're all still with me. Uh, the defendant and appellant was a scientist employed by the plaintiff and during the defendant's employment, the plaintiff disclosed to him the formula and the identity of an organic acid used in this preservation product. The defendant signed a confidentiality agreement, then left and formed a competing company. As we see in so many of these cases and started selling product to the plaintiff's customers,

Kevin Cole (02:18):

right? So then of course, the plaintiff sought a temporary restraining order and a preliminary injunction, and it was supported by a declaration from its president and founder. And that declaration described that an inventor invented a process and formula for making a protein film in water in the early 1990s, uh, that invention was patented. And then the plaintiff acquired the patent. Then the plaintiff experimented on whether the invention could be used to preserve fresh produce and discovered that it could, if combined with a certain organic acid, the plaintiff's founder declared that it never disclosed the particular asset, nor did it patent that combined use of the asset with its patent. Instead, the plaintiff treated the unidentified asset w when it was used in conjunction with the patent as a trade secret. Now, the plaintiff learned from a customer that the defendant had been using the same asset that was in the plaintiff's trade secret.

Jordan Grotzinger (03:14):

So the temporary restraining order was granted and the parties after as often happens in, um, injunction cases, cases can settle when there's an injunction, because it's a pretty harsh restriction on the opposing side. So after the TRO was granted the parties stipulated to a permanent injunction and the permanent injunction recited that the plaintiff claimed as a trade secret, this proprietary formula and process for treating field court, lettuce and stipulating that the defendants would not use or disclose it.

Kevin Cole (03:50):

Right? So then seven years later, the plaintiff accused the defendant of violating the injunction and brought contempt proceedings. So in discovery, the plaintiff admitted that the organic acid identified in the stipulated injunction was citric acid. The defendant then moved to dissolve or modify the injunction, arguing that the admission that the acid was citric acid meant that the plaintiff's trade secret did not possess a commercial advantage. And that the trade secret was previously disclosed in the plaintiff's patent, which would destroy its secrecy. But the plaintiff then sought to change its admission about the citric acid clarifying that citric acid was actually just one of the acids used in the trade secret, but not the unidentified one. And the court allowed the change and also denied the motion to dissolve the injunction

Jordan Grotzinger (04:38):

Later. The plaintiff renewed its motion to dissolve the injunction, arguing that in the plaintiff's modified request for admission response, where it changed its admission about what kind of asset it was. The plaintiff admitted that the organic acid identified in the stipulated injunction was sodium benzoate, which is a well-known and extensively used in food preservation. And the plaintiff disclosed its use of sodium benzoate in its patent. So the trade secret wasn't really a secret.

Kevin Cole (05:12):

So the trial court denied the renewed motion and the defendants appealed on appeal. The defendants argued that the injunction can't be valid if there's not a valid trade secret, and specifically because the plaintiff disclosed the organic asset in the patent, which is public, anyone versed in food preservation could just reverse engineer the trade secret.

Jordan Grotzinger (05:31):

So we've actually boiled down quite a dense opinion already, but, but having recited it, it's still pretty dense. So let's just wrap up sort of where we are so far. So the plaintiff has this patent and combines that with a process, including this organic acid, to make this field corn lettuce preservative product there's dispute over what acid it was ultimately. Uh, the plaintiff admits that it, that the type of acid in this process used in this process is sodium benzoate and that's known extensively. And so essentially the defendants arguing in its renewed motion to dissolve the injunction, Hey, wait a minute, everybody knows that you can use this, uh, in food preservation and it's disclosed in the injunction. And so anybody can reverse engineer this. So it's not really a trade secret. So that that's kind of a sum of where, where we are so far.

Jordan Grotzinger (06:36):

So the court then dug into its analysis and, and it observed, and this was a uniform trade secret, California uniform trade secrets act case. And it observed that the uniform trade secrets act defines a trade secret as quote information, including a formula pattern compilation program, device method, technique, or process that close quote derives, independent economic value from its secrecy and is subject to reasonable efforts to maintain its secrecy. So court went back to the fundamental definition of a trade seeker, which can basically be any kind of information. However, characterized, you know, a method, a process, a formula, as long as it meets these other two elements. It's a secret it's economically valuable because of its secrecy. And it's subject to reasonable efforts to maintain that secrecy,

Kevin Cole (07:28):

Right? And the court noted that while publication of a trade secret often destroys its trade secret protection, the trial court, which didn't make any specific findings by the way, could have reasonably concluded that the publication of the patent combined with the identification of sodium benzoate in the injunction, didn't destroy it from being a trade secret. Uh, the trade secret was identified in the injunction. And this is a quote from the, uh, opinion as a proprietary formula and process for treating field cord iceberg lettuce. So the trade secret was not limited to the identity of the components used the trade secret encompassed, the proprietary formula and the process for treating lettuce.

Jordan Grotzinger (08:09):

So because of this combination, even though some of the elements of the product were disclosed, this was enough to support according to the appellate court, the trial court's implied determination that there was a valid trade secret. The disclosure of sodium benzoate weight as the organic acid doesn't by itself, the court said reveal the process by which the plaintiff's trade secret product is used on lettuce. And that is part of what the plaintiff claimed as a trade secret, not just the ingredients, but the process, which can constitute a trade secret if it meets those other elements, economic value and reasonable measures to maintain secrecy. And while the patent describes examples of how to prepare different iterations of preservative compositions, the plaintiff didn't specify which preparation disclosed the plaintiff's trade secrets. Instead, the plaintiff only vaguely reiterated that the plaintiff's trade secret is a combination of sodium benzoate with the patent as part of this overall secret process. So the trial court did not abuse its discretion in denying the renewed motion to dissolve the injunction we got through it. We're still here still.

Kevin Cole (09:32):

Uh, we're still, we're still awake and hopefully the listen, I

Jordan Grotzinger (09:34):

Hope they are too. We now make a, uh, a common transition in trade secret cases from field cord lettuce to proprietary baseball training methods. This is a case out of the Western district of Washington from November. It also addresses the issue of what constitutes a trade secret. In this case, the plaintiff was a baseball coach who claimed to have developed a proprietary pitching form and training system who alleges that the defendant attended his camp and stole his trade secrets, the defendants, uh, move for summary judgment,

Kevin Cole (10:10):

Right? So the plaintiff, so th the coach claimed that he used common items like, uh, wrist weights, weighted balls, and high-speed cameras quote in, in very specific ways, uh, to achieve precise movements, to improve both pitching and safety, and that no one else was using his method. Okay.

Jordan Grotzinger (10:28):

The defendants argued that the plaintiff's method was too vague to constitute a trade secret, that there was no evidence that the defendants used anything they had learned from the plaintiff and that the plaintiff failed to take reasonable steps to protect the trade secrets.

Kevin Cole (10:45):

Right. So the court observed that, although the method admittedly incorporated existing equipment and drills, the plaintiff used them in conjunction with exercising, uh, in training that he developed quote in novel ways. So while the defendants argued for more specificity, the court noted that they spent much of plaintiff's deposition actually cutting off his attempts to describe his contribution to what was commonly known. Uh, and the court went on to say that quote, the determination in a given case, whether specific information is a trade secret is effectual question. Uh, and that's the end of the quote. So here a reasonable jury could have found that the plaintiff's method wasn't readily ascertainable, uh, and therefore a trade secret.

Jordan Grotzinger (11:29):

So the issue of what constitutes a trade secret the court said is generally an issue of fact and what the plaintiff proffered here, these, uh, you know, the, the, the use of perhaps common items, but in very specific and extensively proprietary ways, at least raised an issue of fact as to whether this, uh, training method, uh, constituted a trade secret, and as evidence, uh, remember that the defendants also challenged, um, the evidence of misappropriation. So the plaintiffs in response, proffered as evidence, the defendant's social media posts of them using plaintiff's method. And that too was enough to raise an issue of fact as to misappropriation, right?

Kevin Cole (12:16):

Then finally, the defendants argued that the plaintiff didn't take reasonable steps to maintain secrecy. And as listeners know, that's something that we always talk about reasonable steps to maintain secrecy. And here that was because the plaintiff taught hundreds of players who later used the method in public. Uh, but the court went on though to say that, and this is another quote, the fact that the plaintiff realized economic value of his trade secret by disclosing his pitching methodology to paying customers does not necessarily invalidate the trade secret. That's the end of the quote. So in other words, the customers were required to sign a nondisclosure agreements, prohibiting the disclosure, the method, which in the court's view showed that he actually, the coach actually did take reasonable steps to maintain Secrecy.

Jordan Grotzinger (12:57):

Yeah, and it was key that the plaintiff did require those NDAs because that was really the hook, uh, for the argument that he took reasonable measures to maintain secrecy. Yeah. So you can go out and sell a trade secret product. Obviously it doesn't destroy trade secret protection, but if you're selling something like a process that can be copied as opposed to a soda with a secret formula that cannot easily be copied, uh, you'd want to take some steps to protect the copying of it. Like the plaintiff did here by requiring an NDA.

Kevin Cole (13:33):

It's, you know, Jordan it's funny where we're starting to see this a lot in the news and also in court opinions. And what I mean is, uh, people they're taking the steps of having other people sign non-disclosure agreements before people can, uh, you know, take part in their services or buy their products. And in fact, one thing I just saw on the news, there's a famous comedian, uh, you know, who just held a comedy show and actually required that anyone who wanted to go and watch that comedian show sign an NDA. And I think part of the NDA was that if you violated the NDA, by going out and talking about the comedic routine, you were subject to a million dollars in penalties. So it's, you know, the point is that we're really seeing this more and more that, you know, as a way to, to, to take reasonable steps,

to maintain secrecy, whether it's in connection with the product or here, you know, a comedy show, uh, you know, the, the use of a nondisclosure agreement is particularly powerful.

Jordan Grotzinger (14:21):

Yeah. That was a quite a measure to maintain secrecy. The next issue that we're going to discuss is the value of circumstantial evidence and trade secret cases. And this is a really important issue because particularly in new trade secret cases where you don't have all the facts, and perhaps you want an injunction, you are frequently, if not, almost always relying on circumstantial evidence. So it's important. This case was of the Eastern district of Illinois from November. And it's a classic trade secret case between insurance brokerage firms, where the plaintiffs sued the defendants for trade secret misappropriation. After the defendants, allegedly poached the plaintiff's employees who took certain proprietary information, the plaintiff sued for violation of the defend trade secrets act and the, the Illinois uniform trade secrets act and related claims and move for a TRO,

Kevin Cole (15:16):

Right? So when examining the likelihood of success, the court found that the plaintiffs had made a sufficient showing of trade secret misappropriation because the quote poached employees downloaded large amounts of documents that could have included trade secrets to USB drives prior to their departure. And they had, and I'm going to quote directly from the opinion, no reason to download sensitive documents to USB drives when they could have accessed them through the plaintiff's VPN. Uh, in addition, one of the employees downloaded a contact list only after meeting with the defendant, which was the plaintiff's competitor. The court stated that the plaintiff's, and then a quote, again from the, uh, from the opinion can rely on circumstantial evidence to prove misappropriation because direct evidence of theft and use of a trade secret is often not available. So while the plaintiff's claim was not a slam dunk, the plaintiffs had made a sufficient showing, uh, of a likelihood of success.

Jordan Grotzinger (16:11):

And in the seventh circuit where this was pending, there is a presumption of irreparable harm to the plaintiff in trade secret misappropriation cases, which was met here. So that's an important case because in TRO cases like that, where you suspect that a defendant like a former employee has taken information, you are often operating in a relative fog. As, as we know, you're seeing evidence of perhaps a massive amount of data downloaded. It is very difficult to determine what exactly was downloaded, uh, from a huge volume of data in a short time, let alone whether those things constitute trade secrets, but you don't necessarily have to be that specific or have direct evidence of the misappropriation. Like this opinion said, if the defendants are doing something that makes no sense, unless they're misappropriating trade secrets, that is compelling circumstantial evidence of misappropriation and can support injunctive relief.

Jordan Grotzinger (17:24):

So if you are, if you're the moving party seeking an injunction, you want to think along those lines, why else would he or she do this? Is there a legitimate reason? And if not, that can support your motion. So now to our takeaways on the first issue of what constitutes a trade secret trade secrets can be combinations of elements. Like in that field cord case, they can be combinations of elements like ingredients and processes and disclosure of just one without the other will not necessarily destroy trade secret status. So in that lettuce case, while the type of acid used in the preservation process was disclosed the rest of the process wasn't disclosed. And so the trade secret as a whole maintained its

secrecy, and that injunction was not dissolved, right? So, uh, sort of feeding off of that, a trade secret can also include public elements, but if they're combined with secret elements and, you know, for example, if we think back to the coach, uh, the coach case, the baseball coach, uh, and his, his pitching method, the combination of both public and private, uh, elements can constitute a trade secret.

Jordan Grotzinger (18:40):

And lastly, circumstantial evidence can be very valuable and trade secret cases and can support injunctive relief and consider, as we discussed, for example, whether the defendant's conduct makes sense if the defendant was not misappropriating trade secrets, if not that circumstantial evidence of misappropriation. So we've got one more episode, which we will record in a couple of weeks this year, and then we'll be back in January. So Kevin, I'll see you in a couple of weeks. Absolutely. All right, bye 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, 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,

Jenna MacCabe (19:46):

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